

Management Innovation for Chinese Family Business

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Abstract

Purpose –based on the complicate and changeable situation in the economic field, Chinese family enterprises should rethink the strategy and innovate continually to achieve the evergreen. The purpose of this paper is to examine the advantage and disadvantage of Chinese family business and deduce several Applicable approaches for Sustainable development.

Design/methodology/approach –Based on a review of the relevant literature, Advantages and disadvantages are developed. Case study data are used to explore the applicability of the detail of management innovation.

Findings –Achieving long-term sustainable development, our family business firm must embark on cognition innovation and structure innovation, for example, to develop the modern enterprise system and governance structure. Especially, paying attention to the cultivation of corporate culture, building corporate strategy management framework by emphasizing on the cornerstone of corporate social responsibility.

Originality/value –The paper takes a macro perspective to explore the family cooperation's Sustainable development issue and thereby Guide enterprises to carry out the reform to adapt to the changing time.

Keywords: family business, management innovation, sustainable development, social responsibility, entrepreneur spirit, enterprise culture, family culture, modern enterprise system, invisible wealth, strategic management

1. Introduction

During 30 years of reform and opening up, China's private economy has grown from scratch to success, from small to large, from weak to strong, showing a miracle of "Chinese speed" to the world, playing an indispensable role. Meanwhile, as the main part of it, the family-owned company has made a great contribution to the growth of GDP, creating jobs, fiscal revenue, which is prominently sketching out a grand landscape in the economic. However, since the economy scene is reluctant from the crisis, how can family enterprises maintain the "legend"? Perhaps initiative to internal revolution can be the way the Chinese family business ought to chose.

2. Family Genes in Enterprise

Chinese family business is a combination of the natural family and the formal contractual relationship. So this ancient organizational form is born by lying essential differences from non-family businesses.

As the basis of China society, a single family tied by marriage and consanguinity forms an essential social individual, which leads to shape a big Family, the upper organization. In this unit, the relationship between each member appears a figure of concentric, shaping a solid family network. This complex network is distinguished. First, here is a strong cohesion. Blood evolves a stable force naturally. Quanwei Tian in *the theory of home world* said: "family, a bunch of biological kinship, is making the family to become an unbreakable chain of cause groups." Second, here is the family's differential pattern. Based on the closeness, members establish their own social relation, like water ripples, forming a differentiated interpersonal pattern. The two genes Embed in the body, like the double-edged sword, create Chinese family.

3. Disadvantage of Family Business

3.1 Irrational Decisions

For the worship and blindness obedience to the patriarchy in family firm, the business owners become too complacent, even arbitrary, to make a comprehensive, systematic, scientific solution.

3.2 The Plight of Personnel Management

Deep-rooted relationships of social network in China create the Chinese style Enterprise called "relationship-intensive" (Dean Gan, 2011). Because of too much feeling ingredients, the family business leaders will trap into complexity, and even dilemma in dealing with affairs about business. For example, when a family member violates rules, leaders can't punish them as what they did to the other employees, regardless of the family. So the standardized management system might become a vase. At any rate family enterprises face serious difficulties in the "rule of man" to "rule of law" road.

3.3 Lack of External Social Resource

Believing the exclusive right to family, Entrepreneurs want absolutely to control the company and unwillingly to absorb capital from the outside. Even sometimes they deliberately obstruct the entrance of social capital. In fact, the damage of single property right shows not only in unlimited joint and several liability and risk of non-portability of operational venture, but also the limits to the further development and upgrading. Of course, this xenophobic concept also influences the attitude to other adventitious resources, such as the professional managers. China hasn't established a formal professional managers market. Maybe the internal resistance to fresh "blood" should not be underestimated.

3.4 Unsound Development Organization

When patriarchy transplanted into the enterprise, personal overwhelming power inevitably slows the development of organization, exhibiting in low specialization level, lack of managing. According to survey, almost the family business stock values have shrunk about 60% through the replacement of leader (Hongbo Fan 2011). This indicates that real family business "engine" is entrepreneurs and his intangible capital. Once entrepreneurs can't work incidentally, like an accident, companies might not operate normally. Meanwhile, China Family Enterprise's formal governance structure is incomplete. Though there are many firms to establish the shareholders' meeting and the board, respectively accounts for 55.3%, 55.4%, but just 28.5 percent of company build the Supervisory Committee (Chinese (China) Private Economy Research Association Family Business Family Business Research Group Research, 2011). Statistics indicates that more than half of family businesses have realized the importance of formal governance structure, but the number of Supervisory Board shows family business still hold a skeptical attitude to it as the kernel position. The Phenomenon of manipulating board occurs commonly, leading the Governance structure can't be able to play a substantial role.

4. Family Business Management Innovation

The urgent needs of social positive energy into organization and the challenge of facing the external complex environment, both of them require Chinese family business owners to be insight, be bold to practice and carry out management reform and innovation for surviving, making a "new enterprise" to adapt to a "new economy".

4.1 Concept Innovation

Concept Innovation means advanced ideas and concepts should go ahead. It is the prerequisite for the survival and development of business unit (Xia Guan, 2005). Concept innovation is the source and soul of management innovation, which is the premise of other innovations. In order to succeed in a market economy and remain sustainable development, family businesses must emancipate the mind continuously.

First, founders should realize the relations between family and corporate clearly. Established by family members, the Family business is regarded as their "child". Gradually, the entrepreneur had a strong attachment to the firm, even seen it as the continuation of his own life, therefore, leading to the hope of controlling firm forever subconsciously. However, among change, leaders should reexamine this kind of relationship. Family-owned firm is a hybrid of family and enterprise. Looking at the two parts, they are equal in terms of what statue they should be. It can't be affiliates to family. Conceptually, family members should view it as an independent entity and hold a new perspective --- the function of family is to foster the enterprises so that both business and family can be able to flourish. On contrary, both of them will not grow. The center word is not "family" but "enterprise" in family business (Peter F. Ducker, 1999) ---to serve enterprise. If did so, enterprise might burst a new vitality.

Above all, only ideology renew consistently, do the family firm can turn into a better enterprise.

4.2 Structure Innovation

4.2.1 Optimization of the Structure of Property Rights

Blood, genetic and geo-enable, all of three confuse the boundary of family and enterprise", causing difficulties in

financing the family business, at the same time, become a stubborn obstacle for standardizing organizational structure (Hongrui Zhen, 2006). So in order to achieving the modern management, the Family business should do efforts to overcome the inadequate and clear interests of all parties through distinguishing the asset of family from enterprise, which conduce the outside resource into interior. This is the only way for China private SMEs to grow bigger, also for establishing a standardized corporate governance structure which is inevitable to modern business.

4.2.2 Separation of Property Rights and Management Control

Generally speaking, Family business owners think only taking the overwhelming authority of controlling so that it can maximize family's interests. However, mediocre, lazy members just occupied the seat to waste resources, damaging to enterprise's interests. Management guru Ducker Peter once set a criteria for members into the family business: "members of the family enterprise can no longer work, unless they are same clever and competent as other non-employees (Peter F. Ducker, 1999)." Obviously professional management talents enter the family business is imperative trend prospering.

4.2.3 Improvement of the Supervision Mechanism

Formal corporate governance structure regulates the firm at system lever, reducing irrational decision-making caused by short-sighted.

Chinese family enterprises have realized the necessity of establishing management structure, however, few of them take an real action yet. There is still a lot of organization that is lack of supervision mechanism. Therefore, owners can't just take the tongue with the cheek. On contrary, they should perfect the governance structure as soon as possible for forming a reasonable right balance Mechanism.

During the process, many of owners worry the commission - agent problem which is caused by asymmetric information. First, family members should clear: internal and external energy exchange is good for company's long-term development, so though it will produce Side effect, the flow of professionals remains imperative. Secondly, once the family business has accepted foreign professionals, they should trust them emotionally and use the "stick and carrot" to improve their enthusiasm of working.

4.3 Culture Innovation

Like human beings, Business is also recognized by the inside "power", rather than the appearances. In details, it is corporate culture. Corporate culture not only demonstrates organizational unique qualities, but also determines the direction of the development of enterprises at spiritual level.

4.3.1 Cherish Family's Intangible Wealth

Japanese Master Hotel has heritage 46 generations because every member bear the teachings of continuation of family history in mind. When Toyota incur recall crisis, as the family elders, Toyoda face the public to make solemn commitment bravely. All this indicate that they not only sell tangible goods, but spread treasured family tradition to public imperceptibly in the modern commercial civilization.

In the process of transition to a modern enterprise system, Chinese family enterprises often ignore the deeply-rooted family spirit. Owners have just blindly worship novelty, try everything to satisfy public. In the end, organizations trap in mediocre. In fact, the main competition of family business strives from unique family values, which apart from other type communities. Therefore, this special treasure must be put stay. Make it embed in enterprise.

4.3.2 Foster Entrepreneurship

The special task of Entrepreneurship is to make the future, letting the organization be able to update itself so that it can continue to exist and success (Xia Guan, 2005). It is definitely the ultimate goal that what every member of family fighting for. In China if family enterprises want to break the curse of "rich, but not beyond three generations," the entrepreneurship needs to be improved, developing management through various ways. In addition, establishing a strategic thinking, and actively responding to changeable world outside. In order to access to first-hand experience and learn advanced thinking and vision, China owners should go abroad and communicate with foreign outstanding entrepreneurs face to face.

4.3.3 Create a Culture That Encourages Innovation

Small family-centered culture should give an open occupation to more liberal and more innovation-oriented culture to form an atmosphere that encourages change. In details, each member strives to create a fair, open and impartial competition environment, which emphasis on individual rationality, personal development and innovation. Corporate management should regard innovation as a strategic matter by integrating resources rationally and fostering

sustainable innovative ability. In summary, Internally, family leaders care about employees, pay attention to the career needs of individual and enhance everyone's sense of belonging to the enterprise; outside the enterprise should keep touch with external active cooperation positively to promoting self -update.

It is a long path to foster a positive, system corporate culture. According to the changes, evaluating and evolving the corporate culture is necessary. (Hongrui Zhen, 2006)

4.4 Strategic Management Innovation

4.4.1 More Scientific Strategy Development

At present, Chinese family business strategy practice lack of long-term plans, which features disordered, stiff and non-scientific character. This kind of strategy leads a coexist phenomenon between fast growth and rapid mortality.

In order to response the future competition, it is necessary to implement strategic innovation. Especially after China entered WTO, Chinese enterprises are faced not only domestic counterparts, but also fierce global competition, so leaders should emphasize how use the competitive strategy effectively. At this point, Chinese family business leaders stuck in the old context. They still compete for homogenize, as a result, everyone loses. Competitive Strategy master Michael Porter has brilliant exposition on competitive strategy: Competitive Strategy focus on the difference in nature, which means choosing a different set of activities to provide a unique value (Michael Porter, 2012). Therefore, firstly family business must value the external environment and internal conditions by evaluating advantages and disadvantages of firm to achieve a clear ware of the unique superiority. Then develop own strategic position. At last, implement a series of related strategic activities. Family Navigators don't just satisfy the situation of off than before, they should have advanced strategic in mind, own courage in heart, can the Chinese family businesses evolve a modern and international organization.

4.4.2 From the "Tactical Competition" to "Strategic Competing"

According to the traditional strategic theory, the relationship between enterprises has just no more than two: either competition or partnership. Indeed family business founders selected the direct "fight" to build their career. However, this also has negative effects. More intense the competition is, more damage they get. In the end, the whole economy suffer from the insensibly "fight". Especially, the long term, the biggest loser is family business themselves. Therefore, they should try to find another way, competing from the "Red Sea" to the "blue ocean" space for development (Xinde Chen, 2007), which means from the tactic to the strategy.

Competition and cooperation strategy is the application of game theory. Competition means competition while cooperating and cooperate while competing. Creating value and competing for it are two parts of it. Competition is the premise for making the whole value bigger, cooperation is the guarantee for how much every member deserve.

4.4.3 From Corporate Responsibility to Social Responsibility

Once talked with entrepreneurs, former Prime Minister Wen pointed out: "Enterprises should conscientiously obey the national policy, care for the community and undertake the necessary social responsibility. You are not only to understand the management knowledge, also realize the responsibility you take. Combination of two aspects forms the economy and corporate DNA (Jiabo Wen, 2008)." In other words, businesses should be more social responsible. Pay more attention to the production process, dedicate to social charity. One side, it is good for building an integrity image, the other side, it is conducive to the establishment of business ecosystem prosperity

5. Conclusion

China economy is undergoing the transformation period. It is an opportunity rather a challenge. Only the fittest is lucky one.

Hence, Chinese family businesses should take this chance. Depending on unique advantages, family owners update the managerial practices which focus on concept, structure, culture and strategy innovation, making Chinese family business to achieve the key elements of business evergreen.

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