

A Study of Family Business in China

Studie rodinného podnikání v Číně

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Abstract

A considerable proportion of private enterprises in China are family enterprises. Private enterprises represented by family enterprises play an important role in China's national economy. Family business is a group of enterprises that cannot be ignored in China's economic development. It has made irreplaceable contributions in the prosperity of the market, attracting employment, creating tax revenue and so on. Based on the analysis of status quo and characteristics of Chinese family enterprises, this paper teases out the advantages and disadvantages of family business, analyzes the opportunities and challenges in development of family business. Last but not least, considering those findings above, this paper puts forward relevant proposals for the sustainable development of Chinese family business.

Keywords

family business, status quo, characteristics, succession model

JEL Codes

L22, L26

Abstrakt

Značná část soukromých podniků v Číně jsou rodinné podniky. Důležitou roli v národním hospodářství Číny hrají soukromé podniky zastoupené rodinnými podniky. Rodinný podnik je skupina podniků, které nelze v ekonomickém rozvoji Číny ignorovat. To učinilo nenahraditelný příspěvek v prosperitě trhu, přilákání zaměstnání, vytváření daňových příjmů a tak dále. Na základě analýzy statusu quo a charakteristik čínských rodinných podniků, tento článek popisuje výhody a nevýhody rodinného podnikání, analyzuje příležitosti a výzvy v rozvoji rodinného podnikání. V neposlední řadě, s ohledem na výše uvedená zjištění, tento dokument předkládá relevantní návrhy udržitelného rozvoje čínského rodinného podniku.

Klíčová slova

family business, status quo, charakteristika, model nástupnictví

1 Introduction

Since China's reform and opening up, Chinese family enterprises have undergone fast growth, from less to more, from small to large, from weak to strong, experiencing an extraordinary 40 years. Family business has become an important force in China's economic development, expressing a strong momentum of development, but also facing

many puzzles and problems. Currently, China's economy is in a critical period of succession and transformation from the old impetus to the new. Family enterprises face difficulties of intergenerational inheritance. They are faced with both challenges within and without the enterprise: within, it is institutionalization and standardization of management; without are opportunities and challenges from outside. In this context, the discussion of survival and development of Chinese family enterprises has become a common concern of the theoretical and practical circles.

As for the research on the development of family enterprises in China, the existing literature mainly explores from three aspects:

(1) Discussing the social and cultural characteristics, family trust and blood inheritance of Chinese ethnic enterprises within the sociological framework. Chen Ling (1998) attributed the family network to the typical interpersonal relationship of particularism in the way of interaction of different cultural information. Gan Dean et al. (2005) attributed the prosperity of Chinese family enterprises to the unique "family" cultural role in Chinese society. Chu Xiaoping (2002) studied the employment mechanism of Chinese family enterprises under the influence of the characteristics of interpersonal relationship in the unique culture of Chinese society. Dou Junsheng et al. (2014) argued that the framework of social emotional wealth (SEW) has gradually become the perspective of explaining the unique situation and characteristics of family business in recent years.

(2) Discussing the human resource structure, management system and decision-making choice of Chinese Ethnic enterprises within the framework of management. Zhang Changli et al. (2003) analyzed the management mode of Chinese family enterprises, believing that family management restricts the exertion of the organizational function of modern enterprises. Ma Libo (2002) discussed the rationality and management efficiency of Chinese family business organization. She believed that the combination of two powers not only increased the transaction costs in advance, but also reduced the scientific decision-making. Gong Jian et al. (2016) explored the relationship between family control involvement and strategic convergence, and believed that family firms will show a variety of strategic choices along with differences in governance structure and behavior.

(3) Discussing governance structure, relationship between ownership and management control rights, and foreign cooperation of Chinese national enterprises within the framework of economics. Yu Li et al. (2003) drew lessons from Gersick et al. (1997), and put forward a three-ring model of family business governance structure, which is an independent and cross-cutting governance system composed of ownership, family and board of directors. Wang Zhiming et al. (2004) pointed out that the conflict between altruism and self-interest is an important factor affecting the growth of family business. We should ensure the sustainable growth of family business by promoting the change of corporate governance structure. He Xiaogang et al. (2016) found that compared with non-family firms, family-controlled firms tend to be more conservative, and thus have a lower scope of joint ventures or joint operations with other firms, and the motivation to strengthen joint ventures or joint operations is also lower.

As a part of the comparative research project with Czech Family Business in Prague University of Financial Management, this paper will focus on four questions: what is the current situation of Chinese family business development; what are the advantages and disadvantages; what are the opportunities and challenges at present; and how to

achieve further development. Therefore, on the basis of combing the current situation and characteristics of Chinese family enterprises, combining with the practical experience of Chinese family enterprises and the specific problems faced in reality, this paper will analyze the advantages and disadvantages of Chinese family enterprises, paying special attention to the internal and external environment and analyze the opportunities and challenges faced by the development of Chinese family enterprises. This paper puts forward relevant suggestions suitable for the development of Chinese family enterprises, which can provide some reference for the sustainable and healthy development of Chinese family enterprises with practical guiding.

The research content of family business is very extensive. This paper mainly uses literature analysis method and situation tracking method. On the basis of extensive collection and analysis of relevant literature and theoretical research on the development of Chinese family enterprises, this paper refines and analyses the survival and development of Chinese family enterprises and related problems, and makes follow-up judgment and analysis according to the current situation, aiming at obtaining beneficial enlightenment for optimizing the inheritance path and practical operation of Chinese family enterprises.

2 Development Actuality

2.1 Status Quo

(1) Huge Quantity with Concentrated Regional Distribution. As the main part of private enterprises, family enterprises take up an absolute proportion in Chinese private enterprise market. By the end of 2017, there were more than 27 million private enterprises in China. According to China Family Wealth & Succession Planning in 2018, the proportion of Chinese family enterprises in private enterprises is over 80%. It is estimated that there are more than 20 million family enterprises in China, mainly concentrated in Zhejiang, Guangdong, Fujian, Jiangsu and other coastal areas. Especially in Zhejiang Province, where the private economy is the most developed in China, the proportion of family enterprises is even higher.

(2) Small Size with Low Industry Level. After years of growth, the development scale of Chinese family businesses has shown a gradually expanding trend, and a large number of well-known big listed family enterprises at home and abroad have emerged. However, generally speaking, family enterprises in China are generally small in size, and most of them still belong to small and medium-sized enterprises, usually engaging in low-level industries. They rely on low-cost development mode, located in the low-end manufacturing links of the value chain, and mainly concentrate in the area of low-tech content, low value-added, and labor-intensive products.

(3) A Significant Role in Promoting Economic and Social Development. Family enterprises in China are important carriers for tax creation, employment creation and export promotion. It is embodied in the private economy sector. From the perspective of tax creation, in 2017, the private economy dominated by family enterprises accounted for more than 60% of national GDP and contributed more than 50% of the tax revenue. From the perspective of employment creation, according to the statistics of the All-China Federation of Industry and Commerce, in 2017, the private economy accounted for more

than 80% of urban employment in China, while the contribution rate of new employment exceeded 90%. From the perspective of export promotion, in 2017, private enterprises represented by family enterprises exported 7.13 trillion yuan, accounting for 46.5% of China's total export value, ranking first among different export entities, surpassing state-owned enterprises and foreign-funded enterprises.

2.2 Characteristics

(1) Unified Structure of Ownership and Management Rights. Family enterprises in China tend to concentrate their ownership and management rights on family members, which consist of consanguinity, kinship and marriage, while professional managers outside the family do not get deeply involved. As the enterprise and family are integrated, investors and managers (i.e., ownership and management rights) are realized in one.

(2) Profound Patriarchal Governance Model. Under the background of Chinese traditional culture, Chinese family enterprises basically implement the centralized management mode of patriarchal system. Enterprise leaders, actually "patriarchs", manage enterprises with a certain degree of arbitrariness, and show strong characteristics of parental control in the management process. "Patriarchs" as leaders of the enterprise mainly depend on personal experience and personal wisdom to manage the enterprise, and always have a high reputation and prestige.

(3) Mainstream Succession Model of "inherited his father's". From the perspective of Chinese family enterprises which have completed intergenerational inheritance, "inherited his father's" is the mainstream model. Loyalty and enterprise property security are important factors for Chinese family enterprises to consider the suitability of successors. In China's social environment, the most appropriate model of inheritance is "inherited his father's". Currently, the development of professional managers in China is not perfect, and strong professional ethics for managers has not yet formed. There is a fear of great credit risk in choosing non-family members to manage enterprises. Under the succession model of "inherited his father's", the successor's loyalty is generally higher, the property security of family business is also higher, and the credit cost is lower.

3 Advantages and Disadvantages for Development

3.1 Advantages

(1) High Degree of Loyalty. In Chinese family enterprises, because of the natural blood relationship between family members, most of important positions in the enterprises are in the family. Family members have a strong sense of identity and trust with each other, and have a high degree of loyalty to the enterprise. On one hand, these relationships help to reduce the constraints and improve the flexibility of business operations. On the other, because personal interests are closely related to business interests, family members pay close attention to business operation and development, which will fully mobilize the enthusiasm of family members in business operations.

(2) Strong Cohesion. In Chinese family enterprises, family members communicate with each other more. They share risks and profit, pursuing the common interests of enterprises, with strong cohesion and centripetal force. When enterprises encounter difficulties, family members will work together to help enterprises tide over them. Especially in the early stage of entrepreneurship development of private enterprises, due to the limitations of capital, technology and human resources, it is necessary to rely on blood, relatives and marriage to start and develop together, and to give full play to the special cohesion of family members to help enterprises start quickly in a relatively short period of time.

(3) Great Autonomy. Family enterprises in China have greater autonomy and decision-making power, which makes the business decision-making process simple and easy. Enterprise leaders can adjust quickly according to changes in the external environment, and flexibly respond to market risks and challenges. For example, family enterprises can independently decide the content, quantity and mode of production of their products according to the actual needs of market, and flexibly formulate and change the prices, channels and modes of sales in the sales chain. On one hand, it is benefit for family enterprises to gain time advantage in the fierce competition. On the other, fast decision-making can quickly seize business opportunities and avoid decision-making procrastination.

(4) Low Operation Cost. Due to the unified management and leadership, family business has highly effective advantage of cost control, which are mainly manifested in management cost and supervision cost. In terms of the management cost, family members usually work in harmony based on their blood relationship with low cost of grinding and coordination. At the same time, family members also manage themselves, which greatly reduces the internal management cost of enterprises. In terms of supervision cost, the structure of two-power integration not only reduces the time cost of information transmission, but also helps to solve the problems encountered in the development of enterprises quickly and greatly reduce the possibility of loss.

3.2 Disadvantages

(1) Strong Exclusivity. Family enterprises in China are strongly excluding non-family employees, non-family technologies and non-family management experiences. Family business often appoints relatives. It is difficult to treat non-family employees and family members equally in terms of promotion, salary increase and trust. In the traditional concept of Chinese people, there is a direct correlation between property and management rights. The imperfect professional managers market at the external level and the strong protective psychology of family members on property ownership of family enterprises at the internal level have jointly determined the high difficulty to separate ownership and management rights, and have also brought obstacles to the in-depth introduction of non-family talents, advanced technologies and management experiences.

(2) Lack of Democracy and Science-based Decisions. Over-centralization of the rights of Chinese family enterprises, arbitrary business leaders, and subjective decision-making by family core personnel depending on personal experience, all lead to the lack of democracy and science-based decisions. With the continuous growth of family enterprises and the increasingly fierce international competition, enterprises are facing more

and more complex decision-making. It is difficult to achieve scientific and reasonable decision-making by relying solely on the personal ability of business leaders, causing huge losses to enterprises.

(3) Limited Incentive Mechanism. Compared with other enterprise groups, Chinese family enterprises are not as well protected by some policies as state-owned enterprises, nor are they as perfect as foreign-funded enterprises. Their incentives are relatively simple and their incentive mechanisms are quite limited. Usually, family business can attract a group of high-quality talents with its unique charm, but after meeting the economic needs of employees, it is impossible to establish effective incentive mechanism to mobilize the enthusiasm of employees and to truly meet the spiritual needs of employees.

(4) High Cost of Financing. Family enterprises in China are short of financing channels and have high financing costs. There are serious fund-bottleneck problem. Most of the funds needed in the development of family enterprises come from the accumulation of their own capital and the reinvestment of their original shareholders. On one hand, due to the closure of property rights, Chinese family enterprises restrict outside-family investment. On the other, because of their own economic interests, banks often do not provide services for family businesses, limit the amount of loans and discriminate them in varying degrees.

4 Current Situation

4.1 Opportunities

(1) Returning Second Generation Faces Demand for Innovations. Driven by the new round of scientific revolution and industrial transformation, the world is entering an unprecedented era of innovation-intensive and industrial revitalization. The atmosphere of “mass entrepreneurship and innovation” in China is very strong. Family enterprises in China attach great importance to the education of the second generation. Most of the second generation have advantages in cultural level and language ability. With the upgrade of knowledge level of the second generation, it gradually enters into advanced fields such as high-tech industry and modern service industry. There is a high demand for returning to family enterprises with innovation and entrepreneurship. Family business will become a new force in high-tech industry.

(2) Open Platform Layout Dividend Release. The layout of open platforms such as the Belt & Road, Free Trade Zone and Cross-border E-commerce Comprehensive Pilot Area have provided a rare historical opportunity for the transformation and upgrading of Chinese family businesses. With a number of large open platforms giving full play to the advantages of pilot policy, Chinese family enterprises will gradually release their development vitality and form new growth points that can support sustainable economic development.

(3) Environment Optimization by Government Policies. At present, the Central Party and the State Council in China attach great importance to the development of small and medium-sized enterprises and private enterprises, which are positively reflected in the policy orientation and the formulation of laws and regulations. For example, the newly revised Law of the People’s Republic of China on the Promotion of Small and Medium-sized

Enterprises, which has been implemented in 2018, is based on the actual situation of small and medium-sized enterprises in China, and is committed to solve problems of heavy burden and financing difficulties. At the seminar on private enterprises at the end of 2018, General Secretary Xi Jinping clearly put forward six policy measures to vigorously support the development and growth of private enterprises.

4.2 Challenges

(1) Short-term Succession Pressure. At present, the first generation of family entrepreneurs who started their businesses after China's reform and opening up has gradually entered the retirement age, and their working energy, knowledge structure and market sensitivity have also begun to deteriorate. The first generation of family entrepreneurs is facing the problem of succession. In the next 5–10 years, the inheritance of Chinese family business will go to a peak. With the increasing pressure of inter-generational inheritance, enterprises are facing smooth transition challenges in enterprise inheritance mode, entrepreneurship and relationship network continuation. There are also noteworthy problems such as reluctance of incumbents to give way, low willingness of successors or inadequate conditions.

(2) Complicated Optimization of Hierarchy. With the progress of time and the expansion of enterprise scale, the organizational forms of Chinese family enterprises need to be constantly adjusted, including optimizing the corporate governance structure and strengthening the construction of team. In this process, the task of optimizing the governance of Chinese family enterprises is very heavy, including changing the traditional patriarchal arbitrary decision-making ideas, breaking through the talent selection mechanism based on blood relationship, promoting the expansion of investment subjects from singleness to pluralism, and speeding up the professional reform of management rights.

(3) Urgency on Cultivating the Core-competitiveness. The traditional competitive advantage of Chinese family enterprises is gradually weakening, while the new competitive advantage will still be in the cultivation stage. With the development of global economy and constraints of essential resources, the competitiveness and development space relying on low-cost development mode are becoming more and more limited. Family enterprises need to adjust to the development direction of low energy consumption, low pollution and high added value. They need to improve their position in the global value chain and industrial chain and enhance their ability to participate in international competition.

5 Proposals

(1) Reform the Property Rights System from One to Multiple

Family enterprises in China should actively change the single property right structure, construct a scientific and rational property right structure and property right hierarchy, reduce dependence on individuals or families, reduce enterprise decision-making and operational risks, and reduce the cost of failure. On one hand, it is necessary to clarify

property rights and promote the separation of common property rights and private property rights step by step. On the other, it is necessary to introduce external funds to form a diversified capital structure, which provides the necessary impetus for the reform of property rights system.

(2) Focus on the Training of Successors

For family enterprises, whether they can train qualified successors is a question of survival of enterprises. Family business managers should pay attention to maintaining a smooth transition, pay attention to the training of successors, and put them on the agenda as soon as possible. The priority is to select talented family members, train them to be successors with operational and managerial abilities to meet the needs of enterprises, and assume the responsibility of corporate governance.

(3) Implement the System of Professional Managers

Implementation of professional manager system is one of the requirements of modern enterprise management. At the government level, we should gradually cultivate and improve the professional manager market, and provide more choices for family enterprises in talent selection. At the enterprise level, the talent selection of family enterprises should not be limited to family members, but should absorb foreign talents, introduce advanced management experience and improve the management level of family enterprises. Enterprises can build professional managers' plans with incentive effect, which can provide guarantee for talents to work securely and continuously.

(4) Actively Broaden Financing Channels

Financing channel of China's family business is single, restricting the size and strength of enterprises. In the future, family enterprises should actively broaden the financing channels of enterprises, encourage family enterprises to choose equity and bond financing, and provide sufficient and stable source of funds for the development of enterprise scale. On one hand, non-family investors are encouraged to invest in family enterprises to realize the diversification of equity. On the other, through bank financing or bond issuance to raise funds, so that family enterprises can maintain sufficient funds.

(5) Promote the Internationalization of Enterprises

With the deepening of globalization, Chinese family enterprises are facing not only domestic market competition, but also international market competition. Family enterprises should actively promote the pace of internationalization and take the initiative to go out and strengthen international cooperation, including the introduction of international talents, the introduction and assimilation of foreign advanced technology, and cooperation and development, so as to enhance their ability to participate in international competition.

6 Conclusion

With the intensification of global competition and the acceleration of China's economic restructuring, private enterprises in China, mainly the family enterprises, are facing severe challenges of transformation and upgrading. The theme of this paper is the current situation and future development of Chinese family enterprises. This paper also strives to systematically analyze the development of Chinese family enterprises from multiple dimensions and levels. This paper analyses the basic status quo of the scale, regional distribution, industrial distribution and social contribution of Chinese family enterprises;

reveals the outstanding characteristics of ownership structure, governance structure and intergenerational inheritance; it is combined with practical experience of Chinese family enterprises, analyses the advantages of loyalty, cohesion, autonomy, operation cost, as well as exclusiveness, scientific decision-making, incentive mechanism and financing. By focusing on the internal and external environment, this paper considers that the development of family enterprises in China is facing opportunities of second-generation regression and innovation, open platform dividend, policy environment optimization, intergenerational inheritance pressure, governance structure optimization, core competitiveness cultivation and other challenges. Finally, it puts forward some suggestions to promote Chinese family businesses from the aspects of property rights system, talent selection, financing channels and international operation.

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