

# Research on the Innovation of Chinese Family Business Management Model

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**Abstract:** Promoting the innovation of the management model of family enterprises is an important means to further prosper the vitality of the market economy. In the face of the rigid management model of family business, the lack of innovation motivation, and the lack of full release of market vitality, this paper analyzes the shortcomings of the family business management model, and proposes the proposed measures on the basis of analysis.

## 1. Introduction

The business management model determines the future of business development. The family business management model has a long history and is the oldest form of corporate organization. The most striking features of the family business management model are the arbitrariness of internal management, the dependence of employee relations, and the rigidity of innovation mechanisms. This largely restricts the integration and development of family business and modern enterprise systems. In the long run, the development of the entire economy is also unfavorable. Therefore, the family business must seek transformation, adopt an institutional system that is consistent with the actual situation of the enterprise in terms of property rights system, management structure, company structure, and equity incentives, and then transform into a modern enterprise system. Based on this background, this paper studies the transformation of family business in China. The structure of the article is as follows. The first part is the current situation of family business in China, the second part analyzes the management mode and existing problems, and the third part puts forward suggestions for innovation and development.

## 2. Family business status

Family business is the oldest form of corporate organization. It refers to an economic organization that uses blood relations as a link, family interests as a goal, actual control as a means, family as a principle, and a company as an organizational form. The family business has a history of 200 years, dating back to the 18th century British Industrial Revolution. From a global perspective, family businesses have a very strong vitality. There are many successful family business groups around the world that have made tremendous contributions to social and economic development. According to statistics, family businesses account for 65% to 80% of companies worldwide. There are 1.5 million private enterprises in the Mainland, of which more than 80% belong to family businesses. In the world, the proportion of family businesses is as high as 65% to 80%. In the United States, 90% of enterprises are family businesses, employing more than 50% of the workforce, and 35% of the top 500 companies in the world. It is a family business. Among the Chinese, Li Ka-shing's Cheung Kong, Hutchison Whampoa, Cheung Kong Infrastructure and Hope Group are family businesses.

Compared with the modern enterprise system, family business and its own organizational form and efficiency are often affected by the specific economic environment, and the efficiency is relatively low. The main performance is that, because family businesses are born in the context of dramatic changes in the economic system and changing game rules, they often take extraordinary measures to gain market advantage, and enterprises have high requirements for employee loyalty. Second, the operating costs of family businesses are relatively low, and the rights of ownership and management are combined to avoid the principal-agent phenomenon and reduce the total agency

costs and supervision incentive costs. It cannot be ignored that the development of many family businesses is in a stagnant stage, and some even have serious crises that affect the survival of enterprises. How to maintain the sustainable development of family business is an unavoidable problem in social and economic development.

### **3. Family business management model and problems**

#### **3.1 Family business management model**

The management model refers to the operation mode of the enterprise, including the property rights system, operation management, and financial system. Compared with modern enterprises, family business management mode is family management mode. The main characteristics of the management model are as follows: First, the management model of the family business is largely based on the management model of blood relationship, and the identity of the owner and the operator is often combined into one, and the property rights structure is relatively simple. Second, because the family business was founded at the beginning, its initial capital, human resources and other production factors are often provided by the family. Family power has an important impact on the human resources management of the enterprise. Third, the family management model makes enterprises have high management efficiency in the initial stage, and the management cost is low. However, with the long-term development, the disadvantages of family business management will also appear, such as lack of clear division of labor, lack of standardization and standardization.

#### **3.2 Problems**

The family business management model has the following problems.

First, financing channels are restricted. The family business under the family management mode has mostly its own operating capital, especially small and medium-sized enterprises relying mainly on internal financing and affinitive financing. At the same time, the single property rights structure has limited the way for family businesses to obtain development funds, while the family business itself has a limited scale and its ability to avoid risks is extremely weak. Therefore, with the development of enterprises, the family business will face the capital market with a certain threshold for credit, and the capital bottleneck will gradually be exposed.

The second is human resources restrictions. The foundation of man-made enterprises, talents are the source of development of enterprises. The family management model uses blood and kinship as the connection and bond of interpersonal relationship. The natural closed nature of the family business instinctively opposes the introduction of human capital. Its unique exclusionaryness makes managers lack trust, which leads to the enterprise and The crisis of trust between managers makes it difficult to help each other.

The third is the governance structure restrictions. Family-owned enterprises pursue a centralized management model. Most of the decision-making relies on the limited subjective judgment of managers, and relies on the simple trust relationship based on blood and kinship to form constraints on employees. Because the power is too concentrated and the decisions are too arbitrary, the company is overly dependent on the owners. At the same time, the internal management of the enterprise is mainly conducted by means of human governance. The human language is larger than the system and subjective and random. This governance structure limits the further development of the company.

### **4. The path of family business innovation**

With the development of society, the management model of family business has problems such as rigid management. To solve this problem, we must learn from the successful experience of modern enterprise system and innovate the management mode and mechanism of family business.

1) Take the professional management path. Traditional family management is a bottleneck that restricts private enterprises to become bigger and stronger. In order to develop and grow, family businesses must introduce professional managers, implement professional management,

appropriately separate ownership and management rights, give managers certain management rights, and establish corresponding incentive and restraint mechanisms for managers. It is necessary to improve the incentive and restraint mechanism of professional managers, create a good working environment and conditions for professional managers, and reward them based on rewards in salary, bonus, stock options, etc. to meet their self-fulfilling needs.

2) Firmly establish a sense of rules. Family management must reverse, abandon the concept of human relations, and implement institutionalized management. In the enterprise, everything is regulated by the system, the position is determined by the ability to work, the rewards and punishments are determined by the performance of the work, and the promotion is determined by the comprehensive quality and ability. In the management of enterprises, we must promote the awareness of equality, fairness and justice. It is necessary to eliminate the double standards of employing people and trust, and use external factors such as material and interpersonal relationships to motivate employees to meet the needs of their belonging, communication and promotion, and to stimulate the enthusiasm and creativity of employees.

3) Promote enterprise system innovation. The innovation of family business system mainly includes capital socialization, management specialization, and standardization of corporate governance structure. It is necessary to actively standardize the governance structure and establish a good corporate governance structure so that the complementarity of institutional arrangements can be effectively utilized to ensure that the management has sufficient management rights without causing the investors to lose their ultimate control over the property. It is necessary to intensify the reform of the property rights system, effectively integrate social capital, and realize the socialization of capital. It is necessary to learn from foreign management experience, treat professional managers correctly, and implement professional management.

## **5. Conclusion**

Family businesses occupy an important position in the world's corporate groups and are an important force in promoting the development of the world economy. The same is true for Chinese companies. Many family businesses constitute China's socialist market economy system. However, with the development of the market economy and the continuous improvement of the enterprise management system, the drawbacks of the family-owned enterprise management model have become increasingly apparent, and problems such as insufficient innovation and rigid management have emerged. Therefore, to promote the new development of the family business management model, we must vigorously promote institutional innovation, introduce the enterprise manager system, and give professional managers sufficient business management rights. At the same time, it is necessary to transform the internal relationship of the traditional family business from the personal dependency relationship to the relationship of equality and mutual trust, and exert the enthusiasm and initiative of each employee to contribute to the development of the enterprise.

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