

Study of the Sustainable Development Issue and Correspondent Countermeasures for the Family Firm

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Abstract—The sustainable development of the family firm is an issue unable to be avoided when it has been evolved to a certain scale. The successful solution of this problem can make the family firm survive and further evolve in the fluctuating and complex conditions. Otherwise, an end may be put to the firm. However, the sustainable development of the family firm concerns various aspects of the production, operation, management and governance since the family firm characteristic of the family kinship has its inherent defects. The systematic research on this issue is quite necessary. So, the paper first makes a study of the actual situation and the existing issues such as governance structure, managerial institutions and skilled personnel development and the organizational culture based on the modern corporation system and so on, then puts forward the correspondent countermeasures to solve the above the problems and finally draws some conclusions to make the family firm able to be further evolved.

Index Terms—family firm, sustainable development, tactics

I. INTRODUCTION

The family firm has been playing an important role in promoting the economic and social development of a nation or a region and in speeding up the theoretic & practical research of the business management. However, during its flourishing growth, quite a lot of puzzles such as financing, inherit, technology and skilled personnel, etc occur and hinder its further development. All these problems are obliged to be solved as soon as possible for the purpose of its sustainable development.

II. ACTUAL SITUATION AND PROBLEMS EXISTING IN THE EVOLUTION OF THE FAMILY FIRM

Up to now, in the mainland of China, more than 80% of the 1.5 million private owned businesses are the family firms. Globally, the family firm occupies 65% to 80% [1]. Whether inside or outside China, the family firm has greatly increased the financial income of the national economy, enlarged the employment and boomed the market and so forth. But, in its evolution, some problems are becoming the bottleneck to curb its sustainable development..

A. *Non or Insufficient Separation between the Ownership and the Managerial Authority Causing a Low Efficient Operation in the Serious Internal Friction of the Personnel Relationships*

The separation between the ownership and the managerial right means that various rights like own, use, benefits, etc of some assets can be separated on the base of the concerned law so that another party may own and apply them to the investment, production, operation, etc according to the contract between the asset owner and the operator. When the family firm evolves to a relatively large scale, its owner can't or needn't hold all the rights of the assets in his or her own hand because of the capacity, energy or knowledge, etc. He or she can transfer the managerial authority of the asset to the capable operator to run legally so as to make full use of the asset and to bring more benefits for the owner. In the reality, although some family firms have partly separated their managerial rights to the operator, lots of the internal frictions between the personnel relationship often happen [2]. In the family firm, two different interest groups usually exist: one is the family member staffs and the other is the personnel hired in the market. The family member staffs are close each other, which may produce benefits due to the good communication. But this phenomenon may lead to a result: the managerial institutions can't be strictly obeyed. Also, the family member staffs may have the anti-foreign mentality for their common interest or even be fastidious to the personnel hired outside. It's hard for the foreigners to have the sense of belongings and they have to resign their position. If such situations continue, the firm can't hire the people that it wants. What's more, some family member staffs may breed sentiment of complacency and are unwilling to change themselves to adapt to the continuously changing conditions inside and outside the firm. In this way, they can't find out their own problems and are finally eliminated from the market competition.

B. *Abuse of the Authority due to the Unclear Property Right and Insufficient Encouragement & Constrained Mechanism*

The inner governance structure based on the modern business institutions is the key section to insure the

sustainable development of the family firm. It does benefits to sort out the relationship of the property right, consummate the business constrained mechanism and solve the heritage issue [3]. However, during its evolution, it needs time for the family firm to set up a perfect business governance structure, which gives chance to some abnormal acts like abuse of the right, nepotism, corruption [4], etc. All these phenomena make the firm right imbalanced, the communication incongruity and the crisis of confidence.

C. Lack of the Personnel's Initiative because of the Dislocated Encouragement

First, the common sense of the human resources management in the family firm is that the relatively high pay can stimulate the people to work more. Partly speaking, for those that have a relatively low income, a relatively high pay perhaps has certain encouragement. But for those that are more capable, it has many limits in motivating them to work harder, because they are more competitive and have more opportunity to find a better job with higher pay. Second, some bosses of the family firm neglect that the people have more needs rather than the money, such as rest, trust, respect, etc. They often let their employee work off office without pay, arrange their incapable family member to the important position and so on. All these lead to a result: the management measures of the human resources can't either encourage the people actively work or retain the capable person or attract the people needed by the business.

D. Shortage of the Skilled Personnel in the Family Firm Restraining its Further Development

In one hand, due to the limited chance and the concerned resources of the individual career, it is hard for the family firm to hire the capable people needed in the human resources market [5]. On the other hand, because of the insufficient financial resources, the family firm can't offer the enough training to raise the skill for all its staff. In the meantime, the rather low cultural quality, scarce knowledge and backward operational concepts of some bosses in the family firm make them unable to grasp actively and quickly the modern management idea with the changing conditions inside and outside the firm. They can't hold the advanced thoughts to develop the skilled personnel matching their productive and operational activities. Therefore, they can't attract the qualified people, either. In the long run, the shortage of the skilled personnel becomes the bottleneck of the further development of the family firm.

E. The Traditional Family Culture Hindering the Fostering of the Enterprise Culture

The management of the enterprise culture is an administrative arrangement of a rather higher level in an enterprise. Its core is the commonly shared value perspective that can gather all the people in the firm together so as to realize the purpose of the enterprise. Its main content consists of the institutions, the operational idea and spirits of the business. But, the typical family culture in the family firm gravely constrains the forming

of the enterprise culture. As for the business, the family culture, characteristic of boss arbitrary and authority, the blood kinship and the familial interests above the others in the firm, etc, leads to a phenomenon: the boss controls all from the big to small things and the faculty are short of the enthusiasm of work. And the construction in the aspect of the business institutions and spirits and so forth under the family culture is hard to catch up with the requirements of the modern business development. Let alone to foster the value view shared by the whole firm. The backward business culture much weakens the core competitiveness of the firm. It has a long way to go to form the enterprise culture.

III. TACTICS FOR THE FAMILY FIRM TO DEVELOP FURTHER

A. Re-engineering the Structure of the Ownership and Managerial Right according to the Modern Business Law

It is an essential trend for the family firm to reform its family links when it has evolved to a relatively large scale in the production & operation. In one hand, with its enlarged capital scale, its productive scale is obliged to be enlarged to match it; on the other hand, its expansion in the economy and market causes some serious transaction problems like costs, rent-seeking and information, etc. Therefore, to re-engineer the business structure is a rational choice. The first step is to separate the ownership and the managerial right. In this way, the boss can concentrate its energy on the business strategy to keep a correct business orientation to match the changing conditions. Also, the professional skilled personnel hired can do benefits to aid the boss to make decision in the angle of the professions so as to assure the decision making to be objective, scientific and timely besides assuming partly some burdens of the boss. And the skilled personnel with some expertise are engaged in the professional things, which can greatly raise the efficiency and effectively. The second step is to re-structure the organization around the business process and set up the correspondent functional department. Various departments should be relatively independent in assessment and cooperative in business activities. Thus, the business process dominates the production & operation instead of the individual and the boss can bring out the essentials. The third step is to establish the concerned supervision mechanism. Seeing that the managerial right is separated from the ownership, the moral hazard or reverse selection may occur [6]. The managerial people may be unwilling to take the risk of increasing the benefits and take the conservative measures in managing the business for their own performance. In the meanwhile, owing to the breach of the benefits between the stockholder and the manager, the managerial people may do harm to the stockholder's interests for the purpose of their own benefits by adopting the moral hazard or the reverse selection. All these activities make the stockholder unable to understand the business precisely and make correct decisions. So it's

quite necessary for the firm to set up the correspondent supervision and track system.

B. Normalize the Inner Managerial Institutions Based on the Modern Enterprise Requirements

The normalization of the family firm mainly includes the following [7]: socializing the capital, managerial profession and flowing of the inside governance framework. The normalized institutional arrangement means to establish the the governance structure of modern corporation legal entity by introducing the modern enterprise management institutions based on the actual situation of the family firm[8]. It is helpful for the family firm to hire the professional manager that is thought to be the bottleneck to its further development. It does good to either solving the contradiction between the boss and the professional manager or dealing with the agency problem and then reducing the agency risk. In the meanwhile, it can assure that the managerial people have sufficient operational right to flexibly adjust the correspondent countermeasures according to the changing market conditions and that the ownership has the enough supervision authority of the assets. Moreover, the normalized the institutional arrangement can better push the merger of the social capital and stimulate the work enthusiasm of the vocational managers to carry out their responsibility by way of the modern managerial concept and technology. Particularly, it can form the correspondent supervision system to ensure that the professional manager should obey the contract rule and can't violate the interests of the ownership or the other stakeholders for his or her own benefits.

C. Establish an Improved Personnel Management System

First, whether the person is the family member or kinship or the hired outside, they should enjoy an equal chance to grow in the firm. The insider of the family kinship and the hired outsider ought to respect and condone each other. The boss should treat the insider and the outsider equally without discrimination in either career development or benefits. In this way, a long fair valid mechanism to use the people can be formed and kept. Then, a diversified encouragement system should be set up. A valid encouragement system is sure to be a combination between the material and the spirit, between the short and the long. Generally speaking, the material encouragement consists of the pay, bonus, allowance and other benefits,etc while the spirit encouragement includes honors, praise, delegation and concerns and so on. The long encouragement often refers to shareholding, options and career opportunity,etc while the short encouraging measures include bonus, pay and training,etc. Which encouragement measure should be adopted depends on the concrete individual because every person has his or her own needs. Even for the same person, he or she has different needs when lying in different time. So, a flexible diversified encouragement system should be built on the base of fully understanding each individual. Its basic principle is: distribution according to performance and combination of material and spirits, long and short measures.

D. Marketization to Develop the Skilled Personnel

Without doubt, the qualified skilled personnel are the key for the family firm to be further developed. However, it is quite difficult for it to hire the needed person. To solve this problem, the boss must formulate a mechanism to hire the people by competing for the job whether he or she is the insider or the outsider, especially to a higher level of positions. Meantime, the boss ought to have a correct concept of the training. Although the training needs costs, it can help the firm retain the skill of the skilled personnel and make the people in the firm better adapt to the development target of the firm. Therefore, the firm should determine its training content according to its development orientation and enlarge its training coverage on the base of needs whether they are the fundamental or middle or higher levels of the staff. Thus, both the requirements of the skilled personnel of the firm business and the career development of the staff are met with. More importantly, the valid training plays an important role in keeping the skilled personnel.

E. Construction of the Enterprise Culture System Adaptive to the Business Environment

Generally speaking, the enterprise culture system includes three levels. Namely, the core is the value perspective and operational concepts identified and shared by all the people in the enterprise. It can agglomerate the whole organization working hard towards the organizational target. Then, the institutional level of the enterprise is the important element of the organizational culture. It can normalize the people's activities along with the core value perspective and operational concepts. The third level of the enterprise culture is the expression form of the core value perspective and operational concepts by way of the people's conduct, style of doing things and something materialized such as factory building, images and bulletin boards and so forth. The enterprise culture can make an organization have a long vitality. The family firm, typical of the kinship among the staff, more tends to the governance by rule of man rather than by rule of law. The deficiency of the institutions leads to a fault of the organizational culture. The complexity of the modern changing business environment requires that any organization must hold its own culture to gather the strength of all its people and guide its member's activities towards the organizational goal so as to survive and grow in the conditions full of contradictions and risks. So, in order to be sustainable in the fierce competitive environment, the family firm must lay emphasis on the construction of the modern enterprise culture instead of the family kinship culture. To foster its own organizational culture, the family firm should first set up the core value perspective and operational concept adaptive to the modern business conditions [9] on the base of absorbing the rational ideas of the family culture like solidarity and hardiness, etc. Then, the concerned institutions such as assessment, encouragement, rewards and punishments [10], etc should be formulated and strictly carried out. Next, the firm should strengthen the

propaganda of its core value orientation and normalize its people's conduct by way of the institutions set up and finally reach the aim to foster the organizational culture from the self-consciousness to spontaneity. Thus, the enterprise culture will become driving forces to the sustainable development of the family firm.

IV. CONCLUSION

As an important part of the national economy, the family firm has attached more and more importance of the society in the world. With its further growth in the economic scale, the family firm can't avoid the bottleneck to further develop either in capital structure or in governance model or in management, etc. So, it's obliged for the family firm to re-engineering the structure of the ownership and managerial right according to the modern business law, normalize the inner managerial institutions, establish an improved personnel management system, marketize the development of the skilled personnel, foster the enterprise culture system adaptive to the business environment. The timely solution to these issues decides the family firm to further grow or not to do.

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