

Study on the Innovation and Development of the Family Enterprise

ÉTUDE DE L'INNOVATION ET DU DEVELOPPEMENT DE L'ENTREPRISE FAMILIALE

Zou Huixia¹

Abstract: As an important part of China's economy, the family enterprise has its unparalleled strength and inherent weakness compared with the non-family enterprise. The point of implementing innovation management in family enterprise is to make full use of this strength and avoid the weakness at the same time. The fusion of sustainable developmental strategy and the innovation management is the best way to unit strategy and the tactic together, meanwhile, is a kind of sharp weapon which family enterprise use to realize sustainable development. Based on the investigation, inspection and analysis on some family enterprises, the paper makes some researches and discussions on the key factors of family enterprise's innovation management and sustainable development strategy.

Key words: Family enterprise, Innovation management, Sustainable development

Résumé: En tant qu'une partie importante de l'économie de Chine, l'entreprise familiale a ses avantages et points faibles en comparaison avec l'entreprise non-familiale. Le but de procéder à l'innovation de management dans l'entreprise familiale consiste à mettre en valeur ses avantages en évitant ses désavantages. La fusion de la stratégie de développement durable avec l'innovation de management constitue la meilleure approche d'unir la stratégie et la tactique, et peut servir en même temps d'une arme tranchante pour l'entreprise familiale de réaliser le développement durable. Basé sur l'investigation, l'inspection et l'analyse d'entreprises familiales, cet essai entreprend des recherches et discussions sur les facteurs clés dans l'innovation de management et la stratégie de développement durable de l'entreprise familiale.

Mots-Clés: entreprise familiale, innovation de management, développement durable

1. INTRODUCTION

The family enterprise, as one kind of economic organizations, is universal in China's present private enterprises, which has become the important part of Chinese economy after nearly 20 years' developing and expanding gradually. In the city, the family enterprise has become an important carrier to widen the channel of employment and to increase the occupational post. However, Chinese Family Enterprise is almost at the first stage compared with international family enterprise's development history----some enterprises are entering the update time; but the majority are still at the starting stage. In the various countries' economy, the family enterprise is the most active ingredient, but it also meets many inevitable problems along with its growth. In relation to the non-family enterprise, the family enterprise has its obvious superiority, also has its

born weakness. As far as family enterprise's path of development is concerned, how to display the strength, overcome weakness as far as possible, cut the shortcomings, keep pace with the times, implement the innovation management, and realize family enterprise's sustainable development, all of these have become a hot topic in family enterprise and theory field. The family enterprise's development need certain environment soil, so to explore the innovation management of family enterprise and the sustainable development with Chinese characteristic is a epochmaking and historical issue.

Based on the high degree of attention on the family business in recent years, we have investigated parts of family enterprises in some cities of Guangdong Province. The interviewees are the enterprises which develop relative smoothly. In these enterprises, the registered capital needs to be 1 million Yuan above,

¹ Economics and Management School of Wuhan University, China

*Received 1 October 2006 ; accepted 2 December 2006

family members are main body of operation, a certain amount of practitioners are hired, business accounting is relative clearer, enterprise financial and family finances, profits and wages are in a state of separation. The purpose of the survey is to learn operation situation of the family enterprise developing relative smoothly, the understanding and practice of management, and the awareness and ideas for development of family enterprise. Based on the investigation and study of family businesses, we raised this subject for study. So this paper tries to discuss relative issues about innovative management and sustainable development of family business through analysis of the enterprise's development process, and to provide some useful recommendations for further theory study, operation and management of family enterprise.

2. THE WEAKNESS AND STRENGTH OF FAMILY ENTERPRISE

Compared with non-family businesses, family enterprise in the market has its unique advantages:

The first point is high cohesion. Because family enterprise is based on marriage and descent, and the family members are very high degree of credibility and "affinity", it is easy to reach a common enterprise culture, and form an identical objective for business development. Their mutual tolerance, understanding, support, improvement, and making the team spirit perfect, all of this comes to high cohesion, and then defend against external risks together.

Second is the high efficiency. The common enterprise culture, credibility and team spirit can make more mutual trust between the family members; effectively reduce internal friction and minimize transaction costs among members; balance discrepancy on the management and technology level among family members. Meanwhile, the ownership and operating of family enterprise come to together, so cost of decision-making is far less than the cost of non-family enterprise, and the efficient operation is not the point the non-family enterprise can reach.

Third: the flexible operation. As the size of family enterprise is much smaller than non-family one, there is more flexibility in its operation, and there are more space between entering and exiting from markets.

Fourth, the technical monopoly secrecy is stronger. Why can family enterprise survive the intense competition in market? One of the essential factors is technical content of product. The higher technical content is, the stronger competitive power of product is. Thus, regarding key technologies, its monopoly secrecy is stronger. For example, a family enterprise of hardware in Guangzhou, its chemistry formula of technology burning character in mechanical and electrical products is only owned and operated by the

owner, the worker is just responsible for the work flow using the fixed technology. Compares with the domestic craft brother, this technical cost is lower; the handwriting is more luminous; not easy to be corroded; it is at the leading position in domestic at present, and have a big profit space.

Although family enterprise has its own strength: efficient, high degree of responsible for the enterprise and rapid decision-making, it has its weaknesses like others. Through observation of family enterprise, we have found its main weaknesses as follows: Firstly, enterprise's ability to withstand risks is low, and can not spread the risks effectively. The size of the enterprise can explain this clearer; meanwhile, it is a born weakness as for the most of family enterprises, too. Secondly, when enterprise develops to a certain extent, its size of development is always limited by some factors, most of which are the problems in ability, knowledge and concepts.

Based on its own advantages, Family enterprise can overcome its weaknesses through innovative management, and form a good organization with high efficiency and suitable scale. We can integrate "match strategies" and innovative management to achieve the sustainable development of enterprise.

3. INNOVATION MANAGEMENT OF FAMILY ENTERPRISE

As explained above, family enterprise has poor ability to withstand risks, and the main reasons come from the size of the enterprise, the capabilities, knowledge and ideas of manager, and other issues. It is shown from surveys that development of family enterprise needs to gradually resolve these issues through innovation management, which includes systems innovation, human resources management innovation, and creating a learning family enterprise.

3.1 The system innovation of family enterprise

At the early beginning of venture, family enterprise has the high cohesion under the guidance of a "home" theory. Such cohesiveness makes family enterprise form its own business ideas and entrepreneurial culture gradually, and form the guidelines to direct the actions of family members. Although there are no clear and strict provisions for the family enterprise, it has form regulation based on the "home" theory, which family members should observe together. This regulation consciously abided is actually an invisible family enterprise system. With the progressive growth of a family enterprise, and the expansion of enterprise-level structure, the family members have not the full energy to deal with multi-layered structure of management, so some outside practitioners are recruited to be the section

level managers. With the expansion of the family enterprise structural level, the "home" system is too implicit, and not enough, so under this circumstance not only the explicit family enterprise system is needed, but also the system innovation.

The innovation of family enterprises is formed under the background of national legal system. Through changing, enriching and improving the implicit system of "home" theory, form a set of systems, and then make it become "the supplier who supplies the economic value services."² In other words, the innovation of family enterprise system is designed to help the enterprise serve society, create economic value. This is the key point of the family enterprise system innovation. There is no fixed model of family innovation. It depends on the enterprise's industry, characteristics, and the practice of family enterprise to innovate. The objective is to provide a system structure to help family enterprise cooperate and compete with other enterprises legally, and can get additional income under the cooperation among members in the structure than the structure outside. Only getting this point, only in this way to innovate family enterprise system at present, can make it serve family enterprises to create economic value.

The innovation is dynamic and continuous, and it changes the system structure along with the changes of economic environment and family enterprises in time series. Family enterprises must pay attention to the timing and continuity of system innovation, and to the implementation of the new system as well. The family enterprise mainly personally sets an example, takes the lead to innovate and to carry out the system, urges the enterprise to form the standard management atmosphere, and gradually forms a kind of family enterprise system culture in the long-term process of system innovation and the implementation.

3.2 Innovation of human resources management

The development of family enterprise needs change and innovation, which is many successful modern family enterprises' consensus. According to our survey we find that many family enterprises have begun to pay more attention to the management and development of human resources, and they begin to introduce technical personnel and managerial personnel actively, but the results are not satisfactory. The reason mainly lies in human resources environment of family enterprises. We also found that some better enterprises in the survey, for example, a hardware family enterprise in Guangzhou. When you entered the factory, you can feel the tidiness, the brightness, the clean and the order; you can find office automation systems, unified workers and orderly assembly. Some of the key independent technical works have been controlled by computer. The staffs in the workshop are supplied lunch by the factory. Staff members live in family buildings owned by

entrepreneurs for free, which are equipped with some entertainment and living facilities. In accordance with entrepreneurs' words, they supply a comfortable living space for their employees, which can facilitate exchanges, communication and technical research. The entrepreneur told us one thing: a technical backbone in hardware tools plant tried to operate independently, so the entrepreneur helped him to rent the shop and pay the start-up funds. Six months later, he failed due to mismanagement. But, it is surprising that the entrepreneur accepted his return to the factory, and even made him the main leader in the plant.

Although our study can not represent all the family enterprises, some enterprises' experience tells us that there are some focuses we should put when we perform Innovation of human resources management in family enterprise. Firstly, we should humanize the management of human resources. We can not treat the employees just as a cost to cut; on the contrary, we should view them as human resources for all employees of family businesses. The development of family enterprise can not get without considering the interests of employees, so we should put them together. Caring for staff is the basis not only for the implementation of humanization management but also for a long term living enterprise, at the same time, it is a required course for entrepreneurs of family enterprise. The second is to establish good human resources environment. This includes the improvement of working environment, the benefits, welfare, and value of staff, and harmonious cultural atmosphere is absolutely necessary, too. These elements complement each other, only to form a virtuous circulation can form a good human resources environment. Practice has proved that good human resource environment is the most effective incentive to the staff. Objective appraisal of staff performance is a process to enhance the value of staff. In fact, human resources environment is the key element to introduce and retain human resources for family enterprise. Among these elements, when some of the elements equal to the average level while a certain element level is higher than the industry, marginal effect it incurs is much larger than the effects produced by material incentives, and the economic effects of enterprise will be higher than the industry level. The third is the cooperation between entrepreneurs and external managers based on trust. After introducing the external managers and appointing them to important jobs, the family enterprise should trust them and give them the enough rights, and consider establishing space and prospects of career development for them. From another perspective, the effects produced by confidence are much larger than the effects by exerting on them. Only the relationship between entrepreneurs and external managers be based on trust, can we talk about the commitment and accountability. This is a kind of good cooperation, but also the foundation for family enterprise to develop further rapidly.

Human resources management innovation is a

² T. W. Schultz, the incessant improvement of system and human's economic value.

gradual process. The family enterprise should make better human resource management and development strategies not only from the short-term interests but from long-term development perspective. To use diversified and flexible technical means in different areas such as establishment of the post, pay issuance, the performance assessment design, and strive to foster enterprise reasonable talent formation.

3.3 To create a learning family enterprise

The lasting competitive advantage of modern family enterprises is to have the capacity to learn faster than your competitors. To establish the learning enterprise can upgrade this capacity and meet the requirement. Our investigation on family enterprise can explain this vividly. However, too many questions such as how to create a learning organization, what and how to learn, should be considered deeply by owners of family enterprise.

We believe that there are several key processes needed when we establish a learning family enterprise. First of all, to find elements needed in learning family enterprise. This requires to explore and discover on the basis of their own enterprises practice, and then to assess whether your enterprise has these elements. These are the contents enterprises need to study on, which not only contain technology, but psychological qualities, management skills, team spirit and many other elements. Secondly, to make sure what the study topic is. There are many factors should be considered synthetically when we design the topic, such as learning content, strategies of enterprise development, development space and platform for staff. Thus, the staffs are willing to study full of objective, vision and passion. Thirdly, to work along with study. In fact, it is more flexible for family enterprises to learn. For example, distributing some useful books to your staff, giving some proper lectures, organizing your staff to make exchange of knowledge study, work experience, and skills upgrading, all these forms can create cultural atmosphere in which every people learn and make progress together, on the other hand, these forms can reached full learning purposes and can produce real results, too. Achieving some valuable managerial and technical innovations is a good example.

Innovation is the most crucial elements for enterprises to maintain vitality, and only when an enterprise has become learning enterprise; innovation can appear constantly, the enterprise can have a capacity to respond the market rapidly, the integration of human capital and knowledge capital can release its full energy, and the "win-win" goal of enterprises, employees, society can come true.

4. THE SUSTAINABLE DEVELOPMENT STRATEGY OF FAMILY ENTERPRISE

Innovation management is the focus to realize sustainable development, from which family enterprises can get strength, and it is a kind of tactic, too. From the longer-term, wider perspective, to design the sustainable development strategies, which is used to guide and support the tactics, sustainable development of family enterprise can really come true. The following four aspects are to be discussed:

4.1 Setting targets and matched strategy

Family enterprise must have its own development goals: what are you doing or what are you going to do? What is your direction? What level or standard do you want to achieve? Only the clear objectives can exclude the many puzzles in development of enterprise. Enterprise's development need ideas and outlook, which is a driving force, can inspire many creative and practical impulses, and can inspire staff to realize objectives with full passion. Meanwhile, the development objectives of family enterprise also need to consider the feasibility and possibilities, and these can be confirmed after comprehensive analysis of market and family capacity.

"Match" development strategy is a basis for a family enterprise to deal with the present smoothly, expect the future. Jack. Telaote once said: "strategy is to create a unique and advantageous position, involving different business activities."³ This demands you to make clear that where you can have more prospects for your business, how the business environment affects your enterprise, and what the channel is for you to get the competitive advantage when competition becomes stinging. So that the enterprises can excavate discrepancy and get comparative advantage in a homogeneous competition, and then realize the variation survival. Strategic position is a dynamic process. When the changing environment and enterprise development make the primary strategy no longer appropriate, it is necessary to re-examine and adjust strategies. The "match" here means strategic position and adjustment of family enterprise should be matched with the host area, industry competition posture, their own competitive advantages, the chain of commercial operation activities, and resources and integration of adaptation.

4.2 Family enterprise owner's self-practice

The family business owner plays an important role in enterprise's development, making and implementing strategy and so on. It can be said that enterprise's success, failure or prosperity has close relation to the family business owner's function. Thus, along with

³ R. Coss. And others, Property rights and system changes, Sanlian Publishing House, 1995, April. Second print, P257.

enterprise's continual developing, the family business owner needs to improve himself continually. This improvement process can be summarized as self-practice, which is a self-sustainable development process. The family enterprise owner's self-practice contains a rich content, and here mainly carries on the discussion from four aspects, which complement one another.

Personality practice. The result from which family enterprise owner governs the enterprise is not only decided by grasping market shift accurately and optimizing the composition of product elements, but more and more by his personality influence. The personality practice means people should behave himself prudently in the daily life, and often alarm oneself, thus human's disposition, the makings, ability, the moral character, as well as main body qualifications which can take right and responsibility would fuse together. The family business owner should pay attention to his daily behavior, have a broad heart, treat people tolerantly, touch the staff by moral, set his prestige, give a sincere love to staff, and set a vivid example in personality. Further more, the owner should be full of confidence in enterprise with firm goal, full of the spirit to devote himself, and become the flag to lead staff in the personality. The influent power of family enterprise owner's personality will produce the cohesive force and the guiding force, which can drive the staffs unite together, cooperate together, make efforts together, and struggle for the common goal together.

Decision-making innovation practice. Managed Master's Drukker had been said: as for any CEO, a question they should ask themselves frequently is: what can I do if I have to start from the very beginning for everything. Actually this provides a self-practice method of decision-making innovation for the business owner. In fact, no matter what kind of ecology your enterprise lies in, it should be put in the hypothesis uncertainty factor system frequently. You should answer the question rationally how should enterprise do. This may help the business owner jump out of the fixed frame, change mental, make clear ideas and find the right direction. It may promote the family business owner's forward-looking and decision-making innovation ability. Once the confuse or the crisis attack the enterprise, the owner can have the ability to adjust strategy in time, make the sustainable development decision decisively, determine the new direction for the enterprise and find the new point of growth. We must avoid "stopping after getting a smattering, hits out in all directions".

Idea innovation practice. The family enterprise owner should consciously examine your enterprise's management development frequently from the different observation angle, and draw the new conclusion or form the new viewpoint, and then discriminate whether these conclusions or the viewpoints are appropriate or not, whether they do good to enterprise's development, whether need to take new attitude and method. The

point of idea innovation practice is to liberate the human from every kind of old consciousness and shackles, and to change the fixed convention and thought pattern. Further more, it asks people to change their minds unceasingly along with the changing situation, to fit for and reconstruct the reality, and then enter the new environment.

Knowledge innovation practice. Knowledge innovation is dynamic process including knowledge creation, evolution, transfer and application, and is a learning process, too. However, learning is the only way of "self-transcending". On one hand, as for family entrepreneurs, knowledge innovation practice lies in taking initiative to study theoretical knowledge, using them to guide the practice, consciously. These can have an imperceptible influence and improvement on people's thinking structure, and enhance abilities to analyze and solve problems. On the other hand, it is more important for us to learn in practice, which means observing, analyzing and accepting new things consciously, pursuing new things, exploring new laws, and summarizing the lessons and practice. To learn with theory and practice combined together is a healthy interaction process through which the knowledge can be accumulated and improved, thereby it create added value, self-realization beyond.

4.3 Family enterprise's inheritance

Inheritance is an important question in the growth process of family enterprise. Through observation and interview to family enterprise in the city, we found that there are about three kinds of understanding and habits to deal with the inheritance especially for the only one child's family. The first kind is the direct inheritance. The business owner exerts oneself to educate and train his child as the successor directly. The second kind is the indirect inheritance. The children already have gotten better working conditions than their father's generation, which means they don not need to manage enterprise in person; they just need to employ professional manager to get help. Under this situation, the property rights and the operation rights are separated each other. The third kind is to terminate the inheritance as a result of many kinds of reasons. Among all of these kinds, the former two usually happen.

We will put focus on the hot questions in family enterprise inheritance areas, here.

The first question is whether the family enterprise of direct inheritance can maintain senior's achievement, or manage the firm better than the senior. In fact, since family enterprise begins to appear after reform and open policy; it has already undergone the intense evolution in market competition. In this evolution process, stronger enterprises have already accumulated a plenty of profound and rich management knowledge, which enables them to become the mainstream in the private economy. This knowledge is a kind of outstanding "gene" and it is kept and retained to the successor as a

precious asset. There are too many ingredients in this “gene” such as the toils of starting business, the practice whets, human’s practice in management process, and formation of the core management culture in family enterprise. The question is that how these outstanding “gene” can inherit. Many family business owners take emphasis on children’s college education extremely, which is very important, but the family enterprise is a kind of “the university” as well in some sense. In the University of Family Enterprise, the business owner is not only principal but also teacher, who is in charge of stipulating, choosing and teaching the necessary “course content”, especially the personality education. The successor in the family university needs to complete the required courses and the practice classes from the lower grade to the post-doctorate. The person, who can merge the knowledge both of family university and the regular university, is the real qualified successor. Up till now, the family enterprise inheritance as a task only is finished completely.

Another question is how to deal with the contradiction between “the airborne troops” and the relative culture. This is a global difficulty in management. Especially in the indirect inheritance, enterprise’s management and operation is in the charge by the professional manager completely, so how to choose the qualified professional manager is one of torturing questions in business inheritance, which is paid the most attention. Regarding a quite far-seeing business owner, he has begun to introduce fresh blood in enterprise’s developing process, and to make up the weakness. As for these “fresh blood”, the business owner should be “Bole” to find them, at the same time, should be their teacher to cultivate them and excavate talents from them. In process of colliding with them, wearing with them, communicating and studying with them, the owner can establish successor position gradually. At the same time, the owner should have enough confidence in his own ability, and dare to place these outstanding “the airborne troops” in the key position, let them to manage the firm as a key role, which is the best encouragement for them, and is the best restraint, too. Certainly, releasing right does not mean the *laissez faire*; on the contrary, suitable supervising is necessary, especially for supervising and instructing their personality and ability development. Thus, how big the owner has his mind and ability, how much scale and how degree the enterprise can reach. So if family enterprise wants to go further, gathering human resource widely is an important term.

4.4 Management from supply chain angle

The family enterprise can not exist without an ecology chain. Chrisdofe, a renowned supply chain scholar, has said such two speeches: there will only be supply the chain, but not the enterprise in the market;⁴ in 21st

century competitions will not happen between the enterprise and enterprise but between the supply chain and the supply chain. This explains a simple truth intuitively: The family enterprise will dead without upstream cooperators’ supplies and downstream cooperators’ demands. But in fact, in the reality supply chain is a very complex structure. As far as family enterprise is concerned, every link which its process of value realization involves is a supply chain system, in which the family enterprise is the core firm. But viewed from the industry, domestic, and international, it is possible that the family enterprise is the node in several supply chain at same time. The position where family enterprise locates in the supply chain decides its own management ecology value chain structure and the corresponding operation management pattern, also has decided the family enterprise’s income. Therefore, the family enterprise must be based on the angle of supply chain; only by this can it locate itself on the macro environment supply chain.

First of all, family enterprise should deeply know the importance of localization. Using your own strength, the enterprise should analyze the supply chains involved in, and then determine where you chose in these supply chain position: the head, the midst or the end? Resources are developed in the head section. In the midst section, the middle productions and final productions are finished, which will be sold to the market in the end section. Next we will analyze the shape of the supply chain curve: Upward, downward, or keeping level? Then make clear where you are in the supply chain: the head or the end position. Obviously, firms in the head position have the power to lead and even control the chain actively, but meanwhile the firms should not ignore the trend of the supply chain.

The purpose to position supply chain is to make clear the direction of the family business further, innovate current business decisions, and optimize supply chain system taken family enterprise as the core firm in the context of this environment. First of all, we should optimize its own structure of supply chain, which means, on the basis of position in the supply chain and the state of their own business, the family enterprise can decide whether their own chain should extend to the whole country or to global, or simplify and shorten the chain. The next focus is how to develop the good cooperators. Namely, how to choose the suitable quantity and qualified partners, and how to maintain, upgrade and optimize the relationship between them. Meanwhile, we should pay more attention to the flexibility of supply chain in the course of operation, which means the firms can anticipate the changes in future and respond swiftly. According to observation to family enterprises we found that if the family enterprises can joint together, and make the strategic alliances of supply chain, the flexibility of supply chain can be upgraded significantly, economics of scale can be achieved and the position can be improved in bigger environment of the supply chain.

⁴ Jake. Trout, What is strategy? China Finance & Economical Publishing House, 2005, August, the third print, P1.

5. Conclusion

Family enterprises have the advantage non-family enterprises can not get, but meanwhile they have some inherent disadvantages, too. Implementation of innovative management is used to play and upgrade these advantages and overcome weakness. Innovation management is the sustainable tactics for family enterprise, and the strategy is the general guidelines,

overall goals and overall trails for the sustainable development. This gives family enterprises a new perspective for innovation management. I believe the combination of this tactics and the strategies will break the curse that the rich can not be kept over three generations. The practice that family enterprises grow and develop in China will give the family enterprises around world some important references.

REFERENCES

- T. W. Schultz. *The incessant improvement of system and human's economic value*.
- R. Coss. And others. (1995). *Property rights and system changes*, Sanlian Publishing House, April. Second print, P257
- Jake. Trout. (2005). *What is strategy?* China Finance & Economical Publishing House, August, the third print, P1.
- Wangzhitai, *Regional economy: from supply chain angle*,
<http://theory.people.com.cn/GB/49154/49155/4030143.html>, 2006/01/16
- Yaoyan. (2006). *The research on system structure of family enterprise*, Shanghai University of Finance & Economics Press, May.

THE AUTHOR

Zou Huixia, Professor, Dr. Economics and Management School of Wuhan University, Wuhan, Hubei, 430000, P.R. China.

E-mail: hxzou_89@hotmail.com