Introduction

A Curse Upon Family Enterprises?

IBM, Wal-Mart, Ford, LG Electronics, Carrefour and Mercedes-Benz are some examples of evergreen enterprises well-known around the world and undoubtedly apotheosis of fortune-makers and examples of remarkable management. In addition, all these enterprises share another common feature: they are all family enterprises. Other than eminent family wealth and social status, ordinary Chinese family enterprises are also often associated with problems of nepotism, poor management, and even sinister internal power struggles. This fate is epitomized in an old Chinese proverb: "Wealth does not sustain beyond three generations" (which is also known as "from rags to riches and back again in three generations"). In fact, numerous examples in history have testified to the truth of this proverb. As China embraces an unprecedented period of great development in its economy, family enterprises in China have increased by leaps and bounds. While people are delighted by the achievements, they also have their worries. During this peak period of growth, can family enterprises in China make themselves bigger, stronger and sustainable? Can they break away from the tragic cycle of wealth disappearing in three generations? These are the central issues to be discussed in this book.

Family enterprise is the most common form of enterprise around the world. According to the World Competitiveness Report provided by the Lausanne Management Center, 80% of the enterprises around the world are more or less considered family enterprises. In the US, family enterprises contribute half of the gross domestic product and provide half of the job opportunities. In Germany, family enterprises create 66% of GDP and account for 75% of the total national employment. In Great Britain, the number of employees in family enterprises is 50% of the country's workforce. 40% of the World's Top 500 Enterprises are owned or run by families. In developing countries, almost all of the private enterprises are family-owned. In India, the total sale and net profit of family enterprises account for 70% of the country's 250 largest private companies. Family enterprises contribute a lot to GDP of Southeast Asian nations and the region, with Korea reaching 48.2%, Taiwan 61.6% and Malaysia 67.2%. Market capitalization owned by the top ten family enterprises in the Philippines and Indonesia accounts for more than 50% of the total GDP. Market capitalization by the top five family enterprises in Thailand and Hong Kong makes up 26% of the total.

Table I.1

The US	90% of the enterprises are controlled by families
Britain	76% of 8,000 major enterprises are owned by families, with output accounting for 70% of GNP
Germany	80% of the enterprises are family-owned
Italy	46% of industrial companies with more than 50 employees are family enterprises
Holland	80% of the enterprises are owned by families, and 50% of the enterprises with more than 100 employees are family enterprises
Spain	71% of the enterprises with more than $2 million sale are owned by families
Australia	80% of unlisted companies and 25% of listed companies are controlled by families
South Korea	Families control 48.2% of all companies
India	75% of top 500 major enterprises are controlled by families, and 99% of registered companies are family enterprises
Latin American nations	80%–98% of non-state-owned companies are family enterprises

Source: IMD, the World Competitiveness Report, 2000, the Family Business Network, Switzerland.

The proportion of family enterprises in China's economy is becoming increasingly significant. Compared to ordinary enterprises, family enterprises have their unique set of problems in dealing with power transfer, management, employment, internal relationships, strategic planning and governance structure. Proper handling of these problems is of great importance and is most challenging for the survival and development of family enterprises. Moreover, these problems will exert a significant influence over the overall economy and society. The authors' intention is to focus on the problems, so that entrepreneurs in China will reexamine their business practices and decide on the appropriate path to take for long-term success and survival.

There are four sections in this book. In Section I, Interpreting Family Enterprises, the authors use interesting examples to present and analyze the unique and primary problems in family enterprises, and also discuss the challenges posed by these problems toward the development of family enterprises in China. Section II relates stories of family enterprises in other parts of the world, across different cultures. The history of family enterprises in European and American societies, East Asian societies and cases of miracle-creating family enterprises — their operation, management, ups and downs, characteristics and social influence — will be discussed respectively in Section II. It is believed that enterprises face the most serious of challenges when changes in the social environment occur. These changes in China and the alternation of dynasties are directly correlated with the rise and fall of Chinese enterprises: from the Ming to Qing dynasties when family enterprises just took shape; to the period of the Republic of China when family enterprises developed in a capitalist economy and to the present social environment in China. In Section III, these problems will be analyzed from the perspectives of formation, property, family, enterprise and individual entrepreneurship. As the saying goes, "nothing is more practical than a good theory", which would surely benefit businessmen of family enterprises in many ways. In this section, therefore, the authors systematically present the latest research findings and theories, making it possible for readers to analyze the problems of family enterprises from a profound aspect.

Family enterprises in China have only survived a generation of growth and development. There is still a long way to go. In this section, in light of the current environment in China, the authors unravel the traps that Chinese family enterprises may face, and put forward suggestions to sustain long-term development by avoiding the ambushes. In the last section, the authors discuss several breakthrough approaches for family enterprises. The approaches are specially designed in accordance with the unique nature of family enterprises, and are examined from the organizational system, ownership and unique driving force inside family enterprises.

Presently, there is no universally acknowledged definition for family enterprises. Chandler, a famous American business historian, defines family business as an enterprise where the majority of company shares are held by its founder and his intimate partners (and family). They maintain close personal relations with managers and keep decision-making centralized in top management, especially in financial matters, resource distribution and appointment of key personnel.

Pan Bisheng, a well-known Chinese scholar, considers a family enterprise to consist of a family or several families in intimate alliance, which enjoy full or partial ownership, and are directly or indirectly in control of the enterprise. In addition, Pan divides family enterprises into three types in accordance with the degree of family involvement:

(1) Control of ownership and power of management by the same family;
(2) Control of partial ownership and power of management;
(3) Control of partial ownership but not power of management.

As a widely extended definition, it regards family business as a flexible pattern and leaves vagine boundaries for the definition of family enterprises.

Ye Yinghua, a scholar from Taiwan, puts forward a quantitative definition — bringing the difference of ownership structure of individual company and the degree of family control into the definition by way of critical control shareholding ratio. According to this criterion, enterprises with the following three conditions can be defined as family enterprises:

(1) The proportion of family shareholders is bigger than the critical control shareholding ratio;
(2) Family member or a second-degree kin relative assumes the office of chairman or general manager;
(3) Family members or third-degree kin relatives occupy more than half of all the directorships of the company.

This definition regards family enterprises in a situation of serial distribution from the perspective of shareholding and control right of management. It clearly defines these enterprises that own shareholding and control the right of management, own the majority of control right, or own the critical control right as family business. Once the critical control right is lost, a family enterprise is transformed into a public company.

At present, no definition for family business is globally recognized. Enterprises which have a majority of the following characteristics may be defined as family enterprises.

Organizational basis: Members of a family enterprise are related by blood. As the business expands, the organization is formed by a concentric-circle network of relationship by blood (relatives), quasi-relationship (quasi-relationship by blood, for example, nominal kinship or sworn brothers), geographical relationship (fellow villagers), and fellow student relationship (fellow students).

Organizational structure: Family business is an economic organization in pursuit of profits. As an enterprise, family business generally presents the following development track: when the business is just off or is still small, most enterprises choose to establish individual companies with internal cooperation, partnership or unlimited liability companies; when business expands, they gradually transform to be limited liability companies or limited joint stock companies. Most family enterprises choose direct-line functional structure to be their internal organizational structure as it facilitates power centralization.

Structure of ownership: A family enterprise tends to exercise power by way of ownership control. The smaller the size of an enterprise, the more centralized and singular the ownership structure. As the size expands, some enterprises are capable of adopting proper share-holding structure, but in reality, the actual ownership (or property controller) is still in the hands of one or several core members.

Power arrangement: A family enterprise is generally controlled by core members of the family organization, so as to retain actual control within the family and consequently keep the organization united and the members loyal.

Leadership: In light of experience, achievements, talent and authority of founders, patriarchal and centralized systems of management are generally put into practice in family enterprises. Business founders consolidate the right of decision-making in their hands or in the family, to establish a centralized, stable and authoritative leadership.

Governance: Corresponding to the patriarchal system, enterprises are managed by a ruling leader. They employ kindness and severity; set examples by being strict with themselves and being kind toward others; and take care of matters personally.

Exterior form: From an outsider's perspective, family enterprises possess the features of modern enterprises and may sometimes not reveal any trace of family control. However, certain special informal organization may exist inside the enterprise, posing significant influence over the decision-making and management process (it may be rigorous or relaxed). Members of the informal organization generally come from the same family or share similar relationship networks, deriving special momentum from common experience, identity and language. The most important characteristic is that they may undertake commitment or even self-sacrifice in the name of common interest of the family. Only when enterprises encounter serious problems, setbacks or emergencies will the organization arrange internal negotiation or actions exclusively. The actual control of family enterprises will then surface.

Family Culture: Family enterprises unceasingly instill family identity, patriotism and sense of social responsibility in their development. Invariably, family enterprises are aimed at maximizing family wealth in the beginning. They then gradually integrate business with employees' needs and social responsibility.

There are numerous family enterprises around the globe, many of which are internationally-renowned evergreen enterprises. These family enterprises have not only established strong and powerful business, but have also enjoyed a long history. In the world's top 500 companies, Ford Company is renowned in the motor industry; DuPont Company in the chemical industry; Wal-Mart in the retail industry and Mellon Bank Corporation in the financial industry. Nevertheless, family enterprises in China have not achieved such remarkable successes. People often sum up the fate of Chinese family enterprises as "wealth does not sustain beyond three generations". However, China possess a centuries-old and far-reaching family-oriented culture, which forms the core of Chinese politics, society, economic and cultural life.

Family enterprises boast of a deep cultural root in the history of China, so it is possible for family enterprises to survive on this land. Especially after the 1980s, with deepening of the reform in economic system and transformation of social structure, non-public-owned businesses are developed to be an important part of the market economy in China. At present, most private enterprises in China take the form of family ownership and adopt family-oriented management. In enterprises of other types such as township enterprises, partnership enterprises, joint stock enterprises and private contracted enterprises, family or quasi-family-oriented management exist. It is predicted that family enterprises will play an increasingly important role in the Chinese economy. The problem of family enterprises, therefore, deserves much more concern and research.

Obviously, the difference between family enterprises and other enterprises is the former's connection to a certain family. It is this relationship that makes them special. Will this unique feature bring peculiar problems to the development of family enterprises? What influences will these peculiar problems have over the development of family enterprises?