

# Research on the Current Situation and Countermeasures of Wenzhou Family Enterprises Governance

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**Abstract :** Family enterprises are the main body of Wenzhou private economy. The number of Wenzhou family enterprises is large and the scale is small. The property rights of family enterprises are highly concentrated and closed, the important positions depend on family members, and the owners of family enterprise lack trust in professional managers. This paper analyzes the problems existing in the process of family enterprise management, and puts forward countermeasures to strengthen the professional management consciousness of family enterprises, improve the incentive mechanism of professional managers, strengthen the behavior constraints of professional managers and cultivate the market of professional managers.

**Keywords :** Wenzhou Family enterprise; Corporate governance

There are a large number of family enterprises, which are very common business organizations and play a very important role in China's economy. Wenzhou is not only the cradle of China's private economy, but also the epitome of the development of China's private economy. Wenzhou family enterprise is undoubtedly one of the most impressive. By observing and studying Wenzhou family enterprises, we can also get a glimpse of the development process of Wenzhou and even the whole country's private economy, and its significance and value are self-evident. In the process of more than 30 years of economic development, numerous family enterprises with different scales and fields have emerged in Wenzhou. Wenzhou family enterprises are advancing with Wenzhou private economy. Therefore, in the study of the impact of professional managers on family enterprise governance, it is representative and valuable to take the family enterprise in Wenzhou as the research sample.

## 1. Analysis on the current situation of Wenzhou Family Enterprise Governance

### 1.1 The general situation of Wenzhou family enterprise development

Family enterprise is the main body of Wenzhou private economy. At present, in China's private economy, the proportion of family enterprises is more than 80%. In Zhejiang, Fujian and other coastal areas, the proportion of family enterprises will be higher. In Wenzhou, the proportion of family enterprises is more than 90%. In the past 30 years, Wenzhou family enterprise has been the most explosive growth point in the development of private economy. The development of Wenzhou family enterprise has made proud achievements, and constantly burst out economic vitality. Wenzhou has a large number of family enterprises and a small scale. There are more than ten million small and medium-sized enterprises registered in China's industry and commerce. Due to the relatively short development history of family enterprises in China, and also because family enterprises mainly rely on family kinship, it is difficult to develop to a large scale<sup>[1]</sup>. Therefore, in Wenzhou, most family enterprises are small and medium-sized enterprises, which are characterized by small scale, large quantity and flexible production and operation. But in recent years, family enterprise has also made great progress. Many family enterprises have turned to modern management mode, and the scale and volume of the enterprises have made a qualitative leap. A number of well-known listed family enterprises have emerged, such as Senma, Chint and so on. However, there are still a few such family enterprises, most of which are in the category of small and medium-sized enterprises.

### 1.2 The current situation of family enterprise governance in Wenzhou

**1.2.1 The property right of family enterprise is highly concentrated.** According to the core point of view of property right theory, the property right of an enterprise is the essential attribute of the enterprise, and the clear property right of the enterprise is the fundamental requirement of the enterprise system. Therefore, it is an important basis to study the governance status of Wenzhou family enterprises and analyze the property rights. It is found that the property rights are highly concentrated in the family enterprise owners, which is a typical feature of Wenzhou family enterprise. Because the owners of the family enterprise are highly centralized, the whole enterprise has formed a closed organization and lacks the participation of external capital. This kind of highly centralized and closed property rights, to some extent, provides convenience for the development of family enterprise, but this kind of convenience lacks sustainability. Once the family enterprise develops to a certain stage, the former convenience becomes an obstacle, restricting the expansion and development of family enterprise.

#### 1.2.2 The important position of family enterprise depends on family members

Because of Wenzhou's long-term cultural concept of "family" or "family" group, and the idea of exclusion from external people, the

personnel structure of Wenzhou family enterprise presents two characteristics: First, after the establishment of a family enterprise, a large number of relatives and friends of the owners of the family enterprise will work in the family enterprise. The owners of the family enterprise not only mean to support relatives and friends, but also have higher trust in relatives and friends, and like to attract them to work in their own enterprise; Second, under the guidance of family enterprise owners, the internal important posts are preferred to be held by their relatives and friends, especially financial special posts, most of which are held by the most trusted relatives of family enterprise owners. Husband and wife collocation, husband in charge of business decision-making, wife in charge of business finance, is also the most common collocation mode of Wenzhou family enterprise<sup>[2]</sup>.

### **1.2.3 Family enterprise owners lack trust in professional managers**

Family enterprise owners lack trust in professional managers, which is reflected in the extensive restriction of decision-making power of professional managers. In Wenzhou family enterprises, the phenomenon of "exclusion" and distrust is serious. Because there is a natural tacit understanding and trust between family members in the enterprise, this tacit understanding and trust will make family members form a "small group", followed by distrust and exclusion of external members of the group. It may not have a great disadvantage to treat the subordinate employees of enterprises with this kind of exclusion attitude, but when dealing with professional managers, distrust and exclusion will greatly restrict the behavior of professional managers and restrain their behavior decision-making. With the expansion of Wenzhou family enterprise scale and the increasingly fierce competition in the domestic market, the management level of enterprises is bound to expand, and the demand for professional management will arise. But the reality is that family enterprise owners lack of trust in professional managers, so it is difficult for professional managers to give full play to their own value and devote themselves to the service of family enterprise<sup>[3]</sup>.

## **2. Problems existing in management of family business in Wenzhou**

### **2.1 "Two rights are not separated" in family enterprise**

The internal characteristics of family management determine that internal governance is quite different from other enterprises. The combination of ownership and management is the basic standard to distinguish family enterprise from other businesses. Generally speaking, it is modern enterprises that separate ownership from management; The combination of ownership and management is family enterprise. Through the above argument, we have learned that the high concentration of property rights is a common situation in Wenzhou family enterprises. At the same time, the high concentration of property rights is also accompanied by the high concentration of management rights. The ownership and management rights of family enterprises are not separated.

Most family enterprises are centralized. Family enterprise owners are keen to play the role of "big parents" in the family enterprise, and control the business from the aspects of production and operation, daily management, staff training, business decision-making, etc. And business owners have a high prestige and personal charm, not only the actual leader of the family enterprise, but also the spiritual symbol of the family enterprise. At the same time, business owners also put their relatives and friends in important positions of the enterprise, further enhancing their control over the enterprise, thus creating their own "business empire".

### **2.2 The management mode of family enterprise is backward**

Family enterprise is a special form of business, which is formed and developed by kinship. The internal management form of family enterprise is also different from other enterprises. In the early days of its establishment, the "short frequency and fast" decision-making method of family enterprise owners was very suitable for the needs of the market. However, with the gradual expansion of the scale of enterprises and the acceleration of market changes, the reliability of individual decision-making experience of business owners also decreases. At present, the scientific and institutionalized management of family enterprises is relatively lacking, and the backward management mode is a common problem. Due to the lack of scientific management of family enterprise owners, the risk of decision-making increases accordingly. In order to increase the stability and correctness of management, scientific management system is the basis and guarantee.

All kinds of rules and regulations of an enterprise are equivalent to the "laws and regulations" within the enterprise, which guide and manage the words and deeds of personnel within the enterprise, and clearly regulate their rights and obligations. It is reasonable to say that Wenzhou family enterprises should also have various rules and regulations and achieve scientific management. However, in the actual investigation, it is found that the rules and regulations of Wenzhou family enterprises are relatively random. Only a few family enterprises have clear and standardized articles of association, while most family enterprises have no articles of association, or no standardized articles of association. Without the guarantee and guidance of policies and systems, it is difficult to establish a scientific decision-making system.

### **2.3 Family enterprise lacks corporate culture**

Wenzhou family enterprises do not pay enough attention to corporate culture. This can be attributed to two reasons: first, after the establishment of the family business, most of the energy of the family business owners is put on how to maintain the development of the enterprise, how to obtain higher profits, how to expand the scale of the enterprise and other practical problems, and they have no time to take into account the spiritual construction of the enterprise culture; Second, the family business is founded with the family as the core, which naturally has a strong cohesive force. The enterprise is led by the "paternalistic" culture of the business owner. Without the corporate culture, the family members can maintain a strong loyalty to the enterprise, so the construction of corporate culture is more difficult to attract attention.

However, with the expansion of the scale of family enterprise and the increasing complexity of personnel structure, simple family cohesion is far from enough. More and more non family members come into the enterprise. Without kinship as a link, the value and demand of culture are highlighted. Wenzhou family enterprises also need to use corporate culture to maintain employees, and the demand for culture is also higher and higher. In addition, the lack of cultural guidance can easily lead to bad phenomena such as cliques, nepotism and unfair competition within the family, which is not conducive to the formation of a good environment for the

family enterprise. Based on this, we need more excellent corporate culture to lead the development of enterprises.

### **3. The Countermeasures of Wenzhou Family Enterprise Governance**

#### **3.1 Strengthen the professional management consciousness of family enterprise**

(1) We should realize the necessity of professional management as soon as possible. Professional management is an important way for family enterprise to break through the bottleneck of development and an inevitable choice for sustainable development of family enterprise. The decision-making mode of "one-man decision-making" of family enterprise owners has fallen behind, which is unstable and risky, and is not suitable for the current market environment<sup>[4]</sup>. To establish a scientific and democratic way of decision-making is not only the need to ensure the stable development of family enterprise, but also the inevitable choice to maintain the foundation of family enterprise. Therefore, Wenzhou family enterprises should promote their own professional management as soon as possible, and the owners of family enterprises should change their "dictatorial" management concept and development concept, and earnestly implement professional management, so as to take the lead in the fierce market competition.

(2) Change the traditional concept, select talents, absorb and reuse non family talents. First of all, we should establish a correct concept of talents and values. The essence of enterprise competition is the competition of human resources. "Human" has become the most active and important competitive factor in enterprise competition. Therefore, Wenzhou family enterprises should be aware of the importance of talents and change their limited vision and pattern; Secondly, it is necessary to get rid of the long-standing "xenophobic" ideology in Wenzhou, and change "cronyism" into "meritocracy". Both professional ability and professional ethics should be taken as the standard to measure talents; Moreover, if we choose the established professional managers, we should give them full trust, give them space to display their ideas and talents, and avoid the embarrassing situation of "overhead" professional managers and taking them as the "decoration" of professional management. Only in this way can we absorb and build up the talent team within Wenzhou family enterprises, and transform the talent advantage into competitive advantage.

#### **3.2 Improve the incentive mechanism of professional managers**

(1) We should design more incentive forms of equity incentive. At present, the number of shares that Wenzhou professional managers can share in family enterprises is small, but professional managers attach great importance to the share of shares, and they are also very eager to get more equity incentives. At present, there are few forms of equity incentive in Wenzhou family enterprises. In the future, more professional managers should be included in the residual equity distribution system. The return of stock has a certain lag, and the return of stock is a real reflection of the operation status of family enterprise. Therefore, equity incentive can continuously stimulate professional managers to play their talents, contribute their own value, and improve business management, so as to promote the long-term and stable growth of enterprise shares, and finally make their own income. Therefore, the long-term equity incentive can further promote professional managers to create more value for the development of family enterprise.

(2) We should combine material and spiritual incentives. Professional managers are different from the general "wage earners". As professional managers, they are not only the pursuit of remuneration, but also the high love of their own career and the constant pursuit of their own life value. Therefore, Wenzhou family enterprise should learn to meet more spiritual demands of professional managers, so that professional managers, like members of family enterprise, treat the work of family enterprise as their own career and as part of their life pursuit and value realization. Let the goal of professional managers and family enterprise achieve a high degree of unity, so as to effectively reduce the cost of family enterprise principal-agent. In the interview, through the dialogue with professional managers, we know that the spiritual motivation of Wenzhou family enterprises is relatively weak, but they also have considerable demand for spiritual motivation. Therefore, Wenzhou family enterprises need to pay full attention to the practical needs of professional managers and help them achieve their self goal value.

#### **3.3 Strengthen the behavior restriction of professional managers**

(1) The internal self-discipline of professional managers is the root of breaking the trust crisis. Strengthening the self-discipline of professional managers' moral behavior can eliminate the dishonest behavior of professional managers from the root. Good moral quality is the basis of being a person. Professional managers should learn to be a person first and then do things. As a professional manager, he should not be "profit oriented". He should be fully aware of his position and responsibility in the family enterprise. He should have a strong sense of mission and social responsibility. He should be fully aware that his behavior is not only an individual behavior, but also represents the business side and the whole group of professional managers. Only fully aware of the importance of "morality" and fully practice it in their daily work, can professional managers' career go far and steady. Therefore, in order to strengthen the behavior restriction of Wenzhou professional managers, we should first start from the inside, establish the correct three views, let the internal consciousness guide the external action, achieve integrity and self-discipline, and achieve "zero tolerance" for violations of law and discipline.

(2) The external heteronomy of policy system is the necessary guarantee to build trust relationship. Self discipline and heteronomy are inseparable. It is not enough to have self-discipline or heteronomy alone. Firstly, internal self-discipline is unstable and uncontrollable; Secondly, without a good external environment for its behavior constraints, the stability of self-discipline will be greatly reduced. The implementation of heteronomy, to the specific level, is to establish a sound policy system, regulate the behavior of professional managers, and punish the dishonesty. In Wenzhou family enterprises, it is also necessary to build a complete set of policies and systems, so as to achieve "restraint in advance and punishment after the event", and discipline professional managers according to rules and regulations. By formulating policies and systems, building a standardized market environment for professional managers, reducing the management cost of professional managers, and forming a good mechanism for trustworthy people to win and dishonest people to lose, both sides can form a stable state of development. At the same time, we should set up the corresponding supervision mechanism, through the Wenzhou family enterprise board of directors or the enterprise supervision department to supervise the professional managers, reduce the probability of professional managers' dishonest behavior.

## 4. Conclusion

This paper mainly studies the current situation and Countermeasures of Wenzhou family business governance, analyzes the current situation and existing problems of Wenzhou family business governance from the perspective of business governance, and gives corresponding countermeasures and suggestions. In the development of more than 20 years, family business, as an important support of private economy, has always been a force that can not be ignored in China's economy. The optimization of family business governance is the key to promote the transformation and upgrading of Wenzhou family business and achieve sustainable development. At present, due to Wenzhou's special regional position and long-term "mercantile" culture, there are some problems in the governance process of Wenzhou's family enterprises. The introduction of professional managers has well solved the deficiencies in the governance process of Wenzhou's family enterprises, and has played a very positive role in the governance structure, management mode and corporate culture of family enterprises, It provides a strong driving force for the transformation, upgrading and sustainable development of Wenzhou family enterprises, but inevitably there are a series of disadvantages. Therefore, we should constantly optimize the governance of Wenzhou family enterprises, strengthen the professional management consciousness of family enterprises, improve the incentive mechanism of professional managers, and strengthen the integrity optimization of professional managers.

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