

# Internal Governance in Need for High Quality Development of Private Economy

Chun Wang

School of Management Science and Real Estate, CHONG QING UNIVERSITY, 400044,  
Chongqing China

451815242@qq.com

**Abstract.** The most prominent problems affecting the high-quality development of private enterprises in China are extensive production and operation modes, backward internal management, weak innovation, shortage of funds and weak anti-risk ability. There are a variety of reasons that cause these problems. In terms of enterprise internal, the main manifestations are weak quality awareness, neglect of corporate culture construction, unstable staff, lack of talent and so on. It is suggested that private enterprises should promote high-quality development from four aspects: building high-quality corporate culture, establishing modern management system, optimizing internal governance structure, strengthening the construction of talent team, and innovating development momentum.

**Keywords:** private economy; High quality development; Hard training of internal skills.

## 1. Introduction

At present, Chinese economy is in the key stage of turning from high growth to high quality development. To promote high quality economic development, it is necessary not only to continue to strengthen and expand state-owned enterprises, but also to continue to strengthen private enterprises. On November 1, 2018, Chairman Xi Jinping emphasized that private economy was an important force to promote the development of socialist market economy, an important subject to promote supply-side structural reform, to promote high-quality development and build a modern economic system. Some private enterprises encounter drop of sales, fundraising problems, and transformation problems in their growth. Some private enterprises encounter obstacles because of the interweaving of internal and external reasons, subjective factors and objective factors. How to overcome obstacles needs the support of the government to optimize the business environment on the one hand; on the other hand, private enterprises need to maximize their own initiative to overcome difficulties by improving the internal environment and market competitiveness. General Secretary Xi Jinping emphasized in many speeches that the central government's policy of supporting private enterprises should be consistent and that the business environment should be continuously optimized. This paper mainly analyses the internal problems and causes that affect the high-quality development of private economy, and puts forward suggestions for improvement in order to provide reference for promoting the high-quality development of private economy in China.

## 2. Main Problems Existing in Private Economy

In addition to the need for the government to continue to optimize the business environment, the more important factor is that the private enterprises themselves must face internal problems. Chairman Xi Jinping also pointed out that: "By exploring inside of private business, the difficulties that they are facing can not isolate from their own internal control or management." Some private enterprises tended to expand their manufacturing scale blindly which incurred excessive liabilities when economy grew rapidly. Some private enterprises tended to ignore environmental protection, social security for employees, product quality or safety and business credit, which showed that a number of business routines were not in align with the laws or standards. Under the background of strengthening supervision and law enforcement, they will inevitably face great pressure. The problems eroding the high-quality development of private enterprises can be summarized as follows:

## **2.1 The Mode of Production and Operation is Extensive**

Private enterprises are mostly small and medium-sized enterprises, most of which are labor-intensive enterprises. The products are in the middle or low-end of the value chain, and rarely involve fine and deep processing. Moreover, the homogeneity of products is quite high and the added value to products is low, which means companies or products lack innovation and the core competitiveness. Besides, the number of companies which have independent intellectual property rights is relatively small. More of them are based on the production and operation mode of low-cost labor force for rough processing or at the expense of environmental protection and waste of resources and energy.

## **2.2 Weak Internal Control without Innovation**

Most private enterprises do not adopt modern management concepts and systems for internal governance and control, and many private companies heavily depend on family interpersonal network to operate. For small and medium-sized private enterprises, family-based management is indeed conducive and efficient in the early stage of entrepreneurship. However, when it grows to a certain scale, disadvantages of family-based management begin to appear. For example, if the company is owned by a family, all decisions are made mainly based on the family interest which may not contribute to the company as a whole. Additionally, family-owned companies have some drawbacks in terms of human resource management. They usually lack a long-term strategic planning so that companies did not pay much attention on setting up recruiting, training and rewarding system. When potential employees assess the companies, they will carefully check whether the company has built a proper mechanism or system enabling them to grow from a junior to a senior, to gain experience or to have a growing payment. From that, it indicates that short-sighted strategic planning in terms of human resource management will harm the construction of talent team and the stability of staff team. Moreover, it is also one of the reasons for lacking innovation ability of enterprises. Enterprise innovation needs not only technology and capital, but also human resource. Most of the small and medium-sized private enterprises do not have a group of talented people, and their innovation ability is generally weak.

## **2.3 Shortage of Funds and Weak Ability to Resist Risks**

As most of companies are small or medium-sized companies, and they can raise funds through relatively less ways compared to big companies. The financial system of private enterprises is often not standardized and the credit is not high. Due to low profitability, the interests of loans become burden for private companies. Banks or other financial organizations can hardly trust small-to-medium sized private companies to pay back the principal or interest. Therefore, private companies usually lack of money. When small-to-medium sized private companies hardly raise enough funds, it would be difficult to enlarge scale or recruit superior employees. As a result, financing problems will obstacle the development of companies. In other words, private companies have very weak ability to resist risks from all the aspects.

# **3. Internal Reasons Affecting the Quality of Private Economy**

There are many reasons for the above problems in small and medium-sized private enterprises, including both macro and micro reasons, external and internal reasons. As far as internal reasons are concerned, they mainly focus on the following aspects:

## **3.1 Weak Consciousness of Product Quality**

Quality is the basis of survival and development of an enterprise in an industry. In operation, only by quality can we win the competition for a long time, and many private enterprises have a weak quality control. This is mainly manifested in the fact that they do not rely on product quality to survive and develop, but choose to be opportunistic and get tax evasion to gain small profits, which will erode the sustainable development of enterprises. Besides, companies form a market, if they all disobey the regulations, the market cannot develop with high speed and quality.

### **3.2 Pay no Attention to the Construction of Corporate Culture**

Organizational culture is the soul of an enterprise. Most of the private enterprises are struggling to survive, and they merely pay attention to the construction of organizational culture. The most obvious manifestation of lacking cultural construction of small and medium-sized private enterprises is the widespread conflict and contradiction between enterprises and employees and high turnover rate of employees.

### **3.3 Shortage of Talents and High Turnover Rate of Employees**

Innovation and development depend on suitable human resource. Because of small scale and other reasons, small and medium-sized private enterprises could not offer high salary, or social security fund or regular holidays. However, those employee benefits are just what employees need. Conversely, state-owned companies usually offer sound payment and regular holidays. Besides, state-owned companies can provide clear career paths which give hope and prosperity to employees so that they can know the potential of the growth from the job. Moreover, large companies or state-owned companies are quite safe and stable in competition because of they have relatively high profitability and big scale, which gives sense of security to employees. From all the above, it is summarized that private enterprises often lack high-level managerial or technological talents, and it will seriously erode the innovation vitality of enterprises.

## **4. Suggestions on Promoting High-quality Development of Private Economy**

The high-quality development of private economy is a long-term and arduous systematic project. Private enterprises need to persist in practicing hard and enhancing their competitiveness so as to realize the revival of private economy. As the book (Rites, University)said, "Ancient people who want to carry forward the bright and honest moral character in the world must first govern their own country; if they want to govern their own country, they must first manage their own family; if they want to manage their own family, they must first cultivate their own character." Therefore, it is suggested to foster private economy from inside of private companies:

### **4.1 Build Strong Organizational Culture**

Enterprises can survive depending on management for a short-term but enterprises can survive depending on organizational culture for a long-term culture. Some private enterprises should abandon the strategy which is not supportive to create corporate culture that is suitable for the high-quality development.

Firstly, private companies should integrate the socialist core values into the core concepts of enterprises. Private companies can cultivate employees to be patriotic, honest, trustworthy, diligent and abiding by the law. In addition, private companies should encourage employees to pay enough attention to environmental protection, business credit, legal system and social responsibility.

Secondly, from rough management to fine management, some private enterprises have to transfer their development mode, and emphasize on the improvement of product quality. Besides, they should reengineer their management concepts and gradually form a "precise", "fine" and "strict" corporate culture.

Thirdly, we should cultivate high-quality consciousness and carry forward the spirit of craftsmen. Excellent products are high-quality products. High-quality consciousness refers to keeping improving in production and business activities, and improving management and service level to meet people's demand for supreme products and service quality. Also, private enterprises should base themselves on their own advantages, and create an enterprise culture that advocates excellence and attaches importance to quality.

Fourthly, we should enhance publicizing and propagating the culture of enterprises by adopting various ways such as "Internet +". Private companies should build a variety of propaganda models to educate employees that quality is the center of survival of companies. Time by time, employees will

form a strong awareness of high product quality. Thus, the employee behaviors will also follow the rule “quality first”.

#### **4.2 Establish Modern Management System and Optimize Internal Governance Structure**

Upgrading the governance structure is the cornerstone of the healthy development of private enterprises. Some private enterprises emphasize manufacturing scale, neglecting quality or customer services. It looks like a problem of operation, but it is in nature a problem of internal governance. It is strongly shown that companies should upgrade the governance structure, improve governance mechanism, and improve the effectiveness of governance. Adhering to the basic principles of corporate governance, companies can break down the obstacles that are not conducive to the healthy development of private economy, such as unclear responsibilities and rights, family-based management and paternalistic decision-making, and build a modern corporate governance structure and governance system with clear property rights.

#### **4.3 Strengthen the Construction of Talent Team**

Human resource is the first resource to promote high-quality development. High-quality development requires several factors including human resource, low input of production, low cost of environment, high efficiency of allocation of resource and high economic and social benefits. How to attract talents, cultivate talents, retain excellent talents and make good use of talents is the primary task of the current private enterprises. Private enterprises should attract and retain talents by establishing a beneficial incentive mechanism which allows employees to obtain better payment. Furthermore, private enterprises should optimize employees’ potential by creating an environment for talents to grow with the company, for employees to display their talents and realize their self-value. Private companies should treat themselves as platforms on which talents could stimulate themselves to the support companies. In addition, private enterprises should give full play to the role of colleges and universities by recruiting employees from schools. Private enterprises should strengthen their own personnel training by cooperating with universities as well.

#### **4.4 Motivation of Innovation and Development**

Innovation is the first factor to create competitive advantages. Private enterprises should draw experience from excellent enterprises, focusing on customer needs, based on their own advantages, developing new technologies and new products. Excellent enterprises can continue to reform and innovate according to the changes of market demand, continuously improve the quality of output, and make products and services better. At present, consumers’ demands are changing from quantity to quality, and some private enterprises can not adapt to this change. The products and services supplied are at the middle and low end of the value chain. Therefore, we should shift from factor-driven to innovation-driven as soon as possible, increase R&D investment in new technologies and new products by promoting the quality of output to the high end of the value chain.

#### **4.5 Establish Reasonable Development Standards**

Excellent enterprises generally have reasonable quality standards. Indicators to measure the quality of enterprise development usually include return on investment, debt ratio, gross profit and asset ratio, as well as quality indicators such as engineering, talent, safety and innovation. These factors vary according to the types of enterprises. Private enterprises should establish or improve standards of production, supply and human resources management to ensure the high quality of output. Furthermore, private companies can increase the standardization of input on capital and manpower, optimize standardization mechanism; strengthen the research and reengineering of business processes. Moreover, private companies can increase product efficiency and lower the waste of resources by build a procedural and standardized management system.

## Acknowledgements

This paper is the mid-term achievement of the Humanities and Social Sciences Research Project of Chongqing Education Commission, Xi Jinping's Quality Development Concept and Practical Research in Chongqing (18SKCS012).

## References

- [1]. Xi Jinping: Speech at the Symposium on Private Enterprises [EB/OL]. <http://mks.hzau.edu.cn/info/1007/3082.htm>.
- [2]. Guo Lizhen. Research on Henan's Economic and Cultural Issues [M]. Beijing: China Science and Technology Literature Publishing Press 2017:152-159.