

Inspiration Brought By “Huizhou Merchants” On China’s Modern Family Business Inheritance

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Abstract. “Huizhou Merchants” refers to the general term for the merchants or the merchants group whose hometown is in old Huizhou Prefecture. It occupies a very important part of the Chinese business group culture and its long history and wealthy experience can provide us with practical reference. There are more than three million private companies in China, among which family companies cover over 80%. Many family businesses are faced with the inheritance problems. Firstly, this paper makes a detailed analysis on the environment and the status quo of modern family enterprises to find the problems and organize them in order. Secondly, this article summarizes the characteristics of “Huizhou Merchants” operation and connects them with the mentioned problems correspondingly. At last, the paper finds solutions and business philosophy for modern family business inheritance.

Introduction

China has quite a long history of emphasizing agricultural flourish but restricting the development of business, and business in China didn’t thrive until the late time of Ming Dynasty, which is only about 300 years from now. But what’s different for China is that in its more than 5000-years history, there have been so many kinds of thoughts.

Through looking up to related reading materials and references, this article will firstly give a literature review, then make a detailed analysis on the environment and the status quo of modern family enterprises, find the problems and organize them in order. Secondly, this article will summarize the characteristics of “Huizhou Merchants” operation, then connect them with the mentioned problems correspondingly and finally find the solutions and business philosophy for modern family business heritage.

Literature review

“*Huizhou Merchants*” refers to the general term for the merchants or the merchants group whose hometown is in old Huizhou Prefecture. It arose in Eastern Jin Dynasty, popularized in Tang and Song dynasty, flourished in the Ming and declined in late Qing Dynasty. It occupies a very important part of the Chinese business group culture.

The *family business* refers to the business that is built on the basis of family blood affection, whose capital and share is mastered by family members, which has a high degree of unity in ownership and management companies. Influenced by Chinese traditional culture, “inherited ones father's”, the ownership generally is passed on to family members. Family business appeared from the beginning of human society, the emergence and development of this traditional business form has profound impact on the pattern and the process of world economy. Even in Europe and America where the family businesses are very mature and perfect, a lot of the World Fortune 500 companies for the family business are good examples, like Ford, Toyota and other famous corporations.

According to the China Statistical Yearbook, from 1989 to 2001, the number of China's private enterprises has increased by 21.4times, from 90,500 to 2,028,500. Also, it is not difficult to see the family business play an important role on the stage of national economy. However, many family

businesses have failed in the inheritance work, and eventually fell into decline. Brooklyn Family Enterprise Institute research shows that 70% of the family business had been failed in the first generation, 88% of family businesses can only spread to the second generation, and only 3% of family businesses can spread to third generation. Heritage seems to become the most difficult problems for the business owner. Therefore, to solve the problems is of great significance, and it is not only to survive an enterprise, but is related to the economic development of our country.

Problems of China's family businesses inheritance

Lacking of Systematic Succession Plan. The lack of succession plan is the main reason for the failure of business heritage to the second and third generation and continuous operation. The heritage of the family business is a systematic process, which includes the process of negotiations between family members, surveys, assessments, advisory opinion. However, many entrepreneurs used to consider these problems when they are old. When the first entrepreneurs are still alive and continue to lead the enterprise, their children tend to have dependence, not reluctant to discuss the problem of corporate heritage. With no succession plan, once the sudden death comes to the founder, the pattern and distribution of ownership and operation right will have great change. The competition between potential successors will be so intense that to make the right strategic decision becomes difficult and the future development of enterprises cannot be guaranteed.

Successor's Failure to Get Prepared and Lack of Competitiveness. "Inherited by one's father" is rooted deeply by a lot of people, which results in that a lot of successors have no difficult in getting the business and give up the opportunity to sharpen their ability to operate the enterprises. Besides, the first generation or the previous generation is not willing to decentralize their power, thus the next generation can not get practical chance to enhance them. As a result, when sudden death or disease comes to the elder, the younger is likely to deal with the entire things well.

Vague Property. On the first stage of founding the business, because the scale of the business is small, the number of the employees is small, the property is relatively clear, but as the enterprise develops, employees increase, the division and the structure of the business gets more and more complex, which leads the result of vague property and complicated property problems. The property of the inner family business mostly exists in the level of family members, which is likely to lead the blur of personal and enterprise asset.

Internal and External Resistance. In the process of inheriting the family business, the heir will encounter resistance from both internal and external. First is the internal resistance, it comes from the senior management of the family business who has been working hard together with the founders. They are worried that the enterprises in the process of heritage will shake their position in the enterprise and harm their interests; they also suspect the successor's ability to protect or improve the value of the stock.

Family Business Owner's Greed to Power. Many heirs of the family business usually spend quite a long time in getting the real power of control of the company. And some of the predecessors don't really fade out even after retiring. They tend to interrupt the operation of the business, partly because of their deep feeling to the company, and partly due to their lack of confidence in their heirs. As a result, the behavior will prevent the heirs from improving their ability and decrease their independence when dealing with the business matters.

Inspiration from "Huizhou Merchants" Wisdom on Modern Family Businesses Inheritance

"Huizhou Merchants" is one of the top ten business groups in China's history, it once dominated the Chinese business community for more than three hundred years, and it is said that where there is no "Huizhou Merchants", there is no business. "Huizhou Merchants" culture has a profound historical and cultural heritage of the unique culture, which is concentrated, typically embodies the essence of traditional Chinese culture, and it is closely attached to the environment it grows up in. There are the inspirations from "Huizhou Merchants" as follows:

Formulate an elaborate succession plan for the system. The first generation of the family business depends not only on the leadership and efforts of its founder, but also their personal relationships and expertise. Succession plan will easily lead to the passage of these assets under management of the enterprise. The heritage of the family business is a process accompanied with a trigger event, the long-term, multi-stage evolution of need to develop a system of succession plan. Cultivating heirs need a process, the future successor must be fully prepared for mastering the powers and operations of the enterprise, business owners ought to establish a reasonable succession plan to ensure a smooth transfer of the family business as soon as possible.

Pay attention to the heir selection and training. A family should make efforts to adjust the contradiction among the children. Family Business should have the foresight of putting successor cultivation on the agenda of the family business, let their children learn advanced modern management science and management knowledge, and cultivate their ability by letting them exercise more in practice. In order to ensure the objectivity and impartiality of choice, you can hire authoritative human resources evaluation agencies to establish a professional evaluation system for the candidates. Entrepreneurs must be ready for giving their children the chance for fair competition, allow them to participate in the evaluation, inspect and evaluate them in the market and management to stimulate their enthusiasm and creativity and thus select the most excellent successor to minimize the contradictions and conflicts in the process of succession shifts.

Make property rights clear within the family. The company ought to rationalize the relationship between ownership and should follow the principle of contribution, the principle of efficiency and fairness between family members. Internal relations of family business changes will affect the interests of the senior managers of non-family successor to these external forces will inevitably generate concerns about the prospects of the family business, the heir must timely communication and stakeholders, to obtain their support, to re-establish or confirm the partnership. Enterprise founders should not be “airborne” type of heritage and sharpen their successors’ capacity at the same time when their new and old employees of the authority are working together, to help heirs to establish authority.

Establish a rational incentive and restraint mechanisms. Establishing a scientific and rational incentive is an effective way to coordinate the family business heritage mechanism of business heritage. Material incentives are inspired by the spirit of the two aspects; and if these two incentives are scientific and rational, they will have profound effects of “1 + 1 > 2”. On the contrary, too much emphasis on any one means will do more harm than good. But people-oriented incentives consider the factor of person’s psychological feelings, the professional managers of the psychology, behavior act a measure based on the assessment of the incentive effect, the combination of the ideas and principles of the contingency incentive appropriate adjustments to achieve the optimal incentive level.

Summary

Although most family businesses still prefer the model of “inherit one’s father”, with the economic development and social progress, however, the family business gradually selects professional managers to manage enterprises to give up the hereditary transmission mode. In fact, it is more conducive to business long-term development. The family business Creator must recognize that professional managers are often the last choice, but the efficiency of enterprise management is optimal. Professional managers not only highly educated and professional training, and has a wealth of management experience.

First, gradually separate business ownership and right to control. Gradually concession to understand the operation will be managed by professional managers, separated from the capital and management to improve the operational efficiency of enterprise management, to promote long-term sustainable development.

The second is to build a highly effective incentive and restraint mechanisms. “Huizhou merchants” has always attached great importance to the establishment of corporate restraint mechanisms the Huizhou merchants commissioned the manager, is not like other businessmen as

firm decisions had to ask, however, when the “walk away”, but “all the children from the tour, to sub-license the knife cloth”, they still left to mention the right pull out, to participate in important decisions, which have important implications for the family business operating today.

Chinese culture influences the people on this land for thousands of years, and proper utilization of it brings the people quantity of experience as well as wealth. Though there are plenty of experience and theory on management that we can learn from western countries, it is not born based on Chinese own condition. Long-time accumulation and inheritance of the culture guarantees the most useful part is saved and has always been believed by generations of people. Chinese culture will contribute greatly to the development of Chinese and Chinese economy.

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