IS THE U.S. BUSINESS PRACTICE OF ADOPTING PROFESSIONAL MANAGERS TO MANAGE GROWTH OF FAMILY BUSINESS APPLICABLE TO CHINESE FAMILY FIRMS?

by

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ABSTRACT

The objective of this paper is to determine if it would be beneficial for Chinese family businesses to adopt some of the practices employed by US family business. Specifically our focus is on the US practice of hiring professional managers that are not part of the original family business operation to help run the business. To analyze the US and Chinese family businesses and determine their level of similarity for common hiring practices an extensive literature search was performed on a number of current papers. In order to most accurately determine if the US practice of hiring external managers was appropriate for Chinese firms, the institutional differences between Chinese and US businesses were examined. The key institutional differences that we addressed included: culture and history, organizational structure, socioeconomic situation, and legal and political environment.

Our research revealed that US family businesses have encountered much of the same challenges as have the Chinese family businesses. We also found that US family businesses have been able to overcome a number of their obstacles with, and have had good success with the hiring of non-family member professional managers. However, we discovered that Chinese family businesses are not currently prepared for the hiring of non-family member professional managers. Before this practice can be effective in Chinese family businesses, changes are required in both the micro and macro aspects of society in China. Thereby, suggestions for policy makers and owners of Chinese family business, aiming at the ultimate successful professionalization of Chinese family business, are presented.
DEDICATION

Jessie Xu

To my parents, ZhiXiang and Luoyan Xu,

With all my love and gratitude.

献给我的父母--徐志祥及徐落燕，

感谢你们为我付出的一切与一切。

没有你们全心全意的爱与支持，不会有今天的我。

爱你们的女儿：圆圆

2004 年 8 月

Frances Li

In particular, I would like to thank my parents, MuSheng Li and ShiCui,Ni-

For all the encouragement and support they gave in completing my project-

With all of my Love, Forever and Ever,

------------------- Peng. 2004/08/04
ACKNOWLEDGEMENTS

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CHAPTER 1
INTRODUCTION

Family business, being a very unique business form, has long been the focus of academic studies. One of the debated topics is what to inject into this business pattern to maintain the dynamism for the sustained development. Since the 1960s, many American studies have suggested introducing the so-called “professionals managers” into family business, with the argument that external expertise and advanced management concepts would offset the confinement created by family limits, and therefore achieve sustainable development. The argument has proven successful for many major US family companies. Following their American predecessors, Chinese Family Business (CFB) owners started to bring in professional managers in the mid 1990s, hoping to step into a new era of history.

In the year 1998, the owner of Zhejiang JinYi Group, Chen Jin Yi, initiated a revolution in the family business system. All the family members, including Chen’s wife and brothers, about 30 people, left their managerial positions and the public was stirred to an uproar. In fact, before Chen, a number of CFBs had already been aware of the weaknesses of family business system, and had started to dilute the family systems, including CHINT Group, Tianzheng Group and Xinhua group, which began to restructure since the mid 1990s. However, failures happen here and there when Chinese entrepreneurs are trying to assimilate outside professional managers. In 1999, Huanghe Group in Langzhou City was almost overturned by its PM, and the Chairman Yang Ji
Qiang saved the company by re-assigning his sons to top management positions; then in 2001, the marketing manager of Skyworth in Guangdong Province, Lu QiangHua, left the company with a team of about 100 salespersons; in the same year the PM of Penshibao Group in Guangxi Province, Wang WeiZun, was put in jail for 8 months on a charge of embezzlement and bribery. What’s interesting is the charge was put by Wang’s boss after Wang disclosed that his boss engaged in book falsification. In the following years, PMs in IT industry and networking companies started trickling out. The reality of the PMs seemed to turn out disappointingly. Since 2001, the topic of PMs and CFBs has provoked a wide range of discussion among Chinese economists, politicians and various business managers and executives.

Doubts thus arise—whether the failures are due to the institutional differences between the two countries or a gap exists in American practices and Chinese business context. Or it is simply too early for CFB to engage in the adoption? Perhaps it suggests CFB owners give up an American model and develop one of their own? In China, family business has proved to be a noticeable economic force since the 1980s, counting 90% of private economy. The answers to breaking the management bottlenecks in CFBs would have profound influence on China’s whole economy.

Although the topic provoked extensive concerns, there are not many in-depth researches available. Given the above context, we decide to look into the subject and try to find a possible solution for the family companies in China. As the US family business is the pioneer in this topic and have produced many successful experiences, we decide to use US practices as our model for comparison. By answering whether it is applicable to adapt the US business practices of professional managers to Chinese family business, we intend to find out the reasons behind the professional managers’ previous failures.
Meanwhile, we also would like to give both CFB owners and Chinese policy makers future suggestions, respectively for improving and achieving the successful professionalization management in CFBs and the measurements needed to conquer management bottlenecks. To answer the questions, our research is conducted in the following sequence: analysis of PM (professional managers) development in family business, comparison with Chinese business context, study of institutional differences of the two counties and a discussion of implications.
CHAPTER 2
CONCEPT OF FAMILY BUSINESS

2.1 Understanding the Family Business

"Family businesses are the most common form of organization in the world" (Hillburt-Davis and Dyer, 2003). According to international Family Firm Institute (FFI), 37% of Fortune 500 companies are family owned. You may find with surprise that Ford, Dupont, Kodak, Motorola, and Wal-Mart - all these well-known American enterprises are identified as family business. However, what is a family business? How it different from a non-family business? Various definitions of family business can be found in extensive variations; here, we will elicit a broad definition by Leach, Ball and Duncan (2002)-"a family business is one that is controlled or managed by a family or a family relationship and that perceives itself to be a family business". For our purpose, further explanation has to be made in this definition: 1) the “family” refers to a group people related by blood or marriage including spouses, children and siblings; 2) the majority of the ownership (usually more than 50%) is under control by a family and simultaneously the family members obtain predominant benefits from the stake; 3) In most circumstances, two or more family members are directly involved in the business and they take up the top management positions. Thus, the family controls both the property ownership and strategic, day by day management of the business. However, in still many other cases, the founder or the key family member does not directly participate in the family business but he or she has sovereign control on the board of directors. This type of family firm is
typically found in a large, publicly-traded company; such as Dupont where Non-family managers were hired in to head the company.

2.1.1 Family Business & Non-Family Business: A System’s Perspective

As early as the 1970s, many scholars and researchers have advocated a “two-system concept” to study the differences between family and non-family business. Just as Carlock and Ward (2001) stated in their work *Strategic planning for the family business*, family businesses are essentially comprised of two overlapping systems; the family and the business system (as illustrated in Feature 1). The two circles represent the distinct features of the family system and the business system respectively. By contrast, in non-family businesses, the two systems are not overlapping; they are operated independently. The intersection of the two systems demonstrates the complexity of the family business because, unlike the non-family business, the family business has to incorporate family issues into consideration. In addition, friction and conflict arise when the family can’t equalize family and business systems. This two-system concept is very useful for us to understand the nature and uniqueness of the family business. According to Carlock and Ward, successful family businesses are ones that balance evenly the demands of the family and the needs of the business.
2.1.2 A Comparison of Family and Business Systems

**Family system:** The family system encompasses the family's goals or objectives; family firms exist to develop the family business as a lifetime career. The relationships between family members are significantly important. The family system is an emotion-based organization which emphasizes harmony, and mostly avoids conflict since all are tied in kinship. The family members have shared history, common values and speak the same language; all these give the family businesses advantages of stability, reliability, flexibility etc. Communication is extremely easy in the family system since peers are also siblings, parents and children or spouses, they all know each other well. Rewarding tends to be without conflict, family members are usually paid equally and regardless of their position. Age and seniority are honored in the family system. For example the father or the founder of the family is usually the most authoritative person and is the key decision-maker; an older son takes higher position than a younger son or daughter etc.
**Business system:** The business system, on the other hand, owns business goals and objectives as well. A business pursues maximized profit or growth. The shareholders always aim to achieve financial growth and high business performance. Business relationships are volatile and sometimes only last for a short time. Besides, business culture generally emphasizes competence, motivation, independence and confidentiality. Performance appraisal is common in business systems. An employee will be promoted if he or she does well in the job post but at the same time one may be summarily dismissed due to poor performance. The business system is usually built upon a hierarchical structure in which the CEO is at the top, and from the top down to the president, vice president, top managers, department managers and employees. Rewarding or Decision-making are accordingly based on this hierarchical structure within a business system (Hillburt-Davis and Dyer, 2003).

A study conducted by Gudmundson (2003) reinforces the differences between family and non-family businesses. The comparison extends to identify the differences of strategic management, commitment, principles, cost, and leadership between family and non-family firms (see Figure 2):

**Figure 2:** A Comparison between Family and Non-family Business Firms, Gudmundson, 2003. (Adopted by permission of Gudmundson).

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<thead>
<tr>
<th>Family business firms</th>
<th>Non-family business firms</th>
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<tr>
<td>- &quot;Inward&quot; orientation</td>
<td>- &quot;Outward&quot; orientation</td>
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<tr>
<td>- Long-term commitment</td>
<td>- Short or long-term commitment</td>
</tr>
<tr>
<td>- Importance of family harmony</td>
<td>- Importance of corporate principles</td>
</tr>
<tr>
<td>- Employee care and loyalty</td>
<td>- Task priority and Profit care</td>
</tr>
<tr>
<td>- Lower costs</td>
<td>- Relative high costs</td>
</tr>
<tr>
<td>- Generations of leadership</td>
<td>- Dynamic leadership</td>
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7
Gudmundson determines that family business firms are more “inward orientation” in their strategic management; they are more likely to avoid risks, and prefer stable and conservative strategy formulation. Moreover, the family business firms have been found to show slower growth and less participation in global market; but tend to have a long-term commitment horizon, more emphasize on importance of family harmony, employee care and loyalty, lower costs, and generations of leadership. The non-family business firms, on the other hand, differ with those family firms in respect to strategic management; non-family business have been found to more “outward” orientation in strategic perspective and implementation; they rate innovative strategic planning more important than family business firms; uniform principles, policies or norms have been more accented in non-family firms. Finally, the non-family firms show typical characteristics of task-priority orientation, more care about commercial profits, higher operational costs and dynamic leadership.

2.2 Family Business in the US and China

2.2.1 Family Business in the United States

US family businesses are considered to be in a leading position in terms of development history and managerial levels. The first family business in the US emerged around the industrial revolution period (between the 1870s and 1890s) and has experienced approximately 200 years of history. The presence of the family business can be explained by the industrial evolution, property protection, transition cost theory and blood-linked trust systems which provide potential advantages to the family business (Colli, 2000). The early family business was started from the traditional, labor-intensive industries like transportation and production sectors and extended into today’s
capital-intensive industries like electrical products, food industries and chemicals manufacturing. Thanks to the stable social environment, fast growing US economy, healthy legal systems and considerable support from the US government, the American family business thrived and experienced fast growth since its first appearance.

2.2.2 Family Business in the US Economy

Nowadays, the US family business plays a vital role in the national economy: according to the 2002 US family Business Survey, family businesses dominate 90-98% of all US businesses; they contribute to 64% of the gross national product (GDP), or $5,907 billion ($5.9 trillion), they employ over 60% of the work force and 78% of all jobs are generated by family owned firms from 1977-1990 (Astrachan and Shanker, 2000). In Fortune 500, family businesses make up about one-third of successful enterprises from the US including Wal mart, Amway, Johnson & Johnson, Rockefeller, HP and Disney and so on. Among these family giants two are worth special attention: the first is Wal mart. Wal mart has 1.3 million staff worldwide and the family’s yearly retailing sales volume has reached more than 240 billion US dollars. Some economist even said that the entire American economy is dominated by “Wal mart effect”. The second is Amway Co. The company is a 100% family owned enterprise, headed together by two families-each owns 50% stock. The Amway Co is also a legend of family business firms in the world--it developed from a very small workshop to today’s huge enterprise and obtained worldwide acknowledgement. The commercial success of family business firms in the US has attracted wide attention in both Western and Eastern countries.
2.2.3 Family Business in Mainland China

The family business in China also holds a large proportion of the national business. The 2003 China Family Business (CFB) investigation indicated that nearly 80% of all Chinese enterprises belong to family owed businesses. However, compared with the USA, the history of CFB is relatively short, having only about a 30-year lifespan. Nevertheless, the CFB firms are active elements in China's economy; the employment posts created by CFB amount to 10,000,300 jobs. Since China has opened its door to market economy, many experts believe that the development of CFB will continue to prosper in the following decades.

2.2.4 Gaps between US Family Business and CFB

Our study finds there are great gaps between the US family business and CFB; the development of family business in the US is relatively mature and consummate and the CFB apparently lags behind its US counterparts in terms of scale, management structure and internationalization etc. The following are some statistics data which manifested these gaps (Sources: American family business survey 1997-2002, MassMutual Financial Group, 2003; Chinese Private Enterprises Report-Family Business Section, 2003):

- **Enterprise scale:** the average year sales for the US family business reaches 47.594 million US dollars, the highest even amounts to 3 billion US dollars. The Chinese family business’ average year sales income is 5.8 million RMB, approximately to 707,000 US dollars. The average employees hired by both are similar, but the US’s sales income scale is 67 times of China's.
• **Registration form:** US family businesses include three types: S Corporation, C Corporation, and limited liability Company. 47.2% of registered family business are S Corporation, 42.3% are C Corporation while the limited liability company accounts for only 2.5%. The standardized commercial company is C Corporation - it must pay income tax on its business, S Corporation is given the special tax revenue treatment by the national tax bureau and regarded as a tax-free entity. The S Corporation which is normally formed with sole ownership or with a partnership may directly transit gains to the shareholder through stock shares.

The CFB also includes 3 types; the sole ownership, forming partnership and the limited liability Co. From year the 2001, the former two registered forms (sole ownership and forming partnership) begin to reduce and there are increasing tendency of setting up the limited liability Co.

• **Industrial allocation:** the leading industries of family business in the US are the Manufacturing (24.5%), wholesale (16.6%), construction (12.2%), and the retailing trade (11.1%). The most centralized industries in China are the manufacturing industry (38.3%), the service industry (21.4%), the architecture industry (5.9%) and agriculture (5.6%).

• **Founder’s features:** most American entrepreneurs are well educated; 47.8% have obtained college or university degree; nearly 20.8% even possess a master’s degree. In China, 41.9% of the founders graduated from high school; 33.5% got a university degree, but only 3.2% have a master’s degree.

• **Ownership and management:** the majority of US family firms have established a board of directors, among which 34.1% have established the audit section, reward section, administrative section, human resources section, financial section, strategic
planning committee, etc. The board of directors has supreme authority in making significant decisions on the family business, deciding the candidates for senior management. In China, 47.5% of the family business firms have established a board of directors; 26.6% have set up a guarding board; and 33.9% had set a shareholding board by the year 2002. However, it is said that the power of the board in the Chinese family firms is fairly limited and the significant decision-makings determined by the board number only about 30.1%.

Ownership: the business ownership is basically controlled within an American family. According to the US 2002 Statistics, 87.5% of the family business firms has 3 ~ 4 family members in the board of directors; 63.6% of the family firms which has gone public have 5 ~ 6 families members in the board. However, ownership and management is often separated in the US family business. This managerial structure of American family business was known as “Managerial Revolutionize” from the 1840 to 1920; and it presented an important symbol of modernization for the family business. Today’s US family business most often implements professional management; the family entrepreneurs still control the ownership but usually hand over the managerial authority to professional managers who operate the day by day decisions of the family business. By contrast, in CFB, the majority of the Chinese family entrepreneurs control both the ownership and management; they directly assume the management roles. It was estimated that all the significant management decision-making decided by the main investor (the family entrepreneur) alone reached 39.7%, with 29.8% being decided by both the family entrepreneurs and the major partners.
- **Transition plans:** The American family businesses adopt three types of transition/succession plans, (i) hand over both the ownership and management to the next generation (the family members), (ii) retain the ownership, transfer the management to professional managers, or (iii) sell the business to the employees or a third party. Moreover, 38% of the family entrepreneurs request that the successors have at least 3 years work experience outside the family business. In China, most founders pass the family business to family members (children-oldest son, second son, and daughter), few choose to select outside successors.

- **Internationalization:** the degree of internationalization for family business is higher in the US than in China, for some US family business giants like Wal-Mart and Du Pont, the overseas sales income surpasses 50% of the whole sales income. The CFB mainly concentrates on export-oriented and domestics business. Nevertheless several large family business firms in China like Wan Xiang Group and Fontile Co. have conducted foreign trades. Additionally, nearly 30% of family firms plan to build foreign cooperation with overseas firms in the next 2-5 years.

\[2.3\text{ Managerial Issues Confused by the CFB}\]

What causes the great gaps between the US family business and the CFB? Actually, nowadays, the CFB frequently receives criticism from domestic scholars in the public media. They ask why China, although showing first-class economic performance in the world (the second largest economic body just after the US), doesn’t have first-class family business like the US? The question is poignant to the CFB. For sure, when you look at the *Fourtune 500*, almost no Chinese business firms are on the list. In addition, the life span
of some Chinese business firms are comparatively short; just as a famous Chinese saying: "the CFB seldom survives the third generation-the first generation builds the business; the second generation harvest or ruin the business; and the third generation may have to close the business or sell the business".

Nevertheless, perhaps the most debated answer is poised on the family management mechanisms of the CFB. Some critics allege that the existing system greatly restrains the CFB from growing big and being competitive in the world market. Therefore, the problems of small scale/can't grow big, slow growth or even stagnancy etc in CFB is essentially a managerial mechanisms problems. They believe that the CFB should learn advanced managerial practices from the “seedbed” of Western family business - like the US - by introducing professional managers, creating a separation of ownership and control, and professionalizing the family business, only by doing this can the fundamental growth issues of CFB be resolved.

Authentically, when a family business wants grow big and realize further expansion, the individual power--a family’s ”energy”, is limited. The family firm has to exploit outside human resources--the professional managers and non-family employess, to help achieve the growth goals. The reason is somewhat obvious, the family would find it very difficult to manage everything by themselves as the business expands (especially when the family members lack specialized expertise); some can, but the majority who tried failed. Bringing in outside professionals, non-family leadership is a way to modernize or professionalize family business managment; this is an appropriate choice as fully illustrated by the success of American family busines above. However will adoption of professional managers in managing the family business, while proven applicable in the
US, have the same effect for the CFB? Moreover, who are the professional managers? How important they are to the family business? With all these confusions, an extensive literature review followed by a detailed analysis is necessary before a reasonable conclusion can be drawn of the applicability of introducing PMs to the CFB.
CHAPTER 3
LITERATURE REVIEW

3.1 Origins and Traits of the Professional Managers (PMs)

The first managers in the US are believed to have been born in the transportation industry, in Massachusetts around the 1940s. The largest local railroad enterprise was taken over by an outside man after a severe train-collision accident. The original entrepreneur, who was deemed by the outraged public to lack the needed ability to manage the operation of this modernized railroad enterprise, was forced to resign. This triggered the birth of “professional managers” administering modern enterprises and later the formalization of “PM” spread all over the world; the US, as the “cradle” of Professional Managers, after experiencing 160 years history, has already formed extremely mature PM mechanisms.

Benetton (1986) believes that the development of the American PM mechanism roughly came through three stages: the first stage is from the birth of PMs in 1841 to the foundation of the American Management Association in 1925, which marked the transformation from hereditary entrepreneurial management to the hiring of managers to manage modern enterprises; and at the same time, the PMs entered important periods of fast growth; the second stage is from 1925 to the end of 1960’s. In this stage; along with the establishment of the Harvard University Business Management Research Institute (HUBMRI), it was said nearly 80% of American modern enterprises had recruited professional managers and this significantly symbolized the maturity of the professional
manager system; **the third stage** is from the 1970's to present; with the US's "modern enterprise system" moving towards consummation, the professional managers also began to play vital roles in American modern enterprises and the subsequent theoretic study on the PM became systematized and specialized. Accordingly, there were booming administrative institutions and schools in the US which provided specific training courses or programs for the aspirant PM.

The definition of the "professional manager", is referred to as one who has more creditability on qualification, more talent on management, and more responsiveness to new ideas and advices than the usual managers and is able to apply relevant knowledge, skills, and experience to various organizations. The PMs are recruited through the Human Resources Market, generally held a top position in senior management and are motivated by stock rewarding or partial ownership within an enterprise. Generally, a PM's salary can be quite high, basically 10~100 times the average employee's income. In the US, some PMs in big multinational enterprises have income nearly 100 times the average, and for them are coined the name "the golden collar".

Berenbeim (1994) provides more detailed professional standards in describing the PM. As found in his work *From Owner to Professional Management*, he believes that a professional manager should possess at least the following skills or expertise: 1) the ability to be an efficient and effective leader; 2) the ability to collaborate and motivate others; 3) the ability to take quick and rational actions; 4) the ability to establish commitments and responsibilities to the corporation; 5) the ability for self-control and self-adjustments; and 6) the ability to build interpersonal relationships with peers or superiors (*See Figure 3 below*):
The Professional Manager (PM)

The Professional manager is a leader, a man of integrity, mature, motivated and capable of motivating; concerned with his own personal development and that of the persons collaborating with him.

He is capable of committing himself to the objectives he has to attain and to direct those under his command to perform the goals set.

He is capable of providing himself with self-control measures for his action, to measure his own progress to make the necessary adjustments.

He is capable of adopting decisions and has an open mind to capture information and new ideas.

He is capable of organizing working relations, establishing the commitment and responsibilities of each unit under his area, representing them always in terms of results.

He is capable of creating a pleasant working environment, based on principles expressed concretely in health policies to orientation; in an understanding toward and among persons, establishing interpersonal relations with principles, peers and subordinated, based in respect for the human being; in a participation that strives for the fulfillment of all the interested parties and in team work.

3.2 Life Cycle Theory on PMs

Many noted American family consultants believe that “what differentiates the family business from non-family business is that theoretically, the family business has a life cycle and that is why it’s so hard for the family business firms to survive between generations”. We find that understanding the life cycle theory of the family business gives us insights into why the PMs are so important to manage the evolution of the family business. Just as we have discussed in the previous section, the family business are composed of two interdependent systems; the family and the business system. Based on
This “two-system” concept, a handful of life cycle models of family business were developed; Figure 4 is one of the life cycle models adopted from Gersick, Davis, Hampton and Lansberg (1997).


From the model, we can see that the first axis is the “business” one, it consists of three stages:

- Start-up
- Expansion/Formalisation
- Maturity

On the other hand, the “family” axis is made up of four stages:

- The first generation (Founders at work)
- Second generation (the next generation is employed)
- Transitional period (of two generations)
- Passing the baton (Succession)
Gersick, Davis Hampton and Lansberg observe that when the family business is in the start-up stage, it is undeniable that the family members are tied together. They feel passionate and committed and the family entrepreneur, along with one or more family members, basically assume various roles such as owner-manager, marketing-seller, even service representatives etc; they handle all the trivial tradeoffs by themselves and the family may be the most efficient “body” in this “birth” stage. However, when the family business moves into the next stage, the expansion/formalization stage (also the toughest stage); the family faces increased opportunities, but concurrently, drastic business challenges--like entering new markets, launching new products, developing distribution channels, carrying technology innovation, and coping with the surged customers etc. Just as they mentions, “it is the time the family feels stressed and strained as the expanding family business outgrows its infrastructure (sometimes over and over)”. In addition, Cohn (2001) points out that, “…in the growth stage, the strength as a family business is decreasing and the family business begins to expose its weaknesses”. Neubauer and Lank, Cohn all implicate many pitfalls revealed in the family business at the crucial expanding/formalizing stage:

- **Time Discordance**

  According to the life cycle model by Neubauer and Lank (1998), the family axis is different from the business axis; the progression of families is driven by the “biological aging” of the family members (old generation to young generation), while the business cycle is fundamentally spurred by the outside/environmental forces; economic, social, political, markets, industries, customers, competitors, etc. Therefore, the family business is complicated by the discord cycle of the family and the business. To the family, the transition span from the first/old generation (founders) to the next generation can be a
long time (10-15 years or longer) while the business’ transformation (from start to expansion) is much more abrupt and sometimes only takes 3-4 years. Therefore, the family business always produces a natural but prominent phenomenon: “the family is too small, but the business is too big” and the family always can’t catch up with the speeding development of the business.

- **Family System Barrier**

  The accelerating growth of the family business triggers internal family problems such as nepotism, favoritism and inequity. The hidden friction and conflict between the family and the business became unavoidable and even tend to be maximized. For instance, conflicts of interest (ex. bonuses) among siblings, the reluctance of some family members to make functionary adjustments, the divergence of business goals between spouses or the disharmonious relationships between father and son. All these accompanied by emotional issues force the family entrepreneur into a dilemma situation. The family itself becomes a stumbling block at this time.

- **Human Resources Shortage**

  Very often, the biggest barriers that the family business encounters in the expansion stage are human resource problems. The available human resource to a family business is considerably limited. This is mainly due to such circumstances as the next generations being still too young, or some siblings taking no interest in the family business. Moreover, the skills or expertise the family members owned is partially constrained by the family’s inherent or traditional education.

- **Organizational Structure Imbalance**

  The expansion/formalization stage clearly impacts the organizational structure of the family business. In the start-up stage, the family business is basically a founder-centered,
informal and flat structure. Decision-making is usually real-time and non-procedured. The founder decides the job assignments but the family members’ responsibilities are not clearly described or structured. In the expansion/formalization stage, the businesses often require a more formal and hierarchical structure in which the functions are differentiated and managerial roles are specified and clarified. Marketing, financing, retailing, or R&D department—all need to be assigned capable people to fill the new positions. The family business should establish a modern and professionalized organization structure to meet the increasing business demands.

3.3 Significance of PMs to Family Business

To overcome all the barriers that emerge in the growth stage and pursue the continuing success of the family business, hiring professional managers to “fill key managerial and specialist roles and transfer significant authority to the non-family professionals,” has become imperative and even became the general business practices in most American family firms (Moores, 2002). Ward (1987) believes that most family businesses fail precisely because they don’t recognize that a way to help smooth or sustain the family business is crucial in adopting the professional managers to “spur the long-range plans needed in the family business: the marketing plan, the product plan, the strategic plan, the succession plan and the family plan etc”.

Chu (2002) proclaims that the family-run businesses should consider bring in professional managers as the best way not only to find “the most-qualified person to take their business” where they want it to go from a long-term perspective but also to get “the needed someone who will ease or eliminate the inherent family disadvantages when
family members run the business especially when there are multiple family members involved”.

Drucker Peter—the godfather of the American Modern management field, has summarized four golden rules in his article “how to Save the Family Business” for family businesses to follow. The golden rules, as it is named, are particularly honored by numerous American family firms (Narva, 1999). Dr. Drucker’s gold rules are applicable to those family businesses that wish continued prosperity. The rules are as follows: 1) the family members must work as hard as non-family members; 2) the family businesses need to add non-family managers-professional managers; 3) at least one top job in each family business must be filled by a non-family manager (professional managers); and 4) “before the situation becomes acute, the issue of succession should be entrusted to someone neither part of the family nor part of the business” (Narva, 1999). It was said Drucker’s “nostrum” was based on inclusive investigation and research on thousands of American family firms. Moreover for the Dupont Co., Levy, Strauss Co., GM, Ford, and Rothschild, the successes of these family enterprises all are believed to the full manifestation of Drucker's wisdom. For instance, the Dupont Co., one of the oldest American family firms (over 200 years history), has successfully transited through seven generations, from E.I. Dupont (1802-1834) to today’s Jim Dupont. However, Dupont’s prosperity is by no means an accidental event. Although the Dupont family group absolutely controlled the ownership; the daily management has been handed over to professional managers, they assisted Dupont in professionalizing the family business since 1967. DuPont’s success could well be contributed to the restructured family management styles at the early stage as the first non-family PM, Marco, was appointed.
the General Manager, thus leading DuPont’s family business to another 11 years’ bloom. The transformed authority to the outside PM in DuPont at that time marked a significant “Turning Point” to the family business management in the US. For today’s American family firms, hiring outside professional managers becomes one of the business’s routine cycles.

Chyang and Caspersz (2002), after approaching hundreds of middle-to-large sized family firms, summarize seven reasons of hiring professional managers in those family firms (See Table 1):

Table 1: Reasons for hiring a Professional Manager. Adapted from: Chyang and Caspersz, Letting in the outsider: Non Family Managers in Family business, 2002

<table>
<thead>
<tr>
<th>Reason</th>
<th>Very Important</th>
<th>Important</th>
<th>Not so important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need skills</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Need leadership</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Gain contacts</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Manpower for Growth</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Day-to-day management</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Formalizing management</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Improve communications</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

Among those reasons, the ‘manpower for growth’, ‘needs for skills and leadership’ and ‘formalizing management’ are identified as the ‘most important’ factors. In addition, Benetton (1998) also conduct a sample survey on family firms’ perspectives of PM (141 questionnaires sent out asking why they hire PMs); the participant family firms provide different responses, the most common responses are:

- The professional managers are independent and with no blinders.
They give the family business board an equilibrium structure.

They could bring expertise, valuable advice from outside.

They fully understand the business community and have access to major customers.

They could restructure the family business in legal, marketing, financial and tax aspects.

They provide business objectivity, neutrality, and rationality.

They can settle family matters, resolve family conflicts.

They are mediators, bridge-builders, coaches and negotiators.

They know business ethics and they themselves obey the career ethics.

What is more, Rosenblatt, Mik, Anderson, and Johnson (1985) highlight the noticeable changes PMs brought to the family business from organizational structure and functions aspects, the changed areas involve organizational leadership, culture, effectiveness, transition/succession, etc:

**New Leadership Patterns**

According to Rosenblatt, Mik, Anderson, and Johnson, the major difference between the professional manager and the family managers is the “background and training”. Since the PMs generally obtained formal business education and most possessed a BBA or MBA degree. Compared to the family entrepreneur, their knowledge in management, marketing, accounting, finance or laws etc is more systematic and fits within a dynamic business environment. Hence, once these professional managers entered into family firms, their leadership styles will differ from the family entrepreneur; the major changes in the leadership include:
The recruitment: the incapable family members will have to quit the family business; the concept of equal competition is introduced and only those competent or suitable for the job might be hired. It is hard for the family managers to do this but for not so for a PM, since they have few emotional ties with the family members.

Reward and appraisal: The new rewarding and appraisal methods employed by the PMs will no longer be in accordance with the family system. Salaries and benefits are allocated on performance appraisal and there is no different treatment for family verses non-family employees. The promotion opportunities are basically equal to everyone in the family business.

Training: In former family business, the training issue is often excluded from a family entrepreneur’s agenda. However, the business development demands that employees improve their individual capabilities and technology competencies. Training is important to enhance the overall operational level of the employees and accordingly enhances the organizational efficiency of the family business. Most PMs have expertise and experience in training and coaching.

All these new leadership patterns the PMs brings in, from management point of view, would significantly promote the competitiveness of the family business.

• Change of Organizational Culture

Before the PM practices are adopted, the family business is dominated by the family’s traditional culture. The family or mainly the founder’s attitudes, values, and norms influence the overall activities of the business. The limitation of the family culture lies in that it is not always consistent with the commercial activities of the business. The roles of the PMs are shaping the family businesses’ culture into a standardized and institutionalized business culture. The business culture under the influence of the PMs is
represented by the “professional” cultural pattern which emphasize a “proactive stance” instead of a “harmonizing stance”; individualistic–oriented instead of group-oriented; competition-oriented instead of security-oriented. The new business values or norms injected by the PMs include: 1) creating written standards of conducts which is shared by all the family and organization; 2) setting organizations rules or policies and procedures, clarifying the individual roles or responsibilities; 3) setting standards of business ethics, taking more environment and health issues into considerations; 4) paying more attention to public, customer, government, and media relationships; 5) designing risk hedging tools, crisis handling measures; etc.

The new business culture created by the PMs would definitely assist the family business in adapting to the changing business world and therefore in taking more effective actions to manage the changes/challenges.

- **Succession Planning**

According to the family life cycle, the unsuccessful transition between generations would most possibly ruin the family business. Reports also show that although the family businesses are the mainstream of the US's economy, still about 30% survive the second generation and only 10% survive the third generation (Sources: American Family business survey, 1997-2002). Transition issues are frequently the biggest concerns to most American family entrepreneurs. Transition problems come up with a variety of complicated issues to the family owners: 1) difficulties in choosing the successor, sometimes more than one family member wants to take the founder’s position; 2) the ability of the new successor is in question, some lack needed leadership or expertise to head the family business; 3) strong resistance or conflicts from family or non-family
employees in the transition/succession process; 4) lack of knowledge in tax, estate, legal aspects.

Ward (1987) believes that the PMs are indispensable to the family businesses when they are struggling in the transition stage. The following are roles the PMs played in a Family Business Succession Process:

- The professional managers help evaluating, selecting, training and mentoring the future successors from a neutral position.
- They manage conflicts between family members (siblings, parent-children).
- They smooth the transition process concerning tax and legal issues.
- They assist in developing and implementing the succession plan.
- They consider the responses from competitors and customers.
- They ensure the accuracy of “wills, insurance contracts or other documents”.
- They are potential successors when the family runs out of family candidates.

Our literature review fully confirms the significance of PMs on family business in the crucial expansion stage. However, introducing PMs into the senior management in family business, although creating theoretical and operational good to those US family firms, still is an unproven answer to current CFBs. In the next chapter, we need to discuss some institutional differences, which may exist between the business environments of the US and China. We will try to find the hidden stumbling blocks or potential catalysts for CFB owners with respect to introducing PMs into their businesses.
CHAPTER 4
INSTITUTIONAL DIFFERENCES
CHINA VS USA

Chinese Family Business, in the past 30 years, has been through starting up, family management stages, and began to quest for a professionalized management. According to the family business life cycle model mentioned in Chapter 3, it seems CFBs is entering the stage where PMs should be introduced. And from the experience of many US family companies we discussed in the previous chapters, the adoption of PM in the management is inevitable and also brings significant benefits to the family business. However, the adoption of PM in China business context seems problematic. Failed incidents happen here and there when Chinese entrepreneurs are trying to assimilate outside professional managers. Whether these failures suggest that PM practice not work in China or the situation in China lacks certain necessary conditions? The institutional differences between these two countries may have some implications.

4.1 Background & Development Stages of CFB

4.1.1 Developmental Stages of CFB

Unlike the family business in the US, the development of the CFB has been described as “late stride” and only experienced relatively short period of 30-year’s history:

- **Stage One: 1978-1992.**

  The CFB took its first step out in 1978 when the China National Congress officially decided to restructure the economic system. About 140 thousand proprietorships
nationwide, mainly people who could not be hired in state-owned systems, began to seek a way out for themselves. Initially groping for survival, they found the door to prosperity. Especially so after 1988, when the state administration promulgated the "Private Enterprises Temporary Act" and the National Congress constitutionalized private economies, family business finally became a justifiable political and economic entity. Relatives and close friends running the family workshop was the major characteristic of family business at this stage. Facing many risks in the market, Chinese entrepreneurs found that only families could be relied on. Plus, most of them started from a home workshop. Husband, wife, sons, daughters and in-laws were a big enough human resource pool for such small scale business. Family operations gradually became a pervasive form of business. Since the state economy had long been in a shortage, domestic demands were much greater than the supply, and many family companies finished their primitive accumulation phase in a very short period of time.

- **Stage Two: 1992-1997.**

In 1992, Deng Xiaoping’s South Talk¹ pave the way for the state to implement state regulations on changing the management mechanism, as well as the 1993 ‘decision on establishing a socialist market-economy structure’, which reaffirmed the existence of the private economies. It marked the beginning of the high speed development period for family business in China. After the South Talk, the state government further deepened the restructure and reform, which stimulated a new round of economic growth. With

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¹ South Talk: in January 1992, the second generation leader of communist party—Deng Xiao Ping paid an inspection tour to south China where he delivered a series of speeches aimed to clarify the muddled idea about whether the establishment of special economic zones is of "capitalism" or socialism" in nature, which marked as the crucial juncture of China's reform and opening-up.
tremendous business opportunities, the CFB gave off immense power with development speed increased by tens or even hundreds of times. At this stage, many business giants came into being, and family business economy witnessed an unprecedented expansion.

At this stage, the CFB started to pursue economies of scale and industry leaderships, however as the capital inflated rapidly, questions of ownership were surfacing as a serious problem. On a different aspect, family business asset structure was diversified by acquiring or merging stated-owned, or public, enterprises. This high-speed development period was also a period for survival of the fittest. Many family businesses failed due to internal malpractices. Some companies disappeared forever, but some came back with greater success after contemplation.

- **Stage Three: 1997 to present.**

  In 1997, the 15th National People’s Congress Conference ascertained that private economy was an integral part of national economy, leading the CFB into a rational development stage.

  At this stage, with more support from the government and society, the CFB began to undertake cross-sector diversification and internationalization. Meanwhile, the quest for more internationalized management practices and systems changes started, e.g. the development of international joint venture, the implementation of corporate strategies and the adaptation of cross-cultural businesses. Some CFB began to introduce non-family members to key management positions, wanting to use external expertise to strengthen their businesses. Some even gave up portions of ownership over the business to managers for further development. At the end of 1998, the CEO of CHINT Group—Nan, Cunhui conducted an ownership restructure in its core “low voltage electrical appliances”
specialization, diluting the ownership from 10 family shareholders to 106 shareholders including non-families (Chen & Xu, 2003). More noticeably, some family business became listed public companies with the intention to utilize the domestic capital markets for ownership restructure. Successful examples include Ufsoft Co. Ltd, which was listed in 2001, Taita Group, which went public in 2002, and Tiantong Electronics, which became the only public company in the ferrite manufacture industry in China (Chen & Xu, 2003).

4.1.2 Transforming Types of Chinese Family Business

From the above discussion, conclusions can be made that family business in China came into being after reforms and opening-up policy in 1978. However, by examining their historic progress, we found that compared with US family business, CFBs has a very unique evolution process. According to Zhejiang Private Entrepreneurs Research Group’s study (2001), most CFBs derived from the following three types in terms of the sources their original primitive capital:

- **Capital Accumulation Type.** This Capital Accumulation type of family business was formed as a result of policy change and market situation in the early 1980s. The introduction of market economy and opening-up policies by the Chinese government, coupled with a thirsty seller’s market formed by years of closed economy created a very favorable external environment. It attracted people with strong entrepreneurial capabilities and business senses from all works of life to join the team of capital accumulation.

- **Contractor Transform Type.** This type of family business is actually transformed from a historical economic entity, called the Family Responsibility Contract System.
Those contractors usually contracted a collective-owned business enterprise often in the unit of a family. During the period of the contract, the contractors and their families would try to accumulate their primitive capitals through maximizing profits. A number of outstanding contractors became well off when the contracts ended. This group of contractors became another economic force either by buying off the contracted enterprises or establishing their own companies.

- **State-owned Converted Type.** In the late 1990s the Chinese government initiated a “strategic restructuring and reorganization in Chinese management” change among large and medium-sized state-owned enterprises in order to alter the slack situation among the state-owned enterprises and inject some dynamism into the system. During that restructure, many state-owned enterprises were converted into shareholding corporations after a formal procedure of asset appraisal and negotiation with government representatives. In most cases, the enterprise would be handed over to entrepreneurs who were the former top management of that organization. Through the conversion, those former top managements would usually control the bulk of the ownerships, whereby they legitimized the privatization of the public wealth through formal negotiation. After the acquisition, family members were introduced into various key positions in order to strengthen and solidify their control over those newly formed organizations. Hence, a new type of family business emerged as catalyzed by the policy change.

Although these three types of family businesses have some differences in terms of the ways of becoming well off and the closeness with government, they do share some common characteristics, which can be concluded as followed: 1). The way of primitive
capital accumulation is different from the US family business. The capital accumulating process of the CFB is essentially a process of satisfying the needs of starving domestic markets. In other words, the accumulation is realized by peacefully transferring commodities into currency. 2). the process of capital accumulation is relatively short compared with that of the US family business. Most of the CFBs finished their capital accumulation within merely 20 years. The reason is largely related to the capital flight from state-owned enterprises. 3). the business owners are often high in entrepreneurship, but low in education qualifications as we have mentioned in the first section. It required great entrepreneurial skills to be a private business owner at that time in China in terms of courage, business senses, determination, etc. However, though financially successful, many of these entrepreneurs are low in education levels because of historical reasons. It would affect the strategic management and development of the businesses.

The above three differences are not all that differentiates Chinese entrepreneurs from their counterparts in the United States. The major differences that hamper the PM adoption into China are the institutional characteristics in the Chinese society.

4.2 Institutional Characteristics of Chinese Society—Comparison with the US

The institutional differences in the Chinese Society can be categorized into four aspects: they are cultural differences, organizational structure differences, socioeconomic differences and legal and political differences. The detailed discussion of the differences is summarized in Table 2.
4.2.1 Culture Differences

4.2.1.1 Chinese Family-Collectivism

Confucianism undoubtedly has profound influence on the formation of Chinese culture, even if Confucius lived in an era about 1500 years ago. Among Confucius’ many teachings, family-collectivism is one of the notions worth discussing regarding to our subject. Many studies have identified that family-collectivism is the most important characteristic in Chinese society. Among the five cardinal relationships, which are 1) emperor and subject; 2) father and son; 3) husband and wife; 4) elder and young brothers; and 5) friend and friend, the majority involves family members (Hofstede and Bond, 1988). Hence, family, being both a societal and business entity, inevitably became the starting form and the essence of business practices for Chinese businessmen. As Hofstede and Bond concluded “The family is the prototype of all social organization. A person is not primarily an individual; rather, he or she is a member of a family” (Hofstede and Bond). In other words, Chinese families, as the basic units of the society, not only provide shelter and foods for the family members within it, but also act as the environment within which family members socialize and play the five-cardinal roles defined by Confucius. “A form of social immortality, families have something of the character of a religion which, at times, is enhanced by the ritual of ancestor worship; the consciousness of it has penetrated deep into Chinese soul” (Fan, 1995). This concept of family-collectivism pervades all social organizations till today, and also explains the phenomenon of why family business is so prevailing in Chinese society. The cultural background shapes how Chinese people behave and what they value. The most distinctive characteristics are the construction of the value system and the social credit chain, which
<table>
<thead>
<tr>
<th>Cultural Differences</th>
<th>China</th>
<th>The US</th>
</tr>
</thead>
<tbody>
<tr>
<td>View toward Family</td>
<td>Family is both societal and economic entity</td>
<td>Family is a societal entity only</td>
</tr>
<tr>
<td></td>
<td>Ownership is un-tradable as it is also the vehicle for family member’s values and interests</td>
<td>People values independence and actualization of personal interests</td>
</tr>
<tr>
<td>Communication</td>
<td>High context: communication is indirect and implicit</td>
<td>Low Context: communication is direct and explicit</td>
</tr>
<tr>
<td></td>
<td>Corporate information is often not in written form, and controlled by the owners only</td>
<td>Clearly record system and flow of information existed</td>
</tr>
<tr>
<td>Power Distance</td>
<td>High in power distance. Authority are not challenged</td>
<td>Low in power distance People demand for participation and empowerment</td>
</tr>
<tr>
<td>Mode of Association</td>
<td>Family business’s wealth belongs to the family</td>
<td>The boundary of families is distinct and clear.</td>
</tr>
<tr>
<td></td>
<td>The organization is structured by the elastic Chaxugeju</td>
<td>Family business’s wealth belongs to the business</td>
</tr>
<tr>
<td></td>
<td>The management is paternalistic in style</td>
<td>The organization is structured by objective qualification and capabilities, and the management is democratic in style</td>
</tr>
<tr>
<td>Authority Structure</td>
<td>Authority is centralized</td>
<td>Authority delegation is encouraged</td>
</tr>
<tr>
<td></td>
<td>The decision-making process is entrepreneurial-based and intuitive</td>
<td>Decision-making is strategic planning process</td>
</tr>
<tr>
<td>Human Resource</td>
<td>Particularism: employment is decided by the relationship</td>
<td>Universalism: employment is decided by the qualifications</td>
</tr>
<tr>
<td>Regulatory Mechanism</td>
<td>Unsystematic and intuitive</td>
<td>Systematic and articulated</td>
</tr>
<tr>
<td>Factor Market</td>
<td>Under-developed and immature</td>
<td>Developed, bridges and matches the needs of different parties</td>
</tr>
<tr>
<td>Trust System</td>
<td>Trust system is not sound, due to historical and structural reasons</td>
<td>Trust</td>
</tr>
<tr>
<td>Corporate Networks</td>
<td>Information void area; thus, ‘guanxi’ is the key to success</td>
<td>Information is widely available</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capabilities outweighs 'guanxi'</td>
</tr>
<tr>
<td>Legal System</td>
<td>The legal system cannot protect the private properties</td>
<td>Legal systems protects the private properties</td>
</tr>
<tr>
<td>Labor Contract</td>
<td>Labor contracts carries government intention</td>
<td>Clear presentation of contract laws and people put high value on contracts</td>
</tr>
<tr>
<td></td>
<td>People has weak consciousness about the importance of the contracts</td>
<td></td>
</tr>
<tr>
<td>Political Risks</td>
<td>Politically not stable</td>
<td>Relatively stable</td>
</tr>
</tbody>
</table>
is centered by ‘family’ as individual’s value reliance, and tied up by blood relationship, kinship relationship and geographic relationship. In the eyes of Chinese, family is not only an indispensable socioeconomic organization form, but also is the ultimate vehicle for individual’s interests and values. However, compared with the Chinese, family culture is not that intense for Americans. Often characterized as individualistic by researchers, Americans uphold individual independence and value the personal achievement as superior human needs. They believe that rather than the society being comprised of families units, it is comprised of individual people. Family in the US only assumes a single role as a social entity, binding members together with emotional and blood ties.

### 4.2.1.2 High Context vs. Low Context

Studies show that Western countries, such as United States, are low-context cultures, where communication is explicit and direct. Information in those cultures is articulated and not personified. People use various forms of terms to standardize behaviors. China, on the other hand, is a distinctive high context culture, where people prefer a more implicit and indirect mode of communication. Information is communicated based on perceptions through years of experiences under the same cultural background. Messages often get across with simple words or body languages; communication by observing and understanding is one of the characteristics of communication in Chinese society. Therefore, information in Chinese organizations is naturally kept implicitly. Coupled with the centralized organizational structures (see in Organizational Structure Differences), gradually the information becomes monopolized with only the owner understanding the flow of the information.
4.2.1.3 Power Distance

Power distance refers to the degree of inequalities in power and wealth in a given society (Hofstede and Bond). Generally, countries which have hierarchical structures rank high on a power distance index, which means people in that society tend to accept and obey the inequalities existing in power and authority. Holt (1998) indicated that the United States is one of the cultures low in power distance and China, on the other hand, is high in power distance. In the United States, people in higher levels share their authorities with subordinates in decision-making, and people in lower levels also challenge for authorities if they think it is necessary. Whereas, in China, the members in superior positions would tend to hold their power and keep a power distance as large as possible, also people at lower levels are inclined to accept their inferior status and respect formal hierarchical authority.

This culture trait about power distance has been melted into the Chinese mind for thousands of year, and has become a sub-conscious behavior for Chinese people. In addition, communication in Chinese organizations is often in the form of top-down, rather than bottom-up as in many US organizations. These traits together produce Chinese employees' low demand for participation and empowerment. Employees are used to receiving orders from superiors without questioning the reasons. “If I want participation and power, I should have set up own business”. This is common psychology among Chinese people. Historically, ambitious employees usually would set up their own business after they learned the skills from their employer. Those who stayed are often employees without much ambition or willing to remain in the inferior positions.
4.2.1.4 "Chaxugeju" (The Differential Mode of Association)

The core cultural element that affects CFB is Chaxugeju (the Differential Mode of Association), which makes the CFB unique from those of other countries. Chaxugeju was coined by Chinese anthropologist and sociologist Fei Xiaotong in 1948. Centered by one self, a person’s own social influence produces interrelated circles of oscillating but differential social relationships, the social relationship pattern is called Chaxugeju (Hamilton & Zheng, 1992). A society characterized by Chaxugeju, is often a network woven by numerous personal networks. This network has a center, and the center is the “self”. Centered by the “self”, the social network with others in the society is “like the ripples formed from a rock thrown into a lake, each circle spreading out from the center becomes more distant and at the same time more insignificant” (Hamilton & Zheng, 1992). The pattern resembles the relationships in the Chaxugeju network. The degree of closeness and trustworthiness in the network is descending as the circles go outward, forming a pattern of how people cope with interpersonal relationships which are based on genealogy and kinships.

Fei stated that the “pattern of organization in Chinese traditional society has the special quality of elasticity” (Hamilton & Zheng, 1992). Members in the societies can expand and contract their social circles along the Chaxugeju relationships according to changes in the power centers. “Families” can include anyone they want to include in their network. Therefore, the scope of “families” is flexible.

On the other hand, families in the US are organizations with distinct boundaries, which clearly define those people who are members and those who are not. This distinctive family boundary can be seen in the analogy Fei made in his book “From the Soil” in 1948, in which he wrote that the US families were like bundles of straw in the
haystacks. Haystacks are bound groups of large straw bundles made up of smaller bundles. A straw cannot be in two bundles (Hamilton and Zheng, 1992).

In China, the recognition of Chaxugeju position which the operator of the business holds toward his/her employee is in fact the key factor affecting organizational behaviors. Employees would be categorized according to three criteria which are relationship (guanxi), loyalty and capability. Therefore business operators would put different trusts, use different interactions, and hold different views toward different categories of employees, thus making the Chinese business organization behaviors complex and diversified, but also distinctive.

Typical CFBs which are influence by Chaxugeju have the following characteristics: first of all, unlike that of American family business, the wealth of the family business belongs to the family as a whole, rather than to any individual. Second, the family organization is hierarchized by the elastic Chaxugeju relationships, e.g. blood families, clans, affined relatives, other relatives, countrymen, and schoolfellows in sequence. Third is the paternalistic management style. By and large, it is not an uncommon case that the owner is running the family business based on his/her personal capabilities and experience, assisted only by family business wisdom. Accordingly, written and systematic corporate regulations often fall short.
4.2.2 Organizational Structure Differences

4.2.2.1 Centralized Authority

Since the father is regarded as having absolute power in families, the founder and often the owner would equivalently enjoy the dictatorial authority in their businesses. Put another way, CFBs are often centralized in power, with the founder or the owner at the center. This phenomenon has been termed “dictatorship by the owner-manager” (Montagu-Pollock, 1991). The “father” usually manages his business in the way he would look after his family. He would make all decisions, establish regulations, assign specific jobs, and decide the direction for his business, which is characterized by the term of “paternalistic” management style.

Determined by this “paternalistic” management style, like that of many Overseas Chinese entrepreneurs, decision-making process in most CFBs is not a strategic-planning procedure; rather, it is said to be “an entrepreneurial, experience-based holistic/intuitive process” (Haley and Tan, 1998). More specifically, the decisions making relies on the owners’ capabilities to extract knowledge from hands-on experience, from generalization of unrelated industry experience, and from qualitative information (Haley and Tan, 1998). Many CFBs’ senior executives tends to make decisions to invest, to grow, to compete solely on their years’ business experiences, business senses or their personal propensities to take risk. However, these preferences also lead to irrational strategic decisions. Examples are not difficult to find: The CEO of Zhuhai Giant Group Shi Yuzhu is one typical example. Giant Group collapsed due to the strategic failure of Shi, who had once said: “I can make my business asset to 1 billion RMB from only 4000 RMB, no need to doubt my capability of strategic decision-making.” This authoritative decision-maker
finally led Zhuhai Giant Group to an abyss of debt (Yang & Liu, 2000). The failure of Sanzhu Group was due to the CEO Wu Bin Xin’s decision to manage the organization like running a military force, and obeying orders is the most salient characteristic of militarization. Furthermore, the CEO of NanDe Group, Mou QiZhong, once was named the “wealthiest Chinese” and “the man of the time”, was put in jail in 2000 because of a 130-million RMB fraud. If there had been a monitor system in NanDe, this kind of scandal would not have happened (Song and Liu, 2001).

4.2.2.2 Human Resource Management in CFBs

In most CFBs, there are no systematic policies regarding Human Resource Management. The process of human resource management can be characterized by particularism, which refers to the practice in which the value of the human is determined by the particular relationship they possess with the employer. Clustering around the center of the authority are the family members, either close or extended. Kinship, guanxi (personal relationships), status, gender, all which weigh over other qualifications, are the main criteria for employment in the eyes of Chinese entrepreneurs. In contrast, like many developed economies, in the United States, job positions are widely open to the public, and employment decisions are based on objective criteria, such as professional skills acquired through formal education. People in an organization must fulfill the particular qualifications for memberships, and accordingly, people who no longer possess those qualifications must leave the organization. “To Westerners, such requirements show not a lack of human warmth but, rather, a respect for individual rights” (Hamilton & Zhang, 1992).
Human resource management, in the eyes of CFB owners, is a tool for securing the family ownership. Key positions are retained for close family members. The 1997’s Private Economy Report (China) pointed out that in CFBs, family members existed in every department of the organizations, taking up most of the key positions in finance, purchasing, and sales, all centered by the owner. When it comes to hiring outsiders for management positions, extreme cautions are used. In most of the cases, guanxi weighs much over than qualifications possessed by PMs.

Extending family boundaries to integrate human resources is another distinction of human resource management in CFBs. For the professional managers, efforts would be taken to include them into an extensive family concept, by communicating Chinese family traditions to promote the values of mutual understanding and trust. Equivocally, “by transforming the institutional relationships into personal relationships, the organizational interests are enhanced through cultural traditions” (Chu, 2002). For instance, it is common to notice that forms of brotherhood or sisterhood are often used in addressing senior non-family employees in CFBs. This “pan-family-ism” used to assimilate and integrate human resources, especially in management levels, is one of the CFB’s distinct organizational behaviors.

4.2.2.3 Regulatory Mechanism

The regulatory mechanism in most of CFBs is unsystematic and intuitive due to the authoritarian and paternalistic management style. Generally, CFBs lack clearly defined and structured corporate hierarchy as well as written guidelines for organization management. This fact is largely due to the influence of the organizational culture in
CFBs. Contrarily, family businesses in the United States usually follow a well-defined business structure. Written guidelines are the basic and final reference for management issues. Employees are bound by a set of legally-bound and lucid documentations, which endow the management with impersonalized and formally set guidelines to coordinate responsibilities, authorities and interests. For example, all positions have articulated job descriptions and responsibilities for measuring and monitoring performance issues. In CFBs, the family-collectivism and centralized authority determines that the owners or their successors usually monopolize the corporate information. In order to maintain the authority, regulations are not in the form of written document, but rather are all in the owners’ mind. In this case, regulations can be easily changed at owners’ decisions (Chu, 2002). However, while it can protect the centralized authority of family business, it triggers many problems for the outside professional managers when taken in to the CFBs; the first and most serious problem is the information-sharing risk. Since often the information control regulations are absent in most CFBs, the release of corporate information is often intuitive and in a casual fashion, sometimes endangering the core corporate information. The second problem is the unfavorable working environment. The unsystematic and intuitive regulatory mechanism renders the owners and his/her family employees the space to interfere with non-family members’ normal work. In addition, the complex interpersonal relationships in family business leave non-family employees perplexed about the work procedures. Third, having no articulated compensation and rewarding system discourages non-family employees from joining into CFBs.
4.2.3 Socioeconomic Differences

4.2.3.1 Under-developed Factor Market

Developed market economies like the United States generally have developed factor exchange markets (labor market, professional manager market, entrepreneur market, and financial capital market), and the third-party evaluation institutions which connect all the factor markets together in a normative and standardized coordination. These systems have the "public goods" property, which provide CFB owners and professional managers a sensitive channel for information gathering and a convenient conduit for withdrawals (Yu, 2002). Compared with the systems in the United States, the factor markets development in China is at a very immature stage: the PM market is basically non-existent, and the third-party evaluation institutions are fundamentally in an un-standardized situation with no systemized or consistent regulations to govern the operation. The functions of capital market to allocate resource and report up-to-date information cannot be realized due to the interrupted system structure. Take the track record system for an example. In the last ten years, a large number of professional managers with field expertise have assumed managerial work in thousands of private companies in China. However, most of them are considered "out of system" people, who do not possess an employment record, as no particular institution would compile files for them, especially a professional credit record.

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2 "Out of system": historically, in the planned economy era, Chinese government only recorded the employment history of people who worked in state-owned companies. Those people are called "in-system" employee, and those who were not working for state-owned companies did not have employment record.
4.2.3.2 Unsound Trust System

Unlike the countries with mature market economies, such as the United States, the trust system in China is not sound. Two reasons can be identified for this phenomenon. The first reason lies on the cultural values in Chinese history. Generally speaking, there are three streams of thought that have profound impact on the business values in China: Confucianism, Maoism, and the market ethic introduced during the reform period. Confucianism as the oldest but most enduring philosophical stream in Chinese values, views the material profit as often in direct conflict with “the dictate of virtue” (de Bary et al., 1960). Although businessmen had been looked down upon for many centuries, people valued Confucian trust toward others a virtue and preserved it as a heritage until the introduction of Maoism in the early twentieth century. Maoism was considered a mix of aspects of Confucianism with Marxism (Tung, 1988). But, there were also contradictions between the two thoughts. Mao’s egalitarian ideology sought to overturn the traditional Confucian hierarchy relationships. Particularly, during the Cultural Revolution (1967-1976), “the traditional Confucian loyalties were disdained to the extent that people were expected to attack their superior and turn in their friends and family members to authorities for politically incorrect thought and behaviour” (Whitcomb, Erdener and Li, 1998). The social trust system was severely shaken by the movement, and people became reluctant to give out their trust to others. However, the following economic reform overhauled the entire system which was instilled during the Cultural Revolution period. Material value and market ethic was placed, where profit is viewed as the primary and overriding goal. These overturns in the social values caused people in the society much confusion about trust. Yet, the Chinese government has not given a clear direction for people to clear their confusion, leaving public still in perplexity up to the present.
The second reason comes from the structural systems. Chinese people often criticize there are not many ethical PMs in China society. Researchers argue that it is not because Chinese people are unethical; it is due to the legacy of the planned-economy system. When it claims that PMs need to improve their ethic level, there is no real ground for this demand. In the planned economy time, all business entities were state owned. In these organizations, only government officials were needed, while ethical PM was an unheard name. Meanwhile, the government's emphasis on business ethics has long been in absence. Therefore, after the economy transformed to be market-oriented, there is no environment to foster the business ethics for PMs, as at the same time there are not many ethical entrepreneurs and capitalists (Zhang, 2001). Conversely, the relationship between PMs and the CFB owners is often not in trust but of suspicion: owners suspect PMs of stealing their authority, while PMs believe the owners block them from the necessary contacts with authority and information.

4.2.3.3 Information Void Society and “Guanxi” Network

Information Void was coined by Haley and Tan in 1998, to described those countries that “do not have the same quantity and quality of secondary data as markets in the long-industrialized North America and Western European economies” (Haley and Tan 1998). Haley and Tan (1998) contended that Overseas Chinese met success because they had extensive “guanxi” networks in those information void countries, such as in Southeast Asia countries. In those information void countries, a “Guanxi” network is the key to success, as an extensive network can provide entrepreneurs with channels to permeate information that cannot be reached by the public. The current society in China
can be classified as another information void area by Haley and Tan’s definition. Information is usually not widely available in the open market. Unlike American executives, who depend on extensive help from the PMs to collect, collate, and analyze large amounts of data to understand business situations and to generate recommendations for strategic action, Chinese businessmen, who need the wealth of information to make proper decisions on a timely manner, could only resort the extensive “guanxi” networks, especially through close ties with informants, such as government officials, to access to the inside information.

4.2.4 Legal and Political Differences

4.2.4.1 Legal Protection

While the entrepreneurs in the United States have a relatively complete legal system to protect property rights, the legal system in China is comparatively weaker. So far, the legal protection status of private property still has not been institutionalized in China. There is no specific legal term that can effectively protect the property rights of private economy owners. The distance between legal system and just law-enforcement is quite large. When the property rights of private enterprise owners have been infringed by opportunistic actions, the existing legal system and the legal enforcement structures are incapable of providing a safeguarding mechanism to the owners.

Furthermore, from a survey done by Chu and Li (2002), many CFB owners attributed the bad social trust system to the under-developed legal system. They believe that incomplete statutory legal and justice systems would lead to a bad social trust system.
4.2.4.2 Labor Contract

In respect to the labor contract system in China, it is also under-developed. In the United States, important classified information regarding capital and technologies all come with provisos to prevent unethical competition. For instance, employees are not allowed to work for competitors after being terminated. This kind of protection is basically non-existent in China, which is largely due to the different perceptions people hold in the United States and in China. In the United States, the contract law respects the freedom of individual’s choice and signing contracts; whereas, the Chinese contract law more or less carries governmental intention, narrowing the space for individual choices.

4.2.4.3 Political Risks

Political structure also poses threats to CFBs. China is still ruled by an authoritarian party, the Chinese Communist Party, which is authoritarian in structure and ideology. The one-party ruling poses political risks for CFBs owners to expedite the management professionalizing process. Although China has been committed to transform into a market-oriented economy from a centralized planned one since 1978, it still keeps emphasizing the macro control over market resource allocation, which offer government agencies at different levels a legitimized excuse for intervention. Coupled with the one-party structure, people keep doubts about the hostile forces arise in the party and the so-called change in the political agenda.
CHAPTER 5
MANAGERIAL IMPLICATIONS OF INSTITUTIONAL DIFFERENCES FOR CFB

The institutional differences between China and the US are considerably huge. Hence it is necessary for us to examine what the implications of these differences mean to the owners of CFBs in terms of adopting the PMs into their businesses; we believe, the implications we find below might help CFBs to uncover the hidden barriers that hamper them from absorbing Chinese PMs on large scale, the implications of the institutional differences are summarized in Table 3.

5.1 Implication of Cultural and History Differences

5.1.1 Family-collectivism

Simple to say, the family collectivism trait functioned as a barrier which prevented many CFB owners from adopting external expertise into their family business, and from giving out family authority to outsiders. Given this cultural environmental influence, for the owners of the CFBs, the business is not solely a rational profit-seeking organization; rather, it is established and operated for the survival and development of every single member of the family and also functions as a coordinator of interpersonal interests in the society. Family businesses in China are organizations with dual roles—both social and economic, where the economic role assists the realization of its social role. Within this organization, so long as the economic backup is guaranteed, family members can realize
the responsibilities and rights given by the Confucian family culture—the senior members look after his/her offspring while junior ones render their respect and obedience.

Table 3: Implications of the institutional differences

<table>
<thead>
<tr>
<th>Institutional Differences</th>
<th>Implications</th>
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<tbody>
<tr>
<td><strong>Family Collectivism</strong></td>
<td>The family collectivism trait functioned as a barrier which prevents many CFB owners from adopting external expertise into their family business and from giving out family authority to outsiders, since family is the vehicle to realize individual's social responsibilities.</td>
</tr>
<tr>
<td><strong>Low-Context Communication Style</strong></td>
<td>Since information is monopolized at the hand of the CFB owners and release of important information is in an intuitive and casual manner, while it is difficult for PMs to obtain necessary information for carrying out work, it also put the confidential information at risk, forming a vicious spiral.</td>
</tr>
<tr>
<td><strong>High Power Distance</strong></td>
<td>The high respect for hierarchy in China matches the authoritarian and paternalistic Chinese management style. Subordinates are not motivated to ask for the delegation of authority. On the other hand, CFB owners are intolerant of people who have the power to question their authorities of sole decision-making right. It results in an unfavorable environment for American-style PMs in CFBs.</td>
</tr>
<tr>
<td><strong>Chaxugeju Relationship</strong></td>
<td>The integration of ownership and management harmonized the operation with the strategic objectives. However organizational interests may conflict with the family interests; the conflicts in the management are unavoidable; and organizations have difficulties in continuity and expansionability.</td>
</tr>
<tr>
<td><strong>Authority Structure</strong></td>
<td>Centralized authority not only stops the professional managers from entering into decision-making process/team, but also educes irrational strategic decisions.</td>
</tr>
<tr>
<td><strong>Human Resource</strong></td>
<td>It results in the use &quot;close&quot; to monitor the &quot;distant. Human resources are distinguished between &quot;insiders&quot; and &quot;outsiders&quot;, resulting low morale.</td>
</tr>
<tr>
<td><strong>Regulatory Mechanism</strong></td>
<td>The unsystematic and intuitive mechanism endangers the corporate information. The over-slack regulation gives space for the interference at the work of non-family employees. And the unsystematic compensation and motivation systems discourage non-family employees.</td>
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</tbody>
</table>
The incomplete and under-developed social factor market segments the social resources and leads the economic entities in an unconnected situation. The interests of CFBs and PMs are not guaranteed under this circumstance.

First, the weak social mentality toward ethics is detrimental to the development of professionalization of CFBs. Second, within organizations, the problematic trust system easily causes hostile working environment. Third, the social trust system in China is incapable to assume the role of moral supervision. Considered as vital information for Chinese companies, “guanxi” is difficult for PMs to obtain in most CFBs. Also, as “guanxi” are connections established by long-term trust, it is difficult to be transferred to someone else.

The legal system in China puts CFBs owners in a dilemma of whether to delegate the authority to PMs. And the incomplete legal system also affects the foundation of the social trust system. The lack of effective regulations to guide and bind the labor contracts intimidates both CFB entrepreneurs and PMs from entering contractual relationships.

The political instabilities stop the CFB owners hiring PMs and delegating authorities.

Therefore, ownerships in the hands of CFB owners are, to a great extent, un-tradeable. Giving up the ownership or authority to outsiders means to deprive the protective shelter and value reliance from all the family members as well as the social inherent rights for the family. It causes irrationalities at the same time. In order to keep the ownership, CFB cannot weigh the cost and benefits rationally. Sometimes, irrational decisions are made, even to the cost of sacrificing the organization’s benefits. Efforts would be taken to secure the ownership in the hands of family members in order to protect family members and offspring under the family’s umbrella.
5.1.2 Low-Context vs. High-Context

The low-context cultural trait forms a vicious spiral of information flow in most CFBs. According to Chu’s study in 2002, he found that many owners of CFBs do not possess formal and systematic written record of corporate information, in terms of client information, marketing networks, competition situation, material purchasing, or pricing structure. Instead, they record all information in their minds (Chu, 2002). In most cases, information would not be easily released to outsiders, such as PMs. Two scenarios happened consequently: managers, especially the PMs, found it difficult to carry their work out due to lack of necessary information, and accordingly, would be considered incompetent by the bosses; in the second scenario once the PMs acquired some confidential corporate information, for instance the client data, they can leave the company after establishing personal rapport with key clients, set up their own business and become a competitor of the former employer. Both scenarios lead the CFB owners to be more cautious and tend to grip the information even tighter, forming a vicious spiral against PM adoption. Because of the low context cultural trait, it is difficult for the CFBs to recruit human resources, especially the top management professionals. How to re-distribute the ownership is the problem many Chinese business owners encounter. In other words, how to hand over the management authority to professional managers is often a dilemma facing CFB owners. Redding said that for Chinese business owners there exists immense difficulty to hand over the controlling power to professional managers and to separate ownership from management at the same time. This is one of the most important factors that prevent Chinese entrepreneurs from escaping a paternalistic management mode (Redding, 1995). Fukuyama had similar remarks: Chinese family
businesses are usually energetic and profitable. However, once they want to systemize their organization for sustainable growth, rather than relying solely on the wealth and capabilities of single family, they would usually encounter incredible difficulty (Fukuyama, 1995).

5.1.3 Power Distance

High power distance can also post impediments for the development to professionalize CFB management and the same time restrains the introduction of the PMs. The high respect for hierarchy in China matches the authoritarian and paternalistic Chinese management style (Wen, 2003). On one hand, subordinates are not motivated to ask for the delegation of authority, on the other hand, CFB owners are intolerant of people who have the power to question their authorities of sole decision-making rights. Basically, in most CFBs, there is no ground for the existence of American-style PMs, since people feel challenged to imagine a “powerful” subordinate sitting beside the absolute authority. Therefore, the PMs in CFBs are often in an awkward situation: they either do no ask for, or are not delegated the necessary authorities, which otherwise would have been given in American companies. It results in the following situation: owners who decide to assimilate professional managers, out of the adherence for hierarchy, are reluctant to hire ones who are more capable than themselves, or who simply cannot be independent decision-makers. PMs who are ambitious and capable would often choose not to work in CFBs, knowing necessary freedoms would not be given. Those who work in CFBs are either incapable or are ones who voluntarily give up their authority and choose to respect the hierarchical difference with the understanding that unless supported
by their boss, they cannot perform. The situation makes the PM an unattractive position in China. In short, the family business’s development prospect is limited by the owner’s insight and capability: how far the owner can foresee their future direction, how capable he/she is, how good the PM he/she can recruit.

5.1.4 Chaxugeju (The Differential Mode of Association)

Chaxugeju dominated management pattern has its advantage: the integration of ownership and management harmonized the operation with strategic objectives. Furthermore, the high trust among family members initiates a form of sacred moral obligation, making people put aside personal interests and benefits.

However, disadvantages also exist. First, organizational interests may conflict with the family interests. The loyalty family employees give out is not for the organization; instead it is for the family (Chen & Xu, 2003). For that reason, family members keep the corporate information out of the reach of non-family members. For instance, financial information is always confidential against outsiders; therefore, manipulation of bookkeeping is a common practice among CFBs. Besides, family circles are so extensive it leads conflicts caused by over-complicated interpersonal relationships and imbalanced benefit distribution. “The internal frictions ramify the centrality of the family force, thus, becoming the bottleneck of CFB’s development” (Chen & Xu, 2003). Second, the conflicts in the management are unavoidable. The paternalistic management style makes delegation of authority so difficult that professional managers often are considered as “outsiders” according to “Chaxugeju”, and received lower level of trust from the “insiders”. Consequently, without a sense of recognition by, or belonging to the family
organization, the “outsiders” easily lose the enthusiasm toward the survival and development of the organization, in turn, affecting the motivation and morale of the whole work-team. Third, organizations have difficulties in continuity and expansion ability. “CFB’s Chaxugeju relationships and the organizational development and expansion are a pair in contradiction. The expansion tendency of family business ostracizes the family bondage” (Chen & Xu, 2003). The family bondage is the key factor that holds the family organization together and maintains its existence. The force behind this bondage withers as the Chaxugeju relationships go outward. However, the Chaxugeju structure is the prior criteria for family organizations to allocate resources and distribute benefits. Therefore, people in positions at outer layers of the Chaxugeju network are bound by weaker family bondage. Once the power they gained from the acquired organizational resources offsets the appeal of family bondage, the people would leave the organization and look for new business opportunities.

5.2 Implication of Organizational Structure Differences

5.2.1 Centralized Authority

Centralized authority stops the PM from entering into CFBs. There is an Old Chinese saying: two tigers cannot fit in a mountain. It illustrates the mentality people have towards the centralized authority in organizations. Since owners in CFBs are often the center of power, PMs are often excluded from the necessary authority needed to carry out their work. Moreover, centralized authority not only stops the professional managers from entering into the decision-making process/team, but also produces irrational strategic
decisions. The entrepreneurial, experience-based holistic/intuitive decision-making process involves no strategic planning processes needed for a modernized corporation. Irrationalities are inevitable when making corporate decisions solely upon an individual’s capability. Thus, potential trouble is embedded by the centralized decision making. Finally, the centralized authority gives rise to another disadvantage for CFBs—the obsession of ownership. As mentioned above, the founder of the business is often the owner who has dictatorial authority. In other words, authority hinges the ownerships. Efforts would be taken to secure the ownership in the hands of family members in order to protect family members and offspring under a family umbrella. For Chinese entrepreneurs, giving up either ownership or authority to “outsiders” means giving up the inherent responsibility to their families.

5.2.2 Human Resource Management in CFBs

The distinctions of human resource management in CFBs form the human resource structure, which can be illustrated as “close” to monitor the “distant”. This practice is demonstrated in many CFBs that families or “insiders” are put in key positions while “outsiders” are usually given less important jobs in terms of both organizational and departmental structure; positions are balanced between “insiders” and “outsiders” within a department; where key positions are taken by non-families, “families” must be found nearby. All these arrangements are meant to ensure family control and the security of information flow. However, it doubtlessly discourages external professionals from dedicating to their work, and generates low work morale among non-family employees, consequently increasing the difficulties for CFBs to recruit outside elites, which is
ultimately detrimental to the long-term development of CFBs due to the comparatively limited source of human resource recruitment.

From the statistics of the 1996 China Private Economy Almanac, it can be concluded that the channels of recruiting management employees in private economy are diversified to three major means, which are social recruitment, nepotism and promotion from grass roots. However, compared with field technical employees, management positions are filled by less social recruitments, which have a stronger internalized tendency. Among the management positions, 20% had relational connection with the owners, whereas it was much less in field employment (1996 Private Economy Almanac, page 153). It indicates that the relationship between owners and the management is closer than that with field employees, and trust was the major issue when recruiting management positions.

The study done by “Chinese Private Economy Research Group” (2000) also indicated that although CFB owners tended to break some shackles of family business, and gradually began to introduce professional managers, and employ internationalized management practices (such as authority delegation, decision-making decentralization, and management professionalization), the bulk of the “spin-offs” happened in production processes, while the key processes such as financial and sales, were still firmly controlled by family “insiders”.

5.2.3 Regulatory Mechanism

The unsystematic and intuitive regulatory mechanism in CFBs implies the following managerial issues.

- Endangered corporate information
The personalized regulatory mechanism often puts information control, especially confidential corporate information, at risk. Generally there is no formalized regulation regarding information control and control is largely at the owners’ discretion. Whether or not to release certain information is based on the trust derived from the “closeness” to the core of the family. Corporate information is usually under the control of family members or “insiders”. However, once an “outsider” gains the trust, he/she obtains the access to the information as well. Betrayal of a previous employer after obtaining insider information happened often in China in last few years: in year 2000, an uprising happened in Skyworth when the PM, Lu HuaQiang, left the company and took away half of the sales elites with him; Lifan Group underwent an earthquake triggered by the departure of one top management personnel, who took away the core technology. Haci Group also experienced turbulence at the top management level. Two vice presidents who were responsible for marketing and sales left the company and set up their own business with other ten key employees. These incidents make the CFB owners still more cautious about leaking corporate core information when using professional managers. In return, lacking necessary information also makes the professional manager stumble to carry out daily work. Feeling they are not trusted, many professional managers would leave the company once they perceive new opportunities, even leaving with sometimes crucial business information, placing the organization at loss. This vicious spiral between trust and betrayal slows down the process of adopting the PMs in many CFBs.

- Over-complicated inter-personal relationships

Besides the family or extended-family members taking up the bulk of the corporate control authority, clearly defined job responsibilities are at short in CFBs. Without an articulated structure, professional manager’s work can be interfered with at anytime by the
owner or other “insiders” at their discretion, leading to an unfavourable working environment, as professional managers who are not familiar with the interpersonal relationships in the family may easily trigger conflicts among family employees, causing unexpected working barriers. “Over complicated working relationships is one of the most common reasons job-hopping happened in CFB professional managers” (Wen, 2003).

- Discouraged employee motivation

The CFBs often lack a formal system for rewarding and compensating employees, including the professional managers. When the business development encounters a bottleneck, owners often seek outside help desperately. In this case, high payment is often promised. However, oral contract usually take the place of written and formal contracts, promises sometimes would not be realised after a period of time, eventually causing a brain drain of many professional managers from CFBs.

5.3. Implications of Socioeconomic Differences

5.3.1 Under-developed Factor Market

The under-developed factor market in China also affects the smooth adoption of PMs in the following two aspects. First, without a complete and developed social factor market, all the social resources cannot be integrated in an efficient and proper manner, and all the economic entities are in a slack situation. The under-developed factor market in China fails to function as the bridge to match the needs of different business parties; therefore, the adoption of PMs into CFBs has been deterred. CFBs cannot locate the PMs they need effectively, and subsequently PMs are unable to match themselves to proper employers.
In this case, even if the market is demanding PMs desperately, many of the qualified PMs are still unemployed while a great number of successful CFBs are crying “there are not enough good PMs in China”.

Secondly, under this market organization circumstance, the interests of CFBs and PMs are not guaranteed. Without an effective system to safeguard, their interests and benefits can be easily infringed. Once the owner give up the sole ownership, the market cannot offer him/her an effective channel for acquiring the correspondent rights. Therefore, when CFBs owners are hiring professional managers, they usually put themselves at risk of hiring somebody with a bad track record, since they cannot find a way to obtain the proper information. Of course the same situation can materialize for professional managers due to a lack of systematic track records for CFBs.

5.3.2 Unsound Trust System

First of all, the weak social mentality toward ethics is detrimental to the development of the professionalization of CFBs. Because of the loose consciousness people have towards ethics, society as a whole does not have a strong binding force for people to behave ethically due to lack of moral criticism. If professional managers acquire many benefits but no punishment when they breach the business ethics, or when cost for CFB owners to look into the responsibilities are high, it is possible that more and more professional managers’ integrity would deteriorate, and at the same time, CFB owners would be afraid of or be too intimidated to start assimilating and integrating external resources.

Second, within organizations, the problematic trust system easily causes hostile working environments. Chu and Li (2002) discovered that under the Chinese social trust
system, the owners of many CFBs monitor and restrict the authority of non-family employees by arranging family members in various positions. While this arrangement may decrease agency cost by increasing the participation of family members in management activities, it broadens the estrangement between family and non-family employees through intangible restrictions. Some CFBs are pervaded by a “steal vs. protect” atmosphere, leaving the PMs depressed and subsequently halts the human resource provision; in the worst situations serious internal frictions would occur. “When entrepreneurs are consuming a large portion of their time and energy at monitoring their employees, how much time and energy is left for them to do creative activities?” (Zhang, 2001)

Third, the social trust system in China is not capable to assume the role of moral supervision. No matter how complete the legal system is, there must exist some gaps that the legal terms cannot cover, or space where a formal legal system cannot exert this effect. When it comes to these occasions, the social ethics could make up the gaps. In a society where the legal system and social ethical system cannot complement each other, the business cost would be greatly increased.

5.3.3 Information Void and “Guanxi” Network

“Guanxi”, considered as vital information sources for Chinese companies, are difficult for PMs to obtain in most CFBs. In information void countries like China, access to inside information distinguishes those that succeed or fail. Once entrepreneurs gain the access to some important “guanxi” networks, they would protect them from others, since the leak of information may result in the failure of their businesses. This kind of vital
information usually is kept by CFB owners themselves. Even with their direct family members, caution is used for passing on the “guanxi”, never mind for “outside” professional managers.

Furthermore, as “guanxi” are connections established by long-term trust, it is difficult to be transferred to some else. Many self-made CFB owners gained their successes by scrambling for and managing their “guanxi” network. The smooth operation of their business depends on the personal “guanxi” networks within local political and social networks. When they decide to use professional managers, while the operation authority can be handed over within a period of time, the “guanxi” cannot be handed over that easily, since trust cannot be inherited. It needs time to nourish and grow. Therefore, even if the CFB owners conquer their fear to share the “guanxi”, professional managers might still be unable to take over responsibilities for a long period of time.

5.4 Implication of Legal & Political Differences

5.4.1 Legal Protection

The legal system in China puts CFBs owners in dilemmatic situation: gripping authority in hand means giving up expanding possibilities, but delegating authority means voluntarily putting the organization at great risk. Neither way seems promising. The better a legal system can protect the property rights, the higher the cost for stealing corporate information, the smaller the probability that a professional manager would conduct the misdemeanor. However, the current legal system is obviously not sound
enough to provide a favorable environment for CFB owners to relinquish the managerial authority to PMs.

Furthermore, an incomplete legal system also would affect the foundation of social trust. It is relatively impossible to expect a sound social credit system when people do not have a trustworthy legal and justice system from the government. Since social credit has a characteristic of communality, it needs support and promotion from government to construct in public.

5.4.2 Labor Contract

The lack of effective regulations to guide and bind labor contracts intimidates both CFB entrepreneurs and PMs from entering contractual relationships, for fears of unsolvable confrontations or even great financial loss if arguments arise.

Since most of the contracts in China carry government intension instead of individual’s true needs and wants, the contract gradually become procedural paperwork which must be done but without much meaning. Therefore, when people decide to enter into contractual relationships, the contracts are not meant to bind the responsibilities and protect the rights; they are more of a meaningless process. Obviously, the contracts cannot bind the business parties and, at the same time fails to protect their rights.

5.4.3 Political Risks

For private economies, since private property rights have not been institutionalized, the fear is even more immense. In fear of confiscation or nationalization, owners of
private economies usually choose to keep the ownership and detailed operation information within family, thus they can arrange different ways to hedge the political risks, for example, capital flight to foreign countries. In such cases, publicizing the corporate information by introducing outside professional managers often would put the hedging plans at risk.
CHAPTER 6
CFB NEEDS TO ADOPT PMS

Although the road of adopting PMs into CFBs seems thorny, it is a road that can guide CFBs to a more brilliant future. Therefore, CFBs need to embark on this professionalizing trip. There are many reasons behind this need. First of all, since 1978’s opening up, the first generation of CFBs experienced approximately 10 years of high speed development. By the beginning of the 90s, many of them disappeared; for those CFBs which grew up in the 90s, a large number of them also declined by the end of the 90s, such as Giant Group, Fei Long, Sanzhu and Aiduo. However, many other CFBs survived and gained great successes, and some even went public. Examples include Chint Group, Taita Pharmaceutical, Galanz, and Tiantong Electronics. This situation indicates that most CFBs need 10-years to enter into their crucial Expansion/Formalization Stage (which conforms to the life cycle we have discussed). In this stage, threats and crisis are most critical, changes are most drastic, and the mortality rate is the highest, since during this period of time family business start to enter into economies of scale, and begin to encounter the transformation issues of ownership and management restructures. For a smooth transition into the mature stage to embrace greater success, family businesses need to take actions to create a solid foundation. These preparation actions include consciously establishing a specific delegation system and gradually assimilating professional managers to professionalize the management.
Secondly, from the perspective of the market, introducing professional managers into CFBs is also inevitable. During the last two decades, China has been experiencing dynamic changes in the market structure and its related business environment. Before that, China was a closed economy. Information is scarce and segmented, in these circumstances, family structure, which is based on long-term and stable trust, can offset the market disadvantages. The strong network which is inherent of this family structure makes up for the weakness in the organization structure. In a society where the market system is immature, the ability for market adjustment is limited, social regulations are deficient and standardized information is incomplete, the strong network can be considered a competitive advantage. However, the situation is no longer as it was twenty years ago. As the Chinese government stays committed to furthering the opening-up and perfecting the market system, the degree of information standardization is increasingly improved, and more and more sources of information are becoming available in the open market. When the information availability reaches the level of that in the US, the strong family network can be an obstacle for development toward standardized organizations. At that time, the market trend would suggest that this strong family network be changed. In order to retort the tendency of using blood over regulations, the shackle should be broken so as to introduce management and technical talents into the family structure. Without a competitive system in the managerial and technical human resources of the organization, the future development would be adversely restricted. In other words, for CFBs, the external environment would drive them to finally get rid of the “family as core” structure, and to strengthen the professionalized and scientific internal management system, of which the rationalized and standardized organization strength can make up the deficiency
in individual knowledge, capabilities and controlling range. By doing this, sustainable growth can be ensured.

Third, from the perspective of the CFB development, introducing professional managers is expected. Changes in CFBs' industry structure and competition tendency reflect the effects of technology constitutions. Generally, in the 1980s CFBs mainly focused on labor-intensive and low-end service sectors. However, from the 1990s, as the market economy advances, tertiary industry developed rapidly, among which the IT industry was particularly eye-catching. Hence, more and more CFBs chose to enter these new industries. The nature of the industry structure determines that CFBs cannot depend on family resources only to sustain their businesses. Outside professionals and expertise is a prerequisite.

Finally globally, "globalization" is the world tendency in business circles. China has become the most heated investing place in the world. Facing such a good external environment, smart CFB entrepreneurs would not miss the opportunities. In order to further their prosperity, catching up and aligning with global standards are the key. Found lagging behind other developed countries, "brain borrowing" from outside is advisable to bridge the gaps between western countries and China.

Both from macro and micro prospective, it seems to be imperative for CFBs to engage in the adoption of PMs, but there are still many stumbling blocks on their way to the success. CFBs need to overcome many differences existing in culture, organizational structures, and socioeconomic regulations, legal and political systems. Depending on the isolated force of CFB only is not enough, they need help from the society, especially that from the government. Only when the government supported is there, can they expect to win this battle.
CHAPTER 7
IMPLICATIONS FOR PUBLIC POLICY MAKERS

The difficult situation for CFBs trying to adopt Chinese PMs has been fully illustrated in the previous section. In summary, this baffled state is determined by the particularity of Chinese institutional environments; and the relevant Chinese policy makers have responsibilities to adjust the current situation and take effective efforts to provide a sound institutional platform for Chinese PMs to grow and mature. More specifically to say, from point of the innovative organization restructuring process of Chinese private economy, the primitive impetus of this transition process should doubtlessly originate from the strong intrinsic desires of thousands or millions of private business entrepreneurs to seek more profit and keep sustaining development. True system innovation happens and continues only when the innovation benefits outweigh the cost incurred. However, from the actual experience of this system transition process in China, the situation is different. CFBs’ lock on the family business system is resulted from both tangible and intangible structural restrictions produced by China’s specific environment in terms of policy-making, law enforcement, and industry and market structures. Therefore, to break the family business shackle for continuous growth, we cannot rely on micro-level innovation activities initiated by entrepreneurs; rather, macro-level changes from various levels of government are necessary, especially support for developing the factor markets and the competition environment. The role that government plays in this process is to provide entrepreneurs with enough innovation space and motivation, instead
of designating the directions and results. Governments should actively provide change organizations the necessary assistance which cannot be obtained in the public market. By changing the innovation cost and effective ratio, potential innovators can be stimulated to conduct actual changes, which should be the ultimate target for governments. More importantly, in the country of China, where family is the source and destination of individual values, the system restructuring process is long-term and gradual transition. Therefore, the government should engage in following improvements:

1. **Construct a legal environment that accommodates the sustainable development of CFBs.** "Private property is sacrosanct by the law" is the precondition and basis for any market system including the organization systems. This term is undisputable in western countries like the United States, but this legal environment is far absent in China, which is often considered to be the main reason for CFB’s “structural bottleneck for development” (Yu, 2003), as CFBs remain small in fear of systematic structural risks from macro level. If this problem remains unresolved, the modernization of CFB is impracticable. Efforts should be taken to further clarify the legal status of private enterprises, protect the owners’ possession right, distribution right and succession right over their properties, thereby, to eliminate the systematic structural risks toward private enterprises for their stable development.

2. **Develop an impartial, transparent, just and trustworthy policy environment.**

Market economy is a competition economy in nature. Efficient competition must rely on an impartial, transparent, just and trustworthy foundation. Historically, the social recognition toward private economy has been biased. Discrimination of private ownership widely exists, which directly affect and restrict the motivation and space for innovation.
Therefore, the government should eradicate the policy barriers that limit the development of private economy, in order to give private enterprises a favorable competition environment. Through praising and promoting successful and ethical CFB practitioners, the government can engage to change the biased social orientation and conceptualize the CFB entrepreneur as a respectable career.

3. Foster the factor markets and agency institutions.

The market system is comprised of a network of different markets. It has a complicated structure, which is neither a patchwork, nor a random combination. Capital market, labor market, talent market, technology market, information market and land market are constituents for a systematic market system. Lacking the any of the constituents, the private economy cannot healthily grow. Government can use its macro system leverage to influence the market, nurturing the development of factor market and third-party agency institutions. Especially the talent market--professional managers should be selected, trained, assessed, evaluated and screened out transparently, justly and impartially; ultimately to establish a professional manager “warehouse” and an attestation system.

4. Guide private economy to the structural modernization by linking with opening-up and state-owned enterprise restructure.

First of all, educate private enterprises owners, guide and encourage them to form strategic alliance, in order to create an environment for socialized family capitals. Second, seize the opportunities of China’s accession into WTO to further opening-up, and encourage entrepreneurs to break the family restrictions by acquiring, merging, or leasing SMEs, cross-shareholding with large state-owned enterprises, forming joint ventures, or even establishing multi-area, multi-industry corporate companies. Third, protect the innovative benefits from structural changes by sufficiently employing economic,
administrative or legal means.

5. **Governments at all levels should thoroughly understand the sense of urgency to develop the private economy and promote the quality of CFB owners as a whole.** Favorable conditions need to be constructed. For example, an education system and periodical training mechanism can be developed by utilizing the resources in high education institutions. By improving the existing management employees, expanding MBA education coverage, and importing high-quality professional managers, human resources pools can be enlarged. On the other hand, in order to arouse the enthusiasm, initiatively and creativity among entrepreneurs and professional managers, developing an effective motivation system is necessary. Besides, it is also important to build and develop internal and external balancing systems to standardize and monitor practitioners' behaviors for their healthy growth.

6. **Further transform government’s functionality, and streamline the relationships between government agencies and private enterprises.**

For more efficient and effective guidance, smooth relationship between policy executors and receivers is a must. Guidance should be categorized for different private enterprises. For the convenience of CFBs, a comprehensive social service system should be established and the financing channel should be broadened.
CHAPTER 8
IMPLICATIONS & RECOMMENDATION FOR CFB

The discussion of our topic is well worth to be touched since one should always bear in mind that what works in one country may not have the same effect in another, and vice versa. In our case, the assumption that business practices applicable in the US might also work well in China was inappropriate. Hence, more attention should be paid on the specific micro environment—the true situations within the CFB. While at the same time, with expansionary business development in CFBs, absorbing talented PMs to fill managerial roles really goes beyond the wills of CFBs and feasible settlements should be taken into account. However qualified domestic PMs are extremely scarce. At such a contradictory scenario, what specific measures can today’s CFBs take to clear those bottlenecks? Before we end this project, we are going to provide some useful suggestions to CFBs, and we hope the suggestions we put forward can help today’s CFB reach optimal solutions.

8.1 Locate the Prospective PMs for CFBs

Our major suggestion for CFBs is to let the overseas PMs fill in the blanks for coping with the current situation. The overseas PMs here refer to those western PMs and Chinese PMs abroad. The common characteristics of these overseas PMs are that they generally have advanced education outside China and many own an MBA or BBA degree from specialized business schools or universities; they have relevant knowledge and skills in business negotiations, decision-making, and many have rich experiences from
participating in the cross-national work environments to the global market. From the point of cultural or language ability, these PMs often can speak fluent Mandarin or Cantonese and are familiar with or have great interest in the Chinese culture; they usually have the ability to melt into the Chinese family business mainstream communities. All these give the overseas PMs supreme advantages. According to a universal PMs investigation conducted by the US business management master Michael Scott, “the native Chinese PMs, if they want to achieve a high level or leader’s position should need at least 7-8 years including the 3-4 years that they received re-training education (to reach the international standard) because the time that Chinese enterprises participate in the international competition is relatively short. Compared to the US and Singapore, we find a different situation because PMs in these two countries have a richer experience of the fierce international competition environment and such PMs have been coached or cultivated long before they truly entered into the commercial enterprises (Lam and Siu, 2003). On the other hand, CFBs are in a rapid development phase. Importing talents from countries having advanced management theories and experiences can expedite the growth of CFB and PM development.

Second, according to the 2002 Chinese Overseas manpower report, there are increasing trends for foreign PMs to go for Chinese markets in the year 2003. The number of these PMs has surpassed 60,000. This even excludes those people from Hong Kong and Taiwan. The reporter also discovered that due to China’s fast growing economy, these western PMs, along with those from Hong Kong and Taiwan, are willing to go to mainland China for personal career advancement. The reason, said an national policy expert, is because of the CEPA’s (inland and Hong Kong closer economics and trade relations arrangement) favorable policies, and most big Chinese cities have opened the
door to welcome these talented foreign PMs. Accordingly, since domestic PMs are in great shortage, the CFBs have enough reason to turn to these foreign PMs for help and take measures to attract them. On the other hand, it is said in mainland China, the benefit that these PMs can obtain are more than in any other economically developed country, such as the US. Accompanying the high remuneration attractions, the potential opportunities for promotion are also hidden causes that draw the attention of these foreign PMs.

Finally, considering the other Asian pacific countries like Singapore, Japan and South Korea and across East Asia's industrialized economies, including Hong Kong and Taiwan which, to a great extent, share a lot of common values with China, such as market, culture, institutions, the western PMs in these countries have been increasingly integrated into the upper echelon. The best known examples are the Japanese Keiretsu as well as Singaporean family groups, most of which have relinquished corporate management to professional managers outside the family conglomerate. The change and continuity in the modern management models of adopting PMs in these Asian countries’ family business reflect striking similarities and strategies which can be well referred by CFBs: from the point of culture and national guides, these neighboring countries have shared common norms and values under the Confucian influence. Therefore, the basic philosophies, such as the emphasis on loyalty to the family business, are similar, but the well established professional management in Singapore family groups or Japanese Keiretsu worthy to be learned.
8.2 Bridge the Prospective PMs with CFBs

Given this, the next step the CFBs might consider is how to build up a bridge between the prospective PMs and CFBs, so that they have an effective channel to match their respective needs. There are a variety of strategies and plans that can help CFBs to support the introduction of PMs; here we are going to describe the most important six aspects

1. CFB needs to establish its own information networks.

This information networks should include the CFBs’ basic profiles, operation updates, management situation and the HR information. Having an up-to-date and complete database, CFBs can enjoy many benefits in regard to PM recruitment and management. For one thing, the company profiles in the networks can be an initial but useful reference for returnees and foreign PMs who are interested in looking at positions in CFBs. Secondly, the internal information networks offer the CFB owners an updated database of the changes happening in other CFBs as well as the performance of PMs; therefore, internal referrals and exchanges can be made possible and facilitated to reach optimal results and performance. As a third benefit, the networks can function as a monitor system. As the management information and performance is transparent to the outside and a detailed and current track record of PMs is available for tracking, PMs would refrain from engaging in any unethical conduct and also would be stimulated to perform. Finally, the networks pool the experiences of successful CFBs and well-performing PMs to provide first-hand references, achieving a collective advancement.

2. Build connection with overseas head-hunters.
It is advisable to establish connections with overseas head-hunter institutions and agencies with the CFB information network for locating prospective qualified PMs from overseas. The head-hunter services in developed countries and some developing countries, such as Hong Kong and Singapore, have long history and are experienced. They usually have such a comprehensive database of human resources that they can help CFBs connect with a team of highly-qualified and world-level PMs, which can assist CFBs to catch up with the world standards and become real multi-national companies.

3. Establish a CFB recruitment association.

Currently, there is no normalized organization concerning HR service which unifies those family firms together in China and therefore, mutual communication is a serious problem. To make things worse, there exists unfair competition between those family firms and some even “fight for” a PM to join their business. Once a special employment association for CFB is established, the family firms can consign the association to act as agent to deal with all the complicated HR procedures and files, the benefit is endless to both PMs and the CFB itself. 1) From the point of those PMs, the association can greatly help them to seek the appropriate positions in CFBs; since the association is engaged in the specialized human resources service; therefore to both domestic and overseas PMs, the association will be an effective exchange platform, which the PMs can use to speed the interaction with CFBs, acquire the needed employment information, and therefore quickly find the appropriate job posts. Moreover, the PMs can make their resumes available through the association to reach a great number of prospective CFB employers. 2) From point of the CFBs, they can have detailed company information and employment information available to the outside, therefore, the PMs can have a better understanding
of the CFB’s expectation before their affiliation; and 3) the association can serve as a training and remuneration forecasting center. The training is important to sustain the long-term development of PMs in CFBs. Although western PMs may be more experienced and knowledgeable in managerial positions, they might still need time to learn differences between the family business in their own countries and family business in China. And concerning the remuneration packages, the association can ensure the PMs obtain appropriate and fair salaries under the monitoring of the association.

4. Train the young returnees.

Every year, there are thousands upon thousands of young Chinese talents going abroad to learn the advanced management skills and theories. Among them many are returning and will return home once they finish their studies. This group of talents usually possesses good language abilities and westernized business skills, and they also understand the Chinese society. What they lack is the experience. Therefore, put this group of talents in various positions in CFBs not only train a group for expertise and assimilate their knowledge, but also simultaneously establish a back-up human resource “warehouse” of localized young PMs.

5. Evaluate three aspects during the recruitment.

Experience tells us that the “talent traps” do not occur after the conflicts between PMs and their bosses happen, instead, they are trapped during the recruitment. Therefore, when CFBs are recruiting PMs, they should evaluate the PMs from the following three aspects: 1) Knowledge and skill to estimate their capabilities; 2) Motivation and attitude, to assess their intentions; and 3) Work preference to see if the values agree with that of the
company. This evaluation could decrease the possible conflicts caused by different work preferences, values and attitudes. Only when the PM’s career pursuit and values agree with the vision of the company, can the PM obtain a sense of belonging in the company, and therefore be most motivated to perform.

6. Build a “referral” system.

Frauds and unethical employees are often the concerns of CFB owners when considering hiring outside talents. To prevent frauds and decrease the credit risk in the cases of referrals, a careful referral system needs to be built among CFBs. For example, when overseas PMs are referred, reference letters from previous employers are required, making the referrer accountable. At the same time, proofs of education and qualifications are also needed. When it is necessary, CFBs should try to obtain the credit history of the referred PMs from overseas third-party institutions or agencies to ensure the safety of the affiliation.

8.3 Retain PMs in CFBs

Locating and affiliating the qualified the PMs is just the first step. How to retain them and motivate them to take their capabilities into full play needs more attention and effort. We hereby give some suggestions for CFBs after the PM adoptions.

1. Design an incentive plan.

The economic motivation is one effective way to stimulate and restrict human resources. However financial incentives, high salaries or benefits, are not enough to keep these PMs for long. The introduction of a detailed scheme of incentive planning is particularly important for CFBs, like the other non-family firms, to meet the needs of
those PMs and at the same time, help CFB carefully arrange their financial budget: 1) considering the CFB’s strength and the actual condition, current CFBs should formulate a set salary system of their own. For instance, the popular "basic salary plus bonus" pattern might be a good incentive package which can be adopted immediately: "The basic salary" is consistent with the enterprise original salary system, the basically disparity is not big; even so "the bonus" may act according to the actual work performance therefore adopting the different measurement standard and the appraisal method. This kind of pattern may satisfy the basic needs of both PMs and non-family employees, and provide the necessary material incentive to motivate those PMs. What's more, this patter could help CFB leverage the potentially tense relationship between PMs and old senior staffs, since the majority of people are willing to accept that "the talented person to make the prominent contribution should obtain the high quota reward". "The bonus" system which is truly based on performance/achievement evaluation criteria can guarantee fairness and the equity within those CFBs.

2. **Utilize the conditional employee share options (ESO).**

In attracting talented PMs, the CFBs also need to consider transferring partial shares to those PMs, this can provide an excellent mechanism to ensure those PMs stay and produce from long-term perspective. The ESO mechanism, which was originally devised and is highly popular in the US, was said to have the best motivating effects on those PMs for many years (Perry, 2003). Moreover, the use of ESO can strengthen the sense of responsibility; stimulate the working enthusiasm and the creativity of those PMs. For instance, the CFBs can give those PMs one kind of special stockholder's rights; they can enjoy drawing bonus from the stocks-hold but do not have the property right. It is a good
mechanism that effectively unifies the stockholder's rights, the fund, the technology, the
management and so on with the organic synthesis the management mechanism.

3. **When PMs are motivated by different economic incentive, attention should not be neglected in regards to other employees in the company.**

Ordinary employees should also be motivated using different schemes of incentives. On one hand, the capabilities of PMs, to a great extent, rely on the excellence of their subordinates. If the owners can obtain acknowledgement from all of the employees, especially the key expertise, the enervation of the owner’s power or the inflation of the PM’s influence can be avoided. Therefore, even if the PM is leaving, he/she cannot take many key employees with them, thus limiting the loss to the company. On the other hand, it is impossible for PMs to stay away from their employees. The problem of asymmetric information distribution can be solved by motivating all employees to participate in the monitoring system.

4. **Improve the organizational culture.**

Since CFBs have long been criticized for lacking productive enterprise culture which holds back most PMs from getting accustomed to the family business, the influence of well-accepted organizational culture may sometimes be more effective than the material drive can do for western PMs. A good enterprise culture can intensely affect an enterprise, in particular to employee’s basic view, the enterprise’s leadership style, the organization's structure and its social relation/image. All these become the vital factors that facilitate or hamper those PMs from entering into those CFBs. Moreover, since now more and more people think the enterprise is not only a working place, but simultaneously also an important place of social intercourse; and since most western PMs are far from their hometown and some having no friends or relatives at all; the CFBs should build a positive,
coordinated environment or atmosphere and pay special attention to those PMs, especially in the first 6 months they are working in the CFBs. In regards to this, the CFBs also must adopt the idea of “interdependent care”—that is focusing more on “what the CFB can bring to those PMs” instead of just on “what the PMs can bring to the CFBs”.

5. **Improve CFBs owners’ personality charm.**

A good boss should be knowledgeable and entrepreneurial at the same time; he/she should have high ethics and sincerity. However, there are not many qualified leaders among CFB owners. Some of the CFB owners are myopic and satisfied with the current situation; some are obsessed with irrational decision-making; some only use families and consider “outsiders” as enemies; some wish to remain high in status and maintain absolute authority; and others are arrogant and willful who cannot take in others’ advice. It is inevitable that PMs will leave companies when they discover the above shortcoming of their bosses. Therefore, to promote CFB leaders’ personality charm is very important to retain expertise.

8.4 **Recommendations for CFBs**

At the current time in China, there are many things that CFBs owners should note after successfully introducing and retaining PMs. In our view, if CFBs can actively absorb the overseas PMs and take the following methods to effectively manage these PMs, the future of CFBs is promising:

1. **Maintain critical capital control.**

For CFB entrepreneurs, since assimilation of social capital is necessary, the owners should try to keep the majority of the ownership when the situation allows, at least it
should be under a critical point. Thus, decision-making authority can be guaranteed to keep the long-term objective intact from the loss for short-term interests. Generally, small shareholders have relatively lower risk-hedging consciousness and a weaker capability of bearing risks, which may cause them to focus on short-term interests and are inclined to make decisions on quick benefits.

2. **Control the extent of information-sharing.**

When exercising authority delegations to outside professional managers, the extent of information sharing should be granted hierarchically according to different management positions and information confidential degrees. In other words, standards should be set for different management positions based on the degree of required confidential resources and information. Outside professional managers can be placed in positions requiring lower confidential information initially for assessment and training. If suitable, key positions can be granted.

3. **Be cautious in assimilating returnee and overseas PMs.**

Although many CFB are willing to pay extremely high prices for professional managers, there are still several points need to more attention: First, how the new professional managers, coordinate the employees and give effective direction. Although outside professional managers may be high in quality, it is still difficult for them to obtain the acceptance of the majority of the employees within a short period of time. It is even harder for them to cope with the relationships with family, family managers, and managers with great seniority. Without care the organization will split into many groups, causing informal organizational behavior. In reality, many newly appointed managers would introduce a set of new management policies, which would easily trigger changes in the existing patterns of interests and authority distribution. If not well dealt with, conflicts
or even confrontations would occur. Such incidents would escalate as the owners' judgments are complicated, since the information flow between superior and subordinates is always asymmetric.

Second, upgrade and integrate the new and old cultures. New professional managers usually have high education and know many advanced management theories and methods. However, these theories and methods are not universally applicable. To effectively manage and direct employees, new professional managers should adjust the theories and methods to their new environment, integrating them with the existing organizational culture to initiate a new culture. Especially for those managers from western countries, if they cannot make proper adjustment to localize their knowledge, management would be a futile endeavor.

Third, use competition instead of appointing. Owners assimilating new professional managers would bring the organization new production force and management style. Nevertheless, the arrival of these new professional managers would also block the promotion opportunities in existing management teams. For management employees with strong capabilities, career advancement can be their life objective. Interference in their career development would cause resistance in the management team. Accordingly, owners of CFBs should try to establish an internal competition system for talents, just like what happened in Haier. Although business owners appointing managers may have successful precedents, it is more or less influenced by the appointer's personal preferences. Many successful organizations focus more on internal promotion, which would gradually become an organizational culture. It fosters a fair competition atmosphere in the organization. It is important for the development of organizations that
people would compete for the promotion opportunities were rewarded based on their capabilities and using fair rules.

4. ** Appropriately allocate former management employees from family or neo-family circles, including people with great seniority.**

   If previous family and neo-family management and senior executives cannot keep up with the business development in terms of knowledge and capability, proper reallocation should be arranged in order to show respect to the traditional culture. Older members who had great contribution in the start-up period should be gradually retreated from front line; being a mentor with high payment is a good position. For younger members who have potential, arrange for them to enter higher institutions for further education, to improve their knowledge and management skills for future use. For those who have relatively good capability but cannot work together with the new manager, financing them to set up their own business could be a feasible solution. All the above arrangements are not only effective, but also maintain the traditional Chinese values in family and harmony.

5. ** Be just among family and “outsiders”.

   A typical characteristic of family business is that discrimination exists between insiders and outsiders. Family members are usually given more trust, naturally producing more opportunities and bigger benefits; at least this is the case as seen by “outsiders”. Consequently, family members have lower adaptability and respect toward standardized management rules. Therefore the intangible wall between family members and “outsiders” would be thickened. No matter how capable and arduous the “outsider” is, he/she is still left out of the core of management and trust. Reciprocally, lower loyalty and effort would be returned to the organization by those “outsiders”. If the owners can treat all employees equally without discrimination, management thus can be standardized,
and talents can be retained, leading to great progress in the operation’s efficiency.
REFERENCES


Cohn, M. & Jayne P. (2001). Keep or sell your business: how to make the decision every private company faces. Dearborn Trade, a Kaplan Professional Co. USA.


Pitts, G. (2000). In the blood: battles to succeed in Canada's family businesses. Random House of CA.


APPENDICES

Appendix 1: The Channels of Employment in Private Companies (%)

<table>
<thead>
<tr>
<th>Reason of Employment</th>
<th>Related to the owner</th>
<th>Friend or neighbor to the owner</th>
<th>Referred by relatives or friends</th>
<th>Introduced by “guanxi”</th>
<th>Social Recruitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Personnel</td>
<td>29.5</td>
<td>9.5</td>
<td>8</td>
<td>0.6</td>
<td>45.4</td>
</tr>
<tr>
<td>Technical Personnel</td>
<td>17.6</td>
<td>8.5</td>
<td>10.3</td>
<td>1.2</td>
<td>62.4</td>
</tr>
<tr>
<td>Floor workers</td>
<td>11.4</td>
<td>10.1</td>
<td>11.8</td>
<td>2.4</td>
<td>64.3</td>
</tr>
</tbody>
</table>

Appendix 2: Private Company Owners’ Criteria for Selecting Employee (%)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Positions</th>
<th>Honesty</th>
<th>Closeness</th>
<th>Guanxi</th>
<th>Expertise</th>
<th>Having Networks</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial Employees</td>
<td>32.2</td>
<td>43.1</td>
<td>0.8</td>
<td>21.8</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Technical Personnel</td>
<td>12.8</td>
<td>11.3</td>
<td>0.8</td>
<td>74.4</td>
<td>0.4</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>Floor Workers</td>
<td>65.7</td>
<td>10.8</td>
<td>4.6</td>
<td>15.5</td>
<td>1.9</td>
<td>1.5</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 3: Sources of Managerial Personnel in Private Companies (%)

<table>
<thead>
<tr>
<th>Sources</th>
<th>Social Recruitment</th>
<th>Promoted from Grassroots</th>
<th>Relatives of top management</th>
<th>Friends of top management</th>
<th>Mandated from government</th>
<th>Other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Manager</td>
<td>16</td>
<td>25</td>
<td>42</td>
<td>3</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Vice GM</td>
<td>29.33</td>
<td>23.55</td>
<td>24.23</td>
<td>11.05</td>
<td>1.5</td>
<td>10.3</td>
</tr>
<tr>
<td>Technical Expertise</td>
<td>50.1</td>
<td>28.19</td>
<td>9.86</td>
<td>5.63</td>
<td>0.69</td>
<td>5.52</td>
</tr>
<tr>
<td>Financial Director</td>
<td>40.58</td>
<td>24.57</td>
<td>16.37</td>
<td>12.9</td>
<td>1.01</td>
<td>4.57</td>
</tr>
<tr>
<td>Purchasing Director</td>
<td>36.15</td>
<td>36.45</td>
<td>15.85</td>
<td>6.79</td>
<td>0.75</td>
<td>4.01</td>
</tr>
<tr>
<td>Sales Direction</td>
<td>41.87</td>
<td>35.6</td>
<td>13.59</td>
<td>3.89</td>
<td>0.46</td>
<td>4.6</td>
</tr>
<tr>
<td>Warehousing Director</td>
<td>34.5</td>
<td>42.1</td>
<td>13.76</td>
<td>4.5</td>
<td>0.5</td>
<td>3.63</td>
</tr>
<tr>
<td>Other Management</td>
<td>37.5</td>
<td>41.44</td>
<td>9.01</td>
<td>3.11</td>
<td>0.17</td>
<td>8.76</td>
</tr>
</tbody>
</table>

Appendix 4: The Channels of Entry for Non-family Employees (%)

<table>
<thead>
<tr>
<th>Channel</th>
<th>Relatives</th>
<th>Friends</th>
<th>Countrymen</th>
<th>Schoolmates</th>
<th>Job Markets</th>
<th>Higher Institutional Job Fair</th>
<th>Internal Promotion</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.02</td>
<td>43.86</td>
<td>3.51</td>
<td>17.54</td>
<td>63.16</td>
<td>21.05</td>
<td>66.67</td>
<td>12.28</td>
</tr>
</tbody>
</table>

Appendix 5: The Percentage of Non-Family Managers in Different Departments (%)

<table>
<thead>
<tr>
<th>Technical &amp; Quality Control Dept.</th>
<th>Production Dept.</th>
<th>Financial Dept.</th>
<th>HR Dept.</th>
<th>Sales &amp; Marketing Dept.</th>
<th>GM Assistant</th>
<th>Vice GM</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>76.79</td>
<td>75.12</td>
<td>69.64</td>
<td>66.07</td>
<td>64.29</td>
<td>46.43</td>
<td>48.21</td>
</tr>
</tbody>
</table>
Appendix 6: The Attitudes toward the Statement of “family business hampers the development of companies”

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree, because the family talents are limited</td>
<td>68.63</td>
</tr>
<tr>
<td>Agree, even if the family has enough talents, it is still not good for introducing external expertise</td>
<td>27.45</td>
</tr>
<tr>
<td>Agree, because our company has already sensed this problem</td>
<td>21.57</td>
</tr>
<tr>
<td>Disagree, it is fine enough with family talents</td>
<td>0</td>
</tr>
<tr>
<td>Disagree. Because the job market is under-developed</td>
<td>0</td>
</tr>
<tr>
<td>Disagree, because it has not affected our company</td>
<td>3.92</td>
</tr>
<tr>
<td>Other</td>
<td>1.96</td>
</tr>
</tbody>
</table>

Appendix 7: The Decision Style of Companies of Different Sizes (%)

<table>
<thead>
<tr>
<th>The Size of the Company (Total Asset: Thousand RMB)</th>
<th>Owner of the Company</th>
<th>Board of Directors</th>
<th>Owners and Major Management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unilateral Decision</td>
<td>Collectivist Decision</td>
<td>Collectivist Decision</td>
</tr>
<tr>
<td>&lt;00</td>
<td>68.9</td>
<td>5.3</td>
<td>25.6</td>
</tr>
<tr>
<td>300-1,000</td>
<td>62.0</td>
<td>13.4</td>
<td>24.5</td>
</tr>
<tr>
<td>1,000-2,000</td>
<td>51.1</td>
<td>20.4</td>
<td>28.5</td>
</tr>
<tr>
<td>2,000-5,000</td>
<td>50.1</td>
<td>24.9</td>
<td>24.9</td>
</tr>
<tr>
<td>5,000-10,000</td>
<td>45.4</td>
<td>26.5</td>
<td>28.1</td>
</tr>
<tr>
<td>&gt;10,000</td>
<td>28.8</td>
<td>47.7</td>
<td>23.4</td>
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</tbody>
</table>

Appendix 8: The Situation of Authority Delegation among Department Directors (%)

<table>
<thead>
<tr>
<th>Delegation by</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete Delegation</td>
<td>8.9</td>
</tr>
<tr>
<td>Limited Delegation</td>
<td>41.1</td>
</tr>
<tr>
<td>Supervised Delegation</td>
<td>14.3</td>
</tr>
<tr>
<td>Delegation by Department</td>
<td>19.6</td>
</tr>
<tr>
<td>Delegation by Individual</td>
<td>16.1</td>
</tr>
<tr>
<td>Delegation by Job</td>
<td>12.5</td>
</tr>
<tr>
<td>Delegation by Regulation</td>
<td>42.9</td>
</tr>
<tr>
<td>Others</td>
<td>1.8</td>
</tr>
</tbody>
</table>
Appendix 9: The Attitudes of CFB Owners towards Professionalized Management (%)


<table>
<thead>
<tr>
<th>Attitudes</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Optimistic</td>
<td>3.9</td>
</tr>
<tr>
<td>Very Optimistic</td>
<td>13.7</td>
</tr>
<tr>
<td>Optimistic</td>
<td>47.1</td>
</tr>
<tr>
<td>Hard to say</td>
<td>25.5</td>
</tr>
<tr>
<td>Pessimistic</td>
<td>11.7</td>
</tr>
<tr>
<td>Very Pessimistic</td>
<td>0</td>
</tr>
<tr>
<td>Extremely Pessimistic</td>
<td>0</td>
</tr>
</tbody>
</table>

Appendix 10: The Reasons for not being Optimistic of Professionalized Management (%)


<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The PM market is incomplete</td>
<td>52.2</td>
</tr>
<tr>
<td>Even if the PM market is established, the operation is not standardized</td>
<td>23.9</td>
</tr>
<tr>
<td>Difficult to track the PM's previous record</td>
<td>37</td>
</tr>
<tr>
<td>The PM market is not trustworthy</td>
<td>8.7</td>
</tr>
<tr>
<td>Difficult to understand a person</td>
<td>17.1</td>
</tr>
<tr>
<td>Under-developed legal and Justice System</td>
<td>39.1</td>
</tr>
<tr>
<td>Other</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Appendix 10: The Development Situation of PM Market (%)


<table>
<thead>
<tr>
<th>Attitudes</th>
<th>Number of Companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Already Mature</td>
<td>11</td>
<td>6.4</td>
</tr>
<tr>
<td>Relatively Mature</td>
<td>45</td>
<td>26.3</td>
</tr>
<tr>
<td>Progressed, but need changes</td>
<td>76</td>
<td>44.4</td>
</tr>
<tr>
<td>Immature</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Unknown</td>
<td>27</td>
<td>15.8</td>
</tr>
<tr>
<td>Total</td>
<td>171</td>
<td>100</td>
</tr>
</tbody>
</table>
Appendix 12: The Possibility for Obtaining Qualified PM in the Market (%)

<table>
<thead>
<tr>
<th>Attitudes</th>
<th>Number of Companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Possible</td>
<td>55</td>
<td>32.4</td>
</tr>
<tr>
<td>Maybe possible</td>
<td>75</td>
<td>44.1</td>
</tr>
<tr>
<td>Impossible</td>
<td>12</td>
<td>7.1</td>
</tr>
<tr>
<td>Unclear</td>
<td>28</td>
<td>16.5</td>
</tr>
<tr>
<td>Total</td>
<td>170</td>
<td>100</td>
</tr>
</tbody>
</table>