

# Research on the Innovation of Human Resource Management for Chinese Family Business Based on Sustainable Development

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**Abstract** Under the new historical conditions, the family business as a common business type in China has been developing rapidly, but its whole life cycle is short. There are numbers of shortcomings on the current human resource management in Chinese family business, which have confined the further development of family business. Therefore the business must carry out management innovation. It is important that the family business develop the human resource management for its sustainable development. In this paper, based on the research of the characteristics of the family business human resource management, the problems in the development and the coupling relationship between sustainable development of family business and innovation of the human resources management, the writer presents some strategies and proposals for the innovation of human resources management of family business under the background of sustainable development.

**Key words** Sustainable development; Family business; Human resources; Management innovation

## 1 Introduction

Family business is the vital part of Chinese market economy, its development influence Chinese economy and social future directly. Therefore, it is the significant research to enhance the sustainable development of Chinese family business. Among so many factors, innovation of human resources is the key point. According to the reasonable institutional arrangement and actual situation, family business should make the corresponding innovation of human resources, improve continuously in practice, strengthen the role of it, and then achieve the family business sustainably development.

## 2 The Characters of Chinese Family Business Human Resources Management

Family business is a kind of organization that the ownership or right of control it belongs to one or couple families as well as handing it down. Since the organizational form of family business is different from the traditional state enterprises, it has unique character on the human resources management.

### 2.1 Patriarchal and centralized leading mode

There's a kind of normal state existed in family business human resources management, which is, the relationship between manager and those reporting to him is the contrary a man and the valet. The manager is the center, the senior, the master and patriarch; those reporting to him are peripherals, the weak, understrappers and children. In the family business, it is the owner who decides everything. On the basis of information supported by the subordinates, the owner makes the decision himself, and the subordinates must obey it absolutely.

### 2.2 Emphasizing the relation treatment

**Table 1 The Channels of Employees' Entering the Family Business**

	Managers (%)	technicians (%)	workers (%)
Family relationship	33.89	22.03	22.03
Neighbors and friends	15.25	3.39	6.78
Recommended by family and friends	10.17	20.34	13.56
Recommended by officers	5.08	5.08	6.78
Recruits	35.61	49.16	57.63

In the family business, according to the survey, 66% of the managers and vice-managers are the relatives of chairman or general managers, other important roles (such as for stocking, financing, etc.) are also the relatives or friends of them (See Table 1). The family business attempts to use this relationship to guarantee the business capital and ensure the business operate smoothly. In a word, family business mainly depends on the relationship of family and friends, so emphasizing the relation treatment are one of the important characters of family business human resources management.

### 2.3 Family business' ownership, right of management and family are of the trinity

In the family business, the rights of ownership and management all belong to the family. In the early European industrialization, it was basically the family management, and appeared many famous

family businesses, such as Carnegie, Rockefeller, and so on. Those who have the relationship of blood and family are seen as people on its side, others are not. The existence of these two concepts is the objective fact. In the family business, the ownership is mainly controlled by the owner and its family, the important manage positions are taken by the main family members, and the management of its branches are also controlled mainly by the family. Even though some family businesses have been the listed companies through publishing the share, the family still controls it firmly by holding the major share.

### **3 The Bottleneck of Human Resources in the Process of Family Business Sustainable Development**

#### **3.1 Lacking of scientific, reasonable and canonical management**

The family business management follows Taylor system basically, it aims to be strict with the employees and the production, improve the production efficiency and practice being paid by the work. These definitely show that the relationship between the business and the employee is absolutely the hiring labor; it restricts employees' enthusiasm, initiative and creativity. Meanwhile, randomness instead of standardization, mainly in the links of employees' recruits, employment, training, promoting and discharging, it merely depends on the owner's experiences and subjective judgment; the family members, regardless of their abilities, are most put in the important positions; while the employees, except those family members, are hashed to be treated. This not only depresses the employees' enthusiasm, but also hardly recruits the high-caliber personnel.

#### **3.2 Without sound encouragement**

The effective use of human resources needs enough encouragement, but family business is lack of it for the employees. In most family businesses, the owners don't have the comprehensive understanding about the employees' motivations and needs, just simply consider as pursuing material profit, and ignore their social psychological needs. Theoretically, when the employees have a certain amount of income, encouraging by increasing their income has been digressing. Since family business lacks of encouragement and various motivators, it can't meet the need of employees' spirit and sense of achievement, so as to influence their working enthusiasm.

#### **3.3 Severe outflow of talents**

In most of our family businesses, because of lacking modern human resources management theory, the management for the employees emphasizes on "control" and "obey" to achieve the accordance of person and matter, while ignore the performance of personnel talent, and this leads to some talents job-hopping. This traditional human resources management theory makes family business in the vicious cycle of recruit-outflow-re recruit-re outflow. This increases the loss of human resources and rising of human resources cost; on the other hand, it also hardly keeps the normal production, influences achieving its strategy aim, and harms the image of family business.

#### **3.4 Short of training the human resources**

The human resources is the largest increment potential and most valuable investing resource of all the business resources, and training the employees has the smallest risk and largest reward in all the investments. However, because of the owner's management theory and employees' outflow, at present, family businesses in our country commonly have no healthy training mechanism. Most family businesses are unwilling to undertake the cost and the risk of human resources investment. The training mode of paying too much attention to use while not to its investment makes family businesses are dap to make use of "ready-made" human resources directly. The idea of eager for quick success and instant benefits makes family businesses are unwilling and won't pour the time and capital into training the human resources. Short of training the human resources makes business cultural construction and improving the employees' quality in vain, and developing the human resources can not achieve substantive progress.

#### **3.5 Paying too much attention to academic while not to ability existed in recognizing the talents**

In our family businesses, the owners have low education, in the process of building their businesses, they feels deeply the importance of knowledge for the business development, so they recruit high-level specific technicians and managers to set the talent foundation for the business development, this is very valuable change. However, in recognizing the talents, many owners easily go to another pesky: "Only academic". Without analyzing the need of working position, without assignment of responsibility, and without thinking about recruit cost, they just pursue the high academic. So we have some phenomena such as the doorkeeper must have associate degree, the general operator must have bachelor degree, and

so on. This not only wastes the national human resources, but also increases the business cost outlay, it influences the business economy directly.

#### **4 Coupling Mechanism of Innovation of Human Resource and Chinese Family Business Sustainable Development**

Comparing with modern enterprise system, one prominent character of family business system is its dual attributes of business and family. In the process of development, most family businesses have the strong desire to master the rights of controlling the business, one basic precondition of changing family business system is the family's controlling and mastering. As the enterprise organization based on the genetic relationship, to exist and develop in the market competition, the family business must obey the principle of maximize profits; while in order to maintain the family's common profits, it also need to stand to the family's standard. Therefore, the family structure, status, function, members' moral principles and obligations, all of these play the leavening role in the management of family business.

At present, family business in our country has its characters. One is that most shareholdings of family business are absolutely concentrated on those who start the business; the other is that the business rights of making decision, management and supervising are mastered by the family members. Even though some recruited non-family-members are charge of daily management, they have no substantial right; even if adopt corporate governance management, general meeting of stockholders, meeting of the board and board of supervisors are on the family side. This definite property relation, on one hand, makes family member gain the long-term economic efficiency, forming the inner encouragement of family business management; on the other hand, avoiding the discordance of the owner and the runner, adverse selecting and moral risk of the information asymmetry in the modern enterprise system, it decreases the supervising and managing cost of inner business effectively. So in the early stage of starting and developing the business, family business has its prominent advantages in quickening accumulating capital, improving decision efficiency and market competition.

With the expanding the business and intensifying of the market competition, family business sustainable development is facing the double restrictions of inner material and human resource capital. Among them, restriction of human resource capital is definitely the essential one. Human resource capital of the business is the total of the stuff physical quality, science and culture quality and moral quality. As the continuous development of technology, human resource capital is playing more and more important role. The development of family business must form its own core-competitiveness, and the forming of it depends on the owner's quality and working hard, it decides not only its own production efficiency, but also other production factors' distribution and use efficiency. Most important, as a kind of initiative capital, the quality of human resource capital relies on arrangement of the business. Although the shortage of business material capital and human resource capital can be solved through the outer market, whether can avoid the adverse selecting, decrease the moral hurt in the process of keeping the appointment, completely eradicate the opportunistic behavior in the team activity, these are not solved merely by introducing talents. The shortage of business material capital can be supplemented through bank loans or share financing, but forming well-ordinate team must rely on the innovation of human resource management.

#### **5 Innovation Strategy of Chinese Family Business Human Resource Management under the Sustainable Development**

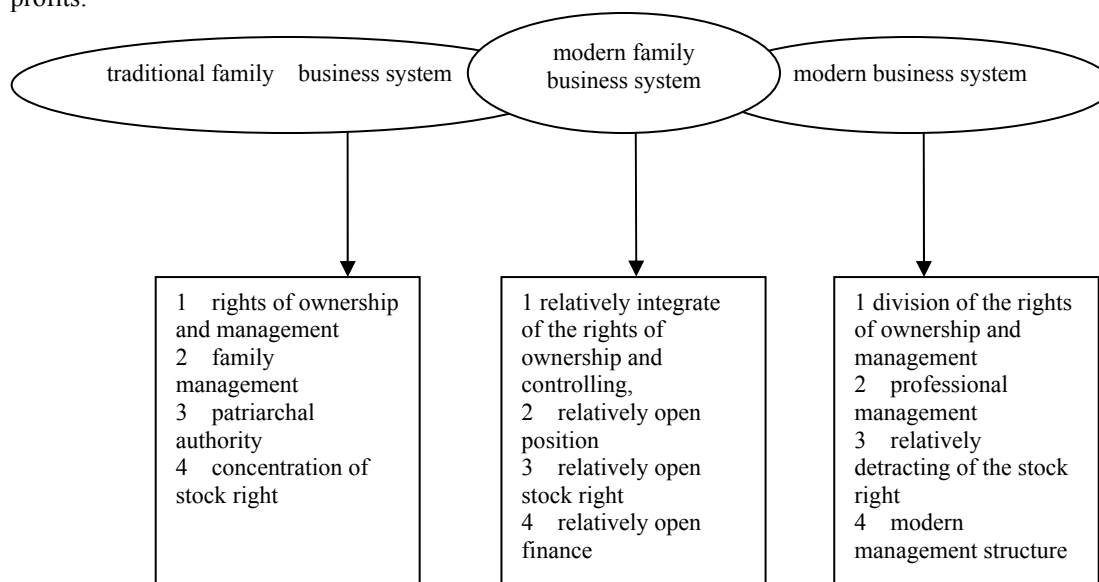
##### **5.1 Building modern family business system**

Modern business system can be summarized as "clear property, definite authority and responsibility, division of government and business, scientific management". One of the important characters is clear property. Clear property demands not only the owners' of all the material capital have the clear property, but also the owners' of material capital and human resource capital have the clear property. For the family business, it should follow management idea of the modern business system, make the modern family business system which has relatively integrate of the rights of ownership and controlling, and the position, stock right and finance are relatively opening (See Figure 1).

##### **5.2 Introducing reasonable encouraging mechanism**

Through the study of encouraging the staff, William James, the professor of Harvard University of America finds that that staffs who take the piece work have just performed 20% to 30% talents of them, while those who are encouraged fully can perform to 80% to 90%. Generally speaking, encouraging mechanism contains two aspects: material encouragement and spirit encouragement. On the material

encouragement, through the ways of wages, rewards, profits, benefits share, stock held by the staff, the stock option etc, and the family business reasonably guarantees the knowledge, technique and work of the staff, forming the doublet system of the business and staff. On the spirit encouragement, combining the business target and staff's profits to make them generate strong sense of responsibility and belonging, have the work itself more challenging and creative, and then create the opportunities for the staff realizing the value of their lives. Through the effective encouragement, the business can not only have the staff perform their skill and talents more efficiently, but also meet their psychological needs, and then they will serve the business willingly. This can keep the talents and make the substantial economic profits.



**Figure 1 Target Model of Family Business System's Evolution**

**5.3 Offering the suitable platform for the staff's developing**

Chinese family business should emphasize on the human resource, and consider it as the biggest principal. The enlarging of the business model and the limiting of family inner human resource make the family business must operate with the help of outer power. Therefore, with the enlarging of its model, the business should attempt to introduce talents, put them in the important positions, make full use of and keep the talents; making no differences on the recruits, promoting, wages, profits and rewards, etc., to avoid two different value judging standards. On the basis of making and performing effective mechanisms of encouraging, restricting and supervising, achieving using the person without any doubts to offer the room for the non-family-members' performing their talents. For those unsuitable for the position, the business should deal with it through the mechanism of discharging them.

**5.4 Building perfect training system**

To develop and improve, family business must improve the staffs' integrated qualities, and keep the talents. In order to achieve the target of this period, family business must convert their idea, and consider the talents as the owner of the business, starting form the needs of the staff and training them timely to renew structure of their knowledge. Through the training, it not only improve the staffs' qualities and working efficiency, but also makes the staff feel their importance, and then generate the sense of belonging for the business. First of all, family business should make a training plan according to its own actual situation, ensure the training objects, and different training objects have different training details, setting different training course systems on different position systems and levels, such as trainings for the new staffs, for the pre-job training, for the staffs' improving and the managers. This can improve the managers' management and skills, and the staffs' technical skills. Secondly, family business should set the reasonable system for the inner talents' removing to make them remove timely, and the staffs can find the suitable position in the business to realize self-worth, avoiding the outflow of the talents.

**5.5 Building the favorable business culture**

The business culture is a special cultural image of the business, consists of its values, belief,

ceremony and ways of dealing with matter. Business spirit is the substance and support of its culture. Driven by the positive values, encouraging business spirit, magnificent ethics and behaviors, the staffs certainly form the strong sense of group honor and responsibility, and lasting power of their behaviors. Family business should apply the new culture to accommodate the staffs' psychology, and have the staffs continually increase the sense of values and group work required during the activities of producing and managing, such as management, profits, competition and deployment, etc., and then have the spirit of intimate teamwork.

## **6 Conclusion**

In order to achieve the sustainable development, the family business must set the perfect innovation idea of human resource management, strengthen the positive and effective management for the human resource, and fully arouse the staffs' enthusiasm of devoting into the business development. The continuous development of socialism market economy and improving the people's ideology and culture qualities require the family business must continuously develop the new ways of adapting to the staff's actual ideology and their characteristics, and then promote our family business to develop sustained and healthy.

## **7 Acknowledgement**

This paper is Supported by Natural Scientific Funds of Heilongjiang Province, P.R.China

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