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Evolution of Family Enterprises of Feed and Veterinary Drugs and Introduction of Professional Manager System

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Abstract Overall socio-economic development of urban and rural areas and laying solid foundation for agricultural and rural development are closely connected with sustainable development of family enterprises of feed and veterinary drugs. This paper analyzed evolution stages and three-ring administration mode of family enterprises of feed and veterinary drugs and discussed the inevitable requirement for introducing perfect professional manager system.

Key words Family enterprises of feed and veterinary drugs, Evolution stages, Professional manager system

"Family culture" is an essential part of Chinese traditional culture, and it deeply influences family enterprises. Force of families is penetrated into every cell of social body. Such force is also fully manifested in administration mode of family enterprises of feed and veterinary drugs. However, whether such force can still become core competitive power, or whether it will become a major obstacle to their further development, has become a key issue for their sustainable development. From evolution stages of family enterprises of feed and veterinary drugs, we discussed the introduction and improvement of professional manager system, to promote organic integration with social human capital "professional manager" and to realize stable and sustainable development of family enterprises of feed and veterinary drugs. This is an inevitable requirement of integrating urban and rural socio-economic development and laying solid foundation for agricultural and rural development.

1 Connotation and brief development situation of family enterprises of feed and veterinary drugs in China

1.1 Connotation of family enterprises of feed and veterinary drugs in China Generally, family enterprises of feed and veterinary drugs are enterprises engaged in production and processing of feed and drugs necessary in living, aging, disease and death of animal growth and breeding. In specific historical condition, many family enterprises of feed and veterinary drugs in China have financing difficulty. Those enterprises set up a community mainly with family members, classmates, colleagues and neighbors, and accordingly forming predecessors of family enterprises of feed and veterinary drugs. Therefore, family enterprises of feed and veterinary drugs can be defined as entities established with marriage and blood relationship as link and widely applied in feed and veterina-

ry drugs. Such enterprises also include those enterprises of feed and veterinary drugs founded by pan-family entrepreneurial teams with the aid of study, friendship, and geographical relationship. In China, more than 90% enterprises of development, production, sales and service of feed and veterinary drugs are family or pan-family enterprises^[1].

1.2 Development situations of family enterprises of feed and veterinary drugs in China

For more than 30 years since the reform and open-up, only few family enterprises catch up with pace of the times, such as Liu Yonghao's New Hope Group, Pan Guangtong's TDG Holding Company, Zhu Baoguo's Taitai Pharmaceutical Industry Company, and Ma Xingtian's Kangmei Pharmaceutical Company^[2]. However, these are just few of numerous family enterprises. China's feed output ranks the second place in the world, but there is still a large gap with powerful countries of feed production; the world top ten animal health care companies (including Merial, Pfizer, Intervet, etc) nearly dominate 70% of the total sales volume of global animal health care products; in China, there are about 2 400 registered feed and veterinary drug enterprises and more than 2 000 types of products of feed and veterinary drugs, while the annual output value is only 15 billion yuan^[3]. According to our survey in the Animal Husbandry Sci-tech Town, Rongchang County of Chongqing Municipality, there are 8 GMP enterprises and about 50 feed enterprises. These joint stock enterprises are just in the name, most of them still have family enterprise tendency, and some are still held by families or pan-families. Thus, the strength of China's family enterprises of feed and veterinary drugs is still to be improved, and there are still many problems in management and production. Especially, many family enterprises of feed and veterinary drugs have not introduced and improved the professional manager system, leading to lack of technological research and development, operation and management personnel. Some enterprises have not abandoned original traditional management, accordingly failing to increase productivity, stimulate workers' enthusiasm, and lose development opportunity.

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2 Evolution stages of family enterprises of feed and veterinary drugs in China

2.1 Evolution stages of family enterprises of feed and veterinary drugs in China Ordinary enterprises develop from small to big and weak to strong, or rise to fall. There is no exception to China's family enterprises of feed and veterinary drugs. But the evolution of China's family enterprises of feed and veterinary drugs has unique characteristics. Researches have indicated that the life span of foreign family enterprises is generally 24 years, only 3/10 family enterprises could survive in the second generation, only 1/10 family enterprises could survive in the third generation, while the life span of China's family enterprises is only 2.4 years^[4]. The evolution of family enterprises of feed and veterinary drugs can be divided into early stage, growth stage, mature stage and transformation (decline) stage.

2.1.1 Early stage. The early stage includes concept, setup and starting stage of family enterprises. At early stage, family enterprises of feed and veterinary drugs sold feed and veterinary drugs mainly through setting up a temporary stall in the street. Through accumulation of original capital, several brothers started to set up a company together. Nevertheless, they lack cultural management knowledge, so their failure rate is high. In the United States, about 40% of such enterprises closed down within one year after establishment and 60% went bankrupt within two years after establishment^[5]. In China, some family enterprises even strived for preferential policies to actively apply bankruptcy within the second or third year.

2.1.2 Growth stage. At the growth stage, family enterprises develop more balanced and most of them have set up relatively formal accounting system, purchase system, and sales system. With constant expansion of enterprise scale, more and more family members join their enterprises.

2.1.3 Mature stage. At the mature stage, family enterprises have relatively stable organization structure and stable market share, but the possibility of further expansion is not high. In fact, few enterprises will enter this stage.

2.1.4 Transformation (decline) stage. With relatively long time of development, family enterprises of feed and veterinary drugs will enter the transformation (decline) stage. There are mainly two types of transformation: one is family enterprises become listed companies through absorbing a large amount of social capital stock but lose characteristics of family enterprises (such transformation is a kind of euthanasia); the other is family enterprises fail to realize transformation and go bankrupt or close down (this is a kind of painful death). Clearly, more family enterprises will go through painful death. The division of evolution stages of China's family enterprises of feed and veterinary drugs is convenient for analyzing their evolution process. Some China's family enterprises of feed and veterinary drugs smoothly undergo early stage, growth stage, mature stage and transformation stage, while some family enterprises may have leap style evolution, quite a lot of China's family enterprises of feed and veterinary drugs may have the problem of de-

cline before becoming mature.

2.2 Three-ring administration mode of evolution of China's family enterprises of feed and veterinary drugs The three-ring administration mode of China's family enterprises of feed and veterinary drugs is similar to that of general family enterprises. The three-ring administration mode refers to three independent but intercrossing family enterprise system, consisting of enterprise, ownership and family^[6], as shown in Fig. 1.

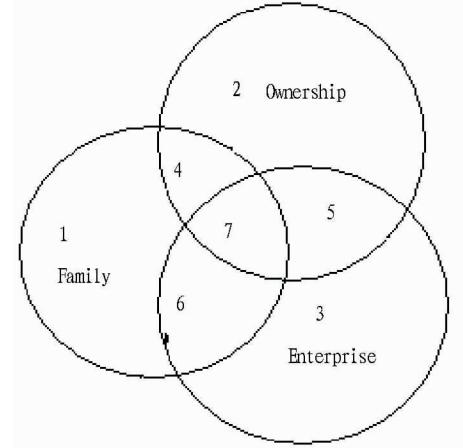


Fig. 1 Three-ring administration mode of China's family enterprises of feed and veterinary drugs

From Fig. 1, it can be seen that any individual in family enterprises is placed in a certain ring of 7 zones made of intercrossing subsystems. The individual having only one type of connection with enterprise should lie in Zone 1 (family member) or Zone 2 (owner) or Zone 3 (all employees). The owner who is family member but not employee should lie in Zone 4 and also in the owner ring and family ring. Owners working in enterprises but not family members should lie in Zone 5. Family members working in enterprises but not owners should lie in Zone 6. Owners who are family members and employees should lie in Zone 7. The three-ring administration mode is highly theoretical and practical. It makes clear responsibilities and rights of individuals or organizations in family enterprises.

2.2.1 Ownership development dimension. The ownership development mode ranks the first place in China's family enterprises of feed and veterinary drugs. At the early stage of establishment, family enterprises of feed and veterinary drugs may be association of partners or brothers and sisters, but most families keep authority of the head of their families and hold corresponding stock right according to capital contribution. For example, Chongqing Health Forever Biotechnology Co., Ltd was established by a professor of veterinary pestology and his students. This is association of partners. After entering the growth stage, more family members participate in shares and some owners start to allocate their shares to their descendants. Core family members participate in shares, and the ownership changes to pluralism from single stock right.

2.2.2 Family development dimension. The second dimension of

the three-dimension mode is family development dimension. At the early stage of establishment, most family enterprises keep authority of the head of family or the founder and partners jointly undertake the responsibilities of owner and operator. Pluralistic property right leads to more family members entering in the enterprise. In other words, there are more family members in Zone 4. At this time, the founder or partners want to exercise their family members and family members enter the stage of labor division and cooperation. Through labor division and cooperation, it can make clear their responsibilities in family enterprise. The transfer of leadership is not only problem of enterprise, but also problem of family. Different family members or their offspring gradually grow at stages of the development cycle and the older generation founder should consider the transition of rights. The three-ring mode is unable to reflect development cycle of families^[7]. Survey indicates that some large family enterprises of feed and veterinary drugs are considering transition of rights.

2.2.3 The enterprise dimension. According to enterprise life cycle theory, four development stages of enterprises can be clearly manifested in the enterprise dimension. The largest use of this dimension it to provide a foreseeable frame for development of family enterprises and point out correspondence and connection of ownership, family and enterprise. For example, after enterprises enter the mature stage, the property right becomes diversified, or even they introduce external human capital or social capital, and family inside will also consider transfer of leadership or engage professional manager, to make enterprises change to companies smoothly, or die. But this process is clearer in evolution of three-ring mode. In fact, the evolution of three-ring mode of family enterprise is also the evolution of China's family enterprises of feed and veterinary drugs.

3 Necessities for introducing and improving the professional manager system

3.1 From the perspective of enterprise theory

3.1.1 The requirement of principal-agent theory. It is required to introduce professional manager system in China's family enterprises of feed and veterinary drugs. Through system innovation, it is an inevitable necessity for family operation mode to transform to the socialized modern enterprise system. This is a historical trend. The background of "manager revolution" is rapidly development of technological revolution in the second half of the 19th century and increasingly growth of consumption demands^[8]. To adapt to efficiency demand of great socialized production and resource allocation of market economy, enterprises take the property right form of company system, constantly increase number of enterprise owners (shareholders), enlarge enterprise size, and increase the scope of business. In this condition, the owner still control and operate the enterprise. For one reason, weak operation ability will bring loss of efficiency; for another reason, there are too many owners, so it is difficult to make rapid decision and keep pace with market changes, and finally damage benefits of owners. Starting from self

benefit, enterprise owners give up the direct control right and only keep final ownership of enterprise property and right of selecting operators, and entrust selected managers to manage the enterprise. Such principal-agent relationship greatly raises socialization and specialization level of enterprises, expedites the emergence of professional manager group, and also brings about cost of agent, internal personnel control and incentive and restrictive system of agent.

3.1.2 Requirement of entrepreneur human-capital capital theory. According to Marshall's hypothesis of neoclassical economics, entrepreneurs are owners of human capital. Different from decreasing trend of returns of other production factors, human capital has increasing return^[9]. In modern enterprise theory, the human capital concept is specific human capital, namely, specific technique and skills, and specific information owned by human. Western property right economist, Williamson, stated that once the property right of human capital is incomplete, entrepreneurs will shut the human capital, then the economic value of human capital will decline or even decrease to zero. According to this, he put forward the viewpoint of entrepreneurs' right of claiming residual value, which is an important basis for remuneration form of professional managers^[10]. Private enterprises in China started in the 1980s – 1990s and were benefited from market demand and clear property right system^[11]. At early stage, family enterprises of feed and veterinary drugs are similar to many other private enterprises, they complete original accumulation of capital. However, with saturation of market environment and constant expansion of enterprise size, most private enterprises need making breakthrough and increasing development stamina through system innovation and management innovation.

3.2 Necessities for introducing and improving the professional manager system

3.2.1 Family size of family enterprises of feed and veterinary drugs has many drawbacks. Development of family enterprises of feed and veterinary drugs shows that once enterprises get back on the track and their size becomes bigger, the requirement for management will rise. Then, the family management mode with regional blood relationship or family relationship taking place of internal enterprise relationship will become unsuitable. According to a random sampling of several family enterprises of feed and veterinary drugs in Rongchang County of Chongqing Municipality, those enterprises are developed from family enterprises and still have drawbacks of family enterprises. (i) Many family enterprises of feed and veterinary drugs have set up modern enterprise system on surface. However, in fact, there are following problems: unclear property right and indefinite responsibilities within enterprises. (ii) Management still staying at the stage of able person management relying on experience. (iii) Labor employment focuses on relatives, which hinders employment of excellent non-family members. (iv) Original blood relationship is challenged with pursuit of economic benefit, which weakens cohesiveness and creativity of family enterprises.

3.2.2 In the context of economic globalization, China's enterprises of feed and veterinary drugs must conduct management reform. In the context of economic globalization, a lot of foreign feed and veterinary drug enterprises enter China, market competition is more intense and market space becomes saturated. Thus, China's enterprises of feed and veterinary drugs will face cut throat competition and severe test. It is urgent to change current situation of low quality and shortage of management personnel, arbitrary and simple decision, especially serious patriarchal behavior, as well as weak financial management. The solution is to introduce and improve professional manager system, to attract high quality social human capital, namely, professional managers.

3.2.3 Quality of owners of China's enterprises of feed and veterinary drugs is low. Certainly, there are many high quality family enterprises of feed and veterinary drugs. Nevertheless, quality of their owners is not completely mature. Firstly, they are conservative and backward in ideas, for example, they grasp power of management firmly and not dare to let it go. Many family enterprises of feed and veterinary drugs developed after the reform and opening-up through grasping opportunity in the situation that seller market and market rule are not perfect. Facing with success, they became impetuous, felt complacent, and started development blindly. Secondly, they often make arbitrary decisions and overestimate their ability. Consequently, they fail in keen market competition. Finally, many family enterprises of feed and veterinary drugs are small, they pay little attention to corporate culture, and their encouragement for workers is only material incentive. Such enterprises will not survive for a long time. Just for this reason, it is difficult for them to make breakthrough in family type operation in management mode and urgently necessary to introduce and improve the professional manager system.

4 Conclusions

In conclusion, family enterprises of feed and veterinary drugs can be defined as entities established with marriage and blood relationship as link and widely applied in feed and veterinary drugs. Such enterprises also include those enterprises of feed and veterinary drugs founded by pan-family entrepreneurial teams with the aid of study, friendship, and geographical relationship. With more than 30 years of development since the reform and opening-up, family

enterprises of feed and veterinary drugs experienced early stage, growth stage, mature stage and transformation stage and the three-ring administration mode. The development of family enterprises of feed and veterinary drugs still has such problems as improper management structure, narrow capital obtaining channel, high centralization of property right, mixed and disorderly human resource management, unclear operating strategies and development model, especially lack of human capital. The introduction of professional manager system can provide talent support for further development of family enterprises of feed and veterinary drugs, invigorate family enterprises of feed and veterinary drugs. Organic integration of social human capital and family enterprises of feed and veterinary drugs is a feasible path for sustainable development of China's family enterprises of feed and veterinary drugs. Organic integration of social human capital and family enterprises of feed and veterinary drugs will provide larger development space for China's family enterprises of feed and veterinary drugs and lay solid and deep foundation for benign and sustainable development of China's agricultural economy, especially animal husbandry.

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