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# Three-Dimensional Interlocking Professional Management Mechanism of Agricultural Family-owned Enterprise

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**Abstract** The establishment of the three-dimensional interlocking professional management mechanism of agricultural family-owned enterprise was studied through the following three mechanisms; the stimulation and restriction mechanism within the agricultural family-owned enterprises, the credit mechanism of professional manager and the social environment mechanism. The relationship among the agricultural family-owned enterprise, professional manager and the society was studied. In the first place, the relationship between the agricultural family-owned enterprise and the professional manager belongs to the principal-agent relations, which means that the family-owned enterprise entrusts the professional manager with the operational rights and the professional managers try to preserve and increase the value of the enterprise with his knowledge and competence. In the second place, the family-owned enterprise must obey social norm and accept social supervision. In the third place, the professional manager is the outcome of the social economy, so his existence and development are affected by several social factors. The three-dimensional interlocking professional management mechanism of agricultural family-owned enterprise, which was interrelated and interacted by agricultural family-owned enterprise, the professional manager and social factors was put forward. The mechanism is the general term of the interrelations and the operational rules of the three aspects. The functions and organic integration of the agricultural family-owned enterprises, the professional manager and social supervision in the interlocking mechanism were introduced. The credit system of the three aspects was analyzed.

**Key words** Agricultural family-owned enterprise, The three-dimensional interlocking, Professional management, Mechanism, China

The development of family-owned enterprise in China has reached a certain scale. The number of registered private-owned enterprises has come to 3.34 million in total with 4.214.6 billion Yuan of registered capital, 47.14 million personnel involved and 2008.3 billion Yuan of the output value. Family-owned enterprises accounts for 90% of the private-owned enterprises in China<sup>[1-4]</sup>. However, the problems of "hard to grow up" and "cannot last for three generations" and so on are always troubling the family-owned enterprises in China, especially the agricultural family-owned enterprises. The average life expectancy of Chinese family-owned enterprises is 2.9 years, while the figure is 24.0 years in American family-owned enterprises<sup>[4-5]</sup>. At present, with the tremendous inrush of foreign enterprises, the agricultural family-owned enterprises confront with severe test. LIU Yong-hao, a famous enterpriser, suggested that the development of family-owned enterprises must get rid of the shackle of family ownership system<sup>[6]</sup>. "The family-owned enterprises could get the motivation of further development, only by getting rid of the family ownership system as soon as possible, transferring the family ownership system to principal-agent system and establishing modern joint-stock company with multiple ownership" suggested by LI Yi-ning<sup>[7]</sup>. It can be seen that the development of family-owned enterprises requires objectively the separation of ownership and operational rights. Besides, the operational rights must be carried out by professional managers. However, the family-owned enterprises

tend to employ people by favoritism rather than on their merits. As a result, the ownership and operational rights can not be separated in essence and the professional managers can not carry out their rights and responsibilities. Therefore, in order to facilitate the permanent development of agricultural family-owned enterprises, the establishment of the three-dimensional interlocking professional management mechanism is badly needed.

## 1 The establishment of the three-dimensional interlocking professional management mechanism of agricultural family-owned enterprise

Mechanism refers to the structure, working mode and the interrelations of each sub-system in a complex working system. It is also a general term to describe the operation mechanism and rules in an organization. In reality, as a result of the imperfection of the recruitment system in agricultural family-owned enterprises and the operational mechanism of professional management, the family-owned enterprises and the professional management haven't achieved the best integration.

**1.1 The stimulation and restriction mechanism of professional management** The stimulation and restriction mechanism of professional management of agricultural family-owned enterprises needs to rightly direct the professional managers' working motivation so as to let them achieve their personal demands at the same time of achieving the enterprises' aims. Meanwhile, the mechanism needs to increase their satisfactory degree so as to keep their initiatives and creativity. According

to *The 2002 Yearbook of Chinese Private-Owned Enterprises*, the job hopping rate in private-owned enterprises is up to 50% and most of the job hoppers are professional managers and department managers<sup>[8]</sup>. At the same time, some professional managers take away the assets, trade secrets, customers and competent employees of the enterprises. What's worse, they join the opponents' enterprises. All of these have much to do with the imperfection of the stimulation and restriction mechanism of agricultural family-owned enterprises. Based on Maslow's Hierarchy of Needs, besides the pursuit of economical compensation such as economic benefits, material benefits and so on, the high-level managers also need the non-economical factors such as respect, self-fulfillment and so on. Therefore, to a large extent, the establishment and refinement of the stimulation and restriction mechanism of professional management within agricultural family-owned enterprises are the vital factors to determinate the ups and downs of the enterprises. In view of the current problems such as the stimulation and restriction mechanism of professional management of agricultural family-owned enterprises is imperfect, the stimulation is inadequate, the implement of the restrict mechanism is not strict and professional managers do not have enough control over the enterprises and so on, the construction and improvement of the stimulation mechanism of agricultural family-owned enterprises must be carried out from the aspects of material benefits, spiritual benefits, further development and so on. According to the survey on the income and living conditions of the professional managers conducted by the relative organizations, the professional managers who were dissatisfied with their income in Beijing, Shanghai and Guangzhou were 39.4%, 17.0% and 14.0%, respectively<sup>[9]</sup>. So the annual salary simulative mechanism, stock option system and welfare system of professional managers should be established as solutions.

### 1.2 The credit mechanism of professional management

The credit mechanism of professional management in family-owned enterprises is a crucial component of modern economic management system and the operational mechanism of socialized credit management system. It is the operational system of professional management, which is mingled with credit regulations, credit culture, credit intermediary service agent, credit supervision and regulation and credit education. This mechanism organically integrates various social strength and regulations, which are related to professional management to push the refinement and development of the credit mechanism of professional management. Meanwhile, people who disobey the credit rules will be restricted and punished. The core of the family-owned enterprises' growth and development is the integration of social resources, especially human resources. The credit resources are the stumbling block of the growth of family-owned enterprises. Lack of trust makes the family-owned enterprises hard to attract management resources in the professional management market. In additional, rare relevant regulations can be applied to guarantee the family-owned enterprises to attract the trusted professional managers. As for the development of family-owned enterprises, the professional managers

are needed objectively, but the introduction of the professional managers will definitely involve the transference of the control over the family-owned enterprises. However, as a result of the asymmetric information and inadequate trust, the owners may be of high sense and anticipation of the risks and costs which might be caused after the transference. Therefore, the owners often lost in the trouble of empowerment—out of Control—revoke the right. Based on the investigation of the family-owned enterprises who specialized in forage and veterinary drugs, the atmosphere of distrust was detected. The distrust between the owners and managers make the enterprises hard to develop. "The moral of the professional managers is of crucial importance in the expansion of the enterprises. If the professional managers have no professional morals, the owners will not trust them and the family-owned enterprises will never grow up" indicated by ZHANG Wei-ying<sup>[10]</sup>. Currently, we do have the competent professional managers, but we do lack the competent and trustworthy professional managers. In some western countries whose credit mechanism is perfect, the professional manager's career and future will be affected if his irresponsible activities lead to the loss of the enterprises. However in China, some professional managers did not have any contribution in running the enterprises, but they could also get the salary or be a leader in other enterprises. Therefore, the establishment and refinement of professional management is of crucial importance to the growth of family-owned enterprises. Thus the normative sharing credit mechanism of the professional management needs establishing through enforcing the fiduciary duty and credit responsibility, increasing the cost of the unfaithful behaviors and establishing the credit documents and database of professional managers.

**1.3 Social environment mechanism** Everything exists in a certain environment and is affected by it. The social environment of agricultural family-owned enterprises and professional managers is composed by social politics, economy, culture, technology, laws and many other factors. These social factors deeply affected the professional managers in various aspects, especially in their social environment mechanism of existence. Therefore, the social existence environment mechanism of the professional managers should be set up. The market environment of creating and developing professional managers should be established. Without the market environment, the human resources of professional managers in agricultural family-owned enterprises could not be distributed properly. Professional management can not be separated from the market. Without the market, the professional managers will not exist as well; let alone the formation of the mature professional managers. What's more, the problem that some owners restrict the professional managers will not be solved. Based on western countries' experience in developing the market of professional management, China can take the government as the macro-instructor, the market organizations as the intermediary service agents. In addition, let the organizations of the line and education organizations play auxiliary role in developing the market of professional management. Through the mutual cooperation and joint efforts

of the macro-instructor, the intermediary service agents and the facilitators, the perfection of the survival and developmental mechanism of the professional managers can be achieved, and then the development of the professional managers' market can be realized gradually.

## 2 The relationships among the agricultural family-owned enterprises, the professional managers and the society

**2.1 The relationship between the agricultural family-owned enterprises and the professional managers** The relationship between the agricultural family-owned enterprises and the professional managers belongs to the principal-agent relations. Family-owned enterprises possess the property and the ownership. The owners separate the operational rights and entrust them to the professional managers. The professional managers maintain and increase the value of the enterprises with their competence and skills. The owners and the professional managers work together to push the permanent development of the enterprises based on the mutual trust and contract.

The revolution of professional management in developed capitalist countries has experienced 100 years, the result was that the modern enterprise system replaced the proprietor system and patriarchal system. The professional managers should unfold their competence of administration and realize their value. The owners need to form the concept of human resources and lay stress on the recruitment, development and trust of the professional managers. Marshall suggested that the most valuable investment is the investment to human<sup>[11]</sup>. In the organizational innovation, the most important people are only the ones who master knowledge and skills. If they form the capital shape, they will become human resources. The professionalization of professional managers means taking their excellent management capability, rich experience and outstanding career character as the human capital which is put into the processes of producing and operating. Professional managers are the marketed resources. In the eye of the family-owned enterprise, the professional manager is a kind of commodity, which has the value and can be used for exchanging. Only when the agricultural family-owned enterprise admits the human capital value of the professional manager, the foundation of the professional manager can be established. Meanwhile, the problem of "trust" must be well solved. Besides, the perfect mechanism of evaluating, stimulating and supervising must be established. The enterprise must provide the professional manager with excellent work conditions and favorable developing space. The family-owned enterprise should employ the professional manager with loyal career moral, unceasing ability of studying and creating and high management skills, then the integration of family-owned enterprise and professional manager can be realized finally.

**2.2 The relationship between agricultural family-owned enterprise and the society** The agricultural family-owned enterprise is a cell of the social economy and is affected by the society. The society needs the development and expansion of the agricultural family-owned enterprise; the agricultural family-owned enterprise needs the support of the social system and

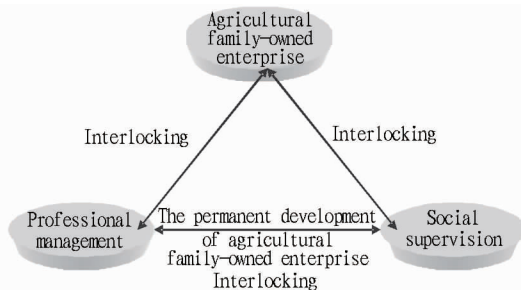
capital. The agricultural family-owned enterprise should obey the social regulations and accept the social supervision. The regulation and supervision of the agricultural family-owned enterprise should be carried out by relevant laws. The improvement of social environment of the agricultural family-owned enterprise can be realized through the arrangement of regulations, especially the active space of integrating the social finance, network and human resources, which aim at providing the enterprise with large developmental space, thus more support from the social capital can be obtained for the growth of the agricultural family-owned enterprise. At the same time, the owners must operate under the relevant laws and regulations and obey the contract signed with the professional managers. As well as the requirement of loyalty put forward by the family-owned enterprise, the family-owned enterprise must be loyal to the professional manager.

**2.3 The relationship between the society and the professional manager** The professional manager is the outcome of the social economical growth, so his existence and development has much to do with many social factors. Nowadays, the professional manager with good career moral is rare, so is the owner with good entrepreneurs' moral. Even in the countries with relatively perfect market system are not born with qualified owners and professional managers. Chandler's research indicated that America has the history of nearly 100 years in the formation of the really qualified professional managers. The formation is tightly related with the development of complex social economical system, especially the establishment and refinement of the social credit system<sup>[12]</sup>. As a special production factor, the professional manager is the precious and rare human resources. The maturity of the professional manager depends on the support of the social organizational laws, economy and market environment. The improvement of the professional manager's career moral and management skills rely on the social demands. As a social division of labor, the professionalization of professional manager was established in the process of shifting from the traditional enterprise to the modern enterprise. In order to solve the asymmetry between the ownership and operation, which was caused by the increasing expansion of the enterprise and the growing intelligence of the productivity, the professional management was born. The professional manager exchanged his intelligence for the right of control the property of the enterprise. Therefore, the excellent personal quality, splendid management skills and positive characters of the professional manager are the key factors to test whether he can manager the enterprise with full heart. In addition, they are also the key factors for the society to test the competence of the professional manager.

## 3 The three-dimensional interlocking professional management mechanism of agricultural family-owned enterprise

Agricultural family-owned enterprise, social environment, professional manager interrelated and co-effected to form a unit—the three-dimensional interlocking professional manage-

ment mechanism of agricultural family-owned enterprise (Table 1). The mechanism which encircles the permanent development of the enterprise is the general term of the interrelation and operational system of agricultural family-owned enterprise, social environment and professional manager. The operation of this mechanism can realize the organic integration of the agricultural family-owned enterprise, social environment and professional manager. In addition, it is helpful for the establishment of the credit system.



**Fig. 1 The three-dimensional interlocking professional management mechanism of agricultural family-owned enterprise**

**3.1 The functions of the agricultural family-owned enterprise, the professional manager and the society** The agricultural family-owned enterprise is the main body in leading the development of enterprise with the function of introducing and establishing the modern enterprise system, refining the mechanism of stimulation and restriction, enforcing the communication with the professional manager and regulating the activities of the professional manager. The improvement of the professional manager's self-quality and self-discipline is the key factor to the sustainable development of the enterprise. The social supervision is adopted to regulate and restrict the activities of the enterprise and the professional manager so as to let the two carry on their duties for the permanent development of the enterprise. The positive circle of the family-owned enterprise, the professional manager and the society are interlocked through the three-dimensional interlocking professional management mechanism of agricultural family-owned enterprise. The three aspects work together to push the permanent development of the agricultural family-owned enterprise.

**3.2 The interlocking mechanism of the agricultural family-owned enterprise, the professional manager and the society** The society provides the agricultural family-owned enterprise with the guarantee of policy, laws and finance. The agricultural family-owned enterprise makes use of the advantageous condition to further enforce the standard management of the professional manager. The society asks the family-owned enterprise to standardize the management of the professional manager and provides favorable environment for family-owned enterprise. The organic integration and interlocking of the agricultural family-owned enterprise, the professional manager and the society compose the three-dimensional interlocking professional management mechanism in agricultural family-owned enterprise. ① The interrelation and interlock of the family-owned enterprise and the professional manager through the society.

The society requires the family-owned enterprise to establish the stimulation and restriction mechanism and the modern enterprise system featured by clearly demarcated property, clearly distributed rights and duty, separation of enterprise from administration and scientific management. Meanwhile, much attention should be paid to the perfection of the social existence mechanism of the professional manager and the interaction of the society, the family-owned enterprise and the professional manager. Through the refinement of the social regulations, the problem of trust between the enterprise and the professional manager can be solved. ② The interlock of the society and the professional manager through the family-owned enterprise. The family-owned enterprise demands the society to provide it with favorable outer environment and high-quality professional managers. The society improves the outer environment for the enterprise. Besides, the professional manager improves his self-quality according to the demands of the enterprise. The three factors work together to push the development of the enterprise. ③ The interlock of the society and the family-owned enterprise through the professional manager. The activities of the professional manager are standardized gradually by the demands of the society and the family-owned enterprise. The professional manager enters the enterprise through the platform provided by the society and the family-owned enterprise to realize his value and protect his legal rights. In turn, the professional manager will facilitate the improvement of the social environment and the standardization of the family-owned enterprise, thus the positive interaction of the three factors is realized.

**3.3 The three-dimensional interlocking credit system** The operation of the three-dimensional interlocking system of the professional manager is helpful to establish the three-dimensional interlocking guarantee system of the family-owned enterprise, the professional manager and the society. By the joint efforts of the three aspects, the development of the social credit system would be facilitated through perfecting the professional management system and relevant social system, normalizing each other's activities and establish the mutual trust between the family-owned enterprise and the professional manager. The regulations are the rules of the behaviors. They usually exclude some behaviors and restrict some possible reactions. Therefore, clear and perfect regulations can make the activities of the enterprise and the professional manager predictable so as to prevent the happening of arbitrary and confused activities. Although the activities restricted by the rules may not be completely right, the regulations can make them reasonable. The establishment of credit between the family-owned enterprise and the professional manager in America is also influenced by the regulations. The American family-owned enterprise experienced the widely spread reform in 1840 – 1920, the owners transferred their operational rights to the professional managers gradually then the enterprises walked up to the specialized path<sup>[13]</sup>. It could not be separated from the function of the "credit capital" popularized in the line of the professional managers in America, the rich social credit resources and excellent tradition of contract. What's more, it is deeply related with the

rules of specialized qualification, enforcement of various kinds of regulations and laws, the development and perfection of the intermediary agents and the mutual loyalty and trust between the family-owned enterprise and the professional managers. Chinese social culture is rich in credit resources, in the Confucian Analects, the word "credit" has been mentioned for over 38 times. With the influence of the family culture, the trust mainly comes from reputation and interrelations, rarely from the law. The trust came from relations contains the private quality and did not have the feature of socialization. In some degree, the private trust resource is parochial which leads to the low utilization rate of it. The problem affected the introduction of social human resource of the increase development and expansion of the enterprise.

The establishment and refinement of the social system is not only the demand of the family-owned enterprise but also the mutual demands of the three aspects in the three-dimensional interlocking professional management mechanism in agricultural family-owned enterprise. The mechanism is helpful to establish the credit system of the three aspects, especially the credit produced by the law, that means the credit produced by non-personal social regulations such as the specialized qualification, hierarchical organization, intermediate agent and various kinds of laws. With the establishment and development of Chinese market-oriented economy rules and the spreading of credit produced by the law, the mutual trust between the enterprise and the professional manager can be realized. In turn, the family-owned enterprise and the professional manager also need the perfection of the rules and regulations. Thus the basis of building and developing the social credit system can be founded. The basis is beneficial to solve the problem of employing people by favoritism rather than on their merits and the credit problem of the professional manager, providing the foundation and method to solve the problems of credit.

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## 农业家族企业三维互锁职业经理机制研究

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**摘要** 从农业家族企业内部职业经理激励约束机制、职业经理信用机制和社会环境机制3方面探讨了农业家族企业职业经理机制的建立。研究了农业家族企业、职业经理和社会三者之间的关系:农业家族企业和职业经理之间的关系是委托—代理关系,家族企业将经营权委托给职业经理,职业经理凭借其知识和技能为企业保值增值;农业家族企业必须遵守社会规范,并接受社会的监督;职业经理是社会经济的产物,其生存和发展受到社会多种因素的影响。提出了农业家族企业、社会环境、职业经理三者相互联系、相互影响的农业家族企业三维互锁职业经理运行机制,该机制是对三者之间相互关系及其运行制度的统称。介绍了农业家族企业、职业经理、社会监督三者在互锁机制中的职能及其有机融合,分析了3方互锁的信用体系。

**关键词** 农业家族企业;三维互锁;职业经理;机制