Limiting Factors Analysis and Countermeasures for the Small and Medium Family-Enterprise’s Development in China—Based on the Investigation and Analysis on SMEs Group in China Titanium Valley, Baoji

Ji-Wei ZHU\textsuperscript{1,a}, Zhen-Zhen Li\textsuperscript{2,b,*}

Xi’an Technology of University, 5 South of Jinhua Street, Xi’an 710048, China
\textsuperscript{a}xautzhu@163.com, \textsuperscript{b}xautli@163.com

Keywords: Small and Medium Family-Enterprise, reform and development, countermeasure, limiting factor.

Abstract. As one of the main components of private enterprises, small and medium family-enterprise plays an important role in promoting economic development and social employment; however, it faces various limiting factors with its constant development. Based on empirical investigation and analysis on small and medium family-enterprise of China Titanium Valley in Baoji, this paper summarizes and analyses the main factors that limit the development of small and medium family enterprises and its causes, and puts forward the corresponding countermeasures and suggestions according to the actual situation, provides the basis for small and medium family-enterprise’s development and reform.

Introduction

Small and medium enterprises, an important component of Chinese national economy, plays a positive role in solving social employment, increasing tax revenue, prospering market, and promoting regional economic development, etc. According to statistics, as of 2015, the value of the final products and services created by small and medium enterprises in China accounts for 60% of GDP, and its tax accounts for 50.2% of the country’s total tax revenue. It provides 80% of urban employment, solves over 10 million new jobs every year, and completes 65% of invention patents and more than 80% of new product development. It is the essential foundation to maintain steady and rapid development of the national economy. Small and medium family enterprises abbreviated SMEs, as an important part of SME, the proportion of family-enterprise has reached to 29.3%, and its development directly related to the overall development of SMEs\textsuperscript{[1]}. Based on empirical investigation and research on SME groups of China Titanium Valley in Baoji, this paper provides countermeasures according to its limiting factors of development, hoping to offer certain value of application and reference for small and medium family-enterprise on its reform and continuing development.

Research Object

Small and Medium Family-Enterprise

As the combination between family and enterprise, SMEs can be explained in two dimensions of “family-enterprise” and “SME”. About the concept of family-enterprise, domestic and foreign scholars have different opinions, but they usually definite it from ownership and management two perspectives. Prof. Donnelly of Harvard University believes: family-enterprise means no less than two generations from one family take part in the management of the company, and the result of these two generations’ cohesion creates the influence between company’s policies and family’s interests \cite{1}. SME’s demarcation varies with the variation of different countries, different stages of economic developing, or different industries, and with the economic development and the dynamic changes. The SME’s Demarcation Standard jointly issued by four ministry including MIIT in 2011 defines the SMEs: SMEs consist of medium, small, micro three types, and are subdivided combining with industrial features. Take the second industry as an example, the companies with employees less than
1000 or operating income less than 400 million Yuan are small, medium, or micro enterprises. Based on the above, this paper argues that SMEs refers to the family-enterprise matching all the conditions of SME including staff size, asset size and scale of operation, etc. Due to its internal features of small size and close internal relationship, SMEs shows the features in its actual operation that enterprise that enterprise control right highly centralizes in family members, organizational structure is simple, and the employees are selected according to the ranking of trust degree and closeness degree, etc. Thus, its operation and management is more difficult and subtle compared with other enterprises. Therefore, whether it can effectively manage the company according to the modern enterprise system and combining with the actual situation directly effects the survival and development of enterprise.

**SMEs group in Baoji Titanium Valley**

Baoji, the second largest city in Shaanxi Province, is called “China Titanium Valley” because its output of titanium product accounts for 80% of national output of that. A titanium industry group has gradually formed, with the core of Baoji Titanium Group and the support of Baoji High-tech Zones and Baoji Titanium New District. Taking “one industrial park, several parks in park; one large industry, several industrial chains; one large cluster, several small clusters” as the goal of development pattern, Baoji High-tech Zones develops rapidly in recent years, and its economic aggregate has accounted for one-fifth of that of the whole city, mainly including five competitive industries of new materials, advanced equipment manufacture, electronic information, modern food, biological medicine. Among them, the new material industry that is mainly processing, marketing, researching and developing the rare metal such as titanium and titanium alloy rapidly develops; in 2015, titanium material annual output has reached 30 thousand tons, accounting for about 80% of the total output of domestic titanium industry and 22% of the international total output. More than 400 enterprises work on titanium and rare metal researching, producing, processing, trading, and circulating. Taking the high-tech enterprise like Baoji Titanium Group as the main items, the Baoji Titanium Valley industrial cluster generates a group of related enterprises with work division and cooperation through industrial links decomposition, basically establishes the SMEs cluster integrating producing, providing, and marketing in titanium material processing, and forms a good pattern of work division and cooperation. Meanwhile, the private titanium enterprises in cluster also use its own human resource and equipment resource to provide high-quality products and material processing service to Baoji Titanium Group[2].

Taking the SMEs of industrial cluster group in Baoji Titanium Valley as the research object, the research group interviewed and investigated several organizations including High-tech Zone management committee, entrepreneurship center, Titanium Industry Association and small and medium family titanium enterprises; total 18 small and medium family titanium enterprises had been investigated. They issued 200 questionnaires (180 returned questionnaires, 90% recovery), and acquired full and accurate data.

**Limiting Factors Analysis on the Development of the Small and Medium Family-Enterprise**

**Lagging Human Resource Management**

Human resource is the basis of the production and management, and the economic benefit improvement of the enterprise, and it is also the key factor for enterprises to develop and succeed. Currently, some big problems of human resource management exist in SMEs, summarized as following: (1) A serious lack of qualified professionals. The single investor of SMEs makes the high closure of property right system that enlarges the investor’s absolute right, which results in the lack of democracy and also causes that the positions of the qualified professionals introduced in have no actual decision-making power, therefore, the high-quality talents severely lack. As the survey data show, in the small and medium family enterprise investigated, those whose degrees are below the technical secondary school, vocational school, or high school account for 32%; employees in manufacturing and processing enterprises are mainly the workers in shops, and the workers
graduating from technical secondary schools, vocational schools or high schools account for 36%; those whose degrees are beyond junior college degree account for 22%; those who graduated from colleges account for 8%; and those who are master and doctor account for 2%. Managers mainly graduated from non-governmental colleges and junior colleges. There is few high-education professional. (2) Widespread external disparity structure problem. Family-enterprise cannot avoid family affection in its operation. The family employees usually serve as important positions in this kind of enterprises; the estranged “outsiders” cannot receive the trust and treatment they deserve. This is the main reason resulting in the phenomenon of enterprise’s low efficiency and lagging management [3]. (3) Imperfect employee incentive and restraint mechanism. The research shows that around 30% incentive and restraint mechanism of SMEs only includes one item of salary. All of “salary system”, “welfare system”, “retirement system”, “training system”, and other systems are imperfect, so that employee’s behavior and competition lack of system guarantee and they can hardly feel the sense of belonging and devote themselves to the enterprises.

**Insufficient Technological Innovation**

Technological innovation is the vital power to support the enterprise development. The research data shows: “as for the enterprise risk, if technological level is caught up, the companies that lose their superiority account for 46.43%; the loss of key professionals and the weak technical team make enterprise lose their 54.76% superiority”. This investigation found out that many drawbacks exist in technological innovation of SMEs, which should be as follows: (1) Not enough emphasis on technological innovation. Currently, most small and medium family enterprises are labor-intensive enterprises, and most enterprises emphasize on production, speed, and pay no attention on efficiency; they emphasize on product value and pay little attention on the technology of the production. For example, Yunjie metal products company, founded in 1995, primarily engaged in hard metal material processing, and it had been the leading role in this industry due to its extraordinary technology. However, they ignored technological property rights protection, which incurred cutthroat competition from counterfeits and; what’s worse, the drawbacks in management of family-enterprise even once brought the company into predicament. (2) Insufficient professionals for technological innovation. Since the family-enterprise itself pays little attention to technological professionals and has not established effective competition and incentive system, lots of technological professionals are unwilling to work for family enterprise for long, and “job-hopping” phenomenon appears a lot. (3) Insufficient investment. Funding is necessary to ensure the technological innovation. The products of small and medium family enterprises are generally in the lower part of the profit chain, and the profit is only enough to maintain the daily operation of enterprises, so the investment for science and technology is naturally inadequate. Meanwhile, the country’s financial allocation, bank credit policies and others more emphasize on scientific institutions and large enterprises, which results that SMEs cannot receive required support. In addition, financial services cost is high and income is low credit guarantee mechanism and system is not perfect, thus enterprise’s capital flow become difficulties.

**Lagging Enterprise Culture Establishment**

Enterprise culture is the soul of an enterprise, and it is a standard and norm to manifest enterprise’s values. Enterprise culture helps guide the employees’ behavior towards the direction of realizing enterprise goal and provides power resource for the enterprise in market competition. Currently, in SMEs, enterprise culture establishment is still relatively backward, mainly reflected in: (1) The enterprise culture establishment lacks of summary and the own feature. The enterprise culture of the most SMEs simply copy and imitates other large enterprises’, and never combines their own social culture background and summarizes the enterprise culture that matches themselves. (2) No strategic vision on enterprise culture establishment. SMEs is usually in an inferior position in market competition. In order to earn a living, most of them only pursue the short-term benefits, and cannot consider the long-term benefits: especially processing enterprises, employees’ education background is not in a high level. If spiritual culture guidance and institutional culture constraints do not exist, the companies cannot unite the people and scientifically management. Many SMEs gradually decline
after a brief glory, in addition to market competition and other factors, another important reason is the lack of strategic guidance of the enterprise culture.

**Development Countermeasures of SMEs**

Based on the above analysis, the extensive human resource management, the insufficient technological innovation, and the lagging enterprise culture establishment are the current three key problems that limit the development of SMEs. Whether companies can examine the existing problems from an overall height and make the appropriate reforms and innovation is essential for the constant development of SMEs. So they should develop appropriate countermeasures.

1. **Implement property rights system innovation, lay the foundation for the enterprise development**
   
   Innovating property rights system and establishing diversified and open modern enterprise property rights system are the primary factors for SMEs to get rid of development shackle and to realize the reform. During the process of implementing property rights system innovation, it should continuously make it clear the property right ownership and structure issues. In terms of property ownership, after developing to a certain scale, family-enterprise must define the internal property right, get rid of disunite situation, gradually establish legal property ownership, realize the work division of enterprise capital and management, and improve the operating efficiency. In terms of property right structure, after developing to a certain scale, SMEs will face a tough problem that is single property right structure, which causes blindness of enterprise’s decision. Therefore, it is necessary to use the diversified property right structure to adjust the property right structure. Enterprises can dilute the enterprise equity through introducing social capital, and can also properly encourage the managers, technological professionals, and employees to invest with management, technology, entrepreneurship and other intangible assets [4].

2. **Establish modern management system, provide development mechanism guarantee.**
   
   To adapt to the complex market and fierce competition, enterprises must establish a modern management system that adapts to market competition mechanism. In the terms of establishment of a modern management system, the company must do a good job in three areas: first, carry out the institutional innovation to achieve the separation of ownership and management of enterprises and get rid from the traditional pattern that owners make the final management decisions, and introduce qualified managers, so that enterprises can gradually shift to science-based decision-making enterprise management mode. Second, shift from traditional “goods-management-based” to “human-management-based”, from “production-sale-oriented” to “market-economy-oriented”, from leader-decision-making to scientific-decision-making, and from taking the objective responsibility as the basis to taking process management as the basis, so that the enterprise management concept innovation can be realized. Third, break through the single property right system of family-enterprise, don’t be afraid of absorbing the external capital, to diversify the stock rights.

3. **Improve the capability of independent innovation, create the core competitiveness**
   
   Technological innovation, the driving force of modern enterprise development, is a major part constituting core competitiveness of enterprises, but also a part that is most easily to overlook. In the process of independent innovation, enterprise should well do the two aspects of work as follows: on the one hand, fully establish the main body state for independent innovation, and stimulate the internal motivation of independent innovation. Combine the technological innovation with system innovation, further reform, and enable small medium family-enterprise to be an independent market entity and legal entity; On another hand, to further perfect the technological innovation system combining production, study, research, and market, carry out the cooperation of production, study, and research, actively increase the protection of patent applications and the outcome, accelerate the commercialization of innovations and industrialization process, and enhance independent innovation benefits.

4. **Construct modern enterprise culture, ensure the sustainable development of enterprise**
With the socialization of the family-enterprise, traditional family culture has not met the interests of the majority’s pursuit, so the establishment of long-term interest-based business and the characteristic advanced enterprise culture is particularly important. First, we must establish proper culture concept. In the process of cultivating the spirit of enterprise culture, enterprises should focus on the sociality and the social responsibility from the value orientation, and adhere to both economic benefits and social benefits; social benefits should be put on the first place of operation and management, so that culture management can become the motivation and the binding. Second, create the enterprise culture that meets the own feature of small medium family-enterprise. Thus, when taking the culture creation experience of succeeded enterprises, family-enterprise should establish the innovative enterprise culture with its own feature that suits the enterprise development and takes full advantage of technology, combining its own developing history, industry situation, personnel structure, and future goals. Meanwhile, develop supporting policies and management practices, and enhance awareness and employee training, to make employees develop towards the way that enterprise needs through training and education, thus it can promote the enterprise culture towards the direction that is in favor of the enterprise’s strategic objectives.

**Conclusion**

Faced with increasingly fierce market competition, to achieve sustainable development, small and medium family enterprises must objectively examine their existing problems, the implementation of property rights system innovation, establish modern management system, improve the capability of independent innovation, construct modern enterprise culture, and consider the development of enterprises from overall, long-term, and strategic perspective. Additionally, family enterprises should actively accept new things and new challenges, and continuously adjust and update themselves, so that enterprises faster and better adapt to market changes and realize the objectives of healthy and sustainable development.

**Acknowledgement**

The research was supported by a scholarship of the project of Chief engineer plan for SMEs in Shaanxi Province, the project of service grassroots activities in Shaanxi province.

**References**


