

Research on Innovation Practice of Family Enterprises under the Background of Internet Economy

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Abstract: After three decades of reform and opening-up, family businesses have increasingly become an important part of the national economy. However, as a generation of entrepreneurs gradually grows older, the advent of the “Internet+” era has brought tremendous challenges to family businesses. To achieve the succession of leaders, conform to the development of the times, change management ideas, and adapt to the development of modern society, has become a major issue facing family businesses today. How to deal with the subject calmly and rationally not only requires the use of a modern knowledge theory system to pay attention to the external institutional environment and management methods, but also requires a deep understanding of China's family ties, ethics and traditions, and the maintenance of family harmony and stability, which is a test of human wisdom and the focus we need to understand and focus on.

1. Introduction

Since the reform and opening up, after more than 30 years of development, private enterprises have become an important part of the real economy. The first generation of private entrepreneurs established their own businesses relying on their courage, hard work, and perseverance, and these families are in control. At the same time, at this stage of development, with the gradual increase in the number of first-generation entrepreneurs, the issue of inheritance of family businesses has become increasingly prominent. How to make the succession of the second generation smoothly and reasonably handle the management and ownership issues in the process, not only the long-term development and sustainable management of this family-owned company will also have a profound impact on the development of China's entire real economy. It is a social topic that cannot be ignored and will receive increasing attention. Research on this issue is necessary and meaningful.

In the post-financial crisis era, the global economic downturn has brought serious challenges to the development of private enterprises in China. At the same time, the wave of innovation represented by the “Internet+” is booming, and it also provides entrepreneurial and transformational opportunities for private enterprises with a family-based approach.

The operation of a family business involves not only the application of a knowledge theory system, but also the understanding of traditional Chinese ethical relationships, as well as the guarantee of harmony and stability within the family. Whether a family business can achieve lasting development is not only related to its family itself, but also to the macro issues of social employment, national economic development, etc., which need to arouse our attention and thinking. It will not happen overnight, it is necessary for the family business research.

2. The "Internet +" Era

The "Internet Plus" era is the process of revolutionizing human lifestyles, behaviors, and value judgments after the continuous breakthrough of Internet technology and its spread to the world. It has undergone technological breakthroughs, changes in behaviors, and the process of value conversion. The social development model presents new challenges and reflections. This is an era proposition that no individual or organization can avoid. Only by adapting to it, understanding it

and integrating it, can it successfully transform and respond to the future.

3. The Dilemma of Family Business

The saying "rich but not over three generations" satirizes the reality of China and at the same time, it also reflects the difference in family conception and property distribution in the process of value inheritance of Chinese family-owned enterprises. In comparison, the United States and Japan have more long-lived enterprises and have operated for 100 years. Apart from their differences in business methods and concepts, one of the issues that we often overlook is the distribution of wealth. First of all, China's traditional way of property distribution since ancient times is to share in children, value the worldly manner, and stress equalitarianism. According to our traditional values, there is no problem. This approach is based on thousands of years of family understanding of what should be done. However, if we switch to the perspective of sustainable enterprise management, this is not conducive to the long-term development of family businesses. When a group of entrepreneurs succeeds in their entrepreneurial ventures and accumulates their wealth, it will take some time before wealth will have to be divided. The block becomes a small piece, and the wealth of the enterprise cannot be reduced but accumulatively, which is extremely unfavorable to the follow-up operation of the family business. The shrinking of wealth will directly lead to the shrinking of the production scale, the lack of funds for technology investment and the impact on the long-term company strategy.

As a combination of relational contract and factor contract, family businesses mainly rely on family authority, parental authority, inferior order, and orderly family ethics to coordinate relationships and complete various resource allocation activities. Family authority governance is conducive to the formation of a strong cohesive team with the founder at the core, improving execution efficiency and reducing management and transaction costs. However, it also caused the executive team to be flooded with family members, weakening the company's ability to integrate external network resources, advanced management experience, and other social capital. After nearly 30 years of arduous struggle, the founders and governance authorities of China's first-generation family-owned enterprises have gradually entered the thirteen years. The intergenerational transmission of enterprises is imminent. As a result, a real problem that has plagued the theoretical and practical world and needs to be solved is that the family business in China is facing the pain of the collective transformation of "turning to the left and turning to the right", that is, the inheritance of the family inherited from the father in the generation inheritance. Authoritative governance, or turn to professional manager governance?

The family authority governance and professional manager governance of "Take up to father's fatherhood" has its difficult position to solve the problem of the successor of Chinese family business. The path of "children inherited by fathers and daughters" is facing the problem of setting up the authority of the second generation inheritors and cannot succeed smoothly. It is often constrained by factors such as family, corporate veterans, and individual differences in values. The path of professional managers' governance, the Chinese society lacks the spirit of contract, this separation of ownership and management rights easily leads managers to look short-sighted, seek personal interests, and hinder the company's long-term development. Therefore, for Chinese family-owned companies, how to successfully take over and transition is a tricky and crucial problem in the present.

4. "Internet +" Brings New Challenges to Family Businesses

The advent of the "Internet Plus" era not only brought about changes in economic patterns and changes in business models, but also had a profound impact on the development environment of enterprises. Just as the famous futurologist James Maitian predicted at the end of the 20th century, companies have entered a new world with information technology and people first. Large-scale automation, dynamic organizational structure, electronic reaction time, virtual operation, and fierce global competition, combined with changes in people, have made the environment for business

growth more complicated and indeterminate. Companies need fundamental changes in nature, new management models, new organizational structures, and new "human-technical" relationships. Enterprise transformation is not only technological reengineering, but also consciousness revolution. It is not only a method, but a set of methods. It is not only a material enterprise but also a human enterprise. Under the new normal of economic development, we must fully understand the new environment brought about by the "Internet Plus," and we can use this as a driving force to successfully implement enterprise transformation and reengineering. This is even true for family-owned companies. For Zhejiang family-owned companies at the crossroads of transformation, it is necessary to recognize the development opportunities brought about by the "Internet Plus," and at the same time, they must be cautious about the difficulties and challenges that this brings.

Family control faces a dilemma of ownership. In recent years, although the family-owned enterprises have generally abandoned the family bondage in terms of internal management and talent introduction, they have realized open management oriented to the market and society. However, from the perspective of ownership, over 90% of the majority of the company's equity is still concentrated in 2-3 family members, and most of them are immediate relatives. The shares held by non-family executives and core technicians are still relatively small, generally less than 3%. For most family-owned companies, maintaining absolute ownership is still fundamental to their family's longevity. However, in the "Internet+" environment, the traditional family absolute control has been unable to meet the needs of family business development. If we keep blindly controlling the family, we will lose our competitive advantage in the "Internet Plus" era. How to find the best path between corporate heritage and the open environment of the Internet is still an unsolved problem for many family-owned companies.

Closed families face open ecological dilemmas. The open ecology has become the biggest feature of the Internet age. The opening of the Internet giant has created a better entrepreneurial environment for developers. With the support of open resources, entrepreneurs can rely on their own advantages to obtain better and more efficient liquidity than they used to, and ultimately achieve successful entrepreneurship. On the contrary, due to the closed platform of the traditional family system, family businesses often do not integrate well into the open ecological environment of the Internet, and many small and medium-sized family companies have lost in the competition with the new generation of entrepreneurs.

Family ownership is facing difficulties in talent specialization. The traditional family-owned enterprises led by the manufacturing industry have weakened their management advantages and their talent problems have become increasingly prominent. With the infusion of the Internet, the blood and interpersonal traditions that Chinese have been paying attention to over the past few thousand years have gradually weakened, and the authoritative leadership and control of internal paternalism has gradually weakened. Family businesses must keep pace with the development of the Internet. Individual authority must give way to team decision-making, break family concentration, and actively attract professional talents to become the common choice for family business transformation. According to the 2015 China Family Business Health Index Report, among the many business challenges faced by the company, the "attraction and cultivation of talents" dilemma has become the core, accounting for 72.9%, indicating that most family businesses hope to attract and train outstanding talents and Used, but there are still many problems in this area.

5. Family Business Innovation Practice under the Background of Internet Economy

According to research by the Brooklyn Family Business School in the United States, about 70% of family businesses have failed to reach the next generation. Many family-owned companies have been in a hurry and withered. Zhejiang, as a big province of family business, bids farewell to the history of rapid growth of enterprises in the early years of reform and opening up, and has gone to a transformation node. At the same time, under the new environment of "Internet Plus," the development of enterprises is far from the "individual heroism" era. With only the family's wisdom blocking operations, family businesses will inevitably be eliminated, not to mention everlasting

success. "Internet +" brings open ecology, brings about high-speed flow of resources, and brings about new changes in business models. This is both an opportunity and a challenge for family businesses. Zhejiang family companies must recognize the "Internet +" The strategic opportunities behind the general trend, through the organic combination of external resources and internal changes, open up new paths for corporate transformation.

Introduce a sustainable entrepreneurship partnership system. The definition of the property rights of traditional family-owned enterprises is naturally closed, which is an important factor that hinders the rationalization of the governance structure, and it is also an important obstacle to the family-owned companies' financing. In the "Internet Plus" era, social capital represented by venture capital has gradually replaced the traditional financing model, and family businesses must be in an invincible position in a highly active market-based financing environment and must comply with this trend. In the new entrepreneurial ecology, family businesses must shift from personalized social network transactions to non-personalized institutional transactions, strengthen the reform of the property rights system, effectively integrate social capital, and realize social capital. The introduction of entrepreneurial partnership system that adapts to the development of enterprises is a necessary move for the current family business transformation. The partnership system not only promotes the owner-dominated advantages of family-owned enterprises, but also overcomes the disadvantages of family-owned enterprise governance systems that are not conducive to external financing.

Establish an open family social ecosystem. The closed empire system has passed. Although the reform and opening up has created a highly liberalized market environment for entrepreneurs in the past 37 years and a group of entity entrepreneurs dominated by manufacturing have emerged, the open ecology between societies has not been formed. Even in the early stages of Internet development in the past decade, many large companies still played a closed ecology, relying on huge cash flow to maintain rapid growth. However, with the deep infusion of the Internet, "Internet+" has become the dominant factor in this era. The flow of social resources is unfolding in an unprecedented open-minded manner before people's eyes. A social ecology that is tending to openness is forming. The closed model will not apply again. In this wave of "Internet +", family businesses must fully understand the importance of open ecology and build an open mindset to allow more people to obtain value together.

Strengthen the "Internet +" advantage of family heritage. With the emergence of a generation of entrepreneurs gradually relegated to the second line, the second generation of succession has become the new normal of the current family business development. After the second generation of entrepreneurs who took the post-80s and post-90s as the main force, they came to the stage one after another. Whether they were subordinates or another innovative industry, they all hoped to surpass their parents, and Internet thinking had become their biggest advantage. However, thinking of the Internet alone is not enough. Many of the umbrellas that created the second generation to leave their parents' generations and started their own Internet entrepreneurship often ended in failure. On the contrary, most of the second-generation generations that rely on their father's generation as their support for Internet entrepreneurship have achieved success.

Obviously, the best path for family companies to get involved in the "Internet Plus" should be: on the basis of the existing family-dominated industries, give full play to the internet thinking of second-generation successors, and make products "intelligent" while strengthening their "brand". Although in the short term, the benefits of accessing the Internet are negatively correlated with it, in the long run, the combination of new thinking on the Internet and the traditional family of the family will inevitably collide with the spark of the business model change, which will become a search for traditional family businesses.

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