

Study on the Relationship between Institutional Investors' Shareholding and the Performance of Enterprise De-familialization from the Perspective of Enterprise Growth Cycle

-- Taking Country Garden as an Example

Haoyu Wang^{1, *}, Jie Lin², Wenwu Li¹, Tengda Xie³

¹School of Accountancy, Anhui University of Finance and Economics, Bengbu, Anhui, China

²School of Business Administration, Anhui University of Finance and Economics, Bengbu, Anhui, China

³School of Finance, Anhui University of Finance and Economics, Bengbu, Anhui, China

*Corresponding author: 1137081398@qq.com

Abstract: This article selects Country Garden Company as a case study, based on the life cycle theory of family businesses, to study the reasons, plans, and economic consequences of its de-familialization, providing a basis for how family businesses in the current Chinese market can de-familialize and provide empirical references for de-familialization.

Keywords: Enterprise growth cycle, Institutional investors holding shares, De-familialization of enterprises, Performance analysis.

1. Introduction

As of 2021, the proportion of family businesses in the Chinese market is as high as 80%, which is an important component of the economy and society. During the growth cycle of enterprises, family businesses continue to develop and grow, and the drawbacks of family management models are gradually emerging. As a result, the development of companies is hindered, stagnant, or even regressed. Family management will hinder the transformation of enterprises to modern enterprises, and even hinder innovation and development of enterprises. How to de family governance and ensure the long-term prosperity of enterprises has become a hot topic in today's era. A highly centralized equity structure can cause joint-stock companies to lose some unique functions, such as absorbing social capital and balancing power. Moreover, family members may not necessarily possess the knowledge system or management abilities that senior management should possess, especially since the scale of family businesses has become very large. When more and more family businesses realize the drawbacks of family governance and face development bottlenecks, they usually consider implementing "de family governance" to solve the company's difficulties. Transforming from a family business to a non family business is not an easy task, involving adjustments in personnel, organization, systems, and other aspects. It is necessary for the enterprise to conduct in-depth analysis of the internal and external environment to develop a comprehensive implementation plan.

With the development of China's market economy and scholars' research on modern enterprises, Chinese family businesses are striving to remove the family color from their businesses, hoping to gain social legitimacy. However, while fading the influence of the family, family businesses strive to imitate the management systems of modern Western enterprises. Improper connection between the two systems

may lead to some problems for the enterprise. With the continuous development of family businesses, it is important to combine family elements with modern systems in a reasonable manner, find their own advantages, and continue to develop.

This article selects Country Garden Company as a case study, based on the life cycle theory of family businesses, to study the reasons, plans, and economic consequences of its de-familialization, in order to provide a basis for how family businesses in the current Chinese market can de familialize and learn from the experience of de-familialization.

Existing research on family businesses mainly focuses on the differences between family businesses and non family businesses in terms of corporate governance, operations, and value. The research on de familial governance mainly focuses on theoretical analysis of how family businesses transform from traditional family management models to modern institutionalized companies. Some also empirically study the influencing factors and effects of de familial governance, while few use case studies to analyze the path and effects of de familial governance. This article adopts a perspective based on the growth cycle of the enterprise for analysis, The use of case analysis techniques has supplemented the research in this area.

This article selects Country Garden Group as the research object, and focuses on evaluating the phased achievements of introducing equity incentive mechanism in the context of "de-familialization" of Country Garden. This clarifies the development vitality of private enterprises after "de-familialization", and provides reference for the implementation of equity incentive system in family enterprises, ultimately providing assistance for the transformation and development of domestic private enterprises.

2. Literature Review

Family businesses are actually a dual governance mechanism, with governance characteristics such as transaction relationships between family members, emotional factors affecting business decisions, conflicts and contradictions between families and businesses, and concentration of equity. Mustakallio (2002).

From the perspective of corporate performance, de-familialization will help companies break free from family constraints, attract social talents, and improve governance levels, thereby improving corporate performance (Yu Nulian et al., 2016; Sun Yuxin, 2022). From a financing perspective, families will hinder debt financing and have no promoting effect (Zhao Yuheng, 2015; Song Jiayin, 2020). In the early stages of the development of family businesses, family members have a strong spirit of struggle (Chen Jianlin, Yan Jintao, 2021). As the enterprise continues to grow, the marginal benefits of family control and management gradually decrease. Family members working in the enterprise are limited by their own rationality, making it difficult to ensure that their cognition and growth are in line with the evolutionary development pace of the enterprise (Zhang Han, 2023). In this situation, family members should introduce professional management talents and delegate the management power to professional managers or completely transform and develop.

3. Inheritance Models of Domestic and Foreign Family Businesses

3.1. Wal Mart (America)

Wal Mart is one of the largest retail enterprises in the world, and it is also a model for family businesses to transform into public companies. Wal Mart has selected professional management from family members and gradually introduced external senior managers. Family members have given up direct control of the company and instead become shareholders of the company. Through the establishment of a sound corporate governance structure and standardized decision-making procedures, Wal Mart successfully realized the de-familialization of family businesses, and achieved sustained growth and international development.

3.2. Samsung Group (South Korea)

Samsung Group is one of the largest enterprise groups in South Korea and one of the successful cases of family business de-familialization. During the third generation leader period of the family business, Samsung implemented a series of reform measures, including introducing external senior management personnel, establishing an independent board of directors and supervisory board, and so on. These reform measures have effectively weakened the power of family members and improved the management level and competitiveness of the enterprise. At the same time, Samsung also focuses on innovation and technological research and development, enabling the company to achieve great success in the global market.

3.3. Lenovo Group (China)

Lenovo Group is a famous technology enterprise in China and one of the typical cases of de-familialization of family businesses. Lenovo has introduced external investors and hired a professional senior management team in the process

of enterprise development. In order to improve corporate governance and transparency, Lenovo has also registered its company in Hong Kong.

4. De-familialization of Country Garden and Its Enlightenment

Country Garden Holdings Co., Ltd. is a well-known real estate development enterprise in China, headquartered in Foshan City, Guangdong Province. The de-familialization process of Country Garden is a typical case of a family business transforming into a modern enterprise. Country Garden Group was founded in 1992 by Yang Guoqiang. Initially, it focused on real estate agency as its main business, and gradually developed into a comprehensive enterprise in real estate development and property management. After decades of development, Country Garden has become one of the largest real estate developers in China, with businesses covering residential, commercial real estate, property management, hotels, and other fields. It has a wide market share and brand influence. Through the analysis of Country Garden, the issue of equity incentives when introducing professional managers into family businesses for de-familialization can bring the following insights:

4.1. Family businesses can be inherited by introducing professional managers

With the expansion of the scale of family businesses, adopting more standardized and institutionalized management models that keep up with the times can help businesses survive and develop better. Carrying out different degrees of de-familialization has become a choice for many family businesses. Country Garden transfers part of its management rights to professional managers on the basis of retaining ownership, in order to improve the company's governance structure, bring more professional management models to the company, and contribute to the long-term development of the enterprise.

4.2. Equity incentives can effectively alleviate agency issues

The de-familialization approach of introducing professional managers into Country Garden inevitably leads to principal-agent problems. However, Country Garden has effectively established a supervision and incentive mechanism through equity incentives, effectively aligning the interests of employees with the interests of the company, greatly enhancing employee motivation, and successfully seizing the opportunity for development, rapidly rising and becoming one of the leading enterprises in the industry.

4.3. Reasonable equity incentive plans are more conducive to the development of enterprises

Enterprises should choose appropriate equity incentive plans based on their own situation. When implementing "achievement sharing", Country Garden has problems such as narrow incentive scope and single approval method. However, through continuous exploration and correction, Country Garden has successfully launched a more effective "concentric sharing" to quickly promote the company's growth.

4.4. Strengthen professional management

In order to improve the management level of the enterprise, Country Garden focuses on introducing professional senior management teams. They have recruited many experienced industry professionals from both domestic and international sources, improving the company's management capabilities and business level. At the same time, they also focus on cultivating insiders

5. Conclusion and Suggestions

With the intensification of economic globalization and market competition, more and more family businesses are choosing to go public through IPOs (initial public offerings) to support their development and scale up. However, family businesses may face the temptation of manipulation behavior during the listing process, which poses certain risks to the healthy development and market stability of IPO companies. Therefore, studying the implications of de-familialization for the manipulation behavior of IPO companies is of great significance. De-familialization can promote the establishment of more comprehensive governance mechanisms in enterprises, reducing the excessive control of family members over enterprise decision-making and resource allocation. By introducing independent directors, establishing audit committees, and other institutional arrangements, the transparency and supervision efficiency of enterprises can be improved, and the possibility of manipulation behavior can be reduced.

De-familialization can also promote the establishment of long-term incentive mechanisms in enterprises to reduce short-term profit oriented manipulation behavior. By designing a reasonable equity incentive plan and performance evaluation system, management and employees are incentivized to work hard for the long-term value growth of the enterprise, thereby reducing financial statement manipulation and other behaviors. De-familialization can

help improve the quality of information disclosure in enterprises and reduce the opportunities for manipulation brought about by information asymmetry. Enterprises should strengthen internal control and transparency in financial reporting, comply with relevant regulations and standards, timely disclose true, accurate, and complete information, and reduce the possibility of manipulation.

Acknowledgment

This research is funded by Anhui University of Finance and Economics Undergraduate Research Innovation Fund Project in 2023 (No.: XSKY23033ZD); Anhui University of Finance and Economics Provincial College Student Innovation and Entrepreneurship Training Program Project in 2022 (No.: S202210378189).

References

- [1] Sun Yuxin. A Study on the Path of the Impact of Familialization of Family Enterprises on Business Performance: Taking Haoxiang You as an Example [D]. Inner Mongolia University of Finance and Economics, 2022.
- [2] Yu Nulian, Wang Tengyan. A Study on the Abandonment of Control and Its Performance in Family Enterprises [J]. *Technology Economy and Management Research*, 2016 (7): 44-48.
- [3] Song Jiayin. Research on Familialization and Corporate Performance of Family Enterprises [J]. *Cooperative Economy and Technology*, 2020 (19): 106-109.
- [4] Chen Jianlin, Yan Jintao. The Impact of De-familialization on Innovation Investment in Family Enterprises: An Empirical Study Based on Listed Family Enterprises in China [J]. *Science and Technology Management Research*, 2021, 41 (21): 78-85.
- [5] Zhang Han. A Study on the Impact of De-familialization on Enterprise Innovation Performance: Taking Midea Group as an Example [D]. Zhejiang University of Technology, 2023.