

Private Enterprise Management Mode Selection Based on the Life Cycle Theory

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Abstract

Based on the life cycle of the enterprise, this paper discusses what Chinese private enterprise should do in choosing management mode. In every stage of the life cycle of enterprises, appropriate management should be adopted according to the characteristics of that state in order to improve the management efficiency of the private enterprise and promote the development of China's private enterprises.

Key words: Life cycle; Private enterprise; Management mode

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INTRODUCTION

The common way for dividing the life cycle stages in the theoretical circle and the business community is as follows: the enterprise growth process is divided into four stages, namely, the start-up stage, growth stage, maturity stage, and decline stage according to the organizational evolution law. Although this division method summarizes the whole process of the enterprise from birth to the ultimate decline, for the research of the course of development of the enterprise, compared with the decline stage, the re-development research is of more practical value. I believe that the enterprise faces two results at each stage of development: the development and decline, and the decline stage is no exception, however, there is still the possibility of redevelopment. Therefore, the author, on the basis of the enterprise life cycle model, makes another correction, and divides the development of China's private enterprise into four stages including the start-up stage, growth stage, maturity stage and decline (redevelopment) stage (see Figure 1).

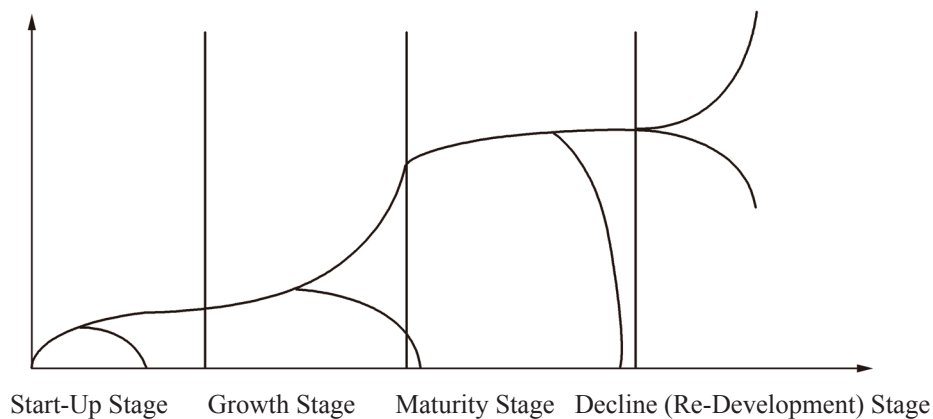


Figure 1
Enterprise Life Cycle Re-Correction Model

The private enterprise often experiences the life cycle including the start-up stage, growth stage, maturity stage and decline (re-development) stage. In such a lifecycle, its management mode has also experienced a change from the owner-type management, family-type management, and professional management to entrepreneurial management process, gradually becoming mature and perfect. We cannot simply say that which kind of management mode is good or bad, or arbitrarily believe that any enterprise should choose the professional management mode based on the modern enterprise system. The management mode which is everlasting and always effective simply does not exist in the world. Each model has its reason for existence and is suitable for certain enterprise development stage. The enterprise management mode is corresponding to the life cycle of the enterprise; the enterprise in different stages needs to adopt the matching management mode. Only in this way will the businesses be more efficient and continue to the process of moving forward.

1. THE ENTERPRISE'S START-UP STAGE – OWNER-TYPE MANAGEMENT MODE

The enterprise in the start-up stage has a relatively small scale, weak economic strength, poor production and management condition. The founder of the enterprise tends to have certain professional skills and corporate regulations and corporate strategy is almost zero; at this time the most suitable management mode is the owner-type management mode, which is most rich in dynamic mechanism as well as the most efficient management mode for the enterprise at such stage.

In choosing the owner-type management mode, we need to pay attention to the following points: First, the enterprise is in the start-up phase and is lack of experience, so it will encounter a lot of uncertainties, such as the size of the potential market, optimization of the product structure, the nature of potential and existing buyers, how to find them in the best way, as well as whether it can overcome the technical problems, and these uncertainties may give entrepreneurs a great deal of risk. Therefore, the scale of private enterprises should not be too large, and it shall bring into full play its advantage as a small-scale enterprise. The private entrepreneurs should give full play to their talents, develop strong market insight and professional skill, and rely on careful market analysis to get full product information and seek the “point” of interest in the market. It shall make use of the development strategy of filling a vacancy in the market; the enterprise shall seek fine, professional and further development. Second, we should give full play to the role of Confucian culture, form strong cohesion within the enterprise, and create a culture of “everyone making contributions to the enterprise”, providing the cultural

foundation for entrepreneurial success of the enterprise. Finally, when the enterprise's survival goal has been basically achieved, it shall have the awareness to proceed with the enterprise system construction, starting from the most basic regulations and gradually establishing the written corporate system.

2. THE ENTERPRISE'S GROWTH STAGE – FAMILY-TYPE MANAGEMENT MODE

In the growth stage, the private enterprise, on the one hand, has a certain scale of plants, machinery and equipment, capital and other tangible assets, and on the other hand, the human resources, brand, technology, goodwill and other intangible assets of the enterprise is growing fast; with the expansion of business scale, the management crisis will show itself slowly, and the complexity of the management activities will gradually increase, slowly going beyond the coping ability of the enterprise founder. At this time, the enterprise needs more professional management personnel and professional technical personnel. The business owner would like to hire from the outside but fear the loss of operational control, so it is now suitable for the enterprise to take the family-type management mode, and this management mode will make these contradictions readily solved, and enable the enterprise to achieve rapid growth. In this mode, the business owner tends, in order to prevent operational control from falling to the hands of outsiders, to fill all or the vast majority of the key management positions with his or her family members; as for the introduction of professionals, it can introduce them according to posts arranged from low positions to high positions, and the post nature arranged from technical positions to management positions.

One needs to pay attention to the following points in selecting the family-type management: First, the object of entrepreneurial management should be transferred consciously from the management of the “affairs” gradually to the management of the “people”. The entrepreneurs should enhance their decision-making power and resources force, with an emphasis on the use of human resources; otherwise a wrong decision will lead to the rapid demise of the enterprise. Second, after the private enterprise enters the growth period, the enterprise will undergo the rapid development, and the employees and entrepreneurs also have confidence in the enterprise, and they may become conceited and assume that the past successful experience will be also applicable in other fields, which will easily lead to random investments and thus make the enterprise fall into the trap of blind diversification. The enterprise should strengthen the strategic management and develop strategic objectives for their own development according to their own situation, systematically guide the healthy development of enterprises, and avoid blind diversification. Third, the full range of institutionalized transformation shall be made

by breaking through the bottleneck of the management system, so as to enable enterprises gradually to shift from the “rule by man” to the “rule by law”. Finally, in this mode, the contribution made by each member of the family is difficult to evaluate and measure and the distribution of profits will easily lead to contradiction, thus affecting the further development of the enterprise. In reality, there are many cases in which the enterprises perish due to the dividing up by the family members, therefore, we shall pay attention to the reconciliation between family members, gradually clarify the system of income distribution, create a cultural environment where business interests are of paramount importance, and enhance the cohesion of the enterprise.

The family-type management mode is a transitional management mode in the process of the development of the private enterprise, family conflicts can not be reconciled with the further expansion of enterprise scale and the continuous improvement of the profit; as a result, it is almost inevitable that the family relationship will eventually disintegrate. At this time, if we can deal well with the relationship between family members, accelerate the development of enterprises, and make enterprises embark on the institutionalization management track as soon as possible, we are able to reduce or even avoid the loss thereby caused to the enterprise.

3. THE ENTERPRISE’S MATURITY STAGE - PROFESSIONAL MANAGEMENT MODE

After the continued development in the growth stage, the private enterprise will enter the maturity stage of the sustainable management. As the capital is a major constraint to the development of the private enterprise in the growth stage, it requires the help of social capital in order to continue to develop and broaden financing channels, and therefore the trend for the private enterprise to continue to develop is to adopt the holding and professionalization, which is the choice of the capital socialization. The domestic experts engaged in studying the family-type enterprises and private entrepreneurs summarize the guidelines for the development of the family-type enterprise in China on the basis of theories and practice: family holding, professionalized management, namely, clear strategies, regulated governance, scientific decision-making, advanced culture, smooth handover, and social responsibility. The design of the mechanism of these guidelines basically comes from the family-type enterprise’s management practice, therefore, is more in line with China’s national conditions and the enterprise’s reality, and the professional management mode is undoubtedly the most suitable one for the private enterprise in the maturity stage.

We need to pay attention to the following points in

choosing the professional management mode: First, we shall establish scientific enterprise governance structure, introduce the professional middle and senior management personnel, and implement the professional management within the enterprise. Attention should be paid to the introduction and cultivation of talents, make full use of their talents and make them realize their own value in the enterprise. Second, enterprises should have a clear competitive strategy, identify their market position, and work out the correct long-term strategic planning and clear target market. Third, attention should be paid to the building of the enterprise system and enterprise culture, establishing incentives mechanism and corporate culture conducive to fully mobilizing the enthusiasm of the staff, so that all members will have a strong sense of belonging and professional dedication in the enterprise. Finally, we shall establish a highly efficient scientific decision-making mechanism and a complete management system, so as to achieve a balanced development of enterprise efficiency, dynamism and stability.

4. THE ENTERPRISE’S DECLINE (RE-DEVELOPMENT) STAGE - ENTREPRENEURIAL MANAGEMENT MODE

We know from the enterprise life cycle theory that, the enterprise in a certain stage of the life cycle must experience the “rebirth” so as to reach maturity. When the enterprise has experienced the start-up stage, growth stage, maturity stage, and then enters into the decline stage, at this time, the enterprise is about to finish the complete process of a life cycle. At this time, in order to get rid of the fate of death and obtain the rebirth opportunities, it is useless for the enterprise to make modification and improvement of the minutiae of the management elements, because such elements can only play a supporting role. Therefore, the enterprise must again give full play to the role of talents of the entrepreneurs; take the entrepreneurial management mode so as to bring the enterprise into a new development of reincarnation.

In choosing the mode of entrepreneurial management, we need to pay attention to the following points: First, innovation and change is the main theme of this mode, and the enterprise must establish the enterprise system and enterprise culture which will help to stimulate employee creativity within the enterprise, while fully highlighting the role of innovation, further playing the guiding role of the incentives, and fully mobilizing the initiative of the enterprise’s personnel. Second, the business development strategy requires a major adjustment and a new market positioning, so judge and weigh before making a decision on whether to take the exit strategy. Third, the enterprise needs to make the organizational change, adopt a more flexible network organization to achieve the separation

of the size of organization and the scale of operation, making the integration of network resources and seeking a second start-up of business. Finally, and most importantly, at a critical moment, the enterprise shall consider the replacement of the enterprise CEO so as to replace the blood for the enterprise development, thus bringing new vitality to the enterprise.

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