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CASE STUDY

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From Family Business Management to Professional Management in a Time-Honored Brand: The Case of Fu Yuan Guan

Abstract This case describes the development process of Fu Yuan Guan, a Chinese time-honored brand. Through privatization, Fu Yuan Guan survived and rapidly captured its market. However, the family business management style proved to be a bottleneck during further expansion. There is a need to recruit qualified professional managers to improve the overall management of the firm but it seems there are challenges in doing so. This case describes the daily operationalization of this family firm together with the approach of top managers, with the purpose of exhibiting how its internal management is implemented.

Keywords time-honored brands, family business management, professional managers, business development

1 Introduction

As usual, general manager Mr. Zhang of Fu Yuan Guan got up early and walked to the company after tiding up. When Mr. Zhang went out, his wife, Ms. Song, the president of Fu Yuan Guan, was still sleeping. After walking around the factory, Zhang went back home to have breakfast with Ms. Song. As usual, they discussed some issues related to personnel arrangements and rewards during breakfast. Ms. Ma, executive vice-president of Fu Yuan Guan, was the focus of their chat as they were planning to appoint a top manager to take charge of some traditional stores that Fu Yuan Guan had recently acquired. These newly acquired stores, though respected and honored, had not been profitable for many years, thus needed someone to lead the implementation of systematic change. In other

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words, they needed a general manager. “We can send Ms. Ma, she has certain capabilities in management,” Ms. Song suggested.

“This is not wise, as Fu Yuan Guan cannot manage without her. In addition, although she is good at dealing with daily routines, she is not capable of making strategic decisions.” Zhang shook his head and said, “The essential point is that Fu Yuan Guan is also planning to open more new branch stores. Although its market share in Jilin is already high, the store coverage is far from enough. Just take the Jiangbei area as an example. There are only few small retailers and supermarkets to supply such a big area, so there is still room. Also, we should take a long-term view that we are now just doing business in the local market. We do not have enough trustworthy managers to be sent to the stores acquired in other cities.”

“What should we do then? Recruit a professional manager again?” Song said. When it came to hiring professional managers, Zhang became silent, as it reminded him of the unpleasant experiences they had had before with hired professional managers.

2 Company Description

2.1 History of Fu Yuan Guan

The original Fu Yuan Guan store was established in Jilin City, the second largest city in the north-east province of Jilin in 1628, so it has a history of almost four hundred years. It is said that the Chinese emperor Qian Long enjoyed Fu Yuan Guan cookies very much when he visited the city of Jilin. Many of the local citizens have been customers of Fu Yuan Guan remembering its history. Therefore Fu Yuan Guan, as a time-honored brand, meant a lot to them. During the planned economy period, there was a large deficiency of commodity goods. At that time traditional cookies such as moon cakes, were considered luxury products by local citizens and only rich people could afford them. Although the products of Fu Yuan Guan were limited to only a few traditional snacks, it became renowned as a top brand. Moon cakes are one of the most popular snacks produced by Fu Yuan Guan and its core techniques have been passed down until now. Fu Yuan Guan has thus been able to attract customers with its original taste favored most by the local citizens.

2.2 Organizational Structure and Core Managers

As a time-honored brand, Fu Yuan Guan was now under a holding company owned by Ms. Song who is the chairman of the board. We worked on this case with the permission and help of Ms. Song, with whom we have done in-depth interviews. With the support of Ms. Song, we were able to interview other managers in the company over a period of four months in 2012. Mr. Zhang, the husband of Ms. Song, was the president and in charge of this bakery company. Fu Yuan Guan has three vice-presidents who are responsible for production, sales and administration respectively. The structure of the company is exhibited in Figure 1, and the core managers of the company are introduced below in detail.

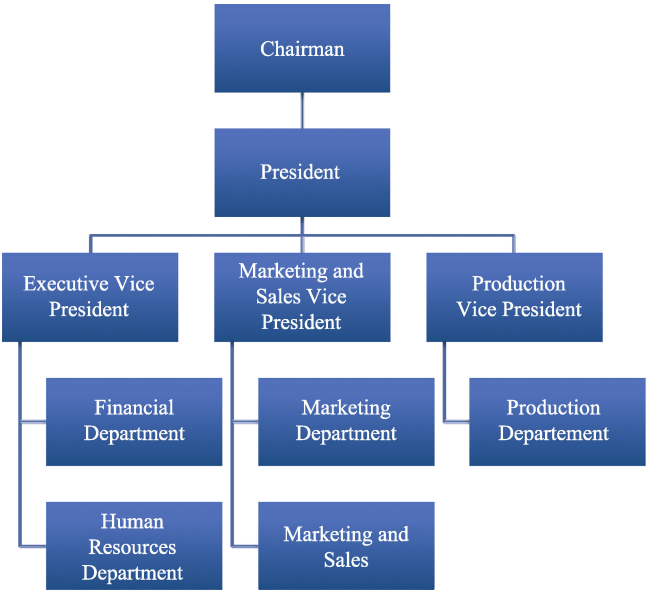

Figure 1 The Organizational Structure of the Fu Yuan Guan Group

Chairman. Ms. Song is the chairman of the corporation. She is a typical business woman, a workaholic, who has largely sacrificed her personal life. Her strong character is mainly shaped by her family background. Ms. Song has five younger brothers and sisters. They lost their father in early childhood and were raised by their mother. The family was poor and suffered a lot. Therefore Ms. Song, as the elder sister became the backbone of the family, trying her best to support the family. Her unique experiences have given her extraordinary courage,

persistence and her aggressive dominating characteristics are well-known. She thinks that others are not as good and reliable as her and thus tries to take responsibility for everything ranging from shop decoration to enterprise expansion herself. She realized that she could not be an expert in every field but she still prefers to lead through with the assistance of external consultants. She had even been simultaneously leading several teams in the company and was still energetic while all her team members felt exhausted. With the growth of the corporation, Ms Song had been focusing on how to further expand the company. She had recently acquired a few other time-honored brands similar to Fu Yuan Guan and more were being pursued.

President. Mr. Zhang has been in the position of president since 2003 and had in fact been participating in the decision making process before he was officially assigned. Mr. Zhang has strong personal feelings for this family-owned company. He likes to walk around the firm and factory and check whether everything is running smoothly.

Executive vice-president. Ms. Ma holds the position of executive vice-president and is responsible for the daily routines of the firm. Also a family member, Ms. Ma is the sister-in-law of Ms. Song. Ms. Ma is young and energetic. She can work and stay up for several nights without complaint. She is also quite capable. She was only an auditor when she joined Fu Yuan Guan and at that time she was not considered as a candidate for vice-president. She then worked hard, was promoted to firm accountant and eventually took the position of vice-president after ten years of hard work.

Production vice-president. The production vice-president was Mr. Zhao and as he was from Guangdong province, others preferred calling him Cheng as his fellow villagers did. Cheng came to Jilin to earn a living and settled down. Cheng joined the company before it was privatized. Therefore he had been in the company even longer than the chairman. He became vice-president through his abundant production experience. He was not old but he was one of the most senior employees. He was a contract worker when Fu Yuan Guan was still state-owned and then became the core technician of the company. Cheng had left the company for a while but returned later. Though other companies offered him better salaries, he thought Fu Yuan Guan had more credibility and potential. He often hoped that Fu Yuan Guan could one day have modern production lines like large food companies did and make better products. Cheng understood technology

but was not good at communicating with others. He often had problems with his colleagues and also had difficulties in handling interpersonal relationships.

Marketing and sales vice-president. Mr. Li had been assigned to be the vice-president of marketing and sales by the management team during the second restructuring of the company. He played an important role during the privatization process. As a former government official, Mr. Li exhibited some stereotypical Chinese official traits with tea cups and cigarettes always on hand, he was good at making speeches and quite good at writing and calligraphy. Mr. Li's main task was to carry out Ms. Song's requests. For example, Mr. Li would prepare the decoration plan under Ms. Song's orders. He would then carry out the plan after it was approved or modified by Ms. Song.

3 Business Environment—Other Time-Honored Stores in China

There are a certain number of time-honored brands across China covering many industries such as food, medicine and hotels. These traditional brands usually have a long history and have inherited unique products, techniques or services. Most of them have a Chinese traditional and cultural background widely acknowledged by society and thus enjoy a high reputation. Some traditional food brands include Quan Ju De (全聚德), Huang Shang Huang (煌上煌), Gou Bu Li (狗不理) and Dao Xiang Cun (稻香村). Like Fu Yuan Guan, these traditional food firms originated and developed in certain specific areas. Most of these time-honored brands have suffered from difficulties in operations and sales, and have had to restructure to develop. Below are three examples of time-honored brands, namely Quan Ju De, Guan Sheng Yuan and Dao Xiang Cun.

Quan Ju De[1]. Quan Ju De was established in 1864 and specializes in roasted ducks and other dishes. Quan Ju De survived the turbulence and fluctuation of several regimes but carried heavy debt and was on the verge of bankruptcy. Fortunately the firm received strong support from the Chinese government and developed into a state-owned enterprise after asset reorganization. In May 1993, Quan Ju De was restructured into a joint-ownership corporation, which was owned together by the state and private owners. After undergoing a series of mergers and acquisitions in 2005, the Quan Ju De Group Corporation Limited was established and soon was able to launch its initial public offering. Through

[1] Extracted and translated from http://www.baike.com/wiki/中国全聚德(集团)股份有限公司

all this development, Quan Ju De was no longer only a brand of roasted duck but developed into an integrated catering corporation producing many other excellent traditional food brands. Also, Quan Ju De had established a franchising business model in other cities such as Hangzhou, Nanjing and Hong Kong. Through decades of development, Quan Ju De has formed into a giant catering group with more than 70 chain stores, tens of thousands of employees, annual sales of more than 500 million pieces of duck, more than 500 million consumers, and with a brand value of nearly 110 billion RMB. Quan Ju De not only realized industrial integration but also started a new business model for other time-honored brands in China. In the 2013 fiscal year, its main business revenue reached 1.9 billion RMB with a total profit of 1.541 billion RMB.

Guan Sheng Yuan[2]. Guan Sheng Yuan was established in 1915 mainly selling candies and preserved fruits. In 1956, Guan Sheng Yuan was transformed into a joint-ownership enterprise and was largely state-owned. All Guan Sheng Yuan branches were merged together by the government and the name Guan Sheng Yuan was kept. The current Guan Sheng Yuan Group Corporation is a joint venture owned by Bright Food Co. and CITIC Capital. It mainly produces two famous Chinese brands namely "Guan Sheng Yuan" and "White Rabbit." The business of the firm included a thousand kinds of products under five major varieties including the White Rabbit candy, Guan Sheng Yuan honey products and other health products. It had become one of the most valuable traditional brands in China. In the 2013 fiscal year, its main business revenue reached 1.76 billion RMB with an increase of 14% over 2012, and achieved a net profit of 96.35 million RMB with an increase of 6% over 2012.

Dao Xiang Cun (稻香村)[3]. The original Dao Xiang Cun store was opened in 1895 in Beijing selling southern Chinese flavored cookies in northern China. In 1984, Liu Zhenying, the fifth generation successor of the founder of Dao Xiang Cun, established the Beijing Dao Xiang Cun Corporation, and the Beijing Dao Xiang Cun Group in 1994, renamed the Beijing Dao Xiang Cun Food Ltd. Co. Over more than one century of development, Beijing Dao Xiang Cun has opened almost one hundred stores, with sound logistic distributing centers and more than three hundred sales outlets. Beijing Dao Xiang Cun had established a large manufacturing foundation offering more than 600 kinds of foods, such as cookies,

[2] Extracted and translated from http://www.gsygroup.com.cn/index.php
[3] Extracted and translated from http://www.daoxiangcun.com/index.html

meat, frozen food, zongzi (a traditional Chinese snack for the Dragon Boat Festival) with an annual revenue of around 4 billion RMB.

Similar to Fu Yuan Guan, these well-known time-honored companies and others not mentioned here have all experienced restructuring and development. These time-honored stores have all lived through several changes of China's political and economic systems. Under different systems (with different ownership structures and economic policies), the structure and management of these companies has changed dramatically. Not only serving local customers as all other brands do, all these time-honored brands take an even more important role in inheriting the culture embedded in the brands as part of the different local cultures of China. Therefore, the government founded the association of time-honored brands to attract more attention in protecting and developing these brands.

These time-honored companies are unique in their ways of doing business due to different locations and the specific business areas they operate in. Different locations mean different political and cultural environments, as well as different populations and market size. Quan Ju De and Dao Xiang Cun are located in Beijing, which is the economic and political center of China. With the trend of China's social development, a large amount of people move from the rural area into big cities, and the mobilization of population makes the market size increase significantly. That is also why more time-honored brands have survived in Beijing, Shanghai and Guangzhou. Beijing has been the capital of China since the Ming Dynasty, with the most cultural legacies. So among the first-tier cities in China, Beijing has provided better soil for time-honored brands to grow than the others. In addition, because of its status as the nation's capital, the time-honored brands in Beijing have attracted more governmental aid. For example, Dao Xiang Cun was designated as an official gift for representatives from other countries. In contrast, Fu Yuan Guan is located in a third tier city. Although not comparable to those in Beijing, as the only time-honored brand in the city, Fu Yuan Guan has attracted a lot of attention from its local customers, from generation to generation. Yet, with competition becoming fiercer and more regular brands emerging, such an absolute advantage is being challenged. Moreover, these time-honored brands operate in different areas such as baked goods and restaurants as mentioned above, while others are in shoe making, clothing and so on. Different levels of development and modes of competition in

different industries impact these brands differently. Last but not least, they have different ownership structures and thus require different directions in terms of effective management, though reforms are necessary for them all. Dao Xiang Cun is still state owned. Fu Yuan Guan was privatized and is currently family owned, so has had to deal with low efficiency and potential loss of competitive advantage due to traditional family management.

4 The Privatization and Restructuring of Fu Yuan Guan

4.1 Business Reform from the Perspective of Institutional Theory

We employ the view of institutional theory (North, 1990; DiMaggio and Powell, 1991) to observe the development of China's family businesses. This perspective suggests that governmental decisions and policies including various norms and rules impact the operations of businesses. For a firm in the nation, its behavior and success is largely dependent on governmental support in many aspects including legal, financial and social policies. For example, in China, the recent opening-up and reform campaign initiated the firm privatization process as the central element of economic transition which has had a profound impact on the development of various types of firms. Some state-owned firms have been encouraged to be sold to private individuals or entities so as to revitalize these firms through a process of removing ineffective habits and methods in managing the firms accumulated under the old, planned economy of China. The case of Fu Yuan Guan provides us with evidence of how legal and financial support helped the privatization and restructuring of a former state-owned firm and in turn improved its overall performance.

4.2 Privatization of Fu Yuan Guan

Fu Yuan Guan became a state-owned enterprise (SOE) after the establishment of the People's Republic of China. However, the firm, like many other SOEs, had operational difficulties for many reasons. Fu Yuan Guan nearly went into bankruptcy in 1998 due to heavy debt and poor management. At that time, the firm only operated two days a week. Even so, Fu Yuan Guan still held an important place in the eyes of local people. When Mid-Autumn Festival approached every year, the sales of moon cakes remained astonishing.

Economic reforms and transitions are common in nations with emerging economies. Towards the end of the 1990s, both regional and central governments were promoting the privatization of SOEs through positive changes to the tax law and financial system. Fu Yuan Guan took advantage of these favorable policies and conducted its own privatization. The firm was then facing its most difficult times from both financial and operational aspects. The firm urgently needed a large amount of cash to pay its debt and employees. As a business woman in real estate, Ms. Song was attracted by the perfect location of Fu Yuan Guan, in the central downtown of Jilin City with a large area of nearly 2,000 square meters. As well, the commercial potential of this time-honored brand was the key in attracting Ms. Song to acquire it. In the end, Ms. Song fully acquired the firm at a cost of 18.6 million RMB in late 1998 and this SOE was finally privatized through price bidding in 1999. Based on her determination, expertise and experience, Ms. Song believed that the brand could be revitalized after a series of reforms.

Before privatization, the main business of Fu Yuan Guan was traditional cookies, but after privation its business scale included both traditional Chinese cookies such as moon cakes and dumplings, and foreign cookies such as bread and western cakes. Fu Yuan Guan had become the biggest local bakery company with the most varieties of cookies though later it also entered into the catering industry by opening some small restaurants within its bakery stores.

Although Fu Yuan Guan had been a time-honored brand with an almost four hundred-year-history, the current Fu Yuan Guan company is young. During the first phase of privatization, Ms. Song invested a certain amount of capital to pay off its debt and maintain daily operations. Privatization was not common at that time and Fu Yuan Guan was one of the first-movers. Lack of experience as well as so-called organizational inertia resulted in a slow restructuring process. In the beginning, there was no change in the employees and managers and they were even given some company shares (up to the restructuring former employees and managers still held a large proportion of the company, i.e., 51% of total shares).

4.3 Company Restructuring of Fu Yuan Guan

The privatization process did not solve the most fundamental problems of the firm since the majority of shares were in the control of the former employees and

managers. The whole company was still in chaos. With ineffective internal management, theft and unethical behavior from employees occurred frequently. The managers still used public money for leisure activities. Externally, although Fu Yuan Guan enjoyed incredible customer loyalty in Jilin City, the firm still needed further development in order to strengthen its market share and enhance the overall quality of products. The firm was planning to expand into nearby regions, but "the firm managerial capability was not strong enough to achieve these goals" and "it was hard to adapt to the market economy", according to Ms. Song in our interviews. Therefore, in 2000, Fu Yuan Guan began its reconstruction process. Ms. Song invested 18.6 million RMB and fully acquired the firm obtaining 97% of the total shares, with the remaining held mainly by some key technical employees.

Through this restructuring process, the management team was robust again and its own competitive advantage was built up in the market which could be seen from its great financial performance. Its sales increased by almost twenty times and the scale of the firm was also dramatically enlarged. Moreover, the efficiency of the firm was further improved. As a consequence of this restructuring, sales increased more than ten times and still kept increasing annually as presented in the financial statements listed in Table 1 and Table 2.

Fu Yuan Guan had now become a flagship enterprise in Jilin City and even a model for agricultural industrialization across China. In 1993, Fu Yuan Guan was verified by the national trading committee as a "Chinese Traditional Brand." This title was reinforced by the Ministry of Commerce of the PRC in 2006. SAIC (State Administration of Industry and Commerce of the PRC) also honored Fu Yuan Guan with the title of "Chinese Famous Brand" in November 2004. The firm further gained a total of 18 national and regional honors and over a hundred titles including "Chinese Top Ten Bakery," "Chinese famous snack" and "Chinese trusted brand" among others.

In order to improve productivity, Fu Yuan Guan brought in furnaces, egg beaters, dough machines and other equipment. Fu Yuan Guan introduced many different kinds of cookies and formed a large food system with existing Chinese pastries, Western-style cakes, frozen food, meat food products, beverages, frozen food products, aviation food, health food, and children's foods. There were eight categories of products. Among them, there were traditional Chinese snacks such as Jing Ba Jian (京八件), plum cakes (梅花糕), seasonal cakes, bamboo cakes

Table 1 Balance Sheet of Fu Yuan Guan (Unit: RMB)

Year	1999	2004	2009	2011	2012	2013	2014 (until Oct.)
Current assets	3,846,991.45	5,688,579.30	18,451,713.18	71,017,151.14	166,217,325.28	167,004,877.86	174,660,727.78
Fixed assets	4,793,348.32	30,631,550.08	39,154,888.28	44,953,881.58	50,033,678.96	49,940,475.16	62,302,121.77
Intangible assets	1,158,300.00	4,089,060.39	3,845,310.39	5,011,953.89	4,937,223.89	4,862,493.89	4,800,218.89
Total assets	9,798,639.77	40,409,189.77	61,451,911.85	120,982,986.61	221,188,228.13	221,807,846.91	241,763,068.44
Current liabilities	4,399,894.75	6,569,659.34	22,361,512.65	78,184,090.09	176,117,266.92	174,406,763.89	191,839,020.33
Total long-term liabilities	3,563,453.08	600,000.00	600,000.00	600,000.00	1,000,000.00	1,000,000.00	1,000,000.00
Total liabilities	7,963,347.83	7,169,659.34	22,961,512.65	78,784,090.09	177,117,266.92	175,406,763.89	192,839,020.33
Total owner's equity	1,835,291.94	33,239,530.43	38,490,399.20	42,198,896.52	44,070.961.21	46,401,083.02	48,924,048.11
Total liabilities and owner's equity	9,798,639.77	40,409,189.77	61,451,911.85	120,982,986.61	221,188,228.13	221,807,846.91	241,763,068.44

Table 2 Income Statement of Fu Yuan Guan (Unit: RMB)

Year	1999	2004	2009	2011	2012	2013	2014 (until Nov.)
Main business income	685,562.46	5,520,253.75	27,827,039.49	45,250,531.56	50,109,134.17	52,003,587.34	47,368,268.13
Main business costs	319,913.88	2,413,382.46	15,372,858.73	34,316,040.29	38,894,384.91	41,529,140.53	36,786,167.45
Operating expenses	332,035.54	585,013.68	7,025,530.97	4,051,014.18	4,072,828.29	3,969,431.21	2,891,387.35
Business tax and surcharges	8,752.99	33,912.34	183,837.67	249,743.85	338,346.24	327,631.06	302,174.56
Profit from other operations	183,857.61	0.00	0.00	0.00	0.00	0.00	368,028.21
Administrative expenses	668,867.24	1,698,979.20	3,815,363.22	2,872,933.58	2,423,927.05	2,860,490.69	2,954,808.34
Finance costs	302,413.88	403,520.97	550,592.40	781,211.25	1,144,891.21	5,403,229.18	1,443,803.51
Operating profit	–762,563.46	385,445.10	878,856.50	2,979,588.41	3,234,756.47	2,912,711.59	3,357,955.13
Subsidy income	0.00	0.00	1,120,000.00	0.00	0.00	310,000.00	0.00
Other income	736.00	0.00	255,582.05	6,617.66	3,801.00	15,898.00	5,998.33
Other expense	3,000.00	899.62	7,000.03	60,000.00	147,985.83	98,531.41	0.00
Total profits	–764,827.46	384,545.48	2,247,438.52	2,926,206.07	3,090,571.64	3,140,078.18	3,363,953.46

(竹节糕), twists (麻花), moon cakes, bean cakes (绿豆糕), tea and health food. There were also Western-style cakes, mainly birthday cakes, and all kinds of western cookies and Russian-style French bread. Meat products mainly included all kinds of sausages, smoked products, and frozen food such as rice balls, ice cream, dumplings and so on.

In order to comply with international standards, the company invested 120 million (mainly in land and equipment) and established a new plant nearby the downtown area. The new plant covered an area of 4,700 square meters and was specially designed by Ms. Song and her team of designers. At first glance, it looks like a Chinese garden rather than a factory. Within the new plant, there is a Chinese classical garden with a bridge, streamlet and pavilions. It had become a landmark in Jilin City. In addition to its appealing design, the new plant also greatly improved the production capacity of the firm. Now most of the production is conducted in the new plant and the original factory was converted into a shop and restaurant offering a variety of snacks and meals.

5 From Family Business Management to Professional Management

5.1 Hiring Professional Managers

Appropriate human resource practices can enhance firm performance and realize the full potential of employees (Wei, Liu and Chiu, 2008). The introduction of professionals/experts into the firm helps family business achieve better firm performance (Fukuyama, 1996; Peng, 1999). However, some fundamental obstacles exist such as problems related to trust between firm owners and hired managers. Low trust impedes the effectiveness of human resource development and utilization (Whitener, 1997). The powerful control of the company owners makes it hard for outsiders to commit and contribute to the development of the firm. Evidence indicates that even if some professional managers are recruited, family owners are usually not patient enough to give them enough time and trust to prove their capabilities. The case of Fu Yuan Guan reinforces prior argument that the key concern for the firm is to attract and maintain qualified managers to lead the firm forward. It indicates that the mindset of the family owners prevents them from trusting talented managers. If they will not trust these outsiders, it is very hard to recruit and utilize professionals to upgrade the firm through

improving the effectiveness of business management.

Ms. Song wanted Fu Yuan Guan to expand and the brand to become well-known throughout the country, not just in Jilin City. However, Ms. Song, Mr. Zhang and other family members felt “helpless” once expansion was mentioned due to their lack of special knowledge and experience. Realizing this, the family decided to try to employ professional managers to help with the further development of the firm. Mr. Sun joined Fu Yuan Guan in 2002 through referrals. He had taken different managerial positions in the food industry including in Hui Yuan Ltd. Co., a renowned beverage producer in China. Mr. Sun had very positive feedback from former employers. Based on this, the family thought that he would be fully qualified for the position of president. To be cautious, the management team appointed him as vice-president so that he could have more time to adapt to the firm and also allow the family more time to observe him.

Given his abundant working experience in a related industry, Mr. Sun had plenty of knowledge in quality control and operational standardization. He was then responsible for training middle and top managers in business management and did bring new concepts to the firm. Other than training, Mr. Sun mainly worked in the workshop in order to control production details. As he emphasized, production details are critical for food companies, and so he required that details such as the composition of flour and eggs receive sufficient attention. One of his main tasks was to design a comprehensive material control plan for the firm and compose routine schedules (e.g., health standards) based on real production situations in workshops.

In response to higher production standards as well as future competition, the firm applied for ISO9000 certification for organizational and production standardization. The compliance with ISO9000 certification also functions as a kind of regulation for food industries in China. The ISO9000 certification is a set of internationally accepted procedures that help firms realize firm standardization in terms of quality management. Mr. Sun was in charge of this task. He required the supplier to ensure the quality of the products according to the technological requests from customers and strictly controlled the supply quality based on the terms of the contract. Furthermore, he asked the supplier to provide documents on quality assurance to Fu Yuan Guan. Following this standard, the firm needed to set up a comprehensive documentation system and establish specialized departments to ensure the documentary integrity of every process.

Mr. Sun drafted a set of new standardization regulations in order to improve the enterprise system based on his observation in the production workshop. However in the eyes of Mr. Zhang he seemed over-particular about meeting the ISO9000 standards. He hoped the firm could strictly follow the regulations to realize management standardization. However, the implementation process was not easy. For example, one of the regulations required that the delivery to retail stores start at 8am. If the delivery truck followed this regulation, some retailers would only receive goods after two o'clock in the afternoon as it would took eight to nine hours to reach the retail stores in different districts. This was not satisfactory in that the customer peak was usually around 2pm. Therefore such a policy was inappropriate for Fu Yuan Guan and could lead to an overloaded inventory. Worse still, the cookies would lose their flavor due to the delay.

Another example that frustrated Mr. Sun was the adoption of uniform hygiene standards for both before and after production. He required employees to keep the workshop clean at all times which could never be achieved since flour were usually scattered around the table during bakery production. Employees also claimed that it was inevitable to have flour on the floor due to wind and they could not stop working to clean the floor all the time. Most employees were not satisfied with the regulations. Since punishment for poor hygiene conditions was related to compensation, some workers even refused to work before the hygiene inspection. The firm did not think it was unusual to have problems with newly established rules but they felt that Mr. Sun implemented the new requirements in a dictatorial way rather than modifying unreasonable standards. Furthermore, the required compensation plan for Mr. Sun far exceeded the firm's budget. As a consequence, Mr. Sun was dismissed from Fu Yuan Guan.

Aside from Mr. Sun, Mr. Wang was invited to Fu Yuan Guan in 2000. Mr. Wang won the position due to his excellent communication abilities. He obtained his MBA degree from Peking University giving him advanced management knowledge as well as the highest education degree in Fu Yuan Guan. Like Mr. Sun, Mr. Wang introduced his own expertise into the firm and started as a vice president. Mr. Wang also failed to prove his capabilities and quit the firm after only two months because the existing managers claimed that Mr. Wang was unethical. After this recruitment failure, the family lost confidence in searching and employing external talents, despite the fact that the existing managers were not qualified enough. Mr. Zhang thus had to keep working in the position and

continues to lead Fu Yuan Guan today.

Later on, Mr. Sun joined the firm again as a consultant to help with internal management standardization and employee training. However the family was again unhappy with him. First, Mr. Sun required that he be provided with private cars which he claimed was for enhancing his leadership and firm reputation. However, the family felt he was wasteful. Second, he used materials with logos from another company for internal training. The family felt Mr. Sun was not committed to the firm at all. Mr. Sun was fired again after two months.

5.2 Cultivating Managers from the Inside

Eventually, the management team of Fu Yuan Guan realized that training managers internally might be more realistic than hiring professional managers from outside. However, it proved to be as difficult as hiring external professionals. There was little choice as human resources were limited. They could only promote a vice-president to the position of president, but it turned out that there was no one at that level who was qualified, even though some of them were family members. They had planned to train a vice-president and Ms. Ma together for the position of president. However, it turned out that the vice-president quit as the job required longer working hours and more workload.

6 Future Development of Fu Yuan Guan

Every year in Shanghai, the Chinese Institute of Baking holds an exhibition on products ranging from raw materials to processing to packaging materials. Top managers, core technical staff and outstanding employees from Fu Yuan Guan took part in the exhibition almost every year. During the exhibition, they took the subway and bus instead of taxis, and lived in economy hotels such as Homes Inn and ate simple meals. They did not distinguish themselves by rank, and even within Fu Yuan Guan, all employees except Ms. Song, worked in offices of the same size. Mr. Zhang, as the president, rarely worked in the office as he was always in the factories, branch stores and the supermarket.

“We need to bring in advanced information systems to Fu Yuan Guan,” the biggest inspiration the exhibition brought to Ms. Song was advanced technology to improve productivity and management efficiency.

"If we expect to keep our current market position and even seek to develop further, this is a must." Cheng assented. To bring in an advanced production line and advanced technology had always been his dream.

"If so, Ms. Song, you just instruct me if I can help!" Mr. Li.

"This is really what we should do!" Ms. Ma agreed too, "If we bring in a new ERP system, the workers will not loaf on the job, and it will cut our production costs to a large extent". It was really an irritating thing for Ms. Ma to supervise workers, as most of them were relatives of the family. She could not criticize them even when they did not perform well. And there were quite a few of them in the firm sitting there doing nothing all day. She hoped the ERP system would encourage them to work better.

"What is ERP?" other employees whispered to each other, "I'll hate it if ERP disrupts our daily work habits as ISO9000 did!"

"We need to bring in new technology, but not now," Mr. Zhang said, "I have investigated ERP application in recent years. Most of the ERP systems were useless, and some even hindered enterprise development," he said seriously. "In addition, the introduction of ERP needs to be matched with corresponding highly professional employees. Everyone here knows that almost all Fu Yuan Guan employees were recruited by referrals, and some didn't even graduate from high school. What do you expect them to do with the ERP?"

There was silence for a while, and this proposal was not raised again.

There was a harmonious working atmosphere in Fu Yuan Guan and it had been matched with good performance in recent years. However, there was a problem Mr. Zhang kept thinking about especially seeing so many excellent enterprises in the industry during the grand exhibition—the future development of Fu Yuan Guan. He felt a lump in his throat when he thought of Holiland, a Chinese bakery company started in Beijing in 1992 and now developed into chain stores. Holiland had only entered Jilin recently years but had seized a large percentage of the whole bread and cake market, where Fu Yuan Guan was not competitive. He knew that they should face up to their weakness in the western cookie market by bringing in new technology and professional talents. But he also knew that it was a big challenge for Fu Yuan Guan to bring in new professional talents. At this time, his cellphone rang, "This is Mr. Liu, and Manager Wu has recommended me…" this was another professional manager. Mr. Zhang hesitated and sighed, "How does this man work? Would he cause problems for the company like Mr. Sun? "

Fu Yuan Guan has gone through the privatization and restructuring process and developed well. As the family firm survived this difficult period, new challenges had been imposed by increasing market competition. Fu Yuan Guan has been required to innovate and further adapt to the competitive environment. All the family members of Fu Yuan Guan knew that one of the major ways to stay competitive was human resources, one of their major needs. But the problem was how they could really accept those external professional managers and let them do what they needed to do to help the company fight for their market. No matter whether they hired professional managers or trained employees from inside the company, Fu Yuan Guan needed to find ways to enhance its overall management level to overcome this bottleneck in their expansion.

7 Conclusion

A time-honored bakery firm, Fu Yuan Guan, is featured in this case. Based on a comprehensive introduction of its history and business environment, we focus on how Fu Yuan Guan can move from a family business towards more professional management so as to improve its competitiveness. The major milestones along the development of Fu Yuan Guan include privatization with the institutional support which provided Fu Yuan Guan a chance to develop initially; and further ownership structure changes which enabled the enhancement of efficiency through internal management improvements. However, given the current increasingly fierce market competition, the owner/managers realize the necessity of obtaining professional knowledge to help the firm survive this new market. However, having failed several times to successfully recruit external professional managers showed that the family business owners are not yet ready to change their mindset and adapt the ways of managing the firm through these external managers. They need to find a mechanism to balance the role of business owners and to empower professional managers. Through the dilemmas described in the case, we wish to highlight the problems that commonly exist in many family businesses in China to call for more attention and consideration from both family business owners and professional managers.

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