

# Research on the Trans-Regional Integration of Chinese Family Enterprise Based on the Perspective of Organizational Trust and Control

## —A Case Study of Hope Group

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### Abstract

Under the background of Chinese Regional Market Segmentation and Familism Dilemma, this article deeply analyses Hope Group with the method of case study and then demonstrates the relationship between the trans-regional market scope, organizational trust and control. The result shows that, on the one hand, the market scope influences the way of control directly, that is, with the expansion of the market, family enterprise tends to adopt formal control rather than informal control. On the other hand, the scope of trans-regional market integration affects the way of organizational control indirectly by having an influence on organizational trust. With the enlargement of market scope, the evolution of organization trust helps to optimize control mode and finally achieve the integration of formal control and informal control in China's family enterprise.

### Keywords

Family Enterprise, Trans-Regional Integration, Market Scope, Organizational Trust, Control

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### 1. Introduction

Under the background of Chinese transformation economic environment, the planned economy system loses its efficacy gradually and the market economy system hasn't been built up completely, thus, family-management

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mode becomes the most common choice to most of the private businesses. In order to cope with the competition of foreign enterprise and the impact of globalization, Chinese enterprise is eager to carry out trans-regional integration to get benefit from scale effect. However, many family enterprises have fallen into “Familism Dilemma” in this process [1]. Firstly, the severe credit crisis in transformation period of Chinese society makes family enterprises reluctant to absorb managerial resources from external market. Secondly, the trust differences based on family close-and-distant relationship and the employment standards based on cronyism make it difficult to introduce and use external professional talents effectively. Finally, influenced by management traditions, family enterprise tends to constrain employee behaviors by using informal mechanisms. In this condition, the integration efficiency is poor to most Chinese family enterprises, so it has a great academic prospect and practice value to study the relationship between organizational trust and control in Chinese family enterprise in the context of trans-regional integration.

Considering the significant position of family enterprise in Chinese economy, theoretical studies for family enterprise are relatively deficient. The current researches about trust issues in family enterprise can mainly be divided into two streams. One concerns about the cultural and social origins of family enterprise trust, however the other pays more emphasis on the evolution of family enterprise trust mode and the problem of “Familism Dilemma” [2]. The study of family enterprise control concentrates on the transference of core authority power, the family enterprise internal control problems and the cause analysis. But current researches of Chinese family enterprise rarely involve in the issues of trans-regional integration. At the same time, the researches of family enterprise trust and control as well as the relationship between them are not embedded in the environment of Chinese market segmentation. Thus, our research takes market segmentation and “Familism Dilemma” as the background and analyses the organizational trust and control of family enterprise as well as the relationship between them in the process of trans-regional market integration.

What changes have taken place of organizational trust and control in the process of trans-regional market integration of Chinese family enterprise? Specifically, 1) how does family enterprise trans-regional integrates market scope influence the choice of organizational control mode? 2) How does family enterprise trans-regional integrates market scope influence organizational trust? 3) What is the impact of organizational trust between family enterprise trans-regional integrates market scope and control mode? This article would like to study these issues through the approaches of literature review and exploratory case study.

## 2. Literature Review

### 2.1. Chinese Family Enterprise Trans-Regional Integration Behaviors

Trans-regional integration is always used to describe the degree of a enterprise’s business concentration or dispersion of one special industry in one country or some countries [3], includes the choice, entrance and investment of business territorial scopes. Most current studies of trans-regional integration are based on the background of business internationalization, which focus on the activities of MNE integrates different countries’ markets. Davies [4] argues that, trans-regional integration or geographic diversification refers to the strategy which an enterprise appears in more than one country. However, trans-regional integration is essentially the expansion or growth of an enterprise beyond the geographical scope of original birthplace. Thus, even in one country, enterprises will continue to implement trans-regional integration [5] [6], especially when facing the significant differences of different regions in domestic market. Since 1978s, China’s gradual, experimental and decentralizational economic reform results in the obstacles of market segmentation and institutional variations, so when implementing trans-regional integration, enterprise can’t neglect these obstacles [7] [8]. Therefore, in this paper, trans-regional integration refers to the substantial business activities that beyond the headquarters’ location and enter other areas in China, the entering approaches can be various in kind (ex. mergers and acquisitions, new construction, joint venture, etc.) and are intertwined with product diversification and vertical integration.

In the context of economic globalization and China’s rapid economic development, Chinese family enterprise tends to implement trans-regional integration strategy in order to maintain competitive advantages in domestic market. After studying existing researches, we can summarize the motivations of trans-regional integration into five points.

- In order to achieve market expansion rapidly and increase the pace of growth.
- Break through the existing already saturated market region and look for new profit growth points in other

market [9].

- Make full use of surplus internal resources and obtain cost and resources allocation advantage from scale economy and scope economy by synergy effect created from multi-regional market.
- To decentralize management risk through multi-regional businesses and reduce the negative effects of regional mismanagement and environmental uncertainty.
- Promote internal competition of the enterprise by optimally transfer strategic priorities and limited resources among different regional markets [10].

## 2.2. Organizational Trust in the Process of Chinese Family Enterprise Trans-Regional Integration

The general definition of “trust” refers to the confidence and expectation from one to the other, that is to say, the anticipation of the trustee can complete stated obligations and won’t make profit by using the weakness of the trustor [11]. The most basic form of trust is interpersonal trust and subsequently extended to individuals’ trust to organizations, organizational trust to organizations [12]. In this paper, we study the trust issues of family enterprise to internal members and to the managers of regional branches, which belongs to interpersonal trust within the organization.

In addition, “trust” has its special connotation under Chinese institutional environment. According to the affinity relationship between the two trading parties, under Chinese condition we can divide the trust into family trust, pan-family trust and social trust [13]. Family trust is built up on the basis of “blood relationship” and “loyalty”, it can remedy the deficient of capital, technology, management and other resources effectively at the startup-period of Chinese family enterprise, also, decrease agency cost to some extent. As a result, family enterprise tends to use family trust preferentially in China’s institutional environment. But with the implement of trans-regional integration and the expansion of business scale, the internal family members’ management abilities will not enough to use and inevitably family enterprise will fall into “familism dilemma”. At this time, the enterprise will tend to construct pan-family trust through marriage or trust extension to cope with the talent demand of expansion, But after the family enterprise has developed into a certain stage, pan-family trust will hinder its growth because of the problems of fuzzy property rights, the lack of supervisory mechanisms, and the insufficient management abilities ,thus, family enterprise will tent to adopt social trust mode for absorbing talents and expanding trust scopes at this time.

## 2.3. The Control Mode in the Process of Chinese Family Enterprise Trans-Regional Integration

The studying object in this paper is the managerial control behaviors of the Chinese family enterprises’ headquarters to affiliated agencies (including subsidiaries, branches and offices, etc.) in the process of implement trans-regional integration. According to the scholars points of view, parent-subsidiary enterprise control refers to the approaches and process that parent enterprise achieve organizational goals by affecting the behaviors of subsidiaries and its members, and it is a set of mechanisms, structures and procedures based on the capital contract and management contract relationships [14]. The dividing gist of parent-subsidiary enterprise management control behaviors is rooted by the formality and informality of control process, control method, control level and control mechanism [15]. From formal-informal perspective to classify control mode is in accordance with the real practices of enterprises, the more important thing is, it reflects the evolution route of Chinese family enterprise control mode. Therefore, considering the research object and the research background, this paper divide the control mode of family enterprise into two kinds, that is, formal control and informal control.

Researches show that the higher the organizational trust level, enterprise is more inclined to use informal control, on the contrary, the lower the organizational trust level, enterprise is more inclined to use formal control [17]. Because of the preface-structured trust pattern in Chinese family enterprise, when enterprise asset is on a smaller scale or trust risk is lower, the enterprise owner keeps a lower-level control to higher-trusted employees and the control mode is informal or even no control, but when facing lower-trusted employees, the control level is higher and the owner tends to use informal control or may add into formal control. When the asset scale or trust risks are increased, if the trust level is low, then the owner tends to adopt formal control; if it is high, the owner’s control level to the employees still keeps low but the control mode becomes formalized gradually. When the enterprise asset scale reaches to a critical level and the potential risk is very huge, the owner’s control

will be very strict to the employees and the control mode will tend to become a single set of formal control [16] [17].

Therefore, this paper firstly states why Chinese family enterprise carries out trans-regional integration and then constructs a research model about Chinese family enterprise trans-regional integrate market scope, organizational trust and control mode in the context of Chinese market segmentation and “familism dilemma”. On the one hand we analyze the influence of trans-regional integrate market scope to the choice of control mode; On the other hand, we discuss the control mode’s variation under different trust level through studying the evaluation of the trust in the process of trans-regional integration.

### 3. The Research Methods and Data Analysis

#### 3.1. Research Questions and Methods

This paper attempts to use exploratory case study method to discover trust and control issues in the process of Chinese family enterprise trans-regional integration. On the one hand, trans-regional integration is an outcome of Chinese special economy environment, so we can hardly abstract and separate it from Chinese unique environment. By using case study method, we can obtain data and experimental knowledge that other research methods cannot access; On the other hand, our research aims at extending and supplementing the knowledge about Chinese family enterprise management by studying the trust and control issues which embedded in the behaviors of trans-regional integration.

#### 3.2. Case Choosing

According to the researching purpose and researching model, this paper chooses Hope Group as the case. The main reasons are the followings.

- It meets the requirements of researching subjects and theory building. Hope Group is established in 1982 and it is one of the biggest family enterprise, also the biggest feed production enterprise in China. It has carried out trans-regional integration in domestic market and has many branches.
- It meets the requirements of representative. Hope group was evaluated as “The champion of China’s 500 largest private enterprises”. It was influential and the trust level and control mode of Hope Group evolved distinctly in he process of trans-market integration.
- It meets the requirements of studying reliability. Because of its significant position in Chinese business circles, there are abundant second-hand materials in hand which helps us to compare and test there liability of the information from different approaches.

#### 3.3. Data Collection

This paper’s second-hand case data origins from three channels. First, we get public information from authority media, including Hope Group’s official website, annual reports of listed companies, “CHINA INFOBANK WANFANG DATA”, “People’s Daily Online” etc. Second, by scanning and analyzing relevant publication and journals related to the founders and core managers of Hope Group, we extract and refine useful information about organizational control, trust and trans-regional integration behaviors. Third, research literature of other scholars about Hope Group provides us abundant data and inspirations. Comparing with primary data, second-hand data is easy to obtain and helps researchers to identify objects easily, also, facilitates researchers to test and supplement model [18]. **Table 1** shows the sources of data and materials.

#### 3.4. Data Analysis

According to data types and researching variables, we make data encoding by identify, verify, and classify Hope Group’ case materials. As **Table 2** shows.

#### 3.5. Case Analysis

##### 3.5.1. The Influence of Chinese Family Enterprise Trans-Regional Integration to Control Mode

Family enterprise governance model is a diversified outcome which is depended on the various combination of external environment and internal factor. It changes with the development of the enterprise but always adheres

**Table 1.** Data collection process.

Data sources	Acquisition approaches	Related research topics
Official website	Studying Hope Group's official website and industry data websites	Enterprise development and the process of market scope integration.
Enterprise's public information	Studying enterprise annual, publications, pamphlet speeches and other materials of Hope Group	Enterprise development, transformation of control mode and the evolution process of organizational trust.
Media reports	Studying the reports and interviews about Hope Group	Enterprise development
Publications and periodicals	Studying publications and periodicals about Hope Group's founders and core managers	Enterprise development, transformation of control mode, the evolution process of organizational trust, the process of market scope integration.
Research literature	Studying other scholars' literature about Hope Group	The process of market scope integration, transformation of control mode, the evolution process of organizational trust

to the principles of cost minimization and the overall benefit maximization [19]. Family enterprise trans-regional integration means the extension and expansion of business geography, the increase of branches and management layers, these higher the requirements of management model [20]. Therefore, this article hopes that with the use of Transaction Cost Theory and Principal-Agent Theory to analyze the management control behaviors of family enterprises.

### 3.5.2. From the Perspective of Transaction Cost Theory

Under the unsound legal system of Chinese society, the risk and uncertainty are pretty high in economic transactions, thus, relationship networks variously influence economic transactions. They have a significant impact on transaction costs [21]. In current relationship networks, enterprises can determine the transaction objects easily and choose proper transaction forms according to past cooperation experiences. Based on the understanding and affiliation of both sides, they can constrain and regulate transaction objects and then, decrease searching transaction information costs, negotiating costs and the costs and difficulties of setting and executing contracts, also, increase predictability to reduce risks [21]. In summary, a favorable network relationship can decrease the transaction cost of enterprises.

At the beginning of the family enterprise founded, enterprise tends to concentrate all family capital, human resources and social network resources to complete the primitive accumulation of capital in a short time. Enterprise is on a smaller business scale at this stage, business and the market environment is relatively single, the requirements of human capital and management is not high. Therefore, the core members of the family enterprise is basically family members tied of blood and kinship. By using family ethics rules and informal control method, the enterprise can manage the members and coordinate the interest conflicts effectively [22]. But with the enlargement of the market scope of trans-regional integration, the business and operation patterns gradually diversified [23] and make the enterprise operation and management become complicated. On the one hand, the quantities and qualities of family members are hardly to meet these requirements and on the other hand, the enterprise has to introduce the local talents in order to obtain local legitimacy [24]. Thus, the enterprise should pay high information searching costs, negotiation costs, and transaction costs etc. In order to reduce costs and keep the controllability of enterprise development, family enterprise will tend to establish a formal control system at this time.

At the beginning of the establishment and development of Hope Group, the four brothers of Family Liu contributed all their capital and human resource unreservedly, made the enterprise complete original capital accumulation. Meanwhile, they didn't care about their property partition, position and remuneration. With affection, wisdom and common goals, they worked together to overcome the difficulty of startup time (ATf1 - ATf4).

Such as blood, affection and family ethics, these kind of informal rules were the only constraints of four brothers at this stage. Such informal management control mode was obviously very effective, made the enterprise received significant operating earnings in a relatively short period of time.

In 1995, four brothers respectively set up four subsidiary groups of Hope Group (Mainland Hope Group, East

**Table 2.** Data coding of hope group.

Level 1 coding	Level 2 coding	Level 3 coding	Data coding and contents	
Objective fact(A)	Trans-regional integrate market scope(M)	AM1	Until 1993, Hope Group has built up 10 feed mills. Until 1994, there were more than 40 subsidiaries has been built.	
		AM2	In 1995, through identifying the property rights and restructuring assets of Hope Group, the 4 brothers (Liu Yongyan, Liu Yongxing, Liu Yongmei and Liuyonghao) of Family Liu set up Mainland Hope Group, East Hope Group, West China Hope Group and South Hope Group respectively (restructured became New Hope Group subsequently)	
		AM3	The headquarter of East Hope Group moved from Chengdu to Shanghai Pudong in 1999 and its agricultural subsidiaries covered most Chinese provinces. It built heavy industry factories in Nei mongol and Shandong province.	
		AM4	West China Hope Group has more than 100 subsidiaries in the fields of agriculture, husbandry, education, real estate, chemical industry.	
		AM5	In the field of education industry, Hope Education has more than 20 schools in different regions.	
		AM6	West China Hope Group set up more than 20 commercial and tourism real estate programs.	
		AM7	At the end of 2012, New Hope Group has more than 800 subsidiaries all over China.	
		AM8	Mainland Hope Group regards Chengdu as the main base and center and it has more than 50 branches in China.	
		AM9	Shenlan air conditioning manufacturing company (the subsidiary of Sichuan Hope Group) has more than 20 sales branches in China's main cities.	
		Organizational trust (T)	Family trust (f)	ATf1
	ATf2			Four Brothers don't mind the title, fame and fortune and they only took little living expenses in order to put capitals in extending their business.
	ATf3			Based on traditional family virtue, "sincerity" "integrity" and "harmonious" make Hope Group get great value in the early time.
	ATf4			Four brothers seldom divided mutual assets and earnings rationally and principledly.
	Social trust (s)		ATs1	The headquarter of East Hope Group moved from Chengdu to Shanghai Pudong in 1999 and the total 80 senior managers were not family Liu's member.
			ATs2	Until 2005, among the directors, supervisors and senior managers in Sichuan New Hope Agribusiness Co. Ltd. (the subsidiary of New Hope Group), only the chairman Liu Yonghao belongs to Family Liu.
			ATs3	In November 2011, New Hopes Group finished assets reorganization and there were a lot of managers been listed in the Secondary Public Offering List.
			ATs4	In dealing the problem of enterprise ownership and management rights, chairman Liu Yongxing carried out clarifying property rights and using outer family managers.
			ATs5	East Hope Group set up investment department in Shanghai which in charge of strategic investment. All of the investment issues were determined by the manager of investment department and Chairman Liu Yonghao won't participate in the investment activities.



Continued

			ATs6	The management idea of West China Hope Group is: Using proper person in proper position, bold devolution and strength supervision.
			ACr1	Mainland Hope Group wanted to use modern enterprise management systems, ERP information system, to achieve scientific and efficient management.
			ACr2	In Mainland Hope Group, they wanted to standardize the management by regarding equity as a link, laws as the criterion and implement target management responsibility system and use performance management, 360° assessment to strengthen enterprise internal control.
		Formal control (r)	ACr3	One of West China Hope Group's management policy is: "Using iron discipline to manage enterprise".
			ACr4	West China Hope Group wanted to use ERP system to monitor and guide every branches in real time. Currently, the usage of ERP covers logistics, production and financial management.
	Enterprise control mode (C)		ACr5	By using marginal contribution rate, East Hope Group evaluated the investment returns of every branch and used formals management system in personnel, finance and quality management.
			ACr6	New Hope Group seized two key points in management firmly: One is the finance of subsidiaries must accepts direct leadership of headquarter; The other is implementing vertical management system in the field of technology management
			ACi1	Four brothers' verbal agreement: Liu Yongxing and Liu Yongmei hold the majority of the stock.
		Informal control (i)	ACi2	Liu Yongxing and Liu Yongmei put forward the principle of "Share profits equally" initiatively, but the property right were still fuzzy and the wealth did not belong to one person, but everyone in the family.
			ACi3	It was the first time of four brothers to divide their labor and assets in 1992. Different from the agreement in entrepreneurial stage, four brothers shared the stock rights equally (everyone hold 25%) rather than "Liu Yongxing and Liu Yongmei hold the majority of the stock".
			BTs1	Liu Yonghao stated "The socialization of company managers not only can optimize governance structure, play the role of professional managers better but also help to guarantee family control".
			BTs2	Liu Yonghao stated "Provide the best wages, benefits and developing space to professional managers, let them help New Hope Group to grow. This kind of interaction is our common aspiration"
			BTs3	Authorize gradually, give professional managers enough free decision space, everybody was let to display his talents fully, make professional managers and enterprise grow together.
	Subjective consciousness (B)	Organizational trust (T)	BTs4	Liu Yonghao stated "Don't afraid to use outsiders"
			BTs5	Liu Yongxing stated "The biggest malady of family enterprise is social elite can't participate in management layer"
		Social trust (s)	BTs6	Liu Yongxing stated "There is no Liu's family member in East Hope Group's senior managers"
			BTs7	Liu Yongxing stated "For employees who have potential capacity, we put them in the positions even they don't dare to dream about to train them and after their capacity and responsibility increased, the remuneration will also increased."
	Enterprise control mode (C)	Formal control (r)	BCr1	East Hope Group pursued excellent basic management and kept improving enterprise management systems and related disciplines.

## Continued

	BCr2	New Hope Group recognized that with the company size became bigger, strict system and discipline was the core of group management.
	BCi1	Liu Yongmei stated "The boss's honest character can create a kind of culture to provide employees with a sense of security and increase the cohesive force in enterprise."
Informal control (i)	BCi2	Liu Yonghao stated "Enterprise management can't only rely on institutions, but also on love .We should take care of our employees like a mother and let them feel be a part of the company."
	BCi3	Liu Yonghao stated "The current governance structure is not perfect enough, we should not only keep improving the governance structure, but also should build enterprise culture. It is important."

Source: Author's collection.

Hope Group, West China Hope Group and South Hope Group) and the market scope expanded to the nation-wide further. Because of the large quantities of branches and wide distribution, the management issues were complicated and miscellaneous, so groups should pay much attention to introduce professional managers (AM1 - AM9). In the process of trans-regional expansion, each group introduced professional managers and used formal control methods through information system and other management systems, thus, made each group become high-growth modern enterprise group. Thus, we can conclude the first proposition of this study:

Proposition 1a: In the process of trans-regional integration, the wider of the market scope, the enterprise will more tend to transfer from informal control mode to formal control mode in order to lower the transaction cost.

### 3.5.3. From the Perspective of Principal-Agent Theory

In 1932, Berle and Means argues the enterprise will certainly adopt modern governance mode which has the characteristics of high efficiency and separation of ownership and management with the emerge of disagreements of benefit and contradictory conflicts [25]. As noted by Ross in 1973, in modern enterprise, the owners are no longer manage the enterprise by themselves but entrust others to conduct businesses. Thus, because of the differences of relationship with the enterprise, the owners and managers pursue different targets and benefits. Otherwise, as trustor, the owners can't obtain the front-line information about the enterprise but the trustee, namely, the managers can grasp all the information of enterprise management clearly, that results in information asymmetry between the trustor and trustee. Because of information asymmetry, the trustee may have the opportunity to do damage to the benefit of the enterprise in order to meet the interests of themselves [26]. In order to solve this problem, the enterprise not only should establish certain institutions to supervise and constrain the behaviors of the operators and managers but also should pay a fee to motivate the operators and managers to avoid adverse selection and moral hazard as far as possible. This kind of costs including supervising costs, motivating costs and residual loss costs which originated from principal-agent relations constitute the agency cost of the enterprise [27].

China's family enterprises are often founded from the coherent struggle of few family members. The degree of interest consistency is high in both the family and the enterprise. Through patriarchal authority and "ruling by person", the enterprise and the member draw up an informal contract based on loyalty and trust [28]. Therefore, in the early time of family enterprise growth, the founders are responsible for all the operation and management jointly and it reduces the enterprise's principal-agent costs significantly. But with the trans-regional integration of family enterprise, the population of professional managers increased and the problems of "adverse selection" and "moral hazard" will arise. In addition, even within the family, the problem of information asymmetry will arise with the increase of management hierarchy and management range. In order to solve these problems and reduce agency cost, the enterprise will begin to take formal control mode to overcome the deficiencies [29].

At the beginning of the development of Hope Group, the rights of equity and management were all shared by four brothers and didn't be distributed clearly (ATf4, ACi1-ACi3). But the blood ties and family affection helped them form great cohesion. Only by using informal mechanisms such as the family principles and ethics to form internal constraints, the enterprise almost did not need to pay any agent costs. It played an important role in promoting the rapid development of the enterprise in early times.

The establishment of the four subsidiary groups kicked off the prelude of the separation of ownership and



managerial authority (AM2). With the subsidiary groups expanded to the nationwide respectively, operation and management was increasingly multifarious and it enlarged the demand for professional managers. Due to the introduction of external managers, the management members no longer had the family-blood affections and identical goals and easy to have information asymmetry and opportunism problems, thus, each subsidiary group also followed the way of management standardization. They applied advanced information technology (such as ERP system) for real-time monitoring their branches and used a series of formal control mode to regulate the behaviors of the groups' operation and management. These measures reduced the agency cost and improved the integrated benefit of the groups (ACr1-ACr6). Therefore, we introduced the following propositions:

Proposition 1b: In the process of trans-regional integration, in order to reduce the agency costs, with the market scope is wider, the family enterprise will more tend to transfer from informal control mode to formal control mode.

In summary, at the beginning of Hope Group was founded, the informal contract which was based on family affection and ethics made the enterprise achieve accumulation and rapid development. With the operation of trans-regional integration in domestic market, Hope group began to bring in external professional managers. In order to reduce transaction costs and agency costs, Hope Group tended to adopt formal control mode.

Proposition 1: Under the environment of China's market segmentation, the market range of Chinese family enterprise trans-regional integration is wider, the enterprise will more tend to transfer from informal control mode to formal control mode.

#### **3.5.4. The Evolution of Organizational Trust in Chinese Family Enterprise Trans-Regional Integration**

At the beginning of the family enterprise founded, the trust relationship built by blood ties and family affection was relatively firmed and it can increase cohesion and centripetal force [22]. With the implement of family enterprise trans-regional integration, the distribution density of trust assets became low. At first, family enterprises would internalize external professional managers by trust extension or marriage affinity. But when businesses went further, the blood ties and kinship relations weaken gradually not only because of the expansion of family range but also the intergenerational inheritance [30]. Family enterprises would be more and more urgent for external fresh "blood". Therefore family enterprises needed to extend family trust and pan-family trust to social trust, have good interaction with other stakeholders out of the family and promote family members to cooperate with external managers to struggle for the benefit of the enterprise.

According to data ACi1-ACi3, at the beginning of brothers Liu's entrepreneurship, the stock equity was not only highly concentrated but also fuzzy distributed. This kind of family trust indeed brought a series of positive effects to Hope Group, it made the brothers Liu form consistent interests and common goals and helped Hope Group complete capital accumulation within 10 years.

After 1995, Hope Group had four subsidiaries and they carried out trans-regional integration respectively (AM2 - AM9). Gradually Hope Group realized the socialization of management and ownership and the family trust extended to social trust consistently. Take New Hope Agribusiness Co. Ltd. as an example (ATs2), when the director Liu Yongmei left his post, his restricted stock was lifted restrictions on sale according to related regulations. Among New Hope Agribusiness's directors, supervisors and senior managers, only Chairman Lu Yonghao belonged to Family Liu and no one independent directors or members of Board of Supervisors was the family member. In addition, New Hope Agribusiness Co. Ltd. finished asset restructuring in November 2001 and there were a lot of shareholders in secondary public offering who didn't belong to Family Liu (ATs3). As a result, we can get the following proposition:

Proposition 2:

In the process of trans-regional integration, with the expansion of market scope, family enterprises will gradually transfer from family trust to social trust.

#### **3.5.5. The Influence of Family Trust to Chinese Family Enterprise Control Mode**

The emerge and development of Chinese family enterprise is not only influenced by China's transitional economy, but also influenced by traditional family culture and special interpersonal-relationships [31]. Thus, in the process of trans-regional integration, the control mode of family enterprise is not only influenced by market scope, but also by the trust level.

At the beginning of family enterprise, startup capital mostly comes from family property accumulation or be

raised from a small scope, thus the management rights, decision-making rights and personnel administration rights are deservedly controlled by the founders and major investors. Moreover, because of the need of internal identification and the considerations about safety, the enterprise members is mainly selected from the family and then expand to a small group of external members who were internalized by the family [32] [33]. As a result of the existence of family (pan-family) trust, the owners and managers can achieve effective management through informal control.

The founders' patriarchal authority gradually diminishes with the enlargement of market scope. Between the owners and the managers, even among generations of the family members, they may have decision-making differences because of the different ideas, moreover, individual interests and whole family interests are prone to conflict. At the same time, family enterprises will treat external members differently with family (pan-family) internal members because of the existence of family (pan-family) trust, the external members may feel injustice and do damage to the interests of the enterprise [2]. Therefore, the positive effects from family trust reduce gradually and enterprise begins to use objective criteria to coordinate the relationship between internal interests, use a unified system and discipline to restrain the behavior of all members, namely, through formal control methods to promote the effectiveness of enterprises operation.

According to the data ATf1-ATf4, because of the effects of family trust, four brothers of Family Liu didn't mind the benefit distribution at the initial period of development, but put almost all the money into the enterprise's operation. In 1992, Hope Group allocated its equity for the first time and four brothers shared the equity equally, that is, each person had a 25%. Obviously, based on family affection, family trust still played a key role in this allocation and in essence, it was just a kind of symbolic allocation. In this period, with the effect of family trust, through informal control mechanisms such as family affection and ethical, Hope group developed rapidly.

In 1995, Hope Group carried out "The second separation". According to data BCr1, BCr2, after "The second separation". Four groups started to use standardized management systems. With the enlargement of business scope and the decay of family trust, informal control mode failed to formal control mode and modern management mode was adopted among the whole Hope Group gradually. As a result, we can get the following proposition:

Proposition 3: In the process of trans-regional integration, family enterprise tends to adopt formal control mode with the decay of family trust.

### 3.5.6. The Influence of Social Trust to Chinese Family Enterprise Control Mode

With the expansion of China's family enterprise, the restriction of enterprise's inner resources and the requirements of management professionalization promote enterprises to socialize themselves and adopt the modern corporate governance mode. One significant symbol is non-family members can occupy senior positions and get a high degree of trust. In order to establish long-term, stable cooperative relations with non-family members, family enterprise will expand family (pan-family) trust to social trust and tend to use formal control mode [34]. However, when non-family members play more and more important roles in the enterprise, only using institutionalized formal control mode to restraint non-family members rigidly, the enterprise will be hard in maintaining both-sides trust relationship [33]. Practice shows that the combination of formal and informal control can deepen the affections between entrepreneurs and professional managers and it is advantageous to develop stable cooperative relationships. On the basis of shared values and common faith, informal control mode can drive professional managers abandon opportunism behaviors and realize high performance with lower costs. Thus, in order to deepen social trust and optimal management pattern, family enterprises should combine formal trust and informal trust, emphasize rigidity principles with flexible principles at the same time.

According to data ATs1-ATs6, in the process of trans-regional integration, each group attached great importance to hire professional managers. The employment standard of New Hope Group is "Be passionate; Have professional ability; Be honest and trustworthy", namely, this kind of trust is built on the basis of ability and reputation. In the aspect of control mode, Hope Group both considered institutionalized, normalized, rigid constraints and flexible constraints from corporate culture and common values (Bci1, BCi2). East Hope Group not only realized standardized management but also made managers threw themselves into enterprise operation actively by giving development space and carrying forward enterprise culture. (Bci2, BCi3). On the one hand, the biggest incentive for non-family managers is offering them development space. It can make them form the target: "Growth together with enterprise". On the other hand, the enterprise can shape the manager's values and cogni-

tion through enterprise culture. Thus, we can get the following proposition:

Proposition 4: In the process of trans-regional integration, with the deepening of social trust, family enterprise increasingly incline to strengthen informal control mode based on shared values and common beliefs, meanwhile balance rigid management and flexible constraints.

#### 4. Discussions and Conclusions

Based on the Hope Group as the research object, by using exploratory case study method, we analyzed the influence of Chinese family enterprise trans-regional integration to control mode selection and did theory exploration around the affects of the development of family enterprise organizational trust to control mode. The researching results proved that:

- With the influence of trans-regional integration, Chinese family enterprises tend to choose formal control mode. But considering the influence of organizational trust, family enterprises tend to strengthen informal control mode. Formal control mode can ensure the standardization of enterprise management but based on shared values and common believes, informal control mode helps to tap infinite potentials of human resource.
- The evolution trend of Chinese family enterprise control mode is from informal control transfers to formal control then to combine both of them, it accords with the evolution from “rule of man” to “rule of law”, than to combine humanity principle and law principle. In this way, family enterprise realizes the unity of the rigid management and flexible management.
- The establishment of social trust weakens the enforcement of formal control and provides a foundation of rigid-flexible control mode and the emphasis of informal control strengthens social trust, thus, forms a positive cycle.

The research results of this article not only provide theoretical direction to help Chinese family enterprise overcomes the obstacles of market segmentation, gets rid of “Familism Dilemma” to achieve good management performance, but also enriches the theory of organizational trust and control mode. Li Xinchun [35] and Chu Xiaoping [36] have demonstrated the tendency that the trust of family enterprise develops from family trust to institutional trust or generalized trust (social trust). Li Xinchun [35] argues “when family enterprise is in a small scale, family trust has governance advantages, but when the scale is larger than a certain threshold, generalized trust governance has a cost advantage. The family trust management is a kind of personal trust management mechanism, but the generalized trust is based on social trust. Chu Xiaoping [36] argues that the trust structure of Chinese society can be divided into 3 layers, that is, family trust, pan-family trust and institutional trust. He also points out the joint from pan-family trust transfer to institutional trust is the critical node of family enterprise’s growing path. In this paper, the research results are consistent with the conclusion of existing studies; besides, we analyzed the evolution of family enterprise’s organizational trust which was embedded in the situation of trans-regional integration. It helps to offer new perspectives for further researches. Wangxuanyu [16] argues preface-structured family enterprise has a Asset Risk Tipping Point. When the asset scale of an enterprise is small and trust risk is low, the enterprise tend to adopt informal control mode to trusted employees but it may use formal or informal control mode to lower-trust employees. Along with the increase of asset, trust risk will increase constantly and when it comes to the critical level, enterprises will incline to adopt a single formal control mode. These studies are based on the preface-structured trust in internal family enterprise, namely, it is family (pan-family) trust in. this paper.

Our research results supported the above scholars’ points of view and further pointed out that in the process of enterprise development, along with the decay of family trust, social trust was established concomitantly. Social trust is a kind of higher-level generalized trust which doesn’t have “preface-structure”. With the effects of social trust, enterprise will combine the formal and informal control mode to promote socialization and modern governance [37]. Therefore, it can be said that our research results of this article reinforced the existing studies to a certain extent.

Considering the existing deficiencies of this research, we can do some further mining in the future. Firstly, this paper emphasizes theoretical discussion and research, so our propositions are still lack of empirical tests. Subsequent researches can use empirical method to verify these propositions. Secondly, Chinese market segmentation has many influences on enterprise but because of the limitation of objective conditions, we didn’t do researches on the influence of specific factors which were brought by the change of market scope to control

mode choosing. Follow-up studies can complete and extend this study by considering specific factors (ex. institutional distance, market distance, network relations and cultural differences, etc.).

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