Edited by
Hsi-Mei Chung · Kevin Au

Succession and Innovation in Asia's Small-and-Medium-Sized Enterprises

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Contents

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List of Figures

Chapter 4

Chapter 5

Chapter 6

Chapter 7

Chapter 8

Chapter 9

List of Tables

Chapter 8

Chapter 9

Chapter 10

Chapter 13

Chapter 14

CHAPTER 1

Why Succession Is a Critical Issue for SMEs: Perspectives and Cases in the Asian Context

Hsi-Mei Chung and Kevin Au

1 Background

After World War II, the United States became a major market for postwar economic development, as countries in Europe and Asia needed to be rebuilt. In management, the theories, practices, and education of the United States spread widely and were often regarded as the benchmark or guidepost for other countries around the world. In terms of practical suggestions for managing small-to-medium-sized enterprises (SMEs), scholars in the late 1940s proposed a number of solutions to address challenges of SMEs, such as weak managerial capabilities and the inability to acquire long-term financing (Abbott, 1946; Mage, 1947). Abbott (1946), a Harvard Business School professor, argued that the solutions

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to problems of survival and management in SMEs should be sought from within the community. In particular, SMEs should search their networks of enterprises in the region in which they were embedded or in the supply chain where they operated. His argument was that because SMEs' problem was not a single problem but an aggregate of problems related to talent, financing, technology, and business opportunities, the best solution for an SME could be found in the local community within a specific industry or geographical scope. In a word, he argued that SMEs should look for solutions in their local communities.

However, 30 years later in the 1970s, firms in many Asian countries were confronted with a very different international economic and political environment compared to the 1940s. At the time, the Cold War had an impact on communist countries, headed by the Soviet Union, its Eastern European allies, and China after the war, and capitalist countries, headed by the United States and western European countries. In an attempt to stop the expansion of communism, the United States strongly supported countries in the Asian Pacific region, including South Korea, Japan, Taiwan, and the Philippines with economic and military aid to establish political and economic stability. The US market was the most important consumer market in the world as it opened its doors wide to imports. In addition, because of the saturated domestic market and the increasing wage and production costs, US firms actively sought opportunities in new markets and production in overseas counties. However, due to international political and economic differences, Asian firms developed in unique ways in the 1970s.

For example, SMEs in Asian countries were typically family-based firms with family founders who intended to build the business and then pass it onto an heir or family successors.

This history has impacted the development and current dynamics of SMEs in Asia. As they face challenges of now passing their SMEs onto a second- or third-generation family successor, as well as the challenge of needing to innovate in new ways and new markets, it is a critical time to examine the opportunities and challenges of SMEs in the Asian context of the challenging international market that demands innovation. The development and solutions for SMEs in Asia do not reside in the community as suggested Abbott (1946) highlighted. Instead, given family-owned governance nature is typical for SMEs in Asia, we argue that the succession and innovation decision of a SME should be decided simultaneously to achieve the next destination on the growth continuum under the highly competitive international markets.

2 How Asian Countries Developed Overseas Markets

With the support of government policies, Japanese and South Korean enterprises mainly developed as large and highly diversified business groups, such as Keiretsu in Japan and Chaebols in South Korea (Hamilton & Biggart, 1988). These large business groups in Japan and South Korea embraced internationalization whereas their SMEs counterparts were deeply rooted in the domestic market, with their own cultural characteristics in both firms and industries. With the embargo against China and Britain's open-door policy in Hong Kong, Hong Kong became an important window for China and other Asian countries to connect with the world. As a result, many firms in Hong Kong developed into important international enterprises in the transportation, trade, and financial industries. Many SMEs in Hong Kong attempted to connect with Mainland China as well as internationally to exploit the possible trade opportunities given the lockdown policy in China (Rafferty, 1991). In the context of geopolitics, Singapore also became a nexus for logistics and trade in South Asia. Although Singapore is small, it aggressively developed business opportunities with governmental interventions. As a result, there were numerous "government-linked enterprises" (or nation-corporations) in Singapore (Sisodia, 1992). Therefore, the rise of SMEs was due to a successful partnership with the government to build a joint future. India also started to release its tight governmental control on the economy. The number of family-owned firms increased and was booming from the late 1970s (Manikutty, 2000).

For Taiwan, firms operated in two separate enterprise worlds. Large firms that focused on the domestic market in cooperation with the then ruling KMT government, developed to be large and multiple affiliated business groups like those in Japan and South Korea (Hamilton & Biggart, 1988). SME owners, whether seeking trade opportunities, business opportunities, technology, or part of the supply chain of a particular industry, strived to find opportunities around the world, forming a unique Taiwan phenomenon of "big enterprises making Taiwan dollars, small enterprises making US dollars" (Hamilton, 1997). Most Asian SMEs in the 1970s and 1980s were still local firms; however, some SMEs had customers and were in markets spread around the world as participants of the world supply chain. They were mostly suppliers of parts, exporters or importers in trade, and original equipment manufacturers with European and American brands.

In time, some SMEs, with the help of capital markets, became publicly traded firms or even business groups with many affiliations, but some remained small and specialized in a specific division of labor and supply system. These global SMEs from Asia conducted business around the world with the wisdom and intelligence of their owners or collaborated flexibly with other manufacturers in their supply chain. Regardless of which supply chain these SMEs were embedded in, they often went global by benefitting (or suffering) from globalization and feeling insecure about particular communities or regions. Professor Kao, a well-known sociologist in Taiwan, has given the SME owners, who abound in Taiwan, the title of "contract manufacturers" to illustrate their unique mode of production that has enabled them to respond quickly and effectively to global markets (Hamilton & Kao, 2018).

3 Family Characteristics of SMEs in Asia

Two decades later in 1992, Chinese leader Deng Xiaoping confirmed the direction of reform and established an Open-Door policy after his famous south-tour speech in Shenzhen. As the Cold War ended, Germany reunified, and the world's political landscape changed, revealing a new beginning of historic politics and a new economy. The reforming and opening up of China changed the forms and players in the supply chain around the world. Along with the reform and Open-Door policy, China's state-owned enterprises experienced significant reform, and many private enterprises benefited from the economic changes. Chinese private enterprises became involved with the economy with increasing strength and influence.

Due to the characteristics of family governance in many private enterprises, issues related to family firms have attracted attention in China's practical and academic fields (Chinese Private-owned Economic Research Association, Family Business Council, 2015). With soaring manufacturing costs in some Asian countries, SMEs in manufacturing industries in Singapore, South Korea, Taiwan, and Hong Kong sought cost arbitrage in land and labor by moving manufacturing factories to China. As they sought possible opportunities for survival and development, China became the world's factory for many SMEs in an extensive wave of a transnational shift in the supply chain. While China was becoming the world's factory in the late twentieth century, India was also eager to prove it was a good place for manufacturing and a good foreign investment host country for MNCs in the West (Govindarajan & Bagla, 1995). Even though the growth of the private enterprises in China and India is highly dependent on the governmental open-up policy, in terms of the governance nature, the private enterprises in these two countries are characteristics the founder and his family control their firms through ownership and management.

3.1 Globalization of SMEs Led by the Founder and His Family

One of the hottest buzzwords of the early twenty-first century is "the world is flat," making it clear to the world that jobs and businesses in developed countries are no longer a product of particular countries. By splitting the supply chain, the degree of exclusivity and the fragmentation of work have made globalization flourish, not only in product sales but also in manufacturing, research and development, marketing, and movement of talent. With this trend, there were doubts and concerns about industrial hollowing-out in developed countries like Europe and the United States, but the Asian governments and firms have been eager to find solutions for the development of their own industries and firms in their home countries.

The world is changing all the time. As SMEs engage in the worldwide economic and political situation, they lack the corresponding capabilities of influencing power to change the rules of the game like the big firms or business consortia. Thus, SMEs need to develop the ability to be flexible to respond quickly to the changing business environments, such as the escalating US-China trade war in 2019 (Devlin, Silver, & Huang, 2020; Ghemawat, 2017) or the COVID-19 crisis in 2020 (Bouey, 2020; Devlin et al., 2020). However, they face very unique challenges. No matter in which country the SMEs are situated, they are relatively small and have relatively scarce resources. Due to their smaller size, they often need to clarify their strategic position, seek a focused position in the supply chain, and enhance customer value through a specialization or differentiation strategy. In addition, because they have fewer resources, they are not likely to attract professionals with high salaries or internal promotion opportunities. Thus, if their strategic position is not clear or it is not backed up by additional support in resources, the survival of SMEs will be threatened.

3.2 Aging Family Founders

SMEs have always been characterized by their large numbers and significant economic contributions in different societies but there are considerable differences in their survival and development. The growth and development of SMEs are often related to the first-generation founders' diligence and good sense of the markets. Nonetheless, with aging first-generation owners and changes in the market, whether the original intention and product planning of the first generation can survive the tests of the market is often challenging (Au, Craig, Morris, & Ramachandran, 2011). In addition, given the limited information, relatively few choices, and aging of first-generation founders, it is critical to understand how SMEs can pass their firms on to the next generation and successfully navigate trans-generational entrepreneurship for continuity of the SME.

However, not all contexts are the same in Asia. Thus, it is important to understand the country context of Asian family-owned SMEs and they transition into a new generation and new business climate. We present a brief overview of SMEs in Taiwan, China, Japan, and India to get a big picture of the complexities of Asian SMEs.

3.3 SMEs in Taiwan

According to the White Paper on SMEs, SMEs in Taiwan consistently made up more than 97% of the total number of enterprises between 2007 and 2018, and the proportion of the employment numbers were between 72 and 75%, which shows that they offer abundant employment opportunities and are the backbone of the steady development of the Taiwanese economy (Small and Medium Enterprise Administration, Ministry of Economic Affairs, 2010, 2019). Despite the large number of SMEs, they face numerous obstacles as they grow and develop. First, the first-generation owners are aging. Second, SMEs have a questionable survival rate. According to a 2019 White Paper on SMEs, 49% of SMEs have a history of less than 10 years; 25% have a history of between 10 and 20 years, and 26% have survived over 20 years. In other words, almost half of SMEs have had difficulty surviving for more than 10 years and only about a quarter have survived over 20 years. Taiwan's postwar economic development benefited from American assistance and became a member of the worldwide supply chain. Collaboration in the supply chain also resulted from countless hardworking and diligent owners of SMEs, with excellent technology, negotiation skills, and trade capacity to gain access to the world for themselves, their families, and their businesses. However, in the twenty-first century, the SMEs that once led Taiwan to economic miracles have now gradually entered the maturity stage of the business life cycle. How to innovate to keep growing and how to ensure succession without interruptions have become key issues for these SMEs (Hamilton & Kao, 2018).

3.4 SMEs in China

In China, most private firms are family firms that have benefitted from China's economic reform and Open-Door policy (Chinese Private-owned Economic Research Association, Family Business Council, 2011, 2015). In addition, the distinctiveness of governance bodies (government and family) is usually determined by the difference between state-owned firms and private firms. However, as shown in the first survey on private firms in 2011, most private firms are SMEs, with a relatively short history (most operating less than 10 years), indicating that most Chinese privately-owned firms represent first-generation entrepreneurship (Chinese Private-owned Economic Research Association, Family Business Council, 2011). After the reform and Open-Door policy, China's family-owned firms benefited from the global migration of labor-intensive industries to China, a rural labor surplus, and rapidly improving infrastructure, which created China's economic miracle. However, in this early period of reform and Open-Door policy, many of the first-generation entrepreneurs were already middle-aged. Thus, the coming succession in Chinese private firms is likely to occur soon and quite suddenly. Moreover, in recent years, the demographic dividend has gradually depleted with rising costs of raw materials, and the economic advantages of traditional manufacturing, which was driven by exports, has vanished. As a result, China's economy has turned to domestic demand and consumption. This economic restructuring has brought heavy pressure on the transformation of Chinese family firms (Chu, Wang, Chen, & Zhang, 2015).

Under the extraordinary political and economic environment and demographic characteristics, transformation and succession of private firms in China must be considered together. During the past 30 years of reform and Open-Door policy in China, entrepreneurs' qualities have changed along with the social environment, and most of the first-generation entrepreneurs possess intensive entrepreneurship as well as abundant practical experience. Nonetheless, most of them lack a prominent educational background and succeed mostly because they are sensitive to market opportunities and significant social relations, instead of depending on new knowledge and technology for innovation. This lack of knowledge makes it difficult to transform their firms in the dramatically changing economic environment. In contrast, most of the second-generation successors have a good education with technical and management knowledge, which is conducive to enterprise transformation and upgrading (Li, Han, & Li, 2015). However, in the process of succession, the promotion of innovation and entrepreneurship will inevitably produce conflicts. Thus, it is quite challenging for successors as they establish their personal authority and legitimacy, while learning how to resolve or reduce the conflicts with the first generation—the business founder—and other rivals within the family (Chu et al., 2015).

3.5 SMEs in Japan

In Japan, 99% of the firms have family management, and most of these Japanese family firms typically have long histories. Scholars suggest that the number of Japanese firms with a history of 100 years exceeds 100,000 (Goto, 2006; Sasaki, Ravasi, & Micelotta, 2019). About 5,000 firms in the world have a history of more than 200 years, and more than 3,000 are in Japan, accounting for about 60% of these firms worldwide (Goto, 2006). The longevity of Japanese firms is closely related to their succession and the link to society (Sasaki et al., 2019). Most studies have pointed to culture as the key to the long-term stability and sustainability of Japanese firms in that the "home" in Japan is a system that makes perfect business sense. Although it is based on kinship, the structure includes people who are not family members, and they could select trusted heirs from among people without blood relations (Sasaki & Sone, 2015). In other words, the definition of home in Japanese culture is not necessarily based on blood relation. Japanese family firms believe that there is a relation between the longevity of the firm and the spiritual extension of the family (Goto, 2006). A comparison between Japanese and Chinese practices is illustrating.

Japan's view is unlike that of the Chinese view of home as an economic or living community, in which family members are the accessories and managers, instead of the owners. In terms of inheritance of family property, Chinese people are accustomed to distributing family property among many relatives, whereas in Japan, only the eldest son inherits most of the family fortune/company and the other children are only entitled to part of the capital from the enterprise or other newly-established firms. However, the biggest difference between Japanese family firms and Chinese firms is in the selection of successors. Chinese firms usually choose successors from family members, going so far as to claim direct blood relations. In Japanese family firms that have a broader view of the selection of successors, firm owners can choose people with enough capability to become adopted children or sons-in-law, altering their surnames and continuing the business. For example, Panasonic Group, Suzuki Group, Toyota Motor Corporation, and other enterprises have passed the company on to their sons-in-law in the succession of previous generations. For Japanese firms, due to the broader definition of family firm than that of the Chinese which center on inheritance with kinship, craftsman character, and firm business philosophy, generations of Japanese ancestors focus on an identical industry, as they constantly extend and improve the core competence, adhere to the fundamental business, maintain an intensive sense of identity and cohesion, and enhance related technologies for further development. As a result, these factors in Japan have produced the most SMEs in the world.

Compared with other countries, SMEs in Japan have relatively small roadblocks in succession, but in recent years, many firms have encountered a reluctance toward family successors. In addition, with the changes in industrial transformation, SMEs are unable to cope with the threat of these industrial changes if they adhere to traditional techniques while showing an unwillingness to innovate and transform. As a result, some SMEs in Japan still face challenges in succession and decisions on innovative development (Higashide, 2013).

3.6 SMEs in Singapore

In Singapore, the government assists firms in their development through multiple government resources. "Government-linked enterprises" not only occur in large-scale enterprises, but SMEs also have successfully achieved intergenerational innovation and growth through close cooperation with the government (Sisodia, 1992). However, owners of SMEs in Singapore also face challenge of bringing in the second generation to take over. Many firms now choose daughters over sons as their first choice, unlike the Chinese. Singapore SMEs have also encountered the challenge of relatively scarce resources, which makes it difficult to offer substantial salaries and attract professional managers. Therefore, although they can share government resources and leverage the close cooperation with the government, SMEs must overcome challenges in both leadership and succession (Tan, 2014).

3.7 SMEs in India

In India, because the Indian government relaxed the regulations and control of the economy in the late 70s and early 80s and liberalized the economy after July 1991, family-owned SMEs have increased. Given this relatively short history, the majority of Indian family firms are relatively young and consequently have different challenges compared to family firms in the West (Manikutty, 2000). Like other societies in the East, India has a strong family culture. Due to the insufficient state welfare support, people and firms are highly dependent on support from family and the community. When evaluating the succession decision, the birth order, gender, and the capability of the successor are all possible characteristics of family-owned SMEs in India (Merchant, Kumar, & Mallik, 2018). Family-owned SMEs contribute to India's economy even though SME sectors do not receive the required support from government agencies, banks, financial institutions, or other stakeholders. These barriers have hampered SMEs from becoming more competitive in the national or international market. However, in 2006, the Indian government announced the MSMED Act to define SMEs in India and to provide supportive policies to enhance SMEs' competitiveness (SME Chamber of India, 2020).

In all, according to this brief overview of SMEs in various Asian countries, SMEs not only face competition in resources and markets, but they also face the same problems of succession that all family firms encounter. Whether the succession is successful is the key to continued survival. Whether a small firm can survive or grow in the first 20 years is a matter of its strategic position and the value they add to the market. Nevertheless, after 20 years of growth, as the founders age, they need to decide how to pass their firms on to younger successors. They also need to decide how to adjust their core competences for the next generation to succeed while maintaining the competitiveness of the firm.

4 Spindle in This Book: Succession and Innovation—A Two-Sided Coin

Because the success of an SME is usually based on the talent and capabilities of the founders and their families in a distinctive industrial position, the succession decision of an SME is also a decision about what direction the firm will take. We argue that for an SME to create and maintain a clear strategic position, it must have accumulated core competences and resources. These accumulated resources or the competitive position of SMEs face a transformation at the same time they are facing challenges of a hyper-competitive and changing industrial environment, and transformation during the succession time. SMEs also face the difficulty of successors using the resources from the founder, especially his or her social capital as well as the difficulty of changing and unexpected industrial environments that a SME may not have sufficient time or resources to overcome.

For SMEs to pursue long-term survival, the owner must be able to initiate trans-generational entrepreneurship after the firm is passed on to the next generation. Therefore, *the succession decision and the innovation decision for an SME is actually a two-sided coin, and thus, the succession decision is closely linked with the competitive advantage of the SME*. In other words, can the current strategic position in a niche continue to the next generation or does the firm need to scale up to search for a combination of strategic positions in the next generation? This is a critical question related to the innovation and development of the firm when the owners make a succession decision.

Life has not been easy for firms. Challenges and crisis, like the COVID-19 outbreak in 2020, can occur suddenly. The key point in this book is that *the succession and innovation decisions of SMEs are two facets of the same decision*. We provide overall guidelines and general suggestions for SMEs embedded in Asian societies to discover how a family-owned SME can experience a successful succession by pursuing innovation at the same time in different societal contexts. The first part of this book discusses SMEs' current situation with a focus on succession and innovation challenges in Japan, Taiwan, China, Singapore, and

India. The second part provides possible solutions for SMEs to address the succession and entrepreneurship concerns, including formulating a financing strategy, learning from European experiences, utilizing electronic commerce, searching for opportunities in international markets, and exploring possibilities in the financial market. In the following section, we introduce the abstract of each chapter and provide simple guidelines based on the cases of SMEs in this book.

5 Chapter Abstract

This chapter is written by Hsi-Mei Chung and Kevin Au. We introduce the basic thinking and overall structure in this chapter and argue that the growth engine of SMEs is based on combining the innovation and succession decisions at the same time. Recognizing that each SME is situated in specific societal and institutional environments, we present distinctive experiences and observations from SMEs in Asia to uncover the challenges for SMEs in Asian societies.

Chapter 2 is "The Analytical Framework on Succession and Development in Family Firms." To provide potential solutions to the growth challenges of SMEs, the author proposes an integrated framework to illustrate that the succession and innovation decisions in an SME are two sides of a coin. This chapter also provides broader observations and solutions in Asia. The analytical framework is elaborated from Porter's (1996) strategic position concept. The author sets up a 2 by 2 matrix to illustrate whether the SME will move away from the current industry or whether the SME will insist on the current strategic position. When an SME succeeds to the next generation, the author shows how to evaluate the current resources inside the family and the firm to match the growth requirement in the next generation. The author posits that SMEs need to consider the succession and innovation decisions simultaneously to achieve sustainability for both the family and the firm.

Chapter 3 is "Absence of Customers' Voice as the Cause of Limited New Product Development in a Small Long-standing Family-owned Craft Business in Japan." Japan has the most long-standing firms in the world, with about 3,900 firms that have continued their businesses for more than 200 years. Many of those firms belong to traditional industries such as sake brewery, Japanese-style inn, traditional arts and crafts dealers and stores, and Japanese food and confectionary industries. These traditional industries have faced a shrinking domestic market and suffer declining revenues. Consequently, Japan has experienced a recent increase in the number of closures of firms in these traditional industries. To survive this crisis, these traditional businesses must generate new businesses, introduce new products, or change their business models. However, there are many challenges in practice. In some cases, prevailing business practices should become obstacle for the company to reform its business model. In other cases, the senior-generation members of the family-owned company should refuse to allow the incoming generation leader to do something new.

Chapter 4 is "The Dark Side of the Advantages on Industrial Clusters in Taiwan." This chapter introduces why combining the innovation and succession decisions will be a critical point for the growth of SMEs by introducing the survey results of three industrial clusters in Taiwan in 2016. These three industrial clusters are the hosiery industry and the plumbing industry in the middle of Taiwan, and the fastener industry in southern Taiwan. Locating this discussion inside an industrial cluster is an important way to enhance the knowledge and competitive advantages for these SMEs in Taiwan. The findings of the survey illustrate the emergence and serious situation for SMEs in terms of succession and innovation. The authors found that not every SME can successfully search for innovation. The critical point is that given the changing environment, the resources or the capital accumulated by the founder may not work well to meet the future strategic position after succession. Among the necessary capital for future survival, social capital is the most difficult to pass on to the next generation but it is usually the most critical type of capital for SMEs' growth. SMEs inside an industrial cluster need to cooperate to accumulate the capital at the cluster level as well as at the firm level.

Chapter 5 is "Analysis on the Current Scenario of Succession in Small-to-medium-sized Enterprises in Mainland China: Observations from the 2016 China Family Business Health Report." Since China's reform and opening up, the private economy in Mainland China has made great progress and become an important growth engine of the national economy, employment, and social progress. China's private enterprises have shown distinct family characteristics. After more than 30 years of development, most private enterprises have entered a critical period of the first trans-generational succession. A large number of first-generation entrepreneurs are about to retire. Although the younger generation generally has higher education, these potential successors often lack practical management experience, which makes the process of family business succession painful. Given this background, analyzing the components of "health power," investigating the health status of Chinese family firms, and exploring a successful trans-generational succession path of family firms are of great significance for theoretical research and socio-economic development. This chapter attempts to shed light on the healthy development of Chinese family firms and provide a mirror for the future development and succession of family firms. The health of family firms in this study is a fusion of the two concepts: both family and firm health. The framework of the external environment, entrepreneurs, entrepreneurial families, and enterprises interact to form an ecosystem that affects the health of the family firm.

Chapter 6 is "Analysis on the Current Scenario of Succession in Small-to-medium-sized Enterprises in Mainland China: Succession, Innovation and International Transformation in Family Firms." The impact of the Internet has accelerated the speed and policy of "Mass Entrepreneurship and Innovation." As a result, SMEs face challenges of transforming and upgrading in Mainland China. As an important part of Mainland China's national economy, some family firms have entered the critical stage of succession. When succession meets transformation, important ways for family firms to enhance competitiveness and cope with new economic challenges are through innovation, the Internet, and internationalization. Innovation is a key source of transforming and upgrading, while the Internet provides the platform and new ways of thinking. Internationalization also helps family firms explore overseas markets and acquire strategic assets to achieve transformation and upgrading. Therefore, given the double challenges of succession and transformation, important questions for family firms are how to promote innovation, the power of the Internet, and internationalization. In this chapter, the authors elaborate on transforming and upgrading family firms based on these three aspects. They also discuss the relationship between succession and transformation and upgrading.

Chapter 7 is "Building Growth Enterprises in Singapore: Public Private Partnership." This chapter traces the growth and development of SMEs in Singapore from post-independence in 1965 to the launch of the first SME Master Plan in 1989 and to the current digital transformation age. In the early days, SMEs played a supporting role as sub-contractors for multi-national corporations and surged in importance in the aftermath of the Asian financial crisis in 2003 and finally developed as innovative and agile enterprises. This chapter maps the evolution of SMEs against the backdrop of government policy changes over the years. The Singapore government defines SMEs as enterprises with an annual sales turnover of not more than S$100 million or employing not more than 200 workers. As of December 2018, Singapore had around 218,000 SMEs that constituted 99% of all enterprises in Singapore and contributed to nearly half of nominal value-added while employing over 60% of the workforce. These large numbers indicate that a public-private-people partnership is necessary to build sustainable growth in SMEs as they face challenges in the areas of talent, internationalization, innovation, and financing.

Chapter 8 is “Succession and Innovation: Key drivers of sustainable growth of SMEs in India.” Family firms play a critical role in India’s industrial landscape with most SMEs owned and managed by business families. While most of them do not survive across three or four generations, there is a small but impactful group that continues to thrive despite internal and external challenges. They have strong family governance that helps them develop and practice sound leadership and ownership succession. Many Indian SMEs are also very innovative. This chapter discusses the role of SMEs in the Indian economy and the key features of family-owned SMEs with both sound succession and innovativeness.

Chapter 9 is “Solution I: Nurturing and Financing Transgenerational Entrepreneurship.” Entrepreneurship plays a pivotal role in the Asian economy, with family-owned enterprises making up a substantial portion of businesses. In Hong Kong, for instance, 60% of the listed companies are family owned, constituting 30% of the total market value. This chapter explores the practices of trans-generational entrepreneurship including the involvement of family members in ownership and management succession and passing on the entrepreneurial mindset and capabilities to create new streams of wealth across generations. The authors examined three cases of how business families raised capital for the next generation to venture. The differences in the cases and the implications for the families and their incoming generation are discussed.

Chapter 10 is “Solution II: Digital Transformation of Family SMEs.” Family firms invest resources and are transformed in innovative ways based on whether they are attempting to deepen their original industry position or develop a new position in a new industry. In this chapter, the author introduces two cases to illustrate how a digital transformation process is implemented by two SMEs with different innovation strategic positions. One is a traditional screw manufacturing firm with an improved enterprise resource planning system. The author explains the transformation of the new generation's approach to institutionalized management in the process of the firm's institutionalized management. The other case is a firm that has applied communication technology to enter a new market. This chapter has significant value for understanding how family entrepreneurship is created and sustained in the digital transformation process.

Chapter 11 is "Solution III: Lessons from Mature Economies—Family Enterprises in Continental Europe and Japan." Despite their increasing significance, family firms in Asia outside Japan are still struggled on discussing the workable succession mechanisms to cope with social and economic transformation due to their relatively short history and immature legal environments. In order to create an economic environment that can nurture family firm's long-lasting development and competitive advantage, the knowledge and experiences about succession mechanism in family firms embedded in more mature economies are crucial. The purpose of this chapter is to briefly introduce the major succession mechanisms of European and Japanese family firms and provide insights on the succession and innovation decision for Asian SMEs.

Chapter 12 is "Solution IV: Developments and Solutions to Address the International Predicament of Small-to-Medium-Sized Enterprises." SMEs are facing very severe challenges. SMEs must compete with large corporations with relatively limited resources as well as prepare for the disruptive innovations of start-ups. Thus, SMEs need to leverage external resources to grow or become stronger. This chapter presents several recommended strategies for SMEs to remain competitive. SMEs usually rely on relatives or friends to sit on the board of directors. However, SMEs may consider establishing a virtual board with various senior experts to help with the company's strategic planning without changing the actual board structure. SME may also leverage the demographic dividends of emerging markets, favorable treaties, and brand premiums of developed countries, or complementary geographic natural resources for growth. This chapter concludes with a recommendation that SMEs should learn from Mahjong, a Chinese table game. SMEs may never be ready to go global but they should join the game. They may have lousy cards at first but they can give and take other cards to refine their resources. SMEs' competitors or partners in other countries can provide a bigger picture of the market and bring in unique resources for the battle in the domestic market.

Chapter 13 is "Solution V: Opportunities and Challenges in Capital Markets for Small-to-Medium-Sized Enterprises." Having limited financial resources is a severe challenge for SMEs. If an SME enters the capital market, it will become a public company and usually can enjoy the advantages of financial and human capital. However, choosing to enter the capital market is laden with challenges even if it is a good opportunity. In this chapter, the author analyzes the possible opportunities and challenges for SMEs to go public by illustrating three cases in different industries. The author highlights the motivations for an SME to go public as well as the advantages and disadvantages for an SME in the public market. The key point of this chapter is that the public market is not only a source of financial capital, but it is also a chance for an SME to transform itself in both management and strategy. Therefore, how to transform well to meet the requirements of the capital market is a tough challenge for the SME successor.

Chapter 14 is concluding remarks. The authors utilize the analytical framework highlighted in Chapter 2 to analyze the cases in this book to answer the question: What is the growth direction of SMEs after they succeed to the next generation? Should they maintain a focused position but remain small, or move to a larger market to take advantage of scale? Since this book includes multiple cases in different countries, our conclusion remark will provide insightful implications for SMEs on innovation and succession decisions. Most SMEs try to innovate as they search for new opportunities in domestic and international markets, especially in international markets. The successor is usually the key person to start the innovation engine and seek a new strategic position in the current industry. Since many SMEs recognize the importance of innovation to meet the severe challenges in the global world, we analyze the linkages between the resources and strategic position in each case. The unique perspectives and focus of each chapter present distinctive experiences and observations from SMEs in Asia to uncover the specific challenges for SMEs in Asian societies.

6 Case Outlined

The development of an SME is highly correlated with its embedded institutional environment. The succession and innovation decision of an SME is two sides of one coin because the core competencies that contribute to the success of an SME are mainly bounded on the founder and the founder's family. Thus, the succession decision of an SME is a time to decide whether the firm's next developmental direction and required capabilities are still bounded on the next generations of the family or if they may be separate from the family. Succession in an SME is a critical moment to decide where the family and the firm will move. Readers can select interesting chapters to deeply understand how and why the succession and innovation of SMEs are interwoven with the institutional and industrial context, and how an SME can implement potential solutions for succession and innovation decisions. These cases will help readers realize how and why the accumulated resources of an SME in an industrial domain are highly linked with the founder and family, and how the knowledge of the next generation can help the firm with innovation decisions. Here we outlined the cases in the chapters to provide an overall understanding of SMEs in different Asian societies. In Chapter 14, we show the link between the resources and development of the succession and innovation decisions for all of the cases (Table 1).

Table 1 Brief Guideline of the Cases in this Book

Firm	*Society*	*Founded year*	*Industry*	*Product*	*Generation, Position in the firm*	*Chapter*
Wuan Chuang Soy Sauce	Taiwan	1909	Soy Sauce Manufacturing	Soy sauce	Third generation, Chairman; Fourth generation, Vice CEO	Chapter 2
Universal Cement Corporation	Taiwan	1959	Cement Manufacturing	Cement, gypsum board	Third generation, Chairman; Fourth generation, Vice Chief Executive Officer	Chapter 2
Kikkoman Corporation	Japan	1917	Soy Sauce Manufacturing	soy sauce, food seasoning and flavoring, mirin, shōchū, sake, juice and other beverages, pharmaceuticals, and restaurant management services	Founded by 8 family-owned firms traced to 1662, and led by family member of the 8 families. From 1917 until now, there have been 10 chairmen.	Chapter 2
Jong-Shyn Shipbuilding Company	Taiwan	1987	Shipbuilding manufacturing	middle-scaled cargo ships, such as deep-sea fishing vessels and freighters; Yacht	Second generation, Chairman	Chapter 2
Jau-Yeou Industry Co. Ltd.	Taiwan	1979	Screws manufacturing	low carbon steel screws, aerospace fasteners	First generation, Chairman; Second generation, CEO	Chapter 2
Gyokusendo	Japan	1816	Tool Making Industry	Hammer and Bronze manufacture	Seventh generation, CEO	Chapter 3
Red collar Group	China	1998	Suits manufacturing	suits personal customization and manufacturing	Second Generation, CEO	Chapter 6

(continued)

Table 1 (continued)

Firm	*Society*	*Founded year*	*Industry*	*Product*	*Generation, Position in the firm*	*Chapter*
Zhejiang Lonsen Group Co., Ltd.	China	1970	Dye auxiliary industry	Dye auxiliary manufacturing	Second generation, Chairman	Chapter 6
Wing Yip Food Co., Ltd.	China	1970	Meat product; Supermarket	Traditional sausage, simple sausage, Chinese bacon, and other products; Channel	Second generation, Chairman	Chapter 6
Sanquan Food Co., Ltd.	China	1992	Frozen food	Frozen food manufacturing	Second generation, Chairman	Chapter 6
Wensli Group	China	NA	Silk Industry	Silk clothes Manufacturing	Second generation, Chairman	Chapter 6
Hai Sia Seafood Pte Ltd	Singapore	1977	Seafood channel	Fresh and processed seafood	Second generation, Deputy Director	Chapter 7
Greendot Group Pte Ltd	Singapore	2011	Food channel	Vegetarian fast food	Second generation, Head of an innovative vegetarian restaurant chain	Chapter 7
Q Industries	Singapore	1987	Knowledge And Technical Advisory Services	Cuisine solutions	Second generation, Group CEO and COO	Chapter 7
Eastern Condiments Private Limited	India	1983	Food manufacturing	Spices, blended spices, and pickles	Second generation, Chairman, and Managing director	Chapter 8

Firm	*Society*	*Founded year*	*Industry*	*Product*	*Generation, Position in the firm*	*Chapter*
Aravind Eye Care System	India	1976	Hospital, health care industry	Eye hospital and eye health care	First generation, Chairman; Second generation, learning how to manage a firm	Chapter 8
Shakti Group	India	1947	Diversified group, from edible oil, to IT service, to biochemical product, to green energy, to health care, and real estate	Edible oils, software development, and IT education and Internet services, healthcare products, healthcare business, green energy, real estate	Multiple family members and family branches involved in management	Chapter 8
Popular group	Pakistan	1947	A group engaged in multiple industries	Principally engaged in the manufacturing, servicing, trade and export of foods, juices, textiles, safety matches and other products across different industries	Managed by the second and third generations	Chapter 8
Wun Pang Bicycle	Hong Kong	1950	Bicycle distribution, retails, and repairs services	High-end and affordable bicycles	Second generation in top management roles; third generation as Chief Business Officer	Chapter 9

(continued)

Table 1 (continued)

Firm	*Society*	*Founded year*	*Industry*	*Product*	*Generation, Position in the firm*	*Chapter*
Kowloon Watch Company (and Origami Lab)	Hong Kong	1952	Retail for the legacy business; and IT industry for the start-up	Watches for the legacy business; wireless audio device for smartphones using the bone conduction technology	Second generation in the governance position; third generation as founder and CEO of Origami Lab	Chapter 9
Automatic Manufacturing Limited (and Green Continent and Bio Cure Ltd)	Hong Kong	1976	Electronic product manufacturing	Medical devices, office equipment, telecommunication products, and automation products	First generation in governance roles; second generation heads spin-offs of AML	Chapter 9
Sheh Fung Screws Co., Ltd	Taiwan	1973	Screw Manufacturing	Various types of screws, mainly produces construction screws	Third generation, Chairman	Chapter 10
Business Service Manufacturing Firm (anonymity)	Taiwan	NA	Commercial Service Industry	Coffee roasting and coffee roasting-related knowledge promotion	Fourth generation, Head of the start-up company	Chapter 10
Quality Identification Enterprise (anonymity)	Taiwan	NA	Appraisal Service Industry	Boutique appraisal, quality identification	Second generation, Chairman	Chapter 12
Bioassay Enterprise (anonymity)	Taiwan	NA	Biotechnology Services Industry	Animal disease detection technology	Second generation, Chairman	Chapter 12

Firm	*Society*	*Founded year*	*Industry*	*Product*	*Generation, Position in the firm*	*Chapter*
Commercial Enterprise (anonymity) (Firm A)	Taiwan	2000	Department stores and general merchandise	Physical and online trade	First generation, Chairman	Chapter 13
Electronic parts manufacturing firm (anonymity) (Firm B)	Taiwan	1993	Electronic parts	Electronic components	Second generation, Chairman	Chapter 13
Construction investment and construction company (anonymity) (Firm C)	Taiwan	2008	Building materials and construction	Construction investment and construction	First generation, Chairman	Chapter 13

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CHAPTER 2

The Analytical Framework on Succession and Development in Family Firms

Hsi-Mei Chung

1 Introduction

How to achieve sustainable development in an firm after its foundation has always been an important question in strategic management, in terms of both practice and research. In the 1980s, beyond particular firm cases, researchers try to grasp a systematic understanding on addressing firm competitiveness advantage issues through establishing an analysis framework. The Five Forces Analysis proposed by M. E. Porter in the 1980s is a typical strategic analysis framework. The five forces framework, through an analysis of the five forces in the industrial environment, which are suppliers, customers, competitors, potential entrants, and substitutes, contemplates on how a firm can reduce the bargaining power of the five forces, provides guiding framework on analyzing the firm's industrial environment. Porter further advices the ways of competing through formulating generic competitive strategies, i.e., cost leadership, differentiation, cost focus, and differentiation focus, to help the firm establish

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competitive advantages (Porter, 1985). Later in 1996, Porter proposes a "strategic position" framework to highlight the essence of strategy is choosing to perform activities differently than rivals do. In that, strategic position emerges from three distinct sources, which are not mutually exclusive and often overlap, including variety of a company's products or services, customers' need, and customers' accessibility. Porter highlights that positioning is not only about carving out a niche. A position emerges from either variety-based positioning, needs-based positioning, or access-based positioning can be broad or narrow. The selection and the combination of these three positioning sources are a trade-off that more of one thing necessitates less of another. A firm need to learn how to do a trade-off to maintain their consistent reputation, coherent activities, and the internal coordination and control (Porter, 1996). These strategic analytical frameworks provide decision-makers in a firm a good way on competing beyond the spotlight on particular cases.

However, those generic analysis frameworks proposed by Porter along with other scholars provoke many debates since the 1980s. One of the points at issue is that though firms in the same industry adopt the same or similar strategy (say, differentiation), their resulting performance can be very divergent. In other words, there is no guarantee that the performance will be the same even if firms choose the same strategy. Scholars such as Barney and Wernerfelt hold that if a firm is to attain competitive advantages, it needs to develop its unique resources and core competencies which set itself distinctive than the rivals. The key to successful implementation of a particular strategy lies in the firm's unique resources and core competencies, which enable the firm to execute the strategy effectively (e.g., Barney, 1991; Wernerfelt, 1984). Taken a firm is a bundle of resources, scholars from the resource-based viewpoint argue that the key to implementing strategies and attaining competitive advantages successfully lies in whether a firm can develop, configure, and cultivate their own distinctive resources and core competencies.

Around year 2000, with studies and cases about family firms begin to be paid attention around the globe, what are different of family firms with non-family firms on competitive advantages becomes a hot issue. Surprising, we can find the analytical framework on addressing firm competitiveness issues, such as the Porter's strategic position, or the Barney's resource-based arguments; however, we cannot find generalized framework to explain how and why family attributes in a family firm may bring impact its competitive advantages. One of the reasons on lacking generalized framework on addressing family firm competitiveness issues is because most of the strategic framework is from the evidences of the public firms in the USA. In that, most of the public firms in the USA is characterized by dispersed ownership and concentrated management. Dispersed ownership among shareholders and concentrated management rights on the hand of the CEO will bring the agency problem and the monitoring issues on CEO. Yet, in fact, over one-third of public firms in the USA have their shares still fully grasped in the hands of the founding family shareholders. As for several major reputed American firms such as Ford, Walmart, and Johnson & Johnson, the founding family members are still holding a key equity ratio or voting rights. However, founding family in the public firms in the USA usually chooses to hire non-family CEO to run the firm instead of choosing family CEO. This results in the entrenched impression that public firms in the USA usually implement professional governance instead of family governance.

Taking the professional governance in the public firms in the USA as a role model, management textbooks tend to focus on the CEO's role on strategic management rather than pay attention on the impact from the founding family. For a long time, family firms have been giving off an impression of being unprogressive, conservative, and disposed to "evolve" into a firm governed by professional managers. Yet, according to literature and cases from several countries, family firms are the common governance type in Europe, America, and also in Asia (Au, Craig, Morris, & Ramachandran, 2011; Miller & Le-Breton-Miller, 2005). Relevant studies also show that family firms are not all "unprogressive" or "backward." In fact, many family firms show good performance and are among those leading world-class firms. Toyota from Japan, Michelin from France, Bosch from Germany, Formosa Plastics Group from Taiwan, Tata from India, and Samsung from South Korea are all international enterprises or business groups led by the founding family. Studies conducted by the Boston Consulting Group also show that just like non-family firms with good performance, family firms with good performance often value diversification, internationalization, and talent management (Kachaner, Stalk, & Bloch, 2012). Because a family firm need to consider how the family may impact the firm, thus the founding family need to pay equally attention to the succession decision and also the firm strategic decision when this family firm stands at the point of trans-generational succession.

To better understand what choices of strategic development direction are available to family firms during trans-generational succession as well as how the firm is related to the family in the different choices, this chapter will initiate an analysis framework that combines the strategic position framework proposed by M. E. Porter in 1996 and the resource-based viewpoint proposed by Barney for family firm strategic development.

The initiative of this analysis framework spells several points of significance to SMEs as follows:

1. *It proposes beyond particular cases a framework for reference as to where the family and the firm may move on.*

Despite being divergent from large-sized firms in terms of resources, SMEs need to face the same problem as to whether to maintain the status quo (existing advantages and the current position) or to expand the scale (expansion while keeping the existing advantages and current position or development toward different positions). If SMEs choose to introduce external capital or are capable of expanding their scale in their own right, then this SME can scale up and maybe go public. Thus, rather than regard succession decision in a SME and a public firm as two different types, the best way is to bond the succession decision in line with the firm development in a SME. A framework is necessary to dealing with the succession and the firm development decision at the same time in a SME and provides guide on where to move for the family and the firm in a SME.

In the past, the characteristics of SME succession as well as the problem as to where SMEs should move on mostly appears as case study, on the assumption that the family leaders will grasp the tactic knowledge in cases and learn from the cases. The basic assumption on SME succession is that all the knowledge from the first generation to the next ones are often carried out through a form of apprenticeship (Lee, 2013). Through case study, readers can glean valuable lessons from those successful succession cases and further take them as models for emulation.

Case studies can give off an irreplaceable sense of presence and offer irreproducible experiences (Lee & Zhang, 2017). Yet, beyond case studies, the guidance of an analysis framework can offer the family leaders a basic analytical context, enabling the family leaders to comprehend the relationship between choices of different analytical approaches and his or her own conditions. We try to provide a road map on linking firm resources, family resources, and the firm development and also provide referable cases as to where SMEs should move on to the crucial considerations in terms of family and firm development.

2. *It points out the possible advantages and challenges of every different firm developmental road for SME owners' reference*

As for books about family firm road map, in "*The Family Business Map*" by Morten Bennedsen and Joseph P. H. Fan, four types of succession models are delineated by taking importance of family assets and severity of roadblocks (to family ownership) as the two axes (Bennedsen & Fan, 2014). The four types are Family Driven (with significant family assets and severe roadblocks), Closely Held (with significant family assets and few roadblocks), Exit/Passive (with insignificant family assets and severe roadblocks), and lastly, Delegated (with insignificant family assets and few roadblocks).

This kind of family firm road map takes family resources and roadblocks to family ownership as the primary considerations on succession plan, instead of focusing on firm development. The chief prerequisite for its applicability is to clarify what are the family resources and whether there are any roadblocks to the family's ownership planning. This framework is hardly applicable to SMEs because the family owners in a SME hardly to realize what their family resources are and what "the roadblocks to ownership succession" means. As SME owners are highly involved in all aspects of firm operation, such as ownership, daily operation, procedure management, as well as firm strategy decisions, it has already been a barely achievable feat for them to distinguish between firm resources and family resources, not to mention to take family resources as the point of departure in discussing the specific impacts of family resources on firm succession.

On the other hand, in "*Succession and Transformation: The Road Map of Chinese Family Business*" (Lee & Zhang, 2017), according to the two axes, ownership (publicly listed or privately owned) and management rights (family management or professional management), the succession models of family firms are divided into four types, which are family ownership (family management with shares privately owned), public firms (family management with stocks listed), family ownership with professional managers (professional management with shares privately owned), and public firms with professional managers (professional management with stocks listed). In the meantime, through case analysis, the book explains the different considerations behind SME owners' choices of different road models. Though different types of family firms can be all categorized according to the two aspects of ownership and management rights, the firm's differences on development and succession in a particular type (e.g., family ownership type, i.e., family management with shares privately owned) are not easy to grasp. In fact, most SMEs belong to the family ownership type, i.e., family management with shares privately owned; yet, in this particular type, there are still different choices and challenges on succession caused by family owner's selection on firm development direction. On top of that, every family firm development involves unique core capabilities and specific ways of resources accumulation and deployment. The road map categorization initiated by Lee and Zhang (2017) cannot fully capture how the family resources may coevolve with the firm capabilities throughout the course of succession in a SME.

In following this line of analysis, the analysis framework proposed by this book takes as the axes the target industry and the strategic position during the course of family firm succession. Taking a SME owned and managed by the founding family members as a starting point, this framework tries to take inventory of the resources and capabilities the firm is equipped with and then provide some thoughts on family resources. This kind of analysis framework helps the owners to think about how the firm can survive and further develop and then to consider the resource integration and challenges in the family possible along this line of thought.

3. *Focus on firm's accumulated and endowed resources, this framework provides owner's choice beyond binary governance on professional management or family management on firm development*

There are different options on firm succession decision to the founding family members, not only just fall into the binary "professional management" or "family management" choice. We can take a family firm is composited with triangle circles, the family, the ownership, and the business (Hollander & Elman, 1988). Whether the triangle circles in a family firm will be overlapped will depend on the firm's size, number of family member, the leading generation, the composition of the shareholders and also the firm strategy. When addressing the succession issue, neither all family firms will be managed by the family member nor family succession is equal to firm succession. For example, Japanese family firms tend to make the succession decision from the viewpoint of the long-lasting of the firm instead of the long-lasting of the family. Therefore, in a Japanese family firm, the chosen successor is capably but not necessarily holds direct blood ties, which take precedence in ethnic Chinese family firms. The chosen successor in a Japanese family firm can be a clan member, a direct blood relative, a senior manager, or simply a trusted firm employee. The key depends on the chosen successor is capable enough to lead to the firm forward (Higashide, 2013; Sasaki & Sone, 2015).

As for whether the original shareholding family will continue to take control the operation of the firm, different ethnic cultures and industries may lead to different routes of firm development. The imposition of a boundary between governance by professional management and family management or a boundary between nepotism and meritocracy will restrict the discussion on succession and development possibilities in family firms. Thus, this book will take the directions of firm development as the axes, supplemented by considerations on the resources and conditions held by the firm or the family, to elaborate the advantages or challenges on firm development direction discussion.

2 An Analysis Framework on Family Firm Succession

The starting point of an analysis framework lies in the family owners' consideration on the strategic positioning discussed by Professor Porter (1996), or simply, asking the question "in the current industry, my firm provides what kind of products or services to whom and what values is delivering?". As for family owner makes succession decisions, his (or her) firm is usually set up over twenty years, and this firm is often settled down in a chosen industry or sector, well-established with a certain scope of products (or services), fixed segments of customers, and the values the firm dedicates to deliver. A succession decision means that the owners not only need to think about who is suitable to take over the firm, but also have to examine the firm's strategic position and to decide whether to keep on with the current strategic position. The examination of the strategic position helps to take inventory of the characteristics of the resources held by the owner or the family as well as the significance and value promised by these combinations of resources for the firm's future development.

From the family owner's viewpoint, as the owner clarifies the current strategic position of the firm, he (or she) should take the current strategic position and types of industry as the two axes and distinguish among potential options, including: (1) Does my firm need to deepen and keep on with the *current* strategic position in the *current* industry? (2) Does my firm need to explore a new strategic position in the *current* industry? (3) Does my firm need to deepen and keep on with the *current* strategic position in a *new* industry? (4) Does my firm need to explore a *new* strategic position in a *new* industry? These four questions will form the "Strategic Position Framework of Trans-generational Succession in Family Firms" shown in the figure one below. The choice of a quadrant indicates which strategic position is taken by the firm and within which type of industry the positioning is to be executed. Firms need not to confine themselves to a certain quadrant. It can be various combinations of different quadrants. However, behind all the choices, two questions are involved, which are (1) "at the trans-generational point, how can the firm and family influenced resource pools (familiness) contribute to generating and sustaining entrepreneurial performance in a family firm?", and "What is the relationship of the family influenced resource pools (familiness) to differential entrepreneurial outcomes in a family firm?" (Au et al., 2011).

In a small-to-medium-sized family firm, succession decision is not only related to the future of the family, but is closely linked with the firm's competitive advantage and developmental direction. Starting from the current strategic position of the firm is helpful for the owners to configure the resources and the core competencies. Relevant descriptions can be "I have advanced technologies," "I have good services," "I have the capabilities of customization to suit the customers' needs," etc. These tangible or intangible resources in a firm are the basis underpinning the execution of the strategic position. On the other hand, at the point of making a succession decision, owners will further consider questions such as "whether to keep on with the current business model?", "are my children willing to takeover or not?", and "are my children capable of taking over or not?". The question as to "whether to keep on with the current business model?" involves the choices of industry category and strategic position, while the questions as to "are my children willing to takeover or not?" and "are my children capable of taking over or not?" involve questions as to whether the firm and familial resources can accumulate and even contribute to innovation in a certain developmental direction. Innovation (or entrepreneurship) is brought up here because the execution of a strategic position always needs some transformations. Firm owners may reach their revenue or sale goals by changing the design or portfolio of products or services, changing the ways of reaching segmented customers, exploring new segmented customers, or improving the values added of products and services. All these strategic decisions on implementing a strategic position can be seen as innovation (or entrepreneurship) in a broad sense.

Figure 1, the "Strategic Position Framework of Trans-generational Succession in Family Firms," demonstrates the relations between the choice of industry category and of strategic position. The choices of the four quadrants can all lead to extended discussion on the relations among operational processes, existing resources, and authority and responsibility in making decisions. Relevant elaborations are as follows.

A: Deepening the current strategic position in the current industry: In the current industry, owners continue to provide the existing portfolio of products and services. The customers can be the customer segments in particular countries with services currently available, or the firm can expand into the customer segments in other countries. Innovation in operational procedures and activities can contribute to the improvement of the company value.

Three constituent aspects of strategic positioning are the portfolio of products and services, segmented customers, and values. The creation of values pivots on customers' recognition that the portfolio of products or

	Current Position (extending and deepening the current position)	**New Position (developing a new position)**
Current Industry (the second and third generation in the same industry)	A：Deepening the current position in the current industry	B：Discovering a new position in the current industry
New Industry (expanding into a new industry through diversification)	C：Extending the current position into a new industry	D：Discovering a new position in a new industry

Fig. 1 Strategic Position Framework of Trans-generational Succession in Family Firms (*Source* Author's creation)

services can bring to the customers psychological or physiological satisfactions beyond the amount paid. At the point of firm succession, the choice to deepen the position in the current industry is arguably an approach to utilize the firm's existing core competencies at lowest risks.

Several characteristics of this approach are as follows: (1) Few changes need to be made to the new products, which have a long product life cycle; (2) Family members hold the key resources or technologies for the firm to provide the products or services; (3) The brand name of the (family) firm possesses a certain degree of attractiveness; (4) The (family) firm can offer growth momentum for developing new products or services through innovation in value chain activities; (5) Segmented markets have a cross-border extensibility, advantageous to the growth of the family firm through cross-country deployment.

As for the relations between family involvement and firm core competencies, there are several characteristics as follows: (1) As for ownership, family members hold the majority of shares; (2) As for the management rights, in family firms which choose to deepen the position in the current industry, family members are usually the key decision-makers in formulating firm strategies. Yet, if the firm adopts cross-border operation, it will lead to professional specialization and high-degree decentralization granted to the professional managers; (3) As for core competences, family members hold the key resources or technologies for the firm to provide the products or services. Often linked to the history of family development, the firm brand will eventually turn into the family brand.

For example, in the food industry, if the food products taste good, there will often be an appealing story that can be passed down from generation to generation. The narrative can be that the food made by the founder tastes so good that it receives profuse compliments, or that the founder obtains the recipe or acquires the skills for making a certain type of food through serendipity, resulting in a story then circulated widely in the community. The difference in scale in the food industry can be huge. For the unlisted SMEs in the food industry, family members will usually be highly involved in making firm decisions and leading the firm's developmental directions. In the meantime, the key manufacturing skills or recipes are usually handled in the hands of family members. It does not matter if the food at issue is a cake, soy sauce, cooking oil, pickles, or any other kinds. Generally, the founder of a food firm will hold the key production recipe and designate certain family members to succeed the recipe. It is commonly seen that the key recipe is still held by a small group of family members even if the food firm has developed into a large scale and adopted factory manufacturing (Chan, Chung, Chen, & Yeh, 2009; Lee & Lee, 2010).

In terms of value chain activities, food firms will try to cater to the taste of customers of different ages, through updating their products to the changing times (like emphasizing less oil, less sugar, healthy, or other flavor adaptations). With "being tasty" as the common ground, food firms seek to explore the definitions of "good taste" in different times as well as to understand the values expected by customers of different ages in purchasing food products. Yet, as for channels and marketing, with the second or third generation having expertise in management or marketing, older food companies tend to carry out innovation in new channels, packaging, and even marketing methods, along with adjustments to flavors and packaging, in order to expand their customer segments. Also, through creating brand museums and showcasing the brand history, food firms seek strengthen the links between the products and the firm (family) development history, such as the over-century firm, Jiu-zhen-nan pastry company in Taiwan (Chan et al., 2009).

If a food company chooses to stay in a particular country for further development, it will tend to maintain a small-to-medium size. Also, family members will be highly involved in making firm decisions and leading the firm's developmental directions. It is commonly seen that with their expertise in management, the family members in next generation tend to deepen the current strategic position and thus attain competitive advantages through establishing the brand name and developing new channels. For example, originated in the Xiluo Township in Yunlin, Taiwan, Wuan Chuang Soy Sauce and Tatung Soy Sauce are two brands with a history of over one century years. The reason for making soy sauce then was the good quality of rice and water in the Zhuoshui River in Central Taiwan. Holding the manufacturing technologies of soy sauce, both the founders have managed to rise to fame and fortune through satisfying people's demand for soy sauce as an accompaniment for rice. Later on, through cooperation with Japanese manufacturers, the firms master some special recipes for manufacturing soy sauce. In the generations to come, the third or fourth generation will usually deepen the current strategic position in the current soy sauce industry, through building brands, innovating multiple flavors of soy sauce, developing customer segments, and establishing new channels (Chuang, Chan, & Chung, 2014).

However, food firms do not confine their scale to a small-to-medium size. Food firms can still grow into large-sized international listed firms through professional specialization and management. For example, with a history of three hundred years, the Kikkoman Corporation from Japan undergoes international expansion by utilizing the opportunity to create plants in the USA and other Asian regions as early as in the 1970s. To date, Kikkoman has plants and investments in the USA, Taiwan, and Japan, including seven overseas manufacturing centers. Soy sauce is a major condiment for Easterners. The flavors of soy sauce vary across different regions. Though the Kikkoman soy sauce is originally a type of sauce soy of Japanese taste, after international expansion, the Kikkoman company has made adaptations to cater to the taste of customers in different regions, having innovated up to thirty-odd flavors of soy sauce, with products exported to around one hundred countries. As the Kikkoman company grows large, flavor adaptations and manufacturing become a matter of professional management and are delegated to a professional team or a specialized department, with the family holding ownership and primary management rights. For the Kikkoman company, apart from deepening the existing strategic position, they also actively seek growth momentum through international expansion and expansion into other sectors in the food industry (Lee & Lee, 2010).

B: Discovering a new strategic position in the current industry: In the current industry, firms choose to develop a new portfolio of products and services, while exploring new segments of customers to adapt to the differences in products and services provided. The new customers can be the new customer segments in the particular existing country or in other countries. The difference in values can be attributed to innovation in operation procedures and activities.

For firms which choose to discover a new strategic position in the current industry, their difference from Type A (current position plus current industry) lies in the divergence of the new portfolio of products or services from the original one, though the industry remains unchanged. Also, the segmented customers for which the new products or services aim are also divergent from the existing portfolio of products or services, which leads to the difference in the values offered. At the point of firm succession, apart from deepening the existing position in the industry, the choice to discover a new position in the current industry is also an alternative for expanding the firm's existing core competencies as well as for opening up a new space for firm growth.

Several characteristics of this approach are as follows: (1) Few changes need to be made to the new products. Though the existing (previous) products have a longer life cycle, they have nevertheless reached maturity and could only offer limited growth momentum; (2) Family members hold the key resources or technologies for the firm to provide the products or services; (3) The brand name of the (family) firm possesses a certain degree of attractiveness; (4) The (family) firm can offer growth momentum for developing new products or services through innovation in value chain activities; (5) Segmented markets have a cross-border extensibility, advantageous to the growth of the family firm through cross-country deployment.

As for the relations between family involvement and firm core competencies, several characteristics of this approach are as follows: (1) As for ownership, family members hold the majority of shares; (2) As for the management rights, in family firms which choose to discover a new position in the current industry, family members are usually the major decision-makers in formulating firm strategies. Yet, if the firm adopts cross-border operation, it will lead to professional specialization and high-degree authorization granted to the professional managers; (3) As for core resources, family members do not necessarily hold the key resources or technologies for the firm to provide the products or services, nor is the firm brand necessarily related to the family development history and turned into a family brand. It depends on whether values offered by the products (or services) in the new position are closely related to the family history.

For example, originated in Kaohsiung, Taiwan, the Jong-Shyn Shipbuilding Company is a leading firm among Taiwanese middle-sized shipyards. The company's products are originally middle-scaled cargo ships such as deep-sea fishing vessels and freighters, and its customers are fishery companies and shipping companies. However, after the second generation, which are two brothers, take over, the elder brother focuses on the current strategic position of cargo ships, while the young brother advances into yacht manufacturing. Shifting from the traditional shipbuilding into yacht manufacturing, the Jong-Shyn Company faces huge challenges. Given the great differences in various aspects such as manufacturing methods, customers, the industrial chain, and marketing, successful transformation into a manufacturer of high-unit-price yachts is arguably a great accomplishment to the company. At the point of firm transformation, the company needs to consider the successors' capabilities and differences, so that the family can continue to hold the key technologies and resources effectively even after transformation and overcome challenges in generational innovation in family firms through separating different strategic positions in a certain industry. It is noteworthy that to distinguish the brand of Jade Yacht from the brand of other Jong-Shyn vessels, the company establishes a yacht brand through creating a new company (Jade Yacht Shipbuilding Company) and rebuilding a new brand (Jade Yacht), while deliberately distancing the new brand from the Han family of Jong-Shyn Shipbuilding in marketing (Chung, Chen, & Yeh, 2011).

Yet, it bears mentioning that firms choosing to discover a new position in the current industry are not necessarily SMEs. In practice, we can see that large-sized public firms open up new spaces for firm growth through expanding into a new strategic position in the current industry in the course of succession. For example, starting up from selling functional energy beverages, Grape King Bio later on turns to dietary supplements and health food, which are also health care products. With the second generation taking over, this public firm massively introduces the professional management system on operation, retaining the key R&D and marketing talents through various incentive compensation and promotion system. This large public firm is now having plants in mainland China, with products being exported to several countries through various models of channels (Grape King Bio official website).

What firms choosing to discover a new strategic position in the current industry have in common is that at the point of the generational shift, the new generation usually brings in new management knowledge and ideas, dedicated to establishing the firm's managerial system and promoting professional specialization. Thus, though these firms do not diversify into a new industry, they can still find new customers, new applications, and even the new sources of value-added, to help the firm maintain growth in scale and revenue.

C: Extending the current position into a new industry: This approach chooses to provide the current product or service portfolio in a different industry. Yet, as the scope of industry has changed, there will be some differences in the portfolio of products or services, whose relations to the current industry lie in applications and extension of the existing core technologies. In the meantime, due to the change of industry, customer segments and demanded values will be different from those in the previous industry. Customers can be the new segmented customers in the same particular country or in other countries. Values will be completely altered, as a result of differences in products or services.

Strictly speaking, as products or services for the new industry is certainly different from those for the current industry, the strategic position (product, customer, value) has been surely changed. But as the products provided for the new industry are based on the core technologies of the existing products, it is still a new industry in terms of the products' applicability and the application area.

Several characteristics of this approach are as follows: (1) As the current industry could only provide very limited growth momentum, the firm needs to elaborate the core competences to a new industrial domain in search for new growth opportunities; (2) Owners do not necessarily hold the key resources or technologies for the firm to provide the products or services. Owners can cultivate those key resources through arranging for some management system. Yet, the opportunity of extending a key technology or resource to the application in the new industry is often brought by the owners' connections and external contacts; (3) The (family) firm's brand name in the current industry is not necessarily attractive to new customers in the new industry. The key lies in whether the values demanded by the new customers are relevant to the current brand's marketing and image building; (4) The (family) firm can offer growth momentum for developing new products or services through innovation in value chain activities. The key lies in accomplishing the synergy between the firm's R&D capabilities and resources, rather than in marketing or developing new channels; (5) Segmented markets in the new industry have a cross-border extensibility, advantageous to the growth of the family firm through cross-country deployment.

As for the relations between family involvement and firm core competencies, several characteristics of this approach are as follows: (1) As for ownership, family members hold the majority of shares. But in order to attract non-family members endowed with technologies and expertise, the firm may implement incentive mechanism such as stock options to attract the necessary talents; (2) As for the management rights, family firms which choose to extend the current strategic position into a new industry will separate the operation in the current industry from the one in the new industry, through initiating a new firm to be governed by a holding company. If the new founded firm adopts cross-border operation, it usually tends to have a clear division of works, clear responsibilities, and authorization management on decision-making; (3) As for core resources, family members do not necessarily hold the key resources or technologies for the firm to provide the products or services, nor is the firm brand necessarily related to the family development history. The building of the firm brand is not necessarily related to the family brand.

For example, Jau-Yeou Industry Co. Ltd., a manufacturer low carbon steel screws, is founded in 1979. This firm's main products include drywall screws, self-tapping screws, self-drilling screws, chipboard screw, and collated screws, with their applications in the construction industry, the care-manufacturing industry, and the mechanical industry. In 2004, Jau-Yeou Industry participates in the Aerospace-Standard Fastener Industry Technology Panel Development Project led by the Taiwan Ministry of Economic Affairs and turns to invest in founding a new firm, i.e., JYR Aviation Components Co, Ltd., wholly devoted to developing the markets of aerospace fasteners and aerospace parts. The person in charge of Jau-Yeng Technology is currently Mr. Sun Ming-Chou, the son of the founder, Mr. Sun Der-Zeng, the chairman of Jau-Yeou Industry Co. Ltd. As rigorous certifications are required in all aspects including materials, special procedures, and the quality system, fastener products used in the aerospace industry have a very different standard compared to fasteners for construction or general industrial use. Moreover, it is very difficult to penetrate the supply chain in the aerospace industry. Introduction by professionals in the industry is required, and the firm needs to pass a series of severe tests. However, if a firm can manage to penetrate into this supply chain, owing to the effect of economies of scale and the high unit prices of aerospace fasteners, the penetration can actually enable the company to achieve exponential growth in development. The Jau-Yeou Industry Co. Ltd. makes an effort to enter the aerospace industry through hiring some high-level personnel related to the USA's aerospace industry and investing massively. Suffice to say, the case of Jau-Yeou Industry Co. Ltd. is a fairly good example for extension of the current strategic position into a new industry (JYR Aviation Components Co, Ltd. official website).

D: Discovering a new position in a new industry: This approach chooses to provide a portfolio of products or services different from the existing one in a newly explored industry, while developing new customers. As there are differences in products or services, customers, and values, the generation of values does not rely on the existing operation procedures or innovation in activities, but rather on innovative features of the new products.

Several characteristics of this approach are as follows: (1) As the current industry could only provide very limited growth momentum, the firm needs to expand into a new industry in search for new growth opportunities; (2) Owners do not necessarily hold the key resources or technologies for the firm to provide the products or services. Owners can cultivate those key resources through arranging for some organizational institutions. Yet, the opportunity of extending a key technology or resource to the application in the new industry is often brought by the owners' connections and external contacts; (3) The (family) firm's brand name in the current industry is not necessarily attractive to new customers in the new industry. In the main, the key lies in whether the values demanded by the new customers are relevant to the current brand's marketing and image building; (4) The (family) firm needs to create growth opportunities and growth momentum in the new industry through launching and deploying various value chain activities. The key to success lies in accomplishing the synergy between the firm's R&D capabilities and resources for the new products or services, as well as in marketing or developing new channels; (5) Segmented markets in the new industry have a cross-border extensibility, advantageous to the growth of the family firm through cross-country deployment.

As for the relations between family involvement and firm core competencies, several characteristics of this approach are as follows: (1) As for ownership, family members hold the majority of shares. But the firm will choose to obtain the financial capital necessary for expansion through capital markets; (2) As for the management rights, family firms which choose to develop a new position in a new industry have usually reached a certain degree of institutionalization in firm operation. Family members may act as the major decision-makers for formulating firm strategies or may simply play the role of supervising in the board of directors. If the firm adopts cross-border operation, it will lead to professional specialization and high-degree authorization granted to the professional managers. (3) As for core resources, family members do not necessarily hold the key resources or technologies for the firm to provide the products or services, nor is the firm brand necessarily related to the family development history. Yet, family members can choose to accord some relations between the history of family development and the firm brand.

For example, the Universal Cement Co. Ltd. is founded in 1960 by Hou Y.-L., one of the core members of the Tainan clan. For many years, this firm has been under the governance of professional managers, with core members of the Hou family only play the role of shareholding in the board of directors. Since the two main competitors, the Taiwan Cement Corporation and the Asia Cement Corporation, have been witnessing tremendous success while the growth of Universal Cement remains sluggish, in 2008, Hou, B.-Y., as the third generation descended from the founder, Hou Y.-L., forcibly reclaims to take back the management rights from the non-family professional managers. Facing of external pressures and doubts, Hou B.-Y., in his first step, asks his two sons, Hou C.-S., and Hou C.-Y., to come back and take over as general management works and initiate a new industrial business unit. Hou C.-S., with a background in technology, takes charge of management and new business in the electronic industry, while Hou C.-Y., with an outstanding communication skills, takes charge of the Universal cement development, especially focus on developing the high value-added cement product—gypsum board. The second step is to formulate strategies so as to combat overstaffing through implementing early retirement plans, to execute cost control so that the inflated costs of raw materials can be restored to a proper level, to sell off plants in mainland China which have bad performance and bad environment, to analyze the cement industry while targeting the gypsum board market, and to found the Uneo Inc. and build up the Uneo brand, in order to advance on the high-tech market as a strategy of diversification by employing the hair-thin pressure-sensing electronic skin technology. Apart from breaking the tradition peculiar to firm groups in the Tainan clan, that is, the CEO system which hires professional managers as agents, Hou B.-Y. further reforms this old firm, turning away from the original conservative style of operation and stepping into the high-tech industry from the original cement firm. It is those innovative, creative, open, adventurous attitudes that enable Universal Cement to reborn as a whole new firm in the traditional sunset industry. The third generation Hou B.-Y. and the brothers of the fourth generation simply let their results speak: this firm can lead to a flourishing prospect in both the short and long run, even if it is under the governance of family members (Hung, Su, & Chung, 2015).

Universal Cement is a standard and typical case of developing a new strategic position while expanding into a new industry. With the cement industry mired in environmental controversies and growth stagnation, it is difficult for Universal Cement to sustain its growth with solely focus on the original position in the cement industry. Yet, the development and applications of gypsum boards, an augmented product of cement, can act as a testament to how Universal Cement exonerates itself from the accusation of causing pollutions and becomes devoted to developing environment friendly materials. In the meantime, with family members holding new resources and capabilities, Universal Cement manages to step into the whole new electronic sensing industry, leading to a completely different path of growth than other peer cement companies. Most family firms which adopt this developmental model are fairly large firms or even a public firm. Yet, for SMEs, if the family can cultivate new capabilities and skills in succeeding family members and step into a new industry while developing a new strategic position under the circumstance that growth momentum in the current industry is limited, then the family does create possible opportunities and options for the growth of family firms. Family members need to make full use of professional managers to help the company seek new customers and new values added in the new industry.

3 The Relations Between Strategic Position Framework and Resources in Family Firms: The Sustenance, Re-Composition, and Breakdown of Resources

After analyzing the different options on strategic position framework of trans-generational succession in family firms, now we need to discuss the considerations on resources and possible challenges involved in those different options.

First of all, it needs to be clarified that firms do not necessarily adopt only one single approach of working industry and strategic position during generational succession. Depending on their scales, scopes of operation, financial resources, human resources, and niche markets, firms may choose a single industry and a single position or may choose a combination of several industries and positions. The key to successful implementation of the approaches lies in the answers to questions as to (1) "at the trans-generational point, how can the firm and family influenced resource pools (familiness) contribute to generating and sustaining entrepreneurial performance in a family firm?", and (2) "What is the relationship of the family influenced resource pools (familiness) to differential entrepreneurial outcomes in a family firm?" (Au et al., 2011). These two questions are closely related to the resources required for executing the strategic position. And we need to answer these two questions from the standpoint of the founder.

First, founder or the current family leaders need to consider who is the critical person to take in charge of the main activities or hold the core competences to provide the existing products or services? is the critical person the family member?

After answering this question, now founder or the current family leaders have to further clarify whether the core competences at issue can be granted proper legal protection through the means of intellectual property rights. Further elaboration is as follow.

1. The key technologies and secret formulas of manufacturing (or service) lie in the hands of family members, while these technologies (or formulas) cannot be granted proper legal protection by means of intellectual property rights such as patents.

In this scenario, it means that there is a huge overlap between family resources and the core resources required for executing the current firm strategic position. At the point of succession, the firm owners holding the key technologies or formulas choose family members who are willing to succeed these technologies or formulas. This is the most conservative and secure approach to succession, while the common choice made are deepening the current position in the industry (quadrant A) and discovering a new position in the current industry (quadrant B). As for whether to deepen the current position and expand into international markets or to extend to a new position in the current industry and develop new growth opportunities, the key lies in whether the next generation can institutionalize and systematize the technologies or formulas in their hands, while helping the firm develop new value chain activities and procedures through using new knowledge acquired from education. If the new generation has a group of core colleagues or partners and are willing to innovate firm operation procedures, then several tactics can enable the firm to expand its scale in the current industry, such as seek help from capital markets, introduce e-commerce as an auxiliary, actively develop international markets, or introduce new investment partners.

If the key technologies or formulas of manufacturing lie in the hands of family members, it means that family members are having a high degree of control over ownership and management rights. So, several challenges at the point of succession are as follows: (1) there is a number of family members who show willingness to succeed, while there is only one will be selected as the successor; (2) If so, other family members who fail to attain the position of the successor may choose to start up new firms in the same industry, becoming competitors to the current firm; (3) If there is no one willing to succeed, the existing owners need to consider whether to hand over the key technologies or formulas to a non-family professional and to transform the role of family members to pure shareholders instead of controlling both ownership and management rights; (4) Owners need to conside to secure firm ownership through the mechanism of ownership concentration (such as establishing or investing in holdings companies, foundation with the function of shareholding, or trust companies). But if there is no harmony among family members, ownership concentration will provoke disputes very likely. Firm owners need to handle that issue with care.

2. The key technologies and secret formulas of manufacturing (or service) lie in the hands of family members, while these technologies (or formulas) can be granted proper legal protection by means of intellectual property rights such as patents.

In this scenario, it means that firm owners can expand the scale of firms and extend into other countries through replicating and professionalizing operation activities. Owners need not confine themselves to deepening the current position in the current industry (the quadrant A). They can choose freely according to the conditions of financial capital and human capital among extending to a new position in the current industry (quadrant B), extending the current position to a new industry (quadrant C), and discovering a new position in a new industry (quadrant D). The IPR protection of key technologies or formulas helps reduce the transaction cost in the process of organization and systematization and secure the control over management rights, given that the key technologies or formulas lie in the hands of firm owners. For firm owners, it is noteworthy that how the existing operation procedures can continue to grow in scale and to create new value chains and whether the technologies or formulas held by the firm match the development of the industry. When a family firm can extend to a new position in the current industry (quadrant B), extend the current position to a new industry (quadrant

C), or discover a new position in a new industry (quadrant D), it means the family firm needs to combine family capital with organizational capital as far as possible, so as to expand and cultivate the resources required for the firm's future growth and to ensure that these resources are not to be imitated or replicated by other competitors (Arregle, Hitt, Sirmon, & Very, 2007).

If the key technologies or formulas of manufacturing lie in the hands of family members, while the technologies or formulas can be granted legal protection through the means of IPR, it means that family members are still generally having a certain degree of control over ownership and management rights. Several challenges at the point of succession are as follows: (1) family members holding the technologies or formulas are often the successor. The question lies in what role do those family members who do not hold the technologies or formulas need to play? Is he (or she) a pure shareholder? A shareholder with the board membership? An employee inside the firm? The role plays by the family members in the next generation depends on those members' willingness and capabilities and in whether the arrangements of roles will cause internal conflict among family members. (2) If there are many family members in the next generation, owners may consider to secure firm ownership through the mechanism of ownership concentration (such as establishing or investing in holdings companies, foundation with the function of shareholding, or trust companies) in avoidance of the potential risk that other shareholding family members may sell their shares in the future. (3) Owners need to think about the integration between core resources and other operation activities when expansion and diversification are underway and whether extension of core resources to other firm entities will cause human resource or management resource breakdowns. The solution lies in planning on cultivation of talents with different firm functions and establishment of a human resource system. (4) Owners need to consider the changing of the industry and whether the technologies or resources held by family members match the development of the industry in the future. The solution lies in keeping up with firm innovation and maintaining a high-level sensitivity to the changing of the industry.

3. The key technologies and secret formulas of manufacturing (or service) do not lie in the hands of family members, while these technologies (or formulas) cannot be granted proper legal protection by means of intellectual property rights such as patents.

In this scenario, it generally means that firm owners need to secure the control over ownership through holding the majority of shares and over the management responsible for firm operation through schemes such as profit-sharing and employee stock ownership. This sort of cases results from that fact that cultivation of firm resources has an impact on the firm's firm operation and development far greater than resource inputs by the family do. So, family members will usually withdraw from their role in the management, while simply playing their role in selecting and supervising the CEO and of discussing with the management on the family firm's major developmental directions in the future. Under this circumstance, as for which quadrant the firm should tend toward (A, B, C, or D quadrants), the key lies in the deepening, leveraging, extension, and replication of firm resources.

If the key technologies or formulas of manufacturing do not lie in the hands of family members, while the technologies or formulas cannot be granted legal protection through the means of IPR, it means that the firm has probably implemented a governance framework of separation between ownership and management rights. Several challenges at the point of succession are as follows: (1) one of the problems can be how to weigh between short-term performance and long-term strategic directions in communication with the professional managers. The solution lies in robustness of the board of directors and the necessity of including a robust board as a long-term strategic index. (2) another problem can be how to ensure the accumulation of firm resources and talent cultivation through the mechanism of human resource management. (3) Generally, the original founders will secure firm ownership through the mechanism of ownership concentration (such as establishing or investing in holdings companies, close companies with the function of shareholding, or trust companies) in avoidance of the potential risk that other shareholding family members may sell their shares in the future. (4) The firm should establish a robust board of directors, so as to embrace any talent beneficial to the cultivation of firm resources, including family members. (5) As the firm grows into a big scale with multiple cross-border operations, it needs to pay attention to the integration between core resources and other operation activities while expansion and diversification are underway and whether extension of core resources to other firm entities will cause human resource or management resource breakdowns. The solution lies in planning on cultivation of talents with different firm functions and establishment of a human resource system.

4. The key technologies and secret formulas of manufacturing (or service) do not lie in the hands of family members, while these technologies (or formulas) can be granted proper legal protection by means of intellectual property rights such as patents.

In this scenario, it means that the core capabilities for firm operation come from the firm rather than the family. Similar to the situation discussed previously, firms can build up a strong foundation for attaining long-term competitive advantages through cultivating firm sources. Family members will usually withdraw from their role in the management, while simply playing the role of selecting and supervising the CEO and of discussing with the management on the family firm's major developmental directions in the future. Under this circumstance, as for which quadrant the firm should tend toward, the key lies in the deepening, leveraging, extension, and replication of firm resources. A board whose operation has been right on track will be the key to whether firm resources can match the subsequent choice of strategic position.

If the key technologies or formulas of manufacturing do not lie in the hands of family members, while the technologies or formulas can be granted legal protection through the means of IPR, it means that the firm has probably implemented a governance framework of separation between ownership and management rights. Several challenges at the point of succession are similar to what has been discussed previously and are not to be repeated here. Family resources and firm resources are not necessarily related. But at the point of succession, it should be noted what possible roles family members could play in the firm (such as a pure shareholder, a board member, a manager, or a firm employee, etc.). When the key technologies and secret formulas of manufacturing (or service) do not lie in the hands of family members, no matter whether these technologies (or formulas) can be granted proper legal protection through the means of intellectual property rights or not, it generally means that there is little relation between the family and the firm. Thus, establishment of a board with clear goals and of relevant organizational leaderships and institutional operations becomes the key to the firm's sustainable development.

4 Conclusion

The purpose of this chapter is to propose a framework for succession in family firm, providing firm owners with some ideas concerning trans-generational entrepreneurship. The key structural design of this chapter is that it takes firm development, rather than firm resources, ownership, or management rights, as the point of departure. This framework can serve as a valuable reference in practice for SMEs in succession and development, whose resources are highly concentrated in the hands of family owners and which have relatively deficient resources. After being founded by the founder, all firms can only continue to thrive by expanding the scale. For the firms, innovation is an ongoing test to the owners. As innovation or entrepreneurship cannot be achieved in a single bound, which in fact requires the efforts of a whole generation or even several generations, the coordination between decisions on firm succession and decisions on trans-generational entrepreneurship becomes a critical issue for firm long-lasting development. Though SMEs are different from large-sized firms in terms of scale, succession decision in SMEs still need to deal with the problem as to whether to maintain the status quo (existing advantages and positioning) or to move on (expanding with existing advantages in the current position or developing toward different positions). Thus, succession in SMEs can be seen as the critical point in the course of firm development. This critical point needs to deal with the problem of where the firm and the founding family should move on.

If small-to-medium-sized family firms can grow smoothly, they may choose to "keep small" or to "grow big" in scale. In this book, we argue that the scale of small, middle, and large should be a continuum, rather than a category. If we see the large size and the small-to-medium size as a continuum instead of two different categories, then the movement along this continuum hinges on trans-generational succession and innovation. If succession in the family firm is successful and the firm does grow, the firm can often move on along the continuum of scale toward size growth. If succession goes smoothly, yet the firm does not see growth engine in revenue, then the firm will stay at the current strategic position on the continuum. However, if succession does not go smoothly, the firm could possibly disappear right at the current position on the continuum (sell-off, close-down, or natural disappearance). *Succession is not only about choice of family management or professional management, but also about decision on "where the family should move on" and "where the firm should move* *on" altogether*. However, the precondition for asking "where the family should move on" is that the firm is able to continue developing. Thus, an approach taking firm development as the point of departure, supplemented by discussions on firm and family resources, will contribute much to implementing the decisions on succession and innovative development. Following this chapter, we will discuss whether SMEs should keep small and specialized or develop toward scale growth.

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CHAPTER 3

Absence of Customers' Voice as the Cause of Limited New Product Development in a Small Long-Standing Family-Owned Craft Business in Japan

Katsushi Yamaguchi and Hironori Higashide

Open remark

Japan has the largest number of long-standing companies in the world. In 2011, there were 3,937 companies in Japan that had continued business operations for 200 years or longer (T. Goto, 2012). Most of these

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small businesses are family-owned and managed. This chapter considers the case of such a long-standing small family business that makes traditional crafts out of copper sheets using a unique traditional method. Based on an interview with the current CEO, a member of the seventh generation of the family to manage the business, and e-mail correspondence thereafter, this chapter depicts a critical challenge that the current CEO faced upon his succession. The chapter also shows how the CEO reacted to and overcame the challenge and helped his family business to recover from the crisis.

Highlights

- *Challenge*: The manufacturer in our case study does not know the final customers' voice because of the structure of the distribution channel. The manufacturer does not have direct contact with final customers, but wholesalers do. Consequently, the structure of distribution inhibits the manufacturer from new product development.
- *Solution*: The manufacturer changed the distribution channel:
  - First, this paved the way for direct sales to retail stores.
  - Then, the manufacturer opened its own directly managed retail store.
- *Consequence*:
  - Allowed the manufacturer's personnel to have opportunities to communicate with final customers. As a result, the company could know what customers really wanted. Based on this information, the company created new types of products or modified the design of existing products. Consequently, sales increased.

1 Opening Case

In 1993, in Tsubame city in Niigata prefecture, Japan, Mr. Motoyuki Tamagawa was in his junior year at university and was considering his future career. His family had owned and managed the family business, Gyokusendo, for 2 centuries. Located in Tsubame city, the company is a copperware manufacturer. Using the special traditional technique of *tsuiki*, the company's crafters make many kinds of copperware by hammering sheets of copper by hand to squeeze and transform them into final shapes. The *tsuiki* technique was not unique to Tsubame and Sanjo cities in Niigata in the past but these cities developed the technique, where it remains in use today.

Long-standing Japanese businesses prefer to choose a CEO successor from the founding family. Gyokusendo was no exception and in 1993, Motoyuki, as the eldest son of the then CEO, understood that he was expected to take over the family business in the future. He thought that after graduating from university, he should first work for a company outside the family business for several years to train himself, gain work experience, and acquire skills, before joining the family business.

However, his father, the then CEO, Mr. Masao Tamagawa asked Motoyuki to join the family business immediately upon graduating from university, as the business was not in good shape at that time. In fact, it faced a crisis. Sales had declined to one-third of their peak in around 1975. Employee salaries had to be cut and compensation to board members was marginal. Later, in 1995, the management had to cut its workforce in order to survive; the number of employees was reduced from 35 to 20. Under these circumstances, Masao wanted his son to help the family business as soon as possible.

For this reason, in March 1995, Motoyuki joined the family business. He was assigned responsibility for sales and marketing. His first immediate task was to improve the company's sales. He was very shocked when he discovered how critical the financial situation of the family business was. While he had heard from his father that the company was in trouble, he found the situation to be worse than he had expected. He realized how important it was for him to deal with the situation as soon as possible.

In order to increase sales, Gyokusendo had to make products what would attract higher numbers of final customers. However, both the management and crafters faced the same big problem: they had no idea what their final customers really wanted to buy.

This lack of knowledge was because of the strict distribution structure of the industry, in which manufacturers do not sell their products directly to retail stores, but instead first sell the products to local wholesalers. Then, the local wholesalers sell them to another wholesalers. There was an implicit agreement among the participants in the industry that the structure should not be violated. Accordingly, Gyokusendo sold its products to wholesalers in the local area. The local wholesalers, then, sold the products to trading companies that sold the products to department stores. Hence, there was a distance between Gyokusendo and their final customers at department stores. The destinations of the products were in the hands of local wholesalers, who had to deal with department stores, meaning that Gyokusendo did not know who bought its products. Motoyuki and Gyokusendo's other employees did not even know whether the products were distributed to department stores. Therefore, it was difficult for Gyokusendo to know what kind of products the final customers really wanted.

This is not unusual in the industry in which Gyokusendo operates. Every industry has multiple layers of distributors—some industries have five to six.

When Motoyuki joined the family business, he considered the distribution structure to be the cause of the problem of declining sales, and understood that it prevented Gyokusendo from knowing the voice of the customer. However, at the same time, the structure had been an industry norm for a long time and could not be violated.

Thus, what was Gyokusendo to do and what did it actually do to solve the problem? This chapter showcases the actual initiatives that Gyokusendo took.

2 Overview of Gyokusendo, Its Business, and Industry

2.1 The Owner-Family

Gyokusendo was founded in 1816 by Mr. Kakubei Tamagawa, the ancestor of the current owner-family, the Tamagawa family.

Management of Gyokusendo has passed down through the Tamagawa family since its foundation. Currently, three Tamagawa family members sit on the company board. As mentioned in the previous section, Motoyuki is the CEO, the seventh in Gyokusendo's history. His younger brother is the executive senior managing director and their mother is a director.

The current CEO's predecessor, his father Masao, handed over the CEO job to Motoyuki, in 2003, 8 years after he first joined the business.

In addition to the family directors, other family members are involved in the operation of Gyokusendo. The wife of the executive senior managing director performs clerical work; the eldest son of a younger brother (Mr. Norio Tamagawa) of the sixth CEO, as well as his eldest son, work as crafters. Norio used to serve as the executive senior managing director but left the family business and devoted all his time to art. Norio was designated a Living National Treasure in 2010 (Table 1).

Table 1 Overview of Gyokusendo

Business family	Tamagawa family
Current CEO	Mr. Motoyuki Tamagawa
Family members involved	• Three members, including the CEO, sit on the board • Another three members are employees
Year of foundation	1816
Generation	Current CEO is in the seventh generation
Business activities	• Makes and retails *Tsuiki* copperware, using a special traditional method to hammer copper sheets into shape (officially designated a traditional Japanese craft)
Location	• Headquarters and main store: Tsubame city, Niigata prefecture • Directly managed retail stores: Aoyama and Ginza in Tokyo
Size	• Number of employees: 31 • Board members: 3
Website and social media	• Official website (English): http://www.gyokusendo.com/en/ • Facebook: https://www.facebook.com/gyokusendo

Source Author's creation based on the information provided by Gyokusendo company

2.2 Local Area and Industry

Gyokusendo is headquartered in Tsubame city, Niigata prefecture. Today, the neighborhood area is a well-known place for metal manufacturing by a cluster of small- and medium-sized companies related to metal processing. The area is called Tsubame-Sanjo, the combined name of Tsubame and Sanjo cities, which are adjacent. Businesses in the Tsubame-Sanjo area include polishing, plating, and sheet metal processing companies. The final products range from materials and tools for manufacturing to consumer goods, such as tableware and cookware. Many blacksmiths make quality kitchen knives. Polishing companies in Tsubame-Sanjo area were selected by Steve Jobs to polish surface the Apple iPod to give the gadget's elegantly smooth and shiny appearance.

Among these companies is Gyokusendo, specialized in handling copper. Gyokusendo has a unique technique to make products out of copper sheets. The technique is called *tsuiki*, which means to hammer a sheet of copper and transform it into a three-dimensional shape.

The technique developed and remains as a local industry of Tsubame-Sanjo. Copperware made in this area using the *tsuiki* method is officially designated as a traditional Japanese craft.

In the late eighteenth century, the *tsuiki* method was transferred to the Tsubame-Sanjo area by a crafter from a nearby region in the east, Sendai. Tsubame-Sanjo was a good place to manufacture copper-related products because a copper mine was located near the area.

Several crafters learned the *tsuiki* technique from this crafter from Sendai. One of them was the founder of Gyokusendo.

Niigata prefecture is a fertile ground for long-standing companies. Companies from Niigata prefecture are among the top 10 number of and proportion of long-standing companies to total companies in the prefecture. For example, K. Goto (2011b) ranked Niigata prefecture fifth out of 47 prefectures in terms of number of century-old companies[1] and fourth in terms of the proportion of long-standing companies (K. Goto, 2011b).

Japanese arts and craft dealers and stores is the sector with the third largest number of long-standing companies that have continued for more than 200 years, following sake breweries and operators of hotels and/or inns (Nihon Keizai Shinbun, 2010, based on a study by T. Goto).[2]

Gyokusendo's products are classified as *tsuiki* copperware. *Tsuiki* copperware produced in the Tsubame-Sanjo area is among the 230 works that have been designated a traditional Japanese craft, including Wajima lacquerware (developed in Wajima area in Ishikawa prefecture), Kyo Nishijin (a textile woven by special technique, developed in Kyoto), and Imari-Arita ware (porcelain) (Japan's Ministry of Economy, Trade and Industry, n.d.a).

The Japanese Minister of Economy, Trade and Industry gives the designation to works that fulfill the following criteria (Japan's Ministry of

[1] Century-old companies are defined as those that had continued business for 98 years or longer. As of July 12, 2010, 24,570 companies met the criteria (K. Goto, 2011a) and 1,116 of such companies were in Niigata prefecture (K. Goto, 2011b). Niigata prefecture had 3.87% of century-old businesses in Japan, following Kyoto in first place with 4.44%, Shimane prefecture second with 4.14%, and Yamagata prefecture third with 3.98% (K. Goto, 2011b).

[2] According to a study by T. Goto, 3,113 companies in Japan had continued for 200 years or longer as of April 2018. Of them, the most (447 companies) were sake breweries, followed by hotels and/or inn operators (425 companies), arts and craft dealers and stores (339), manufacturers of Japanese confectionery (304), food (291), and restaurants (185) (Nihon Keizai Shinbun, 2010).

Economy, Trade and Industry, n.d.b): (1) primarily used for daily life; (2) mainly made by hand, especially for the part of its production process that influences the product's unique feature; (3) manufactured by a traditional technique that has existed for 100 years or longer; (4) its primary material has been used consistently in the manufacturing process for 100 years or longer; (5) manufacturers in a certain area maintain a certain size[3] and develop an industrial cluster.

Niigata prefecture, where Gyokusendo is located, has the third largest number of kinds of products with official designation for traditional Japanese crafts.[4]

Gyokusendo is a small company, employing 34 people, including three family members that sit on the board, as mentioned in the previous section. Most of its personnel are involved in production: it employs 22 crafters, including 7 women.

In Tsubame-Sanjo area, about 10 operators produce *tsuiki* copperware. However, almost all of them are small workshops, run by individual alone or with spouses and children. Gyokusendo is the only operator that functions as a corporation.

The market for such traditional Japanese crafts, including *tsuiki* copperware, is not in good shape. Production volume has been in decline for the last four decades (Fig. 1), falling to 96.0 billion yen in the 2016–2017 fiscal year (from April 2016 to March 2017) (The Association for the Promotion of Traditional Craft Industries, n.d.b). Traditional Japanese craft is not a profitable sector. Accordingly, the number of companies and employees in the industry decreased dramatically from 1974 (Figs. 2 and 3). These figures also declined to 13,567 companies and to 69,635 employees in the 2012–2013 fiscal year (The Association for the Promotion of Traditional Craft Industries, n.d.b).

[3] "Certain size" means that there are 10 or more manufacturing companies or 30 or more crafters of the product (Association for the Promotion of Traditional Craft Industries, n.d.a).

[4] There are 16 kinds of products that are officially designated as traditional Japanese crafts. Kyoto and Tokyo both had the largest number of such crafts (17), as of November 30, 2017 (Japan's Ministry of Economy, Trade and Industry, n.d.a).

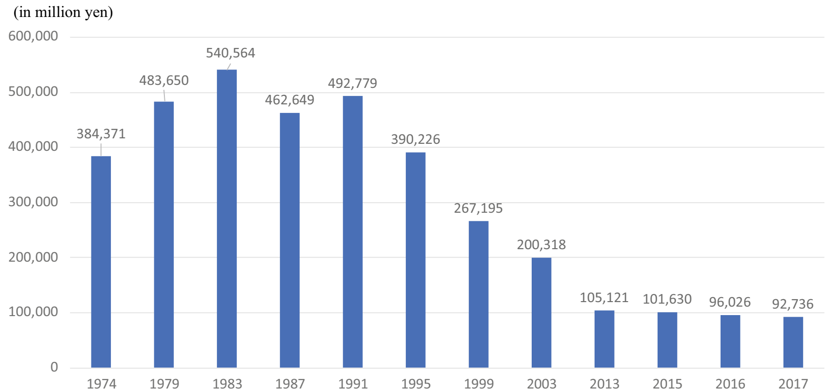

Fig. 1 Change in production volume of traditional Japanese craft industry (*Source* Author's creation based on the information provided by the Association for the Promotion of Traditional Craft Industries)

2.3 *Succession Career Path*

Motoyuki, the current CEO, joined Gyokusendo in March 1995, immediately after he graduated from university. As mentioned in the opening case, Motoyuki had intended to work for another company outside of his family business, such as a trading company, for a few years before joining Gyokusendo. Being the eldest son of his father, Motoyuki was expected to be a future successor of Gyokusendo. Naturally, he wanted to gain work experience and acquire business skills in order to train himself to be a qualified candidate for the future CEO.

This kind of succession career path was common among family businesses in Japan. Some successors worked for trading companies, as Motoyuki had intended while others worked for banks. Yet others worked for companies with which the family business conducted business. For example, some successors of food manufacturers worked at retail stores that sold the products.

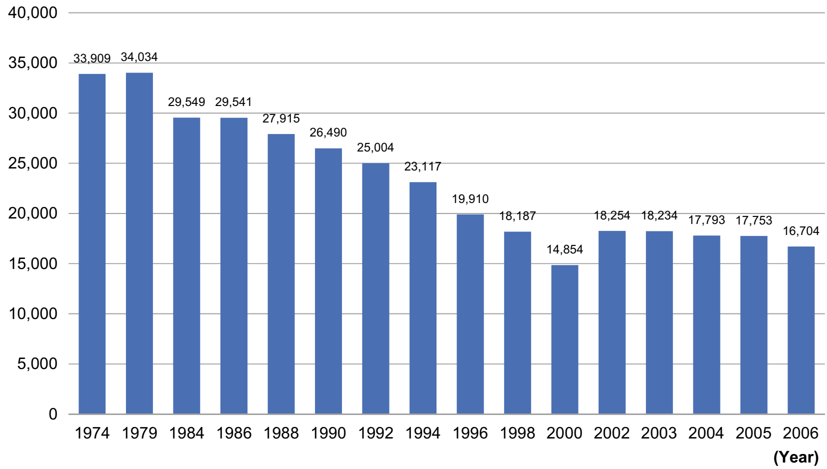

Fig. 2 Change in the number of companies in the traditional Japanese craft industry (*Source* Author's creation based on the information from the Association for the promotion of Traditional Craft Industries, cited in *Dentoteki kogeihin sangyo wo meguru genjo to kongo no shinko shisaku ni tsuite* [Current situation of traditional crafts industry and future promotional initiatives], p. 3, by Traditional Craft Industry Office, Manufacturing Industries Bureau, Japan's Ministry of Economy, Trade and Industry, 2008, Retrieved from https://warp.da.ndl.go.jp/info:ndljp/pid/11223892/www.meti.go.jp/committee/materials2/downloadfiles/g80825a07j.pdf)

3 Solutions

3.1 Direct Sales to Department Stores

To address the situation of his family business, Motoyuki attempted to sell Gyokusendo's products directly to major department stores: Isetan Co., Ltd. and Mitsukoshi Ltd. in Tokyo. Motoyuki chose these stores because they did not sell Gyokusendo's products at the time, although they were among the most renowned department store chains in Japan.[5]

[5] Isetan Co., Ltd. and Mitsukoshi Ltd. merged in 2008. Since then, the group has been the largest department store chain in Japan. Although most of the revenue is from sales in Japan, both Isetan and Mitsukoshi operate department stores outside Japan. For example, Isetan has six stores in Singapore; four in Mainland China, four in Malaysia and one in

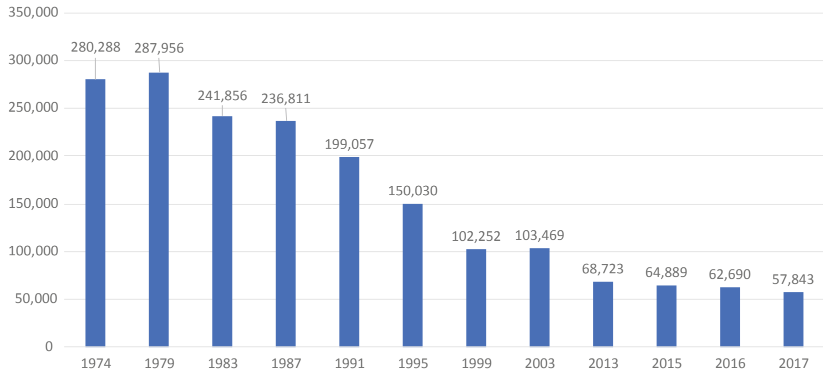

Fig. 3 Change in the number of employees in the traditional Japanese craft industry (*Source* Author's creation based on the information provided by the Association for the Promotion of Traditional Craft Industries)

Motoyuki visited Isetan and Mitsukoshi in the fall of 1995, the year he joined Gyokusendo. He had had this plan in mind even before he joined Gyokusendo, as when he was a university student, he had some inkling of the extent to which the family business was in trouble and had started to think what he could and should do when he joined Gyokusendo.

When Motoyuki went to the main stores of Isetan and Mitsukoshi in Tokyo to meet and negotiate with people in charge of procurement, it was sink or swim. Motoyuki did not know anyone in either of the two department stores. Therefore, Motoyuki was not certain if he would be able to meet their procurement personnel. He visited the two companies without appointments.

Fortunately, he was allowed to meet the procurement staff and received permission to conduct a product demonstration at the main store of Isetan in the following spring. Although Isetan did not immediately agree to sell Gyokusendo's products permanently, it promised to do so if the products sold well during the product demonstration. In the end, Isetan agreed to sell Gyokusendo's products permanently.

Even though cutting the deal with the local wholesalers was against the local custom and unlikely to be accepted, Motoyuki decided to try anyway

Thailand, while Mitsukoshi has one store each in Taiwan, mainland China, Italy, and the USA.

and went directly to Isetan and Mitsukoshi. He explained the reason he opted for this route:

> I was faced with a situation in which my family business was almost bankrupt. In the situation, I had to choose another way. Should I follow business custom? Or should I protect Gyokusendo? Finally, I decided to choose the latter. (from e-mail correspondence with Mr. Motoyuki Tamagawa, May 8, 2018)

He firmly believed that "changing the distribution channel will support Gyokusendo's business in future."

3.2 Expanding the Customer Base at Department Stores

The product demonstration proved to be very beneficial for Gyokusendo. First, Motoyuki was able to receive in person final customers' voice, which, of course, was very helpful for Gyokusendo to develop new products and improve existing products. In addition, the demonstration gave Gyokusendo the opportunity to hear the opinions of other people, such as the procurement staff and other employees of the department stores. Motoyuki conveyed these opinions to Gyokusendo's employees, which resulted in a new line of products and improvements in the design of existing products.

> As a result of the product demonstration, we could hear the voice of a wide variety of customers. In addition to customers, we were able to receive various ideas. For example, the procurement staff and female staff at the store told us that we should make products like this or we should modify that point of a product. I passed the feedback on to our employees. (from interview with Mr. Motoyuki Tamagawa)

Actually, product lineups completely changed as a result of the new product development and modification of the design of the existing products based on opinions of the customers and department store personnel. For example, when Motoyuki joined Gyokusendo in 1995, 80% of sales came from the gift business whereas Gyokusendo's sales were dominated by copper kettles in the founding generation. Gyokusendo earned most of its revenue from local sales to companies in Niigata prefecture, such as flower vases, frames to showcase pictures or calligraphy, and plates. The companies in the local area of Tsubame and Sanjo cities bought these products as mementos to employees on retirement.

Hearing the voice of final customers in person and the opinions of employees of the department stores resulted in new kinds of products, such as cups and drinking vessels for sake.

> … in those days, we did not have products, like extra-large sake cups, cups, or other drinking vessels for sake. Thus, [the opinions of the customers or staff at the department stores] gave us the impetus to make those kinds of things. We received a wide variety of ideas that helped our production, such as design of cups. (from interview with Mr. Motoyuki Tamagawa)

The new lines of products, such as cups or extra-large sake cups, were first introduced as a prototype in the fall of 1996, the same year that Gyokusendo started its product demonstration. In the following year, these products were officially put on the market.

Up to then, Gyokusendo's products had been very expensive but the new product line was more affordable. For example, a copper kettle, one of Gyokusendo's original products, sold for 400,000–500,000 yen. Copper kettles made by other companies generally sold for around 6,000–11,000 yen. By comparison, extra-large sake cups, one of Gyokusendo's new products, sold for less than 10,000 yen.

According to Motoyuki, thanks to the interaction between final customers and Gyokusendo staff, the number of customers who bought Gyokusendo's products for their own daily use increased. In the past, people received Gyokusendo's products as gifts, such as mementos from employers on retirement. This switch was a big change for Gyokusendo. Thanks to the launch of new products and the improvement of existing products based on the users' voice, Gyokusendo's sales revenue gradually started to grow.

3.3 Opening of Directly Managed Stores

Although Gyokusendo became able to hear the voice of final customers through sales at department stores, this was not enough by itself to emerge from its challenges. Sales of products by staff of department stores had weaknesses.

First, in order to explain Gyokusendo's products in detail to customers, sales staff at department stores had to acquire a lot of knowledge about the products and the production process, which involves a very complex manufacturing process as well as techniques. Therefore, the department store channel requires sales staff to understand Gyokusendo's unique traditional method of production by artisanship, as well as its long history. They also had to know about the chemical reaction used by Gyokusendo to change the color of its products, which is unique to the Tsubame-Sanjo area. Even though Gyokusendo held training sessions for staff at the department stores, it was not easy for the sales staff—most of whom were not full-time employees—to absorb this knowledge, as they tended to rotate every few years. Hence, Motoyuki considered that Gyokusendo did not properly deliver a detailed explanation of the product to customers at the department stores. Moreover, he found it difficult to make the department store staff understand Gyokusendo's philosophy. He believed that "products should be sold by people who made them" (from interview with Mr. Motoyuki Tamagawa).

Thus, Motoyuki decided to open Gyokusendo's own directly managed stores. The first store opened in Aoyama, Tokyo in 2014 and the second in 2017 in Ginza, Tokyo. The Ginza store is located in a new commercial complex called Ginza Six.

Directly owned retail stores allowed Gyokusendo to sell its products directly to the final customers and allowed Gyokusendo's employees to explain the products to customers using the company's own words.

Both Aoyama and Ginza are famous spots for shopping in Japan that tend to attract wealthy people, and hence, even expensive products sell well. More importantly, these places are major destinations for foreign tourists. Thus, Motoyuki chose them as locations for Gyokusendo's own retail stores.

Truth be told, this was a bold decision for a small company like Gyokusendo. Gyokusendo raised the money from its bank. However, for the second store in Ginza in particular, the bank was against the plan. Gyokusendo had already borrowed money to build its first store in Aoyama and only a few years had passed. Therefore, the bank did not welcome a second bid by Gyokusendo to borrow a large amount of money after such a short lapse of time.

3.4 Consequence of Opening Directly Managed Retail Stores

Eventually, the directly managed stores in Aoyama and Ginza turned out to be successful. The stores attracted many customers and sales increased substantially. In particular, purchases by tourists from Asia increased dramatically. Motoyuki guessed that having its own stores allowed Gyokusendo to earn the trust of foreign customers. By contrast, foreign customers did not trust sales at third-party department stores sufficiently.

When the Aoyama store opened in 2014, Japan was experiencing a huge increase of foreign tourists, especially from China, Taiwan, and South Korea. Among them, Chinese tourists spent a great deal of money on shopping.

Chinese customers have distinctive buying behavior. They tend to buy higher-priced products. Take teapots as an example. Gyokusendo makes several types of copper teapots, each priced differently. Lower-priced teapots sell for less than 10,000 yen whereas others that require much higher skills and longer experience to make typically cost 400,000–500,000 yen. Chinese customers are likely to buy the expensive teapots. Chinese customers are likely to purchase the top-of-the-range kettles that sell for more than 1 million yen.

Therefore, thanks to the rise of the number of tourists from Asia, the tendency of Chinese people to buy more expensive products, and the earning the trust of foreign customers through directly managed stores, sales by Asian customers increased and now account for about 40% of Gyokusendo's annual total sales.

Thus, the Ginza store had a wide variety of consequences, which were not limited to sales increases.

> After we accepted the request to open the store at Ginza Six, we received more media coverage than ever before. The number of requests for speeches also increased—not only the sales figure. The store opening had a wide variety of influences. I mean we received many more reactions than even when we sold our products at the department stores. (from interview with Mr. Motoyuki Tamagawa)

4 Exploring the International Market

Direct sales to department stores and product demonstrations there by crafters to the final customers allowed Gyokusendo to hear the customers' voice directly. The customers' voice helped Gyokusendo to add new products and improve the design of existing products. Gradually, sales revenue started to grow.

In 2003, at the age of 32, Motoyuki became the seventh CEO of Gyokusendo, although in fact he had been responsible for managing and making strategic decisions since he joined Gyokusendo in 1995.

Motoyuki wanted to expand the business into overseas markets. In fact, Gyokusendo had exported its products in the early years of its history and its products were exhibited at the Universal Exposition in Vienna in 1873. However, when Motoyuki joined the family business in 1995, most of Gyokusendo's sales revenue was from domestic sales. Having helped the business to recover from the crisis when he joined, Motoyuki now felt ready to enter the global market.

In this section, we focus on Motoyuki's efforts to expand Gyokusendo's business overseas.

4.1 Attending International Trade Fairs

In order to explore business opportunities in foreign markets, Motoyuki attended international trade fairs held in Europe, such as Maison & Objet in Paris, France, and Ambiente in Frankfurt, Germany. Major brands and manufacturers of interior products from around the world, such as Wedgewood, Baccarat, and Meissen, gathered at these trade fairs.

> Because there were people in charge of procurement of companies from around the world, exhibiting and talking to them allowed us to seal deals with them over time. (from interview with Mr. Motoyuki Tamagawa)

Gyokusendo started to do business with foreign customers in this way and sales abroad increased bit by bit. Motoyuki emphasized two business deals with foreign customers in Gyokusendo's history of businesses abroad. The first is with the champagne brand of the LVMH group, Krug and the second with a Russian home appliance company, Bork. He emphasized these deals because they increased Gyokusendo's international reputation and paved the way for growth in the international market.

4.2 The Krug Deal with LVMH Group

In 2011, Krug, based in Reims, France and reputed to be one of the best brewers of champagne, got in touch with Gyokusendo. Krug was merged into the LVMH Group in 1999.

Krug wanted to broaden the scope of its business to traditional Japanese crafts and got in touch with Motoyuki before choosing Gyokusendo as its partner.

The collaboration resulted in the creation of a specially designed copper bottle cooler made using the technique of *tsuiki*. Gyokusendo made 250 of the bottle coolers, selling 150 to Krug, who gave them to restaurants around the world. A few of them were given to restaurants in Japan, such as Michelin starred restaurants or high-class Japanese-style restaurants. Others were quite successfully sold to the general public. The 100 bottle coolers were sold out very quickly.

Thanks to the collaboration with Krug, Gyokusendo received worldwide recognition and started receiving offers of business deals, such as from wineries and restaurants.

4.3 Sales to Wealthy Russians

In 2013, the CEO of a Russian home appliance company, called Bork, got in touch with Gyokusendo at a trade fair in Paris, France. Bork is the most luxurious brand in Russia. Most of its customers are very wealthy Russians, and its customers include the Russian President, Vladimir Putin.

When the CEO of Bork approached Motoyuki, he at first could not understand what brought a home appliance manufacturer to Gyokusendo. He found nothing to connect a home appliance company to Gyokusendo's copperware.

As the conversation with Bork staff progressed, Motoyuki came to understand why Bork had approached Gyokusendo.

> Customers who buy Bork's products are the wealthiest elite in Russia. Bork told us that they wanted to recommend Gyokusendo's copperware to wealthy people who bought Bork's products. That's why Bork approached us. Then, we began business. (from interview with Mr. Motoyuki Tamagawa)

Motoyuki's account needs more explanation. As a home appliance company, Bork designs, manufacturers (outsources), and retails premium home appliances. The company is well-known for its small household appliances, such as juicers and grills. Besides home appliances, Bork imports and sells top-of-the-range interior goods, such as furniture and tableware, at its directly managed retail stores. Bork's CEO thought that its wealthy customers would like and buy Gyokusendo's products, and thus, he approached Gyokusendo at the trade fair. Then, Gyokusendo sealed a deal with Bork to sell its products at Bork's flagship store in Moscow, Russia.

In addition, Gyokusendo undertakes an important annual event with Bork at which Motoyuki can interact with the customers of Bork.

> Sometimes, I attend the event and do a product demonstration. At other times, I drink a cup of tea [with Bork's customers]. The event is intended to let Gyokusendo communicate with Bork's customers....
>
> When we signed the contract, I asked Bork to hold this kind of event. I told them that not only does Gyokusendo wish to provide our copperware, we also want to interact with Bork's customers. (from interview with Mr. Motoyuki Tamagawa)

As Motoyuki mentioned, the primary reason for holding the annual event is to give Motoyuki the opportunity to talk to customers of Bork, who could be converted to customers of Gyokusendo. According to Motoyuki, he makes best use of this opportunity to get to know potential Russian customers and to understand their product needs. These efforts indicate that Motoyuki really puts weight on listening to the customers' voice.

4.4 Consequences of Business in Russia

The business with Russia contributes significantly to the performance of Gyokusendo today. According to Motoyuki,

> The amount of transaction with Russian customers is the largest among our transactions with customers overseas. The amount of sales with Russian customers is the largest among our businesses overseas. The number of wealthy people is increasing in Moscow these days. People who have bought Bork's products have bought our copperware as well. (from interview with Mr. Motoyuki Tamagawa)

5 Summary of Challenges and Responses

In this section, we summarize the challenges Gyokusendo faced and how it responded.

5.1 Summary of Gyokusendo's Challenge

In the early 1990s, Gyokusendo, a small manufacturer of copperware, suffered from significant sales decline. The business was almost bankrupt and the company had to cut employees' salaries. It even had to cut its workforce. In March 1995, the month after the lay-off, the current CEO, Motoyuki, joined the family business. Having been in charge of sales and marketing, he had to introduce some measures to increase sales and make the company recover from the crisis situation. However, there was a big problem. No one in the company knew what the final customers really wanted to buy. The lack of knowledge was because the company did not sell to the final customers, but to wholesalers. Until Motoyuki joined Gyokusendo, the company sold the products to local wholesalers, who then sold the products to other wholesalers, who in turn sold the products to department stores. That was a local custom. Every manufacturer was expected to sell to the local customers and refrained from directly selling to retail stores. Following the local custom, Gyokusendo sold the products to the local wholesalers.

However, this distribution system made it difficult for Gyokusendo to hear the voice of the final customers. The CEO and crafters did not know what their final customers wanted.

5.2 Measures Taken by Gyokusendo to Overcome the Challenge

5.2.1 Changing Distribution Channel

To tackle this issue, Motoyuki, quit selling to local wholesalers and started selling directly to department stores. This change allowed Gyokusendo to understand customers' needs, as well as opinions of the staff of the department stores, who communicated with the final customers. Gyokusendo made the best use of these opinions and created new kind of products or modified designs of existing products based on the feedback, which resulted in increased sales.

5.2.2 *Establishment of Own Retail Stores*

Although Gyokusendo's sales increased owing to products that met the needs of the final customers, Motoyuki was not 100% satisfied with the situation. Selling products through department stores' staff—who in most of cases were part-time employees—had limitations: first, it was difficult for Gyokusendo to train the staff to ensure they fully understood Gyokusendo's complicated products; and second, the staff could not explain the philosophy of Gyokusendo to the final customers.

The CEO realized that it was necessary for the company to open its own directly managed retail store. Therefore, he built new stores in Aoyama, Minatoku. The stores gave Gyokusendo's crafters the opportunity to communicate with the final customers as sales were made by the company's own people.

Another outcome of selling products at its own stores is that it increased trust in Gyokusendo's products by customers from abroad.

5.2.3 *Expanding into Overseas Markets*

In addition to domestic sales, Motoyuki wanted to enter the international market for further growth of the business.

Motoyuki attended famous international trade fairs to find business opportunities. He made use of these events to meet the procurement personnel of companies from around the world. The important point is that he tried to negotiate with potential customers *in person*. He did not want to rely on dealers. Instead, he tried to make deals with companies overseas directly, which is consistent with his modus operandi in Japan: doing business with customers (department stores or actual users). Doing so allowed him to hear the customers' voice, which acted as a source of ideas for product development. Furthermore, in one case of cooperation with a partner company, Motoyuki held annual events to get to know potential final customers.

5.3 *Effects on Sales and Performance*

Thanks to the new products that were developed based on the voice of the final customers, sales started recovering about 10 years ago. From the days of near bankruptcy, employee salary cuts, and no bonuses when Motoyuki first joined Gyokusendo in 1995, the company started to increase the bottom line and become profitable.

Business activities overseas contributed to Gyokusendo's international reputation, and the amount of sales to foreigners increased dramatically, and now account for about half of total sales. Within the foreign sales category, people from Asia, especially China, account for about 40%. By nationality, Russians are the largest proportion of buyers.

The new retail stores in Aoyama and Ginza Six have improved sales by attracting a large number of customers. The main store in Tsubame city is in fact experiencing an increase of customers. In 2017, 6,000 people walked through the Tsubame store and sales at the main store are increasing.

5.4 Attracting Young Talent

Apart from sales increases, other consequences arose, including the attraction of young talent in the form of new graduates. When Motoyuki first joined Gyokusendo, the company could not afford to hire new talent. However, thanks to the company's growing brand recognition, Gyokusendo today attracts new graduates from universities. In addition, When Motoyuki first joined Gyokusendo, almost all the existing employees were from the local area. By contrast, Gyokusendo today attracts new graduates from all around Japan.

About five to six years ago, the number of applicants to Gyokusendo rose to attract about 30 applicants every year. The company has hired two people, on average, every year. Last year, Gyokusendo attracted 60 job applicants, even though Gyokusendo limits its job advertisements to its own corporate website. Given that most of companies in the traditional arts and craft industry in Japan lack potential artisanal successors, attracting 60 applicants is a remarkable result. In the end, Gyokusendo hired three people.

Furthermore, the company is among the few to attract a lot of female applicants, as traditionally, art and craft manufacturers were male domains. By comparison, Gyokusendo has constantly attracted and hired female applicants for the last eight years. The company now employs seven women.

This anomaly could be explained by branding.

> Don't forget to do branding. For example, if you make something, you have to sell them by yourself. If you don't to branding like that, the company will lose its appeal. Improving the company's appeal will be

> a good source of attracting talents. (from interview with Mr. Motoyuki Tamagawa)

First, what is branding? For Motoyuki, it is the revolution of the distribution system. Therefore, the actions that Gyokusendo took under his management, which are described in this chapter, were activities related to branding. First, the company cut its relationship with local wholesalers and sold directly to department stores. Second, Gyokusendo opened its own retail stores.

6 Comparison with Traditional Craft Industry

The following three challenges are most cited by operators in the traditional craft industry: (1) sales channel development (56.8%), (2) new product development (42.4%), and (3) hiring/developing employees (including successors) (31.7%) (Mitsubishi UFJ Research and Consulting, 2017).

The first and second issues are exactly the same as those Gyokusendo faced. With regard to the third issue, the traditional crafts industry faces lack of talent pipeline for crafters. The industry is not attractive for young talent. They would have to endure low wages during the years it takes to acquire experience and training to master even the very fundamental method of production. At Gyokusendo, each crafter alone has to follow the entire production process for every single product. Every product is made through a complex process. Therefore, every crafter is required to master many techniques.

The new initiatives implemented by the current CEO of Gyokusendo contributed to solving all these problems.

7 Implications for Other Companies

Although Gyokusendo was able to change its distribution channel, 99% of manufacturing companies in industrial clusters still sell to local wholesalers. However, according to Motoyuki, "you can't be a good manufacturer if you use such a distribution channel." Furthermore, this issue is not limited to traditional craft industries, like *tsuiki* copperware. Many companies in other manufacturing industries in Japan face this issue to some extent—not only long-standing companies, but also young companies. Therefore, considering this issue is very important.

Gyokusendo came through the crisis by moving away from wholesalers. However, as mentioned earlier in the chapter, the distribution structure of the industry had been a long-standing custom. It was not acceptable to skip the wholesalers and sell products directly to retailers. What enabled the young seventh CEO of Gyokusendo to go against the grain?

The CEO's answer to this question lay in his lack of a close relationship with the wholesalers. Therefore, it was relatively easier for him to skip the wholesalers. He did not have to worry about a non-existent relationship. On the other hand, it was not possible for his father to follow this route, because his father had served the CEO for several years and already established strong relationships with the local wholesalers at the time Gyokusendo suffered the sales decline. He would have been condemned if he did followed same path as his eldest son came to adopt.

Therefore, skipping the wholesalers and directly selling the products to retailers cannot easily be applied to other manufacturers. The CEO of Gyokusendo was, however, fortunate to be in a suitable situation to omit the wholesalers.

8 Comparison with Existing Theory

8.1 Relationships with Outside Companies

Gyokusendo's actions to address its problems were very different from what existing studies in family business have emphasized. Many studies on succession and/or transgenerational issues of family businesses have stressed that the company's relationship with external actors is one of the sources of a bundle of resources that are unique to a family business, thereby contributing to its competitiveness. During the succession process, successors inherit existing external relationships, such as those with customers, suppliers, and/or business partners (e.g., Cadieux, 2007; Steier, 2001).

The seventh CEO of Gyokusendo did totally the opposite: he cut existing relationships, especially with wholesalers. Instead of distributing its products to retail stores using the existing distribution channel, Gyokusendo, first sold its products to retailers directly. In the second stage, it built its own directly managed retail stores.

The behavior of Gyokusendo might be more consistent with the theory of network ties. Granovetter (1973) distinguished strong ties from weak ties. Strong ties refer to relationships that involve frequent contact, such as those with family or friends. By contrast, weak ties refer to relationships that involve less contact. Granovetter (1973) argued that weak ties might produce creative ideas more often than strong ties do, because actors linked by strong ties are similar and generate only similar ideas. On the contrary, people with weak ties might have different opinions, and hence, exchanging ideas between people with weak ties might result in unexpected ideas.

In Gyokusendo's case, its relationship with local wholesalers was a strong tie. The relationship was characterized by frequent business deals and had been in existence for a long time, at least from the time of the sixth CEO. Thus, the relationship was long established and it took Gyokusendo to stop the deal. Based on the theory of network ties, in Gyokusendo's case, the strong ties with wholesalers did not contribute to the generation of new ideas for product development. Rather, it inhibited Gyokusendo from developing new products.

Therefore, Motoyuki attempted to establish new relationships with customers through direct sales at its own retail stores as well as department stores. These relationships represent weak ties because Gyokusendo did not have a prior connection with the department stores while it was venturing overseas for the first time in its deals with Krug in France and Bork in Russia.

These new relationships contributed to new products and designs, thereby supporting the argument of Granovetter (1973) that weak ties generate new ideas.

8.2 *Relationships Among Family Members*

In addition to the relationship with companies outside Gyokusendo, we should look at how the internal relationships within Gyokusendo affected the decisions and behavior of Motoyuki. Specifically, the relationship between the current CEO and his predecessor is important.

The current CEO joined the family business upon graduation from university and although he was not CEO at that time, he was assigned nearly full responsibility for strategic decision making by the sixth CEO, who almost withdrew from the family business when Motoyuki joined it. Accordingly, Motoyuki was responsible for almost all decision making.

Thus, Motoyuki had discretion to make decisions. He did not have to follow what his predecessor said or did before. He did not have to ask his father about his ideas. Therefore, he has freedom to make decisions.

This freedom helped Motoyuki to tackle the problems that Gyokusendo faced. The absence of power and control by his predecessor allowed Motoyuki to examine issues and to consider and implement solutions by his own will. Thus, Gyokusendo was able to address the problem and quickly implement the necessary actions.

9 Following Up Question—What Is the Impact of US-China Trade War on Gyokusendo and the Industry

In order to realize what is the impact of US-China trade war on Gyokusendo and the industry, we ask the following two questions, (1) How the SMEs cope with the struggle between two large nations, i.e., the trade battle between the USA and China? (2) In the case and the industry, how the leader can make the succession and the innovation well under the trade battle between the USA and China? And bellowed is the answer from Mr. Motoyuki Tamagawa.

According to the CEO of the Japanese case, Mr. Motoyuki Tamagawa, he recognized little impact of the trade war between the USA and China on the succession, the innovation, as well as the financial performance and the operation of the family business, Gyokusendo.

Regarding succession, since the current CEO has already taken over the family business from his father in 2003, his succession was not influenced by the trade war. Succession from the current CEO to the next-generation member has not been impacted because the succession has not started as he has not decided the candidate for his successor yet. Even if the succession process started, the influence would not be big because the business of Gyokusendo was not impacted by the trade war at all.

When it comes to the impact of the trade war on the financial performance and the operation of Gyokusendo, the impact was limited. Although the largest customer group of the company's products is people in Asia, mostly Chinese, they buy Gyokusendo's products at the stores in Japan. Motoyuki told that he could not recognize decrease in its sales by Asian customers at the stores.

The trade war between the USA and China is expected to impact on exports from some small- and medium-sized enterprises in Japan to China. However, that does not matter to Gyokusendo because Gyokusendo does not export its products to overseas markets.

Here we selected some replies directly from Mr. Motoyuki Tamagawa, Gyokusendo's CEO.

> Most of the sales of our company comes from Asian customers, mainly Chinese. They buy our products at either our main store in Tsubame or the Ginza store.
>
> We established direct-sales-to-customer system while we do little export to China and other countries.
>
> We did not recognize impact of US-China trade war to our business at all. There might have been some impact on business activities of our Chinese customers. However, I can't believe that it discouraged them from buying our products.

When it comes to impact of the trade war on the industry of Gyokusendo, i.e., the traditional Japanese arts and craft dealers and stores, Motoyuki again denied such impact. Motoyuki replied to us that: "*I have many occasions where I exchange information with a member of the industrial association of the traditional Japanese arts and craft dealers and stores, I have never heard of the impact of the trade war. If there were, I wouldn't think the impact would be big*" (E-mail response by Gyokusendo's CEO, Mr. Motoyuki Tamagawa).

Finally, we asked Motoyuki another third question. In that, (3) if the trade war between the USA and China affected the price of the raw material of the Gyokusendo's products, i.e., copper.

However, Motoyuki denied such influence. Briefly conclusion is that, there is no influence of the trade war on the price of copper. For recent years, the price of copper hasn't changed dramatically, of course, it changed slightly. In addition, if the price of copper surge, our profit would be hardly influenced by the cost of the material because the large amount of the cost of our products comes from the labor cost.

To conclude, Gyokusendo was not impacted by the US-China trade war because the business model is not vulnerable to the trade war. The large amount of Gyokusendo's revenue comes from purchases by Chinese tourist to its stores in Tokyo and Niigata. The CEO told that he did not recognize decrease in sales to Chinese tourists due to the trade war. In addition, since Gyokusendo does not export to China, the revenue of Gyokusendo could not be influenced in overseas market.

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CHAPTER 4

The Dark Side of the Advantages on Industrial Clusters in Taiwan

Shu-Ting Chan, Hsi-Mei Chung, and Li-Hsuan Cheng

1 Introduction

Through geographic concentration, firms form an industrial cluster based on cooperation and competition during value chain activities. In his article "Clusters and Competition" included in the book *On Competition*, Porter defines a cluster as "a geographically proximate group of interconnected firms and associated institutions in a particular field, linked by commonalities and complementarities," forming strong and continual competitive advantages while fostering industrial development (Porter, 2001).

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In his article "Clusters and Competition," Porter enumerates the phenomena of several competitive business clusters in Sweden, Portugal, Italy, the US, Japan, Taiwan, and China. He points out that there will be some differences in terms of characteristics between business clusters in developed economies and those in developing economies. To put it simply, clusters in developed economies tend to have a deeper and more extensive foundation within the clusters. Firms can control the key technologies or resources in the supply chains and have stronger connections and interactions among themselves. In addition to upstream-downstream relations, firms are also connected laterally in different ways, such as subcontracting, knowledge sharing, and cooperation. On the other hand, clusters in developing economies are generally led by organizations such as governments and a few large-sized enterprises. Firms do not have a deep foundation in the entire supply chain, dependent on key parts and components imported from aboard. Moreover, those firms tend to be situated in the periphery of the industry or in a subordinate position in the industry. Take Taiwan for example. According to the *White Paper on Small and Medium Enterprises in Taiwan, 2018*, issued by the SMEs Administration, Ministry of Economic Affairs, firm clusters are commonly adopted by SMEs as a survival strategy to improve competitiveness. To date, Taiwan has clusters across the island all the way from the north to the south. The most representative among them are the electronic technology cluster in north, the precision machinery, hosiery, and plumbing clusters in the central, and the steel and mechatronic clusters in the south. Yet, as the electronic technology cluster in Hsinchu is led by the government from the beginning, the scale of firms in the cluster is larger and the trait of family governance is not manifest. To better understand how those SMEs in the clusters utilize the cluster advantages to accomplish succession and transformation successfully when confronted with the problems of succession, this chapter will take some firms in the major clusters in central Taiwan and northern Taiwan as case studies to discuss whether cluster advantages can be sustained successfully.

The trade conflict between China and the US started in August 2017. The impacts of tariffs imposed on China by the US on the Taiwan's industry are determined by the cooperation-competition relations between Taiwan and Mainland China. The order transfer effect will enable Taiwan to replace part of China's market in the US. Also, some production lines will transfer back to Taiwan and capital inflows will only accelerate, prompting the restructuring of supply chains in different industries. Yet, China adopts the strategies of production cuts and price cuts, which will impact the related upstream industries such as metals in Taiwan and hurt the growth of value added. Fortunately, compared to the information and electronics industry which adopts the model of "order-taking in Taiwan, production in China," traditional industries in Taiwan such as metals and plumbing are all based on the model of "local order-taking with local production." The ratio of foreign production is relatively low and the relation to China's export industries is weak. The tariff sanctions amid the US-China trade war will probably have limited direct impacts on the gross output value and exports in industries such as fasteners and plumbing hardware in Taiwan. The order transfer effect is not manifest. So far, measures taken include shifting to southeast Asian markets for risk avoidance, improving the specialization between China and Taiwan, and strengthening China's domestic markets. As for whether traditional industries in Taiwan can play a more prominent role in the global supply chains amid the China-US trade war, what customers from the US are considering is that if orders flow from China to Taiwan, which will then see a boom in demand, are the Taiwanese industries capable enough of handling all of the orders? If a single order is distributed to several suppliers, the flexibility of a cluster may work well to handle such a huge order; yet, can the quality of production management be kept under control? On top of that, customers from the US are still mostly price-oriented. Only a small price difference may expect the opportunity of an order transfer. If the price difference between China and Taiwan is huge and the room for further price cuts in Taiwanese firms is limited, then the chance of an order transfer from China to Taiwan will be slim.

Given the diversity of the Taiwanese industry, this chapter will focus on the three industrial clusters of plumbing, screw, and hosiery, which have several distinctive characteristics and have played an important role in promoting economic development in Taiwan. All enterprises in the three clusters have an age over twenty years, with over half of the number facing the problem of firm succession. There are several differences among the supply-chain models of these three clusters as well as among their needs for firm succession. Though they cannot represent the development of Taiwanese SMEs entirely, the interconnections among the enterprises within the clusters and those firms' ways to accumulate and mobilization of social capital still serve a demonstrative purpose.

The interconnections between firms are a sort of intangible assets, which is often grounded on interpersonal relationship. Thus, at the point of firm succession, how the interconnections held by the previous generation can be passed down to the next generation will become a key issue in discussing whether the cluster advantages are to be maintained. In other words, it is about how the complementary cooperation system can be passed down to the next generation during succession and how the successors can grasp and successfully inherit those intangible assets as well as other connections in the personal network, both of which are accumulated by the previous generation, so that the enterprise can maintain those ties among firms in the cluster even after succession. It is an important aspect of family assets which cannot be passed down through mere technical guidance during the process of succession; yet, it may be the key to the successful firm operation after SMEs accomplish succession. This chapter takes the three clusters of the plumbing, screw, and hosiery industries as examples, discussing the roles played by firm clusters in firm succession in family firms. Introduction to the industrial aspect grants the first generation access to assistance necessary for succession to facilitate the process of taking-over and to foster competitive advantages. In the meantime, it also helps the firm successors to get a deeper understanding of the interconnections between firms in the cluster and create a viable vision for industrial technologies and future development, so as to strengthen the successor's planning on firm's future and to enhance the successor's values-affirmation regarding the self, the family, and the family enterprise.

As for the chapter arrangement, we will first look at the characteristics of the plumbing, hosiery, and screw industrial clusters one by one, particularly the modes and forms of the interconnections among firms in these three clusters. Intent on figuring out whether the interconnections can be maintained or are still playing the role as key resources in industrial development at the point of succession, the researchers seek to answer these three questions relevant to the industries through a series of focus groups and in-depth interviews, including (1) maintenance and creation of the interconnections among firms in the clusters; (2) the second generation's innovation and long-lasting development of family firms; (3) challenges and opportunities in the process of succession, for learning about opportunities and difficulties in generational innovation in industrial clusters. Lastly, we will draw a general analysis of the problems of succession in the three industries and further discuss the possible relations between succession of social capital in SMEs and innovative and entrepreneurial strategies based on the results collected from questionnaires (Chung, Chan, Lu, & Tsai, 2015, 2016).

2 Succession and Innovation in Plumbing Industrial Cluster

2.1 Characteristics of the Plumbing Industrial Cluster

Representative of industrial clusters in central Taiwan, including bicycle, precision machine, musical instrument, food packaging material, hosiery, glass, and motor components, are the machine-sewn hosiery and plumbing hardware industries. According to the Ministry of Economic Affairs' estimation, the gross output value of the plumbing industry in Taiwan reaches up to 38.6 billion NTD. Focusing on export, the plumbing hardware industry supplies 50% of the bathroom fixtures, such as faucets, globally. The plumbing industry cluster in central Taiwan become a manufacturing center for bathroom fixtures in Taiwan. There are about 600 firms manufacturing plumbing hardware in the country, with 80% of them clustering in Dingfanpo of Changhua County in the central region and about 200 firms in the Changhua Plumbing Hardware Industry Development Association.

Settling in Shengang, Changhua, the plumbing hardware cluster has a history of fifty years. The formation of a plumbing cluster can be attributed to the fact that the products manufactured in this cluster belong to the family of pipe thread, which is subject to no unified standard. Apart from that, the range of applications of plumbing hardware can be very wide. From reservoirs to water towers as well as from domestic water, residential water, industrial water, commercial water, and agricultural water to public space, fire services, and sewage disposal, everything involved with water control can be called a piece of plumbing hardware. The main raw material used in plumbing is copper, which has various types. Other possible raw materials include plastics, rubber, zinc alloy, stainless steel, and ceramics. As for manufacturing processes, from smelting, die casting, forging, stamping, injection molding to finishing, polishing, electroplating, different processes in the whole production chain allow for multiple differentiations. Owing to the technical differences and different niche markets in the value chain activities, there is a large number of enterprises in this industry. The enterprise may be small in scale, but it can specialize in manufacturing a certain part or component, reserving for each other a complementary space for survival while forming a closely packed industrial cluster. In recent years, apart from some enterprises which improve production efficiency through upstream-downstream clustering and perfecting the supply system, a minority of enterprises have devoted to developing a new international marketing network in the plumbing industry, through innovative marketing methods based on brand alliance, including a series of marketing planning such as joint trade shows and post-show marketing.

In recent years, in the face of the volatile business environment, various environmental requirements, compressed markets, revolution in industrial technologies, and the scanty profits of OEM compared to those of brand firms, some firms in the plumbing cluster have been actively helping other firms with technical upgrading and transformation through resources in the industry association. The Plumbing Association of Taiwan actively fosters cooperation and mutual learning among SMEs in the cluster, organizing for enterprises such as learning activities such as plant visits and knowledge sharing. These arrangements will help the second-generation successors grasp the relations between firm operation and social capital condensation among the clustering firms and through showcasing new technical knowledge, and help the first and second generations to open up a more intimate space for conservation on the industry trend and future development.

It bears mentioning that not all plumbing firms choose to build plants in this cluster. The Global Union Industrial Corp, a reputed plumbing hardware manufacturer in Taiwan, is founded in 1979. In 2000, the firm obtains capital infusion from the capital market through listing. After 2000, Global Union expands into the markets of China, Europe, and the US through their self-owned brand GOBO and Danze. Later on, to further explore other markets and attain the leading position in the bathroom fixture market, using a flexible strategy of acquisition, the enterprise acquires several firms, such as Gerber from the US and Lenz from Germany, and manages to increase the market share in North America and Europe (Chen, 2012). The founder and acting director of Global Union Industrial Corp believes that the advantages SMEs hold by preserving small niche markets through clustering cannot be maintained in the next generation. Enterprises need to undergo internationalization and scale expansion in order to maintain competitive advantages sustainably. In the following, we will look at opportunities and challenges in trans-generational entrepreneurship in the plumbing industrial cluster from three aspects: maintenance and creation of the interconnections among firms in the cluster, the second generation's innovation development in family firms, and lastly, challenges and opportunities during succession.

2.2 Challenges on Trans-Generational Entrepreneurship in Plumbing Industrial Cluster

2.2.1 Maintenance and Creation of Interconnections Among Firms in the Cluster: Interconnections Between Major Subcontractors and Suppliers Are Generally Inherited from the Existing Cooperation Started Since the Previous Generation

The social network connected by manufacturing processes such as subcontracting and supply chains is the key to the survival of plumbing enterprises in Taiwan. Mutual trust and long-term coordination not only reduce the investment cost and operation cost of individual enterprises, but also endow plumbing enterprises with flexible manufacturing capabilities. Because of the complexity of manufacturing processes and lack of standardized specifications, cooperation between firms is the one and only way to survive in the competitive micro-profit environment. The commonly seen subcontracting/supply-chain relations occur at the two stages of the plumbing industrial chain. The first stage includes processes such as forging, casting, and stamping. Most manufacturers do not have own machines or equipment required for forging, casting, and stamping. The second stage is the stage for surface treatment. Different products may need different processes such as lapping, polishing, and electroplating. Most leading firms will commission professional OEMs specialized in lapping, polishing, and electroplating for professional specialization. Plumbing enterprises are predominantly small-scaled, labor-concentrated, and micro-profit firms. However, as the plumbing industry has a characteristic of lacking standardized specifications and several manufacturing processes can be separated and distributed to other firms, a plumbing industrial is thus formed under such conditions.

Because of their small scales and the characteristics of the industry, most plumbing firms have only one choice of firm succession, that is, succession by family members. As for social capital accumulated by the previous generation, such as connections between firms, as the second generation enters the firm, the second generation will get familiar with the industry and build up their own connections with other firms by several ways such as contacts in business dealings and meetings between the cooperation firms and the second generation. In the meantime, clustering connections are of a great help in solving problems in business operation. Those connections help reduce the operation cost of SMEs and are beneficial to both firm operation efficiency and the development of new products.

However, we found that the core contact person responsible for interconnections among firms is still the firm owner, while connections between the second generation and the firms vary with the degree of the second generation's involvement in management For example, the second generation who has taken or is taking control of management rights will have a relatively clear understanding of those interconnections, compared to the newcomer who has just entered the firm will only have vague ideas about those interconnections. Moreover, in enterprises with only a sole son in the family, everyone will automatically recognize that the son will be the future owner. The second generation will also seek to establish friendship with other firms within the cluster actively. After entering the firm, the second generation will maintain the good relations with customers inherited from the elder generation as the firm grows. In the meantime, equipped with the ability to harness technologies, the second generation will explore new client relations. Collaboration and cooperation among plumbing firms is an integral constituent of their competitiveness. How the elder generation can transfer the long-accumulated connections to the second-generation successor is the key to successful firm succession. The first generation should, in a way showing respect, help shape the successor's authority and representativeness in handling external connections, to ensure that the social capital accumulated in the firm can be passed down successfully.

2.2.2 *Trans-Generational Entrepreneurship in the Family Firm: Product Improvement and Marketing Diversification Are Two Ways by Which the Second Generation Carries Out Innovation. It Is a Challenge for the Second Generation After Succession as to How to Perform Knowledge Sharing and Communication in Cooperation with Other Firms, in Order to Improve the Common Competitiveness Among Both the Upstream and the Downstream in the Industry*

Most of the second generation in plumbing family firms first take a position in sales, so as to quickly learn about the firm's products. Through firm dealings, the second generation will make contact with the upstream and downstream firms as well as the subcontractors. Yet, the most important duty of the position is to promote and market the firm's products; as a result, compared to sales, the second generation's knowledge about manufacturing processes is relatively scarce. This explains why the innovative activities conducted by the second generation often take the form of exploring new markets and developing new customers. However, as the second generation has more extensive exposure to the firm duties and more control over management rights, the second generation's innovation starts to take the form of product reinvention and manufacturing process improvement or of investments for future firm development. From the second generation's innovative performance in plumbing firms, we can see that the arrangements for the second generation to take positions in the family firm actually show a process of the second generation's mastering firm tasks and establishing personal connections, which can serve a referential purpose for planning on succession.

In terms of innovation, there are two ways by which clustering relations in the industry can impact innovation. First, if the manufacturer is a firm closer to the terminal customers, like faucet manufacturer, then the enterprise will grasp the market trend through participating in or visiting trade shows, so as to perform product improvement and reinvention or even to introduce a new product line while demanding the upstream coordinating manufacturers to conduct product improvement. Second, if the firm is an accessory manufacturer, it will not develop products or innovate technologies on its own initiative. But if the downstream manufacturers need it, the firm will in the main cater to the needs of the downstream firms (the client end). Moreover, in the industrial supply chains, the downstream manufacturer's demand for product improvement or innovation will be conveyed to the upstream manufacturer directly, with further communication about the required raw materials, technologies, and molds. Because the two parties are familiar with each other and understand the flow of orders well enough, they need not communicate and coordinate level by level, which in turn helps improve efficiency.

Product quality improvement and model innovation are two main ways of plumbing innovation. Because of the close relations between order-taking firms and cooperation firms, knowledge sharing becomes the key to product R&D, improvement, and innovation. On the one hand, order-taking firms communicate with cooperation firms in order to improve machines or technologies in coordination. On the other hand, order-taking firms keep developing different mold models to cater to customers' needs, while learning about the new trend and future development of products and accumulating relevant knowledge and information about the industrial chain through visiting and joining in trade shows. With the development of high-end technologies, to accomplish trans-generational entrepreneurship in SMEs, the successor must have a deep understanding of the firm's professional techniques and products. Apart from that, most importantly, equipment needs to be well coordinated. As equipment changes very rapidly, SMEs have to be willing to spend on equipment replacement, so as to attain competitive advantages in terms of technology or of quality. However, investing in machines and equipment needs a huge amount of capital. As to how the second generation should communicate with the first generation as well as other cooperation firms about the necessity of investing in equipment and the huge amount of capital needed, it will be a major challenge to trans-generational entrepreneurship.

2.2.3 Challenges and Opportunities During Succession: In the Process of Succession in the Plumbing Industry, Setting up Relevant Training Programs and Knowledge Sharing Platforms Is a Feasible Developmental Direction for Firm Succession in the Future

The ratio of family succession among plumbing firms is high; yet, the interaction between the first and second generation is still limited. Except for the dealings necessary for firm and occasional participation in association activities, there is no particular platform for communication and interaction. Knowledge sharing plays an important role in succession and innovation in SMEs. However, family firms are usually more conservative, unwilling to discuss family affairs openly. Yet, they are still nevertheless faced with difficulties in succession and the need to innovate. Setting up a platform or a group for conducting knowledge sharing effectively can be a possible direction for helping the second generation to take over successfully.

Cultivation of abilities and knowledge of all aspects of the second generation through relevant training programs can be beneficial to firm development and succession. On the other hand, while the relations between different firms in the plumbing industry are very close, communication and interaction between the plumbing industry and other industries are relatively insufficient. From the fact that the interaction between external units and the plumbing firms relies on the introduction by or support from some personal contacts in the plumbing industry, we can see that the plumbing industry is indeed more closed than other industries. In other words, though the closedness of an industrial cluster can help establish a highly dense connection network in the industry, it also results in restricted access to external information and external resources and assistance. At this point, opinion leaders in the industry will play a crucial role in infusing new information into the industry.

3 Succession and Innovation in Hosiery Industrial Cluster

3.1 Characteristics of the Hosiery Cluster

Shetou township in Changhua County is the center of the hosiery industry in Taiwan. In early years, as a result of the shutdowns of several big factories, the internal technical personnel and managers all head to establish their own small-to-medium-sized hosiery plants in droves. Moreover, the high-cost and high-tech hosiery manufacturing introduced by the Wei family through their heavy investments in machines and equipment also enables the hosiery industry in Shetou to develop more all-roundly. As a way to improve competitiveness and lower costs, the outsourcing system is a major mode of manufacturing activities in hosiery plants in Shetou. Through the mode of satellite plants, the industry is heading toward separation of production and sales. The central plants are responsible for taking order, supplying raw material, distributing manufacturing tasks, and controlling delivery deadlines, while the satellite plants, having machines and equipment, are in charge of manufacturing. Plants which keep the whole line production in house are predominantly stockings plants, the number of which is relatively low. According to some studies, the majority of firms in the hosiery industry are manufacturers, accounting for 81% of the total firms, while material suppliers take up to 2%, retailers 11%, and others 6%. Apart from that, the ratio of exports reaches up to 70%. Firms in the hosiery industry are predominantly OEM or ODM manufacturers. Also, 95% of the firms have a registered capital less than fifty million NTD, with 34% among them having capital lower than one million. This means that hosiery firms are predominately SMEs, which have a characteristic of flexibility in adaptation to the changing market conditions.

Despite its small scale, the hosiery industry is characterized by flexibility, elasticity, resilience, and innovativity, having the organizational property of being "small but robust," which is typical to SMEs. The hosiery firms are capable not only of offering a wide variety of products in small quantities with instant responses, but also of ensuring short delivery times and quick shipping. Hosiery firms in Shetou mostly adopt the system of a central plant coupled with several cooperating plants. Cooperating plants own machines and equipment, responsible for manufacturing, while the central plants are responsible for taking order, supplying raw material, distributing manufacturing tasks, and controlling delivery deadlines. The tasks of firm operation in the hosiery industry can be extremely complex. The supply chain, both the upstream and the downstream, in the Shetou hosiery industry is very complete. From machines and equipment, raw materials and indirect materials, machine sewing, dyeing and finishing, setting, packaging, order-taking, to channels and marketing, the whole supply-chain system in terms of vertical integration is fully established. Local industrial specialization can be roughly divided into designing and proofing, yarn selection, weaving, sewing, setting, and packing.

Since China and Taiwan joined WTO, the hosiery industry in Taiwan has been facing competition resulted from trade liberalization. The dumping of low-priced products from China severely impacts the space for survival of hosiery firms in Taiwan. Taiwan Hosiery Manufacturers' Association (THMA) is founded in 1957, currently with 90 member firms and 26 sponsoring members. Wei, P.-I., the director of the QueenTex Industries Corp., acts as the chair of the board of THMA from 2016. THMA has cooperated with several units, such as the Council for Cultural Affairs, the Industrial Development Bureau under the Ministry of Economic Affairs (MOEA), the Department of Industrial Technology under the MOEA, the SME Administration under the MOEA, Industrial Technology Research Institute, the Taiwan External Trade Development Council, Metal Industries R&D Center, Changhua County Government, and Shetou Township Office, in fostering the development of the hosiery industry in Taiwan and improving the regional industrial value. By launching the MIT Smile Logo certification and improving the image of Taiwan-made hosiery boutiques, these cooperation projects have made a great contribution to creating competitive advantages in terms of marketing for Taiwanese firms.

During industrial upgrading, how cooperating firms can undergo technical upgrading in coordination with the central plants in order to improve their own technical capabilities becomes the key to sustainable development for SMEs in the hosiery cluster. In the meantime, for the successors in the central plants, through the guidance of the elder generation and interaction with cooperation plants, they come to understand the intricate web of relations prevailing over the whole industry, so that the central plants can further grow together with their cooperation firms even after firm succession, ensuring that the cooperation firms will continue to stably supply parts and components with assured quality. On the other hand, the successors in the cooperation plants can improve their technical capabilities by mutual learning, such as organizing visits to the central plants, so as to maintain their value and position in the industrial chain.

3.2 *Challenges on Trans-Generational Entrepreneurship in Hosiery Cluster*

3.2.1 *Maintenance and Creation of the Interconnections Among Firms in the Cluster: To Improve Cohesiveness in the Hosiery Cluster, While Considering Cross-Border E-Commerce a Possible Direction for Future Development of the Whole Industry*

Thanks to the mutual trust among firms in the hosiery cluster in Shetou, Changhua, as well as their intimate relations in terms of manufacturing, subcontracting, and supply chains, owners can clearly grasp the quality and characteristics of their products. So, the chaining and operation of production lines do not constitute any problems to firm future sustenance in the hosiery industry. Rather, the major problems facing many hosiery firms are about how to market the products after their manufacturing and how to find buyers willing to make orders. These problems are closely related to the price warfare and organizational warfare adopted by Chinese and Korean industries as marketing strategies. Knowledge sharing is a major inter-firm relationship for a firm. Through knowledge sharing, firms can find their cooperating partners, so as to solve problems in firm operation. The inter-firm relationship is mainly based on firm integration resulted from subcontracting orders, rather than on a future ultimate goal toward joint decisions or joint ventures. However, advantages of the cluster do not lie only in manufacturing specialization. Many categories and directions of specialization have yet to be attempted and accomplished so far, such as the integration of finance and marketing or of designing and resources. The future hosiery industry may consider participation in trade negotiations from the standpoint of associations or to establish a joint brand aimed at the global market.

As a result of high product similarity and intense competition, the hosiery firms generally adopt a mentality of self-defense and aggressiveness. However, to conduct the integration of physical channels and digital channels as a form of innovation in the future, firms in the cluster should shed off the defense mentality in demonstrating the true power of a cluster. Firm matching through associations and traders was a major link by which the hosiery firms reach foreign customers in early years. However, trade shows can no longer help boost exposure to customers these days. Thus, many new firm generations have sought to explore new business relations by using digital tools, like technological platforms, or to win new customers and orders through cross-border e-commerce. However, many SMEs are unfamiliar with the marketing model of cross-border e-commerce. For example, there are several issues to be dealt with, such as warehousing, transport, and personnel management. In addition, how to establish relations with the local traders and importers is also a key issue in cross-border e-commerce development. Relevant governmental agencies may counsel hosiery firms to draw lessons from the operation in large-sized firms or offer relevant information and education programs, so as to help the hosiery industry with confronting the increasingly competitive environment in the future.

3.2.2 Trans-Generational Entrepreneurship in the Family Firm: The Second Generation's Focus in Innovation Mainly Focus on Management Resource Wars and Improvement of the Vertical Integration Ability. Planned Impartation of Professional Knowledge to the Related Firm Second Generation Can Contribute Much to a Smooth Succession

With a few exceptions, most hosiery firms in Shetou are small in scale. Small-sized firms are more flexible, having a potential to profit from orders with high liquidity in small quantities. Thus, how to survive in an industrial environment full of aggressive competitors is arguably a challenge for the second generation in the hosiery industry. Many second generations in the hosiery industry begin their efforts with establishing firm institutionalization and introducing management systems in dedication to fighting management resource wars and improving the vertical integration ability. For example, the establishment of the ERP system, the POS system, and the SOP system can help integrate resources from the upstream and the downstream and mobilize internal resources, with a goal to improve operation efficiency. Yet, prioritization of efficiency improvement over the technological innovation orientation has become a veiled threat to the future development of the hosiery industry.

On the one hand, the second generation in the hosiery industry are devoted to firm institutionalization and the introduction of a system of management information, so as to improve production efficiency and to lower material consumption and costs. Thus, the hosiery second generation are typically very serious about understanding the vertical integration ability, patents, and intellectual property rights, hoping to acquire professional knowledge in a planned manner. On the other hand, the hosiery industry in the present focuses on boosting revenue through diverse marketing. Thus, cultivation in the second generation of the professional marketing capabilities such as interpersonal relation management and brand management will be of great importance. To ensure future development in the hosiery industry, the second generation need to consider how to infirm cultures and stories into products, so as to boost product values and prices while evading price wars. On top of that, given that the domestic market in the hosiery industry has been saturated, most firms are aiming for export. As the commercial environment of preferential tariffs can hardly be changed, counseling the firm second generation on how to make contact with foreign buyers and relevant communicational skills can be a feasible solution.

3.2.3 Challenges and Opportunities During Succession: Cross-Border E-Commercial Integration, Machine and Equipment Upgrading, and Technical Personnel Cultivation Are All the Keys to Future Development After Firm Succession in the Hosiery Industry

Given that investment and development in a strange country may fall short of sufficient social connections, the convenience in cultivating, and searching for, cooperating firms becomes the major contributor to the hosiery industry's willingness to stay in Taiwan, while tariffs and policies concerning free trades are the greatest competitive disadvantages. In the meantime, the major problem facing the hosiery industry in Taiwan is that the OEM manufacturers in Taiwan are lacking in the up-to-standard technical machines required for taking orders involving high technologies. Despite the efforts of some second generation from the order-taking firms to explore new customers, the chance eventually slips away due to the cooperation manufacturers' failure to meet the requirements for equipment and technologies. The replacement and upgrading of machines and equipment become a necessary developmental direction for the upgrading of the whole hosiery industry. Yet, as most SMEs are restricted by their size and capital amount, the second generation do not have sufficient capital to make investments, despite their intention to expand the firm scale. Thus, relevant departments will examine the feasibility of preferential loans, as a solution to expand the opportunities for industrial development. Apart from that, corresponding policies need to be implemented to recruit the technical personnel required for operating new machines and equipment, in order to facilitate brand promotion and relevant R&D work, such as industry-academia cooperation and setting up programs specialized in hosiery.

In terms of future development in the industry, there is some lesson in the model of subsidizing the television industry adopted by the Korean government. The jobs of manufacturing, designing, and R&D are left to the firms. For example, the firms will be responsible for screenwriting, props, actors, and any necessary equipment. The government needs only to play the role of helping the firms with international marketing. In other words, for the hosiery industry, a small portion of subsidies can only have a limited effect. The government and firm bodies should help the industry to integrate the firms within and to establish cross-border e-commercial platforms, guiding the industry to gain a knowledge of the model of cross-border e-commerce, its relevant regulations and limitations, and the future trend of development.

4 Succession and Innovation in Screw Industrial Cluster

4.1 Characteristics of the Screw Industrial Cluster

Taiwan has long enjoyed a reputation of being “the Kingdom of Screws.” According to the categorization of industrial products by the Ministry of Economic Affairs, fasteners are divided into five categories, which are screws and nuts, washers, metal nails, rivets, and others. According to *2018 Metal Products Yearbook—for Screws and Nuts*, the gross output value of the fastener industry in the country reaches up to 140.6 billion NTD in 2017, with a growth of 6.6% compared to 2016. The gross exports are valued at 130.7 billion NTD, accounting for 93% of the gross output. The largest buyer is the US, taking up to 38.5% of the gross output. Manufacturers of screws and nuts are predominantly SMEs. The manufacturers number 1275, with practitioners adding up to 25900 people. As for plant geographic distribution, the Kaohsiung city in south Taiwan holds the highest ratio, which reaches up to 34%. Taiwan has been manufacturing screw products for forty years. According to the statistics from Taiwan Industrial Fasteners Institute, the institute is founded in 1969, currently with 692 member firms. Members from the Gangshan District account for one-fourth of the total, amounting to 160 firms, about half of which have an age over 20 years old.

The world-largest screw industrial cluster is located in Taiwan. The global competitive advantages of the screw cluster in Taiwan can be attributed to these three points: (1) China Steel Corporation and other large-sized steel firms in the country are capable of supplying wire rods with stable quality at reasonable prices for the long term; (2) forming machines for screws and nuts are self-developed by Taiwanese citizens and with good quality, while molds are mostly manufactured in the country; (3) the peripheral industry is capable of giving full support in many aspects, including wire rods, wire drawing, screw manufacturers, machines, surface finishing, testing, packaging, and shipping.

Though there are various types of screws and nuts, their manufacturing processes are very similar. For manufacturing operation in the Gangshan screw-and-nut industry, most firms establish a cooperation relationship through the division of labor. Most plants will outsource some parts of the manufacturing process to other plants, or buy products from other manufacturers, or commission other firms to handle transportation and sales. The outsourcing system has become a characteristic industrial culture in the screw-and-nut industry in Gangshan, while being an important mechanism in constructing the sales network. 90% of the firms adopt the outsourcing system, while only 10% adopt the in-house production line. The corporation system can be divided into two types, which are "connections among several firms" and "dominance by a central plant." The primary characteristic of connections among several firms is that the entire manufacturing network is not dominated by a single huge plant. The network is often constituted by many small-to-medium-sized plants in related business fields. To meet the needs for order-taking and product processing and manufacturing, these plants will form a manufacturing network based on shared interests and the principles of reciprocity and of complementarity. On the other hand, the manufacturing network based on the type of "dominance by a central plant" is a mode of manufacturing network centered on a large firm, which will choose and organize subordinate cooperating firms. The network is then formed by cooperation between the central plant and cooperating firms based on contracts or agreements. Generally speaking, the central plant is responsible for R&D, designing, trial production, quality control, after sales service, and expansion of marketing, while the cooperating firms are in charge of most part of the work in process (WIP) and the components. As for precision finishing and the final assemble schedule, they will all be taken care of by the central plant. Lastly, as for the manufacturing process in the screw-and-nut industry, within the manufacturing network dominated by a central plant, a series of production processes from material purchasing, processing, packaging, to shipping is all accomplished by the collaboration between the central plant and the cooperating firms through professional specialization, so as to achieve the synergetic effect of reducing costs and to further attain competitive advantages.

4.2 *Challenges on Trans-Generational Entrepreneurship in Screw Cluster*

4.2.1 *Maintenance and Creation of the Interconnections Among Firms in the Cluster: As for Relations Among Firms in the Cluster, Firm Owners Guide the Second Generation to Make the Acquaintance of the Major Cooperating Firms and Understand the Firm's Core Technical Capabilities, Through Job Assignments and Job Rotation. This Is a Possible Developmental Direction for the Relations Among Firms in the Cluster in the Future*

Owners of SMEs often play the dual role of both owners and decision makers in the firm. Compared to that of large-sized firms, the process of decision making is quicker and more flexible, thereby more responsive to profits and business opportunities. Apart from dealings in terms of capital circulation, clustering firms will involve in actual firm operation occasionally, such as the contribution of competition-cooperation relations among peer firms to cost reduction and product improvement and innovation in the firm. Other examples include that the central plants offer technical guidance to the subcontractors and provide them with funds for investing in equipment. The relations among firms based on mutual trust evoke a strong sense of commitment and consideration among the clustering firms, so that they can weather the highs and lows in the course of firm operation, being able to adapt to the economic conditions flexibly. SMEs' strong tenacity in environmental adaption is the founding stone of their competitive advantages in clustering together.

As for training the second generation to take over, upon the second generation's entry into the firm, the owner will lead the second generation to make the acquaintance of the peers with frequent firm dealings in both the upstream and downstream firms as well as with some major subcontractors. Through job assignments and job rotation, the second generation is guided to learn about the firm manufacturing processes and the supply-chain relations. For example, the second generation may first take a position in quality control and sales, in order to get familiar with the firm's products, learn about the flaws of the defectives, and seek solutions as well as to interact with firms in the upstream and downstream. There are also some firms who organize technical visits to some major customers regularly in every year, so that the second generation may have a chance to exchange experience with the QC team and the R&D department of some mega motor plants, in order to improve the technical capabilities of the successor and the firm's R&D team. The second generation need to cast away their defense mechanism against peer firms and have more interactions with other owners and second generation from peer firms, so as to orient themselves to the demand of firm customers and to perform product improvement. Only by gathering the energies of R&D and product improvement from the peer firms can the true power of a cluster be demonstrated.

Participation in guild activities is a major conduit through which the second generation can make the acquaintance of both elders and the young generation from peer firms. Programs offered by firm bodies are also another major conduit through which the second generation may acquire technological knowledge in the industry as well as knowledge and skills in succession management.

4.2.2 Trans-Generational Entrepreneurship in the Family Firm: Adopting a Firm Strategic Position Based on the Firm's Core Capabilities. Thereby, Sustain the Existing Position or Create the New Position Is the Options. Developing Social Capital as Well as Initiating R&D to Upgrading and Transformation Is a Possible Developmental Direction for the Trans-Generational Entrepreneurship

The future development of the screw industry can be mainly divided into two kinds of strategic positions. The first kind is to deepen the current industrial position by developing toward manufacturing high-value-added fasteners, such as automotive screws, in particular highly heat- and pressure-resistant screw fasteners used in engines and turbines. The other option is to adopt a new position in the current industry, such as manufacturing aerospace fasteners and medical device fasteners. For the screw firms choosing to deepen the current industrial position, performing product improvement according to the customers' needs is the main way of firm innovation. The firms should focus on developing their core capabilities, creating high-end products through upgrading or transformation, such as products like automotive screws, which are highly differentiated and with high value added. Because of the high levels of manufacturing automatization and of cooperating sub-contraction among the manufacturers in the Taiwanese screw industry, every stage of manufacturing involves some subcontractors. At the point of transforming into the high-value-added domain, in addition to, the screw firms not only improve their own manufacturing standard, but also prop up subcontractors for upgrading simultaneously, such as improving the manufacturing processes, reducing costs, and shortening delivery times. As for the screw firms choosing to adopt a new position in the original industry, take aerospace fasteners as example. The supply-chain system in the aerospace industry is hardly penetrable, with channels in the market all dominated by firms in the US and Europe. Also, given the strict quality requirements, entry into the supply chain is accessible to only firms that pass certifications in aspects such as materials, special manufacturing processes, and the quality control system. On top of that, because of difference in materials and strict quality requirements, manufacturing technologies of aerospace screws have different standards than those of screws for industrial use and automotive screws, in terms of procedures and testing methods in many kinds of processes including mold designing, forming, thread rolling, heat treating, and surface finishing. Generally, Taiwanese screw manufacturers do not have sufficient familiarity with aerospace materials and manufacturing processes. Plus, they need to invest much in setting up new precision process equipment and measuring instruments in order to fulfill the requirements of the aerospace industry. As a result, due to the colossal investment amount and the long payback period, the firms' willingness to step into the aerospace industry is very low.

Innovation, R&D, upgrading, and transformation are all effective measures to ensure sustainable development in the industry. Taking advantage of the phase of plunging orders, firms should turn toward development within the plants, such as acquirement of certifications and patents, and pay attention to anti-dumping issues, complying with the regulations concerning the place of origin issued by the authorities. In the future, the screw industry should improve the R&D power according to the firm's core capabilities and create high-end products through upgrading or transformation or plan for long-term transformation toward developing and manufacturing aerospace and medical device products, so as to boost products' value-added.

4.2.3 *Challenges and Opportunities During Succession: Systematical Cultivation in the Second Generation of the Understanding of the Firm's Core Capabilities and of Knowledge of Firm Operation and Management Is the Key to the Sustenance of the Firm*

Product segmentation in the screw industry has its own uniqueness, and the index of technological commonalities among segmented products is high. Once the firm steps into manufacturing high-value-added products, it can make full use of the commonalities among manufacturing technologies to reduce R&D costs, while the different product segments also help the owner cultivate a distinctive niche and develop a unique firm field. As screw-and-nut products are widely used in transportation vehicles and machines, issues regarding their safety have been receiving growing concerns and quality certifications have become the focus of the marketing strategies. In the meantime, another active purpose of the certification system lies in employee education—through the procedure of acquiring a certification, a firm may conduct internal management and educate employees about the concept of quality along the way. Quality control and certification are a remarkable milestone in the path toward industrial upgrading in the Taiwanese screw industry. SMEs mostly follow the model of father-to-son succession in practice, training the second generation to get familiar with product manufacturing and regulations regarding industrial certifications. However, quality standards and certifications are not only about production costs, but also about compensation claims. Thus, to guide the second generation to take over smoothly, a series of planned programs about technologies and quality control concerning screws and machines is required. For example, the Taiwan External Trade Development Council (TAITRA) offers talks and programs for promoting industrial technologies. Also, some part of the higher education system (such as National Kaohsiung University of Applied Sciences) creates programs specialized in screws for making up for the second generation's lacking in professional knowledge. In the future, to combat the low-price competition with emerging economies, the screw industry in Taiwan should conduct product development and mutual technical guidance through technological integration within the industrial cluster.

4.2.4 *Relationships Between Three Models of Trans-Generational Entrepreneurship in the Three Industrial Clusters and the Competition-Cooperation Relations Within the Clusters*

Through a series of related interviews and surveys, we can further outline the options of trans-generational entrepreneurship models for firms in these three industrial clusters.

From Fig. 1, we can see that for transformation and upgrading in SMEs, due to considerations of capital costs and human workforce, SMEs tend to deepen the current position or to discover a new position in the original industry with few cases of crossing over into other industries. Specialization and professionalization are two core values of SME development. As Fig. 1 shows, in terms of upgrading and transformation, the plumbing and hosiery industries tend toward continually deepening the current industrial position, so as to reduce costs and improve quality, with innovation as the main way of product improvement. Yet, in the screw industry, some firms have been working to upgrade screws for industrial

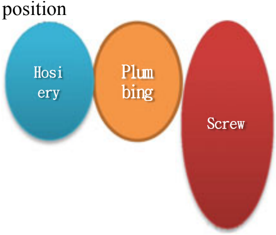
	Current Industry (the second or third generation are still in the same industry)	**New Industry (diversification into a new industrial field)**
Current Position (extend and deepen the current industrial position)	A： Deepening the current industrial position 	C ： Extending the current position into a new industry
New Position (developing a new position)	B：Discovering a new position in the current industry	D ：Discovering a new position in a new industry

Fig. 1 Models of Trans-generational entrepreneurship in the Plumbing, Hosiery, and Screw Industrial Clusters (*Source* Author's creation)

use to construction screws or automotive screws, which are with higher precision, or even to expand into emerging industries or high-value-added industries such as the aerospace industry and the medical device (mostly for orthopedics and dentistry) industry, in the hope of discovering a new industrial position by making various attempts.

Furthermore, for an analysis of the supply chains and the competition and cooperation relationship within the clusters in the three industries, see Fig. 2. Among them, the plumbing industry features diverse items and categories of products and applications, while the product specifications vary with the firms' requirements, which are relatively more specific. Thus, the products, components, and accessories manufactured by the plumbing firms have diverse formats, which in turn become the major contributor to the survival of SMEs in the industry. In the meantime, as the plumbing supply chains are able to be subcontracted separately, the industrial cluster will combine the mid-stream firms (household, agricultural, and fire control faucet manufacturers), the processing firms (forging, finishing, lapping, polishing), and the client end downstream firms (traders, wholesalers, the client end), resulting in a symbiosis grounded on both competition and cooperation. The hosiery industry also features clusters capable of specialization. However, with the changes of economic conditions and the advancement of information communication, while

	Diverse products specifications and models; marketing as the way to compete with others	**Diverse product specifications and models; mutual competition and cooperation**
Mid-stream Firms (main products are components and accessories)		Plumbi ng / Screws
Downstream Firms (products are applicable to general customers)	Hosiery	

Fig. 2 Supply-chain location and competition and cooperation relationship in the plumbing, hosiery, and screw industrial clusters (*Source* Author's creation)

part of the original subcontractors which own machines and equipment can directly contact the traders and negotiate about orders with them, on the other hand, in adaptation to the requirements of international traders and the competitive pressures from the original subcontractors, the original order-taking firms start to purchase machines for manufacturing on their own. As a result, the tension between subcontractors and order-takers grows intense. On top of that, as hosiery products are more suitable for standardized manufacturing compared to plumbing hardware and the application scope of hosiery products is relatively limited, most order-takers consider marketing the major way to promote firm development. As a result, the competition among hosiery firms increasingly grows fierce. The characteristics of the screw industry are similar to those of the plumbing industry. As the application scope of products is wide, screw firms tend to engage in mutual competition and support in terms of professional fields such as material technology development and forming simulation technology development.

5 Conclusion

The plumbing, hosiery, and screw-and-nut industrial clusters are all major and characteristic clusters in Taiwan. Among those clustering firms, over ninety percent are SMEs, with half of the total with an age over twenty years old on average. As the firm has been through twenty years with firm and steady steps, it will come to the important stage of considering firm succession. The three aforementioned clusters hold their respective important positions in relation to Taiwan's economic development. Though these firms are by no means representative of the development of Taiwanese SMEs entirely, their ways of accumulating and mobilizing the interfirm relations and social capital can serve a demonstrative purpose to the current situation of cluster advantages and succession in Taiwanese SMEs.

In the face of the US-China trade war, to lower risks and to reduce vicious competitions between peer firms, a strategic alliance among the plumbing firms, the hosiery firms, and the screw firms is taking form, in order for them to develop markets jointly, provide mutual support, and promise not to wage price wars against allies or to snatch allies' orders away, forming a complemental and reciprocal system of supply and marketing. Either in the form of "connections among several firms" or the form of "dominance by a central plant," cooperation among in the plumbing firms, hosiery firms, and the screw firms within their corresponding clusters is very intimate, having significant impacts on firm operation. However, if the firm successor cannot succeed firm networks and social capital from the previous generation successfully, firm operation after succession will be beset with difficulties. So, through the guidance of the industry, the firm's second generation can have a deeper understanding of the relations among clustering firms and create a viable vision for industrial technologies and future development, so as to strengthen the successor's planning on firm future and to enhance the successor's values-affirmation regarding the self, the family, and the family firm.

Industrial clusters are a special kind of inter-firm relationships. It combines both the interconnections in terms of manufacturing and supply among clustering firms, and the relations in terms of geographical proximity. From Porter's observation on industrial clusters, we can see that no matter it is the plumbing cluster, the hosiery cluster, or the screw-and-nut cluster, they are all spontaneously formed and feature intimate and diverse inter-firm relations within the clusters. Given that SMEs account for a very high proportion of the total firms in these three clusters, firms in the clusters are over twenty years old on average, and over half of the firms are facing the problems of succession, the question as to whether inter-firm connections and social networks established by the elder generation are applicable to the next succeeding generation will become an important issue.

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CHAPTER 5

Analysis on the Current Scenario of Succession in Small-to-Medium-Sized Enterprises in Mainland China: Observations from 2016 China Family Business Health Report

Hao Wang and Ling Chen

1 Introduction

Since the reform and opening up, China's private economy has made great progress and has become an important force for promoting national economic development, labor force employment, and social progress. China's private enterprises have shown distinct family-like characteristics. After more than 30 years of development, most private enterprises have begun to enter the critical period of handover from first generation to second generation. A large number of first-generation entrepreneurs

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are about to retire, and more second generations of the family members will take over the scepter of the enterprise and family wealth. However, while the younger generation generally has a higher education degree and educational background, young family members often lack practical management experience, making the family succession process painful.

In addition to the complexity of the succession process itself, the macroeconomic situation makes the path of success even more difficult. At present, the global economy is entering a slow recovery period, and the Chinese economy, which has been soaring, is also facing the problem of slowing GDP growth and export decline. For many Chinese family firms, which are mainly in traditional industries such as manufacturing, it is imperative to seek independent innovation and transformation and upgrading in the global economic downturn. During this particular period, the family businesses need to face the challenges of both industrial upgrading and leadership change.

Against the aforementioned background, it is of great significance to theoretical research and socioeconomic development of family businesses to analyze the components of health power, investigate the health status of Chinese family businesses, and explore the path of smooth intergenerational succession of family businesses. This study seeks to penetrate the key to the healthy development of family businesses in China and to provide a lesson for the future development and succession of family businesses. The concept of family business health in this study is a fusion of the two concepts of family business and business health. Business health refers to the functional level of an enterprise's system, culture, performance, and other aspects that reflect competitiveness. Within the frame of the external environment, individual entrepreneurs, families of business owners, and firms interact constantly with each other to form an ecosystem that affects the health of family businesses (Fig. 1). This study adopts the concept of family influence and considers family firms as private enterprises in which the family dominates several aspects including equity, decision-making power, and/or core leadership positions. In a family business, the family has a decisive influence on the operation and development of the business.

This study adopts a combination of quantitative and qualitative analysis, including literature research, semi-structured interviews, and questionnaires. Due to the confines of space, the specific questionnaire design, the index system, and the scope of research will not be elaborated here.

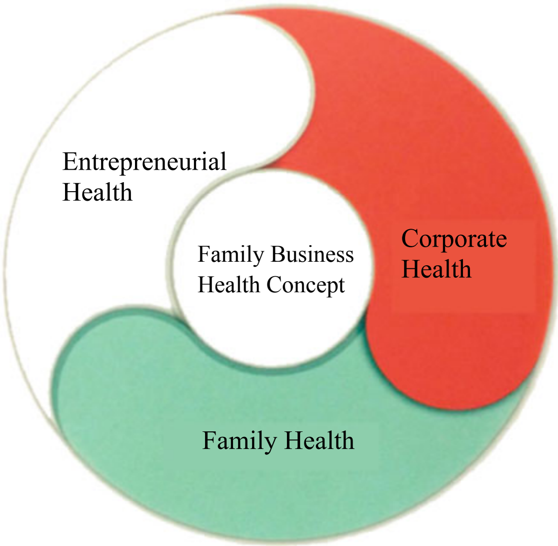


Fig. 1 Family business health philosophy

2 3D-Analysis of the Chinese Family Business Health Index

The Family Business Health Index System examines the overall health of family businesses in three dimensions, namely family business spirit, family business behavior, and family business environment. As for the scores of the various dimensions in 2016, the Chinese family business behavior dimension scores the highest at 79.33, the family business spirit dimension scores the lowest at 70.90, and the family business environment dimension scores the middle at 77.98. See Fig. 2 for a specific analysis of the scores for the three dimensions below.

3 Analysis of the "Nine Forces" of the Chinese Family Business Health Index

Looking at the overall score of the 2016 China Family Business Health Index, China's family businesses performed better in terms of cohesiveness, cultural strength, and responsibility, while they have yet to improve

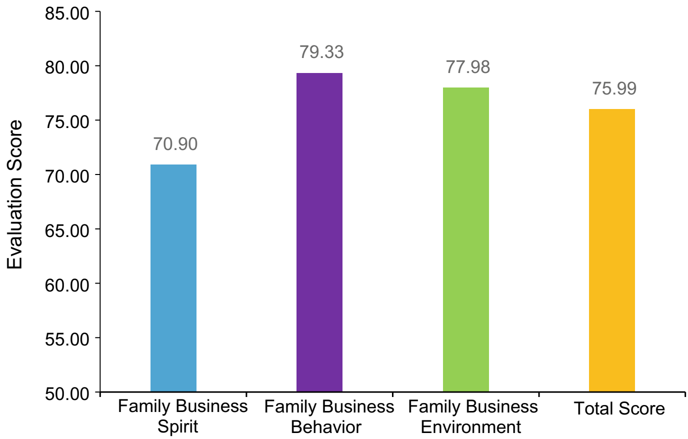


Fig. 2 Three dimensions of the Chinese Family Business Health Index score

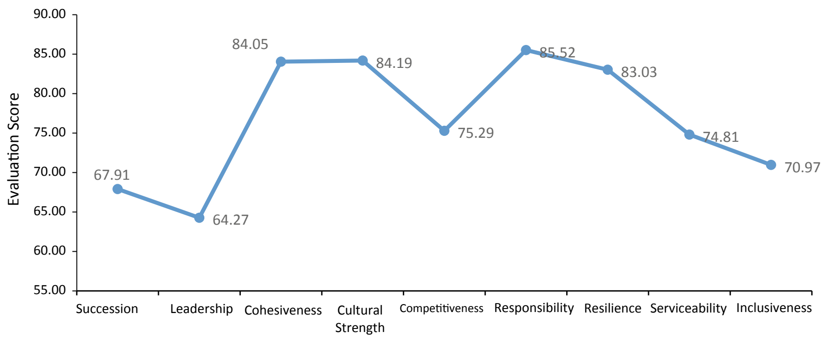


Fig. 3 2016 Chinese Family Business Health "Nine forces" score

in terms of succession and leadership (see Fig. 3). This result shows that family business owners in China have fully realized the importance of corporate culture and social responsibility to the development of their enterprises, and they are constantly building their corporate culture and actively taking up social responsibility through employee training, environmental protection, and charitable donations in order to establish a positive social image and gain external understanding and support. In addition, in recent years, our government has made efforts to accelerate the transformation of governmental functions and improve the environment for corporate development, further opening up access to financing and optimizing the investment environment, but the support and tolerance of family businesses by the government and financial institutions need to be further enhanced.

Within the business, the overall succession and leadership scores of family businesses are not as good as they should be. On the one hand, this is related to the weakness of the external economic environment; on the other hand, it also shows that our family businesses are facing multiple challenges such as succession, innovation, and transformation and upgrading. In terms of internal management, family businesses should improve their leadership capabilities in the future; develop management styles, leadership styles, and management philosophies that are widely recognized among employees; and make sound institutional designs and arrangements for the future family business succession.

It is important to emphasize that under the new economic normal, the better resilience of Chinese family businesses is a reflection of continuous innovation and the courage to adapt to the environment. As the environment varies according to subjective perception, the environment in which a family business operates will also change due to its own changing mentality and behavior. We believe that our family entrepreneurs will keep pushing the envelope and confront challenges in the future.

4 Analysis of the Mental Dimension of Health in Family Businesses

This study uses family entrepreneurship as the first dimension of examining family business health. Entrepreneurship refers to the common inner tendency, ideological realm, and ideal pursuit of the enterprise, which expresses the spiritual style and enterprise ethos, including the founder's (leader's) philosophy, values, family culture, etc. Specifically, this study examines the health of the corporate mental dimension from the three aspects of succession, leadership, and cohesiveness. Succession is concerned with succession issues that have a significant impact on the continuity of the family business; leadership is concerned with the mental health of leaders, leadership style, and the development of professional managers; and cohesiveness is concerned with the peer-to-peer atmosphere within the business. Analysis of the data shows that in 2016, the Chinese family business spirit dimension scores 70.90. For the secondary

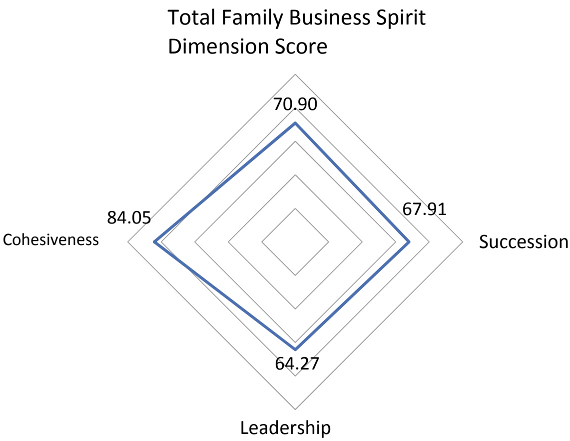


Fig. 4 Family business spirituality dimension score

indicators, the scores for succession, leadership, and cohesiveness were 67.91, 64.27, and 84.05, respectively (see Fig. 4).

4.1 Family Business Heritage

Succession is measured in four main areas: family commitment, entrepreneurial support for their children's work choices, willingness to hand over, and systematic succession planning. Family commitment refers to whether family members are committed or agree with the family business, and a higher family commitment helps the family business develop a shared vision and succession plan. The willingness to hand over is the beginning of the process of passing on and is necessary for it to run smoothly. Systematic succession planning is an internal system to ensure the smooth development and successful realization of family business succession, and the development and implementation of succession planning help to promote the successful continuation of the family business.

An analysis of the questionnaire data shows that Chinese family-owned businesses underperformed in 2016 with a succession score of 67.91 (see Fig. 5). Among the indicators of succession, Chinese family businesses performed best in terms of family commitment, with a score of 87.70, and the willingness to hand over the highest score of 64.13. Succession

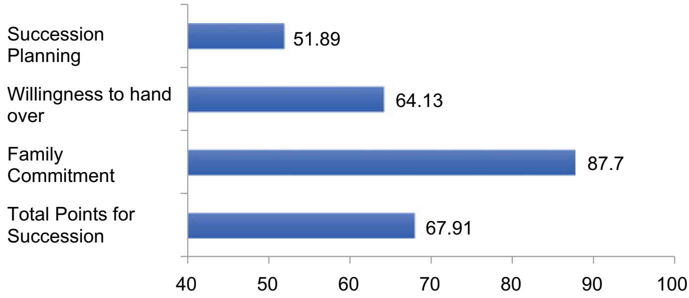


Fig. 5 Succession score

planning performed the worst with a score of 51.89. In terms of work support for their children, 43% of entrepreneurs support their children to start their own business and 38 percent want their children to inherit the family business.

4.1.1 Family Commitment: Family Members Have a High Sense of Corporate Identity and Are Willing to Invest in the Development of the Enterprise

Analysis of the data shows that family commitment is generally high among members of Chinese family businesses, with a score of 87.70, which is close to 90. It can be seen that the family members are full of emotion and confidence in the enterprise and have a high degree of identification with the enterprise's development.

The scores of the four specific questions on family commitment were all over 80 points, with the lowest score being 84.29 points for "our family members have a consensus on the goals, plans and policies of the enterprise," indicating that with the development of the enterprise, family members may have some disagreement or ambiguity about the future development direction and goals of the enterprise, which requires more communication between family members in their daily work and life (see Fig. 6).

To further understand the differences in family commitment between groups, this study divided the interviewed family businesses into two groups according to whether they were dominated by second-generation family members or by first-generation family members, and compared their overall level of family commitment. The results show that there is a

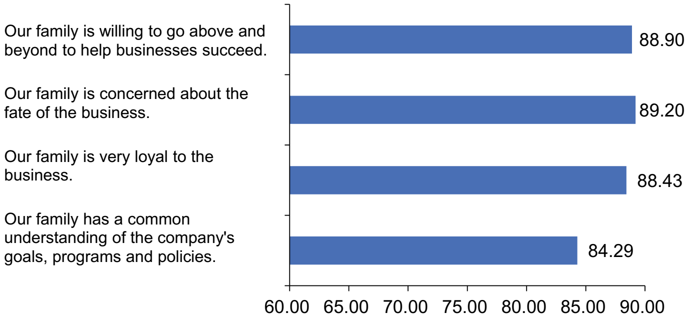


Fig. 6 Family commitment sub-score

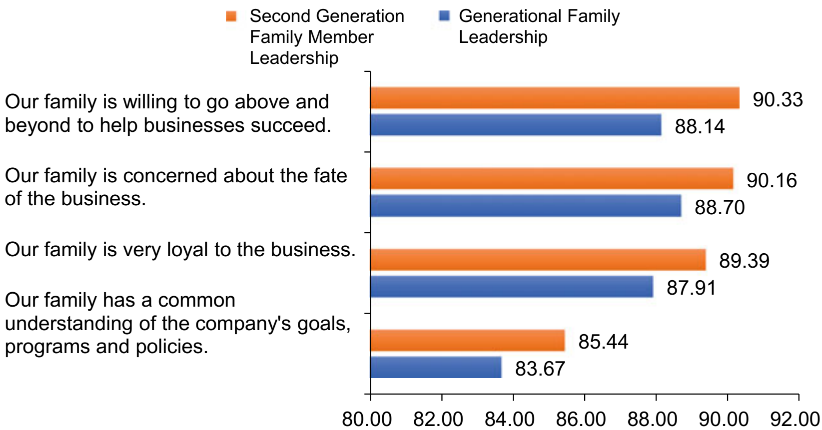


Fig. 7 Comparison of corporate family commitment subgroups under different intergenerational leadership

significant difference in family commitment between family businesses led by second-generation family members and those led by one generation of family members (see Fig. 7). Analysis of the data shows that family businesses led by second-generation family members have significantly higher family commitment scores than those led by one generation of family members. This result suggests that family businesses that have completed the handover perform better in terms of family commitment and are more concerned about the fate of the business. Of course, this could also be the result of a potentially natural selection mechanism, whereby the family business which chooses the children to take over is itself the one with the higher level of family commitment.

4.1.2 Support for Children's Work Choices: Encourage Entrepreneurship

There are three types of support for children's work, namely support for independent entrepreneurship, support for children to inherit a family business, and others. The specific rates of support for children's work are shown in Fig. 8, with 43.00% supporting independent entrepreneurship and 38.00% supporting children's succession of a family business. This result suggests that business owners are still more open-minded about their children's entrepreneurship and are largely able to support their children's work choices. On the one hand, this is because most family business owners at this stage focus on cultivating the entrepreneurial spirit of their children to meet the developmental needs of the times and encourage them to choose the industry they are interested in and start their own business without necessarily requiring them to work in the family business; on the other hand, it shows that with the continuous regulation and improvement of the market, external professional managers are gradually accepted by the family business for the long-term development of the business. Of course, we cannot rule out the possibility that some families are sending their children to start businesses to better shape their competencies in order to lay the foundation for future "home-grown successors."

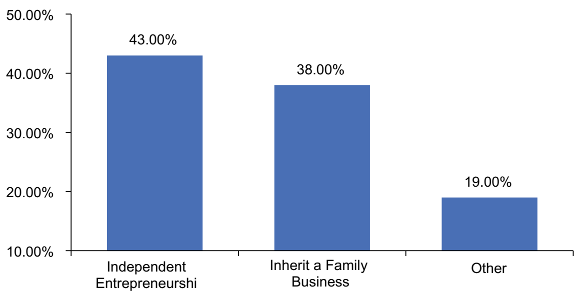


Fig. 8 Distribution of options for work support for children

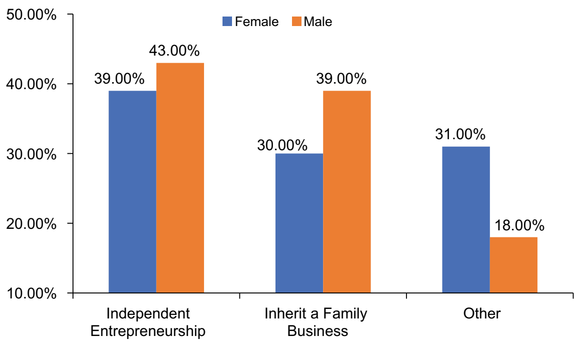


Fig. 9 Comparison of child work support subgroups

Analysis of the data shows that there is some variation among business owners of different genders in terms of work support for their children (see Fig. 9). Male business owners are more supportive of their children inheriting the family business, while female business owners are significantly underrepresented.

4.1.3 Willingness to Hand Over

At the beginning of the succession process, the willingness to hand over is a necessary condition for a successful succession. The score of 64.13 in the strength of succession is only at a barely passing level. The propensity to hand over can be described by the three dimensions of family control: propensity, succession propensity, and succession confidence, as shown in Fig. 10.

Analysis of the data shows that the succession confidence score is high at 71.03, indicating that entrepreneurs have strong confidence in future generations to take over the business. The lowest score in willingness to take over indicates that the descendants of the entrepreneurial family are not very eager to take over the company and that the business successor needs to be further prepared for the succession before the succession. Of course, the willingness to take over is dynamic and may increase as the successor reaches the age of succession. This study further analyzed the correlation between family control intentions and succession intentions (see Fig. 11). Data analysis shows that 48.81% of the interviewed family businesses have a low willingness among family elders in controlling the family businesses and a low willingness among successors to succeed,

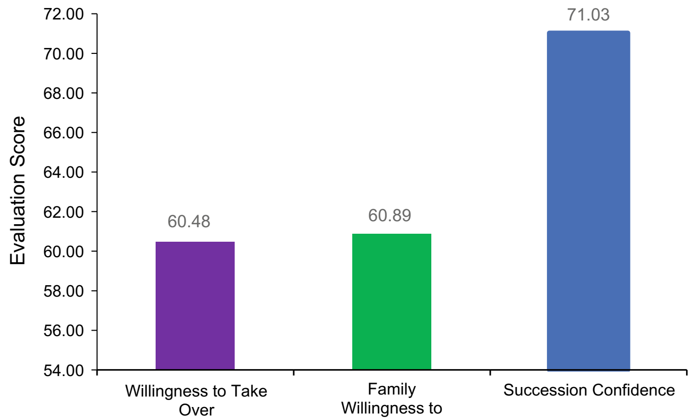


Fig. 10 Sub-item scores for succession intent

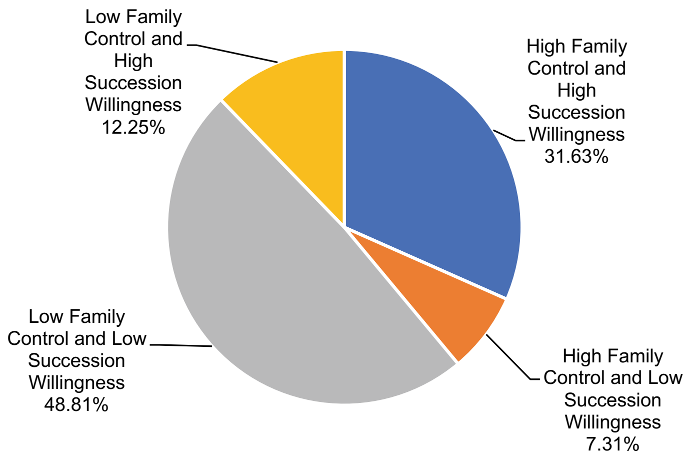


Fig. 11 Family control willingness vs. succession willingness correlation analysis

accounting for nearly half the total companies, being the largest group among the four. This also reflects the fact that in a family business, a low willingness of the family to control directly results in a low willingness of future generations to succeed. Just under one-third (31.63%) of family businesses have a high willingness to control the family among the family elders and a high willingness to succeed among the successors. The remaining 19.56% of family businesses are either in a state of high willingness to control and low willingness to succeed or in a state of low willingness to control and high willingness to succeed, which undoubtedly poses a challenge to family business succession.

Subsequently, this study compares the differences in the scores of the interviewed firms' willingness to hand over in terms of whether they identify their firms as family-owned or not (see Fig. 12). Analysis of the data shows that in the three dimensions of succession willingness, companies that identify themselves as family businesses score significantly higher than those that do not identify themselves. This shows that companies that identify themselves as family businesses are more willing and more confident to hand over to the next generation.

Finally, this study compares the differences in the scores of the willingness to hand over to others in companies of different ages. As can be seen from Fig. 13, there is no significant difference in the family's willingness to control across different age groups. However, on the two dimensions of succession confidence and willingness to succeed, start-ups score significantly lower than mature companies. Start-up business owners face more operational risks in the early stages of business creation and will think more about the survival and development of the business, so they think

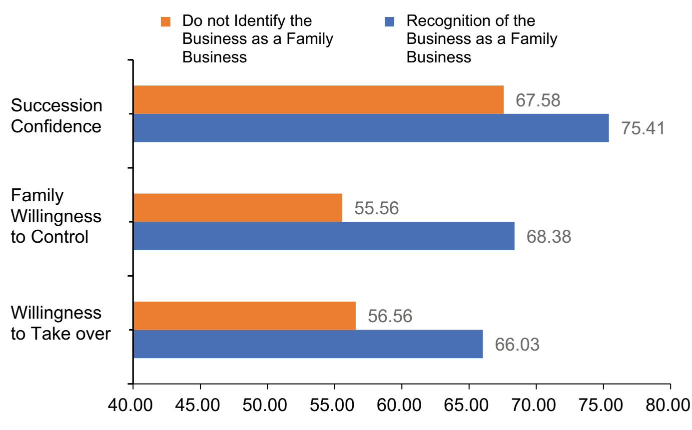


Fig. 12 Influence of whether or not to identify with a family business on willingness to hand over

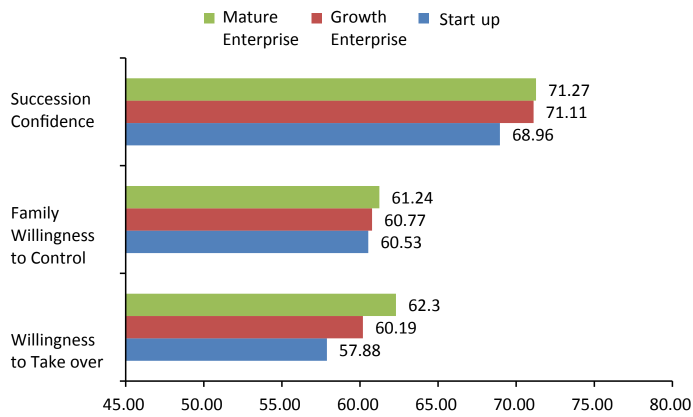


Fig. 13 Comparison of the intention to handle scores of companies of different ages

slightly less about the succession of the business. The development of mature enterprises has become stable after many years; in order to sustain the development of the enterprise, business owners will put more energy on the enterprise succession, so the succession willingness is higher.

4.1.4 Succession Planning: Lack of Systematic Succession Planning

Succession planning usually refers to the necessary preparations to ensure family harmony and intergenerational continuity of the business, which must take into account the future needs of the business and family. In this study, the overall score for succession planning is 51.89, which is not yet a passing grade, indicating that many family businesses facing succession problems or already in the process of succession have not yet developed a clear and systematic succession selection and development plan. Even some of the family businesses that have already passed on their succession do not have such plans in place, so it can be said that the handovers are conducted simply by relying on intuition and experience. This situation raises deep concerns about the process of passing on the family business.

First, the analysis of the overall succession planning shows that only 7.69% of the interviewed family businesses have a systematic consideration of succession and a well-written plan, 40.11% of the family businesses have a simple consideration but no systematic planning, and 27.74% have not considered succession at all (see Fig. 14).

This study examined the intergenerational involvement of enterprises, and the data analysis showed that 60.96% of the surveyed enterprises have intergenerational involvement (see Fig. 15). The aforementioned results show that with the continued development of the family business after the reform and opening up, the first generation of the business is slowly withdrawing from its posts and the second generation of family members are entering the business.

Subsequently, the study examines the representation of the second generation in firms where intergenerational involvement exists. The results show that more than 4/5 (81.70%) of the second generation are in middle and senior management positions in the enterprise, 16.03% of the second generation are in the first hand of the enterprise, and only 18.30% of the second generation work in the grassroots units (see Fig. 16). This result shows that as the business grows, the owner is more and more aware of the contribution of the second generation to the development of the business, and this result also reflects the increase of family control in the family business from the side.

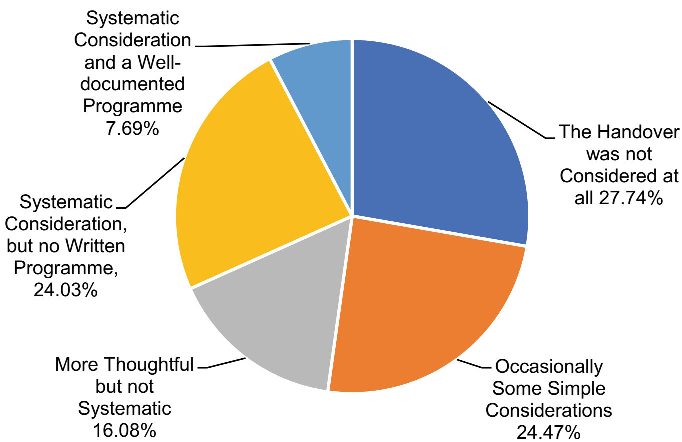


Fig. 14 Distribution of overall heritage planning options

Fig. 15 Distribution of intergenerational involvement of firms

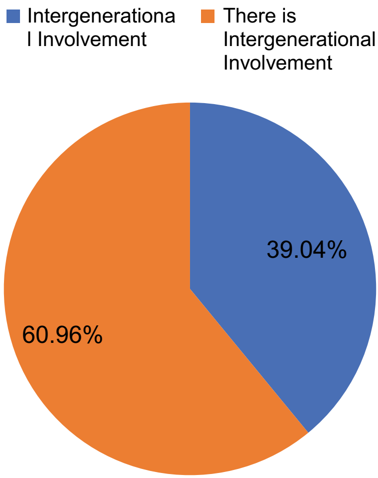
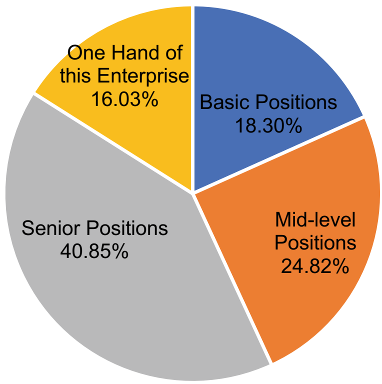


Fig. 16 Distribution of second-generation representation



4.2 *Family Business Leadership*

This study examines leadership in a family business in terms of three aspects: leader mental health, leadership style, and the development of professional managers. The analysis found an overall average leadership score of 64.27. Of these, the leader's mental health score of 65.59 is poor; the leader's transformational leadership style of 84.28 is in good condition overall; and the development of professional managers is not satisfactory, with an overall score of 42.95.

4.2.1 Mental Health of Leaders

For leaders' mental health, we measure it in terms of negative emotions. Analysis of the data shows that the overall mental health status of the surveyed family entrepreneurs is not particularly good, with a score of 65.59 (see Fig. 17). The average score for the question "feeling stressed" was the largest proportion 、 of the total negative emotion score, 25.43%.

Further analysis in this study finds that this condition can manifest itself to some extent in different groups of entrepreneurs. First, from the perspective of business size, small businesses have the best level of mental health among entrepreneurs, scoring 67.89. The mental health status of entrepreneurs in large firms is slightly better than that of entrepreneurs in medium and small firms, and significantly higher than that of entrepreneurs in small and micro firms (see Fig. 18).

Second, in terms of entrepreneurs' educational attainment, the mental health status of entrepreneurs with a bachelor's degree or higher is significantly better than that of the group of entrepreneurs with a college degree or lower (see Fig. 19).

Finally, in terms of children's willingness to take over the business, the more the children demonstrate a willingness to take over the business, the better the mental health of the incumbent entrepreneur (see Fig. 20), indicating the importance of family members' and especially children's support for the mental health of the entrepreneur. It is also evident from

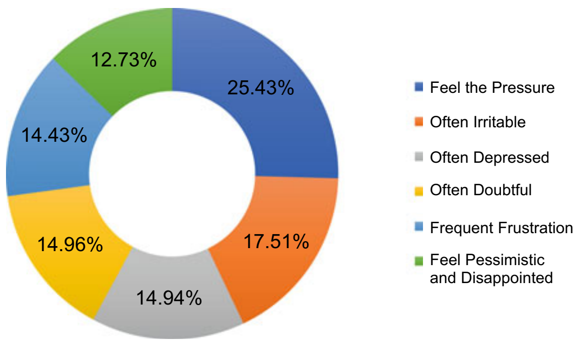


Fig. 17 Mental health of business leaders

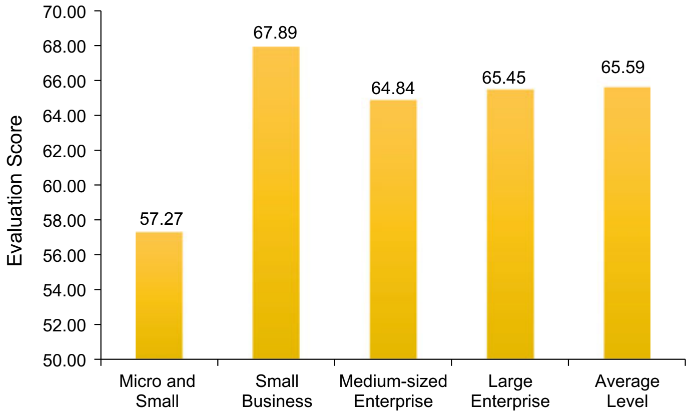


Fig. 18 Mental health status scores of entrepreneurs by size of business

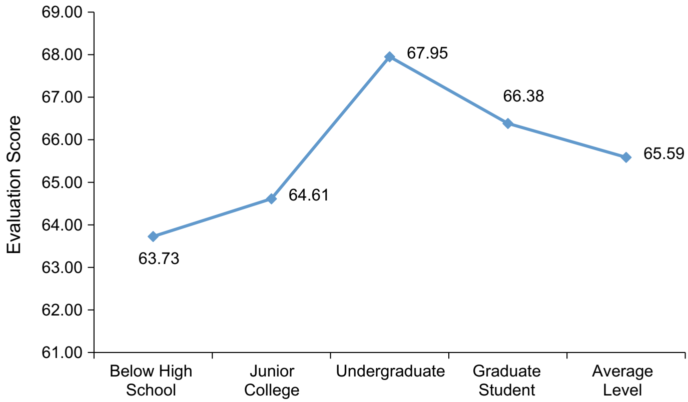


Fig. 19 Mental health status scores for entrepreneurs by education level

our encounters with typical family businesses that the availability of children willing to take over is a matter of great concern to a generation of leaders. At the same time, the greater the willingness of children to succeed, the better the mental health of a generation of entrepreneurs. With effective and pragmatic succession planning, children can help a generation of entrepreneurs to share the stresses and programs of running a business, and a generation of entrepreneurs to be more relaxed.

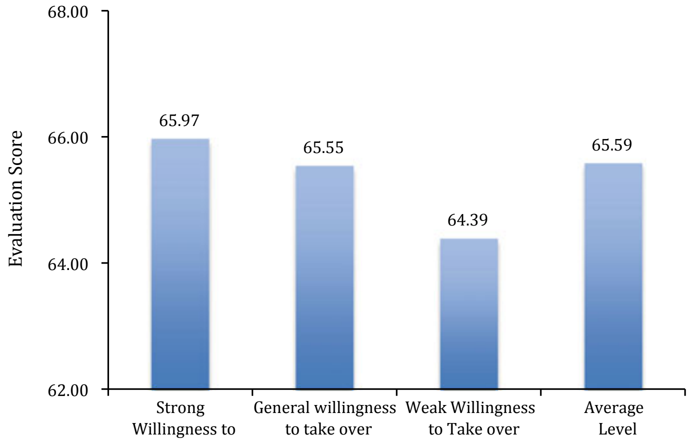


Fig. 20 Entrepreneurs' mental health status scores for different levels of willingness of their children to take over

4.2.2 Leadership Style

This study examines transformational leadership styles in family businesses. Leaders with a high level of transformational leadership style can optimize member interactions within the organization through their own behavioral exemplars and concern for the needs of their subordinates. At the same time, transformational leaders can effectively drive adaptive organizational change in accomplishing organizational goals through co-creation and advocacy of the organizational vision. As such, transformational leadership is considered an important factor in predicting leadership effectiveness. Analysis of the data shows that the overall average score for transformational leadership styles in family businesses is in good shape with an 84.28 score. Of the four dimensions, Intelligence Stimulation scores the highest, at 86.17. And personalized care scores the lowest at 80.83 (see Fig. 21).

In addition, this study compares the scores of transformational leadership styles in family businesses at different education levels. Analysis of the data shows that the score for transformational leadership styles in firms increases with increasing educational attainment (see Fig. 22). The score of 86.32 for the transformational leadership style of an entrepreneur with

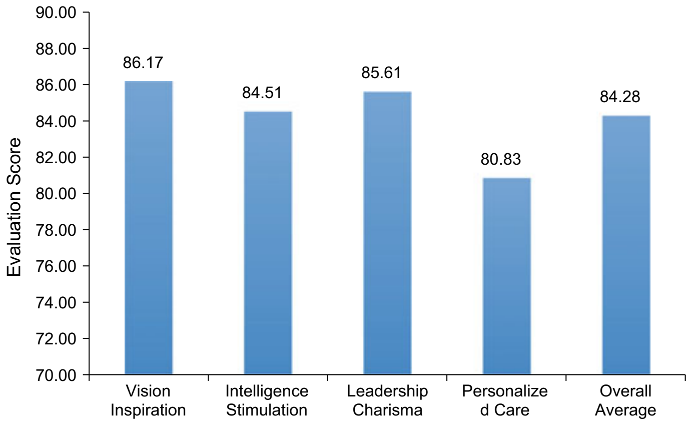


Fig. 21 Entrepreneurial transformational leadership style score

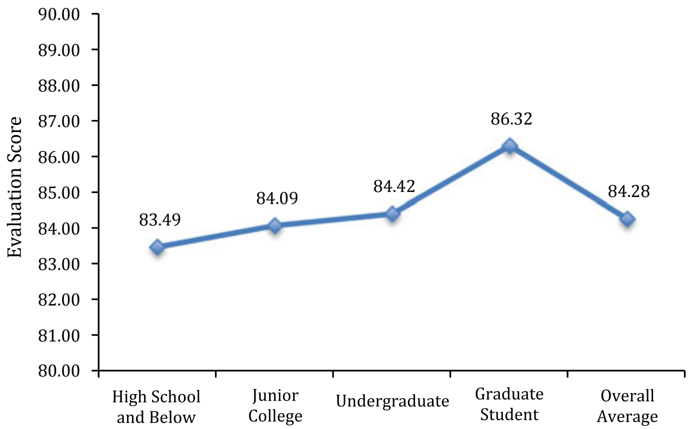


Fig. 22 Comparison of entrepreneurial leadership style scores across education levels

a graduate-level education is significantly higher than the score for the transformational leadership style of an entrepreneur with a high school level education and below.

This study further finds that family businesses with clear and systematic succession selection and nurturing plans score significantly higher on

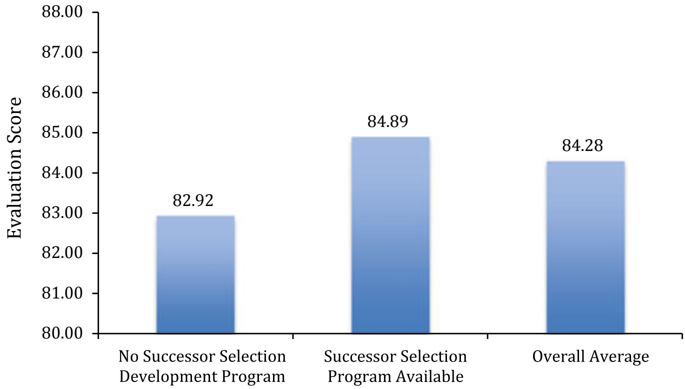


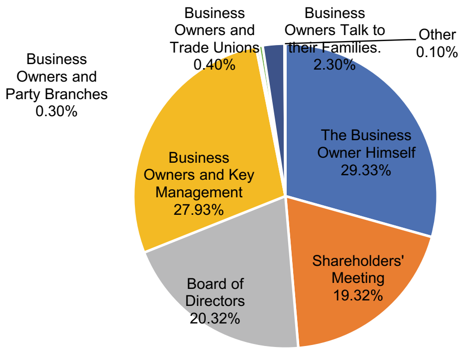
Fig. 23 Comparison of leadership style scores for the status of the successor selection and nurturing program

all dimensions of transformational leadership than those without plans. This suggests that clear and systematic succession selection and nurturing programs benefit entrepreneurial leadership effectiveness (see Fig. 23).

4.2.3 Status of Professional Manager Development

This study examines the development of professional managers by business leaders in terms of the proportion of non-family executives and the involvement of professional managers in decision making. The study found that the average proportion of non-family executives was 58.17%, meaning that nearly 60% of the top executives in the Chinese family companies studied were non-family professional managers. This suggests that most Chinese family business leaders are actively recruiting for a disciplined and professional management by bringing in market-tested professional managers to replace a limited number of family members. However, the involvement of professional managers in decision making is low, with only 27.72% of business owners choosing to negotiate decisions with executives during the process of making major strategic decisions (see Fig. 24). This shows that there is still a lot of room for improvement in Chinese family businesses in terms of empowering and trusting professional managers and effectively involving them in the strategic decisions of the business.

Fig. 24 Distribution of strategic decision making in family businesses



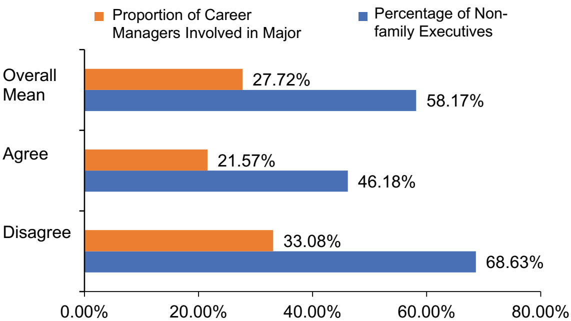


Fig. 25 Comparison of self-identification and professional manager development status in family firms

This study further compares the differences in firm-to-professional manager cultivation status among different entrepreneurial individual characteristics, firm characteristics, and the degree of family involvement of the entrepreneur. First, the data analysis shows that there is a significant inversely proportional relationship between the self-identification of family firms and the development of professional managers; that is, the group of firms that do not identify themselves as family firms have a higher proportion of non-family executives, and the proportion of professional managers involved in major decision making is also significantly higher than the group that identify themselves as family firms (see Fig. 25). When a business owner does not identify his or her business as a family business,

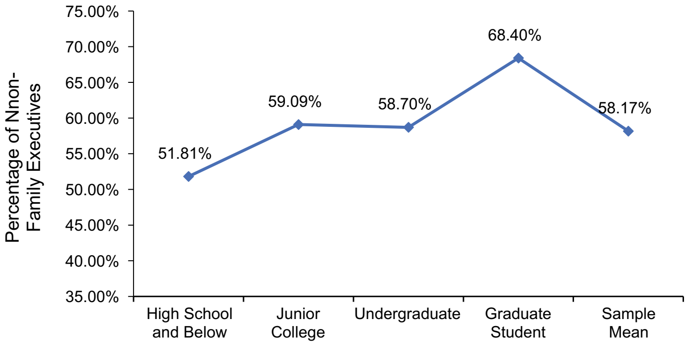


Fig. 26 Subgroup comparison of professional manager development status based on entrepreneurial education level

the business is managed in a manner more similar to a non-family business and is better than a group that identifies itself as a family business in terms of the appointment and authorization of professional managers.

In addition, the professional manager development status of firms also shows significant differences among entrepreneurial groups with different levels of education, with a significantly lower proportion of non-family executives in firms with high school and lower education than in other groups, and a significantly higher proportion of non-family executives in firms with graduate education (see Fig. 26). Similarly, there were no significant differences in the proportion of professional managers involved in major decision making between groups with different levels of education.

4.3 Family Business Cohesiveness

In this study, the cohesiveness level of the firm is reflected in the ratings of the employees of the family firm on the peer-friendly atmosphere within the firm. At the time of the survey, employees of the family business evaluated how often affectionate, sympathetic, and other emotions were shown among colleagues. Looking at the average level of the peer-to-peer friendly atmosphere in family businesses, the cohesiveness of family businesses performed well with a score of 84.05 (see Fig. 27).

In addition to the aforementioned descriptive evaluation, this study also compared the differences between the scores of different groups

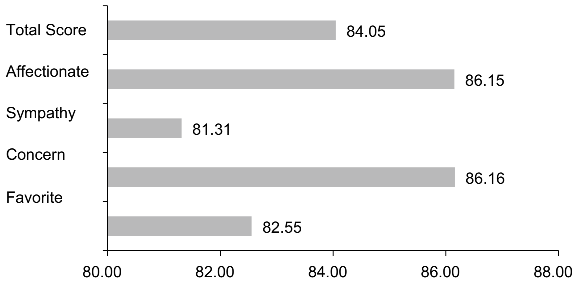


Fig. 27 Peer-friendly atmosphere score

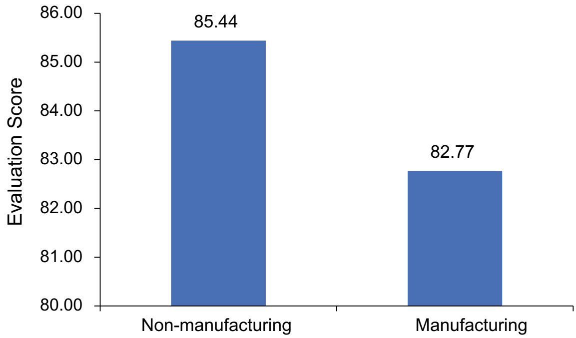


Fig. 28 Comparison of peer-friendly atmosphere scores by type of industry

and the peer-friendly atmosphere from the three dimensions of enterprise characteristics, entrepreneurial characteristics, and family characteristics. The analysis results show that whether it is a manufacturing enterprise, the robustness of the Three Groups (shareholders, the director board, and the supervisor board), and intergenerational involvement all have a significant effect on the peer-friendly atmosphere of family enterprises.

First, there is a significant difference in peer-friendly atmosphere scores between manufacturing and non-manufacturing family businesses. Among them, non-manufacturing family firms score significantly higher on the peer-friendly atmosphere, with non-manufacturing family firms scoring an average of 85.44 points on this indicator (see Fig. 28).

Second, the scores of family businesses in the peer-friendly atmosphere also differed significantly across the Three Groups in terms of their level of robustness. Among them, family businesses with robust Three Groups score significantly higher on the peer-friendly atmosphere than those with unrobust Three Groups, with the average score on this indicator being as high as 86.52 points (see Fig. 29).

Third, family businesses with different levels of intergenerational involvement also score significantly different in terms of the peer-friendly atmosphere. Family businesses without intergenerational involvement score significantly higher on the peer-friendly atmosphere than those with intergenerational involvement. Of these, family businesses without intergenerational involvement score an average of 85.34 on this indicator (see Fig. 30).

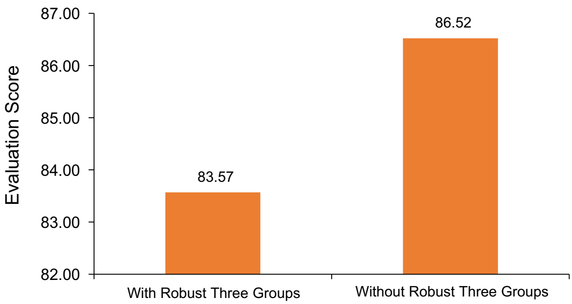


Fig. 29 Comparison of peer-friendly atmosphere scores by level of having three boards

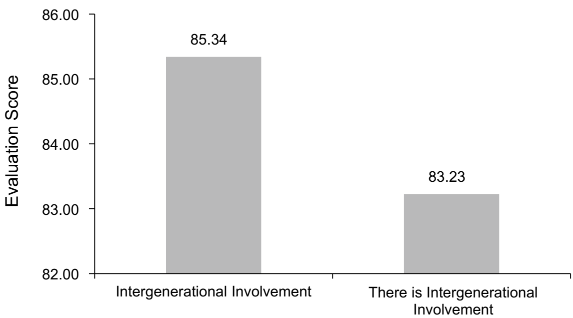


Fig. 30 Comparison of peer-friendly climate scores by whether firms have intergenerational involvement

5 Analysis of the Behavioral Dimensions of Health in Family Businesses

This year's Family Business Health Index (FHI) examines the behavioral dimension, which is mainly based on the previous index system and covers the three aspects of cultural strength, competitiveness, and responsibility. Cultural strength measures the "soft power of the family," and enterprises with good cultural strength can build a firewall between the family and the enterprise, avoid family conflicts and contradictions from affecting the operation of the enterprise, and make long-term plans for the enterprise; competitiveness judges the current performance and development trend of the family enterprise in the market environment from the level of organizational standardization, R&D investment, enterprise performance, etc. Responsibility focuses on the interaction of family businesses with internal and external stakeholders, and examines social responsibility and customer responsibility, environmental protection responsibility, and other aspects.

In terms of scores, Chinese family enterprises have the highest recognition of social responsibility, with a responsibility score of 85.52; the lowest competitiveness score of 75.29; and the middle score of 79.33 (see Fig. 31).

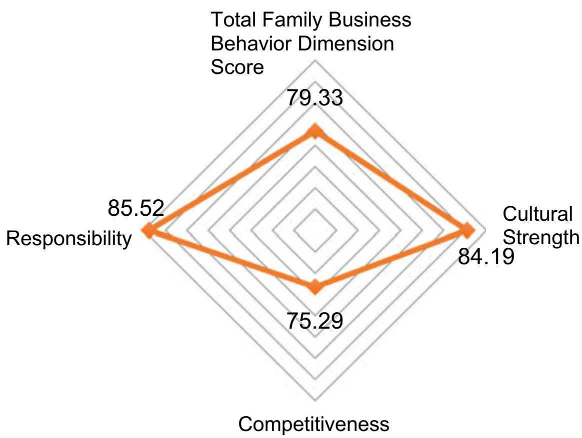


Fig. 31 Chinese family business behavior dimension score

5.1 Cultural Strength of Family Businesses

The cultural strength assessment mainly includes family relationships, which are considered in terms of both family cohesiveness and family adaptability. Family cohesiveness refers to the degree of unity and stability of relationships within the business owner's family and is divided into emotional cohesiveness and cognitive cohesiveness. Family resilience reflects the ability of the family system to adapt to changes in the environment by changing its own power structures, role relationships, and relationship rules.

Through the analysis of the survey data, the cultural power score of Chinese family businesses is 84.19, with an overall medium performance. Among them, the index of family relations scores the highest, reaching 87.30 points, indicating that the internal relations of China's business owners' families are relatively stable, while their ability to adapt to changes in the external environment through internal adjustments is relatively strong.

5.1.1 Family Cohesiveness

In the area of family relations, the family cohesiveness score of 87.00 is good. Emotional cohesiveness is a necessary condition for the establishment of good family relationships, with a score of 90.63; cognitive cohesiveness is the view of things based on the values shared by family members, with a score of 83.37, slightly lower than emotional cohesiveness (see Fig. 32).

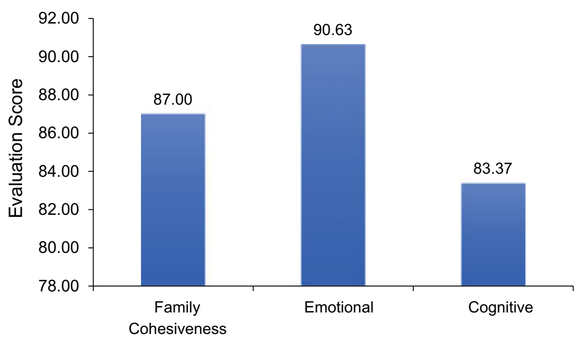


Fig. 32 Family cohesiveness scores

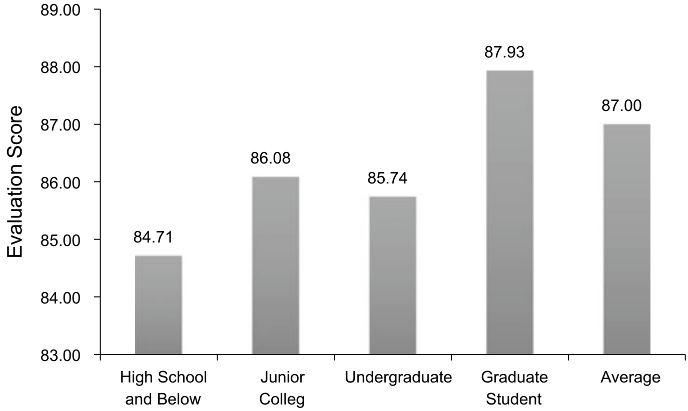


Fig. 33 Family cohesiveness status of entrepreneurs with different levels of education

Further analysis found that family cohesiveness would show some variation among different groups of entrepreneurs. First, in terms of the level of education of the entrepreneurs, the family cohesiveness scores of entrepreneurs with postgraduate education and above are higher than those with undergraduate education and below, and the differences between other groups of entrepreneurs with different levels of education are not significant. Overall, however, family cohesiveness scores gradually increased as the entrepreneur's literacy level increased (see Fig. 33).

Second, from the age status of entrepreneurs, the family cohesiveness of post-80 and post-90 entrepreneurs is significantly higher than that of pre-60, post-60, and post-70 entrepreneurs, with no significant difference between the latter three (see Fig. 34).

Third, the data survey shows that family business cohesiveness performance is slightly better for male family business owners than for female family business owners. Family cohesiveness scores were 85.74 for family businesses led by female business owners and 87.86 for family businesses led by male business owners (see Fig. 35).

5.1.2 Family Resilience

The results of the Family Adaptive Strength Scale measurement show that the surveyed business owner families performed well in coping with changes in the external environment, with an average family adaptive

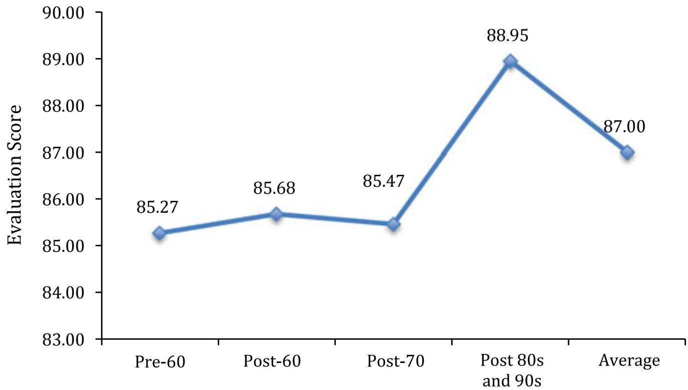


Fig. 34 Comparison of family cohesiveness scores for entrepreneurs of different ages

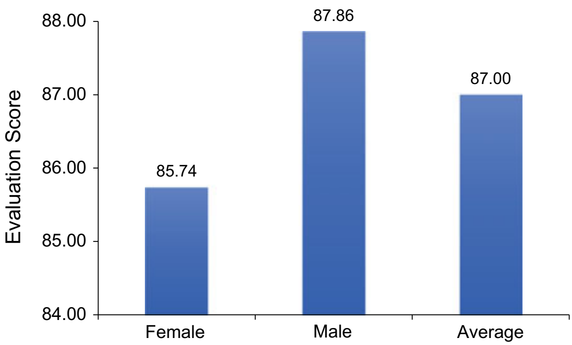


Fig. 35 Family cohesiveness scores for entrepreneurs of different genders

strength score of 87.59 (see Fig. 36). Of the five specific questions, scores are relatively low in questions about family members' ability to navigate through difficult times through flexible adjustments and relatively high in questions about family problem-solving confidence, attitudes, and family relationships in the face of difficulties.

Further analysis finds that the level of familial adaptability shows some variability among different entrepreneurial groups. First, there is some variability in family resilience between firms of different age groups of

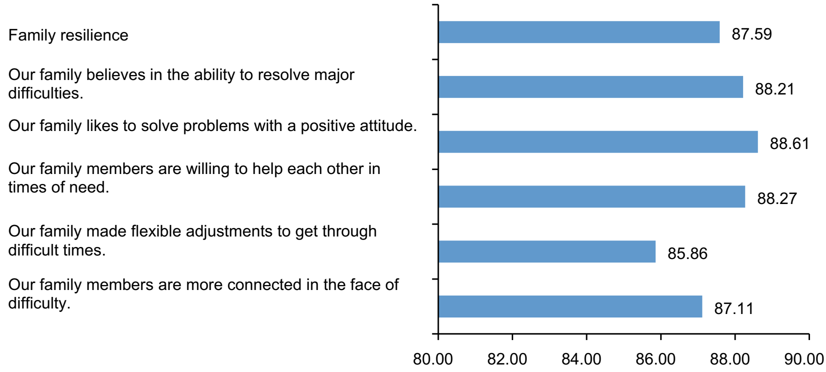


Fig. 36 Family resilience score for family businesses

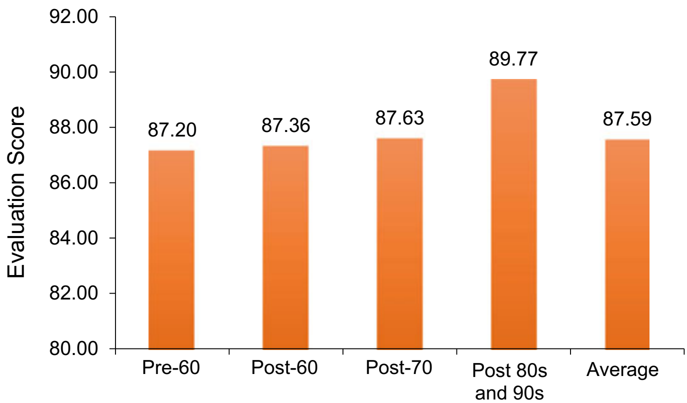


Fig. 37 Family resilience status of entrepreneurs of different ages

entrepreneurs. Specifically, post-80s and post-90s entrepreneurs are in families with significantly higher levels of family resilience than other age groups (see Fig. 37). In real life, post-80s and post-90s entrepreneurs are relatively young, mostly well-educated, able to accept new things, and more sensitive to environmental changes, which can effectively improve their ability to cope with changes and solve problems.

Second, differences in an entrepreneur's level of education can also affect his or her family's level of resilience. Specifically, the level of

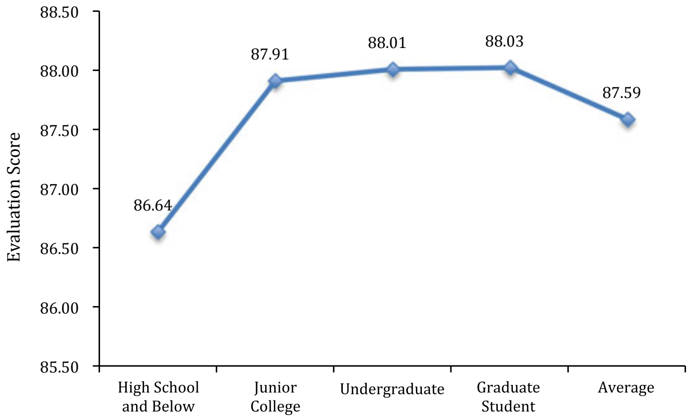


Fig. 38 Family resilience status of entrepreneurs at different education levels

resilience of the entrepreneur's family with a high school education and below was significantly lower than that of the more educated group of entrepreneurs, with no significant differences among other groups of entrepreneurs with different levels of education. However, overall, as the level of education of business owners increases, their level of family resilience also shows an upward trend, as shown in Fig. 38.

5.2 Competitiveness of Family Businesses

This study mainly uses indicators such as the degree of organizational standardization, R&D investment, and enterprise performance to comprehensively portray the competitiveness of the family firm, in order to assess its advantages and disadvantages for long-term survival and development. Analysis of the data shows that the competitiveness score of Chinese family businesses in 2016 was 75.29, with an overall medium performance.

5.2.1 Organizational Normalization

Organizational standardization emphasizes the use of rules and regulations, rather than the arbitrary will of business owners, as the guiding principle for the daily work of enterprises through system building. This study measures the degree of organizational standardization in the research firms by asking whether written work procedures, written performance appraisal standards, written documents as work guidelines, clarity of work authority and responsibility, and standardization of communication channels are present in the firms. The study finds that the average organizational standardization score of the Chinese family firms in this study was 79.21, which was a good performance (see Fig. 39). Especially in the implementation of written workflow and standardization of communication channels, the overall performance of the family companies in this survey is better. There is still room for improvement in terms of clarity of authority and accountability and clear performance appraisal criteria.

This study further groups the research enterprises according to their individual characteristics, enterprise characteristics, and the involvement of the entrepreneur's family, and compares the differences in the degree of organizational regularization among the different groups of enterprises. Analysis of the data shows that the level of organizational normality shows significant differences under the leadership of entrepreneurs with different levels of education; especially for the group of entrepreneurs with bachelor's degree and above, the level of organizational normality was significantly higher than other groups (see Fig. 40). As the level of education of business owners increases, they are more likely to accept and practice the idea of standardized management and shorten the internal

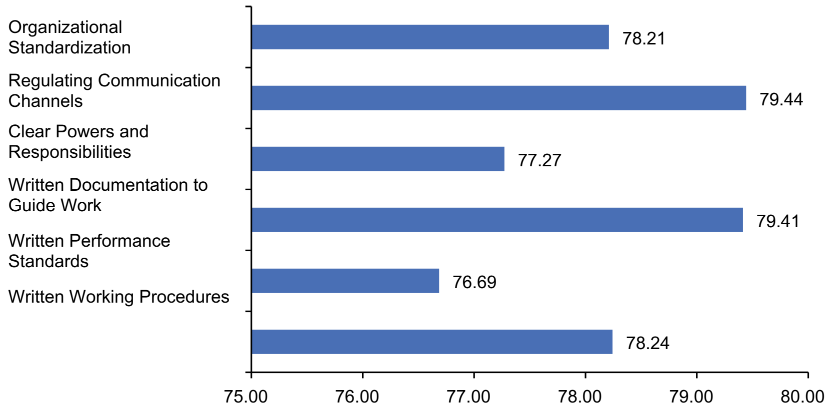


Fig. 39 Organizational normalization sub-score

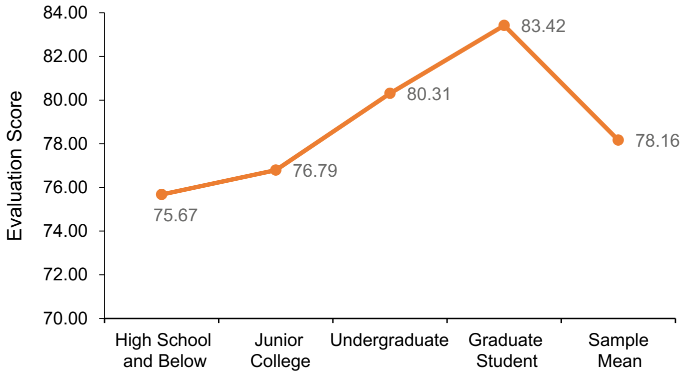


Fig. 40 Comparison of organizational normality subgroups under the leadership of entrepreneurs with different levels of education

collaboration process by establishing clear workflows, communication channels, and appraisal systems, thus reducing the management pressure on individual entrepreneurs. Overall, as business owners become more educated, the normality score of the organization increases.

5.2.2 R&D Inputs

The investment in research and development by the family business reflects the importance that the family business places on its ability to innovate. This study finds that of the 980 family businesses that disclose detailed financial data, 391, or about 39.90%, have spent on R&D inputs. This result shows that the overall R&D activity of family firms is not very high, with less than half of family firms having R&D investments.

In terms of the size of the capital invested by enterprises in research and development, more enterprises invested less than 1 million, accounting for 43.22%. 32.23% of enterprises invested between 1 million and 5 million, and the least invested between 5 million and 10 million, 11.76%. Fewer companies, 12.76%, have invested more than 10 million. Overall, more than 70% of enterprises invested less than 5 million yuan in R&D (see Fig. 41).

In terms of the proportion of R&D input to sales revenue, 62.24% of enterprises have R&D input of less than 5% of sales revenue. The results of this analysis show that most of the surveyed family firms have a low proportion of R&D input to sales revenue (see Fig. 42).

Fig. 41 Investment of R&D funds

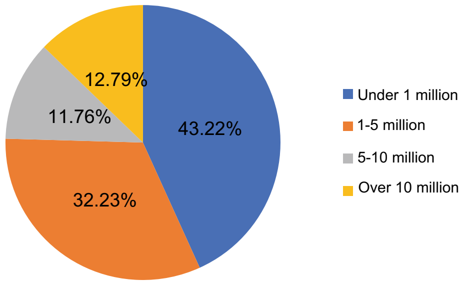
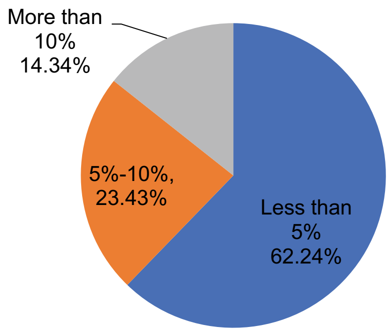


Fig. 42 R&D inputs as a proportion of sales inputs



This study further groups the research firms according to their characteristics, individual characteristics of entrepreneurs, and intergenerational involvement of the controlling family and compared the differences in the degree of R&D investment among different groups of firms.

First, the R&D investment of enterprises increases with the size of enterprises, and the R&D investment of large-scale enterprises reaches 25,667,500 yuan, much larger than that of small and micro enterprises (see Fig. 43). Larger firms have more resources, especially more redundant resources, and greater organizational capacity, which can lead to higher-risk R&D input activities.

Second, the length of time a firm is established is positively correlated with the amount of R&D investment, and the longer a firm is established, the more R&D investment activity is undertaken (see Fig. 44). This phenomenon is due to the fact that the longer a company is established, the easier it is to familiarize itself with industry information and market dynamics, to be able to combine market signals to make more rapid and

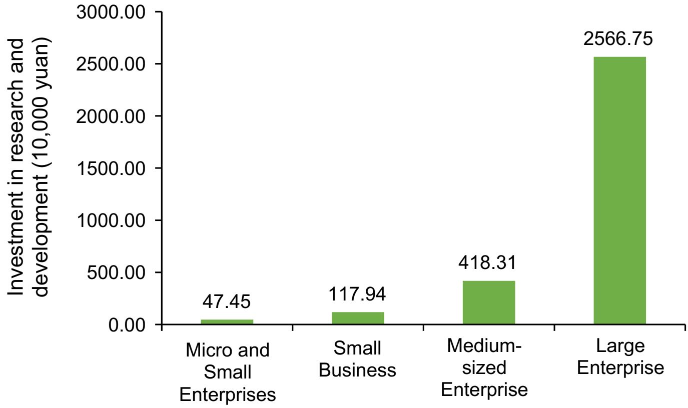


Fig. 43 Comparison of R&D investment by enterprise size (Unit: 10,000 yuan)

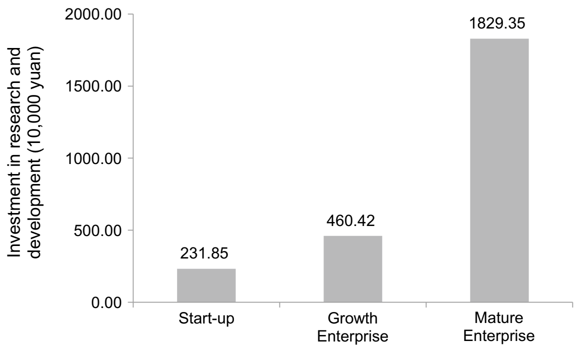


Fig. 44 Comparison of R&D investment by age of enterprise (Unit: 10,000 yuan)

accurate market forecasts, and to carry out research and development activities to enhance competitive advantage.

Third, firms with internationalized and diversified businesses invest far more in R&D than firms without such businesses (see Fig. 45). Companies with internationalized and diversified businesses face a more dynamic environment and higher demands for innovation, so they need to invest more in R&D to improve their competitive advantage.

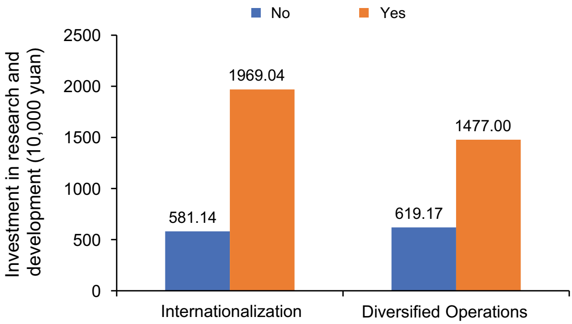


Fig. 45 Comparison of R&D investment by internationalization and diversification of business (Unit: 10,000 yuan)

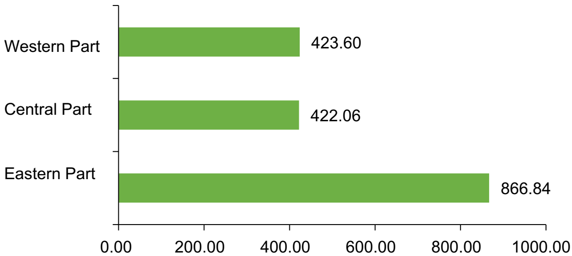


Fig. 46 Comparison of R&D investment by region (Unit: 10,000 yuan)

Fourth, the location of the family firm has a significant impact on the firm's R&D investment. Among them, the eastern region has the largest amount of family-owned R&D investment, as high as 8.684 million yuan, the western region has a smaller amount of R&D investment, and the central region has the least (see Fig. 46).

Finally, the gender of the family business owner has a significant impact on the firm's R&D investment. Among them, the average R&D investment of female family business owners was 3.37 million yuan, while the average R&D investment of male family business owners was 7.9798 million yuan (see Fig. 47). This may reflect the fact that female entrepreneurs have a lower risk-taking propensity than male entrepreneurs and will therefore undertake less R&D activities.

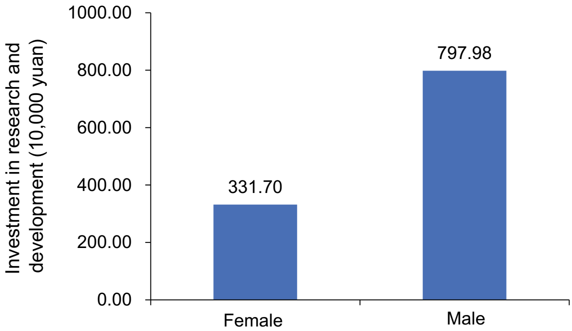


Fig. 47 Comparison of R&D inputs by gender of entrepreneur

5.3 Family Business Accountability

Actively fulfilling social responsibility is an inevitable choice for enterprises to achieve sustainable development. As a socioeconomic organization, enterprises can only maintain their vitality and grow in a continuous exchange of resources with society if they are recognized and accepted by society. Actively fulfilling social responsibility will help enterprises to gain wide social recognition and acceptance and open up space for continuous development. Strict adherence to internationally recognized norms and national laws and regulations can ensure that enterprises make full use of both international and domestic markets and resources to achieve greater development. Adhering to the ethical code will enhance the social image of the company and gain the support of employees, customers, partners, government, and other sectors.

In terms of accountability, the first step is to examine the attitudes of all family businesses regarding the importance of fulfilling social responsibility as perceived by all family businesses; second, the subject group will examine the way in which Chinese family businesses actually fulfill social responsibility. Then, based on the stakeholder theory, the actual social responsibility performance of the family business was measured by selecting the three perspectives of employees and customers and the social environment that are most closely related to the production and operation behavior of the family business. Specifically, this study will calculate the responsibility score of Chinese family firms in 2016 by measuring the scores of family firms in the areas of corporate customer responsibility and

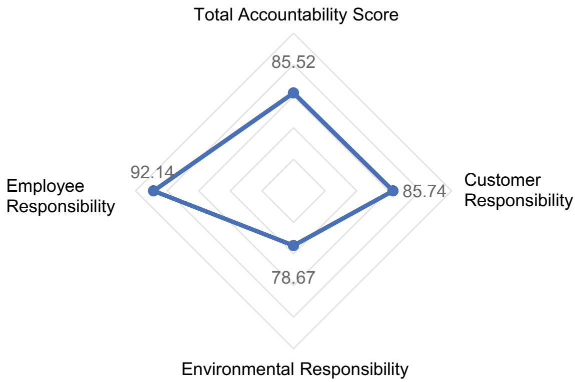
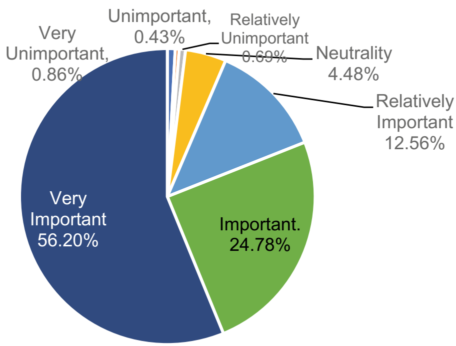


Fig. 48 Fabily business accountability score

Fig. 49 Perceived importance of fulfilling social responsibility by enterprises



environmental responsibility, as well as the employee responsibility score of family firms in "attracting, developing and retaining talents." Analysis of the data shows that the Chinese family companies' responsibility score is 85.52 points, including 85.74 points for customer responsibility, 78.67 points for environmental responsibility, and 92.14 points for employee responsibility (see Fig. 48).

5.3.1 Modalities of Implementation of Social Responsibility

First, this study examines the perceived importance of fulfilling social responsibility goals in Chinese family firms. The specific results are shown in Fig. 49. According to the data, out of the total sample of 1,186,653

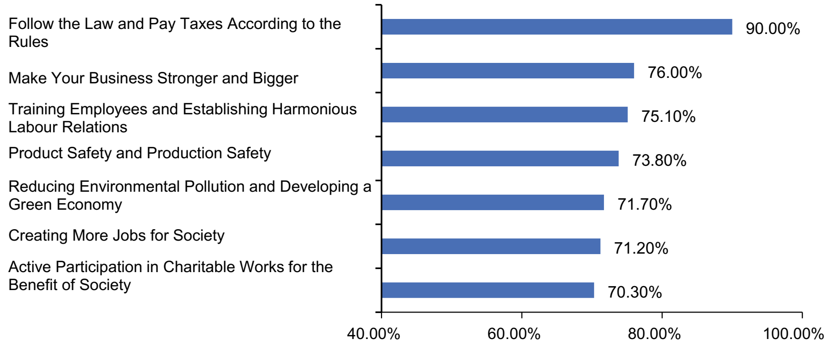


Fig. 50 Overall status of the way social responsibility is implemented

Chinese family enterprises considered it very important to fulfill social responsibility (56.2%), 288 enterprises considered it important (24.78%), and 146 enterprises considered it more important (12.56%), with the three percentages above reaching 91.70%.

In terms of the main ways of fulfilling social responsibility (multiple choice), 90.00% chose to "comply with the law and pay taxes according to the rules"; 76.00% chose to "make the enterprise stronger and bigger"; the rest of the results are shown in Fig. 50.

This study further compares the differences in the way social responsibility is fulfilled in enterprises with different corporate characteristics, individual characteristics of entrepreneurs, and family characteristics of owners. First, the subject group compared the differences in the way social responsibility is carried out by companies in the manufacturing sector or not. The results show that there are statistically significant differences between the manufacturing and non-manufacturing sectors in terms of social responsibility, with respect to "complying with the law and paying taxes according to regulations," "actively participating in social welfare and charity," "reducing environmental pollution and developing a green economy," and "product safety and production safety," while the remaining three do not differ significantly (see Fig. 51).

Second, this study shows that there is significant variability in the way social entrepreneurial responsibility is carried out depending on the gender of the entrepreneur. Women business owners place more emphasis on training their employees and establishing harmonious labor relations,

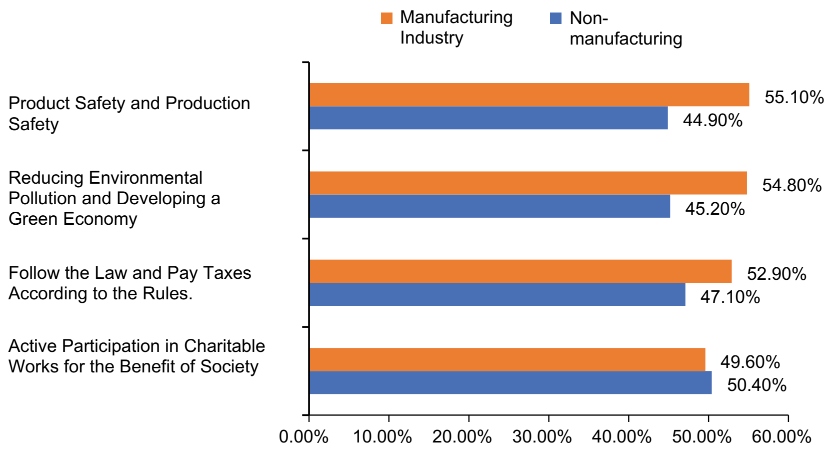


Fig. 51 Comparison of social responsibility practices of manufacturing and non-manufacturing firms

but they do not place as much emphasis on product safety and production safety as men do (see Fig. 52).

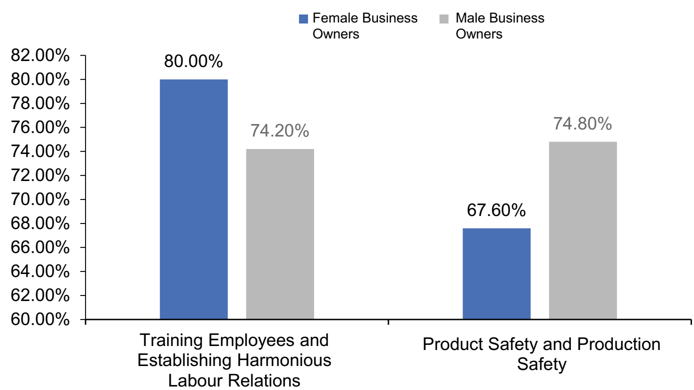


Fig. 52 Comparison of social responsibility of entrepreneurs by gender

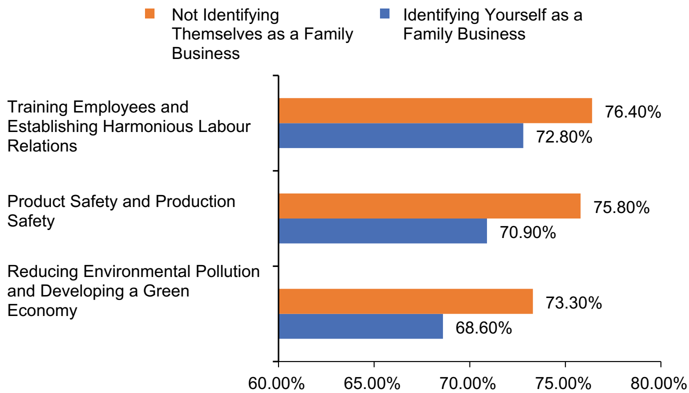


Fig. 53 Identity with your family business and social responsibility

Finally, companies that identify themselves as family businesses perform better in terms of training employees, establishing harmonious labor relations, reducing environmental pollution, developing a green economy, and fulfilling product safety and production safety (see Fig. 53).

5.3.2 Customer Accountability

This study examines the fulfillment of corporate customer responsibility under five items, including "The Company Attaches Great Importance to and Constantly Improves the Quality of its After-sales Service", "The Company Regularly Assesses Customer Satisfaction", "Knowledge of Customer Needs is a Source of Competitive Advantage for the Company", "The Company Continues to Create New Services to Provide More Value to its Customers", and "The Company's Business Objectives Express its Commitment to Customer Satisfaction" (see Fig. 54).

5.3.3 Environmental Responsibility

In this study, we evaluated the performance of family-owned companies in fulfilling their environmental responsibility by examining ten questions: "Investment in enhancing the company's environmental protection and energy-saving production capacity," "Implementation of environmental management tools such as life cycle evaluation," "Share of environmental performance in the evaluation of executive performance," and "Degree

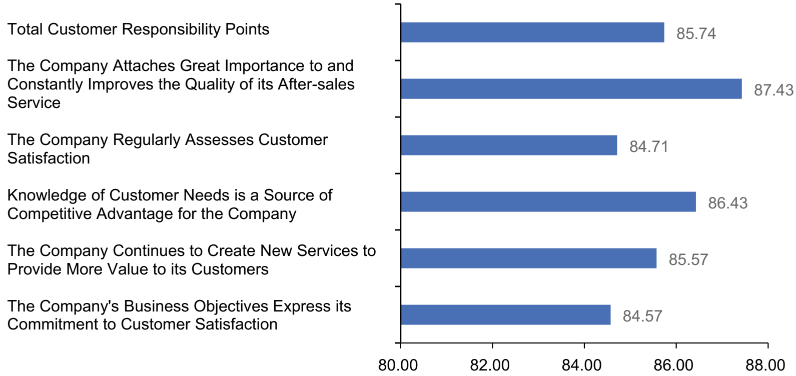


Fig. 54 Customer accountability score for family business

of participation of environmental management personnel in the formulation of company strategy." Analysis of the data shows that the overall average score for environmental responsibility is 78.67, with a medium performance (see Fig. 55). The highest scores for each question were 81.86 points for "Investment in enhancing the environmental protection

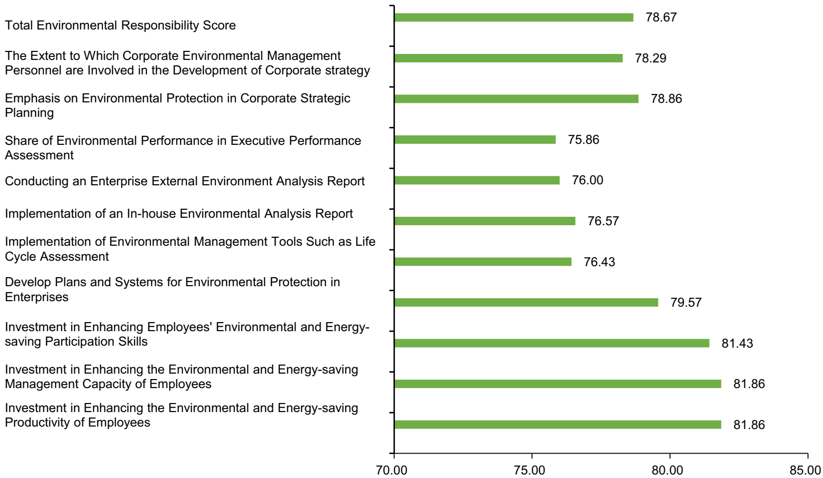


Fig. 55 Family business environmental responsibility score

and energy conservation production capacity of enterprises" and "Investment in enhancing the environmental protection and energy conservation management capacity of enterprises." Family businesses, on the other hand, performed poorly in the areas of "executive environmental performance assessment" and "environmental analysis reports."

Subsequently, this study compares the differences in environmental responsibility of Chinese family firms under the influence of firm level, firm owner situation, and family level. Data analysis shows that there is a significant correlation between the fulfillment of environmental responsibility of family businesses and (1) the robustness of the "Three Groups (shareholders, the director board, and the supervisor board)"; (2) differences in the education level of business owners; and (3) whether or not a company conducts international businesses.

First, the more educated the business owner is, the more he or she attaches importance to environmental responsibility. For example, 63.2% of the postgraduate business owner group had a higher than average environmental responsibility performance (i.e., 78.67 points), while only 45.4% of the business owners with high school education or less had a higher than average environmental responsibility performance (see Fig. 56).

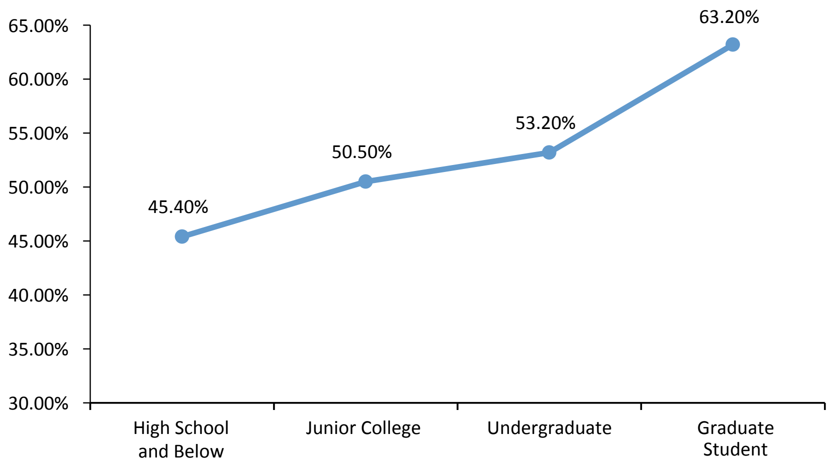


Fig. 56 Comparison of environmental responsibilities of entrepreneurs with different levels of education

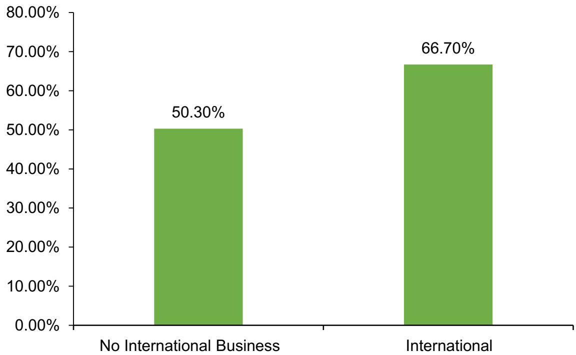


Fig. 57 Comparison of environmental responsibility performance of enterprises with international business

Finally, the team found that family-owned companies that have internationalized their business perform better in terms of environmental responsibility than those that have not. Specifically, 66.70 percent of internationalized family companies score higher than the overall average in environmental performance, compared to 50.30% of companies that had not been internationalized. This shows that international companies have to be more stringent in their environmental requirements or international environmental requirements (see Fig. 57).

6 Analysis of the Environmental Health Dimension of Family Businesses

This year, the family business health index system has optimized and adjusted the indicators of the environmental dimension, looking at three aspects: adaptability, serviceability, and inclusiveness. Among them, resilience is the firm's proactive response to changes in the external environment, serviceability refers to the support of the macro environment, such as government policies, for the development of the family firm's capabilities, and inclusiveness involves the support of the firm's external stakeholders and the firm's expectations for its future development. Overall, the environmental health status of family businesses is good, with a score of 77.98. Of these, the resilience score is the highest

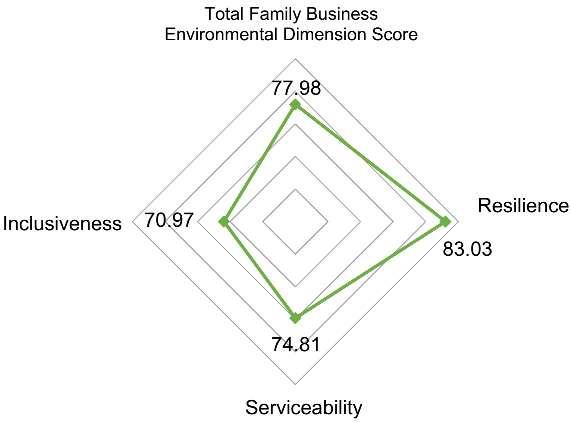


Fig. 58 Family business environmental dimension Score

at 83.03 and the inclusiveness score is the lowest at 70.97, in urgent need for improvement and upgrading (see Fig. 58).

6.1 Family Business Resilience

Adaptability is measured primarily in terms of a firm's ability to adapt to changes in the external environment, and this study measures this in terms of strategic flexibility. The resilience score was 83.03, which was a moderate performance.

In terms of strategic flexibility, the indicator "Our company frequently changes its strategy and organizational structure to adapt to changes in the environment" has the lowest score of 73.41, while the other four indicators all score around 80 (see Fig. 59). This suggests that the family firms interviewed generally value the versatility of their people and the empowerment of their employees, the flexibility to change their strategies in response to policy, economic, and financial risks in order to adapt to changes in the external environment, the importance of identifying new opportunities in the changing environment, and the ability to share information regularly within the firm.

This study further finds that the older the entrepreneur, the lower the score for strategic flexibility (see Fig. 60). Among them, the strategic flexibility score for family businesses led by post-80s and post-90s is 80.77,

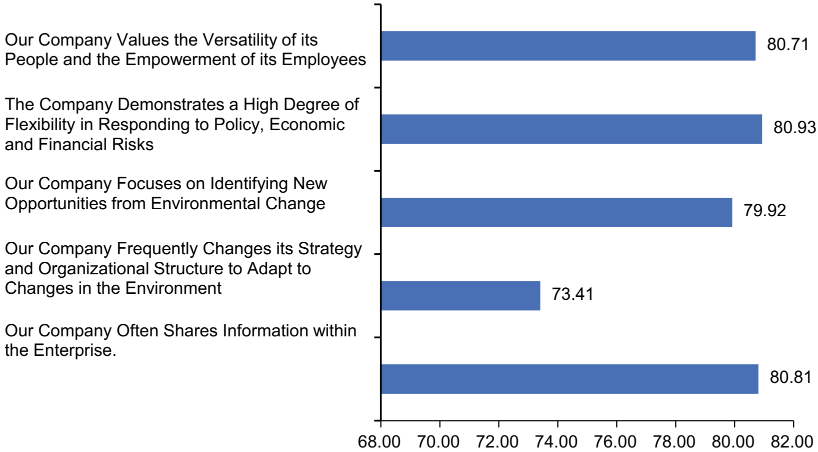


Fig. 59 Enterprise strategic flexibility score

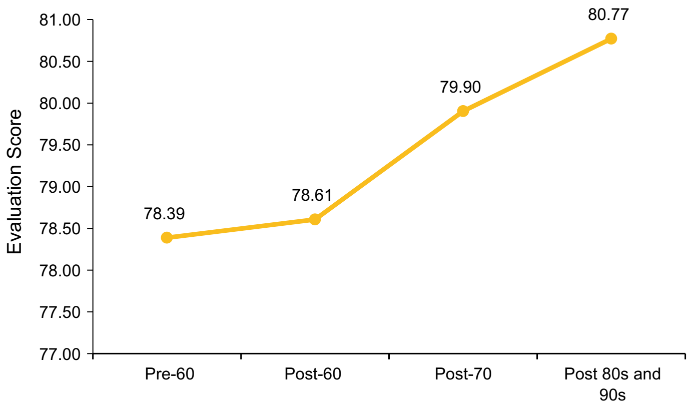


Fig. 60 Comparison of strategic flexibility at different entrepreneurial ages

which indicates that the younger the entrepreneur, the more quickly and flexibly he or she can respond to changes in the external environment.

The strategic flexibility of a business will vary depending on the education of the entrepreneur. From Fig. 61, we can see that the strategic flexibility score of entrepreneurs with postgraduate education is 82.27,

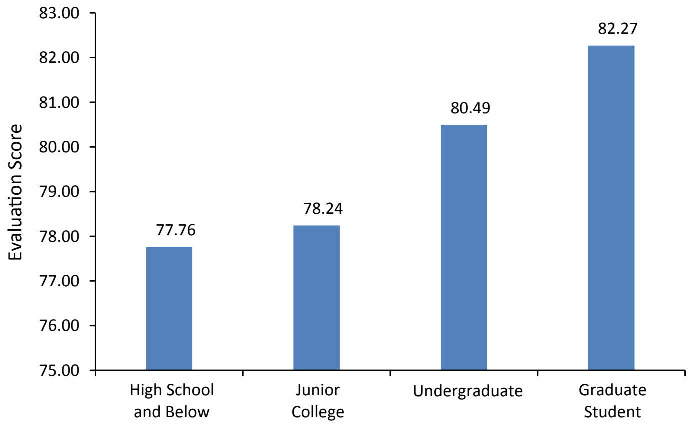


Fig. 61 Comparison of strategic flexibility among entrepreneurs with different educational backgrounds

while the strategic flexibility score of entrepreneurs with high school and lower education is 77.76. The higher the education of entrepreneurs, the more professional knowledge they acquire, the better they can grasp the changes in the environment and make timely and flexible strategic choices, so the better the strategic flexibility of enterprises.

The study further compares the strategic flexibility of companies with or without international business and finds that companies with international business score significantly higher than companies without international business, with a strategic flexibility score of 83.55 for companies with international business and 78.87 for companies without international business (see Fig. 62). Internationalization is a more dynamic environment, which requires companies to develop more flexible strategies to adapt to market changes.

6.2 Family Business Serviceability

For serviceability, this study examines government policy and service support as perceived by firms. Analysis of the data shows that the serviceability score of 74.81 is good, which reflects the relative satisfaction of enterprises with the performance of government functions (see Fig. 63).

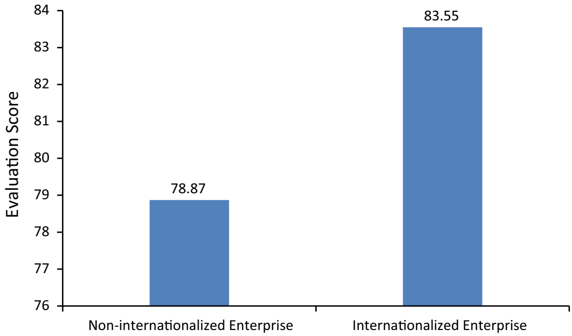


Fig. 62 Comparison of strategic flexibility of firms with different internationalization scenarios

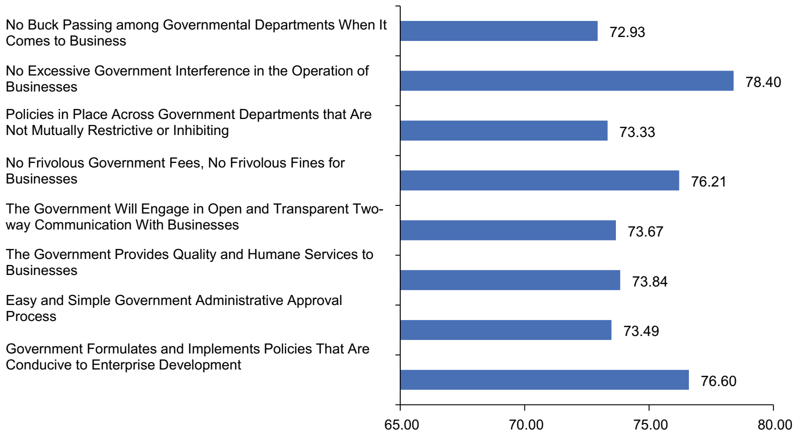


Fig. 63 Government support to business score

In terms of indicators, the low scores for "no buck passing among governmental departments when it comes to business" and "policies introduced by various government departments are not mutually restrictive or restrictive" indicate the relatively poor performance of the government in terms of accountability and administrative efficiency. It is gratifying to note that the relatively high scores on the indicators "government non-interference in business operations" and "government formulation and

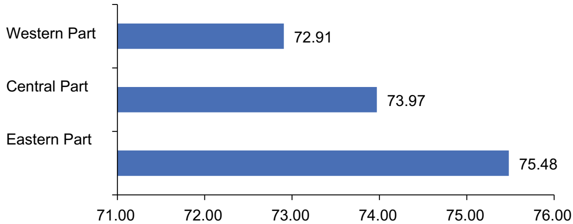


Fig. 64 Perceived government support scores for firms in different regions

implementation of policies conducive to business development" indicate that the government still has more pro-business policies in place to support business development.

In addition, firms' perceptions of government policy and service support vary significantly across regions (see Fig. 64). Businesses located in the east score the highest at 75.48 and businesses in the west score the lowest at 72.91. This suggests that government policy development and implementation and the day-to-day services provided by government in the Midwest need to be improved to support business development to a greater extent.

6.3 *Inclusiveness of Family Businesses*

Inclusiveness, as an important indicator of the environment, is mainly reflected in the understanding and support of the external environment for the business. Analysis of the data shows that the Inclusiveness score is 70.97, which is a moderate performance. In terms of the external environment's understanding of and support for the business, "personal security and property protection" scores high, at 76.51 points. The score for "ease of access to finance" was only 64.93, indicating that firms are not very satisfied with their perception of external financial support (see Fig. 65). At present, the majority of family businesses in China are still mainly small and medium-sized enterprises, although in recent years China has strengthened its attention to small and medium-sized enterprises, but their main source of funding is still mainly intra-family financing, and the financial support of the state cannot meet the needs of the vast number of small and medium-sized enterprises. In order to achieve the healthy development and sustainable operation of SMEs, the current government is

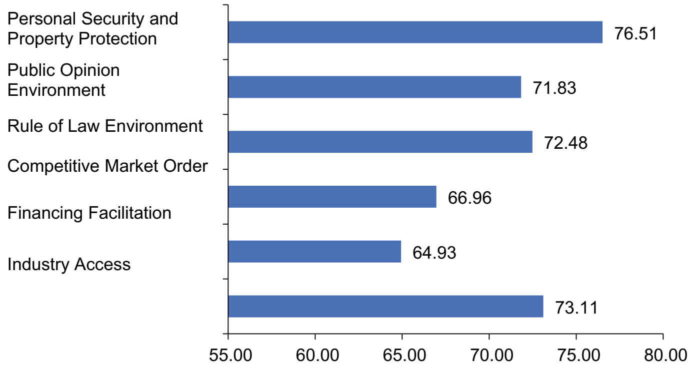


Fig. 65 Inclusiveness scores for each indicator

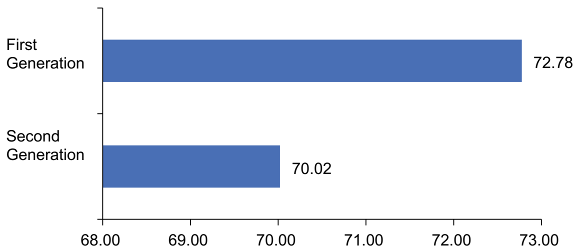


Fig. 66 Comparison of satisfaction with the external environment for different intergenerational perceptions

already working to improve the operating environment for SMEs, provide financial support, and introduce various financing channels, so that the difficult path of enterprise financing will be gradually cleared.

Respondents from different generations perceive the external environment to understand and support the business differently. Firms led by first-generation entrepreneurs score lower on satisfaction with the external environment than firms led by second-generation entrepreneurs (see Fig. 66). The emergence of this result can be caused by the stage of business development. At the beginning of the enterprise, due to more difficulties in financing, it relies more on the wealth of the founding family; while in the process of gradual development of the enterprise, there are more financing channels, the financing situation has improved significantly, and the family business can gradually accumulate resources and capital. From this, it can be seen that the relevant government departments should pay attention to the financial support for family businesses at the initial stage, especially the financial concessions for entrepreneurial families, so as to break the financing difficulties at the initial stage, reduce the obstacles to entrepreneurship caused by capital problems, and realize the sustainable development of family businesses and the process of re-starting businesses within the enterprise. Moreover, it also shows that the shift in perception, thinking, and knowledge has led to the continuous improvement of management models.

7 Conclusion

If we talk about what characteristics a "good" business should have, most experts and entrepreneurs will think of many traditional indicators, such as rapid growth rate, high profit margin, abundant cash flow, competitive products, and significant market share. However, we find in reality that even family businesses with these hallmarks can be in instant trouble or even sudden demise due to family disputes, kinship entanglements, or even the accident of the founder. This shows that when we evaluate an enterprise, we should not only focus on the financial indicators of the enterprise, but should look at it from a systematic and holistic perspective. To this end, we have developed the concept of "family business health" and have tried to explore the factors and influences of family business health by establishing a suitable index system.

Maintaining a healthy ecosystem for family businesses requires good interaction and balance among the family, business, ownership, environment, and stakeholders. The "three rings" of family business health—entrepreneur, family, business—are interlocking, yet separate. In the process of family business development, we not only need to deal with the relationship between these three rings, but also rely on the external environment to find the path of sustainable development suitable for the family business itself. Since family businesses are rooted in the family, the relationships between family members and the values of family owners have a significant impact on the development of the business. How to conduct family governance, maintain harmony within the family, and transmit the values held by the family is the key to whether the tree of the family business can grow. The core findings of this report for the Family Business Health Index in mainland China are summarized as follows.

Core finding 1: Seeking Improvement in Stability; Pushing out new ideas for development: Our family enterprises have outstanding performance in terms of "soft power" at the family level, but there is still more room for upgrading in terms of "hard power" such as enterprise performance, innovation input, and leadership ability. In terms of internal management, the majority of family businesses should improve their leadership, establish strong management policy and philosophies that are widely recognized by their employees, and make sound institutional designs and arrangements for the future succession of the family business. At the same time, the government sector's tolerance and support for family businesses also need to be improved to provide a friendly external environment for healthy business development.

Core Finding 2: Intergenerational engagement is a "double-edged sword" of healthy development: Companies with intergenerational engagement have performed commendably in many ways. First, firms with intergenerational involvement score higher in both family commitment and long-term orientation than firms without intergenerational involvement. Second, firms whose children of entrepreneurs are involved in business are more innovation-oriented, and those firms score higher in binary innovation strategies. In addition, the second generation of entrepreneurs perceive the external environment to be significantly more understanding and supportive of the business than the first generation of entrepreneurs do. In other words, these second-generation entrepreneurs, who are "in their positions and in their politics," have a better vision for the present or the future than the first generation.

Core Finding 3: Professional management and decision-making norms need to be improved: It is not necessarily true that professional managers are more professional than business owners, because many generations of business owners or business managers from family members are currently learning and recharging to improve their professionalism. In addition, the introduction of professional managers is also relevant to the stage of succession in the family business. In short, the decision-making norm of professionalization in Chinese family enterprises needs to be improved, but the problem of whether to introduce professional managers in family enterprises requires the wisdom of the enterprises themselves to solve.

Core Finding 4: Performance challenge. China's economic development is now entering a new normal, with a slowdown in the pace of development and an upgrading of the industrial structure into deeper water; the drive for sustainable development will shift from factor-driven and investment-driven to innovation-and-entrepreneurship-driven. In this context, Chinese family businesses also reflect the phenomenon of "slow growth and insufficient internal strength." The most prominent manifestation is that the overall R&D activity of family enterprises is not high, less than half of them have R&D investment, and both the scale of R&D investment and the proportion of sales revenue are obviously low. At the same time, this study finds that firms in the eastern region are the most active in R&D investment, while those in the central region are the least active in R&D. It can be seen that despite the performance growth of central region enterprises by undertaking industrial transfer, the lack of independent R&D and innovation capacity will still limit the pace of central region's rise in the long run. Although the eastern region will experience a brief period of manufacturing out-migration, the possibility of future transformation and upgrading to innovation-driven industries is worth looking forward to due to a high level of R&D investment.

Core Finding 5: Females at the helm, liberal vs. conservative paradox: Female entrepreneurs are significantly more empowered than male entrepreneurs in the course of running a business. In female-headed family businesses, the participation of professional managers in major decisions is significantly higher, indicating that women entrepreneurs are more decentralized and more willing to listen to professional managers' opinions and advice in business decisions than men. However, it is worth noting that family businesses led by women are significantly less intensive than male entrepreneurs in terms of R&D investment, thus posing a hidden risk to the long-term growth of the business. In general, women entrepreneurs are more open and flexible in internal management such as professional manager training, internal empowerment, and coping with change, while they do not pay enough attention to the ability of enterprises to innovate on their own and show a conservative type of long-term strategy.

Core Finding 6: New paths to go abroad to meet environmental challenges: As China's economic development enters a new normal and companies face more environmental uncertainties, internationalization strategies provide new paths for family businesses to transform and upgrade. Therefore, more family businesses should be encouraged to actively participate in overseas investment projects; take advantage of capital, technology, products, and brands to enter overseas markets; obtain large development space; and boldly respond to future opportunities and challenges.

Family businesses in mainland China are younger than those in other countries and regions in the world, and there is an urgent need to establish a systematic view of family business health index model to examine the differences and similarities between family businesses in mainland China and other countries and regions in the world from a broader and global perspective. We hope that our approach, on the one hand, will provide a new perspective and theory for scholars and entrepreneurs to look at the development of family businesses and, on the other hand, will provide a direction for the future healthy development of family businesses to learn from.

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CHAPTER 6

Analysis on the Current Scenario of Succession in Small-to-Medium-Sized Enterprises in Mainland China: Succession, Innovation and International Transformation in Family Firms

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1 Introduction

Opportunity and Challenge: Succession and Strategic Transformation Against the Backdrop of Internet and the "Shuangchuang" (entrepreneurship and innovation) Policy

Under the impact of the "Internet Plus" policy and the "mass entrepreneurship and innovation" policy, small-to-medium-sized enterprises in mainland China are generally facing the challenges of transformation and upgrading. Meanwhile, as an integral part to China's national economy, family companies,[1] in a great measure, are entering the critical phase of succession. According to our statistics on the A-shares listed family firms in Shenzhen and Shanghai, by 2015, among 887 publicly listed family-owned companies, the second generation engages in operation and management in 347 of them, accounting for 39% of the total. Among the 347, the first and second generations serve as members of the board of directors, senior executives, and supervisors in 271 of them, accounting for 30%; in the remaining 76, which accounts for 9%, the first generation withdraws from the company with the second generation fully taking over. Accomplishing transformation and upgrading during succession becomes a necessary path to be taken by mainland China's family firms in order to boost competitiveness and to adapt to new economic conditions.

As a leading bespoke tailoring enterprise in the country, in recent years, Qingdao Red collar Group has managed to find its own path toward successful transformation and upgrading in the process of generational handover. Since the founder Zhang Daili started the company in 1998, it had been following the traditional ways, i.e., mass production, Original Equipment Manufacturer (OEM), and store-based retailing. However, he realized that the old ways were not the way out for clothing manufacturing in the long run, determined to lead the company for a transformation toward "personal customization." In 2004, Zhang's

[1] The definition of family firms refers to *2011 Family Business Survey* published on *Forbes China*. First, the actual controller of the firm must be a natural person, which means the enterprise has the characteristics of a private enterprise. In the meantime, according to the characteristics of family members' involvement in ownership and management rights (Chua et al., 1999), family members of the actual controller must be holding shares, having a seat in the board, or acting as a senior executive, in order for the enterprise to be classified as a family firm.

daughter Yunlan was called back to help the company with further transformation and upgrading. In 2009, Zhang Yunlan officially took over as the CEO. Under the co-governance of the two generations, Red collar gradually developed its unique path of transformation. In 2012, in recourse to the big data technology and Internet thinking, Red collar launched an online platform system for suits personal customization, to which it claims independent intellectual property rights. Meanwhile, Red collar also built a 3D intellectual printing factory, using the big data technology to drive mass customization. Based on Internet thinking, Red collar proposed a whole new business model called C2M (Customer to Manufactory), connecting customers and manufactory through the interactive platform. It truly accomplished a transformation from mass production to mass customization. In addition to technological innovation and Internet transformation, Zhang Yunlan also led the company toward internationalization. The company changed its original low-profit OED model, starting to participate in trade shows in countries like the US. With its core competitiveness brought by the Red collar Suits personal customization platform, Red collar Group boosts its bargaining power in the international market. In cooperation with companies from developed countries, Red collar Group not only doubles its profit margin, but also raises its status in the international market significantly.

The Red Collar Group is no doubt a successful case demonstrating how the challenges of transformation and upgrading are overcome during succession. Technological innovation provides the company with the impetus for transformation and upgrading, while Internet transformation offers the pathway and the platform for transformation and upgrading. Furthermore, international transformation develops new markets for the company and raises its international status. Thus, whether a family firm can accomplish sustainable development greatly depends on how its unique combination of resources and organizational advantages are utilized to promote technological innovation, Internet transformation, and international transformation. The following sections will elaborate on transformation and upgrading in family firms from three aspects, i.e., innovation, Internet, and internationalization, and further examine the relationship between succession and transformation and upgrading.

2 Succession and Innovation in Family Firms

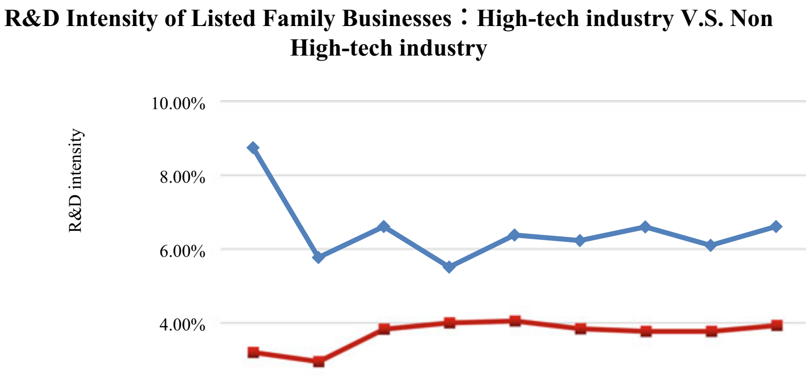
2.1 Family Firm Innovation: History and the Present

As the economy enters a state of "New Normal," firms shift gears from factor- and investment-driven to innovation-driven, with the developmental model of innovation-as-impetus dictating the mainstream of economic development in China (Wu et al., 2017). In 2016, according to China's firm innovation index, enterprises have entered an active phase of innovation. Three perceivable aspects are (1) Enterprises are strong in innovative potential, with entrepreneurship acting as the primary impetus for boosting innovative potential; (2) Enterprises are more prone to engage in innovation, particularly among those that are in the growth phase and those that are technology-intensive; (3) The overall innovation market and cultural environment are in better conditions—enterprises value mid-to-long-term developmental planning and diversified channels for innovation-related information. Meanwhile, China's firm innovation yields some preliminary results. The effects of innovation on increasing product quality, improving environment, and developing new markets are manifest. However, challenges remain such as talent environment, regional innovational culture, innovative sustainability, intellectual property rights protection, innovation-supporting policies, and monotonous innovation strategies (Zhong et al., 2016).

As an organizational form commonly found in China, family firms have made a marked progress in development. But they are also facing difficult challenges of transformation and upgrading. The path of sustainable development relying on innovation becomes the main solution to these challenges. So, what are the current scenario of family firm innovation? Taking the data of listed family firm in Shanghai and Shenzhen from 2007 to 2015 as samples, we can make a comparative analysis of the R&D intensity of companies with different sizes, ages, and types of industry, by using R&D intensity (the ratio of R&D input to sales) to illustrate the levels of R&D input in those listed companies.

For a comparison of R&D intensity among family firms of different types of industry, see *China Statistical Yearbook on High Technology Industry 2016*,[2] which divides the samples into two categories, i.e., high

[2] *China Statistical Yearbook on High Technology Industry 2016* announced high-tech industries include 6 categories: pharmaceutical manufacturing, aviation, spacecraft and equipment manufacturing, electronic and communication equipment manufacturing,



	2007	2008	2009	2010	2011	2012	2013	2014	2015
High-tech industry	8.74%	5.76%	6.60%	5.50%	6.37%	6.22%	6.59%	6.09%	6.60%
Non high-tech industry	3.20%	2.95%	3.83%	4.00%	4.05%	3.84%	3.77%	3.77%	3.93%

Fig. 1 Comparison of R&D intensity between family firms of different types of industry (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2007 to 2015)

technology enterprises and non-high technology enterprises. Figure 1 shows a comparative analysis of R&D intensity among family firms of different types of industry. It can be observed that the R&D intensity of family firms in high technology industries is always higher than that of those in non-high technology industries.

For a comparison of R&D intensity among family firms of different sizes, see *Provisions on Small to Medium-sized Enterprises Type Standard*[3] issued by the National Bureau of Statistics of China in 2011. The samples are divided into the categories, i.e., large-sized and small-to-medium-sized enterprises. Figure 2 shows a comparative analysis of R&D intensity among family firms of different sizes, indicating that the R&D intensity of small-to-medium-sized enterprises is always higher than that of large-sized enterprises.

computer and office equipment manufacturing, medical equipment and instrument manufacturing, and information chemicals manufacturing.

[3] There are 15 industries in total. Different industries correspond to different standards. See details: http://www.gov.cn/zwgk/2011-07/04/content_1898747.htm.

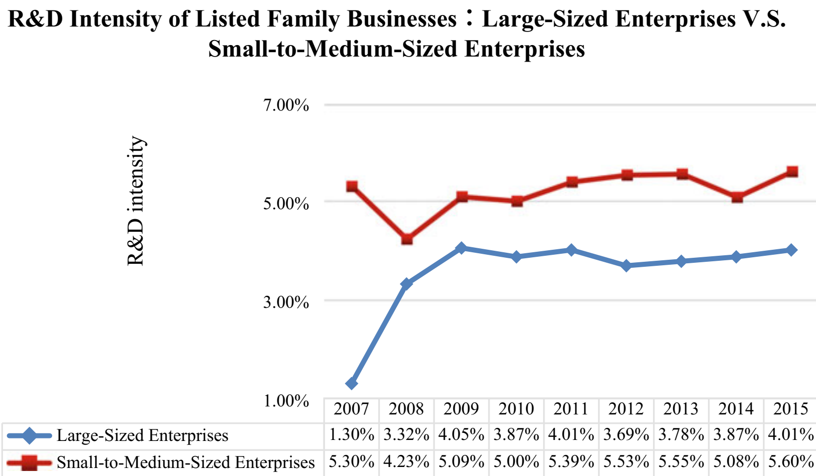
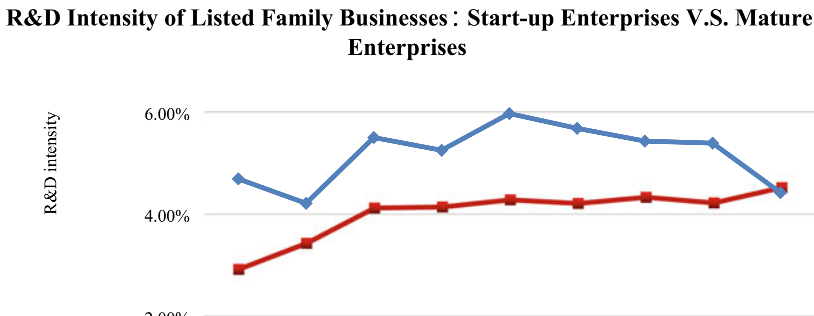


Fig. 2 Comparison of R&D intensity between family firms of different sizes (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2007 to 2015)

For a comparison of R&D intensity among family firms of different ages, we make those with an age greater than eight years a category called "mature enterprises" and those with an age less than or equal to eight years the other category called "start-up enterprises." Figure 3 shows that compared to mature enterprises, start-up enterprises generally have a higher R&D intensity.

From the analysis above of the status quo of family firms in terms of age, size, and type of industry, we can see that small-to-medium-sized and start-up family firms in high technology industries hold obvious advantages in terms of R&D intensity.

At the moment, China's family firms have entered the peak season of the first inter-generational succession. As the economy undergoes transformation and upgrading, the second generation has hastened their involvement (Yu et al., 2013). It is noteworthy that some family firms have passed over the duty of operation to their second generations, such as Wanxiang Group and Fotile Kitchen Appliances. Generally, compared to the first generation, the second generation prefers to make risk decisions, with higher level of education and international vision, they were considered the fresh blood for the enterprise to promote innovation.



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Start-up Enterprises	4.69%	4.21%	5.50%	5.25%	5.97%	5.68%	5.43%	5.39%	4.42%
Mature Enterprises	2.92%	3.43%	4.12%	4.14%	4.28%	4.21%	4.33%	4.22%	4.52%

Fig. 3 Comparison of R&D intensity between family firms of different ages (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2007 to 2015)

So, what impact would the different stages of the second generation's succession make on the enterprise's R&D intensity?

2.2 Succession and Innovation

Succession is the dynamic process during which the generational transfer of power is accomplished. In the process, the first generation steps down and the second generation takes over the family firm gradually. According to the degrees of the second generation's involvement in management, the handover process can be divided into three stages: (1) Second-generation involvement in management (the second generation engages in management but without taking over),[4] (2) Second-generation dominance—dual-generation co-governance (the second generation gradually takes over during the period of dual-generation co-governance, being in charge of management), and (3) Second-generation accession (the first generation's retirement, the second generation takes full control of the enterprise). See Fig. 4.

[4]The designation of a second generation to acts as CEO serves as the indicator of official takeover.

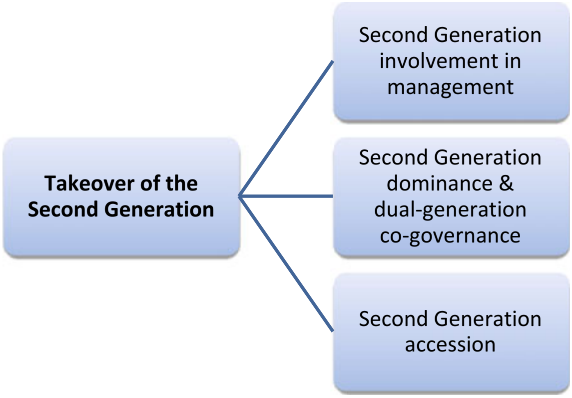


Fig. 4 Three stages of second-generation takeover (*Source* Author's creation)

Studies show that the second generation is often both willing and able to promote innovation in family firms. There are three reasons behind this phenomenon. First, if the second generation simply succeeds the existing firms, it is hard to tell between the extension of the first generation's previous efforts and the results brought by the second generation's involvement. By the time of succession, the first generation is usually holding in their influence and absolute authority. It is easy for the first generation to claim all the credits, while attributing all the mistakes to the second generation. As a sort of strategic revolution, innovation helps to break with the enterprise's tradition, highlight the credits of the successor, and generate benefits and a sense of achievement for the successor. This is why the second generation is eager to prove their value through innovation. Second, innovation is subject to the risk preference of the manager. The young second generation is adventurous, willing to catch the trend of social development and preferred to make risk decisions such as innovation. Third, with whole new firm philosophy, broad international vision, higher level of education, and extensive external work experience, the second generation can accurately grasp the trend of the industrial technology, providing the enterprise with external information and knowledge for promoting innovation. Thus, the second generation has a tendency to actively promote the innovative revolution in the enterprise.

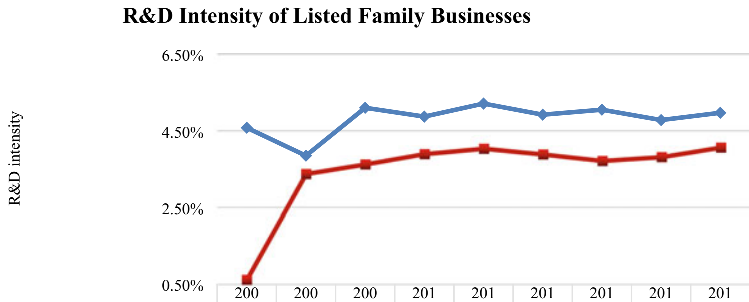
2.2.1 The Second Generation's Involvement in Management and Innovation

According to the "China's Modern Family Business Survey" published on *Forbes China* in September 2015, among the A-shares listed family firms, the ratio of enterprises with the first- and second-generation holding positions simultaneously reaches up to 54.98%, a testament to the generality of the second generation's involvement in management. Meanwhile, cases are common in which the second generation involves in management and actively leads to enterprise toward innovative transformation. One typical example is the Zhejiang Lonsen Group. Zhejiang Lonsen Group Co Ltd is a leading dyestuff enterprise in China. Founder Ruan Shuilong began his career from starting a village-sponsored microbial pesticide factory, ending up as a dye auxiliary baron. The second-generation Ruan Weixiang taught in Fudan University after graduated in material science in 1989. However, in 1993, Father Ruan Shuilong's wish totally changed his life contrail.

Though Lonsen had been the leading enterprise in dye auxiliary industry, but it still facing a dilemma to transform from auxiliary to dye. As the sole family member who has technology background, Weixiang entered the enterprise and acted as the chief engineer in 1993, kick-starting the transformation of dye production. To accomplish strategic transformation, he moved his research base from laboratory to workshop, flinging himself into tackling technical roadblock of dye. Eventually, he overcame the technical difficulty and thus accomplished the transformation from auxiliary production to dye production.

Yet, is the second generation's involvement in management to promote innovation a universal phenomenon? We will take the data of listed family firms in Shanghai and Shenzhen from 2007 to 2015 as samples, with R&D intensity as an index to indicate the level of enterprise's dedication to R&D, see if there is any difference in R&D intensity between enterprises with the second generation getting involved in management and those without.

Figure 5 shows the comparative analysis of R&D intensity. It can be seen that compared to family firms without the second generation's involvement, the second generation's involvement in management significantly reduces enterprise's R&D intensity, indicating that family firms would see a reduction in R&D intensity during the early stage of second-generation succession.



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Only First generation involvement	4.57%	3.84%	5.09%	4.86%	5.20%	4.91%	5.04%	4.77%	4.96%
Second generation involvement in management	0.62%	3.37%	3.62%	3.89%	4.03%	3.88%	3.71%	3.81%	4.06%

Fig. 5 Comparison of R&D intensity with and without second-generation involvement (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2007 to 2015)

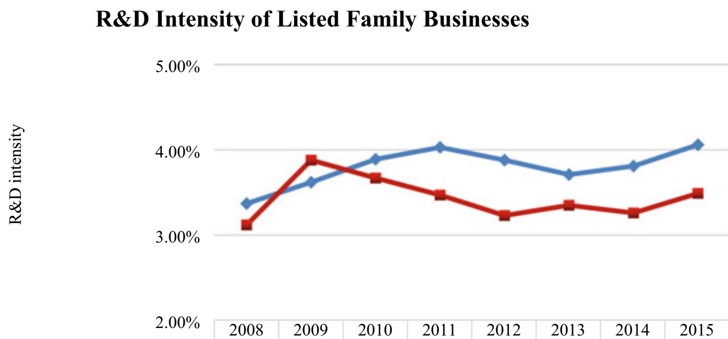
2.2.2 Second-Generation Dominance—Dual-Generation Co-governance and Innovation

Ruan Weixiang helped the enterprise to accomplish innovative transformation, but enterprise's agenda of innovation did not stop there. In November 2004, Ruan takes over as the CEO, in charge of the enterprise's operation. Zhejiang Lonsen enters the stage of second-generation dominance—dual-generation co-governance, henceforth ushering in a new phase of transformation from dye to intermediate.

Though the dye production of Lonsen already ranks first in the world at that time, Weixiang recognizes that what Lonsen produces are just low-to-mid-end products. He feels the need to deploy some strategies targeting the upstream dye intermediate industry and develop products with higher value added. Under his leadership, through independent research development, the output ratio of m-phenylenediamine grows to 90%, with production cost 30% lower than the peers. As a result, the enterprise dominates the market very soon. With m-phenylenediamine technology and cost advantage, Lonsen further extends to the downstream resorcinol industry and manages to develop a method of producing resorcinol through hydrolyzing m-phenylenediamine, with higher production rate and lower environmental cost. Through building an integrated industry chain, Lonsen stands out in the intermediate industry.

The case of Zhejiang Lonsen demonstrates how the second generation helps the enterprise with transformation and upgrading during the stage of dual-generation co-governance, accomplishing the transition from dye to intermediate. Yet, compared to the second generation's involvement in management, is the second-generation dominance—dual-generation co-governance to promote innovation a universal phenomenon? We take the data of listed family firms in Shanghai and Shenzhen from 2008–2015 as samples, with R&D intensity as an index to indicate the level of the enterprise's dedication to R&D, see if there is any difference in R&D intensity between enterprises with second-generation dominance—dual-generation co-governance and those with second generation's involvement in management.

Figure 6 shows the comparative analysis of R&D intensity. It can be seen that compared to the stage of second generation's involvement in management, second-generation dominance—dual-generation co-governance reduces R&D intensity of those family firms in the majority of years. Combining the information in Figs. 5 and 6, we could see that the enterprise's R&D intensity fails to return to the level before



	2008	2009	2010	2011	2012	2013	2014	2015
Second generation involvement in management	3.37%	3.62%	3.89%	4.03%	3.88%	3.71%	3.81%	4.06%
Second generation dominance	3.12%	3.88%	3.67%	3.47%	3.23%	3.35%	3.26%	3.49%

Fig. 6 Comparison of R&D intensity between second-generation dominance—dual-generation co-governance and second-generation involvement (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2008 to 2015)

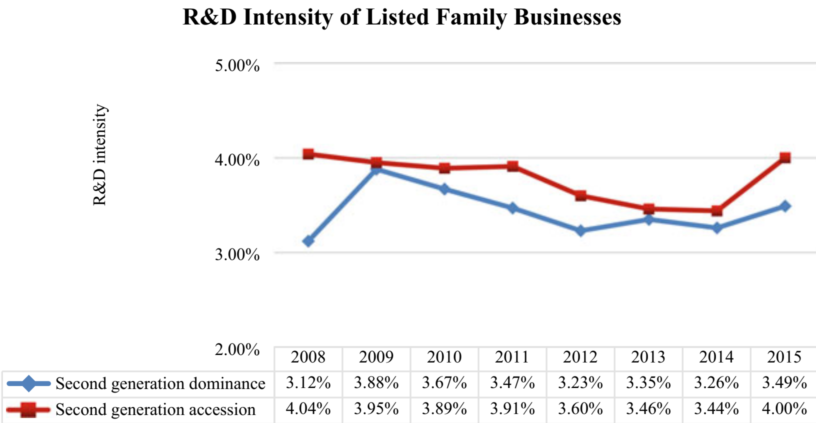
second generation's involvement in management even during the stage of second-generation dominance—dual-generation co-governance.

2.2.3 The Second Generation's Accession and Innovation

Father-to-son succession is the mainstream mode of generational succession in family firms China. As the first generation is out, the second generation naturally comes into take over the firm's operation and management. Cases in which the second generation initiates radical reforms after taking over are commonly found. Guangdong Wing Yip Food Co. Ltd. is one of the typical examples.

In 2009, the second-generation Wang Xiantao takes over Wing Yip from his father, fully in charge of the enterprise's operation, and begins a new chapter of the enterprise in e-commerce development and product research development. When the eight-point decision on improving party and government conduct is issued in 2012, sales through traditional channels targeting companies and public institutions plummet. The mass channel becomes the only plausible choice for Wang Xiantao and the channel's most potential market lies in e-commerce. As Wing Yip Taobao store goes online, He initiates Wing Yip's e-commerce strategy, establishes an e-commerce team, and develops new retail channels such as Tianmao, Jingdong, and Meituan. As he innovates the retail channel, Wang recognizes that cured meat is a highly seasonal kind of products and eagers to conduct product research development so as to break free from seasonal restriction, in the hope of becoming the pioneer of a new cured meat culture. As research team overcomes the technological problems, a new kind of instant leisure food designed for the e-commerce consumers comes onto the market. As the first enterprise launching the sort of products on e-commerce platforms, Wing Yip Cured Meat's performance skyrockets, riding on the revolutionary trend brought by these products.

The first generation stepping down and the second generation presiding over the enterprise, Wing Yip starts its new chapter of e-commerce and product research development. Yet, compared to second-generation dominance—dual-generation co-governance, is the second-generation accession to promote innovation a universal phenomenon? We take the data of listed family firms in Shanghai and Shenzhen from 2007–2015 as samples, with R&D intensity as an index to indicate the level of the enterprise's dedication to R&D, see if there is any difference in R&D intensity between second-generation accession and second-generation dominance—dual-generation co-governance.



	2008	2009	2010	2011	2012	2013	2014	2015
Second generation dominance	3.12%	3.88%	3.67%	3.47%	3.23%	3.35%	3.26%	3.49%
Second generation accession	4.04%	3.95%	3.89%	3.91%	3.60%	3.46%	3.44%	4.00%

Fig. 7 Comparison of R&D intensity between second-generation accession and second-generation dominance—dual-generation co-governance (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2008 to 2015)

Figure 7 shows the comparative analysis of the R&D intensity between second-generation accession and second-generation dominance—dual-generation co-governance. It can be seen that compared to the stage second-generation dominance—dual-generation co-governance, second-generation accession raises the R&D intensity of those family firms, indicating that the decline in R&D intensity during succession is effectively curbed as the second-generation accession is accomplished, with the enterprise's innovation input starting to pick up.

3 Innovation and Internet Transformation

With the development of information technology and mobile Internet, Internet involvement has become inevitable for China's enterprises to undergo the transformation and upgrading. From traditional manufacturing, the retail industry, to the new technology industry, almost every industry is seeking to "get online," to accomplish Internet transformation. Generally speaking, family firms are considered to be relatively closed systems. In order to secure socio-emotional wealth, family firms often refuse to introduce external professional managers and external investors.

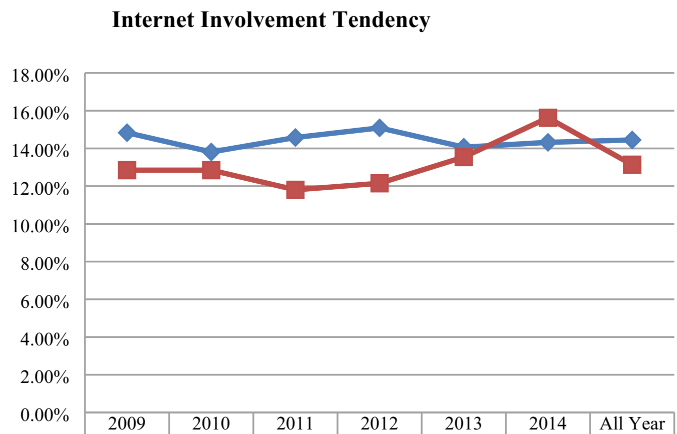
Yet the application and embedment of Internet technology require the enterprise to introduce investors and personnel with professional knowledge. Thus, during the process of Internet strategic transformation, family firms face two challenges: "to transform or not" and "how to transform."

Sanquan Food is a typical example of family firm in China's frozen food market, which becomes the leading enterprise in the industry through years of efforts made by the second-generation Chen Nan. To adapt to the worsening macro-economic environment and the consumers' demand for diversified options, Chen Nan initiates the enterprise's Internet transformation. Since 2014, the company launches the app "Sanquan Fresh Food," targeting the pain point of white-collar workers lunch. By connecting consumers, the mobile interconnecting app, the factory, and the smart vending machine, the enterprise dedicates to build an open vertical e-commerce platform for products on the dining table. Yet, transformation does not go smooth. Sanquan's O2O consumption model is not accepted by the target market. The "Sanquan Fresh Food" project suffers a long-term loss. In June 2016, vending machines under the "Sanquan Fresh Food" project are all suspended and undergo upgrading.

This case demonstrates that under the impact of the sweeping tide of Internet, the transformation of a traditional enterprise can be difficult. Particularly, in the view of the "chuangerdai," or the second-generation entrepreneurs, how to lead the enterprise toward sustainable development is always the crux of the issue. Under the leadership of the second generation, Sanquan Food suffers a great defeat in its way toward Internet transformation. The dual challenge of "succession plus internet transformation" is the inevitable obstacle for family firms to overcome in the Internet era. So, what can we tell from the overall performance of family firms in Internet transformation during succession? We take as samples the data of listed family firms in Shanghai and Shenzhen from 2009 to 2014 and conduct a comparative analysis to answer this question.

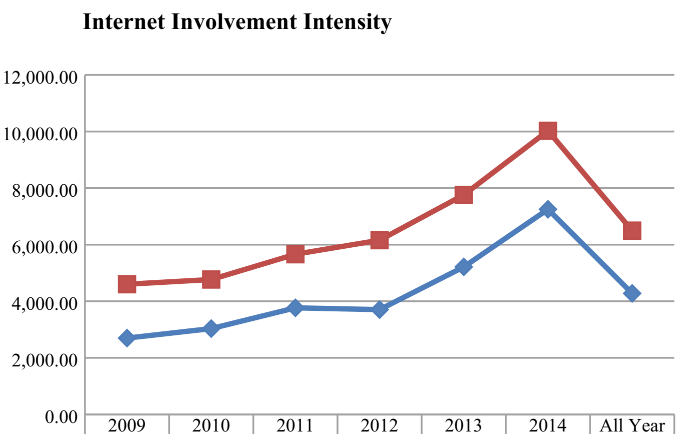
3.1 *Internet Transformation: A Comparison Between Family Firms and Non-family Firms*

Figures 8 and 9 show the comparative analysis. It can be seen that compared to non-family firm, though family firms have a slightly weaker tendency to involve in Internet (the ratio of family firms involved in Internet-related firms to the total sample size, as shown below), their intensity of Internet transformation (or the expenditure on Internet



	2009	2010	2011	2012	2013	2014	All Year
Non-family Business	14.83%	13.81%	14.58%	15.09%	14.07%	14.32%	14.45%
Family Business	12.85%	12.85%	11.81%	12.15%	13.54%	15.63%	13.14%

Fig. 8 Internet transformation tendency: Family firms and non-family firms (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)



	2009	2010	2011	2012	2013	2014	All Year
Non-family Business	2698.09	3033.44	3767.08	3704.02	5214.38	7251.08	4278.01
Family Business	4601.50	4768.11	5661.45	6158.46	7760.19	10026.10	6495.97

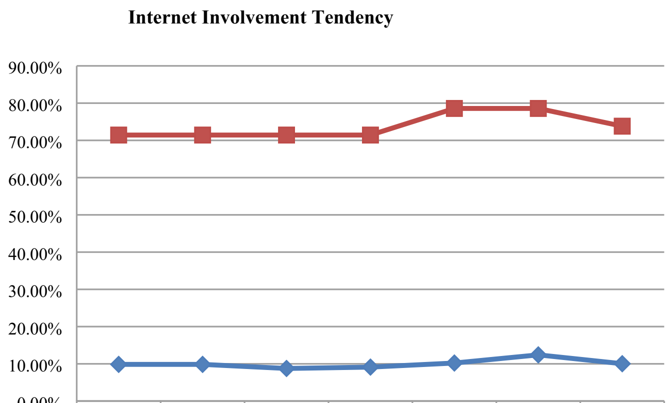
Fig. 9 Internet transformation intensity: Family firms and non-family firms (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)

involvement, as shown below) is much higher than non-family firms once the family firm has decided to undergo Internet transformation. This also proves that family firms are capable of promoting Internet transformation through using its resource advantage and managerial structure advantage.

Next, we further compare the Internet transformation in family firms in terms of type of industry, age, and size.

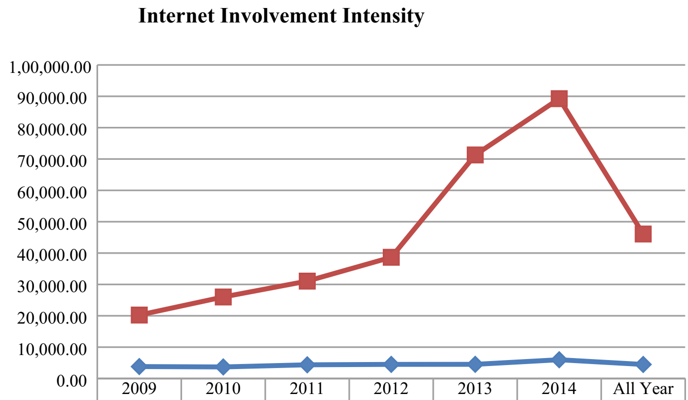
3.1.1 *The Type of Industry: High-Tech and Non-High-Tech Industry*

Based on the standards laid out by China Statistics Yearbook on High Technology Industry 2016, we divide listed family firms into two categories, i.e., h-tech enterprises and non-high-tech enterprises. Figures 10 and 11 show a comparative analysis of the characteristics of Internet transformation in these two categories. It can be seen that compared to the non-high-tech counterpart, family firms in the high-tech industry have a stronger tendency to involve in Internet as well as a greater intensity of Internet involvement.



	2009	2010	2011	2012	2013	2014	All Year
Non High-tech Industry	9.85%	9.85%	8.76%	9.12%	10.22%	12.41%	10.04%
High-tech Industry	71.43%	71.43%	71.43%	71.43%	78.57%	78.57%	73.81%

Fig. 10 Internet involvement tendency of listed family firms: High-tech industry and non-high-tech industry (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)



	2009	2010	2011	2012	2013	2014	All Year
Non High-tech Industry	3802.79	3683.37	4363.76	4498.02	4513.95	5978.43	4473.39
High-tech Industry	20233.46	25998.07	31059.10	38655.65	71293.82	89244.65	46080.79

Fig. 11 Internet involvement intensity of listed family firms: High-tech Industry and Non-high-tech industry (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)

3.1.2 Age of Family Firms: Mature Enterprises and Start-up Enterprises

According to the age of the listed family firms, we divide them into start-up enterprises (with an age lesser than or equal to eight years) and mature enterprises (with an age greater than eight years). Figures 12 and 13 show a comparative analysis of the characteristics of Internet transformation in these two categories. It can be seen that compared to mature family firms, start-up family firms have a stronger tendency to involve in Internet and a greater intensity of Internet involvement. This indicates that relatively developed family firms do not have an involvement tendency and intensity of Internet transformation as strong as the family firms that are still in the early start-up stage.

3.1.3 Size of Family Firms: Comparison on The Large-Sized and the Small-to-Medium-Sized

According to Provisions on Small to Medium-sized Enterprises Type Standard issued by the National Bureau of Statistics of China in 2011, we could divide listed family firms into two categories, i.e., the large-sized and the small-to-medium-sized. Figures 14 and 15 show a comparative

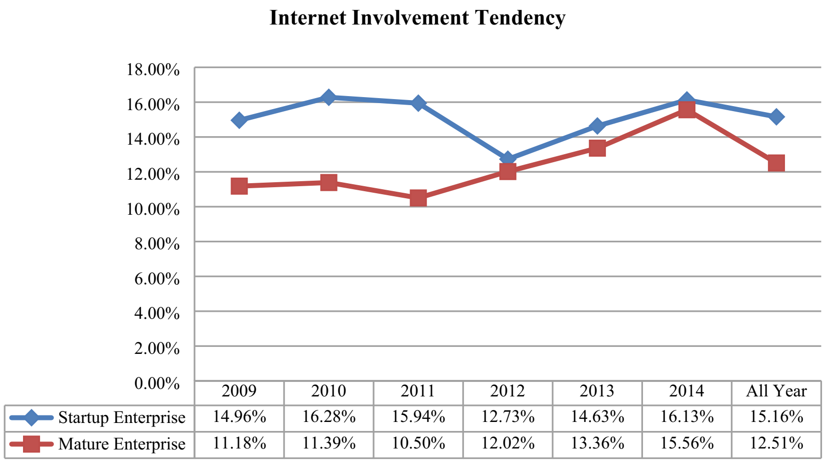


Fig. 12 Internet involvement tendency of listed family firms: Mature enterprises and start-up enterprises (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)

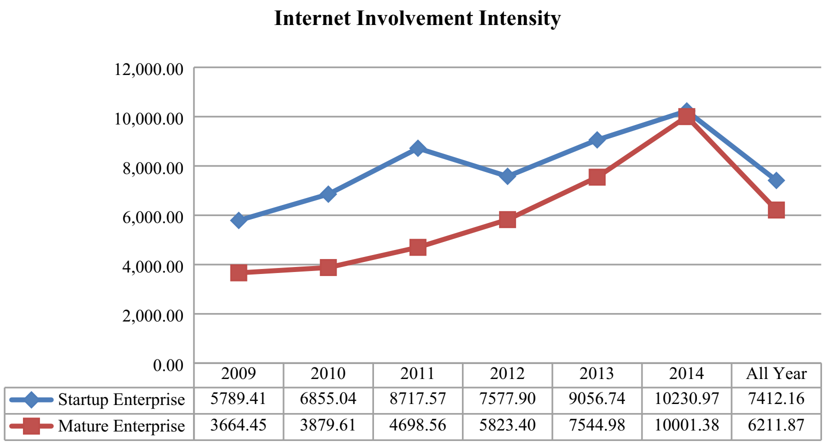
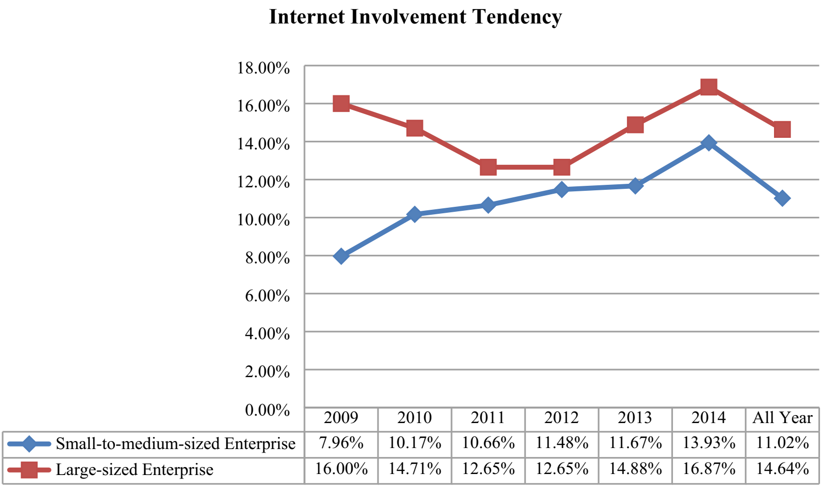
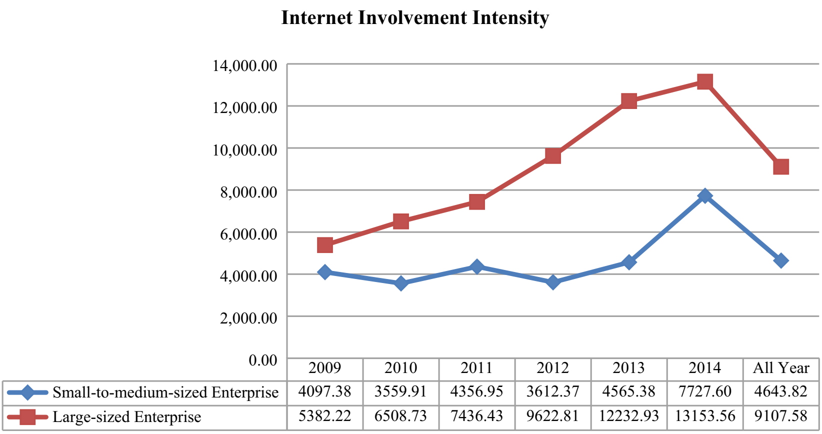


Fig. 13 Internet involvement intensity of listed family firms: Mature enterprises and start-up enterprises (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)



	2009	2010	2011	2012	2013	2014	All Year
Small-to-medium-sized Enterprise	7.96%	10.17%	10.66%	11.48%	11.67%	13.93%	11.02%
Large-sized Enterprise	16.00%	14.71%	12.65%	12.65%	14.88%	16.87%	14.64%

Fig. 14 Internet involvement tendency of listed family firms: Large-sized enterprises and small-to-medium-sized enterprises (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)



	2009	2010	2011	2012	2013	2014	All Year
Small-to-medium-sized Enterprise	4097.38	3559.91	4356.95	3612.37	4565.38	7727.60	4643.82
Large-sized Enterprise	5382.22	6508.73	7436.43	9622.81	12232.93	13153.56	9107.58

Fig. 15 Internet involvement intensity of listed family firms: Large-sized enterprises and small-to-medium-sized enterprises (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)

analysis of the characteristics of Internet transformation in these two categories. It can be seen that compared to small-to-medium-sized family firms, large-sized family firms have a stronger tendency to involve in Internet and a greater intensity of Internet involvement. The reason is that as Internet transformation requires massive inputs of resources in the early stage, SMEs could not afford such operation. On the other hand, large-sized enterprises, with all their resources at hand, are more willing and able to undergo Internet transformation.

3.2 Second-Generation Succession and Internet Transformation

3.2.1 Second-Generation Involvement and Internet Transformation

First, regarding the relationship between Internet transformation and second-generation involvement in the positions of directors, supervisors, and senior executives, Figs. 16 and 17 show a comparative analysis of the characteristics of Internet transformation in the two categories (second-generation involvement or not). It can be seen that compared to family

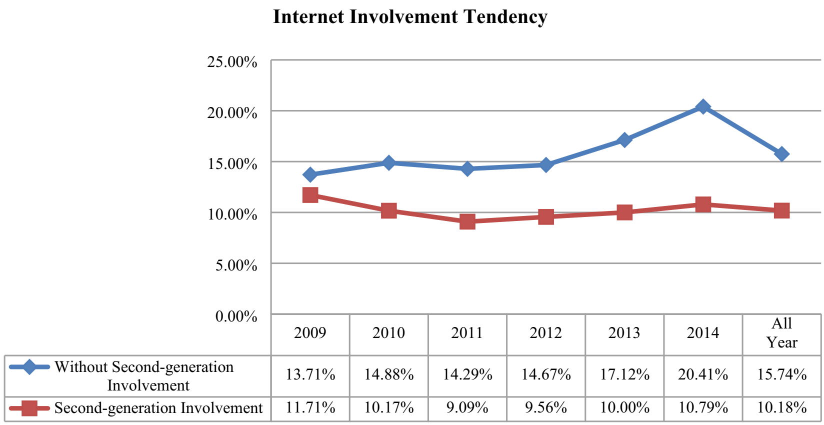
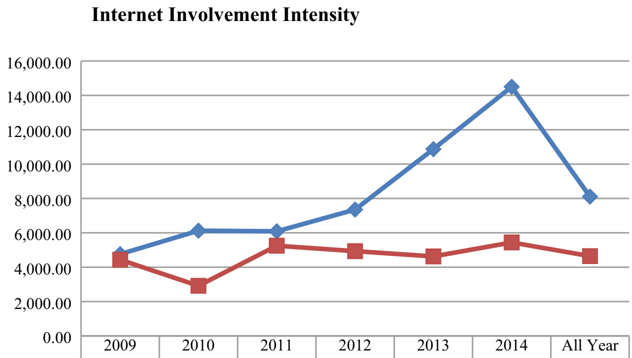


Fig. 16 Internet involvement tendency of listed family firms: With and without second-generation involvement (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)



	2009	2010	2011	2012	2013	2014	All Year
Without Second-generation Involvement	4759.78	6125.29	6087.64	7352.07	10871.08	14498.78	8107.25
Second-generation Involvement	4434.87	2916.66	5250.00	4932.54	4626.84	5440.25	4644.61

Fig. 17 Internet involvement intensity of listed family firms: With and without second-generation involvement (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)

firms without second-generation involvement, family firms with second-generation involvement all have a weaker tendency to involve in Internet and a lower intensity of Internet involvement.

Second, regarding the relationship between Internet transformation and the time period of second-generation involvement, Figs. 17, 18, and 19 show a comparative analysis of the characteristics of Internet. It can be seen that compared to family firms without second-generation involvement, family firms with second-generation involvement all have a weaker tendency to involve in Internet and a lower intensity of Internet involvement. It can be seen that as the time period of second-generation involvement in the positions of directors, supervisors, and senior executives lengthens, both the Internet involvement tendency and intensity show the trend of a U-shaped curve—the two indexes first drop and then rise gradually. In other words, in the early stage of second-generation involvement, Internet transformation in the enterprise will see a slight downshift. Yet, as the second generation gradually adapts to its new role, the rate of transformation will soon pick up.

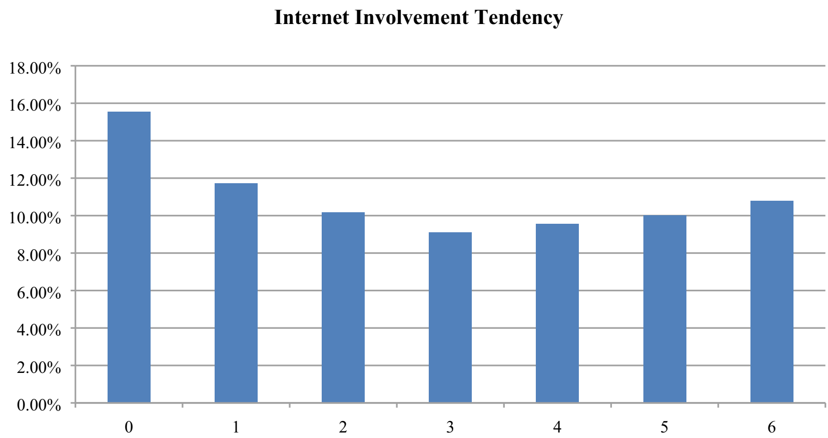


Fig. 18 Internet involvement tendency of listed family firms: Time period of second-generation involvement. *Note* The X-axis stands for the number of years of second-generation involvement, while the Y-axis stands for the proportion of enterprises with Internet involvement (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)

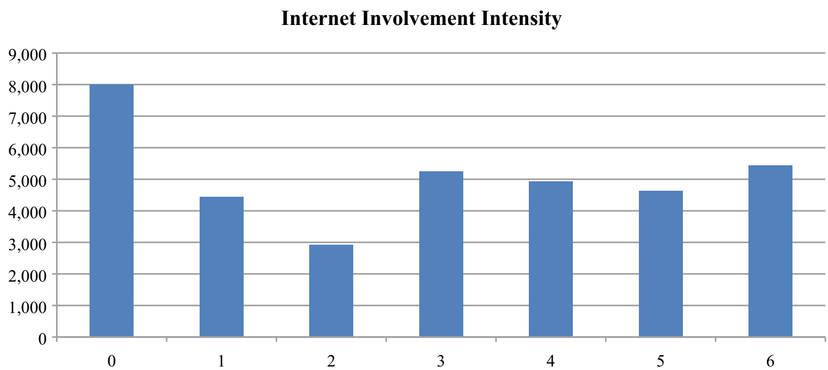
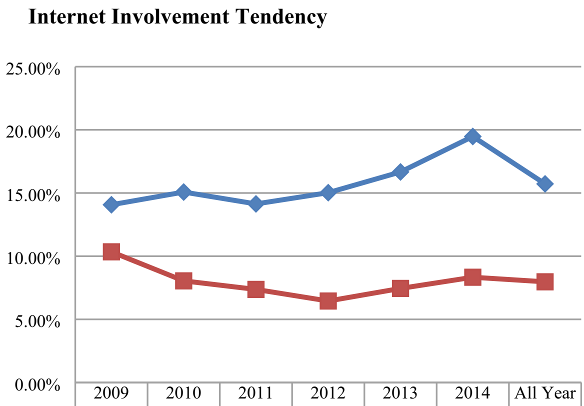


Fig. 19 Internet involvement intensity of listed family firms: Time period of second-generation involvement. *Note* The X-axis stands for the number of years of second-generation involvement, while the Y-axis stands for the number of enterprises with Internet involvement (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)



	2009	2010	2011	2012	2013	2014	All Year
Only First-generation-involvement	14.07%	15.08%	14.14%	15.03%	16.67%	19.47%	15.72%
Co-governance	10.34%	8.05%	7.37%	6.45%	7.45%	8.33%	7.97%

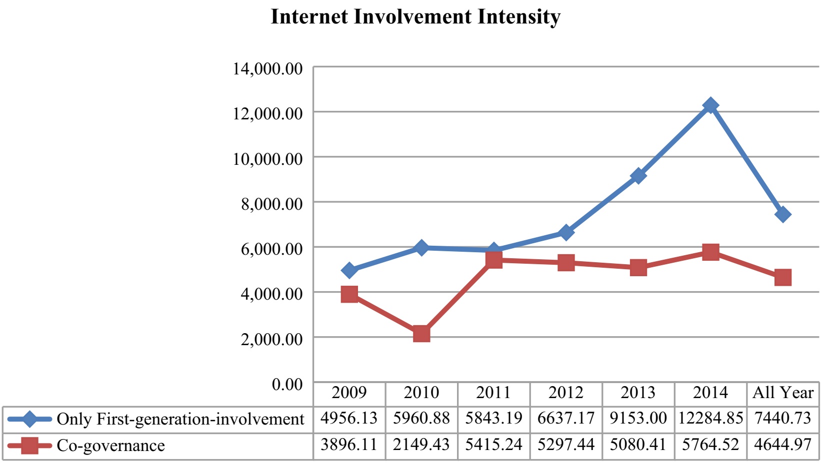
Fig. 20 Internet involvement tendency of listed family firms: Dual-generation co-governance (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)

3.2.2 Dual-Generation Co-governance and Internet Transformation

In this part, we investigate the situation of Internet transformation in family firms in the stage of dual-generation co-governance. The results of analysis are shown in Figs. 20 and 21. It can be seen that compared to those with only first-generation-involvement, enterprises with co-governance have a weaker tendency to involve in Internet and a lower Internet involvement intensity.

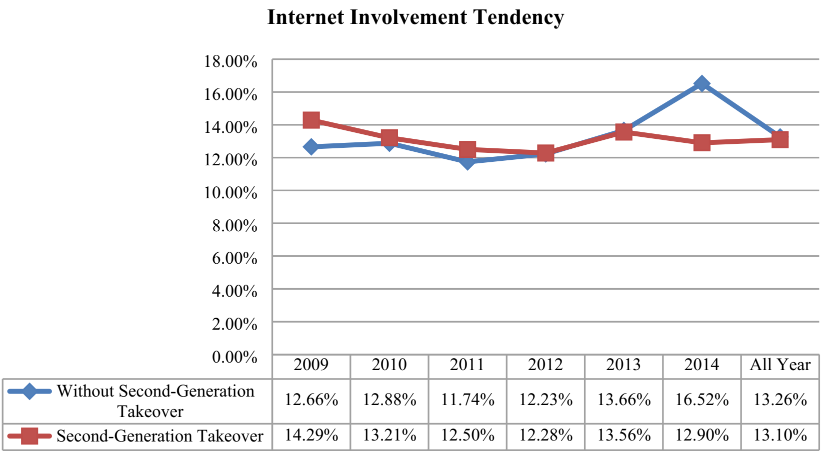
3.2.3 Second-Generation Takeover and Internet Transformation

This part investigates the situation of Internet transformation in family firms when the second-generation has taken over as the CEO. The results of analysis are shown in Figs. 22 and 23. As the second generation takes over, enterprises do not see a significant rise or fall in Internet involvement tendency. Furthermore, it can be seen from Fig. 21 that after the second generation takes over, the Internet involvement intensity of family firms decreases significantly. This indicates that though no substantial change in the involvement tendency occurs as the second generation takes over, the involvement intensity does clearly decline.



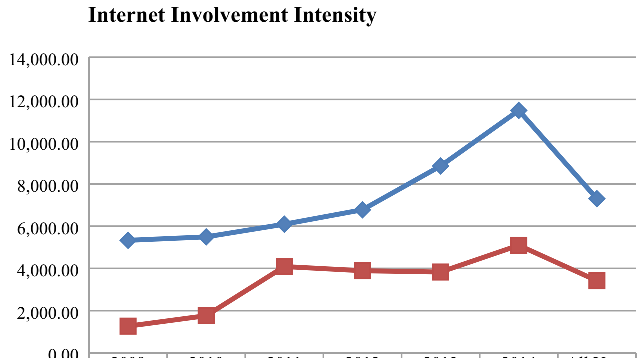
	2009	2010	2011	2012	2013	2014	All Year
Only First-generation-involvement	4956.13	5960.88	5843.19	6637.17	9153.00	12284.85	7440.73
Co-governance	3896.11	2149.43	5415.24	5297.44	5080.41	5764.52	4644.97

Fig. 21 Internet involvement intensity of listed family firms: Dual-generation co-governance (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)



	2009	2010	2011	2012	2013	2014	All Year
Without Second-Generation Takeover	12.66%	12.88%	11.74%	12.23%	13.66%	16.52%	13.26%
Second-Generation Takeover	14.29%	13.21%	12.50%	12.28%	13.56%	12.90%	13.10%

Fig. 22 Internet involvement tendency of listed family firms: Second-generation takeover (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)



	2009	2010	2011	2012	2013	2014	All Year
Without Second-Generation Takeover	5329.92	5492.84	6093.85	6776.84	8850.27	11480.45	7302.27
Second-Generation Takeover	1266.18	1761.96	4087.70	3890.19	3829.22	5095.09	3416.37

Fig. 23 Internet involvement intensity of listed family firms: Second-generation takeover (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2009 to 2014)

According to the statistical results shown above, in the process of succession, family firms actually see a slowdown in Internet transformation. Yet, it is noteworthy that as the time period of second-generation involvement lengthens, the rate of Internet transformation in family firms will show the trend of a U-shaped curve (it first falls, and then rises), as shown in Figs. 18 and 19. This means in terms of the implementation of the Internet transformation strategy, as the second generation first gets involved, a stage of adaption and adjustment is required before the strategy of Internet transformation in family firms starts accelerating.

4 Family Firm Succession and Internationalization

Wensli Group is a silk enterprise based in Hangzhou, Zhejiang, founded by Shen Aiqing from scratch. Shen's daughter Tu Hongyan once went to Japan to study fashion art when she was a graduate student. Tu Hongyan thus has a higher level of education and a broader international vision and her firm concepts are divergent from her mother's. As Tu took over, she focused on the silk industry and initiated international transformation, aspiring to turn Wensli into the "Chinese Hermès." In 2013, Wensli officially acquired the French silk family firm MARC ROZIER, which is one of the two factories that are capable of the technically demanding Jacquard weave in Europe, the acquisition of which definitely helped Wensli to accomplish technical improvement. After this acquisition, the successor Tu Hongyan once noted that though the French enterprise is 30 years behind Wensli in terms of equipment, the quality of its products is actually higher than Wensli—this was exactly what Wanshili should learn from the French enterprise to improve itself after the acquisition. Indeed, Wensli's internationalization strategy does provide an exceptional opportunity to enhance its production technology and innovative capability.

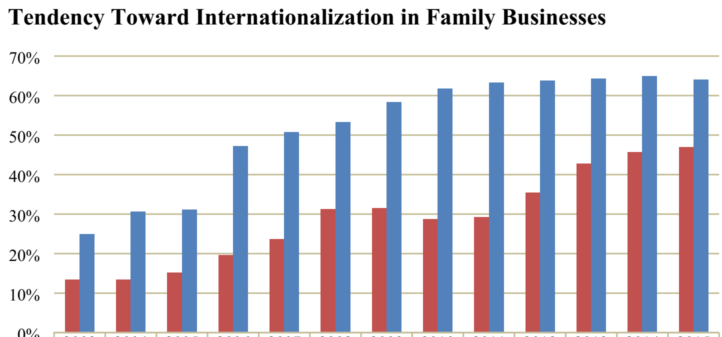
In addition to acquisition of enterprises from developed countries, another bold move made by Wensli is to recruit international talent. In 2014, with the support of her husband Li Jianhua, Wensli Group hired Hermès's former CEO Patrick Bonnefond as the executive president of Wensli and MARC ROZIER. Bonnefond is not only experienced in managing international ultimate luxury brands but also equipped with rich knowledge of textile craftsmanship and production technology as well as expertise and capabilities required in the luxury industry. In the meantime, he also brings along with him a team of senior executives and designers as well as new design concepts and management models. All these elements make him a crucial figure behind Wensli's transformation and upgrading.

4.1 Internationalization of Family Firms: From Export Processing Trades to Outward Foreign Direct Investment and Overseas Mergers and Acquisitions

For enterprises in emerging economies, internationalization is a crucial way by which transformation and upgrading are carried out. By going abroad, enterprises could attain overseas markets and strategic assets, thereby catching up with the trend of innovation. Yet, according to the models of internationalization, there are different focuses in different stages of internationalization. Uppsala Model establishes that throughout the process of internationalization, as resource inputs and market experiences piling up, enterprises will gradually increase its inputs in overseas markets, which is demonstrated by the gradual process from domestic retailing, acting as export agents, establishing overseas subsidiaries by outward foreign direct investment (OFDI), to global production.

In consistent with the model above, internationalization of family firms in China shifts from export trade to OFDI. According to the data of listed family firms in Shanghai and Shenzhen from the year of 2003 to 2015 (Fig. 24), both propensity to export (every enterprise with exports is recorded as 1, without exports as 0) and OFDI propensity (every enterprise with OFDI is recorded as 1; without OFDI as 0) increase year by year. Yet, as for the growth rate, the growth of propensity to export gradually decelerates, especially in recent years following the financial crisis. On the other hand, the growth rate of OFDI propensity remains stable, which indicates that family firms in China are shifting from the exportation model to the OFDI strategy.

In this trend, the status of Chinese enterprises in the global market is rising progressively. In the past, Chinese enterprises take pride in serving as the OEM for brands from developed countries. But now there are numerous cases in which Chinese family firms conduct overseas mergers and acquisitions. Moreover, it is no longer surprising that enterprises from developed countries are providing product processing service to Chinese family firm. In the case discussed above, by acquiring the French luxury silk brand MARC ROZIER and hiring the French brand Hermès's former



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
OFDI propensity	13%	13%	15%	20%	24%	31%	32%	29%	29%	35%	43%	46%	47%
Export propensity	25%	31%	31%	47%	51%	53%	58%	62%	63%	64%	64%	65%	64%

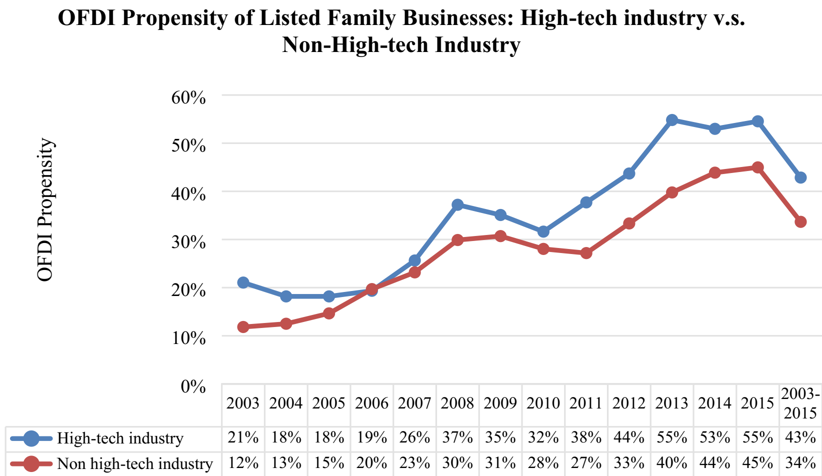
Fig. 24 Tendency toward internationalization in family firms (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2003 to 2015)

CEO as the executive president, Wensli Group realizes the developmental model of "Chinese Branch, French Manufacture" in the true sense.

Though the OFDI propensity of family firms is rising in general, different types of family firms show different preferences in terms of OFDI strategy. Based on this observation, we will further conduct a comparative analysis of the characteristics of OFDI in family firms in terms of type of industry, firm age, and firm size.

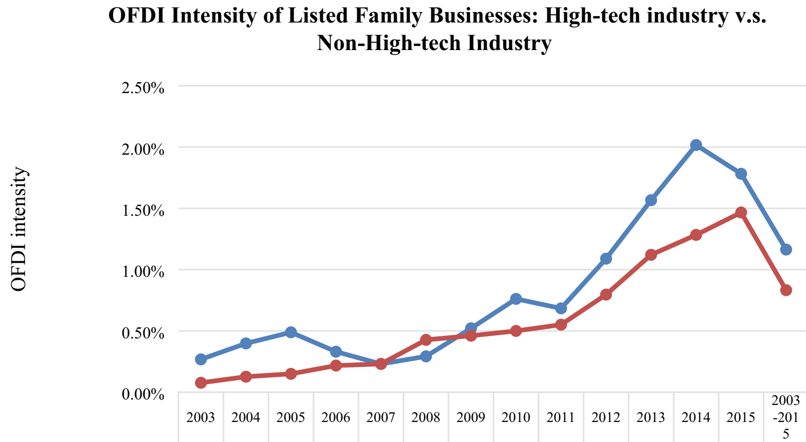
4.1.1 The Type of Industry: High-Tech Industry and Non-high-Tech Industry

Based on the standards laid out by *China Statistical Yearbook on High Technology Industry 2016*, we divide listed family firms into two categories, i.e., high technology enterprises and non-high technology enterprises. Figures 25 and 26 show a comparative analysis of the characteristics of OFDI in these two categories. Compared to the non-high technology counterpart, family firms in the high technology industry have a stronger OFDI propensity. As for OFDI intensity (the ratio of the amount of OFDI to the total assets), high technology enterprises have a higher



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2003-2015
High-tech industry	21%	18%	18%	19%	26%	37%	35%	32%	38%	44%	55%	53%	55%	43%
Non high-tech industry	12%	13%	15%	20%	23%	30%	31%	28%	27%	33%	40%	44%	45%	34%

Fig. 25 OFDI propensity of listed family firms: High-and-new technology and non-high-and-new technology (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2003 to 2015)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2003-2015
High-tech industry	0.27%	0.40%	0.49%	0.33%	0.23%	0.29%	0.52%	0.76%	0.68%	1.09%	1.57%	2.02%	1.78%	1.16%
Non high-tech industry	0.08%	0.13%	0.15%	0.22%	0.23%	0.43%	0.46%	0.50%	0.55%	0.80%	1.12%	1.28%	1.47%	0.83%

Fig. 26 OFDI intensity of listed family firms: High technology and non-high technology (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2003 to 2015)

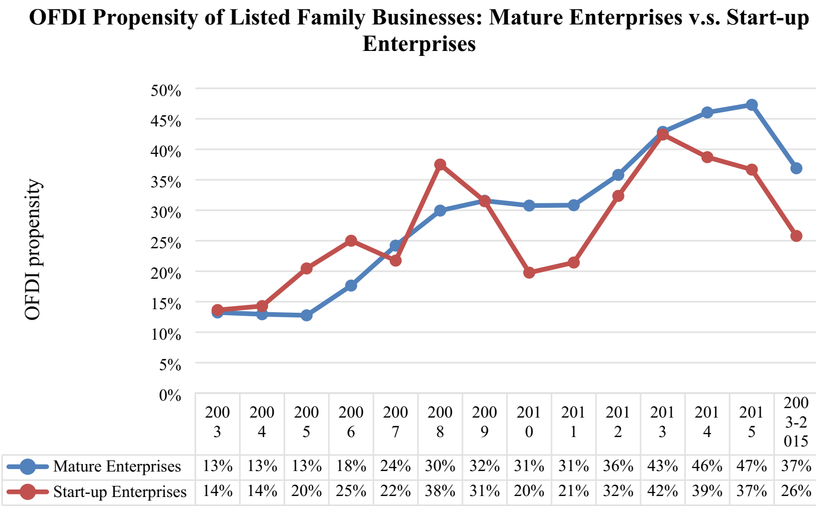
OFDI intensity than non-high technology enterprises during the years from 2009 to 2015 following the financial crisis.

4.1.2 Age of Family Firms: Mature Enterprises and Start-Up Enterprises

According to the age of the listed family firms, we divide them into start-up enterprises (with an age lesser than or equal to eight years) and mature enterprises (with an age greater than eight years). Figures 27 and 28 show a comparative analysis of the characteristics of OFDI in family firms in these two categories. Compared to start-up family firms, mature family firms have a stronger OFDI propensity and a greater OFDI intensity during the years following the financial crisis, i.e., 2009–2015.

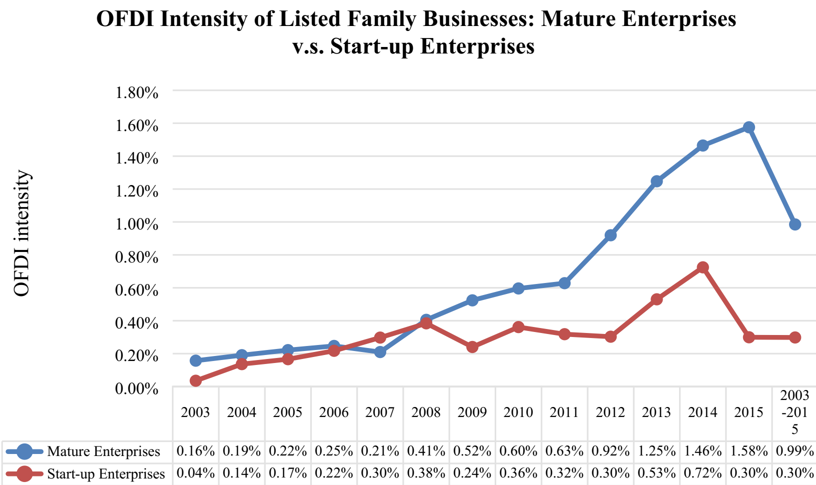
4.1.3 Size of Family Firms: The Large-Sized and the Small-to-Medium-Sized

According to *Provisions on Small to Medium-sized Enterprises Type Standard* issued by the National Bureau of Statistics of China in 2011, we divide listed family firms into two categories, i.e., the large-sized and the



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2003-2015
Mature Enterprises	13%	13%	13%	18%	24%	30%	32%	31%	31%	36%	43%	46%	47%	37%
Start-up Enterprises	14%	14%	20%	25%	22%	38%	31%	20%	21%	32%	42%	39%	37%	26%

Fig. 27 OFDI propensity of listed family firms: Mature enterprises and start-up enterprises (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2003 to 2015)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2003-2015
Mature Enterprises	0.16%	0.19%	0.22%	0.25%	0.21%	0.41%	0.52%	0.60%	0.63%	0.92%	1.25%	1.46%	1.58%	0.99%
Start-up Enterprises	0.04%	0.14%	0.17%	0.22%	0.30%	0.38%	0.24%	0.36%	0.32%	0.30%	0.53%	0.72%	0.30%	0.30%

Fig. 28 OFDI intensity of listed family firms: Mature enterprises and start-up enterprises (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2003 to 2015)

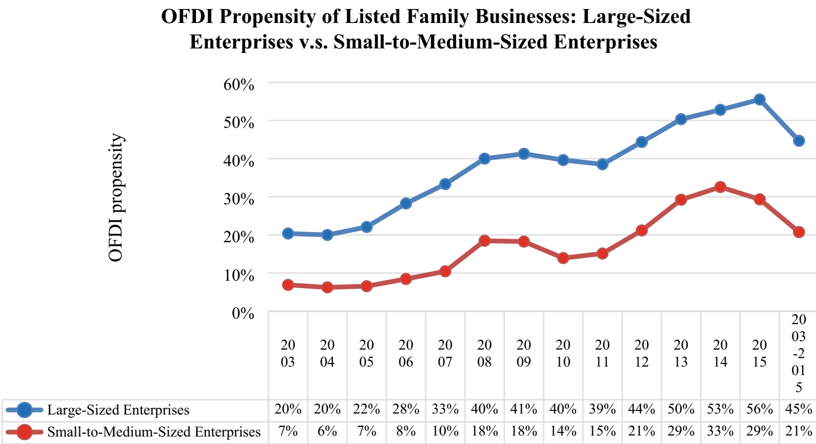


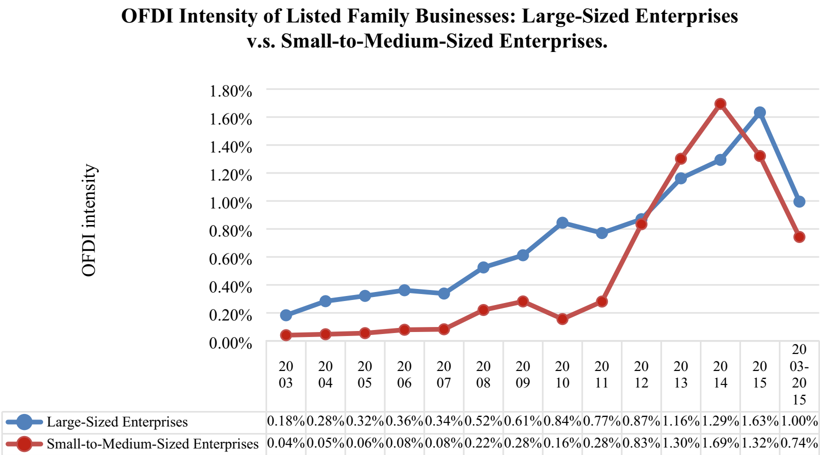
Fig. 29 OFDI propensity of listed family firms: Large-sized enterprises and small-to-medium-sized enterprises (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2003 to 2015)

small-to-medium-sized. Figures 29 and 30 show a comparative analysis of the characteristics of OFDI in these two categories. Compared to small-to-medium-sized family firms, large-sized family firms have a stronger propensity to conduct OFDI. Yet, there is no significant difference in terms of OFDI intensity between the two categories in recent years.

4.2 *Succession and International Transformation*

When succession meets transformation, Chinese family firms will face a huge challenge in growth and development. Yet, succession means infusion of fresh blood and youthful energy, which would, to a certain degree, provides the enterprises with crucial resources and strong momentum for transformation and upgrading. Studies have shown that second-generation succession will promote the internationalization of family firms for the following three main reasons.

First, there is a great divergence in growth environment and educational background between the first generation and the second generation. Most of the second-generation members have foreign study or work experience and thus are more attentive to the international market and more willing to conduct international expansion (Gallow & Pont,

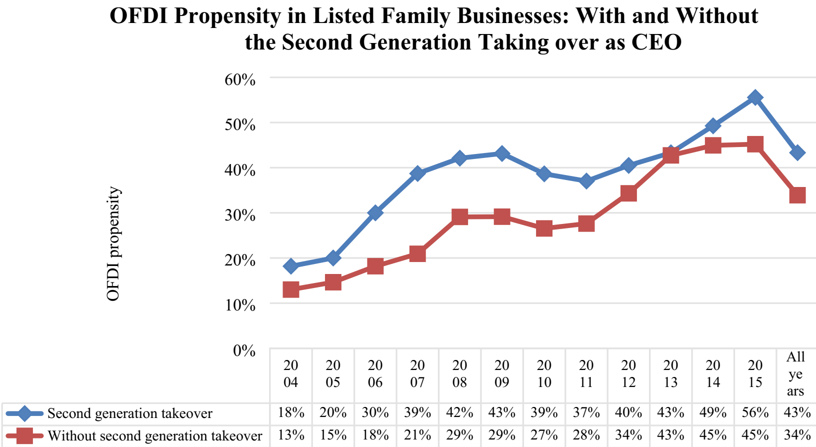


	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2003-2015
Large-Sized Enterprises	0.18%	0.28%	0.32%	0.36%	0.34%	0.52%	0.61%	0.84%	0.77%	0.87%	1.16%	1.29%	1.63%	1.00%
Small-to-Medium-Sized Enterprises	0.04%	0.05%	0.06%	0.08%	0.08%	0.22%	0.28%	0.16%	0.28%	0.83%	1.30%	1.69%	1.32%	0.74%

Fig. 30 OFDI intensity of listed family firms: Large-sized enterprises and small-to-medium-sized enterprises (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2003 to 2015)

1996). So, second-generation succession will provide more resources and momentum for the enterprise's internationalization. Second, the second generation's interests are consistent with the whole family's. Through succession, the second generation engages in the enterprise's operation and management, taking themselves as the "steward" in charge of safeguarding the family's interests. To improve the enterprise's performance so as to protect and expand the family's wealth, the second generation tends to pursue a developmental strategy of internationalization. Third, as the second generation joins in the family firm, in order to surpass the first generation in terms of authority and influential power in the enterprise as well as to win recognition from employees and the founding pioneers, they are more prone to revolutionary strategies (Li et al., 2015). Moreover, with broader international vision and stronger resistance to risks, the second generation tends to implement the international strategy on his or her own initiative.

According to the statistics of listed family firms in Shanghai and Shenzhen, second-generation succession is beneficial to the enterprise's OFDI. Specifically, the listed family firms are divided into two categories, i.e., enterprises with and without the second generation taking over as CEO.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	All years
Second generation takeover	18%	20%	30%	39%	42%	43%	39%	37%	40%	43%	49%	56%	43%
Without second generation takeover	13%	15%	18%	21%	29%	29%	27%	28%	34%	43%	45%	45%	34%

Fig. 31 ODFI propensity in listed family firms: With and without the second generation taking over as CEO (*Source* Author's creation based on the data of listed family business in Shanghai and Shenzhen from 2004 to 2015)

As shown in Fig. 31, the OFDI propensity of enterprises with the second generation taking over as CEO is much higher than those without. This confirms, to a certain degree, what we have previously discussed—succession brings to Chinese family firms the crucial resources and growth momentum.

5 Family Firms Toward the New Age

At present, family firms' original model of extensive development is facing insurmountable challenges. Innovation is a crucial way for family firms to attain and enhance competitiveness. Without innovation, the competitiveness of family firms will be like a fountain without sources or a stalk of grass without roots. Innovation can generate the enterprise's unique technical capability, create products and services by employing its cost advantage, and enhance the employees' learning ability, which will become the enterprise's unique, irreproducible intangible assets. These "outputs" are not only an indispensable integral part of the enterprise's competitiveness, but also the cornerstone of the enterprise's sustainable development. Yet, family firm innovation is sure to face challenges in the course of succession. First, during the stage of second-generation involvement in management, the enterprise will see a decline in R&D intensity, compared to enterprises without the second generation getting involved. Second, compared to the stage of second-generation involvement in management, the stage of second-generation dominance—dual-generation co-governance also sees a decline in R&D intensity in the majority of years. Lastly, compared to the stage of second-generation dominance—dual-generation co-governance, the stage of second-generation accession sees a rise in the enterprise's R&D intensity, indicating that the decline in R&D intensity during succession is effectively curbed in the stage of second-generation accession. Thus, the sustainable development of family firms largely depends on whether the enterprise recognizes and handle the dual challenge of transformation and succession appropriately.

With the development of information technology and mobile Internet technology, Internet involvement has become inevitable for traditional enterprises to undergo the transformation and upgrading. What the enterprise faces is no longer the question as to "to transform or not," but "when to transform," "how to transform," and "how would the results of transformation." This trend is not only a challenge, but also an opportunity for family firms to grow and develop. Compared to non-family firms, despite their relatively low willingness to undergo Internet revolution, family firms have much greater intensity of Internet transformation once they have decided to transform. This proves that family firms are capable of promoting Internet transformation by using its resource advantage and managerial structure advantage. Furthermore, to family firms, as the enterprise grows and ages, the Internet transformation of high-tech enterprises accelerates. It is noteworthy that the succession in family firms actually slows down the process of implementing the Internet transformation strategy. Yet, as the time period of second-generation involvement lengthens, the rate of the enterprise's Internet transformation will show the trend of a U-shaped curve (it first falls, and then rises). This indicates that as the second generation enters the enterprise, a period of adaption and adjustment is required. As the adaptation period is over, the Internet transformation strategy in family firms will accelerate.

The internationalization strategy is also a crucial way through which family firms undergo transformation and upgrading and accomplish innovation to catch up. The features of international transformation are as follows. First, the internationalization model of the enterprise will gradually shift from export processing trade to OFDI, and different types of family firms may show various characteristics in terms of OFDI tendency and intensity. Specifically, compared to those in non-high-tech industries, family firms in high-tech industries have a higher level of OFDI. Second, the second generation's involvement generates new momentum for the enterprise to undergo internationalization. As the second generation gets involved in the enterprise, their international background, their role as the protector of the family's wealth, and their ambition to attain personal authority all contribute to the rise of the level of internationalization

6 Amid the Trade War: New Challenges for Family Firms and Their Solutions

According to *China Daily*'s reportage in July 2018, the China-US trade war has made a tremendously destructive impact on Chinese small-to-medium-sized enterprises' import-export firms, global value chain transformation and upgrading, and outward investment.[5] For family firms, in terms of trade, high tariffs imposed on US exports to China in an increasing number of areas results in a plunge in family firms' turnover. In addition, Bureau of Industry and Security (BIS) of the US imposes restrictions on frontier technologies, discouraging cooperation between research institutes and enterprises. Obstructions in the domain of technology make family firms recognize the urgency of innovative transformation. As for foreign investment, through the Foreign Investment Risk Review Modernization Act (FIRRMA), the US strengthens the examination on foreign investments,[6] which would definitely make a huge impact on family firms' internationalization strategies as well as their routes and behavior modes in implementing transformation and upgrading and innovative development. Though the trade war has not lasted for very long, the tendency toward strategic transformation is already manifest.

As the US continues to enforce restrictions on technological exports to China, innovative transformation of Chinese enterprises will meet with resistance and construction of the global value chain will as well face new challenges. Meanwhile, it can be seen that some leading enterprises transform these pressures into the impetus for development, particularly

5 http://cnews.chinadaily.com.cn/2018-07/10/content_36547002.htm.

6 See "Hengda Research Institute Macroscopic Special Topic Report: A Objective Evaluation of the Trade Conflict's Impacts on China and the China" published on the WIND report platform.

progressing in terms of the innovation-driven developmental strategies. The statistics of listed small-to-medium-sized enterprises board (SME board) in Shanghai and Shenzhen in recent years (Fig. 32) show that the percentage of enterprises that report innovation inputs among the SME board rises from 63.19% in 2014 to 92.23% in 2018. In terms of R&D intensity, the ratio of innovation inputs to sales among the SME board is always above 4.5%, with a record of 4.78% in 2018. Results above indicate that though the trade war does constitute difficult challenges to the SME, it also promotes enterprises' innovative transformation. This is not only a counter-move to the US's supply suspension and rising trade barriers, but also a shot in arms for the enterprises in strengthening their confidence in innovative transformation.

The trade war and the vying for dominance of the global value chain have no doubt brought risks and uncertainties to the OFDI strategy adopted by family firms. According to the statistics of China's foreign direct investment in 2018 published by the Ministry of Commerce, compared to 2017, China's foreign direct investment in 2018 drops by 9.6%. What is surprising is that foreign investment by private holding companies grows against the trend, with a year-on-year growth of 11.2%, accounting for 62.3% of the total foreign direct investment, 13.6% higher than the previous year, which shows that the private economy (mostly SME and family firm) is highly resilient and stress-resistant in international

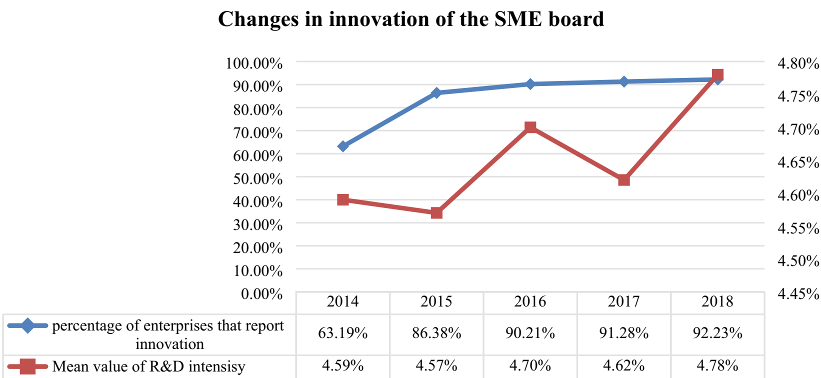
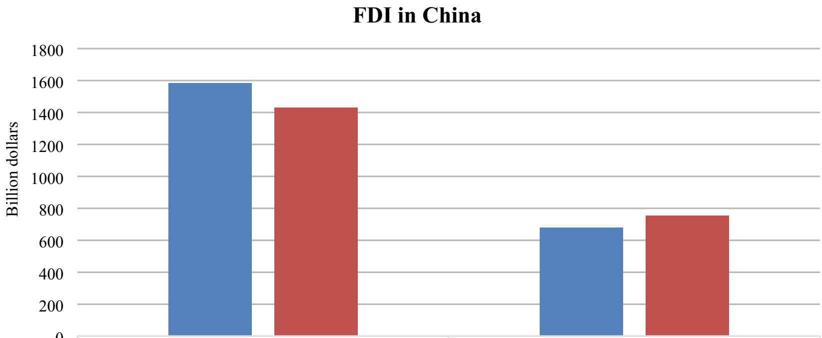


Fig. 32 Changes in innovation of the SME board amid the trade war (*Source* Author's creation based on Wind-the SME board from 2014 to 2018)



	foreign direct investment	foreign investment by private holding companies
2017	1582.9	679.4
2018	1430.4	755.7

Fig. 33 Changes in China's FDI amid the trade war (*Source* Author's creation based on the statistics of China's foreign direct investment in 2018)

competition. This phenomenon signifies the rise of an increasing number of enterprises that involve in high technology and digital economy, which represents the new momentum and the newly emerging force of China's economy. Meanwhile, within the national strategies such as innovation-driven economy and the Belt and Road initiative (BRI), the private economy reconsiders its enterprises' strategy deployment and strategic lines in the trend of globalization. With a growing number of enterprises entering the BRI countries in following the national strategies, the flexibility of the enterprise's internationalization strategy will no doubt be strengthened, so as to disperse, if not to counterbalance, the adverse effects caused by the shrinkage of the US markets (Fig. 33).

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CHAPTER 7

Building Growth Enterprises in Singapore: Public-Private Partnership

Annie Koh and Esther Kong

1 The SME Landscape in Singapore—A Brief Overview

In the early decades after independence in 1965, Singapore's economic strategy was focused on export-led growth, supported by rapid industrialisation and by attracting foreign direct investment. Due to underdeveloped capital markets and a lack of skilled labour, the pre-independence focus on entrepot trade soon proved inadequate to support the needs of the growing economy. Therefore, many multi-national corporations (MNCs) were attracted to Singapore to set up labour-intensive production bases to produce for the export markets. The expected result was better economic stability for Singapore in the face of its geopolitical position.

The original version of this chapter was revised: Typo in Fig. 3 has been corrected. The correction to this chapter is available at https://doi.org/10.1007/978-981-15-9015-3_15

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In the same period, the government felt that being able to control key domestic markets and institutions was the most effective way to meet the critical planning objectives of absorbing surplus labour and promoting economic growth. Along with the liberalisation of sectors such as finance, telecommunications, and utilities, several government-linked companies were set up. In the 1970s and the 1980s, through creation of industrial clusters in promising industries such as electronics, transport, and machinery, the government promoted inter-firm linkages and SMEs continued to play a generally supporting role to MNCs as sub-contractors. These SMEs were mainly traditional enterprises that catered to local markets and benefited from demand and technology transfer from the larger corporations. In 1987, SMEs constituted 90% of the total number of establishments, generated 44% of employment, and contributed to 24% of value added of enterprises (SME Master Plan, 1989).

The first active push to entrepreneurship and small enterprises in policy circles came with the publication of the Economic Review Committee (ERC) Report in 2003 in the aftermath of the Asian financial crisis. The report called for developing Singapore into a creative entrepreneurial nation where local globally competitive businesses coexist with larger corporations. Subsequent reports such as the Economic Strategies Committee (ESC) Report in 2010 and the report of the Committee on the Future Economy (CFE) in 2017 have urged the industry to move further towards knowledge-based and innovation-driven activities.

Prior to the start of the current phase of economic restructuring in 2010, Singapore's economy was in a low-wage, low-productivity mode. Half of the growth between 2004 and 2007 was estimated to be generated through an increase in foreign labour.[1] When the ESC submitted its report to the government on 30 January 2010, it drew attention to the fact that while the economy had grown more than 5% each year over the past decade, productivity growth in more recent times averaged only about 1% each year. This, along with changing demographic trends such as a rapidly aging population meant that the next phase of growth would have to be driven by a focus on innovation and productivity. This shift to productivity-driven growth would require a greater role to be played by local SMEs.

Today, 99% of 273,100 Singapore enterprises are SMEs and they contribute to nearly half of nominal value added while employing 72% of the workforce (see Fig. 1). Neighboring Malaysia has nearly the same

[1] Parliament of Singapore, "Annual Budget Statement," February 22, 2010.

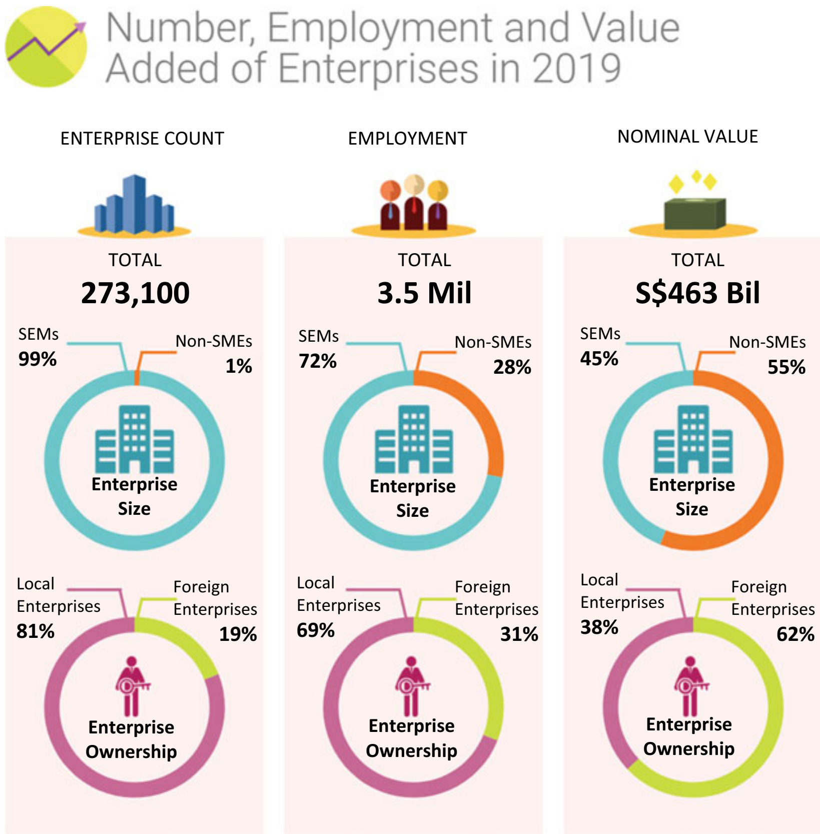


Fig. 1 Infographic on SMEs in Singapore (*Source* Author's creation based on Department of Statistics data, 2020)

proportion of SMEs (98.5%) but their contribution to GDP and employment is significantly smaller at 38 and 66%, respectively. In 2014, the Ministry of Trade and Industry (MTI) has updated the definition of a SME, in addition to annual sales turnover under S$100 million, or one that employs less than 200 workers, as an enterprise that has at least 30% local shareholding. This definition has evolved over the years from an initial focus on fixed assets to a broader scope today (see Appendix A).

From an operational standpoint, the statutory board Enterprise Singapore, which oversees the development of local enterprises, further categorises SMEs by the following criteria:

Micro SMEs:	Annual turnover of less than S$1 million
Small SMEs:	Annual turnover of more than S$1 million but less than S$10 million
Medium SMEs:	Annual turnover of more than S$10 million but less than S$100 million

Micro enterprises constitute around 70% of the SMEs in Singapore (Scully, 2014). The SME sector is dominated by services producing industries (around 70% of SMEs) such as wholesale and retail trade, finance, and business services while close to 20% are in the manufacturing sector (Department of Statistics, 2020). It is believed that almost all the SMEs in Singapore are family owned.

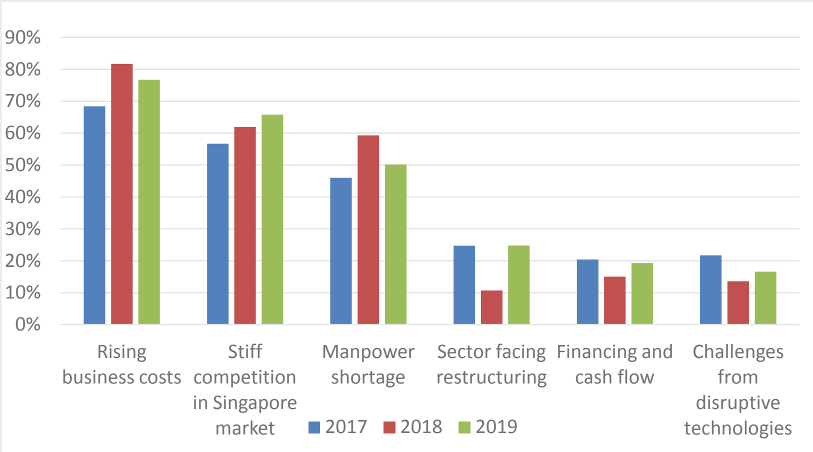
2 Key Challenges Faced by Singapore's SMEs

Based on a United Overseas Bank poll of 615 SMEs in November 2019, increasing productivity topped the priority list for SMEs in Singapore and remained a challenge even with 65% of SMEs using digitalisation in accounting (46%), payroll (45%), and marketing (38%). Since most surveys of challenges faced by SMEs use the government's current definition based on revenue and employment size alone, it is difficult to paint a picture that adequately represents the diverse needs of the sector in terms of cash flows, market conditions, skill requirements, and growth orientation, especially for family-owned SMEs.

In a survey of over 700 Singapore companies in 2017 (of which around 94% were SMEs), the Singapore Chinese Chamber of Commerce and Industry found that rising business costs was the top challenge for SMEs followed by local competition (see Table 1). However, manpower was less of a challenge compared to previous years, probably indicating that SMEs were slowly adjusting to changes in the labour market by modifying their business models and making productivity improvements.[2]

[2] Another survey by the DP Information Group found that concerns about manpower costs jumped from 72% in 2012 (2 years after the restructuring measures were introduced) to 85% in 2013 and has declined every year since.

Table 1 Challenges facing Singapore's SMEs



Source Author's creation based on SCCCI Annual Business (SME) Survey, 2017, 2018 and 2019

Three major trends—the rapid pace of technological change, changing demographic trends (aging population and rising consumerism among the middle class) and a shift in economic importance toward Asia—have been defining Singapore's renewed focus on innovation and internationalisation in recent years.[3] However, only a small number of SMEs are going global. The survey found that stiff competition in overseas markets was a significant concern for nearly a quarter of SMEs last year.

In the following paragraphs, we highlight four main challenges faced by Singapore's SMEs within the context of the country's current phase of development—human capital, internationalisation, innovation, and financing.

2.1 *Attracting and Retaining the Right Talent*

Faced with the triple whammy of labour shortages, rising manpower costs and restrictions on hiring additional foreign labour in recent years, SMEs

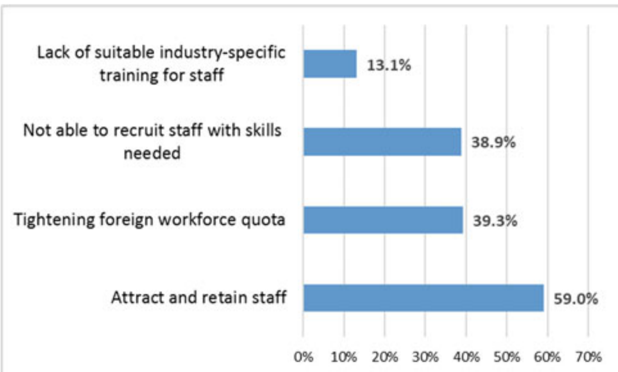
[3] Speech by Minister for Trade and Industry (Trade) Lim Hng Kiang delivered during MTI's Committee of Supply Debate on Friday, March 2, 2018.

will have to focus on using the available human capital in the most effective and efficient manner to grow. In addition to manpower shortages, SMEs face difficulties attracting young graduates and managerial staff due to a common perception that SMEs are less dynamic and offer limited opportunities for professional development. Limited resources dedicated to recruitment and training amplify these problems. Additionally, for the firms that are family-owned, creating and institutionalising systems and processes to develop talent in the broader organisation is even more critical to align similar values and culture between family and non-family members.

The key manpower challenges locally are in the areas of attracting and retaining talent, particularly in terms of finding people with the right skillsets for the job (see Table 2). Even as local SMEs experiment with automation and self-service technologies to reduce the need for labour, productivity remains low.

The productivity gap between SMEs and large companies is also quite significant. In 2016, the average labour productivity of a non-SME at S$162,083 was almost twice as high as the labour productivity of a SME (see Table 3). The disparity in the manufacturing sector is even higher, but has largely improved since 2013 when productivity of manufacturing SMEs was nearly five times lower than their larger counterparts, according to EDB's 2013 manufacturing census data.

Table 2 Key manpower challenges facing Singapore's SMEs



Source Author's creation based on SCCCI Annual Business (SME) Survey 2019

Table 3 A comparison of labour productivity in Singapore's SMEs and non-SMEs

Sector	*Singapore economy*			*Manufacturing sector*		
	Value add Billion Dollars	*Number of employees* Million	*Labour productivity* Dollars	*Value Add* Billion Dollars	*Number of employees*	*Labour productivity* Dollars
SME	190.2	2.2	86,454.54	19.02	179,485	106,003.74
Non-SME	194.5	1.2	162,083.33	51.01	205,241	248,574.96

Source Author's creation based on Topline Estimates For All Enterprises and SMEs, Annual (Singapore Department of Statistics, 2020) and Statistical Tables, Census of Manufacturing Activities, 2016

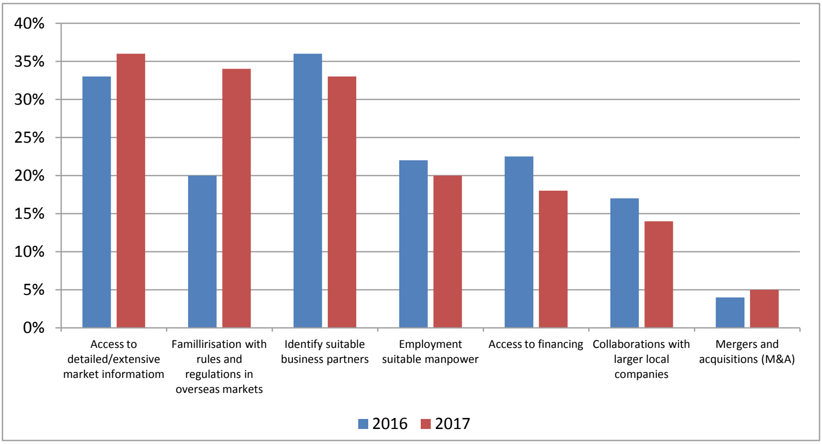
2.2 *Internationalisation*

For a long time, internationalisation was expected to follow a linear path with a company first establishing itself in the home market and then exporting their products to overseas markets either through local partners or through direct presence. With the rapid development of digital technologies, new business models supported by outsourcing and e-commerce platforms are fast becoming the norm and an overseas venture can happen at a much faster pace. Digitalisation has also helped companies reduce production costs and use cost-effective resources while creating a global supply chain.

Singapore, due to a small domestic market orientation, has always focused on export-led growth. But a study by global insurance firm QBE in 2018 involving 402 local SMEs found that only 14% of the firms with no global presence intended to internationalise. The study noted that improved economic sentiments in Singapore could be a possible reason for firms' lack of appetite for international expansion.

While international expansion allows entrepreneurs to scale beyond their limited borders in this increasingly globalised and connected world, SMEs often encounter barriers and challenges in their expansion attempts. To overcome these challenges, entrepreneurs need the right partners and not just more financing. Identifying suitable business partners was a strong theme that emerged from the SME Development Survey 2017 conducted by the DP Information Group (see Table 4). 36% and 34% of the survey respondents indicated that access to detailed and extensive market information and familiarisation with rules and regulations

Table 4 Assistance required by Singapore's SMEs for internationalisation



Source Author's creation based on SME Development Survey 2017, DP Information Group

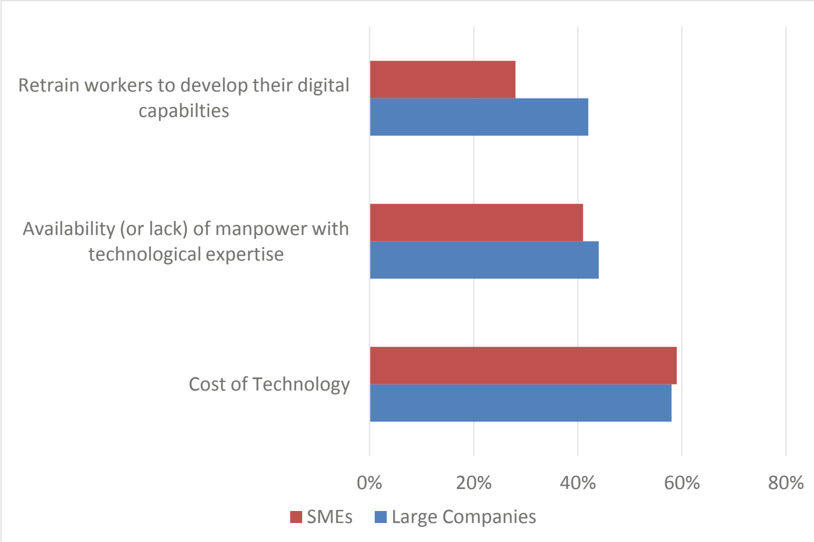
in overseas markets are, respectively, the top assistance required for internationalisation.

According to the survey, there was an overall decline of 5% of businesses that generated revenues from overseas, with the exception of the retail sector, which saw revenue increase by 5% as compared to 2016. This could be attributed to the higher adoption of e-commerce by the retail sector to reach out to overseas customers.

2.3 Innovation

Until a few decades ago, the conventional wisdom was that large corporations were better positioned to engage in innovation because their scale worked in their favor when investing in R&D. In the recent Singapore Business Federation National Business Survey 2018/2019 (SBF NBS 2018/2019), the gap has since closed between large companies and SMEs, with 64% of large companies implementing a medium to high level of innovation, as compared to 55% for SMEs. The same survey also highlighted the two key challenges to innovation—cost of technology and availability (or the lack thereof) of manpower with technological expertise. Interestingly, large companies struggled with reskilling workers for the digital economy when compared to SMEs (42% versus 28%. See Table 5).

Table 5 Innovation challenges



Source Author's creation based on Singapore Business Federation National Business Survey 2018/2019

The Industry Transformation Maps (ITMs) across 23 industry sectors launched by the Singapore Ministry of Trade & Industry during Budget 2016 aims to integrate different restructuring efforts, taking a targeted and industry-focused approach to prepare companies for the evolving economic demands over the next few years.[4] SMEs viewed the ITMs in relation to business innovation, according to the SBF NBS 2018/2019, as a means to navigate complex schemes and grants to help with business transformation, gain better access to overseas markets, and ways to innovate and improve the business model (see Fig. 2).

During the same time frame, the Business Families Institute @ Singapore Management University (BFI@SMU) also conducted a survey on innovation in Singapore-based family-owned enterprises, with 58 SME respondents out of a sample size of 86. This research, through data

[4] https://www.mti.gov.sg/-/media/MTI/ITM/General/Fact-sheet-on-Industry-Transformation-Maps---revised-as-of-31-Mar-17.pdf.

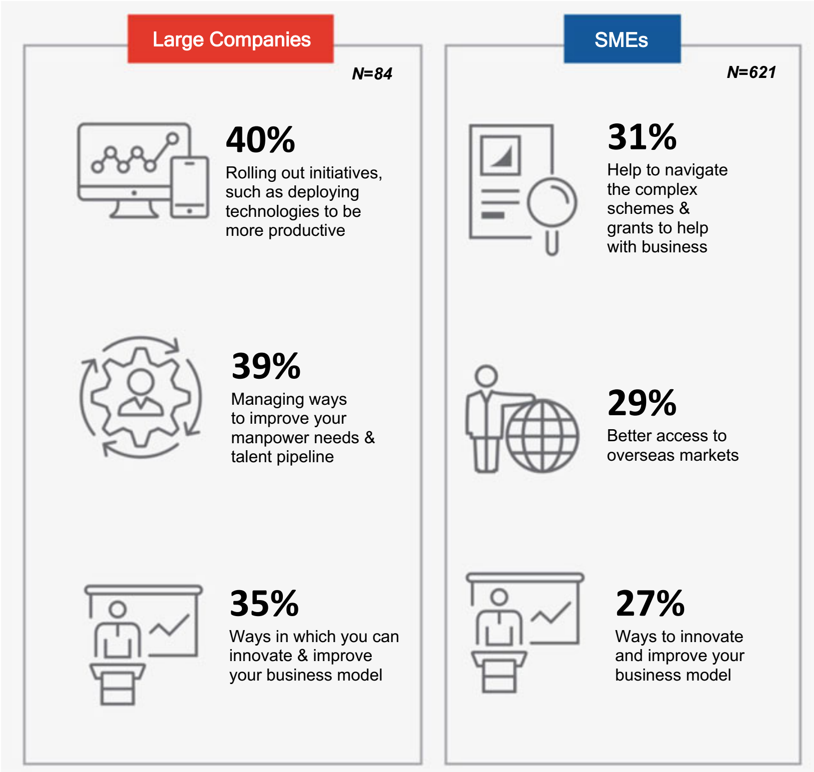
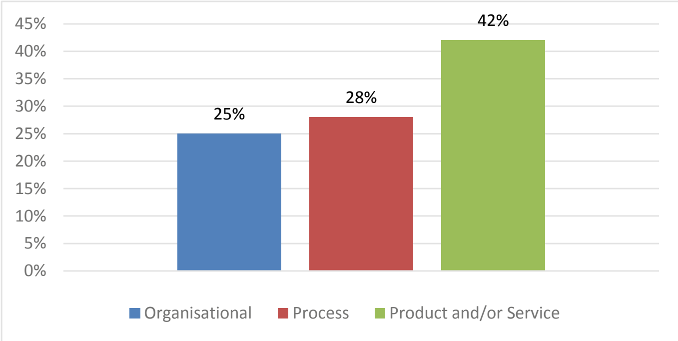


Fig. 2 Different expectations of how ITMs can help businesses (*Source* Adapted from Singapore Business Federation National Business Survey 2018/2019)

collection, examined the importance of innovation activity and catalysts of innovation and impact of innovation on the firms' performances.

The survey results concluded that innovation was the key to business sustainability and highlighted the 3Cs of innovation—Commitment, Capability, and Collaboration. For innovation to be successful, it needed commitment from all levels of an organisation and should not be a top-down approach. While the most popular forms of innovation as per the survey were product/service and process innovation (see Table 6), the most powerful form of innovation remained that of organisational innovation which includes the redesign of the business model. The second "C"

Table 6 How family firms ranked the importance of various types of innovation



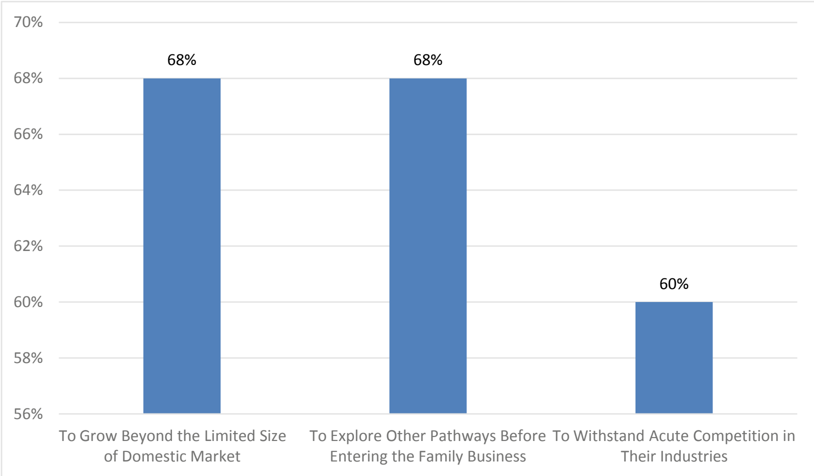
Source Author's creation based on BFI@SMU survey on innovation in Singapore-based family-owned enterprises

referred to capability which meant the interplay of internal and external catalysts to drive innovation. Family vision, industry knowledge, company culture, and talent were the key internal drivers to successful innovation. However, innovation could not happen in isolation. Financial assistance from the government, other external funding partners, and education/ R&D partners is needed to support innovation. Last but not least, the third "C" stood for collaboration. The right strategic partnerships are crucial for entrepreneurs in their expansion plans.

From the BFI@SMU survey, it was observed that the top reasons for embarking on innovation were the desire to grow beyond the limited size of the domestic market (68%) and exploring other pathways before entering into the family business (68%). The latter is understandable as most of the survey respondents are next-gen business leaders (see Table 7).

In relation to government support for innovation, it can be deduced that government support is indeed appreciated and effective (62%) in terms of financial assistance to help SMEs develop innovation capabilities, and 52% of respondents would continue to innovate regardless of the availability of government financial schemes.

Table 7 Why innovation matters?



Source Author's creation based on BFI@SMU survey on innovation in Singapore-based family-owned enterprises

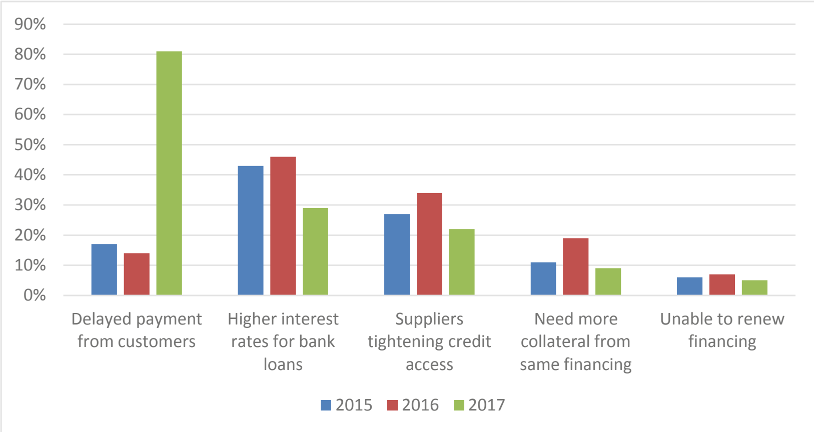
2.4 Finance

Having reliable cash flow and working capital is crucial to sustain financially strapped SMEs. The small size of SMEs often implies that they are not able to benefit from economies of scale to reduce both their operational and compliance costs. SMEs not only face difficulty in raising funds, they also have limited ability to pass on these costs to their customers.

The SME Development Survey 2017 found that 35% of companies surveyed faced financing issues, up 13% year-on-year, and at the highest level since the survey began tracking this challenge in 2011. This increase in proportion of SMEs with financing challenges was observed across all sectors. In particular, two out of five companies in the information and communications as well as transport/storage sectors faced financing challenges.

Among the financing issues SMEs faced, all categories showed improving trends with the exception of delayed payment from customers, which increased nearly six times from 14% in 2016 to 81% in 2017 (see Table 8). Delayed payments can create ripple effects affecting the cash flow position of the SME community; when a debtor company delays

Table 8 Key financing issues facing Singapore's SMEs



Source Author's creation based on SME Development Survey 2017, DP Information Group

payment, the creditor company may also slow down its payment to other companies in the supply chain. The proportion of SMEs making losses has also increased to 21%. Of the profitable SMEs, 42% have thin margins of 0 to 5%.

3 Government Support for SMEs in Singapore

Though the Singapore government has been providing financial and non-financial assistance to SMEs since the 1960s, this was largely done in a haphazard manner (Soon 1994). Some prominent early initiatives by the Economic Development Board (EDB) included the 1962 Light Industry Services (LIS) Scheme to help small manufacturing firms modernise and expand (with funds provided by the United Nations Development Program (UNDP)) and the 1976 Small Industries Finance Scheme (SIFS) to encourage technical upgrading of SMEs.[5] But the real thrust to SME development came after the severe economic recession of 1985. The Economic Committee, appointed on 8 March 1985, advised the government to take steps to remove obstacles and actively encourage the growth

[5] For an extensive review of early government initiatives in support of SMEs, see Soon (1994).

of local small and medium enterprises (Ministry of Trade and Industry, 1986). This report was the basis of the first SME Master Plan (Economic Development Board, 1989) which recommended stimulating local enterprises by creating a conducive business environment through supportive infrastructure and a range of incentives. A key contribution of the SME Master Plan was creating a multi-agency network. For an overview of government strategies with respect to SMEs over the years, please refer to Appendix B.

It is estimated that there are currently more than 200 SME support programmes in Singapore each with a set of specific objectives (Yahya, 2018). These programmes are implemented through a wide network of government agencies and private sector organisations that seek to connect SMEs with financial institutions, investors, experts, and relevant government agencies to help them make the most of the various forms of assistance. Figure 3 shows a schematic diagram of the various agencies presently involved in supporting SMEs in Singapore.

Two key government agencies supporting SME development are Standards, Productivity and Innovation Board, known as SPRING Singapore and International Enterprise (IE) under the Ministry of Trade and Industry. In late 2017, the government announced the merger of SPRING, primarily a capability development agency and IE, a trade promotion agency to form Enterprise Singapore. With this merger, the government has sent a message that with slower economic growth and

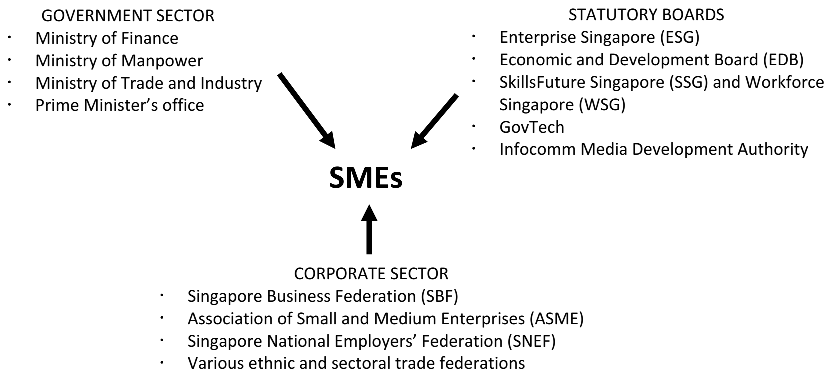


Fig. 3 Multi-agency support for SMEs in Singapore (*Source* Author's creation based on own research)

domestic constraints, innovation and internationalisation are no longer separate goals for SMEs.

In line with this view, Minister for Trade and Industry (Industry) S. Iswaran's speech in Parliament in March 2017 highlighted three key thrusts for government support to SMEs going forward:

a. Internationalisation and financing support for SMEs to grow their topline and scale;
b. Capability development support to foster innovation and raise productivity;
c. Skill development support for employees of SMEs.

3.1 Internationalisation and financing:

Economic theory states that asymmetry of information in imperfect capital markets leads to capital rationing. SMEs face a higher cost of capital and additional documentary requirements because banks perceive them to be inherently riskier due to their small size and less structured business operations. Since the suppliers of credit do not take into account the important social benefits that SMEs contribute to the country, the government needs to intervene and bridge this financing gap. With the merger of IE Singapore and SPRING Singapore into the present-day Enterprise Singapore (ESG), the grants and subsidies were combined to streamline the entire process for businesses to access technologies and productivity solutions. Some key schemes are:

i. The Productivity Solutions Grant (PSG) supports companies in the adoption of pre-scoped IT solutions and equipment that enhance productivity, such as accounting management, human resource management system, and customer relationship management.
ii. The Enterprise Development Grant is a result of the combination of the previous SPRING Singapore's Capability Development Grant and IE Singapore's Global Company Partnership, designed to provide more holistic and customized support to local enterprises seeking to build deep capabilities, scale up, and internationalise.

3.2 Capability development and innovation:

SMEs generally find it difficult to innovate due to the high costs involved in research and development. A special issue of Small Business Economics (2002) suggested that among the various government policy interventions that have benefitted SMEs in the Asian region, technical assistance has made the most difference. For example, public testing, research, and technology dissemination centers in Japan, Korea, and Taiwan, skill development centers in Malaysia, and universities in Japan and the US have been key to industrial development in these countries. Though these forms of assistance are not targeted only at SMEs, the authors conclude that production and dissemination of knowledge and skills which, while available to all firms, could have a proportionately bigger impact on the smaller firms due to differing economies of scale.

To help SMEs develop technologically, the government has launched several initiatives in partnership with public sector research institutions, universities, and large corporations in the private sector. For example, ten industry-specific Centers of Innovation (COIs) have been set up in partnership with selected polytechnics and research institutes for SMEs to tap on various prepared resources to embark on technology innovation. These COIs cover aquaculture, energy, electronics, supply chain management, environment and water, food, marine and offshore, materials, and precision engineering industries.

To be able to respond effectively to change while digital technology transforms every sector of the economy, digitalisation and skill upgrading of employees are key components for SME development. The initiative SMEs Go Digital Programme is introduced to help SMEs use digital technologies and build stronger digital capabilities through the provision of foundational and pre-approved digital solutions, consultancy services, and project management services.

The impact of these programmes is amplified by the government's efforts to make information on these grants accessible. For instance, SME centres across the island remain the first touch-point for SMEs, helping them with customised business advice and in understanding government initiatives. Enterprise Singapore has engaged about 40 Trade Associations and Chambers actively through the Local Enterprise and Association Development (LEAD) programme over the past decade. They work on projects to support their members in capability upgrading and internationalisation. The government also provides short-term relief to SMEs to help with rising wage costs (Wage Credit Scheme and the Special Employment Credit scheme) and temporary liquidity challenges (SME Working Capital Loan).

According to the 2019 Annual Business Survey by SCCCI, 51.1% of 972 respondents of which 95% were SMEs indicated that they had applied for government schemes, and the Productivity Solutions Grant is the most popular among all (see Table 9).

Despite the government expanding its support to help small businesses move up the value chain, productivity of domestically oriented sectors (where most of the SMEs are) fell by 0.5%, similar to the 0.6% decline in the previous quarter (Economic Survey of Singapore, Third Quarter, 2017). The topline figures of many SMEs had been depressed by weak external demand while their bottom line costs had been driven up over the last few years due to supply-side constraints such as land and manpower. Findings from the SBF's National Business Survey (NBS) 2016–2017 echoed similar trends, with only one in ten businesses expecting the economic climate to get better over the next 12 months while almost 50% felt that it could get worse.

Singapore's economy narrowly escaped a recession in 2019. There would be a chance for an economic rebound, only in the absence of any global risks. This was not to be. The ongoing Coronavirus Disease 2019 (COVID-19) pandemic threw nations around the globe not only into

Table 9 Government schemes usage among SMEs in Singapore

Productivity Solutions Grant	48.9%
Wage Credit Scheme	16.7%
Enhanced Training Support for SMEs, WorkPro, Training Subsidies	15.9%
Market Readiness Assistance Grant	8.9%
Double Tax Deduction for Internationalisation	7.4%
SkillsFuture Earn and Learn	5.8%
SMEs Go Digital Programme	5.4%
SME Working Capital Loan	5.0%
Professional Conversion Programme	4.6%
Micro-Loan Programme	3.0%
A*STAR schemes (Operation and Technology Road-mapping/T-Up)	2.6%
Internationalisation Finance Scheme	1.8%
Capability Transfer Programme	1.2%
Lean Enterprise Development Scheme	1.0%

Source Adapted from SCCCI 2019 Annual Business Survey an economic crisis but also a public health crisis. The topmost concern of the government now is to help businesses overcome their immediate challenges. SMEs are particularly hard-hit by the impact of COVID-19 pandemic and supply chain disruptions resulting from containment measures from other countries. The Budget 2020 (see Fig. 4) further outlines more comprehensive measures to ensure that businesses across all scales will be well-positioned to capture future opportunities brought about by the shifting supply chains and accelerating technological developments. The Stabilisation and Support Package contains measures to help businesses with their cash flows and to tide them over the sudden decline in demand. The Package also includes assistance to businesses to retain their workers.

The Supplementary Budget 2020, also known as the Resilience Budget, was subsequently announced on 26 March 2020, a month later in view of the escalating COVID-19 pandemic and to provide further support to businesses, workforce, and households (see Fig. 5). Some of the notable measures include the Jobs Support Scheme which will provide wage support to employers to help them retain their local employees during this period of economic uncertainty, deferred corporate income tax payments, enhanced property tax rebates and rental waivers, enhanced enterprise financing scheme, and enhanced SMEs Go Digital Programme. Meanwhile, temporary relief funds and, wage credit scheme are some of the measures introduced to support the livelihoods of Singaporeans. Most importantly, additional focus will be given to the most affected sectors, namely aviation, tourism, food services, land transport, and arts & culture.

With the third announcement, the Solidarity Budget on 6 April, and subsequent update announcement on the pandemic on the 21 April, more help will be given to businesses to preserve their capacity and capabilities, in order to resume activities when the two-months lockdown (7 April to 1 June) is lifted (see Fig. 6). In total, Singapore has committed S$63.7 billion as of 21 April 2020 with the announcement of the extension of lockdown,[6] or about 12.8% of gross domestic product (GDP), for this battle against the COVID-19 pandemic.

[6] https://www.theedgesingapore.com/news/covid-19/additional-38-bil-aid-brings-singapores-covid-19-relief-637-bil-tighter-restrictions.

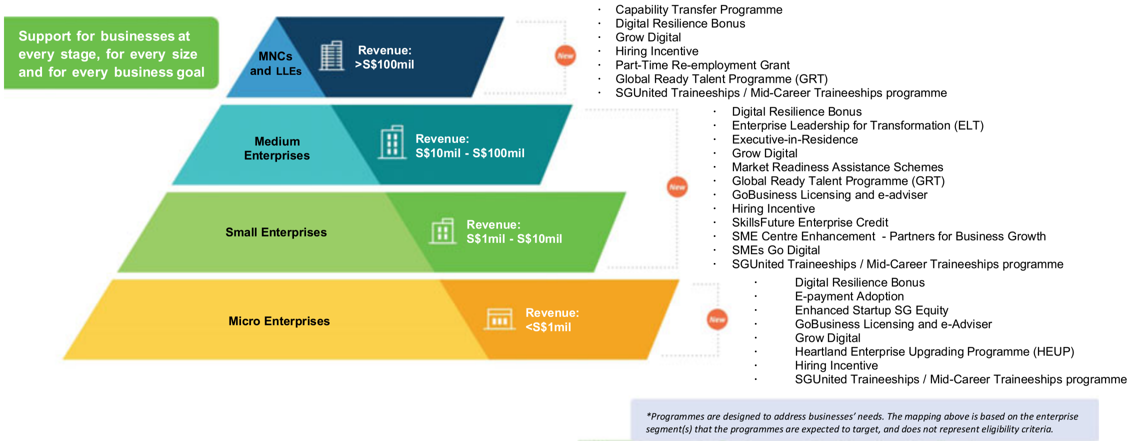


Fig. 4 The Budget 2020 (*Source* Author's creation based on Ministry of Trade & Industry Budget 2020 Booklet for Businesses)

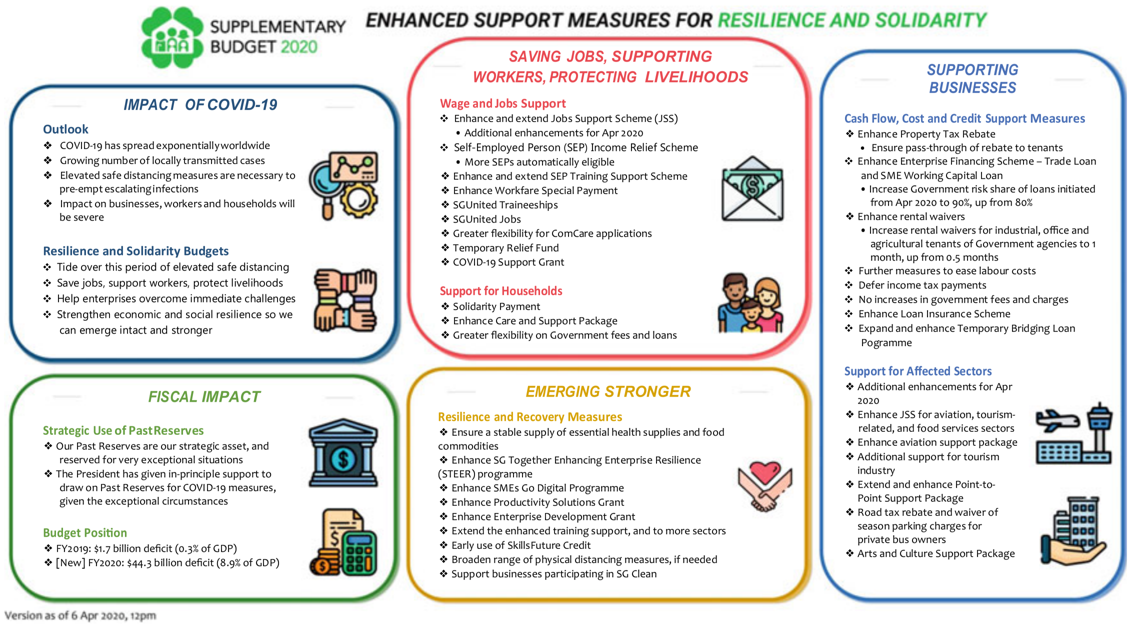


Fig. 5 Resilience Budget 2020 (*Source* Adapted from Singapore Budget 2020—Solidarity Budget)

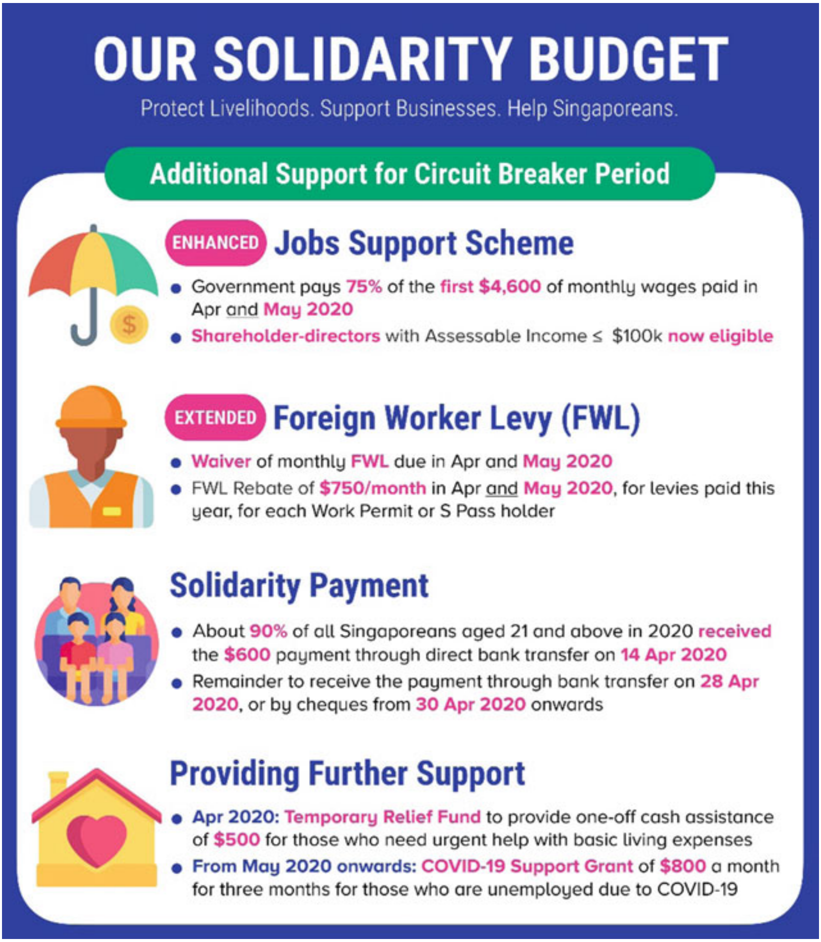


Fig. 6 Solidarity Budget 2020 (*Source* Adapted from Singapore Budget 2020—Solidarity Budget)

4 Transgenerational Entrepreneurship and Its Importance for Singapore

Family firms play a major role in the development of Asian economies, representing 85% of Asia-Pacific businesses and contributing to 32% of the world's total market capitalisation.[7] However, while Asia is home to some of the oldest family firms in the world, the majority of Asian family firms are much younger than their Western counterparts due to the comparatively short history of economic development in these countries (Au, Craig, & Ramachandran, 2011). Many family firms are currently transitioning between the second and third generations[8] in a world very different from that of the previous generations.

It is evident from the previous sections that three key vectors are dramatically reshaping the way the next-generation leaders will run their businesses. Firstly, with internationalisation of markets, firms now have access to new customers both physically and digitally but also face new competition in previously protected domestic markets. Secondly, the pace of digital transformation means that customers are now more connected and better informed and family firms have to adapt their business models to challenges of the new age. Thirdly, a focus on sustainability, stemming from the next generation's desire to do good, is an important aspect of driving business growth. According to a 2016 study by Deloitte, next-generation family business leaders are ready to embrace this change. 80% of next-generation leaders at family-owned enterprises say that their leadership style will be different compared to the previous generation, 56% will change the family company's strategy, an equal proportion will change corporate governance structures while 51% intend to take more risks than their predecessors did, but in a more controlled way.

Most family businesses start as an entrepreneurial venture, in which the founder drives much of the value creation and develops the company's culture in the initial years. However, as small firms transition from being controlled by a single owner-manager to include members of the founder's family, they must pass on the entrepreneurial mindset and capabilities to create new streams of wealth across many generations, and not just hand over the business from one generation to the next. This practice is referred to as transgenerational entrepreneurship. In spite of the popular belief that family businesses are somewhat disadvantaged compared to

[7] EY Family Business Yearbook 2014, Family Business in Asia-Pacific, Facts and Figures, EY, 2014. http://familybusiness.ey.com/pdfs/page-72---73.pdf.

[8] BFI @ SMU conducted a survey of 102 family business members in nine Asian countries between 2014 and 2015 on topics of succession and governance. 83% of Asian family business members surveyed belonged to second- and third-generation family firms and 85% were expecting to undertake succession planning within 5 years or less.

their non-family counterparts when it comes to entrepreneurship, family businesses possess unique resources that actually give them strategic advantage to handle the challenges posed by these trends.

First, family firms have traditionally taken a long-term perspective and are less constrained by short-term pressures to succeed. In addition, small family-owned businesses have a short chain of command and a flat organisational structure that allow them to make strategic decisions faster than their non-family counterparts. This enables them to respond better to rapid technological change. Another unique strength that family firms have is the trust they enjoy among the communities they serve. This trust is invaluable in gaining acceptance of their customers to changes in business models.

While the previous sections have highlighted the pull factors (macroeconomic conditions, government support, and industry trends) that drive small business growth, we will now look at some of the push factors (ownership, succession, and management challenges) at the family level that affect how this entrepreneurial mindset is passed on from generation to generation. In a survey of 325 executives across the world, Zook and Allen (2016) find that smaller companies are actually better placed to preserve the founder's mentality at the workplace. This is because in a small family firm, top leadership positions are often filled by family members. Hence, when a leadership transition takes place, the organisation still has access to important knowledge and social resources. These resources can be tapped by the new leadership in their pursuit of entrepreneurial opportunities.

Our research over the years shows that while Asian family firms are focused on building long-term sustainability, the main challenges at the family level are with respect to succession and governance. While Asian business families appreciate the value that professional managers bring to the business, they are likely to cede management control quite late and many prefer family members to professional managers to take over the reins of their businesses. A second challenge more prevalent in Asian business families and especially SMEs is the absence of a formal platform to communicate and bring up family grievances for discussion or conflict resolution. For a majority of Asian business families, family governance practices are in the early stage of development and adoption.

In a recent survey of 164 family business founders, family members, and entrepreneurs,[9] our initial findings show a similar interest in guidance on building management capabilities in the family. Leadership and talent development within the family is a key area identified by entrepreneurs. However, within the family, smooth and effective communication is top priority, likely so in order to maintain harmonious relations.

Entrepreneurship is more than just starting a new venture; it also refers to a responsiveness to change in the marketplace. Hence, to sustain the entrepreneurial culture in the long term, the family needs a long-term vision—while the ability to react quickly is important for family businesses, long-term thinking, as manifested in a commitment to research and people development is equally essential. However, with SMEs, a common challenge is juggling the limited resources available to manage short-term priorities while following a long-term plan. For instance, the 2016 American Express CFO Future-Proofing Survey found that among the 253 CFOs surveyed in Singapore, 62% did not have a plan in place to future proof their business and the clarity and longevity of the plan was inversely proportional to size. However, as EYQ's recent global institutional investor survey (2017) pointed out, rather than treating digital transformation or innovation as discrete strategies, organisations that thrive though disruption will make digital transformation and innovation part of a holistic business perspective.

In the subsequent section, we illustrate the stories of three small family firms in Singapore and the different approaches taken by the next-generation leaders to build sustainability for the business while keeping the entrepreneurial spirit alive.

5 Succession Pathways of Singapore's SMEs and Family Firms

There are several approaches taken by family firms to ensure a successful transition while meeting long-term business goals. They can be broadly classified into three categories—stewardship, transformation, and entrepreneurship. Some next-generation leaders straddle more than

[9] Research survey on defining major moments of entrepreneurs (2018) with support from Standard Chartered Bank.

one of these continually evolving paths at different points of the business life cycle, but each path has different challenges, risks, and opportunities.

Stewardship—Individuals on this path are focused on ensuring the long-term sustainability of the family firm and protecting its profitability by staying true to the established core business.

Transformation—Next-generation leaders on this path take on the task of driving significant change in the family firm, with the scope and support from their core family business.

Entrepreneurship—Next-generation leaders pursue their own ventures outside the family firm, often in sectors unrelated to their core business.

Through three different stories, we illustrate how Singaporean family firms address the different challenges they face.

5.1 Stewardship—Hai Sia Seafood Pte Ltd

Hai Sia Seafood began as a hawker stall in Queenstown's Mei Ling Street in Singapore and was formally incorporated in 1977. Before moving to the Jurong Fishery Port in 1969, Ang Jwee Heng and his brothers supported their father at his seafood stall along Mohammed Sultan Road. From a humble seafood vendor, Hai Sia has transformed into a company selling both fresh and processed seafood to a wide array of customers including restaurants, hospitals, and popular online retailers.

The Hai Sia scholarship

Ang Junting refers to his father as a very "open-minded *Teochew towkay* who never pushed us to take over the business." While Junting pursued a career in the F&B industry for a short while, his elder brother and sister worked as management consultants. Having acquired experience as a chef at a two-Michelin-starred restaurant in France, Junting returned home to support his brother's newly-opened seafood restaurant at the end of 2014. It was around this time that his father initiated a serious conversation about joining the family business for the first time. He eventually joined Hai Sia in March 2015 and currently serves as its Deputy Director.

However, the numerous school breaks and vacations spent helping his father meant that the business was familiar territory for Junting. To this day, the siblings regard this experience as a sort of scholarship that they would always be indebted to their parents for.

> My brother and I started helping out at age 14. It would not be anything interesting. It would be scaling fish. And we would scale fish for four or five hours. When father was ready to leave, he would ask us, do you want to continue or do you want to go home? The right answer was always to continue. We would finally leave with the delivery trucks at about 7 am. As we gained experience, we were taught how to process and fillet the fish and would accompany our father to learn the ropes on quality assessment and pricing strategies at the central fish market.

Niche business with mass-market appeal

In Teochew, Hai Sia means "the sound of the sea". True to its name, the company plans to build their reputation as a specialised seafood supplier in the region with a focus on freshness and quality. When their competitors were expanding into frozen seafood and alternative meats a decade ago, Hai Sia chose to concentrate on seafood. Junting is respectful of Hai Sia's 30-plus years of history but believes that they have a long way to go before they master the art of understanding and delivering fine seafood.

> Two years ago, we started bringing in prawn from South America. That same supplier wanted us to export poultry as well. That made a lot of sense, because we had the network and the same facilities, in terms of storage and warehousing. But we said no. We always find that you can never finish learning about seafood. Apart from the sheer variety, there is so much to learn in terms of sourcing from different countries. Even with 50 years under his belt, my father still would not tell you that he knows seafood very well. The common squid we thought we knew all along, through a more scientific approach, we understand a little bit more, and there's always more depth to it.

Focusing on intangibles for value creation

In the last few years since he joined, Junting and his team have undertaken several initiatives that have resulted in improved productivity for Hai Sia. Besides introducing the company to e-commerce grocers such as RedMart, they developed a digital strategy to better communicate the traditions and values that define the family business. Junting also initiated the modernisation of their 20-year-old processing plant to include state-of-the-art capabilities including automated fish scaling, advanced cold chain, 100% stainless steel interior, sashimi processing, and an environmentally friendly heat recovery system. More recently, they launched their own brand of packaged seafood called SERVE, which has given them a better control of freshness and shortened lead-time for deliveries.

However, Junting recognises that to transform the business, acquiring new technology is only part of the challenge. The tougher part is ensuring that the accompanying change management process is successful. For instance, an important step after setting up the new processing plant was training employees on the new standard operating procedures, such as washing hands after touching each type of product.

As a seafood professional, he takes great pride in being an agent of change for the industry and for his employees. In 2016, the company started curated tours of the fish market, initially for their customers, and later opened to public to raise awareness of the nature of work in the industry. In order to encourage the older generation hawkers (who form a significant part of their customer base) to continue their trade, Hai Sia recently launched a line of ready-to-cook fish.

> That will also encourage the young to think of scalability. If you have five stalls for example, you will need five people who know how to cut fish and five people to man the storefront. But if we can provide that value add so that more things are done at source, you concentrate on your cooking, your recipe, and your customer engagement at the stalls, and get more done with fewer resources.

Junting's goal for Hai Sia is to push the boundaries of value creation for their customers while maintaining a shared sense of purpose for the business.

5.2 *Entrepreneurship—Greendot Group Pte Ltd*

In the traditional sense, the term "entrepreneur" in a family business setting evokes the notion of a founder who developed a business idea from scratch with limited resources. However, in Asia, most family firms are relatively young and currently making the transition from the first generation to the second. In parallel, successors are faced with an environment very different from the founding generation. The interconnected trends of digitalisation, globalisation, and sustainability are compelling next-generation leaders to embrace change. In 2017, PwC conducted 35 in-depth interviews with next-generation firms located across 21 different countries and polled 100 next-generation family businesses online. One of the key findings of this survey was that only 20% of these next-generation leaders are sticking to the family's core line of business. Justin Chou, founder of Greendot, is one such example of an entrepreneur who chose to redefine the family business model to deal with the challenges of this new world.

Greendot started in 2011 as a vegetarian fast-casual chain with the goal of motivating people to eat green and embrace a more balanced diet. The idea originated in the experiences of his entrepreneurial parents and his own desire to make quality meat-free food options available to the masses. Being owners of companies that manufacture and distribute vegetarian food products (including a Chinese vegetarian restaurant), Justin's parents were faced with the dilemma of growing the business beyond the 3–5% vegetarian population they were already serving. Greendot was seen as the logical next step that would help integrate the family's businesses with Justin's mission of feeding a 100 million people with plant-based food. Today, with 10 outlets in Singapore and a revenue exceeding S$10 million, it is one of the largest Asian-fusion vegetarian chains in Singapore.

Addressing the missing middle

The goal of Greendot is to cater to customers who prefer the speed and convenience of a hawker stall with the quality and spread of a high-end restaurant. As vegetarian fast-casual dining was a rarity in malls at the time it started, Justin Chou and co-founder Fu Yong Hong opened a stall at Temasek Polytechnic in November 2011 to test the waters. Ideas for the first recipes came from his mother's vegetarian restaurant. They experimented with various catering models before deciding on a lean, easy-to-assemble menu with dishes pre-cooked and packed at a central kitchen. The family's other businesses would provide logistics services and part of the ingredients. Justin Chou also enlisted the help of design thinking consultants from SPRING Singapore to remodel their concept and lay out a clear brand strategy for the business. One benefit of this exercise was gaining a clearer understanding of their target customers. Speaking about one of the findings Justin said, "Females eat with a finer choice of ingredients. When they want to consume something, they always think about their body, they think about their current state. They think about how they will feel after the meal."

From sampan boat to cruise ship

Convincing his parents that his ideas were credible was not easy. Spending money on external consultants, seeking non-traditional sources of funding, and determining a digital strategy were unfamiliar territory for the older generation. They were also apprehensive about the value that this new venture would bring to the already established and successful family businesses, to which Justin was an heir. But his rationale to his parents was "You have a cruise ship, although not very big. Let me row a sampan boat out. If it sinks, then I'll come back to the family business. But if this sampan boat proves it's in the right direction, it can lead the whole cruise ship, like a tug boat, to a new future."

Besides retaining minority ownership to demonstrate his commitment to the family, Justin strived hard to build sustainability for his business model. As GreenDot grew from its first commercial 300 square-foot outlet in 2013 to a 1900 square-foot flagship store in 2015, Justin was able to prove its business viability. He soon became his parents' largest customer, accounting for nearly 30% of their revenue for the food distribution business.

Challenges in building the Greendot brand

Currently, the Greendot Group has 13 restaurants under its wing, including two Chinese restaurants and three franchised outlets. Justin brought his mother's restaurant into the company after a restructuring exercise in May 2017. These restaurants together employ around 150 staff. The initial efforts on streamlining operations and encouraging a culture of employee development have reduced manpower related challenges to a great extent. Competition from larger, more established food and beverage chains is a bigger consideration, particularly with respect to protecting intellectual property in terms of processes and branding. Given Singapore's small domestic market, a critical next step is growing overseas where they will benefit from economies of scale.

Value innovation for a greener future

The next wave in this value innovation curve is about finding synergies between the family business and the ventures Justin wants to create. For Greendot, the plan is to invest in a data-driven and asset-light business model. Justin also wants to bring the latest in food technology from other countries such as Hong Kong, Taiwan, and the United States to develop new meat-free food brands under the Greendot Group. To complement the family's expertise in manufacturing vegetarian food products, the Group plans to add a vegetable processing business and set up an online marketplace for green products. Justin sees these plans as a part of a larger vision of strengthening the three pillars in his family business:

"First, there is food tech, because we are in manufacturing, and I believe that the future of food will depend on how well we can use technology to get more from fewer resources. Then we have our hospitality group – all our restaurants, which will help promote a conscious living lifestyle through eating better. And finally, our e-commerce platform that will help us reach out to a wider customer base and achieve our mission faster."

5.3 Transformation – Q Industries

Recent research by PwC and EY found that innovation and digitalisation are two of the newer forces that will affect family-owned businesses in the next few years.[10] With the pace of technological change accelerating, the challenge facing many next-generation family business leaders is how to transform and provide avenues for change. While most family firms in Asia are placing the highest priority on maintaining stability and continuity of their business,[11] many are falling short of the required skills and expertise to deliver on this mandate. For instance, in a 2017 study by KPMG on Singaporean family firms, 63% cited lack of expertise and skills needed to develop and implement a digitalisation strategy.

To thrive in this world of flux, it is essential to understand global trends affecting the marketplace and assess the viability of products or services affected by these trends. Q Industries, a culinary solutions company is one such SME that is focused on creating value to stay ahead.

Co-founder Jacqueline Quek was working in a cleaning chemicals company in Singapore in the 1980s when her husband Tony convinced her to start a business venture of their own. Since many of her company's clients were in the hospitality sector, the couple decided to leverage the networks created to foray into tableware distribution. Q Industries

[10] A PwC survey in 2016 found that three-quarters of family firms think that the need to continually innovate with be the biggest challenge in the next five years. https://www.pwc.com/gx/en/services/family-business/family-business-survey-2016/digital-and-innovation.html. The EY Growth Barometer 2017 also found that technology is the second biggest factor that is having an immediate impact (with 24% of responses) on growth for family businesses in Asia.

[11] BFI, supported by Deloitte Private surveyed 102 family business members in nine Asian countries between 2014 and 2015. More than 80% of Asian respondents and 84% of Singaporean respondents cited sustainability as a priority for their business growth strategy. (Survey Report—"Asian Business Families Governance: Crossing the Chasm for Inter-Generational Change").

started its journey in 1987 with fewer than a hundred clients. Jacqueline soon clinched the company's first million-dollar project and Q Industries quickly expanded to Kuala Lumpur in 1992 and Vietnam in 1994. Today, it serves more than 1000 clients including international hotel chains such as IHG and AccorHotels and Michelin-starred restaurants in South-east Asia, India, Africa, and the Middle East. Their product repository has also grown to include kitchenware, buffet ware, tableware, and other accessories such as cutlery and linen for a wide range of themes.

Same purpose, different paths

Huilin Quek and her brother Kwan Yi Quek were only six and three years old when their parents started the business. Huilin, the eldest of three children, is currently in charge of international opportunities in her capacity as Group CEO. She joined the family business in 2005. But it was a part-time job at Starbucks soon after junior college that piqued her interest in hospitality and persuaded her to study hotel management in Switzerland. After graduation, she worked at The Ritz-Carlton in Singapore and The Legian in Bali as a hotel management intern before joining Q Industries.

Kwan Yi, on the other hand, had a very different career path. To further his childhood passion of becoming a pilot, he signed on to the RSAF in 2003. After 14 years in the military and as an officer in command managing a fighter aircrew of 40, he was ready to come back to help with the family firm's growth plans and joined the business in October 2017. As the chief operating officer (COO), his military training experience has come in handy as he manages a team of 80 in Vietnam.

A new beginning

The company's core management team currently includes founders Tony and Jacqueline Quek. Tasked with the responsibility of taking the business to the next level, Huilin often has to balance perspectives of the two generations. In 2015, the family decided to bring in an external director to complement their family-heavy management structure. Christophe Megel, formerly the executive chef at The Ritz-Carlton Singapore hotel and a long-time customer of Q Industries, was an ideal choice as a partner to help grow the business. Not only did he have 30 years of experience in the culinary industry and a successful track record in management, he connected with the family at an emotional and strategic level.

With Christophe's guidance, the company undertook a business strategy innovation project aimed at ensuring the company's strategy and brand image were aligned. He is also working with Huilin on developing a 10-year succession plan to fully prepare her for the responsibilities of running the family business.

Reflecting on the significant impact Christophe has had on the business, Huilin said, "We had a joint venture with a Belgian company that started off very well in 2008. Unfortunately, in 2017, the Belgian side went into financial difficulty and this had a ripple effect on our company. We had reached a point where if there were no intervention, I would have walked away from the business. But I have to give credit to my parents for taking a step back and permitting someone from outside the family to guide change in difficult times."

Redefining brand value

Left with several contracts to fulfill from the joint venture and limited products to sell, Huilin's parents decided that a drastic change was required. On Christophe's suggestion, the family decided that it was a good opportunity to launch another house brand, leveraging on their expertise in distributing professional-grade kitchen utensils for nearly three decades. Previously, the company had launched an in-house brand of flatware products in 1997, but had never attempted a full range of kitchen utensils.

Talking about the challenges in implementing the growth plan, Huilin said, "We had to transform the entrepreneurship-led company with a go-go spirit to a prime organisation through implementing organisational leadership by driving communication, command and control. We had to become more performance driven. My role in the transformation is to path-find, align and model."

However, dealing with a rapidly changing industry required a transformation beyond just creating a new product line. Q Industries now positions itself as a holistic solutions provider in the hospitality space with their unique blend of integrated procurement solutions, including on-site logistics management, concept advisory, and design consultancy. The siblings are also trying to automate more aspects of their supply chain and empowering their staff to contribute to the business at a more strategic level. In 2017, the family invested in a 52,000 square-foot facility in Vietnam. Marking the company's 30th anniversary, it is helping bridge the gap between the old and new. This new facility is an integrated infrastructure with a warehouse, a showroom, a restaurant that showcases its products, and a professional-grade culinary craft centre to offer a unique experience to their clients. This established Q Industries' position as a solutions provider with simplicity in the industry.

As they expand, customer-centric innovation will remain an integral part of their product offering. Huilin said, "Our customer engagement begins with the discovery process, which includes having a conversation with the customer to understand their requirements. This allows us to develop a customised solution with the right combination of products sourced from our global network of suppliers. Instead of competing on price, we are competing on experience which is difficult to replicate. The next decade will be focused on becoming the pacesetter in the integration of hospitality solutions."

6 Conclusion—Beyond the Ties that Bind

After completing this chapter and tracing the history of how SMEs in Singapore have grappled with change in a world of flux, we are quietly optimistic that many family-owned SMEs can become key engines of growth for the city state of Singapore.

However, the word is quietly optimistic as the pathways to growth are diverse and fraught with challenges. These pathways to success for the over 270,000 SMEs in Singapore are not only dependent on leveraging public-private-people partnership but also on their abilities to navigate macroeconomic, geopolitical, environmental, and public health emergencies. With multilateralism under threat, though the trade war between the United States and China had no direct impact on the SMEs, the conservative outlook arising from when the trade war will cease had resulted in decreased global consumption that somewhat tempered the growth expectations. The current COVID-19 pandemic amplified the SMEs' vulnerability to external factors, especially with a looming global recession on the horizon.

A S$4 billion support package for workers and firms amid COVID-19 pandemic outbreak, the 2020 budget is a Stabilisation and Support Package. The budget is divided into two main sections: Dealing with Challenges and Preparing for Growth as per Fig. 7.

It is evident that the Singapore Government spares no effort in dealing with the immediate challenges with a slew of measures to manage cash

Fig. 7 At a glance—The Budget 2020 for businesses (*Source* Adapted from Enterprise Singapore—At a Glance: Budget 2020 for Businesses)

flow, retain talent and sector-specific schemes to cope with the impact of the pandemic. At the same time, Budget 2020 also included measures to transform Singapore-based businesses so that they are well-positioned to capture future opportunities. These measures will enable stronger partnerships, deepen enterprise capabilities, and develop talent. It is important for businesses to take this opportunity to do so and build enduring business models. This would help them to be well-positioned to seize opportunities during the recovery.

The Singapore government is committed to helping our SMEs automate, innovate, and internationalise, in both good and bad times. As innovation and internationalisation need to go hand-in-hand for companies to grow and scale, the formation of Enterprise Singapore (ESG) as an outcome of the merger of SPRING Singapore and International Enterprise (IE) Singapore came as a timely and welcomed move on 1 April 2018. Since its inception, ESG had rolled out many measures to support SMEs. With the current pandemic, many more new and enhanced measures are being introduced progressively to help businesses go global, improve business capabilities, strengthen business ecosystem, and access financing (see Appendix B).

Interestingly, even as the platforms for growth involve having the SMEs develop digital and other business management capabilities, the three illustrated examples in the last section pointed to the need for competent human capital to drive change and transformation to build sustainability.

To move ahead, we need an ecosystem approach that leverages the experience and expertise of both internal and external stakeholders and partners. Thus, we conclude this chapter with the following strong recommendations represented by the phrase—"Beyond the TIES that Bind" as the future is still human!

SMEs need to build ties and trust within the family firms, ensuring harmony with family members and respect for non-family members with shared values uniting everyone. In addition, the ties with business partners and customers will have to be stronger as the business of today entails more outsourcing and increased use of e-commerce and digital platforms. Therefore, all SMEs need to devote time and effort to build ties across industries and countries to ensure relevance for their complementary suppliers, partners, and customers regardless of whether they are B2B or B2C. Finally, our next-generation leaders and managers of SMEs have to invest in building their own capabilities to stay entrepreneurial and build ties with the community and society to be sustainable. Where access to markets or technology is lacking, the connectivity with external partners such as non-family advisors, private equity firms, or consultants may be helpful to create new avenues for growth. SMEs should consider engaging non-family directors who can help provide professional guidance, open up networks and contacts to help SMEs grow. These advisors can help to address strategic issues and instill discipline in accountability. The future of any business is social.

Elaborating further on the meaning behind the word TIES, the letter "T" stands for trust among family members and employees. Trust takes time to nurture and build through both good and bad times. The letter "I" is for innovation and internationalisation—the very drivers of growth that the Singapore government is investing through multi-government agency resources in equipping our SMEs for the future. The letter "E" stands for entrepreneurship and the need for family firms to adopt an entrepreneurial mindset to create value. If all these elements are connected and put in place—we are indeed confident that our Singapore SMEs will be strategic contributors to Singapore's future growth as they are able to scale and be sustainable across generations. We at Business Families Institute at Singapore Management University are very excited to be a knowledge partner on this transformational journey of entrepreneurial change with many of our family firms.

Appendix A

Evolution of SME definitions in Singapore

1960s—To qualify for loans under the Light Industries Services scheme, a small company was defined by the Economic Development Board (EDB) as one that employed less than 50 workers with fixed capital assets of less than S$250,000.

1979–A small company had to have fixed productive assets not exceeding S$2 million in order to be eligible for financial assistance under the Small Industries Finance Scheme (SIFs).

1988—The SME Master Plan defined an SME "as a company with at least 30% local equity and not more than S$8 million in net fixed asset investment if it is in manufacturing, or employs not more than 50 workers if it is in commerce or services"

2000—The SME 21 defines domestic SMEs as companies with at least 30% local equity and fixed productive assets (i.e. net book value of building, machinery, and equipment) of not more than S$15 million for manufacturing enterprises and staff strength of not more than 200 if they are in commerce of service sectors.

2011—The Singapore government today defines SMEs as enterprises with an annual sales turnover of not more than S$100 million or employing not more than 200 workers.

2014—SkillsFuture Singapore has updated the 2011 definition of SMEs with the inclusion of at least 30% local shareholding.

Appendix B

An overview of government SME Strategies over the years

Year	*SME Policies*	*Remarks*
1965–1985	Industrialisation with SMEs being subsumed under the focus on attracting multi-national corporations	SMEs acted and served as suppliers to MNCs (Doh, 1993)
1986	Singapore Economy: New Directions published—role of SMEs and entrepreneurship highlighted for need of new policies	EDB establishes the Small Business Unit to help the small business sector
1989	First *SME Master Plan* published	The SME Master Plan has five underlying strategic thrusts for SME growth: 1. Technology adoption, application and innovation; 2. Business planning and finance; 3. Human resource management; 4. Productivity improvement and training; and 5. International marketing and business collaboration.
1996	Merger of the relevant parts of the Economic Development Board (EDB) with the National Productivity Board to form a statutory board, the Productivity and Standards Board (PSB) responsible for among other things, SMEs	SME First Stop was launched. Programmes such as SME Enterprise Development Growth and Expansion was launched
2001	Publication of SME 21, the second SME Master Plan	Four strategic goals 1. Nurturing a pro-business environment that encourages enterprise formation and growth; 2. Supporting and driving the development of key industries; 3. Enhancing the productivity, innovation and core competency enterprises; and 4. Increasing access to markets and business opportunities.

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Year	*SME Policies*	*Remarks*
2002	SPRING and IE are formed	Formerly known as Productivity and Standards Board (PSB), SPRING was formed as a result of the merger between the National Productivity Board (NPB) and the Singapore Institute of Standards and Industrial Research (SISIR) in April 1996. In April 2002, it was renamed SPRING Singapore to signify the shift towards an innovation-driven economy. The purpose was to bring together the soft skills of productivity handled by NPB and the technical aspects handled by SISIR. IE on the other hand was formed in 2002 from a re-organisation of what used to be called the Singapore Trade Development Board (TDB). Its goal was to be the lead agency driving the internationalisation of Singapore-based companies rather than focusing on export promotion alone.
2003	Economic Review Committee (ERC) Report	The Economic Review Committee (ERC), set up in December 2001, completed its work in February 2003. The ERC Main Report outlines its key recommendations to remake Singapore into: 1. A globalised economy with Singapore as the key node in the global network and connected to other major economies; 2. A creative and entrepreneurial nation; and 3. A diversified economy powered by the twin engines of manufacturing and services, where traditional enterprises coexist with modern ones.

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Year	*SME Policies*	*Remarks*
2007	Economic Strategies Committee (ESC) Report	The ESC was formed in May 2009 with the following objectives: 1. Delayed payments can create ripple effects affecting the cash flow position of the SME community; when a debtor company delays payment, the creditor company may also slow down its payment to companies it owes money to; 2. Boost productivity to sustain higher wages and inclusive growth; and 3. Develop corporate capabilities to seize opportunities in Asia and make Singapore a distinctive global city.
2017	Committee on Future Economy (CFE)	The CFE envisioned a highly skilled population with a desire to pursue lifelong learning; innovative and agile businesses; a connected and vibrant nation and coordinated, inclusive and responsive government. Seven mutually-reinforcing strategies were identified to achieve this vision: 1. Deepen and diversify international connections; 2. Acquire and utilise deep skills; 3. Strengthen enterprise capabilities to innovate and scale up; 4. Build strong digital capabilities; 5. Develop a vibrant and connected city of opportunity; 6. Develop and implement Industry Transformation Maps (ITMs); and 7. Partner each other to enable innovation and growth.

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Year	*SME Policies*	*Remarks*
2020	Budget 2020	Budget 2020 introduces new measures and initiatives to help businesses develop new capabilities, deal with short-term challenges, and set the stage for long-term growth through the following pillars: 1. Improve Business Capabilities and Leadership; 2. Strengthen Business Ecosystem; 3. Access Financing; 4. Go Global; and 5. Keep Growing.
	Resilience Budget	Known as Singapore's Resilience Budget, the Supplementary Budget 2020 includes revised Government revenue and expenditure plans for the current financial year. It complements the Unity Budget (Budget 2020) presented on 18 February and addresses the rapidly evolving COVID-19 situation and the impact on Singapore's economy and society. It focuses on three key areas: 1. Save jobs, support workers, and protect livelihoods; 2. Help enterprises overcome immediate challenges; and 3. Strengthen economic and social resilience so that Singapore can emerge intact and stronger.

Source Adapted from Tan (2007), Content after 2002 added by authors

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CHAPTER 8

Succession and Innovation: Key Drivers of Sustainable Growth of SMEs in India

Kavil Ramachandran and Jayshree Suresh

1 Introduction

Family businesses the world over are known for their inherent entrepreneurial capabilities to successfully face challenges and show strong resilience to achieve sustained growth. They do this while undergoing transformation internally in terms of governance and professionalization to address external opportunities and challenges. This is true with Indian family businesses too.

Since independence, India has witnessed the most significant change in its development strategy in 1991, when a series of policy initiatives were made as part of economic liberalization. Essentially, this meant loosening controls in starting any business and encouraging companies to be

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competitive. Till then, small-scale firms were protected through reservation of over 800 products for exclusive manufacturing by this sector. With the implementation of liberalization, small-scale manufacturing firms had to become innovative in all possible ways to survive and grow. It is the quality of "Command" reflecting the innovativeness capabilities of the organization that makes a family business survive across generations (Miller & Miller, 2005). This is particularly so for SMEs, which go through various crises during their evolution (Greiner, 1998) as independent sustainable businesses. This is also true in the transgenerational success of Asian family businesses. Au, Craig, and Ramachandran (2011) had noted the need for entrepreneurial initiatives across generations for the successful continuity of family businesses.

Multiple studies (Carlock & Ward, 2010; Ramachandran, 2015) on lasting family businesses have always underlined the critical role played by family governance for their sustenance. This is because good governance creates a fertile ground for developing policies and processes for leadership succession and encouraging entrepreneurship and innovation.

This chapter examines the experiences of succession and innovation in Indian Small and Medium Family Enterprises (SMFEs). Through multiple case studies, we conclude that sound practices of leadership succession and other governance policies have enabled Indian SMFEs to be highly innovative in products and processes.

2 Economic Liberalization and Evolution of Indian SMEs

India with a population of 1.35 billion is the second most populous country in the world. It achieved political freedom from British rule in 1947. With an estimated middle class of over 200 million and an average age below 30, India offers great opportunities for all kinds of businesses to grow successfully. Transformation of the Indian society and economy over centuries, and the rapid growth it has registered in the past quarter century are commendable. In 1991, India redefined its economic growth strategy from a controlled and planned economy to one with substantial freedom for private sector to start and grow their businesses. While the initial thrust was to make the indigenous firms compete among themselves and be competitive, the doors of foreign inward investment were opened within a few years. SMEs constitute 99% of all businesses in India in terms of numbers. In short, all these make India a strong candidate for this study. Thus, liberalization that started in 1991 pushed the economy to a series of structural changes across industries. This also resulted in rapid growth of service industries across IT, hospitality, health care, tourism, and finance. From a SME standpoint, these changes heralded a new paradigm of opportunities for growth and diversification.

Almost all SMEs in India, both manufacturing and services across all industry groups, are family controlled and managed. In fact, until they reach a certain size and opt for external funding, the family has complete ownership too. Most entrepreneurial ventures, with rare exceptions, later become family owned and managed when other family members including the second generation get involved, operationally or ownership wise. As defined in the next section, we have applied the definition of significant family ownership and active operational involvement of the family in the business as the twin criteria to classify a business as a family business.

Since SMEs are inherently resource starved with limited scale of operations, their dependence on family for anything and everything is extremely high. In fact, as shown in Fig. 1, most SMEs have ownership and management embedded within the family, and the business is seen as a subset of the family set. Both financial and manpower resources keep moving from family to business and vice versa depending on the requirements of funds. When the business acquires more of the "medium" size characteristics such as employing external manpower and use of organization structure and formal information and control systems and processes, the SME starts developing some identity of its own. At this stage, the business starts having unique identity while family still holds full ownership. This is when the critical success factors of the two slowly become different.

Historically, SMFEs in India have evolved out of trading firms, mostly belonging to certain social communities. It is important to note at this juncture that hundreds of years ago, Indian society used to practice a structural division of its members based on the inherited class of occupation. This classification enabled and ensured that society had specialized expertise in each professional area of significance to the society. The four categories were Priests, Rulers, Traders, and Peasants. The trading community, known under different names in various parts of the country played the crucial role of facilitating economic activities across people. Post-independence in 1947 and with the arrival of modern industrial manufacturing and emergence of service business, this class naturally grabbed the emerging opportunities and constantly redefined their scope

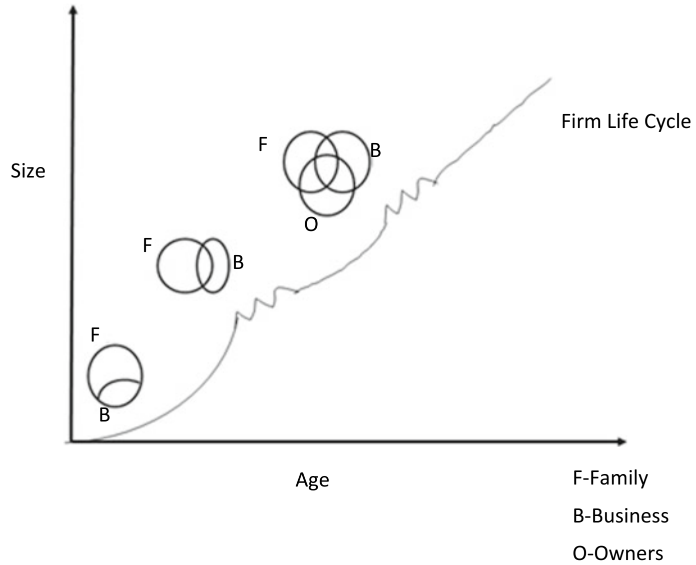

Fig. 1 Firm life cycle (*Source* Author's creation based on The 10 Commandments for Family Business, Kavil Ramachandran, Sage, 2015)

of activities. Interestingly, these communities still form a significant part of SMFEs while the rigid walls of community-based profession crumbled and members belonging to other traditional social segments entered the scene to become entrepreneurs.

The traditional merchant class members expected all male members to be operationally involved in the businesses that were jointly owned by the family. Also, all family members belonging to multiple generations lived under one roof. The eldest male member of each generation became the business leader in these patriarchal families, while ownership of all businesses belonged to the family. In other words, everything in the family belonged to every member and every member had to work and grow the wealth. Hence, succession was never a problem.

However, as businesses and families expanded, there were several instances of differences and disputes growing in such families primarily due to principal—principal costs and decline in stewardship values in members. That led to family splits, amicably or otherwise in the third or later generations. It is only in recent years that families have started recognizing the importance of clarity of ownership and defining policies of inheritance.

3 Role of SMFEs in the Economy

In India, SMEs include micro enterprises too and are collectively called MSMEs. The formal definition of what constitutes micro, small, or medium enterprise has undergone changes over a period, but the government has always based them on investment in long-term assets, for both manufacturing and service firms. In spirit, these definitions cover firms that are built on small or limited scale of resources and operations, managed by one or a few individuals with limited level of delegation and professionalization. As in most countries, this sector plays a critical role in terms of both employment generation and economic development of India. Indian manufacturing firms constitute 31% of all SMEs, with 36% in trade and the remaining 33% in various services (MSME, 2019), out of the total over six million firms in India. 99% of them are very small in size. The sector creates over 111 million jobs across manufacturing, trade, and services, almost in equal numbers. While the number of MSMEs has grown by over 6% during the decade of 2006–2016, in terms of employment the growth has been only 3.6%.

There are several clusters of industry-focused SMEs in India. These clusters are spread across the country, say coir in Kerala and garments in Tamil Nadu in the South and sports goods in Punjab and brassware in Uttar Pradesh in the North. The diamond industry has flourished in Gujarat in the West. There are new clusters of modern manufacturing and service businesses too covering engineering, pharmaceuticals, electronics, and IT in and around major urban centers. Yet another pattern is the natural location of sub-contracting firms around their principal buyers. For instance, Pune in the West is well known for SMEs in automobiles and engineering.

4 Challenges Faced by Indian SMFEs

A survey of 202 Indian SME family businesses (Ramachandran & Bhatnagar, 2012) had concluded that they faced five major areas of challenges. These are leadership, succession planning, family wealth management, managing family relationships, and professionalization. Some of the key insights from that study that are relevant to this discussion are the following:

- There is strong evidence of involvement of more than 2/3 of younger generation members or future successors involved in key decisions. For instance, 71% of MSFEs encourage new business or expansion ideas that came from young generation. This is also because family firms are increasingly paying attention to growth strategies, including opportunities in new businesses. 58% of the respondents had faith in the capabilities of the next generation in leading the business after their time.
- However, this is not always easy in operation. One of the major constraints to change that will facilitate smooth succession and innovation is lack of openness and flexibility of the family leader to any change and willingness to listen to new ideas coming from next generation. Therefore, innovation and succession are not automatic and it is only a small percentage that practices successor-led innovation.
- Family businesses that recognize the need for strong bonding based on clear logic and emotions are better equipped to survive and succeed across generations (Lansberg & Astrachan, 1994). They need widely discussed and documented succession plans with effective implementation for the continued success of Indian SMFEs. However, most families do not have any such succession plans. 72% of the respondents said that there was no retirement age or plan in Indian SMFEs. From the angle of succession, this creates major challenges, even if the leader talks about succession, nothing really happens in practice.
- The study also reported that Indian SMFEs are experiencing a major shift in leadership style, from autocratic to participative where the next generation has an active role to play. There is greater recognition of the growing relevance of the knowledge and skills of the successors in adapting business strategy. This involves innovation in products and processes. Viewed in the context of the overall major structural changes taking place in the Indian economy, the above findings are supportive of the active role played by the SMFEs in this context.

Based on various studies such as the above and also based on the insight the authors have gained by studying Indian SMFEs over a combined experience of 40 years, we conclude the following:

- Most SMFEs do not plan leadership and ownership succession. In a tradition-driven society such as India, both of these go by family and community tradition of the senior male member of the family.
- Most families are not aware of the principles of governance as understood through the lens of structure, systems, policies, and processes. Everyone is expected to respect and practice traditions. In a rapidly changing society, this is not easy to implement. Consequently, in most cases, split in the family business is very common in the second or at the most in the third generation.
- Innovation is need based, most often as a reaction to external forces. This is primarily because there is very little of strategy making happening as is generally understood. However, highly entrepreneurial family businesses proactively innovate to exploit attractive market opportunities.
- An additional challenge that many SMFEs face now is about the very existence of the business, especially under the ownership and management of the family. This is because the next generation members are not always interested or inclined to continue the same business for a number of reasons. This can be viewed as an opportunity from the angle of innovation by the successor. Hence, it is important to study the features of SMFEs that manage succession well and continue to grow through innovation.

5 Methodology

We followed detailed case study method that gave us deep insight into the nature and quality of policies and processes followed in both management of succession and innovation. We studied 10 SME family business cases in detail. All of them are medium sized with an employment ranging from 100 to 1000, and a mix of manufacturing and service. However, the two major considerations we applied in sample selection are whether they have gone through at least one succession in the family, and also if there is evidence of some kind of significant innovation either in products or in processes. We selected SMEs that are at least 50% family owned with at least one family member responsible for operations.

While Table 1 provides an overview of the sample case characteristics, Table 2 has brief description of four select cases. The cases in Table 2 have been carefully chosen to show the diversity of Indian SMFEs in the context of succession and innovation. One of the authors of this chapter was a common author for all the four cases and have deep insight into their businesses. One of them, Eastern Condiments is unique as it went through two leadership successions in the second generation, while accelerating on innovation. Shakti Group has gone through a family split in the founder generation due to poor governance, while encouraging entrepreneurship in the younger generation. Popular is a case where entry of next generation to the main business is banned at junior level primarily to encourage entrepreneurship in the succeeding generation. The case talks about an interesting new business started by a successor. Aravind Eye Care is a successful social enterprise in the third generation built on strongly shared values and constant innovation.

6 Innovation and Succession in Family SMEs—Learnings From Case Studies

There is general agreement that the quality of entrepreneurship declines as a firm gets managed by later generations. It is believed that the same is true with innovations too. In that sense, it is interesting to find out whether Indian SME family firms are innovative in their second and later generations. More importantly, it will be interesting to find out the factors that influence innovation in succeeding generations. De Massis, Frattini, and Linchtenthaler (2012), in a major review of literature on innovation in family business, concluded that innovativeness in family business is not a given. They found that it is impossible to conclude that family businesses are always innovative. Given that performance of family businesses is influenced by a number of controllable and uncontrollable variables, what will be useful is to identify the key factors that can accelerate innovativeness in family SMEs.

We analyzed succession and innovation as two independent variables and tried to determine the features of the firms that have excelled on both dimensions. As shown in Fig. 2, family firms can be broadly categorized into four based on the quality of policies and practices of succession and level of innovativeness as high or low.

Table 1 Case studies—a Snapshot

Name	*Industry*	*Year of establishment*	*Generation active*	*Quality of family governance*	*Quality of succession management*	*Level of innovativeness*
BBM Bommidala Group	Agri processing	1920	3	Very good	Very good	Very high
Eastern Condiments Private Limited	Food processing	1982	2	Very good	Very good	Very high
Aravind Eye Hospital	Health care	1976	2,3	Very good	Very good	Very high
Shakti Group	Food processing	1960	2,3	Good	Good	Very high
Popular Vehicle and Services	Automobile (service)	1939	2,3	Very good	Very good	Very high
Sandhu Pharmaceuticals	Pharmaceuticals	1899	3	Very good	Very good	High
Cyient Limited	Information technology	1991	2	Very good	Very good	Very high
Master Tea Group	Food Processing	1934	2,3	Good	Very good	High
Symphony Limited	Electro-mechanical	1988	2	Very good	Very good	Very high
Nalli Group	Garments	1928	2	Very good	Good	Very high
Arun Icecreams	Food processing	1970	2	Good	Good	High

Source Authors' creation

Table 2 (a) Eastern Condiments Private Limited, (b) Aravind Eye Care System, (c) Shakti Group, (d) Popular Group

Eastern Condiments Private Limited
Eastern Condiments was set up as a small-scale manufacturing company by ME Meeran in 1983 in his village. It manufactured and marketed spices, blended spices, and pickles used in the South Indian state of Kerala. Meeran did not have any dream of growing big and hence ran the business as a small-scale firm very cautiously. He was a very compassionate person, who took care of the employees like his family members. It was his son Navas, who joined the business after an engineering degree as his successor, who pushed for major changes across the product market spectrum. Navas led innovations across the organization including finance and HR that led to introduction of a number of new spice-based products. He redefined the customers and markets beyond the geographical territories of Kerala state and captured significant market share elsewhere in India and the Middle East. Navas successfully negotiated and got McCormick, an international strategic investor to take 26% stake in Eastern. It was not easy for him to convince either his father or McCormick to do so. But he persisted continuously as he strongly believed the need for constant innovation to build the organization and the need for the leadership to bring about changes across the spectrum with the involvement of a global player like McCormick. Navas also set up a high-quality R&D Centre to develop new products. As a result, he was able to bring out on average five new products every month
In 2014, Navas stepped down as the Managing Director and made his 15 years younger brother Firoz the new leader. Navas continued as the Chairman, Firoz took the company on a faster growth path. He had a two-pronged approach. One, he revamped and redefined the scope of the R&D Centre to innovate products in larger numbers covering more customer segments. He started launching 50 new products a year and expanded the market to cover Europe and North America. Another area of major change was to bring logical decision making and professionalization through systems and processes. For this, he recruited high-quality managers in various areas from reputed large organizations. This led to professionals questioning the way different functions were held and arrive at more efficient decisions on technology and processes. Several of the human resources, packaging, and branding-related practices were modified in small or significant ways. The company recorded a turnover of Rs 10 billion in 2019
Navas and Firoz complemented well and Navas supported from outside all the major changes introduced by Firoz. They developed a family ownership trust of their shares and strengthened the board of directors. They created a family council and invested time in developing a road map for the future of the family and business
Source Author's creation based on Ramachandran, K., & Mehrotra, S. (2017). *Eastern Condiments—The Changing Curry Company*, Harvard Business Publishing (material taken with the authors' permission)

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Table 2 (continued)

Aravind Eye Care System
India has always faced shortage of medical support for eye care especially for the poor. Dr Govindappa Venkataswamy (known as Dr V) set up Aravind Eye Hospitals in 1976 in his hometown, Madurai, in South India. He did this at the age of 58, after his retirement from government service as an ophthalmologist. He was already afflicted by "rheumatoid arthritis," a rare disease at the age of 30 that crippled his fingers, but he had performed over 100,000 surgeries before retirement. A determined Dr V set up a 11-bed small hospital to treat what he called, "avoidable blindness." Over the years, it has grown across the country with 13 eye hospitals and many primary eye care facilities. They have treated 55 million patients and performed 6.8 million surgeries till 2019, thanks to the passion and deep involvement of other family members and subsequent generations
In 2006, Dr P Namperumalsamy (Dr Nam), Dr V's brother-in-law, who was already the CEO, became the Chairman when Dr V decided to step down. From the very beginning, Dr V was actively supported by his sister and Dr Nam's sister, both of whom were medical doctors and his brother who was an administrator. Dr V was able to motivate and attract several of his family members to join his family members to join his mission, including some who resigned from good corporate jobs because of shared values
Aravind was built on two strong foundations. One, a set of strong values, woven around compassion and commitment to help the blind, at least half of all of Aravind's patients were poor and were treated completely free of cost. Two, excellence in quality of service. The ability to pay was not a consideration when it came to care
Dr V led Aravind actively for about 30 years when he recognized the need to hand over the leadership mantle to his successor. Among all the family members, he picked Dr Nam as the next CEO. After a few years, at the age of 66, Dr Nam requested the family council to choose his successor. Dr R. D. Ravindran, a second-generation family member, was unanimously selected by the family
Aravind's major innovation was in standardizing surgical procedures and keep the costs down while maintaining high quality and efficiency in operations. They successfully applied the business model followed by McDonald's takeaway in the eye care area. This model was developed and executed by the family that included multiple members belonging to two generations. Interestingly, this has been institutionalized well and is refined and revised continuously by the third generation too. The hospital's processes are designed like an assembly line with minimum turnaround time. As part of this approach, they prepare batches of patients before surgery so that surgeons are able to perform one surgery after the other most efficiently. A team of nurses bandaged them afterward. Accordingly, surgeons move from one table to another as they complete one surgery. As against an average of 300 surgeries a year done by surgeons, Aravind doctors perform about 2000 surgeries, resulting in larger coverage and cost savings
Yet another innovation was to take eye care to remote villages with the help of voluntary agencies. Some of the other innovations were to take the Aravind model to new geographies in North India. In 2018, Aravind set up its first overseas venture in Nigeria

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Table 2 (continued)

Aravind Eye Care System
Setting up of Aurolab that made Intraocular Lens (IOL) and making available lens was another major initiative at a time when there was a major debate about the suitability of IOL for poor countries for cost reasons. The family set up Aurolab in 1992 and made available IOL at a fraction of the cost in India and several developing countries. In 1998, Aurolab started manufacturing sutures and over the years introduced technologically advanced absorbable sutures. In 2005, it started manufacturing blades and then green laser equipment for diabetic retinopathy
An interesting aspect of Aravind was the practice of high-quality family governance, primarily based on shared values and goals. Since several family members of Dr V's generation were much younger and also since several of the actual next generation joined at different points in time, it is difficult to mention any specific year as when leadership changed completely in reality though there were two formal occasions of change in the past. In essence, they followed highly participative decision making. Also, the family encouraged everyone to bring new ideas that were collectively considered for evaluation and implementation. Aravind has set up several eye banks too. They have set up a research and training institutes too
Source Author's creation based on Manikutty, S., & Ramachandran, K. (2017). Aravind Eye Care System—Retaining the Legacy, Harvard Business Publishing (material taken with the authors' permission)

Shakti Group
The Shakti Group traces its origins to India's independence in 1947, when the founder of the company along with his family migrated from Lahore, Pakistan, to Hyderabad in South India to start a new life. Naresh, the second of three sons, took the lead in exploring a number of different entrepreneurial opportunities before he hit on the idea of manufacturing ready to cook items. This business, which he ran with his two brothers, grew at a steady pace for many years, and after the entry of the second generation into the business, its growth multiplied several fold. However, conflicts within the family eventually led to a split and resulted in the closure of the factory and a freeze on the trademark. This proved to be a temporary setback and Naresh quickly revived the company under a new avatar—Shakti Products (Pvt.) Ltd. His three sons took the lead and ventured into new areas, while continuing to grow the traditional business. The Shakti Group case demonstrates the hunger of an entrepreneurial family to grow in spite of a family division. Moreover, members of the second generation proved themselves to be entrepreneurial managers by identifying and pursuing emerging opportunities while building the traditional business

(continued)

Table 2 (continued)

Shakti Group
The second-generation cousins of the family took a major step in business diversification in 1992 when Manish and Kishan took the initiative to establish Shree Technology Private Ltd (STPL), a company that focused on offering software development and IT education and Internet services. In 1997, Kishan and Nirmal set up another company, Shree Biomedicals Private Ltd (SBPL), to market the healthcare products of a European company with whom they had entered into a partnership. These second-generation members of all three branches of the family were shareholders in both STPL and SBPL, though Naresh's branch (with three sons as against the others' two each) held the majority of shares. Both STPL and SBPL were self-sustaining businesses that did not make substantial profits
However, the three branches of the family went through a hostile three-way split in 2000. However, Naresh's branch of the family continued to diversify. They formed Shakti Health Care Private Ltd in 2004 and obtained a franchise of Radiant Clinic from the Radiant Hospitals Group. Around this time, Naresh's youngest son, Tapan, returned to India and began playing an active role in the company's healthcare business. They invested approximately Rs 20 million in infrastructure, building a 6500 square foot facility against the basic franchise commitment of a 3000 square foot facility. Shakti added new specialty areas such as dental, physiotherapy, ENT, and orthopedics. They focused on creating high-quality facilities and built additional rooms for training and meetings as well as office space for directors and central managers. They gradually installed mammography equipment and built a full-fledged operation theater, a 24-hour ICU, a pathology lab with NABL accreditation, and a 10-bed inpatient facility. The annual turnover of this company in 2009 had reached Rs 50 million
Though the second generation of Naresh had by this point taken over management of the business, Naresh was still involved in the business to some extent as he continued to oversee financial matters. Kishan looked after marketing and administration, including the audit and legal departments, while Rajan was in charge of operations, purchase, new product development, and equipment. Tapan looked after Radiant Clinic and Kingles (discussed below) and provided general backup to the others as needed. He did not show any aggressive interest in taking on additional responsibilities
The second generation pursued a number of entrepreneurial opportunities, further diversifying the business. They launched a herbal health drink under the brand name "Kingles" in 2004. This business clocked about Rs 50 million in 2009 and made a small net profit. In 2006, the family decided to enter the packaged foods business when they learned that a snack manufacturing company in Delhi was closing down. They acquired Great Nuts along with its production facilities and trademarks and started producing and marketing a variety of processed nuts in 2007. The annual sales of this business increased from Rs 10 million in 2008 to Rs 40 million in 2009. They also made plans to introduce new products such as roasted peanuts and light snacks. In 2009, they bought 50,000 square feet of land on the outskirts of the city and built a facility that they could rent out for events such as weddings and other large functions

(continued)

Table 2 (continued)

Shakti Group
In 2010, Kishan was entirely in charge of product marketing and was partly responsible for finance, which was still largely Naresh's domain. Rajan took care of technology, performance and production, and Tapan looked after administration and the Kingles, Great Nuts, and Radiant Clinic businesses
Source Author's creation based on Ramachandran, K. (2011). *The Shakti Group: Keeping the Entrepreneurial Spirit Alive in the Second Generation*. (K. Au., J. B. Craig, & K. Ramachandran). Family Enterprise in the Asia Pacific—Exploring Transgenerational Entrepreneurship. Edward Elgar Publishing Limited
Popular Group
Popular group is a group of firms owned mostly by the Popular family and managed by the second and third generations of the family members. The founder of the group was the legendary entrepreneur, K. P. Paul. Starting from a humble background, he rose to become one of the most successful business tycoons in the country. The group celebrated its 80th anniversary in 2019
K. P. Paul started off his entrepreneurial journey with Popular washing home (laundry services). His interest in automobiles made him set foot in the automobile industry. His sons John. K. Paul and Francis. K. Paul decided to enter automobile dealerships in the 1980s, which was a huge leap for the family. In the 1980s, the liberalization of the Indian economy had begun, albeit in a slow-phased manner. That, combined with the foresight that automobile dealerships would become a major disruptor in the industry, made the Paul brothers take this step. Since then, the group predominantly focused on the automobile sector while education and empowerment sectors remained as non-profit ventures. The flagship company of the group is Popular Vehicles and Services Ltd. Most of the group's revenue came from the automobile sector
John, Francis, and Naveen Philip (son of Leela Philip, the daughter of K. P. Paul) formed the prime pillars of the business and were the major shareholders in 2019. They firmly believed that entrepreneurship is kindled through the freedom given to individuals
In order to mitigate the differences in generational outlooks, manage unexpected successions, adapt to gender and societal changes, facilitate retirement planning, and foster entrepreneurship, the family signed and adopted the Family Constitution. This led to the formation of various governance systems such as Family Business Board, Family Council, Limited Liability Partnership, Family Trust, and Family Fund. John was considering further strengthening of the constitution and its implementation in spirit to be prepared for the changes that the future may hold

(continued)

Table 2 (continued)

Popular Group
Further, "The younger generation in the family who aspire to enter the family business arena shall essentially develop business capabilities and managerial qualities before joining the family business" said John. They were highly encouraged to pursue their own passions, create new ventures, and integrate with the group once they were successfully established. John said, "the entrepreneurial spirit in succeeding generations is kindled through the freedom given to them to start their own ventures. Monetary support and mentorship will also be provided to such activities upon the discretion of Family Business Board"
Serah, who founded Blue Timbre music in Bangalore, Karnataka, in 2016, is from the third generation. She came to India after her MBA from the US. She was very fond of music and she came up with the novel idea of a music school and recording facility. The Family felt that since it was totally different from the Group's existing automobile businesses, it needed extra support to enhance her entrepreneurship. Also, support and funding from financial agencies for the music industry are scarce in India currently. As of now, Francis, John, and Naveen are partners of Blue Timbre Music LLP. They brought in the initial funds and thereafter other group companies funded the venture. Progress of the venture is being assessed regularly and at the suitable time, and decision will be taken on making it a part of the Group
Although there were no women from the second generation actively involved in the business, women in the family were encouraged to join the group or start a venture on their own. Any spouse entering the family through marriage, whether male or female, had an equal right to partake in the family business
Source Author's creation based on Bang, N. P., Bharagavi, M., & Ramachandran, K. *Managing Change at the Kuttukaran Group, Successful Transgenerational Entrepreneurship Practices* (forthcoming) (material taken with the authors' permission)

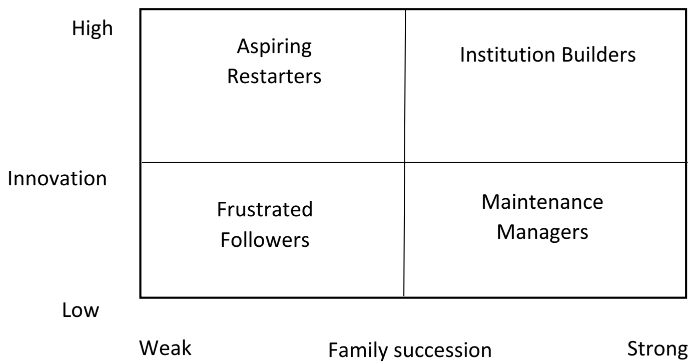

Fig. 2 Succession—innovation matrix (*Source* Authors' creation)

Firms that have evidence of sound succession experiences and high level of innovativeness have potential to grow and evolve themselves as institutions that survive across generations. We call them Institution Builders. There are family firms that experience poor governance and split with weak leadership succession but continue to be innovative on the business front. We call them Aspiring Restarters. They have the potential to become Institution Builders if they build strong governance and succession policies in the family. We are aware of firms that have strong succession practices but are not innovative. They are mostly driven by family traditions who try to maintain their status quo. We call them Maintenance Managers. There are a number of family businesses that struggle to have any good governance policies or practices due to poor family relationships. It is difficult for any innovation to flourish there even though next generation wants to innovate and grow. They are called Frustrated Followers.

We concluded that it is the presence of the following factors that make innovation sustainable in families that have gone through succession. Out of the 10 cases, which are all high on innovation, all but one has followed strong family governance and succession.

We observe the following characteristics in all the firms that individually and collectively facilitate innovation and succession.

- **High-quality family governance**: In 9/10 of the family businesses covered in these case studies, the quality of relationship among family members and assurance of fairness to all stakeholders is high. It does not matter if one is a family member holding shares and/or involved in operations. Successful continuity is their "mantra," which means recognition of the need for planning for leadership and ownership succession and clarity of the policies and processes involved therein. While some of them have detailed written constitution, the others have unwritten policies passed over across generations through traditions. This also means that they have shared goals for making their business successful for the present and future generations.
- While the Popular and Bommidala families have detailed family constitutions, Aravind Eye Care took decisions based on family values and traditions even without a written constitution. Similarly, Eastern Condiments had developed a family ownership trust, but did

not have a written constitution. Interestingly, the Shakti Group has not embarked on any formal governance mechanism in spite of the fact that the family had seen a bitter family feud some years ago. The Bommidala family took several years to complete the detailed constitution like the Popular family. None of the other families we studied has detailed written constitution. In other words, though all the cases studied have sound governance mechanisms, some of them have articulated the policies and processes clearly to avoid possible differences in the future. For instance, one such is the thorny question of ownership of new ventures and reward mechanisms to those who set up new ventures outside the family business umbrella.

- **Succession policy**: It is normal to assume that well-governed families have clear succession policies. For instance, in the cases we studied, Aravind Eye Care has the family council to collectively decide the most suited member among them to lead the organization. In the Bommidala case that has multiple diversified companies, there is a clear succession policy and process prescribed. In families such as Cyient and Symphony, there is only one successor. In most others, the eldest male member of the next generation becomes the leader though all others of the same generation get to play very important roles in the business. Sandhu Pharmaceuticals has clear guidelines and criteria for the next generation to join business. Across generations, they have implemented them successfully.
- These cases with sound succession experiences are remarkable because in practice, existence of written or unwritten polices per se cannot be taken for granted as guarantee for smooth succession. Besides not having very healthy family-level relationships, there are several other reasons including the following that make smooth succession not easy in such cases: policy is no longer relevant or adequate to address current situation; policies are not articulated and so are open to different interpretations; since succession is not an event but involving a process, there may be ambiguity about implementation of policy and possible misinterpretation of criteria. Hence, besides an umbrella structure of good governance, families need clear and implementable succession policy covering both leadership and ownership for succession in family business to be successful.
- **Clarity of careers for the next generation**: Unlike many business families where the next generation members do not get any guidance on their role in the family business, our case studies with

clear governance and sound succession policies have articulated their expectations from the next generation. In general, they are allowed to choose between joining the business or work outside. Some have additional conditions. For instance, in the Popular family, the next generation is prohibited from joining the parent business of automobile dealership and service. They are provided with every support to set up new ventures in unrelated areas since the family believes in entrepreneurship as a core family value. Such families go to the extent of articulating details of new venture policies including funding and ownership. They get appropriate grooming too from early on. They envisage the next generation members to acquire necessary skills to become leaders of any business in 10–15 years. In Sandhu Pharmaceuticals also, family members have to fulfill specific qualifications criteria to be eligible for a job. In Nalli Silks, Lavanya Nalli, ViceChairperson, is the young next generation leader who returned to the family business after her MBA from Harvard Business School and a stint with McKinsey and Company, to set up an online channel. In Arun Icecream, the founder Chandramogan has been grooming his son Sathyan to step into his shoes. In general, families encourage next generation members to grow the existing business through product and/or market diversification; process innovations that lead to efficiency improvement and resultant improvement in competitiveness are the focus of some others. In gist, these families take grooming of the next generation seriously as they consider them the successors to continue to build their business legacy further.

- **Leadership quality**: We observed high-quality leadership in all the case studies, both in the incumbent and in the successor generations. Innovation involves identification of potential opportunities and their conversion into commercial benefits; this requires the leader to manage risks in different intensities. Not all family business leaders take major risks proactively, especially those involving capital investments and having implications for the protection and growth of family wealth. Decisions on choosing and supporting innovation require committed high-quality leadership that can also take forward the family and the business team together.
- Numerous studies (Sharma, Chrisman, & Chua, 2003) have shown that succession management is one of the toughest challenges in family businesses. It involves retirement of the incumbent and entry

of a new leader. The entire process is akin to a relay race where the baton is passed over from one to the other. This is yet another area where clear, committed, and respectable leadership is important. In other words, family businesses that have a culture of innovation on the business side and smooth leadership succession on the family side do require high-quality leaders. All the 10 case studies have high-quality leaders present across generations.

- **Organizational stability**: Our case studies have recorded steady growth over several years thanks to their clear product market strategy and organizational capabilities. They have executed innovations of various kinds over the years as part of their strategy with clear resource allocation. Since in all the cases studied, the leadership is in the hands of family members, sound family-level relationship is also important to avoid political processes growing and hampering the business. In other words, stability of organizations in terms of steady profitability and team continuity is required to cultivate a culture of innovation. Most often significant and sustained innovation requires organizational commitment of manpower and capital resources, which are unlikely to happen in struggling organizations. For instance, Krishna in Cyient and Achal Bakeri in Symphony both next generation leaders received unreserved support from their senior generation leaders for exploring new opportunities.
- **Active leadership of family members**: Most SMEs face resource constraints and prefer assured steady growth and returns. Those that grow through innovation have family members leading innovations. In all the 10 family businesses we have studied, all significant innovative ideas have originated from family members and often further developed for execution with non-family professionals. This is because, family members are aware of the family's business philosophy and strategy which is often not clearly articulated to non-family executives. They have access to key decision makers who have to take major risks or commit resources. Also, leaders want to ensure that there are excitement and emotional ownership of innovative initiatives coming from within the family. Our cases confirm that it is more likely that such ideas come from younger generation members, especially those who have fresh thoughts compared to those who have been working as operating owners.
- **Product vs Process innovations**: In Cyient, the sole successor of the founder grew not only their existing IT services business but also

diversified into embedded integrated manufacturing of its products. In Symphony, Achal Bakeri brought about revolutionary changes in the design and functioning of air cooling that took the company to different parts of the world. He received full support of the family in this entrepreneurial journey.

Growing SMEs keep refining their processes too regularly. Aravind Eye Care successfully executed in their eye surgeries, the McDonald's model of extreme efficiency in operations, making not only costs very low but also made it possible for surgeons to perform many more surgeries per day. As against an average of 300 surgeries a year done by surgeons, Aravind surgeons perform about 2000 surgeries, resulting in larger coverage and cost savings. In other cases, particularly process-driven organizations, there is a constant effort made to make innovations in processes. While these may look small, the openness of the management to bringing about such changes is a signal to consider major innovations, covering products/services and processes. Our case studies that have had notable innovations have regularly introduced modifications in both products and processes. All these initiatives fulfill the definition of innovation as per Karol Siedzik (2013) and Manimala (1999). In fact, it is important to have such a culture to sustain innovativeness in the organization.

7 Conclusion

Indian family-owned SMEs have always played an important role in the economic development of the country. They have adapted constantly to changing circumstances to remain competitive. In this chapter, we have focused on innovative SMFEs that have strong governance and succession mechanisms in the family. A select group of these SMEs that we have studied have proven their potential to be change leaders. The 10 case studies discussed in this chapter have proven the validity of the interdependence of succession and innovation for the success and long-term continuity of SMFEs. The underlying message is clear. It is important for all SMFEs, in both manufacturing and services, both commercial and social ventures, to recognize this reality and work toward building a culture of strong governance and succession policies. They have to cultivate innovativeness as a culture and make the family focus on entrepreneurship and innovation to grow to become institutions. The journey forward will call for courage and conviction to face the challenges on both family and business fronts but at all stages of transformation, both smooth succession and innovation will hold the key to success.

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CHAPTER 9

Nurturing and Financing Transgenerational Entrepreneurship

Jeremy C. Y. Cheng, Kevin Au, and Marshall Jen

1 Introduction

Succession has long been a key concern for many of the Asian families-in-business. As one of the most enduring forms of institution in human history, family businesses have faced evolving external disruptors, from macro-trends such as Industry 4.0 and (de)globalization, to periodic volatility such as the US-China Trade War and the COVID-19 pandemic. At the same time, family businesses are prone to internal disruptions given the conflictual goals inherent in the overlapping family, business, and ownership systems (Tagiuri & Davis, 1996), the effects of which are oftentimes amplified in the generational transition. As disruptions become

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the "new normal," the key question is: How should families respond to these disruptions to avoid becoming "a thing of the past" (Aronoff & Ward, 1995)?

In this chapter, we argue that transgenerational entrepreneurship holds a key part of the answer to this question. Transgenerational entrepreneurship is broadly defined as "the process through which a family uses and develops entrepreneurial mindsets … resources and capabilities to create new streams of entrepreneurial, financial and social value across generations" (Habbershon, Nordqvist, & Zellweger, 2010, p. 1). We will focus on key decisions families owning micro, small, and medium enterprises (MSMEs) face in the journey of transgenerational value creation, particularly how they should finance entrepreneurial ventures and activities, either within their own family firm or under the family umbrella, which can help them thrive in the wave of disruptions. We will examine a few family-owned MSMEs in Hong Kong, to contextualize how families nurture and finance transgenerational entrepreneurship.

2 Succession and Entrepreneurship in a Disruptive Era

The disruptions families face challenge several assumptions we hold on leadership succession. While family businesses have encountered different technological disruptions in the human history, the current rate of change brought about by Industry 4.0[1] is unprecedented. According to Business Families Foundation (2015), the business cycle was significantly reduced from 75 years to 15 years. Following this trend, when the rising generation[2] is ready to step up, the legacy business may no longer exist. King and Cheng (2018) found that Asian family businesses took about 28 months from identifying new disruptive technologies, developing relevant response strategies, and implementing these strategies. The trend of

[1] Industry 4.0 combines advanced manufacturing with the Internet of Things to create interconnected manufacturing systems to gather and analyze data across machines and to drive smart decisions and actions back in the physical world. The transformation enables more effective processes to produce higher-quality goods at reduced costs.

[2] The term "rising generation" (Hughes, Massenzio, & Whitaker, 2014) is used instead of "next generation", "incoming generation", or "young generation". The term avoids the derogatory, and often destructive, comparison with the current, incumbent, or older generation. It contains an affirmative possibility and promotes growth and evolution in the rising generation.

"innovate or perish" becomes more obvious, and Industry 4.0 seems to have heightened the new role of innovation in the generational transition process.

Asian families should be cognizant of the burden of their prior success on succession. Factors such as low labor cost and mass production not only have lost their advantages in Industry 4.0 but have also become a burden as families are reluctant to let go because of their perceived sunk costs in winding down the business. The family's perseverance to sustain the legacy business created by ancestors has become a fatal mistake leading to their own decline. The problem is that family businesses in the sunset industry should actively consider exit for a good offer, but the rising generation takes the emotional burden of the prior generations and dare not sell businesses that can no longer bring value to the family. The family may miss the golden opportunity to raise the financial capital needed for real transformation.

In a disruptive era, the family's top priority will not and cannot be passing on the business per se. The business is only the carrier of family entrepreneurship. The primary goal of any entrepreneurial family is to nurture and engage the rising generation, establish and transmit family identity and values to their future leaders, and let the founder's entrepreneurial zeal enact in them. Driving a paradigm shift, families need to take a fresh perspective in defining success in the rising-generation career and mobilizing their financial, human, and social capital to achieve this. King and Cheng (2018) showed that over 70% of the Asian rising generation preferred to start their own ventures and wanted to be start-up entrepreneurs. The researchers argued that families should grab the opportunity to turn rising-generation start-ups or spinoffs into industry disruptors and help the families build a new portfolio of businesses. All these will require careful planning beyond the financial considerations.

3 Family Money: Love or Burden?

Family offers a unique stream of resources in genesis and pursuit of entrepreneurial opportunities by the rising generation (e.g., Habbershon, Williams, & MacMillan, 2003). For instance, the long-term orientation of families affords patient capital in the rising-generation initiatives, which raises the possibility of reaping longer-term growth of innovative and capital-intensive projects. However, the porous boundaries between the family, business, and ownership systems can bring complexities into the picture, where money is not the sole consideration in the financing decision. The presence of differing goals—where family focuses on love while business emphasizes ration—can make financing decisions appear suboptimal from the economic viewpoint. For instance, parents' decision to provide start-up capital can be twisted by the need for being equal among all descendants, and the parents may put "fairness" before meritocracy and viability of the new initiative. Families need to cater for the emotional needs of their members, which can outweigh the rational economic consideration of a family investment at times.

Similarly, based on the socioemotional wealth perspective (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011), studies have shown the interplay between economic and non-economic factors in financing new ventures in family businesses (Au & Kwan, 2009; Edelman, Manolova, Shirokova, & Tsukanova, 2016; Sieger & Minola, 2017). Revealing that family funding is not the major source of start-up capital in Hong Kong and mainland China, Au and Kwan (2009) argued that Chinese entrepreneurs seek initial funding from their family instead of from outsiders only if they expect a lower level of family interference in the new venture and a lower transaction cost. Many rising-generation members avoid seeking start-up funds from their parents because they treasure autonomy to manage the venture according to their own philosophy, and do not want to live under the shadow of their parents and receive continual instructions from them. In terms of transaction costs, the dyadic lender-borrower relationship in a family is fundamentally anchored on trust since the parties involved know each other for an extended period, which builds trust that reduces the need for closely monitoring the venture to ascertain its going concern. Being in close proximity to your borrower can also reduce the information asymmetry or cost to acquire such information. Yet considering a multi-generational family where the family's relationship is not as close as that in the first two generations, without a proper governance system, it will be harder for the lender to ensure that the borrower complies with the expected "contract" and does not act on his/her personal interests. Under these two circumstances, even though families may offer cheaper capital, the rising generation may not treat this financing option favorably.

While many Asian patriarchs see the so-called "love money" from the family (Bygrave, Hay, Ng, & Reynolds, 2003) as a key differentiator of the rising generation's success in their new ventures, extant literature has cast doubt on its altruistic nature (Steier, 2003). Furthermore, studies showed that the family advantage comes more from the extensive social capital rather than the financial capital (Edelman et al., 2016). These researchers found a positive association between the availability of family social capital and the scope of start-up activities, and such an influence lasts for an extended period beyond the start-up phase. Contrary to the prediction of Edelman et al. (2016), more family financial capital suppresses the scope of start-up activities of nascent entrepreneurs. Sieger and Minola (2017) further argued that the family's financial support may carry hidden obligations, which may impede the future performance of the planned venture of the rising generation. Not fulfilling the obligations may have severe consequences. In the Chinese society, for instance, this may mean losing one's face in front of relatives. Sieger and Minola (2017) thus saw financial support by the family as a "poisoned gift." It means "a 'gift' that helps to overcome pressing resource constraints for new venture creation … but it is 'poisoned' in that it indicates strong embeddedness and related obligations … which may have negative anticipated consequences for the planned venture (such as impeded performance) and for the family" (p. 180).

4 Blending Family and Market Forces

Founding resources are fundamental to every new venture. Due to the intrinsic weakness of new ventures and often a lack of track records, it is difficult for the rising generation to obtain formal support and external funds. The difficulty to access finance is heightened in MSMEs (Yoshino & Taghizadeh-Hesary, 2018). The personal network of the rising-generation members, especially their family members and friends, supplements the conventional system and becomes the main way to obtain support for founding resources (Cohen & Sharma, 2016). As discussed, families and their rising-generation members should recognize the dark side of the family money, and plan ways to leverage off the family power at the founding phase while mitigating its negative influences over time, especially in the expansion phase. As we observe from our case studies in the section below, a capital structure that blends familial and market forces, which underlie the "selfless altruistic" and "selfish market" rationalities respectively (Steier, 2003), may be able to push the venture forward, and the rising generation and their family should regularly review the capital structure, and alter it as the venture develops.

To get the best combining the family and market forces, the rising generation should understand the financing options available in their competitive landscape. According to a study by Grab Finance and Bloomberg (2020), the vast majority of MSMEs in Southeast Asia funded their businesses with their own savings (90%), followed by loans from family or friends (40%), bank loans (39%), credit cards (29%), and investors and/or venture capitalists (15%). As funding needs have become more acute over time, non-traditional financing options such as crowd-funding, peer-to-peer (P2P) lending, angel investors, and government programs (e.g., loans, grants, and subsidies) have become more critical for MSMEs, with more than half of owners stating that they would likely turn to these channels within the next three years. While this survey did not specifically target start-ups in the family business setting, the findings largely echoed what Au and Kwan (2009) observed. The pecking order hypothesis, where privately held companies tend to finance their capital needs in a hierarchical fashion, also applied: Personal savings and internal funds are the first to be exhausted, followed by short- and long-term debts, and finally external equity that dilutes control (Poutziouris, 2012).

Figure 1 shows diagrammatically common financing options, from the budding phase to the expansion, growth, and harvesting stages. The families and their rising generation should evaluate their risk tolerance level, the need for financial capital, the readiness to move away from the emotional approach of attracting and retaining capital to the economic approach of capital access. In the ***early founding phase***, personal savings and sales of personal assets to finance the venture can instill a sense of ownership and encourage the rising generation to work harder to make the start-up survive. Granting a substantial seed fund from the family without requiring the personal financial contribution from the rising generation may deprive their motivation as they may not feel the pain of loss. In the ***budding phase***, when the concept of the start-up is gradually proven, loans and investments from family and friends can be introduced, depending on how comfortable the rising generation is with sharing the risk with their family and friends, which has a strong implication if the venture is a failure. Families may consider using a termed loan with increasing interest rates to motivate the rising generation to repay the loan as soon as possible, pushing the rising generation to come face-to-face with market reality while benefiting from the accelerated growth.

In this ***budding and/or early expansion*** stage, engaging a new partner may share risks, and bring in new skills to complement the start-up team.

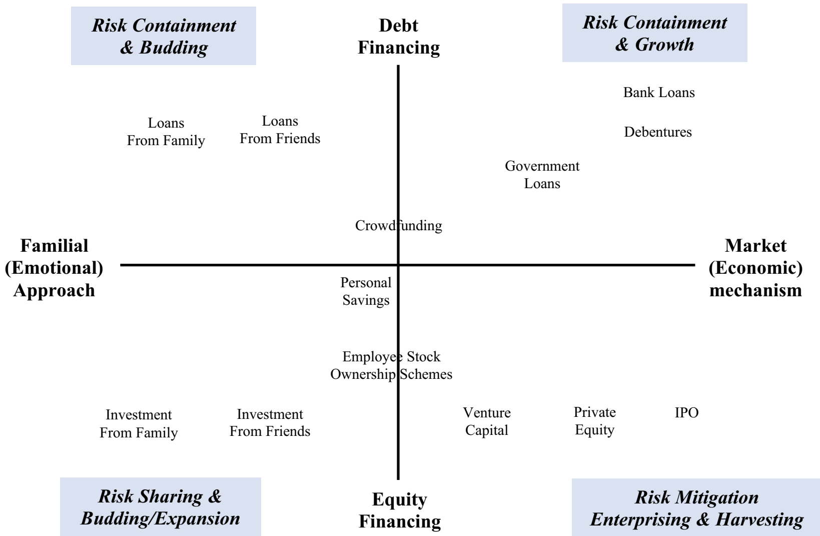

Fig. 1 Financing options categorized according to risk tolerance level and stage of development (*Source* Authors' creation)

The choice of the partners should be strategic: they should bring in leadership qualities and social networks, in addition to financial capital. It should be noted that, compared with love money from friends, the effect of parental love money on entrepreneurial performance is more pronounced. One possible explanation is that parental financial support not only reflects the trust on the rising generation, but also signals the commitment of the rising generation to family's shared future. Having a shared vision and missions can effectively motivate the rising generation to devote themselves to entrepreneurial activities. In a way, family angel investment emphasizes unique vision and risk-taking propensity of the family, and the long-term development potential of the underlying project, which can ultimately regenerate resources back to the familial resource pool.

As the venture grows further and gains track records in the ***growth phase***, asset-backed loans by banks and government programs can be used to sustain development while retaining ownership and control. While families tend to preserve the control mentality (Gomez-Mejia et al., 2011) and are less willing to consider the use of venture capital (VC) and private equity (PE) firms, these are effective means of risk mitigation in the ***enterprising phase***. A symbiotic relationship developed with these parties can strengthen the financial position as well as securing social networks and talents that are beyond the reach of the founding family. Salerno (2019) showed that PE-backed family SMEs outperform non-family counterparts over the post-investment period. Research also showed that VCs valuate family and non-family firms differently. For example, Silva (2006) found that VCs see family businesses as a source of transactions and are willing to structure transactions in different ways (such as accepting more debt rather than equity) to cater for the family's need to retain ownership.

Ultimately, the rising generation may consider merging the successful venture with the parent company. Alternatively, the family may consider going public as a mean to ***harvest the investment***. In brief, in the cycle of new venture development, families should focus on nurturing and supporting the rising generation but not spoiling them or creating undue dependency. It is also important to allow autonomy for the rising generation while maintaining their affiliation with the family in the hope that they will contribute back to the familial resource pool with a very successful venture.

5 Orchestrating Familial Resources to Drive Transgenerational Success

We have a detailed discussion about financing new ventures in the family portfolio so far, but as we pointed out earlier, social capital has a more pervasive impact on start-up activities (Edelman et al., 2016). There are other forms of capital such as spiritual capital (i.e., shared vision, missions, values, core purposes, and beliefs fundamental to the foundation of the family) and structural capital (i.e., mechanisms, structures, and systems developed to help the owning family and/or the business make collective decisions) that may also impact the outcomes of transgenerational development. Families can benefit from a critical review and stocktaking of the resources on hand, grow the missing pieces following the desired goals of the family and the business, and explore how to orchestrate family resources to drive transgenerational success (Habbershon et al., 2003).

Oftentimes, families with an established governance system will consider setting up a committee under the family council to incubate new ventures and steer entrepreneurial learning and development with the rising generation (Cheng, Ho, & Au, 2014). For families with a more sizable wealth, the role can be taken up by a dedicated family office. Yet having a structure does not equate success in resource orchestration. Jaffe (2020) mentioned a case where a fourth-generation family created an active seven-member growth committee, yet without driving any real output:

> We base membership on their careers and experience, not on their family branch. They get together a few times a year to discuss how to grow the business. It's a great idea in theory, but nothing seems to come from it. The members of this growth committee put a lot of time and effort into developing ideas and suggestions. Then, when they take them to the board of directors, the board supports them, but we don't see any results. Hopefully, it will turn into something more than just talking about ideas. (p. 145)

Families need more concrete tools to drive the process of transgenerational value creation, which can bring ideas into actions and allow families to measure their success. We highlight two common structures, namely (i) business plan and (ii) family bank or family investment fund, discussed in the literature, variant forms of which will also be covered in our case studies below. These two tools are by no means exhaustive, and families should always bear in mind the rule of thumb: form follows function.

i. Business plan: a business plan is a tool to instill a thinking and planning process for start-ups by the rising generation. Prepared by the rising generation (with guidance from start-up mentors from the family or from other sources if any), the plan should state the project details and the required resources, and stipulates the terms and conditions such as the loan amount, the repayment period, and the prevailing interest rate. The family investors should know from the plan under what circumstances they can expect a return on their investment or an exit from the firm. It should also consider exit strategies and contingencies, which include the impacts to the rising generation and their family. The plan should be shared with family members from whom financial support is being sought. The family investors can refer to the plan from time to time and discuss deviations and suggest measures so that the initiatives can go back on track.

ii. Family bank or family investment fund: A family bank is an organized structure (not necessarily a legal entity) to provide funding from family members to family members, with the mission and vision to develop the required human, social, and financial capital in the family (Babcock & Rosplock, 2014). Depending on the actual implementation, responsibilities of a family bank may include: carrying out fiscal responsibilities and good stewardship to nurture family ventures; coordinating investment decisions for the shared family pool; securing reasonable returns on investment to support necessary expenses of the bank or fund; overseeing the health of ventures and managing underlying risks of the family portfolio; identifying and growing entrepreneurial interests of the rising generation through education, coaching, mentoring, and career development; and incorporating successful measures to the bigger governance system to enhance family sustainability. Alternatively, families who are less ready for an elaborate family bank can set up an investment fund, to invest in ventures initiated by the rising generation (similar to a family angel fund) or to allow the rising generation to invest in outside ventures following the mandate and regulations of the fund.

The following section will showcase how family-owned MSMEs in Hong Kong nurtured and financed transgenerational entrepreneurship, in response to multifarious disruptions in the city as well as in other parts of the world.

6 Case 1: Rallying Family Support for Disruptive Challenges

Wun Pang Bicycle was a household name established by Raymond Cheng's grandfather back to 1950. From a small workshop offering bicycle repairs services in a street corner in the rural area of Yuen Long to a regional retailer and wholesaler of high-end road and mountain bicycle brands such as Colnago and Merida, Wun Pang meant a lot to the three generations of the Chengs. Despite Raymond's passion toward the firm, his return was greeted by waves of unforeseen challenges while the company's sales slumped for several years. Raymond grew concerned about the future of his 70-year-old family fold and initiated conversations with the family management, his father and uncle, on how to prepare the firm for the "next normal." As he entered the second year of MBA in 2018, the management team approved his business plan and promoted him to the Chief Business Officer role.

Amongst the third-generation members, Raymond was the only one who was invited to serve as a key decision-maker for the company in 2014. Joining the firm freshly out of school with loads of new ideas was not an easy choice for him:

> I think I have been roasted and rejected literally over 100 times by my father, for my ideas to help with different situations and for the ways I handled things… even for staying quiet, I got roasted because he felt that I was not contributing to help with the company's situation.

Before Raymond's return, Wun Pang was battling to recover from the after-effect of the 2008 Asian financial crisis and the 2010 European debt crisis. In 2015, due to globalization, factory brands went online. As a result, Wun Pang's end consumers could get a parallel-import product at as much as 30% cut in the price in Hong Kong; his distribution clients were also able to purchase stocks at a lower price than what Wun Pang offered. The firm was placed at a difficult position as the exclusive regional retailer and wholesaler. Raymond had to find ways to educate his clients and secure their position in Hong Kong. When the sharing economy gained momentum, it affected bicycle rental and retail businesses, to which Wun Pang distributed bicycles. Raymond treated his clients and the cycling community as if they were family. He bore no grudges against his dealerships, who went for cheaper parallel products before. Indeed, he referred customers to shops that were struggling, offered payment allowances, and lowered the minimum order quantity for dealerships which needed a hand. Since then, Wun Pang was recognized as the hub that united the cycling business community.

Shortly after in 2019, however, came the protest against the introduction of the extradition bill in Hong Kong. The outbreak of COVID-19 pandemic that followed had a pervasive impact on the global economy. Over his tenure, Raymond kept thinking why Wun Pang was kept in a passive position in all these crises. Recognizing a lack of control as a distributor in the international market, he reflected on the potential loss in the future if Wun Pang continued to stick to the current business model and rely heavily on others' products to strive. If a similar pandemic were to happen again, not only would they have no control over consumers' demand for bicycles but more importantly, they would lose control in their supply as there was an annual minimum purchasing order for every exclusive brand they signed into.

In his pitch to his father and uncle, Raymond reuttered his grandfather's philosophy:

> Didn't you always tell me that my grandfather never depended on others to keep his family safe and we should bear this mentality of independence at heart? If this is the case, then does it not contradict with the business model we currently have?

Almost immediately, his father and uncle were all ears. They gave Raymond the opportunity to speak his thoughts. "It is time to plan for Wun Pang's independence," continued Raymond. The two seniors were engaged for hours tuning into Raymond's grand vision. In the end, they receded to agree that Wun Pang should set in place some crisis management for the sales drop, transform its management model by integrating decision science with stakeholders' experience, and empower the family business with control. Raymond also launched his plan to build Wun Pang's own bicycle brand, centering its focus to be the first local brand to compete in the World Series. He believed this would bring continual success to the business. With limited resources on hand, he would have to convince key stakeholders why the family should invest in the change. Even though he was allocated HK$2–3 million from the company surplus, it was only 10% of the required fund for the initial launch. Raymond explored how he could finance this project targeting at HK$30 million initially, via different funding options, from government programs to bank loans and also from long-term customers as potential investors. Through this business plan, Raymond appeared to learn his rope to champion the process of orchestrating family financial and social capital to create transgenerational values.

7 Case 2: Embracing Different Entrepreneurial Engagements in the Family

In Kowloon Watch Company (KWC)'s 68 years of operation, it has seen several waves of change. The most recent ones included the industry's shift from luxury to mass market, the decrease in mainland traffic, and an increasing troublesome gray market. Two generations of the Wong family refocused the brand for the digital age, and at the same time, they redefined ways to engage the rising generation via the family portfolio.

A proud second-generation owner and patriarch in his 70s, Kam-shing Wong was instrumental in grooming a family successor to continue the household brand founded by his father, Ho-hung Wong, in 1952. Kam-shing faced hardship when his father passed away suddenly in 1972. As the eldest son, he found no alternative but to give up his dream in aviation engineering, looking after his six younger siblings and running the business. At the age of 65, he presented to the family board a five-year successor development scheme: "I believe nurturing the successor would require five steps: First, start working from the bottom; second, learn to organize work in a small team; third, learn to manage; fourth, co-develop business plans with the top management; and fifth, prepare for and navigate the firm through crises." Kam-shing wanted to pick a young third-generation member, who could steer the firm for another 30 or even 40 years. Kevin Wong, the only son of Kam-shing's youngest brother, was his ideal candidate.

Living in New York and having received a top degree in political science, Kevin had never dreamt of going back to KWC. To his surprise, Kam-shing flew in and attended his graduation ceremony. Unexpectedly, Kam-shing invited him to join the business and be the candidate for the fast-track scheme. While Kevin had some intern experience with the business, he did not really know too much about it. He was aware of the serious commitment behind such a blessing. Thrilled yet intimidated, Kevin could not make an immediate decision. He sat on the idea for another year while working in a cancer treatment center in Washington. On Kam-shing's second visit in a row and with the urge from his father, Kevin was converted into the idea, committing himself to the preservation of the legacy of the bigger family. Forsaking his job at the government agency, he moved from Seattle to Hong Kong and started his journey with KWC in August 2011.

Kevin's accelerated learning with KWC began with the position of project manager, where he had a chance to run four shops downtown together with other ad hoc duties to improve customer services and logistics. Kam-shing handpicked a team of few youngsters for Kevin and fired a staff who showed open rivalry. He overcame the cultural differences, and gradually picked up Cantonese slangs and jargons related to the watch retails. At the end of the first year, Kevin was given a bigger role as business development manager. In this role, Kevin proposed developing an online sales platform for KWC. While Kam-shing believed this was necessary, the funding allocated was quite restricted. But Kevin learnt from this experience how to negotiate new investments in the family firm. A few years later, he was promoted to General Manager after organizing a very successful 60^{th} anniversary of the company.

Yet Kevin's talent was only fully revealed, when he met his MBA fellows, all sharing the dream of changing the world via technological start-ups. This gave birth to Origami Lab. Inspired by the difficulty Kevin's father faced in using smartphones due to visual impairments, their first product, ORII, was a new category of wireless audio device (see Fig. 2). The ring unlocked the benefits of voice assistance while the bone conduction technology delivered private, crystal clear audio through the finger, making your hand an extension of your smartphone. In addition to seeking seed funds from the Wongs, Kevin raised a good sum via a crowdfunding platform of Kickstarter, which swiftly promoted the product to the target niche.

As Origami's CEO who saw his partners as "CEOs in their own right," Kevin wanted to instill a culture which was very different from KWC: "You need to out-logic me, otherwise I am not going to listen to you. I want to build a so-to-speak culture for Origami." A small team with big ambitions, Team ORII was backed by strategic investors that were

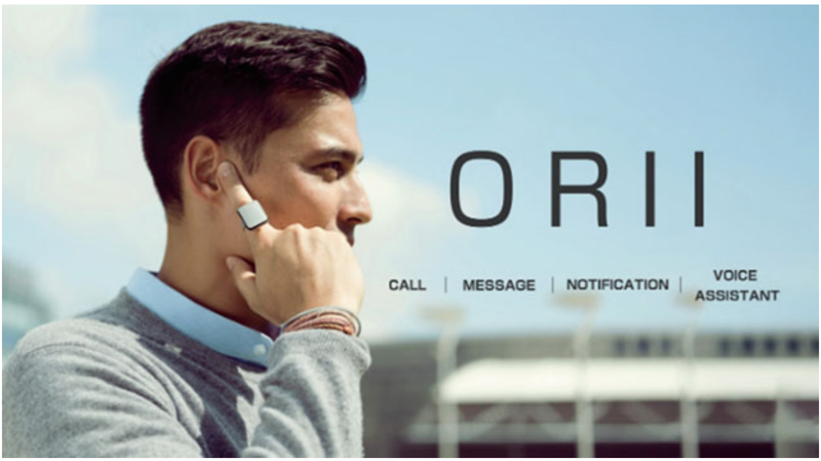

Fig. 2 ORII (*Source* Provided by the case company)

especially suited to enabling the design, manufacturing, and distribution of ORII. The start-up was recognized as Deloitte Rising Star 2017, Hong Kong's Top 10 Hottest Startups, and Champion of Hong Kong Global Elevator World Tour, to name but a few. The family's initial investment was gradually diluted by other PE and VC investments, while the share value was raised by 10 folds in 2019 alone.

Kevin had a dream to take Origami as far as he could. He chose not to follow Kam-shing's succession plan, but contributed to the bigger family missions and created values in different capacities. In his biography, Kevin wrote, "Entrepreneurship and being willing pivot and grow is a critical aspect of family business. A saying in Chinese says that wealth does not pass three generations, but equipped with a learning and open attitude the company is ready to face the challenges ahead." As the only third-generation member in business, Kevin initiated Relativity Lab, a platform which the Wongs used to invest in research and development. Relativity Lab would have technological projects that could apply rather than starting from scratch. Kevin respected Kam-shing, but found it very hard to argue against him sometimes. Kevin wanted to better convey "what investing in a start-up means" and "how it is like to be a shareholder," allowing the venture to run far off and independently from family influences. At times, he did it via his father, who was also a family board member.

8 Case 3: Spin-off from Family Firm Acting as Angel Investor

Founded by the Mok family in 1976, Automatic Manufacturing Limited (AML) began its operations as a contract manufacturer to overseas clients. Over the decades, AML diversified from a plastic injection and mold making company into a provider of multi-technology design and contract manufacturing services for a wide range of electronics products. John Mok, one of the AML's founders, was aware that there was a 30-year gap between the two generations of the Mok family. To continue the family entrepreneurship, he designed a scheme combining family angel investment, family education curriculum, and career development. In a way, the scheme was like a family bank. John expected the leadership transition would occur when the second generation's spin-off businesses were successful enough to be merged with AML. By that stage, each of the rising generation should be able to act as an Executive Director of their

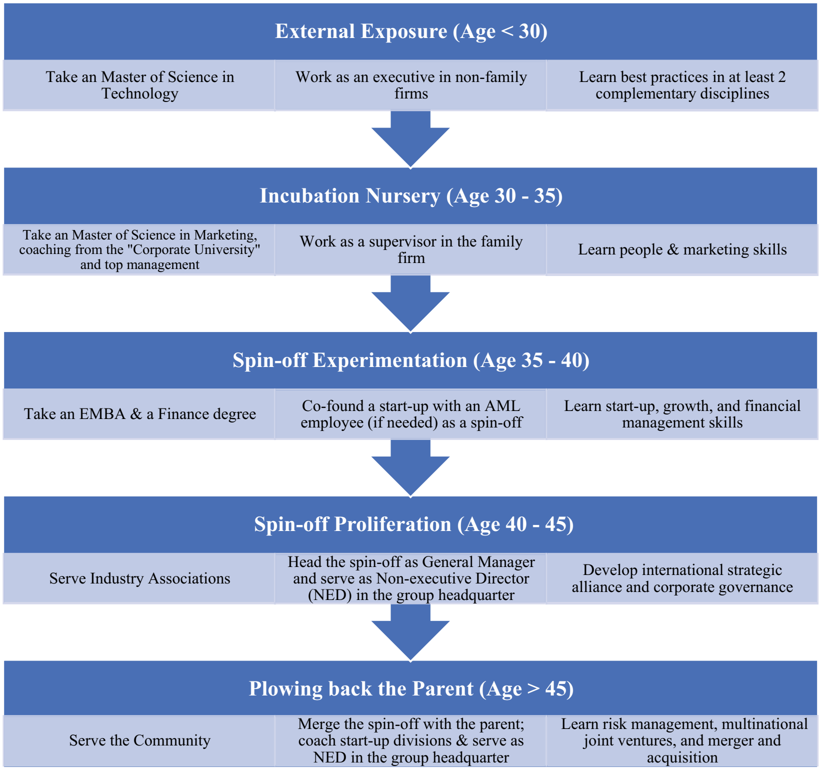

Fig. 3 Spin-off scheme of AML (*Source* Authors' creation)

spin-off business, and the top management team (TMT) could run and grow their divisions profitably without needing to seek frequent advice from the founders. Indeed, the scheme did generate celebrating spin-offs such as Green Continent and Bio Cure Ltd. Orchestrating familial resources, the entire scheme followed the five stages below (see Fig. 3).[3]

i. *External exposure:* The Mok family financially supported the second generation during the pursuit of their specialist Masters in Engineering Technology. Instead of working in AML immediately after

[3] Materials below are modified from Au and Cheng (2015).

college, the rising generation worked as executives in other large firms to learn best practices in at least two complementary disciplines. John explained the rationale behind this idea:

> The second generation don't have the necessary operational skills. If the second generation work in AML straight after college, they would be vulnerable to making bad decisions. Other staff and indeed their mentors may laugh at them. They might either feel intimidated to take risks at work or lose authority for future governance.

ii. *Incubation nursery:* Between the ages of 30 and 35, the second generation was encouraged to return to AML and work as supervisors, receiving "incubation nursery" from the divisional management and the corporate university professors, and completing a Master's degree in Marketing. Acquiring people and marketing skills were the major learning goals of the rising generation.

iii. *Spin-off experimentation:* In their mid-30s, the second generation completed their EMBA and finance education. They then formulated a business idea in a related but non-competitive area and wrote a start-up plan for the patriarchs. The head office might introduce customers and complementary partners to co-author the business plan. With their financial management skills, the rising generation could found or acquire a small company as a TMT or a business division under the corporate parent. With this, John wished to accelerate the revenue growth to secure angel investment before establishing the spin-off. The start-up team might consist of the rising generation himself/herself and, if necessary, existing AML employees. While John encouraged "open recruitment" of people, this did not always guarantee the most experienced people would go with and "escort" the second generation in their new venture. John commented:

> The TMTs are older and very experienced, and they have a very deep understanding of the company. They prefer staying in the head office and in the old divisions. This is because of the generation gap. Those TMTs with a five-year gap with the second generations may be fine; but those with a ten-year gap will not join the second generations.

iv. *Spin-off proliferation:* Approved plans first received seed money from the family. If the concept was proven successful, AML or the family would provide a more substantial loan for the second generation to spin-off a joint venture. John was specific about the size of the funding:

> The new venture must be large enough to challenge the skills of the second generation and make their time and risk worthwhile. As the venture was a substantial size – normally several million Hong Kong dollars – it gave the second generation cause for concern about the survival of their business, driving them to look for clients themselves.

John expected that the risk-reduced path would speed up the growth of the spin-off. At the ages of 40 and 45, the rising generation should serve as General Manager in the spin-off and Non-executive Director in the head office.

v. *Plowing back the parent:* As the venture matured and became profitable, the rising generation should merge the spin-off with AML in exchange for shares. In other words, the second generation should buy back or even take over the corporate parent. After the merger, the second generation should operate their own division as Executive Directors, serve on the board of the group, and coach new start-ups. John believed that this arrangement was a good way of developing the rising generation.

9 Discussion and Conclusion

Table 1 summarizes the disruptions the case families perceived, how they nurtured and financed transgenerational entrepreneurship, resource deployment, replenishment, and orchestration in the value creation process. There is, however, no intention to draw any comparisons as we are not sure of their universal applicability. Practices that support a family may not be fully transferrable and yield the same result in another family.

Reading this table, families may benefit from asking the following questions to themselves:

- Do our family have a salient entrepreneurial venture that deserve the involvement of our rising generation? Can this venture prepare us for the "next normal"?
- Can our family fully identify all potential disruptors? How can we reduce the risk of dropping the disruptors from our radar?

Table 1 Case summary and its lessons

	The Cheng Family Wun Pang Bicycle	*The Wong Family Kowloon Watch*	*The Mok Family AML*
Year of establishment	1950	1952	1976
Generation in charge	Third	Third	Second
Entrepreneurial activities, spin-offs, and start-ups	Building her own bicycle brand	Origami Lab; Relativity Lab	Green Continent; Bio Cure Ltd
Perceived major disruptors	Financial crises; globalization; social disruption	Structural industry changes; technological disruption	Technological disruption
Level of formalization for new venture financing and rising-generation development	Low; with the use of business plan; family love money; considered government funding	Medium; extensive use of market devices (e.g., Alibaba Entrepreneurship Fund; Kickstarter; Serie A; Serie B) and family love money; formal succession plan	High; comprehensive and formal spin-off scheme combining family angel investment, family education curriculum, and career development
Deployment of family social capital to advance entrepreneurial activities	Not observed in the interview	Not observed in the interview	AML's client referral to the spin-off; coaching from the top management team and corporate university for spin-off nursery
Entrepreneurial partners	Not available at this stage	MBA fellows as Origami's co-founders	Cousins and AML colleagues as spin-off co-founders
Resource replenishment	Not available at the investment stage	Financial return (share value increase) from Origami; Kevin's service as an informal advisor to the Wong family's investments in R&D projects via Relativity Lab	Expectation to merge successful spin-offs with the parent company; service of the rising generation as non-executive director or executive director of group headquarter

(continued)

Table 1 (continued)

	The Cheng Family Wun Pang Bicycle	*The Wong Family Kowloon Watch*	*The Mok Family AML*
Resource orchestrating	Championed by the rising generation	Championed by the rising generation	Driven by the spin-off scheme

Source *Authors' creation*

- Do we have practices, processes, and systems to finance and support transgenerational entrepreneurship? Do we need to institutionalize them so that they can benefit the future generations?
- Do we leverage off our family's social capital in the new ventures? Or do we blindly focus on the power of the love money?
- Do we need to team up with someone else in the start-up process? What qualities and resources are we looking for from the entrepreneurial partner?
- Do we get the required returns—in terms of the replenishment of the financial, social, and human capital—from the entrepreneurial ventures? Is our familial resource pool sustainable?
- Do our family effectively orchestrate our familial resources? Should we count on a family champion for this? Or do we need to develop a system to ensure a more sustainable performance?

Internal and external disruptions will continue to influence families-in-business, regardless of their business size and their accumulated wealth. At the time this chapter was being written, our world still suffered from the widespread of COVID-19, which took away thousands of lives and widely distorted existing business models and value chains in many industries. We should learn the lesson, and prepare ourselves for future disruptions—or what we called the "next normal"—by embracing transgenerational entrepreneurship in our family values. While family-owned MSMEs may have less resources to respond to these abrupt changes and they are never the first one to be saved by their own banks or governments, they are small enough to allow flexibility and to demonstrate how agile leadership makes a true difference. A positive change can be initiated and championed by a rising-generation member, who simply brings a smart idea to innovate the supply chain or makes use of the disruptive technologies to rejuvenate the business model. While it may seem a bit out of context, yet as we see from the cases on Wun Pang and KWC, with the restricted resources on hand, families can thrive on frugal innovation, and perhaps taking advantages of open innovation as well. COVID-19 presents an unparallel challenge for the rising generation to seek funding for their start-up projects. But we can see that crisis-induced opportunities—mostly counting on digital platforms—catalyze another wave of start-ups, and accelerate generational transition.

Transgenerational entrepreneurship, as argued, is about how families create new streams of values across generations, which potentially prepare families to navigate through the uncharted waters in the disruptive era. Families should take a new lens to view "succession." Instead of asking who the best candidate is to run the legacy business, they should rethink whether the legacy business brings values back to the family. Building a century-old brand carries no value at all if the families cannot capitalize on that. More important is the succession of the family entrepreneurial spirit. Wealth creators who live through the tough journey building the family enterprise from scratch may not necessarily know how to nurture this tacit quality in the rising generation. Ability to drive new ventures by deploying the familial resource pool and power to create a value-driven portfolio should be the skills business families should look for in the new generation of leaders. Rising-generation members are a family's asset, but if the family does not develop them properly, they can become a liability. Multigenerational families often provide financial, social, and human capital to do this, and at the same time, they can orchestrate various efforts to drive transgenerational success. Last but not least, build a sustainable familial resource pool and embrace the paradigm shift.

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CHAPTER 10

Digital Transformation of Family Small-to-Medium-Sized Enterprises

Shu-Ting Chan

1 Preface

Along with the vigorously emerging development of information and intelligence technology, the application of commerce and technology has changed the ways producers think and consumers behave and been constantly impacting the patterns of business management and global business environment. Digital transformation will become an important way for successors to get involved in the family business's management in the process of growth and succession of Small and Medium Enterprises (SMEs). For a long time it has been the key to sustainability that family businesses are willing to commit to innovation and invest more resources. The growth of family businesses requires the participation of entrepreneurs and their family members so that the companies can strive to thrive in the target industries. Facing the global trend toward digital transformation artificial intelligence (AI) block chain cloud computing mobile application big data and digital content have been intensifying the influences over business management. To keep up with transformation

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whether in industry of commercial service or manufacturing it is crucial to generate the growth momentum by importing automated production digital management or the cloud business model. Digital transformation of SMEs has become one of the challenges for family businesses.

Family businesses are often confronted with trans-generational gaps in digitalization which the next generation excitedly embraces with the current generation being more cautious about the pace of reform. For family-owned SMEs in the face of the impact of automation technology and application of digital technology it is crucial and inevitable to break the existing ways of marketing in production supply chain product layout development of information technology and application of business models not to mention the difficulties in the shifting and communication between business owners and successors in terms of business ideas and positions.

Researches indicate unique resources in the family owned by each family business play an important role in trans-generational entrepreneurship. Although SMEs compared with large enterprises have limitations on finance human resources and R&D (Research and Design) hence are less willing to take risks in innovation strategy data show that in fact quite a few innovative activities are launched by SMEs and 90% of global companies are SMEs. Studies found that the ways family businesses invest managerial resources and innovation are dependent on two different strategic positions either choosing to enhance the ones in original industries (incremental innovation through improving the production process or product) or to develop the ones in new industries (radical innovation by taking into account the synergy between new businesses and existing businesses).

How SMEs undergo digital transformation will also vary with the strategic positions of trans-generational entrepreneurship. The following are two cases in clustering traditional manufacturing and business service presented here to illustrate the digital transformation of SMEs in two different strategic positions which are to upgrade in original industries or to develop in new industries. In the first case introduction of ERP (Enterprise Resource Planning) system in screw manufacturing business shows in the process of adopting institutionalized management system by the second generation the involvement of family communication staff education and training coordination with third party and the changes in the practice of institutionalized management by the new generation. In the second case in the service industry the strategy of developing new businesses through diversification explains how family successors can exploit new businesses by e-commerce applying digital technology and establish their systematic understanding of family businesses.

2 Introduction of an ERP System for Transformation by the Second Generation in Manufacturing Industry

For SMEs, the introduction of an ERP system is closely connected with business model. Along with changing and updating of business paradigm, an ERP system, based on the enterprise architecture, should also evolve to meet business needs. However, a customized ERP system turns out below expectation, which may result from the drawback of customized information system, the customization will repeat the mistakes of production processes if the beginning is wrong. Faced with future challenges, if too scattered, large or small, information systems will, providing information of no use and in disorder, not function essentially in management. Moreover, SMEs in traditional industries, especially those in the clustering screw industry, have complicated production and manufacturing processes, and usually need to cooperate with third parties in the cluster. In addition, the traditional industry emphasizes craftsmanship and experience, which makes it more difficult to promote the transformation of ERP system.

Known as the kingdom of screws, Taiwan is export-oriented, with a direct export sales ratio of about 80%, with an output value of about 88.5 billion (New Taiwan) dollars in 2015. SMEs constitute the majority of screw industry, in which there are a total of 1275 manufacturers, with about 25,900 employees, mostly situated in New Taipei City, Taichung, Changhua, Tainan, and Kaohsiung, among which Gangshan District in Kaohsiung, known as “Den of Screw,” has the highest density of all. In production of screw and nut, most companies form the production network by the division of labor, cooperating with one another through outsourcing, contracts, or agreements. For example, the core factories oversee R&D, trial-production, quality control, after-sale service, and marketing, with cooperative factories in charge of semi-finished products or components and are responsible for precision finishing and final assembly afterward. It is a prominent feature in the screw-and-nut industry in Taiwan.

In the case of a screw company, the third-generation successor, aiming to improve product quality and control of production process, introduces institutionalized management to strengthen the strategic positioning in the original industry, by adopting computerized resource management system. In order to smoothly promote the system, in the support of the family in control (chairman of the board of directors, board of directors), the successor makes the internal information transparent, increases the efficiency of management, and spares the communication cost and unnecessary mistakes, by regulating accounting information, field management, and material management, and by communicating with employees and third parties.

3 A Case of the Screw Industry—Sheh Fung Screws Co., Ltd Co

Sheh Fung Screws Co., Ltd was founded in 1973, from which five out of a thousand of global screws come, and more than 95% of products, customized screws of construction engineering, outdoors and home DIY repairing, are exporting to mostly America, Europe, Oceania, and Asia. In 2018, the global economy was hit by US-China trade war, protectionism escalating, and the growth momentum of global trade was affected. Coupled with the uncertainties, such as changes in the global financial situation and geopolitical risks, the growth of international trade slowed down. However, Sheh Fung Screws Co., Ltd grew against the trend in 2018, with its turnover reaching a ten-year high. In 2019, Sheh Fung Screws Co., Ltd focused on continuous improvement of production equipment automation, improving the design of assistive device for human-machine integration, and introducing Internet of Things in production equipment. In the future, supplemented by big data analysis, Sheh Fung Screws Co., Ltd will gradually establish production traceability.

Sheh Fung Screws Co., Ltd has competitive advantage of technology niche, cost niche, and stable material supply. Nonetheless, with steady business growth and increasing complexity in business and trading patterns, the original computer system, which requires manual data input and does not support resource sharing, starts to break down, causing several involved parties to miss the right timings of decision-making.

Kent Chen, the successor of the third generation of Sheh Fung Screws Co., Ltd, started to work as a procurement specialist in 2003, going through being supervisor of the department of procurement and production management, special assistant of general manager and R&D supervisor, vice president of sales, and served as the general manager until 2011. The introduction of ERP in Sheh Fung Screws Co., Ltd has a great relevance with the succeeding and training process (Table 1) of Kent Chen. For a family business in screw industry, with detailed division of labor in manufacturing process and complete cooperative outsourcing system, it is the key to introducing ERP system successfully and digital transformation, in the process of adopting enterprise resource management software packages, to communicate and coordinate with outsourcing suppliers, employees, the (family of) chair of the board of directors for support.

4 The Digital Transformation Process of Sheh Fung Screws Co., Ltd

(4.1) As for the first-time failure, Sheh Fung Screws Co., Ltd failed by introducing a customizing ERP system. Complete customization leads to information complexity, which requires more time and energy to interpret, making it difficult to make decisions or leading to wrong decision-making.

There used to be an office in Taipei, responsible for trade order processing and customer contact with accounting and order software, and a factory in Kaohsiung, in charge of production and manufacturing with production management software. At that time, it is customized systems used for accounting and production with simplicity, unable to effectively connect and utilize because of different applications between office and factory. Therefore, during the system integration project conducted in 2005, the company decided to purchase an ERP system from the same company, in consideration of the usage habit of financial package software.

The system can meet demands of management in different business scales and natures of industry, by the help of system consultants, making customized changes according to business needs. However, when the composition of customization becomes greater than what has been set of suits in the preceding phase, it shows that the logics of different users from different divisions are tremendously diversifying, such as operation and computational logic, from department of sales, production,

Table 1 History of Sheh Fung Screws Co., Ltd, introduction of ERP system, and successor training

Year	*Events*	*Process of introducing ERP system*	*Family succession*
1973	Established Sheh Fung Screws Co., Ltd Co.		Founder F.-L. Du
1985	Made "S" as the company's mark		
1986	Research and development the mold of self-tapping screws		
1989	Ranked into Top 1000 Enterprises of Commonwealth Magazine (Taiwan)		
1991	Research and development of heterogeneous binding technology between stainless steel and low carbon steel		

Year	*Events*	*Process of introducing ERP system*	*Family succession*
1996	Research and development of third-generation surface coating technology TUFCOTE to enhance rust resistance		
2001	Certified by CNLA laboratory		
2003	Certified by international quality assurance system ISO9000		In 2003, Kent Chen started working in the enterprise; in 2003–2004, he served as the procurement specialist, responsible for the procurement department, which used to be part of the department of personnel and general affairs; from 2004 to 2006, he served as the supervisor of the department of procurement and assisted in supplier management (under the category of production management)
2005	Given Awards for Excellent Trading Businesses	Started introducing ERP system	

(continued)

Table 1 (continued)

Year	*Events*	*Process of introducing ERP system*	*Family succession*
2006	Developed chromium-free process and coating technology		
2007	QC-080000 green production	Digiwin ERP system officially launched	General manager D.-l. Chen (father of Kent Chen) took over as chairman
2008	Certified ISO 14001:2004		In 2006 to 2009, Kent Chen was appointed as a special assistant to help the overall management of enterprises and factories
2011	Merged S.C. industrial co., ltd and conducted an initial public offering	SAP system project launched in March; switched online in November	From the beginning of 2009 to the end of 2010, Kent Chen served as vice president of sales department and R&D supervisor, general manager since 2011
2012	Listed at emerging stock market	Approval system introduced; “supplier platform” and “warehouse management system of packaging material warehouses” developed	
2013	Audit committee established. Remuneration committee established. 2012 corporate social responsibility report completed	Introduction of SAP business intelligence report system	
2014	New sewage disposal equipment in Qiaotou factory constructed. Termination at emerging stock market	Introduction of the manufacturing execution system	

Year	*Events*	*Process of introducing ERP system*	*Family succession*
2015	New factory in Mituo completed. Renamed Sheh Fung Screws Co., Ltd Co., Ltd 2014 corporate social responsibility report completed	Introduction of the dynamic scheduling system in cooperation with Department of Mechatronics Engineering, National Kaohsiung University of Science and Technology	
2016	Listed at emerging stock market 2015 corporate social responsibility report completed	Developed the B2B web platform	
2018	Introduction of automated production system	Introduction of Internet of Things for production equipment, to be supplemented by big data analysis in the future	

Source Author's creation based on information from Sheh Fung Screws Co., Ltd and finance, are different. It is overly customization that results in that users from different divisions modify with their own logics and habits, without corresponding to information from others, and that information is misinterpreted or not to be interpreted, which not only costs time and energy for audit and communication but also leads to decisions with error. Information disorder becomes a major dilemma for the management.

(4.2) When it came to its second chance, Sheh Fung Screws Co., Ltd tried to revise previous mistakes. It established a product department to coordinate information from each division, teach outsourcing manufacturers for cooperation, and make the system run successfully.

Less than five years later, the management of Sheh Fung Screws Co., Ltd chose SAP as the new system, with the SAP project launched in 2011 and officially put into use in 2012. In the beginning of introduction, correct input data needed to be overcome with the most urgency because all in data was input with such detail to be dealt with by general concepts. Sheh Fung Screws Co., Ltd established the product department, in order to solve the problem of data disorder due to respective input by each division, to coordinate information from department of sales, production, quality control and packaging, to filter and delete unnecessary data, and to conduct final inspection.

For Sheh Fung Screws Co., Ltd in reform, with unique clustering relationships and way of cooperating with third parties, there was substantial impact on supply chain to promote ERP system. Most of outsourcers of Sheh Fung Screws Co., Ltd were traditional factories, some of which were in size of domestic factory. In the condition of lacking equipment, knowledge, and manpower, promoting outsourcers to use the system of Sheh Fung Screws Co., Ltd became a challenge. Hence, in the beginning of promoting the supplier platform subsystem, Sheh Fung Screws Co., Ltd appointed supervisors of department of production management to coordinate and guide outsourcing vendors in relation to how to use, even by providing printed bar code for to outsourcers for shipping. Up to now, the supply chain has been constantly adjusted, with finished construction of two automatic warehouse systems, SAP ERP, Manufacturing Execution System, RFID TAG Production Process Management System, Dynamic Scheduling Management System, Mold Management System, etc., actively promoting intelligent production and management in professional manufacturing. With the popularity of mobile phone and Internet, the following development of B2B web platform on cell phone enables suppliers to timely stock up for production and to confirm the quantities after shipping has been done.

(4.3) Difficulties and growth in the digital transformation process of Sheh Fung Screws Co., Ltd.

As the business grows, the management system has been increasingly important for Sheh Fung Screws Co., Ltd in operation and decision-making. In the process of introducing the ERP system, the general manager Kent Chen, the third-generation successor and the core leader of system introduction, said that the most difficult part still lies in communication. There are three entities involved in communication. The first entity is the family in control of the enterprise. However, there is little trouble in obtaining the support of the family, since the family members basically agree with the reform plans by the new successor. The second entity is the communication with employees. Most employees in traditional industries are not highly educated, unfamiliar with the operation of the computer system. Thus, more patience and communication must be given to vocational training. The third entity is the cooperation of third parties. It requires communication, cooperation, and assistance among one another to lead third parties to cooperate for improving quality control and altogether upgrading, at the time of EPR introduction. Moreover, at the same time of system introduction, how the enterprise positions ERP system in helping make decisions of business management will decide what role ERP system plays in institutionalization. With a proper mechanism of empowerment, the involvement of professional managers inside enterprise, owing to their loyalty toward the family business and familiarity with what business operation would require, will strengthen entrepreneurship of the new generation leader, confront the crises of the second or third transformation in the business life cycle, and result in the growth of the family business.

5 E-Commerce Transformation by Second Generation in a Business Service Company

The above-mentioned case indicates the process of digital transformation by introducing ERP system, undertaken by a family business in traditional manufacturing industry, which intends to strengthen its own strategic positioning. Besides, there is one other important way of trans-generational entrepreneurship, discovering new positioning in new business. Through radical innovation, family successors develop new businesses, outside its own industry, by diversification with resources and technical capabilities within family business.

Electronic commerce (e-commerce) has been growing by two digits every year. Online shopping is popular among customers. For SMEs, e-commerce has undoubtedly been a new business channel for developing family businesses. With growing popularity of e-commerce in the competitive market, it prompts business owners to systematically grasp and set forth competitive advantages of product or service in family business, for integrated marketing online and substantially or contacting new customers by cross-border e-commerce. Reviewing historical development history enables successors to have a profound understanding in the culture and characteristics of the family, the enterprise, and its products.

The following is a case in which diversification is applied by a company in manufacturing industry (referred to as "company A") into catering retail industry, illustrating the process and entrepreneurship of e-commerce transformation in family SME. Company A is a stove manufacturer, which gradually expands its business scope, dedicating to operation of coffee bean breeding and baking, and coffee store, after its invention of coffee bean roasting machine has been utility model patented in Japan, German, and Taiwan. Next, through introduction of e-commerce, the successor decides on the positionings and strategies of the company. This case shows how development of e-commerce influences the way successors undergo digital transformation.

5.1 Digital Transformation in Business Service Industry—Profile of Company A

Leaders of Company A come from the third generation of the family business which started from stove manufacturing, products of which are used by Uni-President and Yong Feng Yu Group. Technology in temperature control and roasting accumulated in the past forty years leads to the knowledge of the effect of food characteristics and temperature on ingredient, as a result of the company's long-term efforts in adapting the stove temperature to suit customers' needs. In numerous informal family meetings, interest and specialty of the fourth generation in coffee bring focus of the leaders and successors on research and development of roasting machinery regarding coffee characteristics, which successfully obtained three utility model patents of roasting machinery certified in

Taiwan, Japan, and Germany. After that, business of coffee shops was developed in 2014, expanding new business channels by e-commerce in 2015.

> We have unique technology which has been patented from Japan, Germany and Taiwan. We (company A) can adapt the coffee bean roasting process based on different requirements, which is the core competence of us.

The successfully obtained patents prompt Company A to determine on development of new businesses, because of which the fourth-generation family members come to involve in family business management, as managers and researchers. Family business leaders regard the development of new businesses as the core of family succession in which entrepreneurship leads to involvement of family members, by all or most of whom important decisions are made under discussion. It is typical of family-led leadership, which utilities family resources to fully support in the process of family entrepreneurship.

5.2 Digital Transformation Process of Company a

Family businesses will have to utilize its own technology, resources in business, or family resources, which include leadership styles, social networks, financial capital, decision-making patterns, cultures of business or family, relationships among families, family governance, and knowledge of family members, for new business development. Entrepreneurship performance includes performance in terms of finance, entrepreneurship, and society. Financial performance measures business profitability, such as gross margin, net interest rate (after tax), return on assets, return on investment, and earnings per share. Entrepreneurial performance consists of managerial innovation, technological innovation, product innovation, service innovation, process innovation, patent number. Although still in start-up stage, Company A can bear financial balance in the long run (or even short-term loss) due to backing of capital resources in family, under relatively low stress in financial aspect, compared with that of general start-ups.

At the same time, Company A is quite independent and active in innovative products (patented coffee bean roasting machine) and innovative process (coffee roasting process) and is willing to take risks in investment. Family intend to develop new technologies with potential, possess autonomy in new products, and take risks.

> The coffee shop is set up to get customers' feedback on different degree of roasting, as the foundation of long-term planning and global development, instead of the core of new business. Otherwise, selling coffee to customers, solely via the small store, would not have cover the cost of research and development, personnel, and finance. Establishment of the shop is only a part of the progress in new business development of family business.

Based on its own technology background of family business, Company A sets stove manufacturing as foundation to collect relevant data between temperature control in stove and nutrition in product, developing basic technology, based on the preservation of micronutrition in coffee, for new business. The coffee shop, however, is on the front lines of customer with significantly different qualities from those in the stove manufacturing past. Ways of marketing or sales vary as well. Leaders and fourth-generation successors hold the same attitude toward entrepreneurship and new business development. As a result, important decisions in Company A are made by all or most of family members under discussion, succession being carried out in an invisible way.

> Through the process of reinvesting and developing new business, children play important roles respectively, such as the son passing on technology, the daughter in charge of product development and R&D, and the daughter-in-law respondible for marketing. We spend a lot of time on communication in informal meetings, communicating messages, ideas, and concepts, which represents succession.

(5.2.1) Aggressively expand online channels: develop online ordering and strengthen online marketing, increase product exposure, and enhance family internal communication through e-commerce.

E-commerce has become an important channel for SMEs to develop new markets, and how to master e-commerce marketing usually becomes one of businesses of the new generation. For a family business, the second generation will have to obtain new knowledge of and do a review of corporate culture, family mission, and product advantage, aiming for effective marketing. Besides, it helps successors build up systematical understanding of product in family business by organizing data for online sales and research product line within business.

> The daughter and daughter-in-law are in the charge of e-commerce, who formulate relevant marketing modes to promote substancial operation and consumption through online marketing and online recommendation. Additionally, the daughter is mostly responsible for research and development, and online channel, and the daughter-in-law takes charge of operation in physical stores, which they would discuss with me. In principle I will leave them to their own devices, without trying to interference too much.
>
> Although introduction of e-commerce has not caused much growth in performance, children began to be particularly interested in looking for past (old) stories or photos, by which they will naturally learn more about family history, as well as the core competence and key technology of the family.

The way Company A undergoes marketing includes increasing rate of product diffusion and brand recognition through group buying of online community, providing promotion information of product catalog and for specific days by establishing official website, and enhancing brand exposure in accordance with virtual electronic promotion and online community marketing.

(5.2.2) The next step is to establish an international brand by managing chains and franchises in global markets.

For Company A, it is the strategy of brand establishment and market management to drive substantial operation/consumption by online marketing/recommendation purchase. Consumers understand how Company A contracts with farmers and coffee bean baking process via on-site photographes in physical stores and product catalogs, which leads to knowledge of consumers concerning how baking technology influences the quality of coffee.

The coffee market in Taiwan is so unique that coffee retailing makes inroads into the catering market, which does so to the retail market, and in turn, retail market penetrates coffee retailing. In other words, it is not just visible coffee shops in competition which is diversifying and consists of eatery, western restaurants, and ice cream industry. On the other hand, it is difficult for coffee businesses in Taiwan to survive, given that rents are also an issue. Thus, now many coffee businesses are starting to operate with a more extensive model, towards compound operation. For example, you go into a coffee shop to consume not a cup of coffee, but a lifestyle.

Company A entered department stores in 2018, from initial trial sale of dining car to boutique counter combining with coffee knowledge school. Company A emphasized that multi-channel development is still to understand customer by collecting their consuming behavior and preference, and to know how to communicate with the audience.

With the advantage of patents of three countries, Company A is planning to enter the market of Japan, negotiating business cooperation with The University of Tokyo Hospital. As for business planning, it will develop baking curve of coffee bean produce by the baking machine, committing to various baking levels of coffee beans and products of various properly baked coffee beans, aiming at the international boutique coffee market.

6 Conclusion

Challenges facing family businesses at the point of trans-generational succession include succession, transformation for growth, and entrepreneurship. How succession of SMEs goes is not just about transfer of ownership but also passing down the entrepreneurship. The heir or successor is supposed to have the ability of responding to trends. For family businesses to hold constant dominance in an era of accelerating technology, digitalization, and intelligent competition, it is very necessary to adopt a strategy which can respond to the digital world so as to stimulate digital transformation.

For Sheh Fung Screws Co., Ltd, digital transformation is one of the important aspects of business growth. Along with the promotion from ERP system to automation system, its operation and database replace with scientific, objective, regulatory, and stable systems the uncertain risks of relying on techniques, mostly from the experienced, in traditional industries It prompts optimization of overall tangible and intangible resources, and process configuration. What's more, these principles comply with international practices and capital market, which is conducive to being listed at the emerging stock markets. Applying the concept of data management, prior to industry, to the management of employees and the family enables Sheh Fung Screws Co., Ltd successfully connect to digital management in the robotic era in the future.

For Company A, digital transformation is a channel to explore the market for new family businesses. The new business of Company A shapes its brand by digital marketing and expand channels by e-commerce, developing resource synergy between the new businesses and the existing businesses with radical innovation. It conducts transformation in a new positioning to lead the growth of family businesses.

In two cases, for founders (or the preceding generation) of SMEs, digital transformation requires substantial change and investment with both high potentials and risks. Besides, cognitive discrepancy of founders (or the preceding generation) toward digitalization lets business owners sit on the fence, which makes SMEs more cautious about digital transformation. However, for the second (or following) generation, mostly with tremendous professional background from business of their own family, machines and factories may not be in their interests. It is viable to turn experiences of the first generation into data, which can be used to upgrade management and drive innovation, and as the basis of decision-making for the second (or following) generation. There are several types of key data in company, including equipment status and environmental energy consumption, in addition to traditionally known order, inventory, and revenue, which can possibly be analyzed to bring more new business value. The second (or following) generation can take advantage of the process of digital transformation to effectively understand which procedures need to be adjusted.

If a family business is to undergo transformation through digitalization, the support of the (family of) chairman to the decisions of successors is the key factor of success. Secondly, in the process of promoting digital transformation, gradual employment of succession plan, involving successors with operation of the family business for them to learn more about the industry and the positioning of the family business and to apply learned professional knowledge can bring out possible momentum and sources of growth, helping develop a deeper understanding of family history and core competence in products and continuing vision of the next generation toward the family and its businesses.

In an era of accelerating and innovating technology, digital development may continuously change business model and global business environment. All businesses, including family business, might be faced with challenges that digitalization will bring about. For family businesses, in the process of growth and succession in SMEs, the mastery of digitalization in the following generation will be the opportunity of digital transformation.

CHAPTER 11

Lessons from Mature Economies: Family Firms in Continental Europe and Japan

Li-Hsuan Cheng

1 Introduction

As large firms with dispersed ownership and professional management have risen in the USA. since the early twentieth century, managerial control has been seen as the standard model of modern firms. However, family firms, which are often treated as an outdated model, never lost their significance. Small and medium-sized enterprises (SMEs), which are almost universally under family control, are one pillar of modern market economy. Famous examples including hidden champions in German, the network of "flexible specification" in Northern Italy, and global production networks dominated by Taiwan firms are all great examples of the significance of family firms in contemporary global economy. In addition to SMEs, many large firms in continental Europe, East Asia, and South America are also under family control. Especially in East Asia, rapid economic growth accompanying the tradition of familism has helped produce many large family firms that have great impact on global

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economy. Companies such as Samsung in South Korea, Li Kashing in Hong Kong, Toyota in Japan, and the Formosa Plastic Group in Taiwan are all family firms.

Despite their increasing significance, family firms in East Asia outside Japan are still lacking in long-lasting mechanisms to deal with succession and cope with social and economic transformation due to their relatively short history and immature legal environments. To create an economic environment that can foster long-lasting development, the knowledge about mechanism of control and succession for family firms in mature economies is crucial. The purpose of this chapter is to briefly introduce the possible mechanisms, especially those related to succession, of European and Japanese family firms. Then I discuss how these frameworks can help East-Asian emerging economies to build their own mechanisms.

2 Family Firms in Europe: An Overview

Large firms in continental Europe are more likely to be under family control than their Anglo-Saxon counterparts. While there are many definitions of family firm, in this chapter I use the definition by European Family Business (EFB), the organization affiliated with European Union whose purpose is to improve the governance of European family firms. According to EFB, firms have the following features are labeled as a family firm. First, the majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who holds/hold the major shares in the firm, or in the possession of their spouses, parents, child or children's direct heirs. Second, at least one representative of the family or relatives is formally involved in the governance of the firm. Third, for listed companies, if the person who established or acquired the firm (share capital) or their families or descendants possess 25% of the decision-making rights mandated by their share capital, they can be label as family firms[1] (EFB, 2018).

In 2014, European Union's COSME Program (Competitiveness of Firms and SMEs) launched a six-year project to establish statistics of family firms in Europe. While this project is not finished yet, there are already many important information accumulated about European family

[1] http://www.europeanfamilybusinesses.eu/family-businesses/definition.

firms. According to EFB,[2] there were about 14 million family firms in Europe, which accounts for 70–80% of the total number of firms in 2018. Among firms whose employees are fewer than 50 persons, more than 80% are family firms. Their output were around half of the GDP in Europe.[3]

In terms of sectors, most family firms are concentrated in more traditional sectors such as agriculture, handicraft, construction, tourism, and retailer. The financial and high-tech sectors generally have a lower ratio of family firms, with some exceptions such as the financial sector in Spain. European family firms have the following features. First, their capitals are more likely from self-capital or banks rather than direct financial markets. Second, family firms are more likely to use informal processes for decision making. Third, family firms have a more stable social relationship and thus have stronger social networks and social capital. Hiring is more likely to be relation-based.

With regarding to SMEs, many large firms in continental Europe are also family firms. La Porta, Lopez-de-Silanes, & Schleifer (1999) analyzed twenty largest firms in 27 advanced countries and found that 30% of them can be labeled as family firms based on the definition of 20% shareholding by controlling families. Belgium, Sweden, Denmark, Swiss, Portugal, and Greece had higher-than-average ratios of family firms. In Belgium and Portugal about half of the large firms were family firms, and in Sweden and Portugal 45% of large firms were family firms. If the sample included medium-sized firms, the ratio of family firms rose to 50% in France, 40% in German, and 60% in Italy. Compared with the figures of 20% in USA and of almost zero in UK, family firms obviously had a more important role in continental Europe.

Furthermore, large European family firms shared some features with family SMEs. The most obvious one was firm networks. Though an increasing number of European firms shifted their governance structures toward the US managerialist model in the past two decades, cross-shareholding and interlocks are still more dominant in Europe than in the USA (Ferraro, Schnyder, Heemskerk, Corrado, & Del Vecchio, 2012). Even in Northern Europe where progressive legislation actively promoted board diversity, interlocks among traditional shareholding families were

[2] Overview of Family Firm Relevant Issues, http://www.europeanfamilybusinesses.eu/uploads/Modules/Publications/overview-of-family-business-relevant-issues.pdf.

[3] http://www.europeanfamilybusinesses.eu/uploads/Modules/Publications/pp---family-business-statisticsv2.pdf.

still stable. It reveals the robustness of family firms in European economy (Endling et al., 2012).

The reason why European family firms can survive through long-term economic and social transformation is closely related to their relatively mature governance mechanisms and organizational cultures. Thus, these mechanisms provide important lessons for East Asian family firms. Based on the typology developed by Amable (2003), I divide European countries into four groups: the social democratic model that includes Netherlands, Sweden, Denmark, and Finland; the continental model that includes German and France; the Mediterranean model that includes Italy, Spain, Greek, and Portugal; and the Anglo-Saxon model that includes UK and Ireland. Because family firms are relatively weak in UK, this paper focuses on Nordic, continental European, and Mediterranean models. I also discuss the Japanese model that provides an important comparison.

3 The Nordic Model

Based on Amable's (2003) typology, the Nordic and Low-Country model of capitalism has the following features. On the one hand, these countries have a strong history of pursuing equality and thus have high tax rates and generous welfare spending. Labor unions are also stronger. On the other hand, they also emphasize openness and innovation of their economic environments and do not favor protectionist policies. Family firms are highly institutionalized and play a very important role in the economy. In 2016, the Netherlands had 276,900 family firms, which represented 71% of the total firms. They hired more than 2 million employees. Among those family firms, the average number of employee less than 10 employees is the majority type (EFB, 2017a). In other words, most of the family firms in the Netherlands are the SMEs. Denmark government made a more detailed statistics and showed that family firms represented 60% of all firms. Family firms were especially prevailing in the service sector (72%), but were also very dominant in the manufacturing sector (57%) (EFB, 2017b). In Finland, family firms hired about 70% of employees in non-financial sectors. However, Finish economy was more concentrated on large firms and thus family firms only contributed to 39.9% of the total value created by the business sector (EFB, 2017c).

While most family firms in Northern Europe are also SMEs, large family firms in this area, especially in Denmark, have developed a unique institution to balance professional management and family ownership:

the industrial foundation. Many world-famous European firms, such as Borsch, Ikea, Maersk, Rolex, Calsberg, and Lego belong to this model. Especially in Denmark, one-fourth of companies and 60% of public listed companies were run by industrial foundations. In this model, controlling families do not own and control the companies. Instead, after the founder donated the ownership into one or more industrial foundations, the founding firm will be owned and controlled by the industrial foundations, and can be taken as foundation-owned firm instead of the family-owned firm.

According to Thomsen and Rose (2012), an industrial foundation is defined by the following features. First, shareholding families transfer their shares to industrial foundations in the form of donation. In other words, shareholding families cannot take their shares back once the donation process is complete. This is the major difference between an industrial foundation and a trust. Second, an industrial foundation has its own legal personality and the endowment is run by an independent board. Therefore, controlling families do not directly intervene with everyday operation of companies; the operation of an industrial foundation must be based on the protocol drafted at its beginning. Finally, unlike other forms of foundations such as charity foundation, an industrial foundation can realize their shareholder's right and participate in firm operation (Thomsen, 2017.

Industrial foundations have the following merits. First, it can avoid dispersion of shares and help controlling families prevent hostile takeovers. Second, this model of control allows more stable governance and development of long-term strategies. It is also compatible with long-term employment characteristic of European capitalism. Finally, foundation control allows combination of family succession and professional management. There are diverse models of foundation control. The first type is registered as a charity foundation which is used to control companies. The most famous example is the Indian Automaker "Tata." However, this kind of practice is not allowed in many European countries. The second model, which is very popular in Denmark, is business foundation. In this model, a foundation has no obligation to donate its revenue to charity and is allowed to be fully committed to corporate governance as the rules are clearly written in the protocol. The third type is a family foundation whose purpose is to maintain or to promote the well-being of the offspring of a family. The most important feature distinguishing it from a trust is that its operation must be based on the protocol. The everyday operation can be handled by hired managers or a member of the family (Hansman & Thomsen, 2017).

According to Thomsen (2017), foundation control has a long history and has flourished since the end of World War II driven by high inheritance tax in Northern and Western Europe. Donation to foundation has been an important means to reduce tax. While Sweden and Finland abolished their inheritance tax in the last two decades, Denmark are still maintaining high inheritance tax and thus donation to foundations is an attractive way for tax saving. Denmark has 1400 industrial foundations and the number keeps growing in recent years. Companies controlled by industrial foundations hired 250 thousand employees in 2004 and 350 thousand in 2010, and held shares whose market values rose from 260 billion to 350 billion DKK in 2011. In other words, the 2008 financial crisis did not compromise the scales and functions of industrial foundations but rather strengthened them. Given the high tax rate in Denmark, the fact that most globally competitive firms are controlled by foundations shows its important merits.

4 The German Model

Unlike many countries where family firms are largely concentrated in domestic sectors, in Germany family firms play a very significant role in export.

In the literature of comparative political economy, German is usually labeled as a typical case of coordinated market economy or Rhine model characterized by strong ties between large firms, unions and large banks (Amable, 2003). However, medium firms, which is called Mittelstand and mostly owned by families, are an often-overlooked pillar of German economy.

According to Institute for SMEs Research in Bonn (Institut für Mittelstandsforschung) (2012), in 2011 Mittelstands accounted for 42.5% of total export and showed their role in constituting the strength of German manufacturing. A typical Mittelstand has the following features. First, the number of its employees must be lower than 500. Second, in terms of corporate control and governance, it is generally dominated by founding families. Its management highly relies on senior employees. Third, unlike large firms whose governance is highly contingent on their relationship with banks, a Mittelstand limits their relationships with banks to pure borrowing. Finally, a Mittelstand tends to sustain stable employment and unions are generally weaker. Stakeholders including employees are important in governance. Mittelstands play no small part in domestic sectors, they were crucial in German's industrial strength and formed a more decentralized economic order before the rise of large firms in the 1970s (Berghoff, 2006; Herrigel, 1996).

According to Institut für Mittelstandsforschung Bonn (2012), there are 3.7 million firms and 99% of them can be labeled as Mittelstand. They contributed to half of German GDP and hired more than 15 million people, which was around 60% of all employees. The famous system of vocational training in German is also buttressed by Mittelstand. Unlike many countries where SMEs are concentrated on the service sector, a major feature of German Mittelstand is their focus on manufacturing, especially capital goods. Even during the Great Recession since 2008, the hiring and investment by Mittelstand continued growing and played an increasingly important role in German competitiveness. The Mittelstand model has the following advantages. First, thanks to their independent finance and stable management, many Mittelstand can develop long-term strategies without considering short-term financial markets goals. This advantage helps them avoid the worst impact of the financial tsunami in 2008. Second, their stable relationship with employees, related firms, and local communities allows them to focus on specific niches and social responsibility. The famous model of German "hidden champions," in which firms focus on specific niches to attain leading positions in the world, is mostly done by Mittelstand (Simon, 1992).

Some German family firms also adopt the model of Nordic industrial foundation. The most famous example is the Krupp groups (James, 2012). However, the majority of large family firms do not adopt this model but instead use direct family shareholding as the major strategy. On the other hand, in contrast to large firms whose governance is highly related with large banks, Mittelstands are more self-sufficient and highly reliant on family members for management. Recently, increasingly intense global competition triggered transformation for Mittelstand. Many Mittelstands hired more outside managers, established more interfirm cooperation, and conducted more globalized operation (Berghoff, 2006).

In terms of succession, there are both advantages and disadvantages for Mittelstands. On the one hand, family succession is still the major challenge for the Mittelstand model. While the majority of them hope for internal succession, not every firm can fulfill their plans. According to report KFW (2018), 20% of German's Mittelstands, namely, eight hundred thousand family firms, were considering ending their business. Fourteen percent, around five hundred thousand firms, have plan for succession in five years. Among these firms, half of them plan to transfer the control to family members and forty percent were considering selling to outside groups. Twenty percent of them are considering giving control to employees. Half of them still lack concrete plans.

On the other hand, there has been a steady trend for Mittelstands to institutionalized governance, build professional management, and decrease the influence of founding families, while at the same time retaining the control for family members (Bergoff, 2006). The most important efforts are family constitutions and advisory boards. More than one-third of all family firms in Germany have company constitution, and also one-third of them have established advisory boards that can strengthen their management (Institut für Mittelstandsforschung [SMEs Research] Bonn, 2012). In other words, while German family firms are not as institutionalized as their Nordic counterparts, they are moving in the same direction.

5 The Mediterranean Model

The Mediterranean model of capitalism has the following features. First, it tends to have stronger government regulation for a variety of markets. Second, their firm and welfare system are built on more traditional systems. As a result, family firm played a much more salient role in Southern Europe. According to Italian Association of Family Firms (AIDAF), there were 784,000 family firms in Italy. They account for 85% of all firms and hire 70% of total employees. Italy is unique for having family firms with a very long history. Among the 100 oldest existing firms, fifteen are located in Italy. The oldest one can even be traced to 1000 years ago. Italian family firms rarely adopt the northern European style of foundation control. Banks have very limited influences on them. Two-third of family firms are operated by family members, the highest number among European countries. On the other hand, in Spain 78.6% of all firms were family firms. In agriculture, manufacturing, and construction, more than 80% were family firms. In 2013, they employed about three million employees, about 60% of total employees of the private sector (EFB, 2015).

Due to their unique structures and cultures, Italian family firms have received great attention from academia and have strong theoretical implications. In the 1980s, the Italian model of inter-firm networks was believed to be a remedy to mass production and the future model of efficient production. Piore and Sable (1984) suggested that SMEs in Northern Italy have successfully developed a model of “flexible specialization” that produces high-quality products in a flexible fashion and creates the competitiveness of Italian economy. However, because the Italian family firms are still concentrated on more traditional sector such as textile, shoemaking, furniture, machinery automobile, and so on, they are generally less internationalized. Many suspect that the recent stagnancy of Italian economy may be attributable to the limitation of SMEs. However, further studies show a more complicated picture; Italian family firms do not have worse performance than non-family ones (Culasso et al., 2012).

Italian family firms also face the problem of succession. Studies show that firms totally run by family members have worse performance than those hiring outside managers (Cucculellia & Micuccib, 2008). According to Family Firm Successful Succession (FBUSS), a project sponsored by European Union, there will be one million SMEs facing problems of succession in the next ten years. Because the Italian tax system is very favorable to family succession and thus encourages internal succession in firms. However, Italian family firms still face similar problems with those in other countries, including succession plans, training, corporate governance, and human resource, and so on. However, because Italian family firms have strong networks, deep-rooted family traditions, and long-term involvement in their individual sectors, successful succession is far from rare (FBUSS, 2016).

Recently many family firms in Italy and Spain began to make international expansion. Collia, Garcı´a-Canalb, & Guille´n, (2013) showed that when these family firms expanded, they maintained the trust formed earlier with firm partners but granted more freedom to managers to develop local strategies. In other words, some characteristics of family firms, including stable social capital, trust, and long-term strategies, are compatible with internationalization. Middle-sized family firms are also key players in economic transition. Some family firms were very internationalized and developed diverse strategies based on local environments (Pongelli et al., 2016). In other words, family firms in Southern Europe that have deep roots with domestic cultures were also experiencing transformation in the era of globalization.

6 Japanese Family Firms

The typical contemporary Japanese model of corporate governance is controlled by managers with life-time employment; in most Japanese large firms the board of directors is a stage of promotion of managers, not a group that is represented the relative power and control of the shareholder compositions. This model is different from either managerial control in the Anglo-Saxon world or family control in Europe and East Asia. Before World War II, Japanese Zaibatsus, including Mitsubishi, Mitsui, and Sumimoto, were all family firms. Controlling families used shareholding firms to control the whole business groups. After World War II, the US occupational authority dissolved Zaibatsu to avoid the resurgence of Fascism. The control of these large firms thus shifted to the hands of professional managers and gradually managerial control became the dominant model of Japanese large firms. Despite the gradual change of shareholding structures in the last two decades, this model of control did not change much (Lincoln & Gerlach, 2004).

Like most countries, most SMEs in Japan are family firms. According to the 2019 white paper on small-and-medium enterprises in Japan, there were 3.5 million SMEs and represented 99.7% of the total firms. Among those with business succession, 55.4% of the successors were family members, 19.1% were other members of the board or employees, and 16.5% were external firms. To avoid economic damages caused by failed succession, Japanese government launched several programs and policies to assist the SMEs on smooth succession (Small and Medium Firm Agency, 2019).

While family control is not the mainstream model for large firms, based on the definition of board participation, there are still several large family firms such as Toyota, Matsushita, and Sanyo, is legally taken as a "family"-controlled firm. The most important feature of Japanese family firms is their reliance on social norms to solve the problem of succession. There are two major norms. First, the unique system of adult adoption allows Japanese family firms to recruit talented managers to be successor in the form of adopted son. Second, the Japanese concept of community firms that treats a company as a large family allows Japanese family firms to integrate family members and professional managers.

The key feature of Japanese family firms is the unique system of adult adoption. While in most countries adoptees are mostly children, in Japan a great part of adoptees are adults, and in many occasions are sons-in-law.

Therefore, firm leaders of family firms can solve the problem of succession by adopting the promising managers or even arranging marriages between them and their daughters. By doing so, large family firms can combine the merits of professional management and the stability of family firms. Empirical studies find that listed firms run by adopted sons have better performance than those run by professional managers (Mehrotra, Morcka, Shimc, & Wiwattanakantang, 2013). An astounding example of using adoption as a mechanism of succession is the Kajima firm, a leading construction company in Japan. Kajima was built in 1840, and between 1912 and 1984, it was run by adopted sons with strong academic credentials. All of the four chairs of board during this period were all graduates of Department of Civil Engineering in Tokyo University and adopted after marrying the daughters of the Kajima family. Not until 1984 did the company have a successor that is a son of Kajima family. What is noteworthy is that this successor, Kajima Akikazu, was also a graduate of Tokyo University and also had a degree from Harvard University. In other words, while Kajima Construction is a typical family firm run by family members, these family members were chosen based on their merit rather than bloodline.

On the other hand, even for firms that are not necessarily labeled as family firms, the prevalent notion that employees (including managers) are members of a community rather than wage labors also enable managers and family members to cooperate in operating the firms. The most interesting case is Toyota. Toyota Kiichiro established Toyota in 1941. Between 1950 and 1967, the chairs of board were two professional managers. Between 1967 and 1994, the control went back to the hands of family members. Between 1994 and 2009, professional managers served as chairs of board again. The most recent successor is Toyota Shoichiro, the grandson of Toyota Kiichiro. He won the support from senior managers as the Financial Tsunami brought great uncertainty in 2009. In other words, how members of Toyota family participate in firm operation is highly contingent on the economic environment and dynamics in the company.

7 Implications for Emerging Economies

The experiences of family firms in Europe and Japan provide important lessons for family firms in emerging economies. First, even for countries with strong traditions of family firm, succession, social transformation and globalization are still major challenges facing family firms. One key factor determining the family firm's outcomes is the integration of professional management into governance of family firms. Because emerging economies are largely in the stage where most leading firms are controlled by founders, these issues, especially succession, are often overlooked and maybe a big challenge for the lasting of the firm. The experiences of successful European and Japanese family firms show that institutionalization, i.e., adding the formal succession mechanism or incorporating the informal social norm, is the most useful strategy to deal with these challenges. Both formal mechanisms such as industrial foundations in Denmark and family constitutions in Germany and informal norms such as business networks in Italy and community firms in Japan provide valuable tools to deal with internal succession and external challenges. The experiences in Europe and Japan illustrate the importance that the development of a family firm is highly interwoven with the institutional arrangements, formal and informal.

Second, for successful family firms in mature economies, another key measure to deal with challenges such as succession, social transformation, and globalization is maintaining long-term relationships with stakeholders, including employees, local communities, financial institutions, and other firms. While networks are essential for most newly founded firms, they are often abandoned in the process of succession. However, the trust and social capital generated by stable relationships with stakeholders are proven to be indispensable not only for coping with challenges but also for long-term growth. In other words, firm succession is not only about the transfer of property and control to the next generation of the family, but also the transfer of social relationships to the next generation.

In short, the experiences of family firms in continental Europe and Japan provide important implications for family firms in emerging economies. Managerial control is by no means the optimal model of corporate governance for all countries, and family firms are still compatible with rapid social transformation and globalization. While the US style of corporate governance, which is built on the assumptions of managerialism and superiority of financial markets, has strong global influences, both firm leaders and policymakers in emerging economies should pay more attention to other mature economies with strong traditions of family firm. Specifically, the experiences from Europe and Japan may be more applicable to countries with strong emphasize on family firms.

Especially successful family firms in mature economies often have a valuable advantage that is often lost in US-style management—long-term vision. As many emerging economies begin to face slowing growth and more complicated social transformation, the experiences of European and Japanese family firms may provide important lessons on long-lasting development of family firms in Asia.

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CHAPTER 12

Developments and Solutions to the International Predicament for Small-to-Medium-Sized Enterprises

Steve Hsu

1 Introduction

The post-World War II international economic and trading system led by the US has underpinned the development of the division of value chains in the industry across various countries and regional commercial relations. Yet, under the new configuration amid the US-China trade war, the international resource deployment by large-sized enterprises has altered. As SMEs can never isolate themselves from this global trend, they have to reconsider their strategies regarding production, manufacturing, market, sales, talent pipelines, and so forth, in order to adapt to the international value chain rearrangement.

SMEs have a very unique position in the industry of a country. In most countries, including those renowned for having large enterprises, SMEs are the most prevalent form of enterprise in terms of quantity and number

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of employees as well as the foundation supporting the economy of a country. Yet, the threats and challenges SMEs are facing are by no means minute. In terms of corporate size, SMEs have to bear the pressure from large enterprises holding various advantages in terms of the economy of production scale, trading and financing conditions, and capital operation. In terms of innovation, startup enterprises are joining in the battlefield, changing the game's rules through some practices unconventional in the original industry, such as disruptive innovation, transboundary innovation, and participation of cross-border competitors, all of which constitutes an indeed pressing challenge. Under a long-run economic configuration based on integration and complementation between the two economies, China and the US, many Taiwanese SMEs have been formulating their strategic resource deployment targeting markets in the two economies.

In the process of their outward expansion, SMEs generally face the following difficulties. First, they tend not to value the formulation of strategy and execution capability, focusing only on technical manufacturing, rather than on trading, in the value chain, a tendency that is unfavorable to attaining long-run competitive advantages. Second, SMEs are lacking in differentiation and innovative capabilities. Without enough considerations on R&D and designing, they tend to face intense horizontal competition. Third, SMEs are lacking in their capability to integrate managerial institution and technology. Fourth, due to the lone-wolf mentality, departments often act on their own will without communication. Enterprises should reinforce corporation among departments within. Fifth, SMEs often have insufficient number of personnel and they tend to lack constant organizational training. Particularly, in the shock of the US-China trade war, supply chains are forced to restructure. If SMEs lack the capabilities to adapt and to innovate, simply sticking to old thinking and habits, it will be very likely for them to be marginalized in the new value chains (Wu, 2010).

Take SMEs in China for example. Due to the operational difficulties listed above, A SME may suffer from the challenges in the market, such as insufficient competitiveness in the market or the poor resistance to risks. In addition, SMEs will further suffer difficulties in getting loans from the bank on financing expansion. Amid the China-US trade war, export sales are surely affected, along with circulation and mobilization of funds, which will become increasingly restricted. Let me take SMEs in Thailand as an example. The Thailand government once issued a wage adjustment policy, which resulted in an increase in labor cost for SMEs and diverted foreign capital to other countries with lower wage standards. Yet under the impact of the China-US trade war, a large portion of production capacity is moving from China to Southeast Asia. With relatively higher level of workforce and services, According to the government news, Thailand comes to seize the opportunity just right, which provides a very advantageous environment for transformation and upgrading of the industry in Thailand. From the examples of SMEs in China or either in Thailand, it can be concluded that in the process of growth and expansion, SMEs are indeed subject to various impacts from the embedded international settings and thus a SME need to develop the flexible capability to better leverage resources in different countries (Taiwan Trade Center, Bangkok, 2011).

Now let's take a look at the commercial environment in Taiwan. In Taiwan, SMEs account for 98% of the total count of enterprises, which adds up to 1.408 million SMEs, a ratio close to that in Japan, Korea, and Singapore. Though the scale of Taiwanese SMEs is relatively smaller, they all show a trait of high flexibility in terms of both production and sales. With their high flexibility and elasticity, the owners keep learning throughout the process, so as to enhance technical levels and to improve managerial skills. Also, their swift decision-making also enhances the efficiency of resource utilization. However, due to their generally small scale, in terms of production and manufacturing, the enterprises are extremely susceptible to the fluctuation of raw material prices, resulting in higher production costs. In terms of R&D, deficient technical innovation results in the difficulty of transformation and upgrading. Lastly, in terms of marketing, the enterprises tend to engage in price wars in order to seize more orders, which would in turn restrict profits. These are problems SMEs in Taiwan are facing on their way toward further development. Among the huge number of SMEs, except for a minority belonging to the capital-and-technology-intense enterprises, which require a large-scaled input in machines, equipment, factories, and technology, most enterprises require only a low level of products and technologies and a small amount of input in fixed assets. As a result, the short period of cost recovery and the low entry barriers prompt enterprises to flock to the same market. Market shares shrink, profits plummet, and enterprises eventually withdraw from the market due to continual loss. This also results in phenomena such as a relatively a high frequency of SMEs entering and leaving markets and a relatively small number of operating years (Taiwan Research Institute, 2018).

In a retrospect of the course of their development, Taiwanese SMEs did leave a profound impression of boldness and toughness, encapsulated in the Chinese proverb "travelling to all corners of the world with a mere suitcase." But as for today, from the perspective of market, SMEs become reliant on domestic sales. According to the statistics by the Ministry of Economic Affairs, SMEs yield a total revenue of 11.8 trillion NTD in 2015, with a high ratio of 10.3 trillion, or 85%, being domestic sales. In comparison, the ratio of foreign markets declines. In 1997, export sales by SMEs make up 26.4% of the total export sales. In 2016, the figure shrinks to 15.4%. The main reason is that the supply chains in developing countries have risen, while regional economic integration in Taiwan is not adequately established (Luo, 2017). In the shock of the China-US trade war, the economic advantages of large economies such as China, the US, the EU, and Japan are affected. In the trend of the rapid rise of emerging economies such as Southeast Asia, the Middle-East, Central Asia, and Central and South America, exceptional opportunities to take a great leap forward await SMEs, though they are confronted with differences in terms of culture, policy, law, and economy in various countries. The international game rules established in the past decades have been broken. SMEs will face increasingly intense Darwinist competition in the industry. In this situation, SMEs must reconsider their strategies to survive and even to win the battles.

In sum, SMEs still are the key contributors in both industrial development and economy in Taiwan. The exoprt trade and market is still the critical part in SME's growth. So how can SMEs stand out in the new age amid the China-US trade war? We can tackle this question from three aspects, which are organization, strategies, and case studies.

2 Organizational and Sharholder Structure Thinking

Apparently, SMEs have a characteristic of small operational scale and small number of employees. Yet, this is not the real problem which hinders the development of SMEs, nor is it a problem concerning SMEs' technical capabilities and business models. The real problem lies in SMEs' shareholder structure as well as the structure of the board of directors and supervisors.

In Taiwanese SMEs, the structure of the board of directors and the shareholding structure are mostly family-oriented. In many enterprises, management rights generally lie in the hands of family members who are often the major shareholders. The separation of ownership and control is relatively rare in SMEs. The union of ownership and control holds advantages such as swift decision-making and high operational flexibility; yet, the downside of the union of ownership and control will start to emerge, as the enterprise grows, specialization needs to be strengthened inside the organization, and introduction of external talent becomes necessary (Li, 2015).

According to the data from the *White Paper on Small and Medium Enterprises in Taiwan* issued by the Ministry of Economic Affairs in the previous years, in the early stage of development, SMEs are often funded by family members or friends. If we calculate the part of sole proprietorship as a form of family firm, the ratio of family firm to the total number of SMEs is maintained at about 60%. In terms of operation, family members often undertake most of the major decisions in the enterprises, unable to tolerate the opinions of professionals from other disciplinaries. In the relevant studies of the operation of Eastern enterprises, some views suggest that a family-controlled board of directors can have an adverse effect on the enterprise's performance. As the size of a family firm grows, the board is likely to divide into several family fractions, resulting in failure in integrating different opinions and thus poor decision-makings.

In the previous relevant studies, it is shown that family businesses face much restriction in terms of workforce management. For example, as family members take up the limited number of senior executive positions, the tendency of nepotism in the enterprise will be reinforced. The source of workforce supply is thus restricted. As the enterprise cannot recruit more competent and potential employees, the enterprise's competitiveness for long-term development will be affected (Li, 2015). In addition, the operating characteristic such as multi-generational long-term investment will too affect the enterprise's performance.

When there is a lack of funding, enterprises often rely on their family and friends to raise funds and make loans, reluctant to let external funding to affect its ownership and control. Shareholders may have offered their support in funding. But as the size of the enterprise grows, the resources, knowledge, experience, connections required for the growth of SMEs are way beyond what shareholders and the board could afford. As a result, many SMEs get caught in this immobilizing bottleneck, unable to make a further breakthrough. Particularly, for most Taiwanese SMEs, their existing board of directors and management are familiar predominantly with markets in China. Yet, under the new international economic framework, Taiwanese SMEs are not maintaining their advantages in the previously familiar Chinese markets while having to start afresh in adapting to emerging markets in Southeast Asia. As the strategic value of the Japanese market, which is among the key markets in East Asia, becomes clear, the owners of SMEs have to reconsider their strategies and deployment on the level of the board of directors.

The entry of Taiwanese SMEs into the new market may require a larger size of capital. The first problem surfacing is the strategic invitation of shareholders. A corporate leader may have been equipped with knowledge relevant to the industry. Yet, he or she may be not informed enough to make a commercial judgment in other countries or a judgment about the local people. If the enterprise creates a joint venture only based on a limited pool of connections and thus changes the structure of shareholders and the board, all these may have a major potential impact on the enterprise's future development. Though many Taiwanese SMEs recognize the need to invite strategic external shareholders, the original structures of shareholders and the board actually have a hard time getting along with the new capital and participating in its core decision-making. In some cases, the early investors who do not hold any strategic resources for the enterprise's future development may exhibit their desire to the control management in the process of capital increase. In some other cases, due to the over-dispersion of equities, the owners are unable to press the company to start negotiations about the shareholding ratio and share prices of strategic shareholders. As a result, external strategic shareholders have doubts over the SME's shareholder structure and board structure, and tend to withhold their participation.

SMEs often grow to a considerable size gradually by fitting into their niches in the market with their creativity and innovation. But SMEs are often too focused on technology and creativity. They know how to establish the structure of products and services but not how to establish the structure of management. They also lack a comprehensive understanding of the market cycles. The main reason is the neglect of the importance of the shareholder structure and the structure of the board. As a result, their judgments regarding decision-makings are confined to those circumstances within the comfort zone. The defective structures of shareholders and the board often stop strategic shareholders from bringing in the new resources required for the enterprise's growth.

There are numerous cases of this kind in the circle of SMEs. Many SMEs and startups do not have a board of directors and supervisors in the true sense. Most of their boards are formed by angel investors who are predominantly relatives and friends. This operation is necessary and beyond question in the early stage of the enterprise's development. Yet, when the company needs growth or when it faces market upheavals, the problem of lacking adequate resources will surface. Also, due to the lack of deployable resources, the company could only let anticipated opportunities slip away. Introduction of the mechanism of a private peer advisory board may be a feasible solution.

A private peer advisory board is a group of visiting directors and supervisors composed of senior entrepreneurs, leaders of listed companies, venture capitals, senior executives of investment banks, senior accountants, and senior lawyers, established without changing the original board structure in the enterprise. By operating in a form of mock board meeting, a private board will have closed-door discussion on real-world issues with the enterprise's leader and thus become the private think tank for the leaders. On condition that a closed environment and limited participants are ensured and concerns about direct conflict of interests and loss of stock rights are resolved, the leaders of the enterprise can boost the performance of the acting board while having a deeper understanding of the visiting board members' personal connections, knowledge, experience, and opinions through the discussion of real-world issues. As a basis of mutual trust is established, the leaders can officially invite the visiting board to act as official shareholders, independent board members, or consultants. As for the visiting board members, being highly proficient investors and professionals in their own rights, they demonstrate their proficiency through the operation of the peer advisory board, while getting a better understanding of the corporate leaders' operating style, personality, technical energy, and long-term potential from interaction through discussion on real-world issues. As engagement in the peer advisory board amounts to a fairly dutiful investigation into an enterprise, investments, and cooperation on this basis would certainly bear a much lower risk.

During the expansion of their production capacity and businesses, SMEs need to expand their workforce in the executive team as well. Yet, when confronted with decisions such as transformation, upgrading, and international deployment, what needs to be strengthened in the organization is the board of directors and supervisors. For an enterprise, it is impossible to change the board structure freely. Generally, the owners of SMEs refuse to rashly introduce new shareholders, directors, and supervisors in the fear of share dilution and an overcomplicated structure of the board. In this situation, a private peer advisory board independent of the company will become an optimal addition to the enterprise's organization. A private board can broaden the leaders' horizons and offer more deployable resources, without exerting any impact on the existing board structure.

In addition to reinforcing the composition of the board of directors inside the organization, another way through which enterprises adapt to internationalization in the process of outward expansion is mergers and acquisitions. Recent years have seen the rise of a trend of mergers and acquisitions around the globe. Among the reasons behind all these acquisitions and mergers are expansion of the enterprise's size and operating scope, obtaining the key technology, vertical integration, management diversification, obtaining sales channels, and developing economies of scale. Yet in this trend, Taiwanese SMEs are exposed to little opportunity as they are often regarded as not having an adequate amount of capital. Compared to large-sized enterprises, SMEs are indeed exposed to a greater risk when conducting cross-border acquisitions and mergers. The main reason is the scarcity of resources in SMEs. In addition to the problem of inadequate funding, SMEs also lack access to some strategic acts that require deployment of massive professional workforce, such as intelligence gathering and legal aid, unlike large-sized enterprises which can carry out adequate surveys and evaluations on the local companies in foreign countries and the legal norms regarding labor before conducting cross-border acquisitions and mergers in order to avoid violating the local laws and regulations.

However, there are still some successful cases in the recent years that Taiwanese SMEs manage to obtain foreign channels and key technologies in the industry through acquiring peer technology departments from Germany. In one of the cases, exploiting the fact that the brand, departments, and technologies of a foreign company are allowed to be split for independent acquisition, a Taiwanese enterprise proposes to purchase only the brand and the product technology of the German company on condition that both the companies continue to exist. The German company undergoes restructuring, with the original owner taking charge of operation and modification of the company's organization, while the Taiwanese enterprise can provide funding, if affordable, for the German company to facilitate its mobilization and operation. In the meantime, the two companies form a strategic alliance. The German company becomes the agent of the Taiwanese enterprise in German, obtaining for the Taiwanese enterprise the sales channels into the European market which is originally impenetrable to Taiwanese enterprises. Moreover, based on the German company's experience, the Taiwanese enterprise can integrate the upstream and downstream products continue to introduce new technologies and applications, and thus expand its production line and market. Meanwhile, after the acquisition, the Taiwanese enterprise needs to be cautious in order to avoid any compensation, or fine, or legal affair expense incurred by unconscious violation of any law or regulation regarding corporate operation and labor and employment (Su, 2017).

The Taiwanese enterprise makes full use of the fact that commercially developed countries allow the departments, brand, and technologies of a company to be split for independent acquisitions and forges a strategic alliance to establish this innovative acquisition model of "manufacturing in Taiwan, sales channels in the original company." This model enables the Taiwanese enterprise to absorb foreign technologies and design concepts while avoiding the risk of acquiring companies abroad. To Taiwanese SMEs, this win-win tactic not only exhibits the flexibility of SMEs, but also exemplifies a kind of innovative strategic method upon considering the enterprise's expansion.

From the case above, it can be concluded that as SMEs are more restricted in workforce and resources than large-sized enterprises are, it becomes more important for SMEs to establish a management team and leadership in the beginning. How would the enterprise devise the shareholder structure? How would directors and supervisors integrate different opinions appropriately and propose a strategic direction beneficial to the enterprise's development? The answers to all these questions will have direct impacts on the development of SMEs. In addition, how would the enterprise introduce excellent talent into the organization and establish in the team a sound talent cultivation and promotion system? This question would affect the enterprise's operation. In the circumstance of a high staff turnover, SMEs would suffer much more badly than large-sized enterprises do. Thus, the first thing an SME needs to do before initiating outward expansion is to understand the characteristics of its organization.

Moreover, it can be seen from another case that in the process of internationalization, the conditions SMEs face are indeed harsh. How to make the decisions most beneficial to the enterprise using limited resources becomes a difficult problem. What an enterprise needs to face is not only the structuring of the internal organization. Amid the China-US trade war, changes have been made to the system of international division of labor. Enterprises would definitely bear the brunt of the changing external circumstances. In addition to having comprehensive understanding of its own organization, what else SMEs should do in order to survive the intensely competitive environment and to adapt to the volatile international circumstances?

An "international strategic thinking" turns out to be the requirement for the enterprise to make the next move toward expansion.

3 International Strategic Thinking

Over the recent years, in the trend of economic liberalization and industrial internationalization, enterprises are sure to be confronted with issues regarding international market expansion. Take Taiwanese SMEs for example. SMEs have been the backbone of economic activities in Taiwan. According to the *2017 White Paper on Small and Medium Enterprises in Taiwan* issued by the Ministry of Economic Affairs, the official statistics show that by 2016 there are over 97% of enterprises belonging to SMEs, and over three-fourths of labor force are employed by SMEs. Yet from an international point of view, most of the enterprises in Taiwan are in fact SMEs, expect for those extreme minorities such as Foxconn. What are called "large enterprises" in Taiwan are actually not regarded as that "large" on the international stage. On top of that, given that the market of domestic demand in Taiwan is relatively small, if an enterprise confines itself to a too-narrow scope of market, its sales will consequently be affected. Thus, SMEs must treat the issue of internationalization seriously, so as to reorient themselves in the new global economic territories.

There are a wide variety of forms in which SMEs engage themselves in international activities, which could involve various kinds of cross-border transfer of products and services, including export, import, joint venture, non-equity strategic alliance, establishing subsidiaries and branches, chain-store operation, and license issuance. Yet, it is conceivable that it would be tremendously difficult for an SME, with a mission to expand into foreign markets, to travel far to a new environment to whose politics, economics, law, and culture the enterprise is totally strange. According to the data from the sixteenth issue of the journal *Treatises on Trade Policies*, the problems facing SMEs on their way toward internationalization can be divided into two levels, which are inside organization and outside organization. Problems outside organization include the legal norms regarding export and import of the home country, the language of consumers in foreign markets and communicative barriers, the collection of foreign payment, different consuming habits and attitudes of foreign consumers, risk of currency exchange, and the local laws, regulations regarding tariffs, and political and economic environment in foreign countries. Moreover, during its expansion into foreign markets, the organization needs to consider internal issues regarding talent cultivation and dispatching, to utilize limited resources to analyze foreign markets and adjust product models and specifications, and ultimately to come out with competitive prices to outsell other competing products. Also, the enterprise has to consider issues such as agents, warehousing, transportation, and the launch of after-sales services and channels for technical support.

In retrospect of the course of their development, before the "reform and opening up" of mainland China, Taiwanese SMEs once enjoyed a time of prosperity brought by rapid development. In the wake of the reform, with their technical advantage, Taiwanese SMEs also benefitted from the demographic dividend in mainland China. Yet, in the fast-changing economic markets today, Taiwanese SMEs are facing many challenges. They are (1) a disadvantage in the relative pricing competition. For example, when the exchange rate of NTD fluctuate in relation to that of the opponent's currency, the international price competitiveness of Taiwanese exports will be affected; (2) impacts from the international market. For example, when opponents such as mainland China, South Korea, and countries from ASEAN adopt the strategies of export expansion and import substitution, Taiwan's status in the international supply chain will be challenged; (3) organizational inertia and institutional factors. As SMEs are accustomed to substitute indirect exporting for direct exporting, they tend to step down to become only part of the industrial chains of large-sized enterprises. On top of that, as SMEs are not good at international marketing and global deployment, they all turn to serve mainly the domestic market (Small and Medium Enterprise Administration, 2017).

Yet, one of the research reports made by Goldman Sachs points out that during the ten years between 2005 and 2015, there is an increase of 100 million people in the middle-class population worldwide. Also, Asian Development Bank once estimated that in the following decade, there would be 43% of the middle-class population coming from developing countries in Asia around the globe. Particularly, amid the US-China trade war, countries in Southeast Asia and India would seize the chance to rise up. Their consumptive power is not to be overlooked. If the progress of participating in regional economic integration moves slow, enterprises' expansion into the international market will be affected. SMEs must adopt a whole new strategic thinking and reboot its deployment. In the following, three tactics will be proposed one by one in which we can conduct an analysis on the various possibilities in Taiwan's march into the international market.

3.1 Tactic 1: Deployment of the Entry into ASEAN Markets

According to the *Handbook on Resource Utilization under the New Southbound Policy for SMEs* issued by Small and Medium Enterprise Administration, Ministry of Economic Affairs in 2017, the ASEAN Economic Community (AEC) founded in 2015 has an average annual economic growth of 5–7% and is still in a stage of high economic growth. AEC's average middle-class income is rising, the young people within are with a high willingness to spend, and young workforce accounts for over 50% of the total workforce. The Economist once predicted that AEC is expected to become the fourth-largest economy around the globe by 2030. Its markets are with a very considerable potential for development. Under the impact of the US-China trade war, this timetable can only be moved up.

Take Vietnam for example, the World Bank pointed out in a report in September 2016 that Vietnam needs to reform its agricultural industry, in order to adapt to challenges in terms of population growth, economics, and environment. The report suggests that Vietnam has to endow its agricultural products with greater value added and diversity, so as to open up more opportunities into the international market. Vietnam's export market is open to neighboring ASEAN economies. Also, FTAs between Vietnam and its allies will be effective from 2018, expecting an additional market of five hundred million people.

It is also anticipated that in the following ten years, Vietnam will have a 50% population growth and with the fast-growing middle class, spending on food will see a significant rise, and the structure of employed population in agriculture will definitely witness huge changes. The employment rate is expected to decline from the current 47% to 25 ~ 30% by 2030. The moment when this transformation of the industrial structure is taking place is exactly the best opportunity for Taiwanese SMEs to enter the market. Taiwanese SMEs should be attentive to Vietnam's policy changes and economic situation. It will be very cost-efficient if Taiwanese SMEs can make full use of their superior technologies in integration with the rich resources in the localities.

In the past decades, Taiwan has always been among the leading countries in development of agricultural technology. Taiwan features advanced cultivation and breeding techniques in the primary sector (agriculture, forestry, fishing, and animal husbandry) and well-known brands and established enterprises in the secondary sector (agricultural products and food processing). As for the tertiary sector, Taiwan has high-level performance in the catering industry, the homestay industry, and tourism, which are relevant to agricultural products and food. For the new wave of Taiwanese SMEs who have opportunities to enter ASEAN markets, their focus may not be on technological manufacturing, but on the secondary sector with agriculture at its core, i.e., a hybrid of the primary, secondary, and tertiary sectors (1 + 2+3 = 6), which can be a deployment strategy for the Taiwanese industry to expand into and thus hold a place in ASEAN markets.

However, Taiwanese SMEs have their limitations on the entry into ASEAN markets. If Taiwanese SMEs simply adopt the traditional approach like commercial exhibitions or any other bottom-up business-promoting approaches, chances are they can never make it to the channels and resources discussed above. In every market, there has been an established network of contacts and an existing system of value chains in the business circle, let alone some unspoken rules to be followed in order to run a business in the local area. It will be very ineffective for Taiwanese SMEs to just toil with unthinking efforts. Instead, Taiwanese SMEs can establish a private peer advisory board to implement a top-down reaching strategy. As the visiting directors and supervisors are already established entrepreneurs in the local business circles, their perspectives are more macroscopic in terms of strategy and deployment, including the strategic investment value in family succession. In this way, the enterprise can see a boost in its investment value and attract more partnerships.

3.2 Tactic 2: Northbound and then Southbound: The S-Curve Strategy of Taiwanese SMEs

As for how SMEs adapt to the changing times in the international economic environment, the "Judo strategy" proposed by the Vice President of Harvard Business School David B. Yoffie does offer valuable guidance. In this strategy, there are three pivotal principles which are abbreviated as MBL. MBL stands for movement, balance, and leverage, which are three tactics used in Judo. The general idea is that when a relatively weak judoka encounters a much stronger opponent, the judoka should avoid head-on confrontation and create advantages for him- or her-self by using agile *movements* while maintaining body flexibility and *balance*. And then, the judoka can further magnify his or her body strength by using the *leverage* tactic, so as to bring down the opponent and claim the final victory.

Taiwanese SMEs are full of innovative energies. Yet, as their existing markets are relatively small, they need to expand into the international market to attain larger market potential and to attract more investors. In this situation, it becomes a crucial strategic option to adopt the three tactics in Judo.

As previously discussed, the first deployment tactic for Taiwanese SMEs to make to expand into the international market is the entry into ASEAN markets. As ASEAN markets receive massive opportunities released by the China markets. Countries around the world are swarming into Vietnam to establish manufacturing and trading bases. The overall market is growing rapidly. It is advisable for start-up enterprises to seize these business opportunities. Yet, for those Taiwanese SMEs which manufacture hardware products, if they set up their manufacturing and production bases in Taiwan and then export the products, they will face the problem of import tariffs imposed by Vietnam. According to the official data issued by the Bureau of Foreign Trade, several results in terms of signing FTA (Free Trade Agreement) or ECA (Economic Cooperation Agreement) include the FTA among five countries in Central America (Panama, Nicaragua, Guatemala, Salvador, and Honduras), Taiwan-Japan Investment Agreement, Taiwan-Japan Memorandum of Understanding on Cooperation Between the Financial Supervisory Authorities, Cross-Strait Economic Cooperation Framework Agreement (ECFA), Cross-Strait Service Trade Agreement, and Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic

Cooperation (ANZTEC), and Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP) (Bureau of Foreign Trade, 2018). Of ASEAN member states, Singapore is the only one which signs an FTA with Taiwan. Without any FTA, Taiwan exports to ASEAN member states are all subjected to import tariffs imposed by the import countries. Take face packs, which is a specialty of Taiwan, for example. Thailand imposes a 38% tariff on all Taiwan-imported face packs. But as Korea has signed an FTA with the ten member states in ASEAN, Korea-imported face packs are all exempted from tariffs in Thailand. In this way, Taiwan's face pack products lose their competitiveness in the Thailand market.

To combat this challenge, SMEs must move quickly, balance deftly, and leverage resources from all countries in a more innovative and flexible way in order to solve those problems. Taking advantage of the strategic location of Okinawa, Japan as a "resource of leverage" is a very workable solution for Taiwanese enterprises to consider. Under the strategic framework amid the China-US trade war, in addition to the rapid growth of Southeast Asia, Japan's strategic value is also shooting up. From the viewpoint of Taiwanese enterprises, Okinawa is a strategic stronghold worth investing in. In most people's eyes, Okinawa is just an island for tourism. But in fact, from 2016, Japan has set up the one and only special economic zone in Japan right in Okinawa, which is entitled to many preferential policies, such as the tax bond system, rental tax incentives, rewards, subsidies, and so on. For example, manufacturers of cosmetics and personal care products from Taiwan can found an enterprise in Okinawa and take it as the final production base, so as to fulfill requirements on local content and value-added percentage to obtain the "Made in Japan" qualification. Several benefits which can be yielded from this operation are as follows:

1. Reduced import tariff: If the raw materials, parts, or components of a product are from outside Japan, the company can keep the assembly process in Okinawa. As long as the product obtains the "Made in Japan" qualification, the import tariffs into the markets in ASEAN, Central and South America, and Europe can mostly be reduced to zero.
2. Higher offer: When a product obtains the "Made in Japan" qualification, the product can get an offer 20–50% higher than without the qualification, thus yielding a higher profit.

3. Reduced airfreight cost: As the only special logistic zone in Japan, the special economic zone is dedicated to creating a 24-hour high-speed logistic environment connecting other Asian countries. Moreover, products delivered via airfreight to certain airports in cities such as Singapore and Bangkok, Thailand can receive subsidies ranging from 50 to 100%, according to different types of product.

Despite signing no FTA, Taiwanese SMEs can still develop a very elastic strategy of expansion into the international market, as long as they know how to leverage resources in Okinawa flexibly.

1. Southbound Expansion into the ASEAN markets via Okinawa

Amid the current international situation, Taiwanese SMEs should learn from and employ the "quick movement" tactic used in Judo, implementing three resource leveraging[1]: (1) Taiwan's excellent R&D and designing talents and its extensive types of industry; (2) policies in Okinawa special economic zone; (3) preference for Japanese products of the rapidly growing ASEAN markets and its consumers. Products involving Taiwan-Japan collaboration in R&D and designing can be assembled in Okinawa, utilizing the brand power of "Made in Japan" and consumers' confidence in Japanese products in packaging. Enterprises can then export those products to Southeast Asian markets, taking advantage of subsidies. In maintenance of a "dynamic balance" in movement between Taiwan, ASEAN, and Japan, this "way out" into the international market can be opened up.

2. Northbound expansion into the Japanese market via Okinawa

In addition to the southbound expansion, another strategic value of Okinawa lies in northbound expansion into the Japanese market. According to the statistics from Okinawa Industry Promotion Public Corporation, Okinawa sees a trend of rising tourist arrivals year by year since 2015. It is estimated that the tourist arrivals could reach

[1] Resource leveraging means reasonable distribution of resources. Given that resources are always limited, to make full use of the limited resources means to employ resource leveraging.

a ten million mark in 2020, with 2/3 coming from within Japanese borders(Okinawa Industry Promotion Public Corporation, 2018), which means that if Taiwanese SMEs can open up channels in Okinawa, then their products can definitely be exposed to more Japanese consumers. The brand effect is even extended to as far as Japan.

3. Introduction of Japanese technologies via Okinawa

Taiwanese SMEs must improve their own technological strength before establishing a certain innovative threshold. The improvement of technological strength relies not only on SMEs themselves, but also on the Taiwan-Japan cooperation through which SMEs can obtain excellent technologies from Japan, carrying out technological grafting. Taiwanese SMEs should make full use of Okinawa and move to Okinawa to create a joint venture or to cooperate with Japanese SMEs so that Japanese SMEs can cooperate with Taiwan without leaving Japan or the Japanese-speaking world, hence a win-win situation achieved.

The obstacles in international business confronted by Taiwanese SMEs are inevitable. But if Taiwanese start-up enterprises and SMEs know how to make full use of the Okinawa special economic zone, they can not only regain their international product competitiveness, but also keep their main R&D and production bases in Taiwan. As for other horizontal or upstream and downstream enterprises which do not know how to leverage resources in Okinawa, those who know should implement a consolidation over them, so as to grow into Taiwanese international enterprises with higher investment value.

3.3 Tactic 3: SMEs' Strategies for One Belt and One Road Markets

To continue with the issue of agriculture discussed previously, as agriculture is an important force among all industries for Taiwan to enter the emerging markets, we may as well have a look on the business opportunities in One Belt and One Road Initiative (BRI) markets in the agricultural industry. The One Belt and One Road Initiative was proposed in as early as 2013. It is a short form for the Silk Road Economic Belt (lands in China and Central Asia) and the 21st-century Maritime Silk Road (China, Southeast Asia, Southern Asia, and Africa), which is a network of markets connecting a series of cities, including 65 countries in total, taking up to 41.3% of the global area and 4.67 billion of the global population. The regional economic output is as high as 27.4 trillion US dollars, accounting for 38.2% of the global economic output. Yet, for SMEs, business opportunities in BRI markets are too huge to be seized. Particularly, amid the US-China trade war, Taiwanese SMEs need to reevaluate the offensive strategy for expanding into the OBOR markets. The true business opportunity lies in first marking down a foreign market that will be complementary to the local market, just as the "leave out two eyes" tactic in the Go game.

In the Go game, to secure a territory, a player has to build up two separate vacant points within, known as "eyes." Once two eyes are created within a territory, the opponent can never capture it, as making two moves simultaneously, which is the only way to fill up the eyes without incurring self-capture, is impossible in the game. In the business world, if SMEs can hold places in two markets, which can be supporting and/or complementary to each other, then they would not easily fall behind in horizontal competition.

We may as well analyze several development opportunities created by Taiwanese and Japanese SMEs through matching up the two regions. In the previous discussion, we have covered cases about SMEs in the field of agricultural technology. Now we will carry on with this issue and take a look on how SMEs search for business opportunities by using the cross-country and cross-border "seasonal difference" in the process of internationalization development. In the following, let us see how the Japanese SMEs leverage the weather difference advantage in the strategy across countries.

3.4 Case 1

With a sweet taste and a wonderful texture, Aiwen (Irwin) mangoes are one of Taiwanese specialty crops. Although mango shaved ice was invented by Japanese, Taiwanese mango shaved ice has a much higher quality but costs much less than the Japanese one, which makes the must-try dessert a foodie hotspot for Japanese tourists visiting Taiwan. However, the harvest season of Aiwen mango lasts only from May to August, so people can't enjoy it during other seasons. A mere May-to-August operation would not be profitable enough to make a workable business. Having mastered some novel freezing and thawing technologies, a SME in Taiwan makes a bulk purchase of sub-quality Aiwen mangoes annually in the May-to-August harvest season—a good timing to keep the prices low—and then preserves the mangoes by using the freezing technology for the sales in non-harvest seasons, used for products including mango shaved ice or any other mango desserts. This operation expands the business's profitable season to all year round and even makes the export of Aiwen mangoes to Japan possible. Through new technologies, price asymmetry caused by seasonal difference can actually give rise to business opportunities.

In addition to seasonal difference, geographic difference is the other way through which business opportunities can be explored and huge profits made. Japan is one of the masters in adopting this strategy.

3.5 Case 2

Japanese people love soba noodles (Osoba), which was brought from mainland China to Japan in ancient times. Soba noodles' main ingredient is buckwheat, whose planted area is estimated at seven to eight million hectares worldwide and total yield around five to six million tones. The top buckwheat producing countries include the former Soviet Union, China, Poland, France, Canada, Japan, Korea, etc. The former Soviet Union is the largest producing country, whose planted area accounts for half of the global total, and China is the second-largest country in both planted area and yield. Despite the buckwheat cultivation around the Shinano Province in Nagano Prefecture, Japan cannot fully meet the domestic demand. In fact, the buckwheat supply in Japan is heavily reliant on import from China.

The harvest season of buckwheat is in autumn, yet the high season of soba noodles consumption is in summer. As a result, the flour for making soba noodles was generally produced and stored in the previous year. This gives soba noodles a bad texture. To solve this problem, some Japanese SMEs take advantage of the geographic location of Tasmania, Australia, whose seasons are precisely opposite to Japan. By growing buckwheat in Tasmania and selling back to Japan, those SMEs manage to create business opportunities.

The same is true for Sato Nishiki cherries, the most luxurious kind in Japan.

3.6 Case 3

Originated in Yamagata Prefecture, Sato Nishiki cherries have orange-red skin with glossy sheen. Sato Nishiki cherries with even sizes and coloring well-arranged in a gift box look just like a full case of red jewels, the way by which Sato Nishiki cherries earn the name "Ruby." With a sugar level at 14, Sato Nishiki cherries are the most luxurious kind among all Japanese cherries. The breeder of Sato Nishiki cherries is a farmer from the Higashine city in Yamagata Prefecture called Sato Eisuke. The previous cherry breed has poor durability and is easy to get rotten after harvest, susceptible to damage from collision during transportation. To solve this problem, Sato Eisuke chose to carry out a graft hybridization between the "Topaz" breed, which has poor durability yet a good taste, and the "Napoleon," which is durable yet has a sour taste. As a result of his efforts of sixteen years, Sato Eisuke cultivated a new Sato Nishiki breed, finally achieving breed improvement.

Yet, the harvest season of Sato Nishiki cherries lasts from May to June, spanning only two months. The Japanese SMEs see their advantage in the opposite seasons in Tasmania and Japan. Sato Nishiki cherries planted in Tasmania thus become the main source of supply for Japanese table delicacies.

One important factor of an enterprise's success is the capability to satisfy the market's inelastic demand. For SMEs in particular, if they confine their horizons to the domestic geographical territory just because of their relatively small size, then they will miss many cross-country, cross-border, and cross-season business opportunities. Take Tasmania in Australia for example. Geographically speaking, Tasmania is located in a remote area, close to the Antarctic. But SMEs from Japan and Australia see advantages in their totally contrary latitudes and seasons, seize the business opportunity, and become each other's intimate trade partners.

The several successful cases in Japan and Australia share a common point, which is that the subjects are all SMEs that start up with trade. They saw a clear demand in business dealings and a growth trend, before throwing themselves into agriculture and aquaculture so as to control the key resources. In other words, SMEs which are bold enough to conduct international trades and cross-country or cross-border businesses are more likely to discover business opportunities and thus to earn profits.

Because of the small size of local markets, Taiwanese SMEs have been relying on international business to fuel economic activities since the very beginning. Though resources for internationalization seem to be abundant in the modern times with advanced internet technology, there are more business opportunities to be discovered only by face-to-face communication on the scene. If enterprises simply confine themselves to local development, competition will be very intense, as all other competitors are sharing almost the same pool of information and resources. Moreover, the space in the Taiwanese markets is very limited, so is the room for growth of gross profit. If SMEs are able to find out how their own products or technologies can be of use to other countries, they can actually develop their own unique cross-country, cross-border, and cross-seasonal approaches. Also, entrepreneurs in agriculture are not necessarily traditional agricultural practitioners. Instead, they are often those who are able to develop new agricultural applications of technologies in the high-tech fields. As they have formulated feasible solution in the locality, they can try to develop the international market, creating a higher agricultural value added.

3.7 Conclusion

The impacts of the China-US trade war are indeed far-reaching, which cannot be resolved by provisional measures designed for short-term changes. SMEs, be it domestic sales-oriented or export sales-oriented, can never be spared from the tumults caused by this global rearrangement. In the process of the rise of Chinese markets, Taiwanese enterprises were once one of the main foreign capitals in the Chinese market based on the cultural, linguistic, and connection advantages. But in the emerging markets created amid the China-US trade war, Taiwan enterprises no longer hold the aforementioned advantages. In fact, in the situation where enterprises from the US, China, Japan, and Korea are swarming into the emerging markets, Taiwanese enterprises are in a disadvantageous position. One of the strategic keys for Taiwanese SMEs lies in forging alliances, not in fighting solo battles. Potential allies include not only enterprises in Taiwan, but also strategic cooperation partners from other countries. Japan is particularly preferable. As international talents in Japan are all congregating toward large-sized enterprises, Japanese SMEs are extremely lacking in international talents. Taiwanese SMEs can be complementary to them. The second strategic key for Taiwanese SMEs lies in innovation. Enterprises should take second-generation succession as an opportunity for the second generation to lead the expansion into the markets of young generation. One of the features among all emerging markets is population rejuvenation. As a rejuvenated market needs to be handling by a mindset of young people, traditional large-sized enterprises do not necessarily hold an advantage. This is exactly the value that the second-generation successors can bring to the family businesses.

Though aimed with strategies, SMEs will definitely encounter many difficulties in the process of executing internationalization. A SME need to introduce the new organizational and shareholder structure thinking to facilitate the involvement of external shareholders, especially the foreign shareholders.

Moreover, in the process of foreign development, A SME should give weight to the capability of information processing, as the complexity of operation increases. Finally, upon making major decisions, enterprises can adopt the method of "scenario planning" in order to peek into the future. This method helps the enterprise to avoid being trapped in old habits and inertia and to formulate the enterprise's major decisions.

Furthermore, Taiwanese SMEs should take advantage of the trend of technologization in their internationalization deployment. Professor Chen Ho-Min from Department of International Business, National Taiwan University proposed a Taiwanese model for innovative business operation, including the power of detecting and analyzing consumer trends (localization, big data analysis, etc.), the power of accurate branding and marketing (innovative service model and joint marketing with accurate branding), the power of high-qualitized system (a cross-system strategy of a turnkey solution for outputting flagship stores and factories), the power of cross-border channeling (logistic distribution, channel development, and cross-border e-commerce planning), and the power of commercial connecting (participating in commercial organization such as TPP and RCEP). SMEs should formulate an internationalization strategy of their own according to the industrial environment they are faced with (*Business Today*, 2016).

The restructuring of international industrial value chains amid the US-China trade war has been started. It is both a threat and an opportunity. If Taiwanese SMEs know how to make full use of their resources and the characteristics of commercial environments in different countries, then the enterprises will yield the largest synergy. SMEs should run their deployment actively in the fast-growing markets in countries such as Southeast Asia and India, as well as Japan, which is in a position of paramount strategic value. As long as SMEs know how to integrate resources and advantages in different countries by various ways to use a kind of "flexible thinking", they can turn disadvantages into advantages in the intensely competitive environment, develope a unique business strategy of their own in the whole new order of international environments post the US-China trade war.

Appendix

Introduction to TXA Private Board

TXA Private Board is the largest private board organization across Taiwan, Northeast Asia, and Southeast Asia. Operating through the "mock board meeting" as a form of practical exercise, its unique visiting board of directors and supervisors helps enterprises to formulate strategies, raise funds, develop markets, undergo transformation and upgrading, accomplish takeover and succession, and achieve brand building. TXA Private Board has become the indispensable external think tank for many enterprises, having hosted more than 300 private board meetings around the globe, conducted in three languages including English, Chinese, and Japanese. Those meetings are held in varied locations including 15 cities such as New York, Paris, Ho Chi Minh City, Kuala Lumper, Bangkok, Okinawa, Beijing, Shanghai, Shenzhen, Taipei, Taichung, Kaohsiung, Hsinchu, Taoyuan, and Tainan, counselling SMEs and start-up enterprises from 15 regions including mainland China, Taiwan, Hongkong, Japan, Vietnam, Russia, Thailand, Malaysia, Singapore, Indonesia, France, USA, Canada, Spain, and Australia.

A TXA private peer advisory board is a group of visiting directors and supervisors composed of senior entrepreneurs, leaders of listed companies, venture capitals, senior executives of investment banks, senior accountants, and senior lawyers, established without changing the original board structure in the enterprise. By operating in a form of mock board meetings, a private board will have closed-door discussion on real-world issues with the corporate leaders and thus become the private think tank for the leaders. On condition that a closed environment and limited participants are ensured and concerns about direct conflict of interests and loss of stock rights are resolved, the leaders of the enterprise can boost the performance of the acting board while having a deeper understanding of the visiting board's personal connections, knowledge, experience, and opinions through discussion on real-world issues. As a basis of mutual trust is established, the leaders can officially invite the visiting board to act as official shareholders, independent board members, or consultants. As for the TXA visiting board, being highly proficient investors and professionals in their own rights, they demonstrate their proficiency through the operation of the peer advisory board, while getting a better understanding of the corporate leaders' operating style, personality, technical energy, and long-term potential from interaction through discussion on real-world issues. As this operating model of a peer advisory board amounts to a fairly dutiful investigation into an enterprise, investments and cooperation on this basis would certainly bear a much lower risk.

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CHAPTER 13

Opportunities and Challenges in Capital Markets for Small-to-Medium-Sized Enterprises

Kevin Lai

1 Preface: SMEs' Founding and Financing Needs

Family firms have made colossal contributions to the global economy. For Asian enterprises, it is very common for family members to hold the shares of family businesses. According to the analysis report released in the 2017 Annual Meeting by Taiwan Institute of Directors, there are 1624 listed and over-the-counter (OTC) companies in Taiwan, with family firms accounting for 70% of the total, taking up roughly 63% of the gross market value. SMEs compose 80% of the family firms in Taiwan, being the chief force in contributing to the country's economic momentum.

In the early stage of founding a family firm, most funds are raised from relatives, close friends, or business partners, who collaborate in

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painstaking efforts to run the firm. Family members are often major shareholders, and the management team is often composed of kith and kin. Thus, the unity of ownership and control is very common. In this stage, blood ties and personal connections play an important role in aspects such as fund-raising and human capital. Moreover, family members and firm partners are more prone to unconditional commitment, exhibiting strong responsibility and a sense of mission. On the other hand, family-style management makes decision-making relatively efficient, with a shorter time needed for reaching a consensus and a strong execution capability. This sort of highly flexible and efficient way of management is very beneficial to the early development of an enterprise (Lee, 2013).

However, as the size of an enterprise grows over time, the need for organizational specialization arises. In the meantime, with the introduction of more external talent, the drawbacks of the union of ownership and control start to surface (Li, 2015). The central purpose of this article is to explore how the choice to go public and to enter capital markets can be beneficial to the development of SMEs. This chapter starts with discussing the problems facing SMEs as their sizes grow, and then probe into one by one the feasible solutions through profiting from entering capital markets, employable detailed arrangements or operations, and the ensuing challenges SMEs need to adapt to.

1.1 Problems SMEs Face as Their Sizes Grow

In terms of funding, when management teams run out of money for their operation, enterprises would usually borrow money from relatives, friends or underground financial channels, rather than accept external funds, in order to avoid affecting their ownership and control. On the other hand, due to their inadequately robust financial structures and accounting principles, it is difficult for SMEs to obtain favorable interest rates and adequate amount of money from banks, and thus to receive mid-to-long-term funding from capital markets (Li, 2013; Tu, 2015).

In terms of human resource management, the unity of ownership and control in a certain degree reinforces the tendency of nepotism. For example, leaders of family firms tend to categorize employees based on three criterias, which are relationship, loyalty, and capability. Specifically, does the person have any blood ties or affinity? Is the person loyal and submissive to the corporate leader? Is the person capable enough to complete missions or achieve goals assigned by the leader or the organization? However, even if loyal and capable employees who lack blood ties or affinity are entrusted with resources and positions, the level of authorization and trust is nothing in comparison with the one to which relatives would be entitled (Li, 2015). This kind of employment philosophy is adverse to attracting external talent, preventing the family firm from building up an extensive talent pipelines during scale growth and transformative development as well as further damaging the enterprise's potential for future development (Chung, Chan, Lu, & Tsai, 2016; Seetoo, 2013)

In terms of corporate governance, the unclear division between family interests and corporate interests results in mis-governance incessantly. For example, SMEs' blurred division between family finances and corporate finances as well as favoritism and prejudices in corporate management often arise from the complex relationships and interest groups of the family (Li, 2013). As the external circumstances change, the corporate owner's experience may become no longer applicable and thus need to be readjusted; yet, the power to make major decisions is in the hands of certain core family members. Thus, the lack of an effective mechanism of supervision and enforcement will readily result in mis-governance and decision failure.

The aforementioned problems regarding funding, talent management, and corporate governance are those a firm will face during the business growth. Entry into capital markets may serve as a solution to all these problems. In the following, we will discuss the benefits for a SME to enter capital markets, then some concrete suggestions, and finally challenges standing in the way of long-run development and their corresponding solutions.

1.2 Some Concrete Suggestions on SMEs' Entry into Capital Markets

In addition to obtaining funds more easily, there are also many other benefits of entering into capital markets. For instance, it helps to increase corporate visibility, improve internal management, attract top talents, and helps business owners to enjoy operation achievements for a long time. The following shows the possible ways and choices to enter the capital markets.

1. **Stock issuance**: This is the most common way firms use to raise funds. According to the threshold of fund-raising, stocks can be divided into 4 types: listed, OTC, emerging and unlisted stocks. Listed stocks refer to stocks whose public issuance is approved by the Financial Supervisory Commission (FSC) and whose trading and listing in centralized market are approved by Taiwan Stock Exchange (TWSE). Listed stocks are subject to the strictest requirements on duration of corporate existence, amount of capital, profitability, etc. OTC stocks refer to stocks that are publicly issued and are traded at the over-the-counter (OTC) market provided by Taipei Exchange (TPEx), having lower entry requirements compared to listed stocks. For firms having smaller sizes, going for OTC may be the first-stage goal, while being listed can be the second-stage goal. Yet, if an enterprise has met the requirements for going TWSE-listed, it may as well go that way directly. Emerging stocks refer to stocks that are not listed but are traded at the emerging stock market. It has even lower entry requirements. SMEs can apply for emerging stocks issuance, as long as two or more advising securities firms give written recommendations for them. It is worth noting that SMEs, which intend to issue listed or OTC stocks, have to issue emerging stocks and trade them for at least 6 months, before going listed or traded at the OTC market. However, trading for more than 6 months in emerging markets do not guarantee that this SME is eligible for listed stocks issuance. Listed and OTC stocks have their own issuance requirements. Unlisted stocks generally refer to stocks, which are not emerging stocks and have neither gone listed in Taiwan Stock Exchange nor OTC in Taipei Exchange (Securities and Futures Bureau, Financial Supervisory Commission, 2017).
2. **Bond financing**: As a firm grows to a certain size, stepping into a relatively stable stage, the firm will need to consider this method to raise funds based on some particular considerations. Because bond financing requires the cooperation between the firm and professional institutions such as securities companies, credit rating agencies, securities dealers, accountants, and banks, this method is more suitable for listed or OTC firms having developed to a certain maturity.

Corporate bonds are a type of the financial instrument employed by companies to raise long-term funds (with maturity of at least one year) in the market, belonging to transferable marketable securities. A corporate bond obligates the issuer to pay interests to the investor on a regular basis and to return the principle at maturity, according to the terms and conditions laid down at the time of issuance. For the firm, the benefits of bond issuance are as follows. First of all, as for funding, funds raised from the markets are more time and cost efficient compared to common stocks and are able to act as a source of mid-to-long-term loans in replacement of banks. Apart from its stability as a source of funding, corporate bonds help reduce costs of capital through targeting low interest rates, advantageous to arrangements regarding cash flow and rate of return. As for capital stock, as corporate bond holders do not have the right to vote like common stock holders, corporate bonds can help avoid EPS dilution, promoting the maximization of shareholders equity. As for finances, the interest expense is entitled to tax credits and thus corporate bonds actually have a function of tax mitigation, having a lower cost of debt compared to common stock.

However, corporate bond issuance is far from a panacea. There are other things need to be taken care of. For example, if a firm cannot pay the interest and principal when the bond is due, the firm will be forced to announce insolvency. Also, if investors have concerns about the credit worthiness of the issuing firm, it will be difficult for the firm to raise funds or it will require a higher cost of capital for the firm to issue debts. In the following, we will have some discussion on the timing for SMEs to enter capital markets and other relevant considerations (Kung & Lai, 2017).

2 Timing for SMEs to Enter Capital Markets

2.1 Relationship Between Firm Life Cycle and Entry into Capital Markets

Since the twentieth century, scholars in Taiwan and abroad have conducted research on enterprise life cycle and tried to developed workable definitions for it. Firm life cycle has its specificities. Firstly, the developmental phases of a firm are unpredictable. A firm's rise and fall can happen within three to thirties years. Next, there will be an in-between lag phase during the process of development, which is unseen in the life cycle of an organism. Lastly, the final ending of a firm is not necessarily perishing. It may accomplish a revival under the reformation of the management team, starting a new life cycle afresh (Stock Feel, 2015). In the following, we can simply divide the life cycle into four phases, which are start-up, growth, maturity, and decline-or-revival, so as to grasp an understanding of the timing for enterprises to enter capital markets, in reference to the financing strategies advised by the Small and Medium Enterprise Administration, Ministry of Economic Affairs, Taiwan (Small and Medium Enterprise Administration, Ministry of Economic Affairs, 2008).

1. **The start-up phase**: In this early stage, most funds come from relatives, close friends or short-term financing. In the recent years, as the financing industry burgeons, firms could also seek help from start-up foundations. As the firm's finances and operation have not been fully established in this stage, the main focus should be directed to understanding the market and establishing operation functions. Also, this is the phase with highest risk, where firms will encounter many difficulties and setbacks, paying a high price for lessons learned in the exploring process. Firms could suffer a premature collapse due to reasons such as poor financial conditions, poor demand in the market, or a weak management team.

   Suggested financing strategy in this phase: Firms are advised to rely mainly on own funding, or on funding from start-up companies and angel investors. In addition to making full use of entrepreneurial resources offered by the government, firms need to build up a sound and solid financial system and a basis for strengthening credibility, laying down a firm and stable foundation for future development.
2. **The growth phase**: As the revenue and the scale of operation grow with the sales of products, the firm needs funds for marketing or purchasing production equipment. In the meantime, establishing regulations inside the organization and an information system is necessary for improving controllability. As operation gets on the right track, the needs for upgrading accounting and financial functions will arise. A listed firm will usually raise funds from the original shareholders through seasoned equity offering, while an unlisted firm will continue to seek help from start-up foundations. Overall, the risk during this phase is much lower than during the start-up phase.

   Suggested financing strategy in this phase: Firms should take banks as the main financing source. In order to fulfill the growing financing needs, firms need to establish an internal control system and strengthen the firm's conditions from top to down, with the goals to improve funding conditions, to be able to grasp information about financial products, and ultimately to increase the number of correspondent banks.

3. **The maturity phase**: As a firm grows to a certain extent, it will face a lag phase. There are not huge changes in products and markets. The firm relies mainly on the brand, channels, and its production scale to maintain its competitive position. Generally, a firm will reply on its organizational structure to run the operation. Thereby, the firm no longer needs a huge amount of funding. Indeed, it can be said to be the harvest season for original shareholders. As for unlisted firms, their main focus lies in the entry into capital markets, which allows start-up foundations to take profit by releasing their holding stocks. The timing should probably lie at the end of the maturity phase, so as to attract more investors.

   Suggested financing strategy in this phase: Firms should take financial markets as the primary financing source, with banks as the secondary. Long-term funds should be mainly from capital markets. For example, issuing new shares, corporate bonds, or ECB can be a form of capital increase. Short-term funds can be obtained from issuing commercial paper in bill markets. As for finances, the focus should be lying in long-term and short-term planning and non-operating income. As for corporate governance, the firm should maintain a stable board of directors and professional management team. In the meantime, the firm should also strengthen its governance mechanism.

4. **The decline-or-revival phase**: As markets or products move into a phase of decline, firms in maturity will also start to decay. At this point, a firm could be acquired or merged by other stronger firms or undergo liquidation and reorganization. On the other hand, in order to achieve sustainable development, some firms would plan for the firm's restructuring and transformation in advance, either staying in the original industry and conducting new products R&D, or integrating the supply chain in the industry. They may even expand into foreign markets by merging and acquiring horizontal and vertical firms. Also, some firms might use diversification strategy. They would either turn to invest in other emerging industries with more development potential, or shift to a whole new industry and develop relevant core technologies over the long term. It is just like

starting a business afresh. The risk is relatively high as the firm needs to go through a whole life cycle all over again.

2.2 Motives and Incentives to Enter Capital Markets

As discussed previously, as firms move into the growth phase, they will be exposed to opportunities and possibilities to enter capital markets. And what incentives and benefits could capital markets contribute to an enterprise's future development? We have listed several considerations from the aspects of firm and shareholders (Taiwan Stock Exchange, 2017; Tu, 2015).

1. **The firm aspect**:
   (a) Access to funding: A firm can issue common stocks and corporate bonds at a lower cost to raise a huge amount of mid-to-long-term funds. Also, financial institutions will be more inclined to offer preferential interest rates and higher lines of credit. Examples include issuing domestic and foreign corporate bonds as well as convertible corporate bonds, project financing through syndicate banks, etc.
   (b) Improve the firm's image and reputation: Once a firm goes listed or OTC, having gained the attention of investors and received media coverage, the enterprise's reputation will be promoted. On the other hand, the firm also has a chance to improve its international image, to boost the brand's value-added and competitiveness, and to strengthen customers' confidence and spending willingness, giving suppliers confidence in long-term cooperation.
   (c) Retain and attract outstanding talents: Firms can adopt an employee share-based incentive scheme (examples include issuing employee stock warrants, employee treasury stocks, restricted stocks, etc.), to promote team cohesiveness, retaining core and key talent. Attract excellent external talent and resources to join the management team. On the other hand, the firm can choose to entitle employees to stock, so as to reconcile labor dispute or any form of employee-employer opposition.
   (d) Strengthen internal control and corporate governance: The examining points of applying listed or OTC firm mainly focus

on whether there is a sound finance, accounting, budgeting, and internal control system, and be complied with well. After being a listed or OTC firm, on the one hand, comply with regulations, on the other hand, through establishing and executing a mechanism of corporate governance, the firm can realize stable operation and continual improvement and further strengthen the firm's fitness.

(e) Enhance firm value and promote sustainable operations: As a result of becoming listed or OTC, which can be seen as an achievement led by long-run governance endeavors, both enforced supervision and voluntary efforts of improvement help the firm to grow robust, further enhancing enterprise value and promoting sustainable development.

2. **The shareholders aspect**:

(a) Realize shareholders' investment income: Prior to entry into capital markets, a firm usually has low equity liquidity, which would affect its asset value. Once a firm becomes listed or OTC, trading in stocks becomes possible in open markets. Not only can shareholders in need have quick access to funding, but also the firm can obtain more channels for financing and financial management in the future, which is advantageous to a more flexible fund deployment and more diversed risk for individual investments.

(b) Improve liquidity: Listings create an open market for a firm's stocks, boosting equity liquidity for investors, institutions, founders, and owners. As a result, stocks become more liquid and monetizable, particularly to individual investors and minor shareholders.

(c) Secure shareholders' rights: Under the provisions of the Securities and Exchange Act, firms are subject to supervision and governance enforced by regulations. As a result, firms have to abide by institutions and measures relevant to internal control, to further secure shareholders' right and investment. On the other hand, shareholders can better understand the dynamics of the industry and firm operation in exposure to transparent information.

In conclusion, when SMEs are restricted by capital limitations during expansion or have to act upon consideration of talent acquisition, cooperate image, and reputation, they will choose to enter capital markets to raise funds from crowds of people. This means that it becomes necessary for firms to be examined and reviewed by supervising authorities. So how should they get prepared and constitutionally improved beforehand? We will investigate this issue in the following section.

3 How SMEs Prepare Themselves For Entering Into Capital Markets

3.1 To-Dos Before Entering into Capital Markets

Preparations for a firm to go listed involve several determinants such as reformation of the organizational structure and the equity structure, resistance from employees, tax burden caused during the process of reorganization, and the prospective tax increases as finances turn transparent. Many owners of SMEs usually hesitate at whether to enter capital markets. Only with an unflinching determination can the owners succeed to set the plans into motion. In the following, we will discuss the preparations before entering capital markets in six parts.

1. **4 suggestions to select the entity to be listed**. First, select a firm which has a robust constitution and whose main business has a high profitability as the entity to be listed will help cement the core fundamentals of family associate firms. The second point is independency, such as the independency of assets, personnel, finances and institutions. Firms should be preserved, so as to reduce the cases of unnecessary fraud transaction and horizontal competition. The third point is the requirements on finances. Aside from a continual and stable profitability, the firm must have strong regulations on internal control. Related party transactions should be conducted fairly and properly, and manipulations of profits should be forbidden. The last point is normativity. The firm in question should establish sound and robust mechanisms of corporate governance such as the board of directors and the general shareholders meeting and should allow relevant personnel to participate in supervision and to fulfill their

duties according to the law. The core team must fulfill certain corresponding functional requirements, so as to steer clear of unnecessary troubles (GreenPro Capital Corp., 2017).

2. **Investment structure planning and organizational restructuring**: In practice, family members will usually set up several firms to run different businesses. In such cases, if the properties of the products or the businesses are identical or similar, to comply with the regulations on firm listings, restructuring and integration will become necessary to include several firms into the entity to be listed or being merged into a single firm. Family firms that are not to be included in the entity to be listed may have to undergo split-off or equity transactions, in order to keep those companies independent of the listed group. In the process of conducting the aforementioned investment structuring or equity transactions, there may be some tax compliance costs and relevant risks. For overseas subsidiaries founded abroad in particular, possible tax compliance costs need to be taken into consideration and evaluation before changes are made to the share structure (Kung & Lai, 2017).
3. **Planning on the shareholders/share structure and employee share-based incentive schemes**: In the past, shareholders in family firms were all family members. Most part of the firm earnings were retained in the family firms for investment or other sorts of utilization. After being listed, shareholders will expect the firm to conduct a fair distribution of earnings. As major shareholders will be distributed huge amount of dividends, their individual tax burdens will thus have a significant increase. In this case, major shareholders may start devising a well-reasoned share structure through an investment holding company. Moreover, the first-generation shareholders will gift or transfer their individual shares to the second generation on occasion of listings. When conducting such share transactions, the firm should pay attention to relevant regulations of the tax law and evaluate relevant tax compliance costs. On the other hand, while devising the employee share-based incentive schemes, the firm needs to assess the impacts on the firm profits while employee bonus becomes an expense. The essence of an employee share-based incentive scheme is to distribute shares to employees as incentives by diluting shareholders equity. When markets go bullish, the price recovery after ex-right will serve both the interests of shareholders and employees. When market go bearish or the stock price of the

firm falls, share dilution may not sound as great anymore (Startup group from Deloitte, 2015).

4. **Financial statements reorganization and legalization**: In the early stage when a firm is just founded, as a result of hiring external accounting firms due to cost considerations and tax mitigation schemes, there is often a discrepancy between the statements disclosed publicly and the ones documenting actual operation, a practice which is called "two sets of books." The internal books are also called "finances books," created for the corporate management to understand the actual situation of corporate finances, while the external books are called "taxation books," created for filing taxes to the National Taxation Bureau, aiming at keeping everything legal (Li, 2013). The taxation books are also the ones accounting firms take charge of. These two sets of books exist for some reasons. However, there are actually quite a lot of concomitant costs. For example, as those financial statements cannot demonstrate the firm's actual operation situation, readers may get confused and make misjudgments. As for regulation, the firm will get in a panic every time before being audited by tax authorities. Or in worse cases, the firm will incur judicial or administrative penalties as the practice of keeping two sets of books get uncovered. Moreover, other prospective investors may draw back in a loss of confidence due to the confusion caused by the two sets of books. All sorts of loss mentioned above will definitely hinder the firm's further development (Startup group from Deloitte, 2015).
5. **Establishment of internal control and management system**: In the process of management, through devising and executing an internal control system, the enterprise can better manage and strengthen the safety of corporate assets, promote efficient utilization of resources, and ensure the reliability and completeness of financial information. Internal control can both prevent corruption and increase benefits. Yet, the scope of internal control should not be limited to accounting and finances. In setting up new positions, a set of clear and detailed definitions of work contents, authorities and responsibilities are necessary. Also, anonymous reporting channels have to be established to reduce cases of power abuse and improper transgressions in the management, so as to ensure that the internal control system can involve all departments and employees, and have their collective compliance and proper execution (Tsai, 2013).

6. **Perfecting corporate governance institutions and introducing an independent director**: According to the definition by Financial Supervisory Commission, corporate governance is a type of mechanism used for guiding and managing enterprises, so that firm owners will conduct their responsibilities and protect the legal rights of shareholders as well as the interests of other stakeholders. The Organization for Economic Co-operation and Development (OECD) proposed six principles of corporate governance in 2004, which include ensuring the basis of an effective corporate governance framework, the rights and equitable treatment of shareholders and key ownership functions, institutional investors, stock markets, and other intermediaries, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board (OECD, 2004). In the new 2015 edition, new additions include strengthening the role of institutional investors and prohibitions on insider trading.

In practice, family members and major shareholders tend to take simultaneous control of several associated enterprises. Yet, when a majority of board members are dominated by the same family, without any representative from the non-family board members and minor shareholders, the board's decisions will tend to prefer family or individual interests, resulting in the dysfunction of corporate governance. Major tunneling and over-lending scandals such as Solar Technology, SinoPac Holdings, and XPEC Entertainment in recent years highlight the importance of implementing corporate governance as well as the role of an independent director as the gatekeeper in corporate governance (Kuan, 2018; Wang, 2016).

An independent director is expected to take an independent stand, in order to reduce cases of dictatorship and autocracy and to help the official board to see other levels of stakes during making major decisions. Thus, in terms of legal positive conditions, it is stipulated that an independent director must include experts from different fields such as business, law, accounting, and academia, in the hope of solving the dysfunction caused by the appointment of relatives and close friends as supervisors and ensuring that major decisions take into consideration interests of all shareholders and stakeholders, without going too far as violating laws or affecting shareholders equity (Wang, 2017). Yet, the success of an independent director system cannot simply rely on the independent directors themselves. Both the chairman of the board and the management team should open their hearts and abandon their hostile mind-set that simply takes an independent director as a channel to bring in unwanted, excessive disagreements. They have to be more willing to receive governance and supervision as well as to listen to different opinions, so as to let in other voices. By doing so, a private board can thus contribute to firms by strengthening the functions of the board, improving the flexibility of corporate operation, and enhancing corporate development sustainability.

3.2 Forms of Entering into Capital Markets and Their Impacts on the Original Shareholding Structure

Many Taiwanese SMEs are family firms founded by collaboration among family members. In the face of the changing circumstances such as economy, technology, and taxation, if enterprises would like to realize sustainable development, they need to make early plans and ensure their successful execution for issues such as succession and corporate transformation. In the meantime, how to centralize shares in the hands of family members in avoidance of losing the firm due to dispersion of ownership is also a key issue in family firm succession. In the following, we will list several practical solutions for family firms to hold management rights, including traditional investment holding companies, close holding companies, establishing nonprofit holdings such as hospitals, schools, and other kinds of foundations, public trusts, offshore trusts, and the dual-class share structure.

1. **Traditional investment holding companies and the pyramidal shareholding structure**: Traditional holding companies are a common way to preserve the management rights of a family firm. The firm sets up a holding company on the top-most level, holding the management rights of the intermediate companies on the lower level, and so forth. The advantages of this approach lie in that the public are generally familiar with how it operates and holding companies are unlisted firms, with less limitations on equity transfer and thus a higher flexibility for shareholders to buy in or out. Also, holding companies can be passed down to succeeding generations, with the succeeding owners of every subsidiaries enjoying profits from the collective family assets—a concept resembling that of feudal vassals holding their autonomy and governance rights.

Moreover, the firm can adopt the system of legal persons acting as representatives of directors, letting two subsidiaries hold a portion of each other's shares, in order to preserve the management rights of the corporate group (Seetoo, 2013). Examples include the Shin Kong Group, the Far Eastern Group, and TVBS owned by Cher Wang, the director of HTC (Yeh, 2017).

However, in terms of equity consolidation and assets inheritance, there are still some risks. Based on the free stock trading principle in a common limited company, if there is no consensus among family members—some members simply sell their shares, then it could result in losing the control and management rights of the family firm to others. Even worse, if family members ally with others against the family, it may affect the firm's business operation, further causing the family firm to break apart and be stuck in a stage of relative instability (Seetoo, 2013).

2. **Close holding company**: Assume a traditional limited company is a standardized, popular commodity, which requires adaptations and adjustments under a certain framework, then a close company is a commodity of differentiation and idiosyncrasies, which emphasizes the spirits of contract freedom and corporate autonomy, endowing the enterprise with features such as a higher level of autonomy, diverse fund-raising instruments, and flexible share arrangements. One of the advantages for family shareholders to own a close holding company and to invest in the family firm is that by making full use of the feature of restricted stock trading in a close company, the firm could prevent problems of trading stocks to outsiders and losing control rights. Second, the system of multiple special shares unique to a close company also helps some family members (e.g., the first generation) to own special shares, unbound by the restrictions on the shareholding ratio. Third, the "golden share," which holds a veto over major resolutions, facilitates supervision by special shareholders, in order to avoid losses caused by some inexperienced family members' decision failure as well as to ensure sustainable development (Lin & Tai, 2017).
3. **Establishing nonprofit institutions such as hospitals, schools, and other kinds of foundations**: Generally, the founder donates shares to foundations so that they can hold rights to the subordinate family firms. In addition to maintaining operation of the foundation through interests generated by equity, the foundations can also

hold the rights of management by having a seat in the board. Many traditional large enterprises in the country adopt this method. For example, the Chang Gung Medical Foundation founded by Mr. Wang Yung-ching also holds a seat in the board of the Formosa Plastics Group (Thomsen & Chung, 2015). Cases are more common in Northern European countries. Examples include Heineken Beer, Carlsberg Beer, and Royal Copenhagen Porcelain (Thomsen, 2017)

According to regulations of the supervisory mechanism peculiar to foundations, gifted assets cannot be disposed freely, which helps the firm to stabilize the share structure. Also, tax relief on income tax and gift tax will provide a greater room for tax mitigation for listed companies and high equity value enterprises. On the other hand, as for public perception, foundations can help improve the family as well as the enterprise's image by actively participating in philanthropy. Yet, according to the regulations in Taiwan, a proportion of two-thirds of board members as "outsiders," who are not main donators, their spouses, or relatives within the third degree of kinship, is required in the board of a foundation, which could cause conflicts over leadership struggle in the board or incur loss of the rights of control to the firm. Moreover, because in recent years there have been incessant cases in which foundations conduct non-charitable activities, competent authorities are active in making legal amendments in order to stop the leaks. It is expected that relevant supervisory regulations will be increasingly stringent in the future (Thomsen & Chung, 2015).

4. **Public trust**: Family members first donate shares to the trustee of a public trust and then own the family firm through the public trust. It is common that family members act as supervisors of the trust and exercise shareholders rights, helping to cement the rights of control and management in the family firm. The first generation can allot the interests gained by the family firm for charitable activities, and then withhold the shares in the trust without selling them, so as to prevent the problem of ownership dispersion. Furthermore, in terms of tax mitigation and firm image improvement, public trusts have similar effects as foundations do. However, public trusts are not subject to the aforementioned restrictions on outsider board members' degrees of relationship. Also, a public trust is not subject to restrictions on basic workforce, a fixed place of business, or an investment minimum, which would save a lot of costs

and expenses. Two of the famous examples are the Wang Chang Gung Social Welfare Foundation and the Wang Jhan-Yang Social Welfare Foundation founded by Mr. Wang Yung-ching and Wang Yung-tsai of the Formosa Plastics, which hold TWD 13.6 billion and 11.5 billion worth of stocks of Formosa Plastics, Nan Ya Plastics, Formosa Petrochemical, and Formosa Chemicals (Thomsen & Chung, 2015).

Public trusts cannot be said to have no flaw. The assets and interests no longer belong to the family. Also, according to the trust law, the trustee must disclose the operation situation and financial conditions of the trust to the public annually. And the competent authorities are authorized to perform random inspection on the trust affairs and property conditions whenever necessary. If a public trust fails to perform any charitable activities for over three years successively, it may be disqualified from further operation and thus cannot achieve the ultimate goal of long-term holdings (Fan & Leung, 2020).

5. **Offshore trust**: With the first generation as the trustor, an offshore trust centralize equities of family firms in an offshore holding firm. Through the offshore firm, the equities are entrusted to an offshore trustee, with the second generation as the beneficiary. Owing to the flexibility and confidentiality of the laws regulating trust contracts in places such as Cayman Islands and Bermuda Islands, offshore trusts are a common holdings framework for family firms with enormous assets. In comparison, the domestic trust laws in Taiwan are more stringent. For example, the trust expiration may cause succession disruption and thus the beneficiary has to be clearly indicated on the contract. Also, the procedure of making revisions is also more complicated.

   Yet, the primary drawback of offshore trusts is cost. Hiring overseas lawyers as well as founding and maintaining a trust indeed are expensive. Also, it will be quite a trouble if the second generation resorts to filing long-drawn lawsuits, due to the cognitive difference between different legal frameworks or disagreement on the trust arrangement and beneficiary distribution (Yeh, 2017).
6. **Dual-class stock structure**: The prerequisite for the design of the dual-class stock structure is the consent of capital markets. The dual-class stock structure is often called "one share multiple rights,"

which is originally designed for protecting the interests of the founders of start-up companies.

First, one share one vote refers to the concept of "one vote of equal value" for every shareholder in general, with every single share having equal rights. As opposed to one share one vote is the system of one share multiple votes, or plural voting, often expressed in the form of dual-class stock structure. For example, the common stock is divided into class A for the public shareholders and class B for the founder shareholders. The former has one share for every single share, while the latter has multiple rights (usually ten times the number of share) and the class-B common stock has to be turned to class-A before trading. Some scholars hold that the multiple votes system enables the management team to enter capital markets for raising funds while not diluting its control rights to the firm as well as preventing the firm from being acquired. American markets allow for the design of the dual-class shares. For example, Google and Facebook are among those renowned companies adopting this method.

4 Challenges SMEs Face While Entering Capital Markets

For SMEs, entering into capital markets provides various benefits from the aspects of firm, shareholders, as well as employees. Yet, some highly profitable companies do assert that entering into capital markets is not the only path ahead. After all, there are many considerations on strategic employments, and there are challenges coming along from getting listed to be solved. We can look into this issue from four aspects:

1. **Regulatory norms**: If a firm considers getting listed, it means a transition from the mode of closed-door discussion to a mode open-door welcoming for others' participation. For example, the operation model must comply with the regulations in corporate governance, major decisions must be approved through the polls in the board meetings or general shareholders meetings and the results must be announced publicly, which means that the firm will be put under the supervision of public investors and the oversight of competent authorities at any time. As a result, the elasticity of

corporate operation and the flexibility of decision-making might be reduced and the cost and expenses for internal management might rise as well.

2. **Information transparency**: As listed firms must adhere to the principle of disclosure of major information, events and planning concerning the firm's finances and businesses, such as market strategies, new product projects, mergers and acquisition, and capital increase, must be announced promptly according to the law. On the one hand, this operation is very helpful for the regulatory institutions and public investors to understand the business situation of the firm; yet, similarly, it also means that competitors can more easily grasp the firm's information and thus formulate counteracting strategies. Moreover, senior executives may be concerned about greater performance pressure and legal responsibility.
3. **Ownership dispersion**: Listed firms put their stocks for trading in open markets in order to raise funds from crowds of people, which means that a portion of the firm's shares will be held by outsiders. Indeed, the stock liquidity will be improved. Yet, if there is somebody scheming to snatch the firm's businesses and assets, it is easy for one to accumulate a certain number of shares and then get into the board to seize the management rights. Thus, the firm will be exposed to the risk of losing management rights. The dilemma of the management team is that under the system of one share one vote, a low-cost listing will absolutely result in the loss of control rights, while the retention of control rights means that the firm has to reduce the scale of financing.
4. **Finances and tax matters management**: Problems in tax matters a family firm face are often related to internal control. First, it can be an unsound accounting system. For example, mingling the business with the personal results in the mixing of the firm's operation funds with the funds of family members; inventory discrepancies in stocktaking and failed cost allocation result in pricing strategy failure; distributing revenue to different related enterprises on consideration of taxes renders the firm unable to accumulate financial credit. Next, it is the unsound internal control system. For example, functional specialization is not fully established, resulting in embezzlement and inefficient overstaffing. Lastly, it is the inadequacy of information regarding financial management. For example, failure to set up or adopt suitable accounting information system leads to the

late delivery of closing books information to the management for decision-making; the lack of a system managing accounts receivable and stock would lead to mismanagement such as doubtful debts and slow-moving inventory; also, the lack of a cash flow and budget control mechanism is a problem too.

To address the aforementioned issues, the enterprise needs to first evaluate if there is any obvious discrepancy between the main accounts in the management books (the so-called internal books) and the accounts in the tax books, then analyze the relevant influences and risks on tax matters, and make the following improvements, such as conducting an inventory check on assets so that the book records will be consistent with reality, introducing an ERP system fit for the characteristics of a certain business in order to improve managerial efficiency, and performing a manpower check to perfect functional specialization. Lastly, the firm should establish a sound corporate internal control and auditing system, thoroughly implement and organize the current investment structure, and conduct mergers or split-offs depending on the circumstances, so as to create favorable conditions for integrating resources in the group and introducing different strategic shareholders.

5 Case Study

In this part, we take three firms as examples and discuss four main issues in terms of motives for listing, benefits and challenges brought by capital markets, corporate governance, and succession in different industries and different corporate backgrounds. Comparison among different cases may contribute to a better understanding of the details in SMEs' entry into capital markets and of the owners' practical considerations and experiences. The interview outline is included in the appendix (Table 1).

5.1 Firm A

Firm A was founded in 2000 and listed on GTSM (OTC) in 2004 officially, with the headquarters in Lingya District, Kaohsiung City. Its main business is the e-commerce business in ball games equipment and accessories trading. To strengthen the physical business model, the firm combines the virtual and physical stores, setting up outlets in Taiwan as well as regular chain stores, franchises, and retailing spots in the Greater

Table 1 Case summary

	Firm A	*Firm B*	*Firm C*
Type of industry	Department stores and general merchandise	Electronic parts	Building materials and construction
Year of foundation	2000	1993	2008 (entering the recording industry)
Year of listing/OTC	2004 (OTC)	2000 (OTC) 2001 (TWSE listed)	2013 (TWSE listed)
Motive for listing/OTC	Individual ambition and aspiration	The business scale grows, with a stable growth of profit	Individual ambition; to achieve the goal of the organization
Benefits and challenges brought by capital markets	The corporate image and reputation are improved significantly. Higher chance of success to obtain distribution and authorization rights from corporations with foreign brands	More adequate resources for development in the primary business, no matter in manufacturing process improvement, corporate transformation, or mobility in industrial competition	Before listing, the main consideration on the arrangement of launching new projects is tax burdens. After listing, the focus is on the interests of shareholders, performance, and revenue, so as to maintain the stock price and the firm value
Corporate Governance	Establishing an independent director; enhancing supervision and improvement in multiple areas	Offering bonus and shares to employees	Offering bonus and shares to employees

(continued)

Table 1 (continued)

	Firm A	*Firm B*	*Firm C*
Succession	Separation of ownership and management. Realizing the flexibility of exit mechanism	Currently planning to train the second generation for succession. Yet, the firm does not preclude from hiring professional managers for additional assistance in the future	As construction projects are often handled case by case, there are barely time-consuming problems in machines, equipment or core technical skills, which is different from typical succession problems in traditional industries. The second generation is now in training in the headquarters

China region. The firm's point of departure for listing is different to that of other firms. The chairman of the board's career experience in the US stoked his ambition to start a business in his home country. Thus, in the early stage when the firm was just founded, the firm was put into operation under the framework of a listed firm. This is why there is barely any problem or challenge in terms of interior adaptations during the process of OTC listing. The chairman of the board also admitted that after listing, the firm image and reputation were improved significantly, the process of making negotiations on distribution and authorization rights with foreign companies becomes smoother, it becomes easier to gain trust among manufacturers, the firm can receive funding from banks more quickly for financing activities, and lastly, the system becomes more transparent in terms of human resources, which helps to attract talent. There are six seats in the board, with three occupied by independent directors, which are a management professor in the academia, an accountant, and a network engineer, so as to enhance supervision and improvement in multiple areas. As for the arrangement for succession, disposed toward separation of ownership and management, the owner will transfer his shares to the second generation gradually, realize the flexibility of exit mechanism, and ultimately promote the enterprise's sustainable development with the help of professional resources.

5.2 Firm B

Firm B was founded in 1993, listed on GTSM (OTC) in 2000, and on TWSE in 2001, with the main business in sales of terminals and their periphery products. In recent years, confident about the prospect of the expansive market of discrete lead frame and its growth potential, as the sole firm capable of manufacturing and processing special profiles in the country, firm C gradually engages in the development and production of the key parts such as discrete lead frame, setting up plants in places such as Luzhu in the Kaohsiung city, Dongguan in the Guangdong Province, and Jiangsu in the Suzhou city. The reason of entering into capital markets is that the firm had a stable profit growth, with business operation on track and huge markets to be developed for their existing products. As conditions were ripe for listing, the enterprise thus started to launch the listing plan with the assistance from the accounting firm. After discussing with accountants, the firm decided to undergo liquidation and to found a new firm in reorganization and then carried out business operation under the framework of listed enterprises. This is one of the common methods by which SMEs got listed in the past. The chairman of the board mentions that putting all funds raised by issuing stocks are into machines, equipment, lands, and plant constructions, which means just to focus on the main business, is very beneficial to manufacturing process improvement, corporate transformation, as well as the mobility in industrial competition. As for the share arrangement, brothers own shares through holding companies securely, while maintaining the shareholding ratio of family members above 50%. The second generation are all in training in the headquarters, being prepared for their succession. If the second generation perform too badly, the chairman of the board would not preclude supporting professional managers with equities, separating ownership from the rights of management.

5.3 Firm C

Firm C is in the construction business in Taiwan, with domestic sales as its main market. The firm bought a recording firm in 2008 and got listed officially in 2013. In recent years, due to the bad performance in real estate markets and poor macroeconomic conditions, the firm chose to deploy toward business diversification, with targets including entering into the catering industry and the hospitality industry. As the owner wished to pursue his own ambition and goals, with the enterprise in stable development at that time, the firm decided to go got listed, despite having no lack of funds. As for business strategies, as a listed firm would have concerns about performance, the main consideration on launching new projects before listing was tax burdens, while the one after listing became the interests of shareholders, performance, and revenue. Only by focusing on profitability can the firm reflect its performance on the stock price through PE ratio (price–to-earnings ratio), so as to increase the value of the firm and its assets. As for the arrangement for succession, the second generation has been in training in the firm. Employees are generally expecting a prospect of their good performance in the future. The second generation who joined the firm mainly started from sales, in order to learn about the market and the industry as well as to make extra-enterprise contacts and to establish a good rapport. Yet, because of the specificity of the construction business, the problems in succession are relatively small. As construction projects are handled case by case, they often finish in a few years, without facing problems in machines, equipment, or core technology skills. However, listing does render the arrangement for succession more flexible. When the second generation has no willingness in or is not capable of taking over, this flexible arrangement can allow the management rights to separate from ownership and hire professional managers to help with management, with the second generation only holding shares.

6 Conclusion: The Role of Capital Markets in Succession of SMEs

To realize sustainable development, in addition to improving current conditions of the organization, more importantly, a firm has to plan for long-term development in the future, that is to say, a well-thought succession plan. According to a commissioned survey report from the SME Administration of Taiwanese government, about 70% of the owners in Taiwan hope to pass their business to the next generation, while in other countries, the ratio of the owners who intend for second-generation succession varies (Chung et al., 2016). In other words, compared to the family firms around the globe, Taiwanese family firms are more likely, at a high ratio, to pass both their ownership and control to the second generation. Those who entertain the concept of separation of ownership and management are still a minority. Simply put, it is a triumph of hereditary succession over meritocracy. As for those who have concrete planning on succession, according to *2016 White Paper on Small and Medium Enterprises* issued by the SME Administration, the Ministry of Economic Affairs, there are only nine percent of firms who have plans on succession, with an average completion period of fifteen years and the success rate of forty percent. It is obvious that succession can be a time-consuming and complicated project. If the arrangement is not well-thought enough, it may result in disputes among family members, which may further affect the stock price and the firm value. In some worst situation, it can even make the owner's long-term efforts all wasted and irrecoverable, resulting in the collapse of the whole firm.

From the three simple cases above, we can learn that if a firm wants to realize sustainable development and complete its succession plan smoothly, capital market is a very handy instrument. However, as every family firm varies in terms of its family and firm conditions, in the end of this article, we will list some benefits of entering into capital markets for succession—particularly, those essentials of SMEs' financing considerations in the face of the volatile economic conditions and the trade war between large countries—hoping that the firm owners can consider how to utilize the characteristics of capital markets to help the firm to complete succession and achieve the improvement of firm constitution.

First of all, entering into capital markets promotes the establishment of a sound management system. Listing will force the firm to strengthen internal control and management so as to comply with the legal norms, further reinforcing the corporate conditions in business operation, including establishing a sound management system. A management system is the foundation on which the survival of a firm is dependent, and it is the principles and framework for regulating employee's behaviors. From capital sources to production and sales, and even to workforce administration, all of them are the embodiment of the management system, which can be said to be the essential core of corporate sustainable development. For the candidates of succession, a ready-made, sound management system, and an established institution prevent them from having the predicament of disorder and precedent lessness. On the other hand, it is also easier for the second generation to carry out reformation based on the old, established system (Sung, 2016).

Secondly, entering into capital markets promotes the systemization of the professional team and knowledge inheritance. Take the Goodway Corporation in the machine industry for example. The chairman of the board, Mr. Yang stated that having seen many failed cases in second-generation succession, he decided to send his second generation into the board of the two companies Goodway Machine and Awea Mechantronic, to learn about business operation. In the meantime, he also arranged them to act as managers in the management department for learning about general matters, big and small, such as salary and attendance. Only when the second generation have reached a certain age, with experiences gained and capabilities built, does the owner allow them to take over the enterprise from the professional managers (Shen, 2017). On the other hand, in ***Is your Successor Secured?*** by Lee (2013), it is mentioned that the reason why business succession can be difficult in Taiwanese SMEs is that the knowledge inheritance in SMEs mainly based on apprenticeship, so the first generation generally educates their sons and daughters by this method; yet, guidance without a systematic framework can hardly work effectively, let alone other determining factors such as changes of spatial and temporal environments as well as technological reformation. So, when the owner has trouble in passing down his experience of the past success in wealth management and corporate operation completely and effectively, he can seek help from a professional management team with solid knowledge and expertise, so as to facilitate the succession.

Thirdly, entering into capital markets provides the enterprise with capital and talent, which are required for performing firm transformation, and improves the flexibility of exit mechanism. Most owners hope to sustain the development of firms, passing them down generation to generation. However, in the face of volatile economic conditions and international trade wars such as the US-China trade war, the enterprise needs more capital to conduct supply chain adjustments as well as to forge strategic alliance such as cross-country merger and acquisition and horizontal integration. As SMEs can no longer afford to maintain business operation and to perform transformation simply by internal resources and accumulated operating surplus, entering into capital markets can promote the firm's international visibility and attract international venture capital and excellent talent, both of which would be of great help to firm transformation and upgrading.

Moreover, when some family members refuse to hold shares, a suitable exit mechanism will be a better choice. According to a survey, the most prevalent among those "normal" exit methods for family firms is being sold to other firms. About 33% of them are sold to peer firms, another 33% are sold to private equity funds, 20% are sold to other investors through capital markets, and lastly, 14% are acquired by the management, with most of them turning their equities into cash (Sun, Wu, Wang, & Ho, 2016). If the management know how to make full use of these cash, they may still stage a comeback and set up new firms. It is noteworthy that a decline in number of shares does not mean a decrease in wealth; it is simply a conversion between forms of assets. This sort of exit strategy can not only materialize the value of equities, but also improve capital efficiency, shifting from assets with poor liquidity and growth potential to investments or companies with high growth rates. On top of that, introduction of an external management team with higher operation synergies can further promote the firm value as well as shareholders' interests.

However, capital markets are only an instrument. The owners need to make full use of the advantages of capital markets and pay attention to the arrangement of the firm and family shares as well as the division of profits generated from business among different stakeholders, instead of letting family members reap all capital gains. And when the firm gets listed, whether the owner chooses to pass down the business to family members or to hire professional managers, it must be noted that any relevant firm decision must go through the standard procedure, in which a board in sound operation will play the most crucial role. If SME owners can separate firm decisions from family decisions, it is believed that under the guidance of a sound system, capital markets will definitely be a vital driving force in promoting firm succession decisions, transformation and upgrading, and firm sustainable development.

Appendix: The Outline of the Interview

Business Founding and Development

1. Please talk about your considerations in terms of capital during the early stage when the firm is just founded as well as the distribution of your products and markets.
2. Concerning the industry in which the firm is situated, what are the key competitive advantages? And how does OTC listing (TPEx) contribute to create these advantages?
3. With respect to the firm's situation, when is the timing for OTC listing? And what is the motive?
4. With respect to business operation, when there are two financing sources available, which are internal resources and capital markets, what are the crucial considerations you take for choosing between them?
5. During the process of OTC listing, how should the firm cooperate with professional institutes such as accounting firms?
6. Is the firm planning for TWSE listing? If so or not so, the decision is based on what considerations?

Corporate Governance

7. Concerning the firm's situation, do you worry that OTC listing will cause a decline in the degree of control? What should the firm do to solve it?
8. What is the firm's situation regarding the share structure? Are there any considerations made according to that situation? What adaptations should be made?

9. How long does it take from the preparation to the completion of OTC listing? What parts of the firm should adaptations be made? Where does resistance come from? How to solve it? What is the role played by the management such as the independent directors and the regular directors?
10. As the enterprise gets OTC-listed, how should the enterprise plan for establishing the internal control and management system?
11. After listing, should the remuneration system for the professional management team be adjusted? If so, how should they be adjusted? Why?
12. What limitations will SMEs be subject to in the process of OTC listing in terms of regulatory norms and information disclosure? In the event of ownership dispersion and shrunk room for tax planning, what should the firm do to cope with the challenges?

Succession

13. Can you talk about the family members' opinions regarding the different ways of raising funds? Is there any obstacle? How did you cope with that?
14. As far as you are concerned, what challenges or benefits does OTC listing present to the firm in terms of the succession planning?
15. When a SME chooses to get listed (TPEx or TWSE), what adaptations should be made by the managers and family members, both mentally and practically?

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CHAPTER 14

Concluding Remark: Remaining Small and Competitive or Moving Forward to Scale Up?—Reflections and Insights from the Cases

Kevin Au and Hsi-Mei Chung

Small-to-medium-sized enterprises (SMEs) are the key economic engine of economies around the world, but they also face severe challenges to survival and growth due to their limited financial and business resources compared to large, publicly listed enterprises. Survival is a tough issue for SMEs. According to survey data around the world, fewer than 25% of SMEs survive longer than 20 years. SMEs that survive longer make savvy and flexible strategy decisions and respond quickly to the market based on their own market position or the location they occupy in the supply chain. Additionally, SMEs that survive longer than 20 years usually accumulate distinctive capabilities that help them compete in the severe industrial

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environments. SMEs have limited resources, so understanding how they can sustain their businesses under constraints to become successful in the long run is an important issue to business scholars and government officials.

How can an SME compete with larger competitors with only limited resources? The answer is usually related to centrality, swiftness, and smartness of the founder's decision-making abilities. However, after running the firm for over 20 plus years, the founder normally reaches retirement age and needs to decide how to pass the enterprise onto the next generation. The succession decision in an SME not only relates to the direction the SME can grow, but also the linkage with the founder's family.

The growth of an SME is based on how the capability can contribute to the competitive advantage of the enterprise and generate the growth engine. Given the highly concentrated power the founder and his family have typically maintained in the SME, the succession decision will hinge on whether the resources can be connected to the growth engine for the SME. Thus, a number of questions are crucial: Is the successor suitable to lead the SME to cope with the future challenges? Are all the resources necessary for the SME's competitive advantage controlled by the founder? Can the successor take advantage of the resources linked to the founder? To deal with the future competitive environment, do the accumulated resources in an SME meet the requirements of the changing and uncertain industrial environments? How should the successor react to the changing environment to continue the growth of the SME?

This book aims to provide potential solutions on the growth issues of SME by presenting an integrated framework to illustrate that **the succession and innovation decision in SMEs are two sides of a coin. We also try to provide broader observations and solutions for Asian SMEs.** The origin of this book was a 2016 survey of three industrial clusters conducted in Taiwan. The findings of the survey illustrate the severe eminent situation related to succession and declining innovation for SMEs. We found that not all SMEs can succeed well when they search for innovation and make the succession decision. The critical issue is that given the rapidly changing business environment, the resources and capital accumulated by the founder may not work well to meet the future strategic position after succession. **We posit that an SME needs to consider both the succession and innovation decisions simultaneously to achieve continuity for the family and the firm**.

Recognizing that SMEs are located in their specific societal and institutional environment, we first present the distinctive experiences and observations of SMEs in Asia to uncover the specific challenges for SMEs in different Asian societies. In this book, we include observations from SMEs in Japan, Taiwan, China, Hong Kong, Singapore, and India to highlight the linkages between SME development and their embedded institutional environments. In the second part, we present generalized solutions for SMEs using detailed case examples to answer how they can make both the succession and innovation decisions together. We emphasize the potential solutions to solve the challenges of SMEs on succession and innovation by considering the utilization of the capital market, electronic commerce strategy, international strategy, and implications of angel investment on portfolio entrepreneurship. We also compare the experiences of Asian SMEs and those of Europe. By illustrating the distinctiveness of SMEs in terms of cultural background and institutional development, and generalizing solutions for succession and innovation decisions, we aim to provide useful insights for family owners, professionals, and advisors who are concerned about the continuity of SMEs in Asia.

1 Reflections and Insights from Cases

The development of an SME is embedded in its institutional environment. In Chapter 1, we explain the contexts of the cases in this book to suggest the interwoven nature of SMEs in terms of firm characteristics, industry, context, and family. In this chapter, we illustrate the linkages between firm capabilities and family members in the distinctive cases to answer how and why succession and innovation decisions in an SME are two sides of a coin. Indicating the linkages between firm capabilities and family members is insightful to realize in what strategic position the focal SME could move in the succession decision. This discussion helps readers understand why an SME may choose to either remain small and competitive or to scale up.

Remaining small and competitive or scaling up is not a dichotomous choice for an SME. Instead **it is two ends of a growth continuum, which is determined by the accumulated capabilities of the SME in light of the succession decision**. The success of an SME on succession and innovation will enable it to link up with the tangible and intangible resources within the family and firm to support it moving forward.

In comparison, failed succession and innovation decisions usually result from difficulties connecting the current competencies with the possible successor. Thus, the SME cannot fire up the growth engine for the next journey. The failure of an SME on succession and innovation decisions will also cause growth to stagnate, and thus it may remain in the current scale with minimum revenue or even lose to competition and exit the market. However, if an SME can make successful succession and innovation decisions together, it can choose between two directions: to remain small and competitive or to scale up to explore or exploit the current or new markets.

In Germany, there are many high-performing "hidden champions" that are little known (Simon, 1992). These "hidden champions" often have niche products, but they operate deep in the "core" of the value chain, including the machinery, components, or the whole process of production or service; thus, people may recognize the product or service but don't recognize the company (Simon, 1992). In Asia, many SMEs in Japan also choose to be "hidden champions" and remain small but competitive. In Taiwan, many SMEs are similar "hidden champions" in the global value chain. They occupy a position in the global supply chain but they are not usually recognized by the end users (Hamilton & Kao, 2018). Instead of choosing to be a small and competitive "hidden champion," an SME could move up in scale and even choose to go public. **The key to making this choice depends on whether there is a match between the successor and controlling family member(s), and the firm's capabilities in the next growth direction**. The decision to remain small and competitive is usually made if the successor is capable and still holds the majority decision-making power based on ownership and management. In contrast, moving to scale up may indicate that ownership and management rights of the firm are not solely controlled by a limited number of family members but are transferred to a formal mechanism. This discussion highlights the fact that moving to scale up is not the only developmental direction for an SME. The controlling families of the cases in this book make their decisions based on the growth continuum.

As shown in Table 1, most of the SME cases in this book that are embedded in different society, industry and family contexts choose to scale up instead of remaining small and competitive. Within the scale up decision, there is a combination of strategic positions related to transgenerational succession in family-owned SMEs (e.g., deepening the current position in the current industry, discovering a new position in the current

Table 1 Succession and innovation cases in this book

Chapter	*Firm*	*Society*	*Founded year*	*Industry*	*Product*
Chapter 2	**Wuan Chuang Soy Sauce**	Taiwan	1909	Soy Sauce manufacturing	Soy sauce
Chapter 2	**Universal Cement Corporation**	Taiwan	1959	Cement manufacturing	Cement, gypsum board, electronic sensor
Chapter 2	**Kikkoman Corporation**	Japan	1917	Soy Sauce production	Soy sauce, food seasoning and flavoring, mirin, shōchū, sake, juice and other beverages, pharmaceuticals, and restaurant management services
Chapter 2	**Jong-Shyn Shipbuilding Company**	Taiwan	1987	Shipbuilding	Middle-scaled cargo ships, such as deep-sea fishing vessels and freighters; yachts
Chapter 2	**Jau-Yeou Industry Co. Ltd**	Taiwan	1979	Screw manufacturing	Low carbon steel screws, aerospace fasteners
Chapter 3	**Gyokusendo**	Japan	1816	Tool-making industry	Hammer and bronze manufacturing
Chapter 6	**Red collar Group**	China	1998	Suit manufacturing	Personal customization and manufacturing of suits
Chapter 6	**Zhejiang Lonsen Group Co., Ltd**	China	1970	Mainly in the dye auxiliary industry, diversified to real estate, auto-parts, and financial investment	Dye auxiliary manufacturing, chemical products

(continued)

Table 1 (continued)

Chapter	*Firm*	*Society*	*Founded year*	*Industry*	*Product*
Chapter 6	**Wing Yip Food Co., Ltd**	China	1970	Meat products; Supermarkets	Traditional sausage, simple sausage, Chinese bacon, and other products; Channel
Chapter 6	**Sanquan Food Co., Ltd**	China	1992	Frozen food	Frozen food manufacturing
Chapter 6	**Wensli Group**	China	NA	Silk industry	Silk clothes manufacturing
Chapter 7	**Hai Sia Seafood Pte Ltd**	Singapore	1977	Seafood channel	Fresh and processed seafood
Chapter 7	Greendot Group Pte Ltd	Singapore	2011	Food channel	Vegetarian fast food
Chapter 7	**Q Industries**	Singapore	1987	Knowledge and technical advisory services	Cuisine solutions
Chapter 8	**Eastern Condiments Private Limited**	India	1983	Food manufacturing	Spices, blended spices, and pickles
Chapter 8	**Aravind Eye Care System**	India	1976	Hospital, healthcare industry	Eye hospital and eye health care
Chapter 8	**Shakti Group**	India	1947	Diversified group, including edible oil, IT services, biochemical products, green energy, health care, and real estate	Edible oils, software development and IT education and Internet services, healthcare products, healthcare business, green energy, real estate

Chapter	*Firm*	*Society*	*Founded year*	*Industry*	*Product*
Chapter 8	**Popular group**	Pakistan	1947	A group engaged in multiple industries	Mainly engaged in manufacturing, servicing, trade and export of foods, juices, textiles, safety matches and other products across different industries
Chapter 9	**Wun Pang Bicycle**	Hong Kong	1950	Bicycle distribution, retails, and repairs services	High-end and affordable bicycles
Chapter 9	**Kowloon Watch Company (and Origami Lab)**	Hong Kong	1952	Retail for the legacy business; and IT industry for the start-up	Watches for the legacy business; wireless audio device for smartphones using the bone conduction technology
Chapter 9	**Automatic Manufacturing Limited (and Green Continent and Bio Cure Ltd)**	Hong Kong	1976	Electronic product manufacturing	Medical devices, office equipment, telecommunication products, and automation products
Chapter 10	**Sheh Fung Screws Co., Ltd**	Taiwan	1973	Screw manufacturing	Various types of screws; mainly produces construction screws
Chapter 10	**Business Service manufacturing Firm (anonymity)**	Taiwan	NA	Commercial service industry	Coffee roasting and coffee roasting-related knowledge promotion
Chapter 12	**Quality Identification Enterprise (anonymity)**	Taiwan	NA	Appraisal service industry	Boutique appraisal, quality identification

(continued)

Table 1 (continued)

Chapter	*Firm*	*Society*	*Founded year*	*Industry*	*Product*
Chapter 12	**Bioassay Enterprise (anonymity)**	Taiwan	NA	Biotechnology services industry	Animal disease detection technology
Chapter 13	Commercial Enterprise (anonymity) (Firm A)	Taiwan	2000	Department stores and general merchandise	Physical and online trade
Chapter 13	Electronic parts manufacturing firm (anonymity) (Firm B)	Taiwan	1993	Electronic parts industry	Electronic component
Chapter 13	Construction investment and construction company (anonymity) (Firm C)	Taiwan	2008	Building materials and construction industry	Construction investment and construction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Third generation, Chairman; Fourth generation, Vice CEO	Know-how on high-quality soy sauce brand	Members of the third and fourth generation have deepened the current strategic position in the soy sauce industry by building brands, innovating multiple flavors of soy sauce, developing customer segments, and establishing new channels	**{Deepening the current position in the current industry}** High-quality soy sauce through brand expansion globally	Scale up direction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Third generation, Chairman; Fourth generation, Vice Chief Executive Officer	• High-quality cement and gypsum boards • Electronic sensing items	• Members of the fourth generations have attempted to innovate this old firm by (1) enhancing the efficiency of the cement production process; (2) developing by-product gypsum boards to enter green construction products; and (3) diversifying into the new electronic sensing industry	**{Deepening the current position in the current industry}, {Discovering a new position in the current industry} & {Discovering a new position in a new industry}** Introduced an innovative spirit into an old firm	Scale up direction
Founded by 8 family-owned firms traced to 1662, and led by the family members of the 8 families. Since 1917, there have been 10 chairmen	High-quality products and services with integrity by continuously improving their long tradition of techniques and know-how	• This large conglomerate is managed by a well-established professional management system globally. Even though the chairman of this firm is led by members of the founding families, the governance of this firm follows global standards which involves excellent corporate governance to decide the strategies	**{Deepening the current position in the current industry}, {Discovering a new position in the current industry} & {Discovering a new position in a new industry}** To provide high-quality food products globally	Scale up direction

(continued)

Table 1 (continued)

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Second generation, Chairman	• Good manufacturing capabilities on middle-scaled cargo ships • Good design and manufacturing capabilities on customized yacht	• The elder brother of the second generation has deepened the current capabilities in the middle-scaled cargo ships • Members of the second generation have tried to leverage the manufacturing resources of the current shipbuilding to the new yacht manufacturing. They established a new firm, establish a new brand, and innovated the marketing channels and the way to communicate with yacht customers	**{Deepening the current position in the current industry}, {Discovering a new position in the current industry}** Leveraging the manufacturing resources for the current shipbuilding to the new yacht manufacturing direction	Scale up direction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
First generation, Chairman; Second generation, CEO	• Excellent manufacturing capabilities on low carbon steel screws • Excellent manufacturing capabilities on aerospace fasteners	• The founder and his son entered the aerospace fasteners industry by joining the Aerospace-Standard Fastener Industry Technology Panel Development Project in 2004. After that, they established a new firm to manufacture aerospace fasteners and tried to extend the current position into a new industry	**{Deepening the current position in the current industry} & {Extending the current position into a new industry}** Leveraging the manufacturing resources of low carbon steel screws to aerospace fasteners in the aerospace industry	Scale up direction
Seventh generation, CEO	• Manufacture special hammer for copperware craftsmen • Understand end-user usage habits and opinions by changing sales paths	The seventh generation, who leads through direct sales and the establishment of their own sales channels,changed the strategy of previous sales to distributors,and successfully understands users' opinions as a basis for improving the product	**{Deepening the current position in the current industry}** Professional copper manufacturers and dealers	Small-scale with high-quality direction

(continued)

Table 1 (continued)

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Second Generation, CEO	• Excellent suit manufacturing capabilities • Personal customization	• Under the co-governance of two generations, this firm transferred from the traditional OEM and ODM model to a personal customization model • The personal customization of suits is based on customer to manufacturing (C2M), connecting customers and manufacturing through an interactive platform	**{Deepening the current position in the current industry} & {Discovering a new position in the current industry}** Transferring the suit manufacturing model to link customers to manufacturing directly	Scale up direction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Second generation, Chairman	• Capabilities on dye auxiliary	• The second generation, who has the chemical knowledge and education, strategically transformed the firm to transfer the auxiliary production to dye production, and took charge of the R&D division • The second generation took the leadership on diversification to scale and scope up the firm	**{Deepening the current position in the current industry}, {Discovering a new position in the current industry}, & {Discovering a new position in a new industry}** Becoming business partners based on dye auxiliary manufacturing capabilities	Scale up direction
Second generation, Chairman	• Manufacturing capabilities on different kinds of meats • E-commerce model to develop new products and new channels online	After preparing the second generation in 2009, this firm initiated radical innovation to introduce an e-commerce strategy and innovate the meat products to meet online requirements	{**Discovering a new position in the current industry**} Meat professionals	Scale up direction

(continued)

Table 1 (continued)

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Second generation, Chairman	• Manufacturing capabilities on frozen food and meal boxes	The second generation tried to initiate a "Sanquan Fresh Food" project to establish a vertical e-commerce platform for products on the dining table. However, this project suffered a loss since the target customers did not adopt the products and thus they needed to transfer the strategy now	**{Deepening the current position in the current industry} & {Discovering a new position in the current industry}** Becoming a healthy food and meal box provider from the core business of frozen foods	Scale up direction
Second generation, Chairman	• Manufacturing and branding capabilities on traditional silk clothes	The second generation initiated an acquisition to acquire the French silk family firm MARC ROZIER to enhance its production technology and innovative capability	**{Deepening the current position in the current industry}** Aspiring to be "Chinese Hermès"	Scale up direction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Second generation, Deputy Director	A specialized seafood supplier in the region with a focus on freshness and quality	The participation of the second generation mainly focus on enhancing the modernization of their 20-year-old processing plant and make sure the strategic transformation is successful. He also launched their own brand of packaged seafood called SERVE, which has given them a better control of freshness and shortened lead time for deliveries	{**Discovering a new position in the current industry**} Seafood professionals to push the boundaries of value creation for their customers while maintaining a shared sense of purpose for the business	Small-scale with high-quality direction
Second generation, Head of an innovative vegetarian restaurant chain	From vegetarian product distribution to vegetarian restaurants and further becoming one of the largest Asian-fusion vegetarian chains in Singapore	The second generation successfully distributed a network of vegetarian products run by their parents. He started up a new venture to combine culinary skills with chain management knowledge to convert to a vegetarian restaurant chain and expanded the scale and scope of his father's business	{**Discovering a new position in the current industry**} By investing on food technology and e-commerce platform as well as position as a greener supporter, it aims to be a ast, convenient and high-quality vegetarian food provider	Scale up direction

(continued)

Table 1 (continued)

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Second generation, Group CEO and COO	From vegetarian product distribution to vegetarian restaurants and further becoming one of the largest Asian-fusion vegetarian chains in Singapore	The second generation successfully distributed a network of vegetarian products run by their parents. He started up a new venture to combine culinary skills with chain management knowledge to convert to a vegetarian restaurant chain and expanded the scale and scope of his father's business	{**Discovering a new position in the current industry**} By investing on food technology and e-commerce platform as well as position as a greener supporter, it aims to be a ast, convenient and high-quality vegetarian food provider	Scale up direction
Second generation, Chairman and Managing Director	• Knowledge on high-quality spices and pickles	• Introduced system transformation for HR and finance departments • Innovated product manufacturing and enhanced the R&D process • Introduced outside investors for financing • Expanded channels and expanded to overseas markets	**{Deepening the current position in the current industry}** Innovating traditional spices and pickles production and marketing processes and upgrading the firm brand internationally	Scale up direction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
First generation, Chairman	• Strong value woven around compassion and commitment to help the blind. At least half of Aravind's patients were poor and were treated free of charge • Excellence in quality of eye disease serviced	• Standardized surgical procedures and kept costs down while maintaining high quality and efficiency in operations • Applied the business model followed by the McDonald takeaway in the eye care area that was developed and executed by multiple family members over two generations • Introducing goof-proof family governance to educate multiple family members in the second generation	**{Deepening the current position in the current industry}** Utilizing an innovative model to help the blind and maintain good quality eye disease services as well as maintaining strong caring values	Scale up direction

(continued)

Table 1 (continued)

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Multiple family members and family branches involved in management	The Shakti Group includes multiple business initiatives. Engaged in diverse opportunities, The Shakti Group is now a Conglomerate that mainly focuses on edible oils, green energy, real estate, and other biochemical and healthcare business	• Members of the second generation from different family branches diversified the firm from traditional cooking items to (1) software development and IT education and Internet services; (2) biochemical and healthcare products; (3) healthcare business; (4) green energy; (5) real estate	**{Deepening the current position in the current industry}** & **{Discovering a new position in a new industry}** To work with pure intent and achieve pure success by providing complete satisfaction to employees, customers, associates, and investors	Scale up direction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Managed by the second and third generations	The popular family members introduced a family governance mechanism to initiate transgenerational entrepreneurship and diversify the original firm to a large conglomerate. Extensive expedition of benchmark triumphs and creation of radical products	• Through freedom given to the next generation to start their own ventures, the family developed several family governance mechanisms, such as a family constitution, Family Business Board, Family Council, Limited Liability Partnership, Family Trust and Family Fund to motivate the entrepreneurial spirit in succeeding generations	**{Deepening the current position in the current industry}** & **{Discovering a new position in a new industry}** Welcomes diversity whole-heartedly including venturing into newer industries and product lines, or acquiring and retaining the best talent across functions, and making intellectual and technological advancements in different business categories	Scale up direction

(continued)

Table 1 (continued)

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Second generation in top management roles; third generation as Chief Business Officer	• Relatively robust relationship with suppliers and customers • Exclusive agreements with several leading bicycle brands	• Inspired by the need for independence, a philosophy upheld by the founder, the third generation initiated a business plan to create its own bicycle brand, to move from passive to active responses to disruptions the business faced • The use of family funding to launch the plan, plus actively consideration of other funding sources	{**Discovering a new position in the current industry**} From a retailer and distributor to a brand builder, the third generation is creating new values through upgrading the business model	Scale up direction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Second generation in the governance position; third generation as founder and CEO of Origami Lab	• Dedication of the second-generation patriarch, Dr KS Wong, to sustain the family legacy • Family entrepreneurial spirit and freedom to explore new initiatives in the third generation	• Dr KS Wong tried to groom his third-generation nephew, Kevin Wong, to take over but Kevin changed track and created a very successful start-up attracting investments not only from the family but also from private equity and venture capital firms, as well as via crowdfunding • Informal advice from Kevin on the family's investment in R&D projects	**{Discovering a new position in a new industry}** The second generation supports the third generation's entrepreneurial decision outside of the legacy business and funded the start-up initiative	Small-scale with high-quality direction

(continued)

Table 1 (continued)

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
First generation in governance roles; second generation heads spin-offs of AML	• Formal spin-off scheme combining family angel investment, family education curriculum and career development • Professional management empowered by the founding generation • Learning culture of AML	• Second-generation members are invited to join the spin-off scheme. Financial, social, and human resources from the Mok family and AML are provided to groom the next generation and to grow their ventures • Successful spin-offs are expected to merge back with the parent and the next-generation leaders are expected to support the corporate headquarter as non-executive directors	{**Discovering a new position in the current industry**} & **{Discovering a new position in a new industry}** AML plays the role of angel investor and spin-off incubator to assist the second generation in starting a business in a related but non-competitive area. The potential merging of the successful spin-offs with the parent group enhances the competitive edge of the latter and replenishes the familial resource pool	Scale up direction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Third generation, Chairman	• The company has a technology niche, cost niche, as well as a stable supply of materials and other competitive advantages through the introduction of a ERP system that drove the R&D team to develop subsequent related systems and guided the internal staff to learn the same system with external suppliers • Leveraged the listing and the ERP system to obtain relevant capital and adjust the company's system	• Third generation to improve product quality and effective control of the production process into the computerized resource management system (ERP). The ERP introduction process is closely related to the third-generation succession training process	**{Deepening the current position in the current industry}** Professional world-class screw manufacturer	Scale up direction

(continued)

Table 1 (continued)

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Fourth generation,Head of the start-up company	• The parent company is a stove manufacturer transformed into a commercial service provider for coffee roasting and knowledge promotion. Through the integration of virtual and real marketing to develop and deepen the brand through different paths to improve brand awareness	• Using the original resources and technology of the family business, it was able to develop another business body through diversification. The fourth generation extended the technology of the original third generation in stove manufacturing and proficiency in coffee knowledge to the field of coffee roasting and knowledge promotion	**{Discovering a new position in a new industry}** Professional coffee roasting skills and knowledge promoters	Scale up direction
Second generation,Chairman	It changed the traditional way of evaluating which highly relies on a master. And now the second generation establishes the system of scientific and technological quality evaluations to enhance the effectiveness	• The second generation redefines and constructed the core competencies of the firm by studying in Europe • It currently faces the challenge of shareholder structure and board structure	**{Deepening the current position in the current industry}** Professional and scientific quality appraisal experts	Small-scale with high-quality direction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
Second generation, Chairman	• Uses smart phones, a special camera kit, and special software to quickly complete the relevant inspection of animals	• By employing a private board with a guest director professional advisory meeting which are composed with those second generations of the Taiwanese firms operating and is familiar with the markets in the Association of Southeast Asian Nations, the second generation successfully positions this firm in the right market and the segmented customers in the Southeast Asian Nations region • Used influential business contacts and professional consulting to open the door to multinational operations	**{Deepening the current position in the current industry}** Professional animal testing biological experts	Scale up direction

(continued)

Table 1 (continued)

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
First generation, Chairman	• Through the capital market, the corporate image and visibility have significantly improved and the success rate of authorized cooperation for foreign brands has increased	• The current management model has adopted professional managers to manage future succession planning separately to achieve a flexible exit mechanism	**{Deepening the current position in the current industry}** Professional sports equipment traders	Scale up direction
Second generation, Chairman	• Has specialized electronic parts manufacturing technology. • By going public, the company has more resources to focus on the development of the industry, including manufacturing improvement, enterprise transformation and industrial competition movement	• A second generation of successors is being trained,but the future does not exclude the help of professional managers • Due to the need to go public, all the company's operating processes and operations are institutionalized	**{Deepening the current position in the current industry}** Professional electronic components manufacturer	Scale up direction

Generation, Position in the firm	*Resources and Advantage*	*Linkages of resource with the family member*	*Strategic Position*	*Development*
First generation, Chairman	• The first generation has many connections • Before listing, the case was arranged to consider the main tax burden; after the listing, the company has mainly focused on the interests of shareholders and the recording of performance to maintain the share price and value of the company	• Less core technical problems that require machinery or time because the project is built on a case-by-case basis. Therefore, it is different from the general problem of succession. Listing requires institutionalization of all operations of the company. The second generation has been trained in the headquarters	**{Deepening the current position in the current industry}** An architectural shoestring with musical elements and soul	Scale up direction

Source Author's creation

industry, extending the current position to a new industry, or discovering a new position in a new industry). Not all SMEs that move to scale up will maintain the current strategic position in the current industry. **The key for an SME to combine the portfolio of strategic positions hinges on how the successor can link the strategic position with the firm resources and determine the sustenance, re-composition, and reallocation of resources**.

Based on the framework introduced in Chapter 2, an SME does not necessarily adopt one single approach for its industry and strategic position during succession. The founder of an SME can decide the best portfolio of strategic positions during succession by identifying the critical person to take charge of the main activities or maintaining the core competences to provide existing products or services after the succession. The SME can also clarify whether or not the core competencies can be protected by intellectual property rights. For example, in the Wuan Chuang Soy Sauce and Kikkoman Corporation cases in Chapter 2, even though these two family firms are in the soy sauce industry and are century-old firms, the Wuan Chuang Soy Sauce firm is led by a sole Chuang family while all the core management activities are held by family members. In contrast, Kikkoman Corporation is led by 8 families who arrive at a consensus for rules on how to turn over management rights among the families. This consensus on the turnover rules of the management rights made it possible to introduce a professional management system and explore a new industry. Furthermore, the non-protected intellectual property rights of the know-how related to manufacturing soy sauce and the fully family-member management team prompted the Wuan Chuang Soy Sauce company to choose a strategy on "deepening the current position in the current industry" instead of the portfolio of Kikkoman Corporation's three types of strategic positions during generational succession.

As illustrated in the cases in China (Chapter 6) and India (Chapter 8), family-owned SMEs benefit from the governmental open-market policy. Although not all capabilities in the cases in these countries are protected by intellectual property rights, the successor's capability to exploit the underdeveloped environment creates opportunities for the SME to diversify to a new industry and even grow a diversified business group. For example, Zhejiang Lonsen Group Co., Ltd. in China and the Shakti

Group case in India are both led by family members and the successors are capable of bringing new knowledge into the firm to explore new opportunities during generational succession.

2 Key Questions SMEs and Families Should Ask

When SMEs were first discussed in the 1940s, they faced many challenges and the theory said that they should look to their local communities and value-chains for solutions of their problems (Abbott, 1946). Since then, SMEs proliferated in many countries. Things have changed over the past seven decades. Globalization and integration of supply-chains do not mean that they could balance their risk through working with more partners and disperse their operations. In contrast, challenges remain, and their global spread causes them to face not just local challenges but also challenges posted from overseas that could swipe across continents. In this book focusing on SMEs in Asia, we highlight that many SMEs are family-owned or family-driven. While SMEs must innovate and transfer to overcome the challenges on business, they also need to cope with it together with succession issues. We are glad many SMEs have recognized the difficulties in dealing with this double-jeopardy and see many collaborations between founding and rising generations, owners and professionals, and enterprises and governments.

> If we let the present to fight with the past, we will lose the future.
> Winston Churchill

Many of the cases and discussion have brought out the optimistic side to show that SMEs and the family behind would not take the risks of clinking to the past and sacrificing the future. Nonetheless, it does not mean that the stakeholders know what solutions to take and are able to implement them. We hope that the contributors of this book can help by pointing out the difficulties in the process and offering some useful suggestions. To end the book, we offer a few questions for readers who face the double challenges of innovation and succession:

- Can our firm/family identify disruptors and build resilience for the long-run?
- How to find and migrate to strategic positions continually to adapt to the rapidly changing environment?

- Can we effectively orchestrate organizational and familial resources? Should we count on a family champion for this? Or do we need to develop a system to ensure a more sustainable performance?
- Do we have practices, processes, and systems to finance and support transgenerational entrepreneurship?
- Do we need to team up with someone else in the start-up process? What qualities and resources are we looking for from the entrepreneurial partner?
- Do the members in the next generation capable sufficiently to take the firm over to next journey? If not, what do our family do on dealing with the future of the firm and the family?
- Do our family have entrepreneurial ventures or innovative projects that deserve the involvement of the rising generation?

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The original version of this chapter was inadvertently published with a typo "SEMs" instead of "SMEs" in Figure 3 of Chapter 7, which has now been corrected. The book has been updated with the changes.

The updated version of this chapter can be found at
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Index

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