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家族企業傳承與產品策略 Family Business and Multiple Product Strategies: The case of X company.

魏巍

Timothy R Wei

指導教授：曾智揚 博士

Advisor: Chih-Yang Tseng, Ph.D.

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Abstract

Succession is one of the most challenging issues for family firms, as the majority fail to remain a family business past the second generation. Family businesses are reluctant to look beyond insiders for recruitment, for fear that outsiders will steal away previous knowledge and contacts. Family business tends to follow the proverb “wealth does not pass three generations.” First-generation managers lay the groundwork and build wealth, the second-generation manage wealth, and the third generation destroys it. Similarly, first-generation managers often employ a single product strategy and devote their entire resources to the field. On the other hand, second-generation owners are less emotionally attached to the product, they are motivated by distinguishing themselves from their predecessors. Often, second-generation managers begin to diversify and develop multiple product strategies. For family businesses, succession outranks short-term profit and loss, companies are willing to invest in projects over the long haul if ownership remains within control. This research aims to bring to light the relationship between family succession and multiple product strategies by applying the twenty-five principles of long-term success. This research found that in terms of the case study company, there were several ownership issues. Overall, there is a lack of formal governance and control that results in poor decision-making. Developing multiple or single product strategies does not have a direct impact on a company’s performance if the operation’s cash flow can sustain this expenditure. However, family firms should focus on the area of competence and implement stop loss when developing new projects.

Keywords: Succession, Family Business, Product Strategy, Corporate Governance, Long-Term Success

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Chapter 1 : Introduction

1.1 Motivation

The family business represents one of the oldest and most generic forms of organization. The scale of family businesses can vary from neighborhood operations to global multi-billion companies (Ramadani et al., 2020). There is no specific definition that can clearly outline what a family business is, but common characteristic includes a "double-complex system." The system intertwines business with family and vice versa. It is possible for outsiders to enter the business system through one's experience and knowledge, however, to enter the family system one needs to acquire the most crucial element, family relations (Bowman-Upton, 1991). Family-run companies play a significant role in the worldwide economy, however, they often encounter unique difficulties that can lead to their downfall. One of the primary causes of this is an absence of proper planning and communication within the family, which can lead to conflicts and misunderstandings that can hinder the business's success. Additionally, many family businesses have trouble with succession-related issues such as selecting the next leaders of the business and ensuring they are ready to take over. These businesses tend to have different goals, they tend to be more focused on long-term stability rather than rapid growth, and this is due to the personal and business relationship. Management style tends to be more emotional and driven by satisfying family stakeholders (Barrett, 2013).

Most family business looks towards professional managers to leverage their professional knowledge and expertise to expand. Professional managers can be within or outside of the family nucleus. However, most family businesses are reluctant to look beyond insiders for fear that professional managers do not share the same vision and goal, and most importantly they fear that by introducing an outsider into management, they will

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relinquish control. Studies on family businesses in Singapore have shown that family businesses that accept professional managers outperform those that do not within the industry segment (Tan & Allampalli, 1999). This research will focus on family businesses in the context of product strategy, specifically, this research will implore why first-generation founders often employ a single product strategy and second-generation multiple product strategies. To elaborate, a single product strategy is defined as focusing on one niche area and developing one or multiple products within that field. Vice versa, multiple product strategies are defined as multiple product lines in different areas.

I am interested in the factors that lead to family business survival and why most family businesses fail to survive over time. I am also interested in applying the success factors in my field of work, building upon, and improving the existing foundation set by my predecessors to ensure success beyond multi-generations. This research will identify factors that contribute to the success and failure of family businesses. The success of a family business is greatly influenced by the dynamics within the family, such as communication, trust, and decision-making. A clear and effective strategy for the business is also necessary for long-term success. Effective leadership, which can be particularly challenging in a family business where personal and professional roles intersect, is also crucial. To ensure the business continues for future generations, it is essential to prepare the next generation of leaders for leadership roles. By being aware of these key factors and taking appropriate measures, family businesses can raise their chances of success and stay away from common mistakes that lead to failure.

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1.2 Research Objectives

The main research objective is to explore the concept of the family business and the factors that lead to successful and failed succession. This research also aims to discern why second-generation managers often employ a multiple-product strategy in diversified fields compared with first-generation founders, who focused on providing products in one segment only. This research aims to apply the twenty-five principles of long-term success to the case study company and attempts to highlight the relationship between single, and multiple product strategies and performance. The twenty-five principles can be categorized into four segments; Business, Family, Ownership, and Today. This research is based on a second-generation family business in Taiwan in the Power Amplifier (PA) industry. Based on financial data gathered as well as an interview with the CEO, this research and the corresponding analysis can provide insight into succession planning and product strategy.

1.3 Research Plan

This research is organized into the following chapters. In Chapter 2, the literature review will investigate existing academic literature on family businesses within Asia and product strategy. In Chapter 3, I will discuss the hypothesis and research method. The interview and financial statement analysis is discussed in Chapter 4. The conclusion and future direction are discussed in Chapter 5 which will provide insight for future research. This section will also discuss how this research can be improved upon going forward.

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Chapter 2 : Literature Review

2.1 Succession Process

Family business makes up a large percentage of business throughout the world and is considered the cornerstone of the modern economy. However, the family business is often plagued by its short lifespan, many sayings exist in both the East and West that highlight this collective matter. In Chinese, there is a saying “wealth does not last beyond three generations,” similar in the US there is also a saying “from rags to riches to rags.” These colloquial phrases suggest in many cultures, wealth, and business owners struggle to survive beyond three generations. Zheng (2010) proposes that a typical family business that fails all share a mutual theme, they intermix business with family. This includes mixing personal finance with corporate, interweaving family and business issues, and lack of professional development for family and non-family members to name a few. As such, business owners are often slower to adapt and lack the decision-making capability to adapt to an ever-changing atmosphere. Regarding succession and the long-term survival of family businesses, family members are a crucial company resource. Through core family values, entrepreneurship, new ventures, and a long-term commitment to the growth and development of the company, family members act as a platform for passing on knowledge and expertise to future generations (Varamäki et al., 2001).

In Chinese-speaking countries, the family business is hierarchical and infused with a strong Confucian undertone. Ownership is passed down to the family, and over time this familial relationship expands to form a strong network. These businesses are highly dependent on two factors: (i) Guan Xi (social network) and (ii) Xin Yong (trust). The contractual relationship is built upon this network and transferred from generation. As such, family business tends to have lower trust in outside management and retain strong

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ownership over their respective businesses. Similarly, in terms of succession planning, most of the ownership typically is passed to the eldest son. The eldest son will not only inherit decision-making over the business, but also the predecessor's extensive social and political network (Yan & Sorenson 2006). Weidenbaum's (1996) research suggests that the Confucian traditional ideals, such as allegiance to a hierarchical system of authority, a code of prescribed behavior between children and adults, and trust among family and friends, have remained deeply rooted in family and business values. The values of respect for frugality and pride in one's work ethic have been especially useful to the Chinese family business's rapid development.

Family-run businesses are often highly adaptable organizations that can accommodate a wide range of specific customer needs and quickly respond to changes in their external environment. This flexibility is attributed to the unique organizational structures and communication systems that these businesses possess. In Chinese-speaking countries, these companies are typically built on a foundation of trust and a patriarchal structure. The primary decision-maker in the business has the freedom to make changes and take actions without accountability and a trusted network enables these companies to reduce their overall costs. Family businesses tend to lean heavily on family members and trusted associates for resources. In the absence of laws and regulations, these trust networks can function as corporate regulation (Yu, 2001).

Chinese family business prefers employing insiders as key decision-makers despite more suitable outside candidates. For a family business, succession and legacy are more important than short-term profit and loss. The organization structure mirrors the patriarchal family structure, succession passes on to the eldest son, despite more suitable candidates within the family.

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2.2 Family Business Product Strategy

The objective of a family business differs from a non-family business. The dynamics of family participation in the organization have a strong influence on how strategy is designed and implemented. Overall family goals such as succession and survival outweigh financial performance (Astrachan, 2010). Similarly, in terms of product development, family business implements a different strategic approach to non-family business. From a macro perspective, family members are highly involved in the direction of research and design, and product development. New Product Design (NPD) process introduce an elevated level of conflict between insider and outsider, Small and Medium Enterprise (SMEs) lacks sufficient resource to balance NPD, financial resource, and conventional organizational routine. Furthermore, family SMEs often elect family members in project management positions. The family governance structure prefers a single project manager, but it is unlikely that a single manager possesses both technical and managerial skills. Vice versa, for family SMEs, that separate family and non-family professionals into their respective strong suit, the results have shown that NPD result is more successful and can counterweigh the shortages from a family governance structure (De Massis et al., 2016).

In a study by Yu (2009), three main components of a typical Taiwanese firm were identified: the founder, the boss's wife, and the core employees. The Chinese family management style is commonly found in Taiwanese family businesses and it is believed to contribute to competitiveness and adaptability in the global market. Taiwanese business owners are known for their efforts to increase growth and take advantage of lower manufacturing costs. These firms often act as both original equipment manufacturers and knockoff producers through short-term planning and are particularly

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efficient in global subcontracting. The wife plays a significant role in the operation of businesses in Taiwan, as she acts as both a stay-at-home spouse and a deputy's head. The owner of the firm also has a core production team that allows the company to compete in global markets with a high degree of organizational competency and efficiency. As the family grows and more family members become involved in the business, family interests and agendas may outweigh the company's objectives, leading to diminishing returns. Family issues such as personal incentives, nepotism, blurring of personal and business assets, and an aging management team can become threats to the organization as it becomes bigger and more complex. Daily management of the business also becomes more challenging as the family talent pool is no longer sufficient to service the organization's growing needs (Miller & Miller, 2015).

New product development drives an organization’s growth and competitive advantage. Some research suggests family firms inhibit creativity and that they value control over innovation (Gómez-Mejía et al., 2007). Other research argues that if family firms do not innovate this would result in a diminishing number of firms over time. Since family firms maintain a common organizational structure, it is evident that they innovate but follows a different innovative strategy compared with non-family firms (De Massis et al., 2016). Academics propose a “willingness, ability paradox,” in summary, these firms are less motivated to innovate, their ability is driven by long-term family value. However, as argued, due to the overlapping nature between family and business, family firms are highly risk averse (Rondi et al., 2019). For family firms, the main priority is not just on growth, but a delicate act of balancing family value, ownership, and succession. They follow a different growth model of “entrepreneurship and intrapreneurship.” The first generation develops and builds the business from scratch. Subsequent generation

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follows an internal innovative strategy, family members generate new possibilities and product segments by drawing from their personal experience and expertise. The second generation often faces the challenging task of ensuring company survival and business continuity whilst sustaining the company's profit and growth (Fletcher, 2004). Studies by Wei (2017) on Taiwanese SMEs have shown that when first generation entrepreneurs and the new successor had the same objective of becoming a professional manufacturer and pivoting from manufacturer to developing a brand strategy. The transition was quite simple because first-generation business owners and second-generation successors had a shared vision. When a new generation successor proposes a new product design concept, the first-generation entrepreneur plays devil's advocate, questioning the viability of the product. This typically leads to ongoing refining of the modern design, resulting in a successful product that is well received by customers.

In China, the next generation of family business leaders has become a powerful force. As many Chinese family businesses go through or are currently in the process of passing ownership to the next generation, the new owners are often well-educated but have less practical experience than their parents. To establish their success, these second-generation owners often strive to be more creative and proactive in seeking out new market trends and opportunities. According to a study by Shi & Dana (2013), these second-generation owners must adapt to the market to create new opportunities and gather the resources needed to take advantage of them. The arrival of the next generation in a family business often marks a shift in leadership and suggests that the family has long-term goals in mind. As a result, many second-generation family businesses tend to expand their business ventures. Additionally, first-generation founders may find it difficult to come up with fresh ideas if the company doesn't benefit from the new perspectives and

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energy brought by the next generation of employees. Studies indicate that while founders tend to be more cautious, the next generation is eager to prove themselves and make significant changes without relying on their parents' guidance. As a result, a family business is more likely to take on more risk when more generations are involved (Shen, 2018 Zahra, 2018). According to research conducted by Zahra (2018), family businesses frequently serve as an essential source of financing for emerging new initiatives that are taking place both within and outside of their industry. Families might invest in these businesses, for instance, to spread out their risks and open new opportunities for collaboration in the future. In turn, connections to these new businesses give family businesses insight into changing industry conditions and technological advancement.

According to a study by Massis et al. (2016), The key to successful product development is having an effective team in charge of new product development (NPD). Research suggests that, contrary to the traditional approach of having specialized full-time NPD teams, family businesses may benefit from using cross-functional teams. This approach leads to greater cooperation among team members and improved communication with external parties. According to a study by Massis et al. (2016), high-performing organizations in family businesses were able to avoid conflicts between employees who were part of the NPD team and those who were not. Team members were able to seek advice and support from their colleagues informally when needed. This informal organizational structure was found to be an advantage for successful NPD projects as it improved communication and access to resources across departments. Family businesses tend to be more cautious in their approach, and often prefer to develop new products that are similar to their existing product line as it can increase their chances

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of success in the market and growth in market share by utilizing their existing resources and network (Cucculelli et al., 2016).

This research will focus on two types of succession highlighted by Miller et., al (2003), wavering succession and rebellious successions. Wavering succession occurs when the successor is determined to establish themselves but is unsure how, they respect prior generation strategy and success but also want to establish their initiatives. Typically, they will employ a strategy that is a lesser replica of prior successful strategies. In general, wavering succession is highlighted by a hybrid mix of old and new strategies that tends to deplete the firm of its resource. Rebellious succession is highlighted by "differentiation," the successor wants to eradicate past success and focus on an elevated level of divestment, product, or market changes. A typical result of wavering succession is divestment outside of the organization's prior core competency which leads to high debt levels, high employee turnover, and rapidly reduces the company's core resources Miller et., al (2003).

Second-generation owners are more prone to significant divestment not because they have expertise in other segments, but because they want to establish themselves from their predecessors and establish their legacy. Organizations will start divestment and employ multiple product strategies within different fields. Overall, this will drain resources from the company's successful operating segments. Organizations' financial performance will suffer for the second generation compared with first-generation owners.

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Chapter 3 : Research Method

It is hypothesized that Chinese family business faces several critical issues during the succession process. Based on existing literature, we can summarize that Chinese Family Business is less of a rigid organizational structure and more of a loosely structured organization based on family, network, and trust. As such, succession is highly dependent on passing on these intangible assets from one generation to another. Furthermore, many second-generation leaders tend to branch out from the pre-established industry, products, and frameworks established by the first generation. By large, the lack of experience, strategy, resources, and inability to cut loss leads to a general decline in the firm's financial performance. Typically, the first generation will focus on one or a few product segments and continue to produce said product until it is no longer profitable. They are less concerned with expansion and developing new product segments or developing multiple product lines at one time. As such, under first-generation owner firms have a large amount of equity and a low amount of debt. Conversely, second-generation owners will want to branch out from existing business scope, they want to expand product lines and product types. They will take on more leverage to sustain expansion projects, research, and development. This research will attempt to examine whether this second-generation strategy in product expansion was successful and provide insight and recommendations going forward.

This research will apply the twenty-five principles for long-term success developed by Kenyon-Rouvinez (2017). This research identified and summarized twenty-five common feature that has helped high-achieving family achieved long-term success. A successful firm should achieve 80% or more of the twenty-five principles, and vice versa

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a struggling firm typically underperforms in all four categories. The four principles that guide this theoretical framework are as follows:

(i) Long-term success in the family business

(ii) Long-term continuity of the family

(iii) Long-term success in ownership

(iv) What do successful firms do differently today?

The twenty-five principles can be grouped into four segments: business, family, ownership, and today. The twenty-five principles are summarized in the Table 1 below.

Table 1. Summary of Twenty-Five Principles of Long-Term Success

	Principles	**Description**
1	Vision	Long-term goals and aspirations
2	Entrepreneurial drive	Ambition, motivation, and determination to start and grow a successful business.
3	Business skills	Abilities and knowledge that are necessary for success in the business world
4	Employees	Effectively manage employees to achieve the goals and objectives of the organization. This involves setting clear expectations, providing support and resources
5	Ethics	Principles and values that guide the behavior and decision-making
6	Succession process	Plan that ensures the smooth transition of leadership and management responsibilities from one person to another

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7	Adaptability	Ability of a business or organization to quickly and effectively respond to changing conditions or circumstances.
8	Strength in unity	Working together as a team or organization can lead to greater success and efficiency.
9	Ability to handle conflict	Skills and strategies that leaders and managers use to effectively resolve conflicts within the organization.
10	Fairness	Principles of justice and equality that guide the actions and decisions of an organization.
11	Social engagement	Ways in which a company or organization engages with and impacts the broader community and society.
12	Strong values	Core principles and beliefs that guide the actions and decision-making of an organization.
13	Mutual support	Idea of working together and supporting one another to achieve common goals and objectives
14	Pride	A sense of accomplishment, satisfaction, and ownership that employees feel in their work and the organization as a whole
15	Trust	Confidence and belief that stakeholders have in the integrity, reliability, and transparency of an organization
16	Control	Processes and mechanisms that a company uses to ensure that its operations are aligned with its goals and objectives
17	Equal/Unequal	"Equal" refers to a state of balance or fairness, where all parties involved are treated equally and have the same opportunities and resources. In contrast, "unequal" refers to a state of imbalance or unfairness, where some parties are treated differently or have different opportunities and resources than others.

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18	Voting rights	Rights of shareholders to participate in decision-making processes within a company
19	Responsible ownership	Considering the long-term impact of business decisions on all stakeholders, including employees, customers, shareholders, and the broader community.
20	Equity concentration	Degree to which a single individual or group holds a sizable portion of the ownership equity in a company
21	Separation of issues	Practice of separating different issues or topics that need to be addressed or considered by the company.
22	Formal processes	Established procedures and protocols that a company follows to make decisions, communicate with stakeholders, and achieve its goals.
23	Stewardship	Practice of taking care of and protecting something, typically a company's resources or assets, in a responsible and accountable manner.
24	Governance structure	Systems, processes, and policies that are in place to ensure that a company is run in a transparent, accountable, and ethical manner.
25	Role of the family	In family-owned businesses, the family members may be involved in various aspects of the business, including ownership, management, and governance. They may have a direct influence on the strategic direction of the company and may be involved in key decision-making processes.

This research will attempt to identify any connection between successful family business and product strategy using the twenty-five principles listed above. This research aims to identify whether a specific product strategy or multiple product strategy is more

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effective for SMEs in Taiwan. This research will use one company (Company X) based in Taiwan as a case study. The interview will be conducted with the CEO of the organization, Ms. W who has been with the organization for over 30 years. Company X is a design and manufacturer of Public Address system that covers entry to professional level products through OEM/ODM cooperation as well as its branded products. The company is based in Taichung and manufacturing facility in Dongguan, China. In the following chapter, this research will further elaborate on Company X background, operation, management structure and financial performance. This research will interview the CEO of Company X to gain further understanding on the inner workings of the company and the family. In addition, this research will apply the twenty-five principles listed above combined with financial metrics to identify successful/ violated principles that lead to company's past success and current downfall. Finally, Chapter 5 will conclude this research and followed by areas of improvement and further direction for future research.

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Chapter 4 : Case Background

4.1 General History

Company X is a Public Amplifier manufacturing company based in Taichung with manufacturing facility in China. The company product profile encompasses processors, PA speakers, megaphones, amplifiers, and wireless system for entry level product to professional level products. In early nineties, the company established its China factory and Hong Kong office and exported its first shipment through China's factory later that year. In the subsequent year, the company acquired surrounding land around the factory and expanded its operation in China. In late nineties, the company established RD department, sound room and computerized speaker testing facility and invested in professional design and software design department. In 2007, the company established a dedicated RD facility specializing in technical tool innovation. During 2019, the company launched an IOT automatic PA test system. The company operates through OEM/ODM co-operation as well as its brand. During FY21, the company generated $1.41 Billion NTD in sales and net loss of $192 Million NTD.

This research interviewed the CEO (Ms. W) of Company X, the CEO has been with the organization for multiple decades and served under the first-generation founder as well as second generation successor. The interview began with asking questions about company background including the background of the family and why they chose to enter PA industry. To summarize, first generation founder Mr. Y started by working and eventually his electronic supply store. During that time, he noted megaphones were very profitable and he began to pivot into megaphone market. He established a factory in Taichung and began manufacturing megaphones. At that time OEM/ODM business model was not yet popular and products were manufactured and sold to middlemen.

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Because his product was cheap and excellent quality, soon many clients from contacted Mr. Y directly to manufacture megaphones. Mr. Y also noted that labor prices were increasing in Taiwan, and he phased out manufacturing and moved manufacturing hub to China. Land and labor prices were comparatively cheaper at that time which set the foundation for Company X.

4.2 First Generation Product Strategy

The research then asked Ms. W to elaborate on first generation product strategy and market positioning. Ms. W stated that initially the company's strategy was to manufacture what was popular in the market and tweak it slightly and offer multiple versions of the product. Based on this, Mr. Y introduced twenty types of megaphones and 10 PA system and home speakers. After accumulating manufacturing know how and capital, the company entered a joint venture with an Italian company to manufacture high margin Pro-Audio speakers and mixers. During this phase, the company moved away from rebadging model and shifted towards OEM/ODM model. Under Mr. Y the company was highly profitable because although the company offered multiple customizable products within the audio speaker industry. Furthermore, Ms. W noted that Mr. Y did not take on too much leverage during this period. Expansion was funded from net income. On the other hand, Ms. W noted that second generation successor (Mr. Z) focused on highly leveraged expansions. When he joined the firm in 2002, the company was on the rise and Mr. Z wanted to capture more market share and offer more of its proprietary branded products.. Ms. W stated that under Mr. Y, if the company made one hundred dollars in profit, he would reinvest sixty dollars. On the other hand, if Mr. Z made one hundred dollars in profit, he will invest one thousand dollars into expanding production capacity. In addition, Mr. Z also wanted to establish his proprietary brand to compete with

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international brands as well as provide ODM/OEM service to these firms. For example, the company would invest heavily into machinery, tooling, mold, and RD however product sales only reached two thousand units/year. Mr. Z will quickly pivot into another product segment. Ms. W believe this was not a bad strategy per se, but it was highly dependent on generating cash flow to support this strategy.

4.3 Succession Issue

Next, this research discussed some of the issues noted in the succession period. Ms. W stated that originally after Mr. Y'S retirement he ceded the chairman role to his brother and CEO to Mr. Z. During that time, the company followed the same strategy and only fund expansion with after-tax profits. However, Mr. Z and the uncle have a difference of opinion, and this resulted in the uncle's shares. As a result, Mr. Z remained the controlling owner of the firm. After this event, the company began a series of leveraged expansion, eventually during 2008/2009 fiscal crisis the company suffered liquidity issues and hired a CFO to restructure the firm. The CFO was successful in the turnaround by limiting expenditures and expansions. After the firm was restructured successfully, Mr. Z fired the CFO because he did not want someone to control his expenditures.

4.4 Financial Performance

Next, the interview discussed performance under Mr. Z. Ms. W noted that Mr. Z took over the firm at its peak performance, she also believed that although there were several divestures under his tenure. The divestures were not the sole reason for the company's downfall, rather it is a myriad of reasons. As mentioned before, Mr. Z wanted to establish his brand and compete with global players, he will invest heavily into projects, however if product sales were not as anticipated he will quickly fold the project and invest heavily into another one. Furthermore, he was persuaded by his friends to divest into a

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public fire safety system that had a high burn rate and did not generate any income over a decade. Ms. W also elaborated that currently the company is facing severe cash flow problems, although they have orders on hand, they cannot deliver products because they do not have enough cash to pay suppliers. This creates a vicious cycle of short-term loans supporting long term loans. Mr. Z is betting on the company's 100,000 square meters of industrial land will be restructured into commercial land per Chinese government policy. This will provide enough cash flow to pay back loans and continue operations.

4.5 Current Status

Currently, the company have a mixture of short term and long-term bank loan amounting to 1 billion NTD. The company owes another few 100 million NTD to clients and family members for private loans. For vendors, every material needs to be negotiated because the company is in bad terms with vendors and did not pay for the past year or so. Big international clients are looking for OEM/ODM replacement right now. Table 2 below shows FY 2021 and 2020 financial statement. Company X currently generates around 1.4 billion NTD in revenue, 493 million NTD in Gross Margin and 192 million NTD in net loss for FY 2021. Total assets are 1.4 billion NTD and total liabilities are 1.6 billion NTD, total equity is – 147 million NTD due to retained loss of 400 million NTD and net loss of 192 million NTD.

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Table 2. Summary of 2021 and 2020 Financial Statement (NT $)

	2021	2020
Revenue	1,414,525,375	1,487,924,780
COGS	921,196,382	920,062,622
Gross Margin	493,328,993	567,862,158
Direct Labor cost	149,562,496	132,648,072
Manufacturing cost	200,039,211	151,872,142
Sales expense	49,126,408	60,995,947
Sales expense	145,308,503	216,904,551
Sales expense	56,696,907	55,741,781
Sales expense	55,342,391	50,084,825
Sales expense	8,229,967	7,985,098
Sales expense	664,305,883	676,232,416
Sales expense	(170,976,890)	(108,370,258)
Sales expense	(17,394,808)	(8,261,722)
Sales expense	(3,954,863)	(1,219,523)
Sales expense	**(192,326,561)**	**(117,851,503)**
Cash and cash equivalent	98,206,977	49,937,182
Account receivable	245,504,862	355,830,455
Inventory	537,951,719	379,663,729
Prepaid expense	25,167,691	27,696,295
Current account with vendors	11,801,520	12,971,580
Refundable income tax	52,463,940	57,941,565
Total current asset	**971,096,709**	**882,713,947**
Long term investment	-	26,597,176
Fixed asset	1,308,421,721	1,295,888,373
Accumulated depreciation	(823,383,820)	(796,299,961)
Intangible assets	17,661,078	19,222,935
Total assets	**1,473,795,688**	**1,428,122,470**
Short term loan	383,584,362	361,128,774
Account payable	1,001,924,299	844,581,228
Total short term liabilties	1,385,508,661	1,209,100,337
Long term loan	216,950,000	196,514,500
Loan from Shareholder	18,795,200	14,047,500
Total long term liabilties	**235,745,200**	**210,562,000**
Total liabilities	**1,621,253,861**	**1,419,662,337**
Equity	445,408,444	445,408,444
Retained earning/ loss	(400,864,859)	(328,495,356)
Net income	(192,326,561)	(117,851,503)
FX gain/loss	324,803	9,398,548
Total Equity	(147,458,173)	8,460,133
Total liabilty and equity	**1,473,795,688**	**1,428,122,470**

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Chapter 5 : Result

5.1 Business Dimension

In this section, I will apply the twenty-five principles of success in long term family firms developed by Kenyon-Rouvinez (2017). This research will apply the 25 principles to case study company and identify areas of strength and areas of improvement. Family business with long term focus is held together by a common vision and are purpose driven, focusing on maximizing long term opportunities and avoiding pitfalls along the way (Kenyon-Rouvinez, 2017). In terms of *Vision*, based on interview with CEO of company X, it is fair to say second generation owner have more global vision compared with first generation. Based on Company X, the first-generation owner Mr. Y mostly focused on megaphone and PA system, which was his area of expertise. He is also hesitant to take on leverage to fund expansion and prefer equity instead. On the other hand, Mr. Z, the second-generation owner has a global vision. He is not content with lower margin products; therefore, he pivoted the company away from lower end products into higher end Pro-Audio systems. Furthermore, second generation owners are not content with lower margin OEM/ODM business model and tends to push the company towards developing their proprietary brands. Below is a summary of change in net income versus equity to demonstrate company's operation year over year. Based on Figure 1 below in 2009 company delivered a net income of roughly 43 million NTD and equity was at its peak (512 million NTD). From this point onwards, Company X's performance declined year by year. By 2015, the company generated a net loss of 78 million NTD and equity decreased to 274 million NTD. In 2018, the company generated net loss of 168 million

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NTD and equity decreased to 183 million NTD. By 2021, equity turned negative to 147 million NTD and Company X generated a net loss of 192 million NTD.

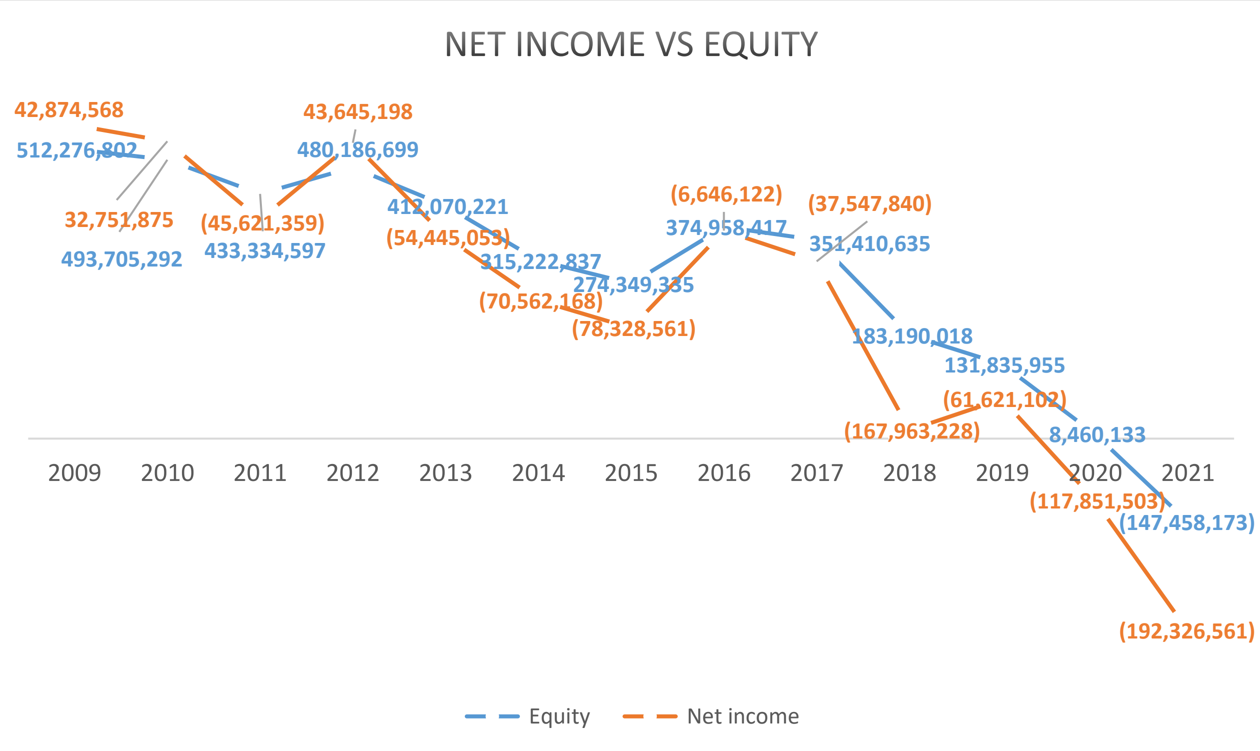

Figure 1. Change in Net Income versus Equity

Concerning *Entrepreneurial Drive*, first generation possess more drive and trailblazing spirit compared with second generation. Based on Company X, Mr. Y laid the cornerstone of the company and its venture into audio speaker market. Mr. Z expanded the operation based on the established groundwork. Yet, for product strategy second generation usually have more entrepreneurial drive than first. They are more willing to experiment with multiple product line, business strategy and branded products. First generation owners emphasize proven product line and are more risk averse in developing new products.

For *Business skills*, first generation is usually more regional focus and lack a global vision and business skills. This ties in with *Employees* as well. Based on Company X, initial employee was carried over from his preceding venture Company A. Vice versa,

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based on the case study, second generation have a more diverse and international business skill. They also have a more structured and wider ranging employee hiring practice. For example, under second generation leadership the company pivoted towards high margin Pro- Audio market by hiring an Italian consultant. This shows that management is more open to new product strategies and international employees.

First generation owners tend to have more business *Ethics* than second generation. They usually stick to their area of expertise and rarely break out of contract or venture outside their domain knowledge. On the contrary, second generation often import Western business practice. They are more open to Western corporate finance, legal and product strategy practices. Based on Company X, first generation focus mostly on selling through its merchant channels and later OEM/ODM cooperation. On the other hand, second generation operated the OEM/ODM structure but also tried to imitate international clients design and create its brand and product channels.

Succession process is an important decisive point in any family business. Mr. Y is the first-generation owner and passed the firm to his son Mr. Z. The succession process was challenged mostly by Mr. Y's brother. Mr. Y's brother would like to take a slower and less leveraged approach to expansion which contradict with Mr. Z. Mr. Y eventually bought out his brother's share and the company became solely owned and operated by Mr. Z. Mr. Z's two sons are currently employed at the firm as well, however due to the company's financial struggle, they regard themselves as employees and "salary men" rather than professional managers. During his tenure, Mr. Z implemented several successful decisions, but overall, his aggressive leveraged expansion and product expansion led to the company's ultimate downfall. In this aspect, succession process has not been entirely successful. The Chinese proverb "Wealth does not last beyond three

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generations" can be applied to this context, "Business does not last beyond three generations." Therefore, although in hindsight divestment strategy was unsuccessful, most of the issues with Company X occurred due to mass expansion within the scope of competence level. Specifically, to try and expand its own branded product line and compete with its OEM/ODM clientele whilst still providing manufacturing service to them. Simply put, the company is in a transformative process to operate dual channels, manufacturing outsourcing service and proprietary branded products. The manufacturing outsource is its area of competence and honed by years of experience from first generation to second. Branded products within the pro audio speaker space are highly competitive, consumers make a lot of decision based on brand equity. Figure 2 shows the change in revenue versus expense and gross margin over 5 years. Revenue peaked in 2018 and 2019 and dwindled from 2020 onwards. However, gross margin is low and mostly negative over this timeframe because of high COGS.

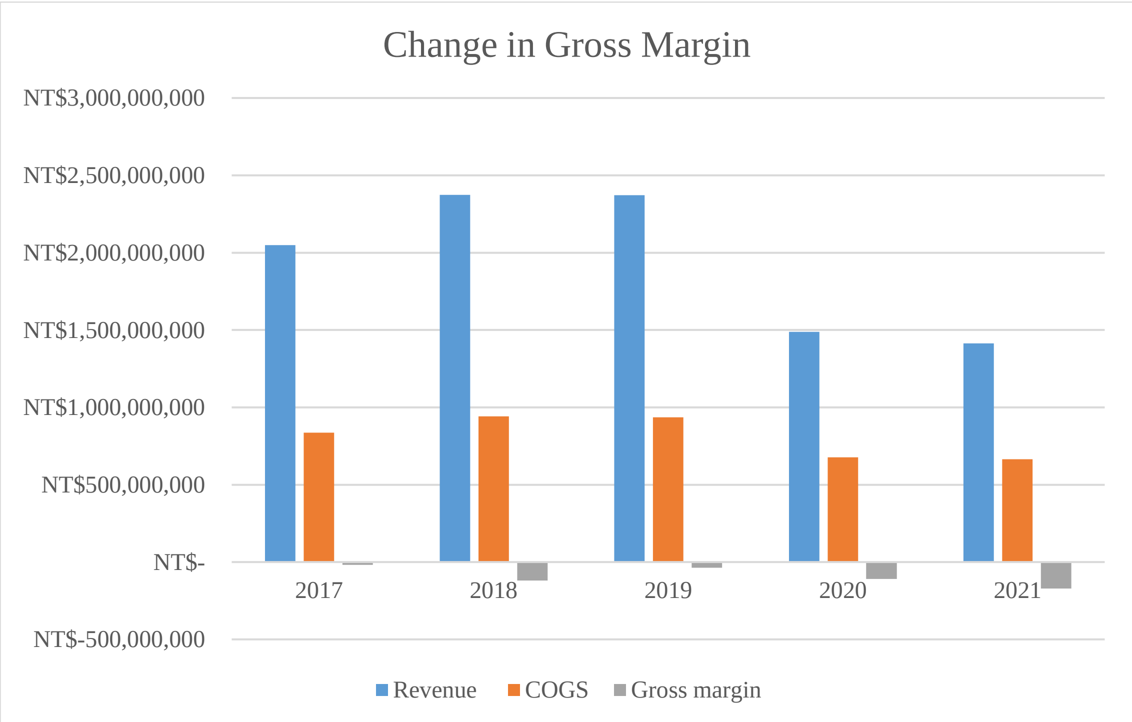

Figure 2. Change in Gross Margin

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Chinese SME Family Businesses are highly *Adaptable* by nature. They are largely fueled by owner's equity and rarely take on outside partners or leverage. This results in a highly nimble structure and CFB can produce multiple product lines to suit customer's needs. Based on the interview, I believe both first and second generation are highly adaptable. To demonstrate, first generation sensed that Taiwan's manufacturing basis no longer competitive and moved the company's manufacturing base to China before economic reform. Similarly, second generation sense that were more opportunities in Pro-Audio market and transformed the company from OEM/ODM focus to operating its brand and providing multiple lines of audio products.

5.2 Family Dimension

In terms of *Strength in Unity, Ability to handle conflict* and *Fairness*, CFB are an extension of family and certainly from time-to-time family members will have contrasting opinions. What separates a high performing family from a normal one is open channel of communication and ability to listen to members feedback respectfully (Kenyon-Rouvinez, 2017). In this regard, Mr. Y relinquish control completely; he trusts and support's Mr. Z's investment decision entirely and does not challenge or overthrown his investment decision. This is a double-edged sword, in certain aspect this is good for the firm because there is no conflicting reporting line, but in retrospect by examining Company X's status this can be identified as a pitfall and poor decision. To elaborate, because first and second generation were highly united, Mr. Z's ability to handle conflict was low, there was no one there to provide second opinion or to challenge him. Eventually, based on the interview result this led to several highly levered Capex expansion that ate away at the company's core operation. Similarly, when examining *Social Engagement, Strong Value,*

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Mutual Support and *Pride* the same issue can be identified. A common theme within CFB is the overlap between family and business and to pass ownership to sons This value system is engraved in most CFB disregarding their size. When this occurs, there is no effective check and control system. Investment decision is approved by top level family only and there no stop loss is implemented.

5.3 Ownership Dimension

Next, I will examine *Ownership* by looking at *Trust, Control, Equal/Unequal, Voting Rights, Responsible Ownership and Equity Concentration* together. A critical issue most family firms is instilling clear values and creating long lasting strategic choice based on said values. Successful long term-oriented business will also weigh the risk and reward of debt levels, they will assess short term gains versus long term survival (Kenyon-Rouvinez, 2017). Based on Because Company X is a private family business, equity is highly concentrated in the hands of family members. Mr. Z controls the firm by owning more than 50% of voting shares. Current capital is 80 million NTD represented by eight million shares, Mr. Z owns around five million shares and his wife another 1.7 million shares. Mr. Z's younger brother owns most remaining shares. Because there are no outside shareholders, trust reflects trust within the family. Similarly responsible ownership is only to the extent of responsibility towards the family. As mentioned previously, CFP ownership structure is relatively simple which allows for faster and more efficient decision making. However, on the downside CFB longer investment horizon and long sight can result in the inability to cut loss when the project is turning south. Company X is a prime example, Mr. Z investment int machinery, tooling, and molds for increasing new product lines result in net cash outflow. These projects are highly levered and overall returned exceptionally low or negative ROE. However, because Mr. Z owns most voting

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shares and is the patriarch in the family (eldest son), there is a lack of oversight and governance structure.

5.4 Current Dimension

Finally, regarding the company's operation today this research will look at *separation of issues, formal processes, stewardship, governance structure* and *role of the family.* Based on Kenyon-Rouvinez (2017), long lasting family business transmit values orally, although they typically lack formal process successful family business understands the importance of separating family issues and business issues. As mentioned previously, CFB fluid organization structure and ownership result in poor corporate governance. Overall, there is a lack of separation between family and the firm. Family members are not considered stewards of the firm, but rather family and firm are highly fluid. Although CFB may hire professional manager, key decision making often lies in the hand of select few family members. In the case of Company X, although Ms. W is the CEO of the firm, and the organization previously hired an outside CFO to turnaround the organization. The overall decision making is in the hands of Mr. Y and subsequently Mr. Z. Ms. W believes concentration of decision making and lack of formal processes (including oversight) led to the subsequent rapid expansion in product line, machinery, molds, and tooling. Ultimately, this aggressive strategy resulted in high leverage and lack of free cash flow to support core operations. Figure 3 demonstrated changed in debt level (defined as total debt divided by total assets). Debt level hovered at around 60% from 2009 to 2013 and increased gradually year over year. By 2021, debt level reached 110.01% implying Company X's total debt exceed total asset and equity is negative.

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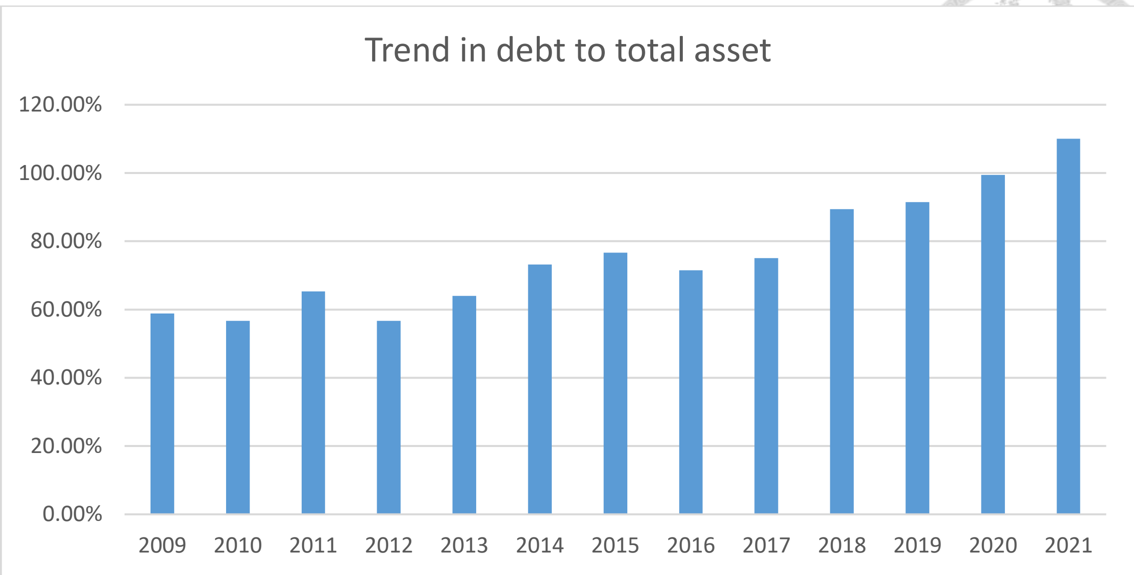

Figure 3. Change in Debt to Total Asset

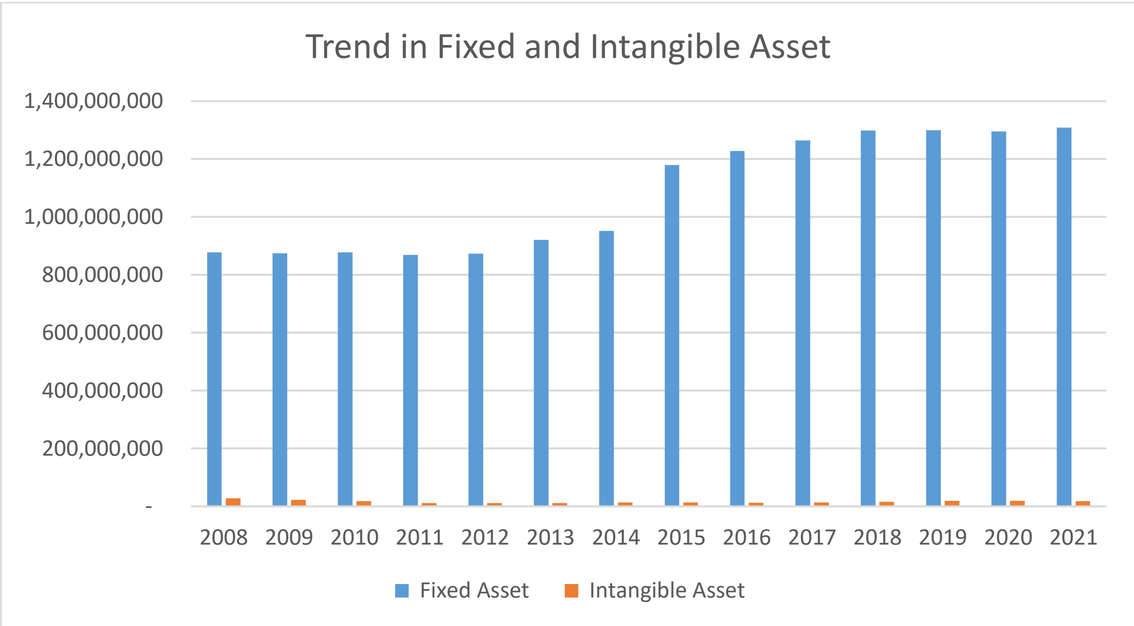

Figure 4. Change in Asset Absolute Scale

Figure 4 further elaborates the magnitude of fixed asset increase in absolute scale. In terms of NTD $ amount, from 2008 to 2014 fixed asset is consistent at under 10 billion NTD. From 2015 onwards, the amount increased year over year, by 2021 fixed asset increased to 1.3 billion NTD. The increase in fixed asset is financed by mostly

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debt rather than equity, this is consistent with Figure 4 which shows total debt to asset ratio exceeded 100%.

5.5 Summary of Results

Based on existing research, most successful long-term family do not place profit maximization over other success factors. Although many have sought to extract common characteristic of success and attempt to replicate it, it can be said that key competencies are not easily replicable (Kenyon-Rouvinez, 2017). Going forward, Company X transition process faces several obstacles. Notably, we identified issues with *Succession Process, Equity Concentration, Trust, and Governance Structure.* For family firms, during the *Succession Process* this research noted that family firms tend to follow a patriarchal succession plan. Management of both the family and business is pass along to eldest son, disregard of their skillset. Over the long run this hinders company’s performance because the successor may not share the same entrepreneurial drive or interest at all, often they are forced into the management role. For employees, they may feel they are undervalued because they do not possess the right familial connections. Successful family business needs to balance these two acts, to maintain control but leave daily management to skilled professional managers within or outside of the family. This ties in with *Equity concentration* as well, elevated level of equity concentration can be beneficial for family firms to maintain control over the organization. However, as mentioned equity is often passed from father to son, the high equity concentration result in one or few family members possessing most voting rights. Regarding *Governance structure*, elevated level of equity concentration means management is in the hands of few. There is a lack of checks and control structure to prevent poor decision. This is demonstrated by Company X, because Mr. Z owns over 50% of voting shares, there is no

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one to review his investment decision. As a result, he overexpanded and outstretched the firm's resource due to his aggressive product expansion strategy. Similarly, the elevated level of *Trust* is a double-edged sword. On one hand, this trust allows management to operate without restriction and limitation, on the other hand as mentioned lack of control can deter long term performance. Table 3 below shows where Company X scored well and where this research found it lacking. Notably, this research identified that most issues stem from lack of governance which also impacts decision making capabilities.

Table 3. Assessment of Twenty-Five Principles of Long-Term Success Score

	Principles	**Description**	**Does company X possess this principle?**
1	Vision	Long-term goals and aspirations	Yes
2	Entrepreneurial drive	Ambition, motivation, and determination to start and grow a successful business.	Yes
3	Business skills	Abilities and knowledge that are necessary for success in the business world	Yes
4	Employees	Effectively manage employees to achieve the goals and objectives of the organization. This involves setting clear expectations, providing support and resources	Yes
5	Ethics	Principles and values that guide the behavior and decision-making	Yes
6	Succession process	Plan that ensures the smooth transition of leadership and management responsibilities from one person to another	No

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7	Adaptability	Ability of a business or organization to quickly and effectively respond to changing conditions or circumstances.	
8	Strength in unity	Working together as a team or organization can lead to greater success and efficiency.	Yes
9	Ability to handle conflict	Skills and strategies that leaders and managers use to effectively resolve conflicts within the organization.	Yes
10	Fairness	Principles of justice and equality that guide the actions and decisions of an organization.	Yes
11	Social engagement	Ways in which a company or organization engages with and impacts the broader community and society.	Yes
12	Strong values	Core principles and beliefs that guide the actions and decision-making of an organization.	Yes
13	Mutual support	Idea of working together and supporting one another to achieve common goals and objectives	Yes
14	Pride	A sense of accomplishment, satisfaction, and ownership that employees feel in their work and the organization as a whole	Yes
15	Trust	Confidence and belief that stakeholders have in the integrity, reliability, and transparency of an organization	Yes
16	Control	Processes and mechanisms that a company uses to ensure that its operations are aligned with its goals and objectives	No
17	Equal/Unequal	"Equal" refers to a state of balance or fairness, where all parties involved are treated equally and have the same opportunities and resources.	No

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		In contrast, "unequal" refers to a state of imbalance or unfairness, where some parties are treated differently or have different opportunities and resources than others.	
18	Voting rights	Rights of shareholders to participate in decision-making processes within a company	No
19	Responsible ownership	Considering the long-term impact of business decisions on all stakeholders, including employees, customers, shareholders, and the broader community.	No
20	Equity concentration	Degree to which a single individual or group holds a sizable portion of the ownership equity in a company	No
21	Separation of issues	Practice of separating different issues or topics that need to be addressed or considered by the company.	No
22	Formal processes	Established procedures and protocols that a company follows to make decisions, communicate with stakeholders, and achieve its goals.	No
23	Stewardship	Practice of taking care of and protecting something, typically a company's resources or assets, in a responsible and accountable manner.	No
24	Governance structure	Systems, processes, and policies that are in place to ensure that a company is run in a transparent, accountable, and ethical manner.	No
25	Role of the family	In family-owned businesses, the family members may be involved in various aspects of the business, including ownership, management, and	Yes

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		governance. They may have a direct influence on the strategic direction of the company and may be involved in key decision-making processes.		

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Chapter 6 : Conclusion and Future Direction

6.1 Conclusion

The purpose of this research is to apply the twenty-five principles of long-term success to one specific family business in Taiwan. The family business (Company X) is an OEM/OEM in the audio speaker industry. The company also sells its propriety Pro audio system through its brand and channels. This research also applied twenty-five principles of long-term strategy; I want to highlight some noteworthy findings. Notably, a lot of issues arise in family firms due to lack of governance. To illustrate, because of high equity concentration and lack of formal governance structure there is a lack of control system within CFBs. Decision making skills lies in the hands of one or few family members and outside employees do not have major decision-making power disregard of their job position. As a result, in the case of Company X a decision to expand operations and divest into other product categories (both within and outside the area of competence) resulted in substantial drain on company's cash flow. Although, developing its brand and divestment can be a correct decision overall, Company X lacks the resource to sustain continuous and rapid fixed asset investment. Although the company did hire a outside CFO at one point to turnaround the firm, the role of the family and succession process means that ownership will be passed to trusted family members (typically eldest son) disregard of his willingness and capability.

Based on analysis this research noted that family firms will trust and value family members decision making over nonfamily members. To expand on this, trust is also an extension of the family member's ranking and importance within the family. This is because for CFB, family and business are highly intertwined. In the case of Company X, initially first-generation founder left his shares to his eldest son. During this stage,

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the company was ruled by Mr. Y's younger brother and Mr. Z (Mr. Y's son). However, due to a difference in opinion, Mr. Z bought his brother's shares, and the firm was ruled in entirety by Mr. Z. The second instance was when a CFO was brought in to restructure the firm, during this time a lot of decision making transferred from Mr. Z to CFO. Despite this, after the partially successful turnaround, CFO was let go of firm and control transferred back to Mr. Z. Family business tends to be more concerned with long term preservation of control through concentrated ownership and firm survival. They are less motivated by short term profit and tends to invest over a long horizon. However, this can be dangerous because they are also less capable of instilling a stop loss, they expose themselves to unprofitable projects over a longer timeframe than nonfamily run businesses.

In addition, this research found that in terms of Company X, second generation owners are more likely to divest to establish their legacy. For company X, this is only true to a certain extent. Whilst Company X did divest into a fire sprinkler system for 50 million RMB. Most of the investment and expansion under second-generation owners occurred within the audio speaker industry. Specifically, under second-generation leadership, the company transformed from a megaphone to a high-margin pro audio system. However, large-scale rapid expansion to imitate vendor's branded products consumed a sizable portion of the company's resources. Particularly, from its core profitable OEM/ODM business. As a result, cash flow generated from the profitable segments is used to sustain bank loans and interest. Therefore, Company X cannot purchase enough material to manufacture products and cannot collect from customers. This creates a vicious cycle; however, Company X is relying on land transformation for

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its 100,000 square meters lot. If successful, this will allow the company to pay back loans and vendors and inject cash flow into the firm.

To conclude, Company X reflects a wide spectrum of family-owned SMEs within Taiwan. Under the first generation, these firms focused on a niche product and mostly served as manufacturing partners for large global brands. They understand they do not have the resource to develop branded products and compete on an international scale. The succession phase typically sees ownership transferring from father to son. Which, second-generation owners are more ambitious. They are inspired by Western management techniques and often attempt to either divest and/or develop multiple product strategies (within and outside the area of competence). Company X's succession process followed wavering success as illustrated by Miller et., al. (2003). The main strategy is a similar replica of prior success, although there are several divestments, most expansions occurred within the audio speaker market. Furthermore, consistent with existing research, the hybrid mixes of old and modern technology resulted in draining the company's resources. In hindsight, this strategy has allowed some firms to break free from traditional OEM/ODM roles, in the case of Company X it is only successful to an extent. Although initially the JV was successful, yet too much expansion combined with a lack of governance and control led to its current dilemma.

Based on the review of Company X, the key to long-term success for family businesses is not solely focused on profit maximization. Instead, other factors such as a well-planned succession process, balanced equity concentration, effective governance structure, and a balance of trust and oversight are also important considerations. These findings are evident in the current struggles faced by Company X, which has encountered issues with succession, equity concentration, trust, and governance. Specifically, the

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company's reliance on a patriarchal succession plan and high level of equity concentration in the hands of a single individual has led to a lack of skilled management and inadequate checks and control structures, resulting in poor decision-making and overexpansion. To address these issues and improve the company's long-term performance, it may be necessary to consider implementing more diverse and merit-based succession planning and enhancing the governance structure to provide greater oversight and accountability.

There are many reasons why family businesses fail. Some of the most common reasons include a lack of clear succession planning, disagreements among family members about the direction of the business, and a failure to adapt to changing market conditions. In addition, family businesses can also struggle with a lack of professional management and a lack of outside oversight and accountability, which can lead to financial mismanagement and other problems. To improve corporate governance for family firms, a few key steps can be taken. First, it is important to have a clear and well-defined plan for succession, so that there is no confusion or uncertainty about who will take over the business when the current leaders retire or step down. This can help to ensure a smooth transition and avoid conflicts among family members.

Second, it can be helpful to bring in outside professionals, such as independent directors or outside advisors, to provide objective guidance and oversight. This can help to ensure that the business is being run in a professional and financially responsible manner. Third, it is important to establish clear rules and policies for decision-making and conflict resolution within the family business. This can help to prevent conflicts and ensure that all family members are treated fairly and equally. Overall, the key to improving corporate governance for family firms is to establish clear structures and processes and to ensure

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that the business is being run professionally and transparently. This can help safeguard the business's future and ensure its long-term success.

6.2 Future Direction

This research is focused on one specific company within a specific industry in Taiwan. Because I am familiar with the company, I chose to apply the twenty-five principles and analyze this firm. The twenty-five principles cover most aspects of business management, however, there may be other more appropriate methods as well as more factors that can be applied to analyze family firms' long-term success. Although this research analyzed one company as a case study, most of the issues and findings noted in this research are highly consistent with family firms throughout different sectors. Most of the issues arise due to the concentration of ownership combined with a lack of formal governance structure. Going forward, the principles and issues identified can be applied to family businesses outside of Asia to determine if the result is a persistent issue for family firms by the large.

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