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Working Paper Series Vol. 2017-06  
February 2017

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**Asian Growth Research Institute**

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## **Abstract**

Taiwanese SMEs (small and medium enterprises) have been the source of creativity and the key driving force of economic growth early on in the 1960s, key partners in supply chain and industry clusters later, and recently focal point of local economy, social value, and dreams for young generation. However, based on the “White Paper on Small and Medium Enterprises in Taiwan,” in recent five years, share of SMEs in existence over 20 years was in the range of 21% to 23%, far below the average 35% of large enterprises. This shows the business succession / transition remains a major challenge to SMEs as going concerns. Further, compared to large enterprises, SMEs in existence over 20 years suffered significant sales decline and “the crisis of the elderly age” as their first-generation entrepreneurs got into old age and lost their vitality and creativity. It has become an important issue for sustainable development of SMEs to reactivate the entrepreneurial spirit, combined with sound “second-generation succession” and business transformation strategy. In this paper, we use the two key factors of succession and business transformation to analyze how the Taiwanese SMEs to reactivate the entrepreneurial Spirit. The research results provide some policy implications for Succession and transformation of Taiwanese SMEs. These points are suggested as: (1) promote market-oriented business management courses in colleges and universities to cultivate curiosity and creative thinking of potential new generation of successors;(2) form professional succession team in response to new business opportunities; (3) integrate existing knowledge exchange platforms for succession to provide customized mechanisms of knowledge sharing and exchange services required for different types of succession; (4) provide succession planning adviser or match professional managers to succession needs for SMEs' sustainable development as going concerns; (5) encourage new generation successors of SMEs to obtain innovation awards that could reactivate the

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entrepreneurial spirit; (6) grasp the opportunity of succession and transformation to guide SMEs towards institutionalized management; (7) establish SME succession and transformation follow-up service mechanism linking research institutions, universities and private sector professional consulting companies to meet long term counseling needs for SME succession and transformation; (8) strengthen cross-industry cooperation mechanism for SMEs' sustainable development in order to guide the SME succession and transformation toward the direction of "professionalism," "branding," and "internationalization."

Keyword: Crisis of the Elderly Age with Taiwanese SMEs, succession, business transformation, second Entrepreneurial Spirit

## 1. Introduction

Taiwanese SMEs have been the source of creativity and the key driving force of economic growth early since the 1960s, key partners in supply chain and industry clusters later, and recently focal point of local economy, social value, and dreams for young generation.

According to statistics of the “2016 White Paper on Small and Medium Enterprises in Taiwan,” SMEs accounted for over 97.69 percent of the total number of business enterprises in Taiwan. SMEs provide more than 78.22 percent of the nation’s total employment in the private sector and help establish job security in communities and spur more spending and investment, resulting in a thriving local economy.

Based on “Industry and Service Census” published by the Directorate General of Budget, Accounting and Statistics (DGBAS) in December 2013, the overall profit margin was 6.37% in 2011, down 0.86 percentage points from 2006. Profit margin of SMEs was 8.28% in 2011, higher than large-scale enterprises at 5.25%, especially for micro-enterprises with less than 5 regular paid employees performed the best with profit margin at 11.84%.

During the five-year period, Taiwanese SMEs proved more flexible and resilient to the changing market demand and were capable to adjust at all levels from production to marketing. According to the “IMD World Competitiveness Yearbook” from Institute for Management Development (IMD), Taiwanese SMEs ranked No. 6 in 2014 (5, 14, 5, 3, and 9 from 2008 to 2013 respectively) in “Business Efficiency-Productivity & Efficiency-Small and Medium-size Enterprises” far above the ranking of Taiwan large enterprises. Also in “2016 Global Entrepreneurship Index rankings” from Global Entrepreneurship Development Institute, Taiwanese SMEs is ranked 6th in the world and 1st in Asia.

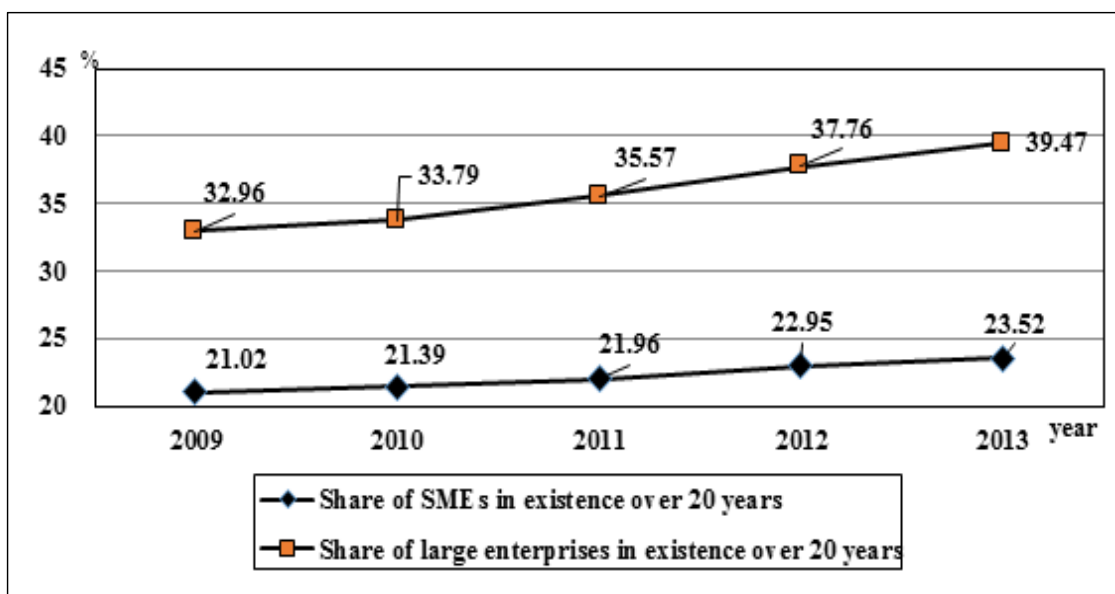
However, based on the “White Paper on Small and Medium Enterprises in Taiwan,” in recent five years, share of SMEs in existence over 20 years was in the range of 21% to 23%, far below the average 35% of large enterprises. This shows the business succession / transition remains a major challenge to SMEs as going concerns. Further, compared to large enterprises, SMEs in existence over 20 years suffered significant sales decline and “the crisis of the elderly age” as their first-generation entrepreneurs got into old age and lost their vitality and creativity. It has become an important issue for sustainable development of SMEs to reactivate the entrepreneurial spirit, combined with sound “second-generation succession” and business transformation strategy.

In this paper, we use the two key factors of succession and business transformation to analyze how the Taiwanese SMEs to reactivate the entrepreneurial Spirit.

## 2. The “Crisis of the Elderly Age” with Taiwanese SMEs

Dr. Ichak Kalderon Adizes, widely acknowledged as one of the world’s leading management experts, explains in his books how and why corporations grow and die and what to do about it. At the foundation of effective management for any organization is the fundamental truth that all organizations, like all living organisms, have a lifecycle and undergo very predictable and repetitive patterns of behavior as they grow and develop. He has identified a series of ten specific stages in lifecycle: Courtship, Infancy, Go-Go, Adolescence, Prime, The Fall, Aristocracy, Recrimination, Bureaucracy, and Death.

During the five-year period from 2009 to 2013, share of SMEs in existence over 20 years grew consistently from 21.02%, 21.39%, 21.96%, 22.95%, to 23.52%, respectively, indicating SMEs’ improved stability and resilience in response to highly challenging external environment including worldwide financial crisis. However, these improvements had lagged the large enterprises by a large margin as the share of SMEs in existence over 20 years was far below the average 35% of large enterprises in the same period (32.96%, 33.79%, 35.57%, 37.76%, and 39.47% respectively). Much can be done to strengthen SMEs as sustainable going concerns (Figure 1).



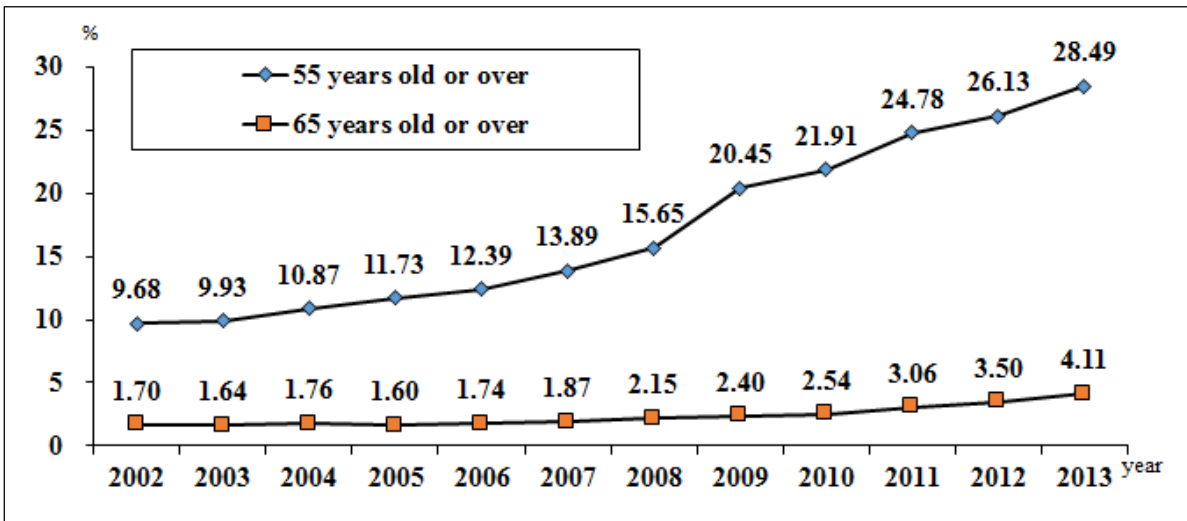
Source: Fiscal Information Agency, Ministry of Finance, VAT data, 2009-2013.

**Figure 1. Share of Enterprises in Existence over 20 Years: SMEs vs. Large Enterprises**

Large enterprises typically are established firms in several specialized and diversified areas with advanced technology and ample (financial and human) resources that most SMEs lack. SMEs need to effectively use and leverage their limited resources and laser focus on business transformation, new niche markets, product differentiation and

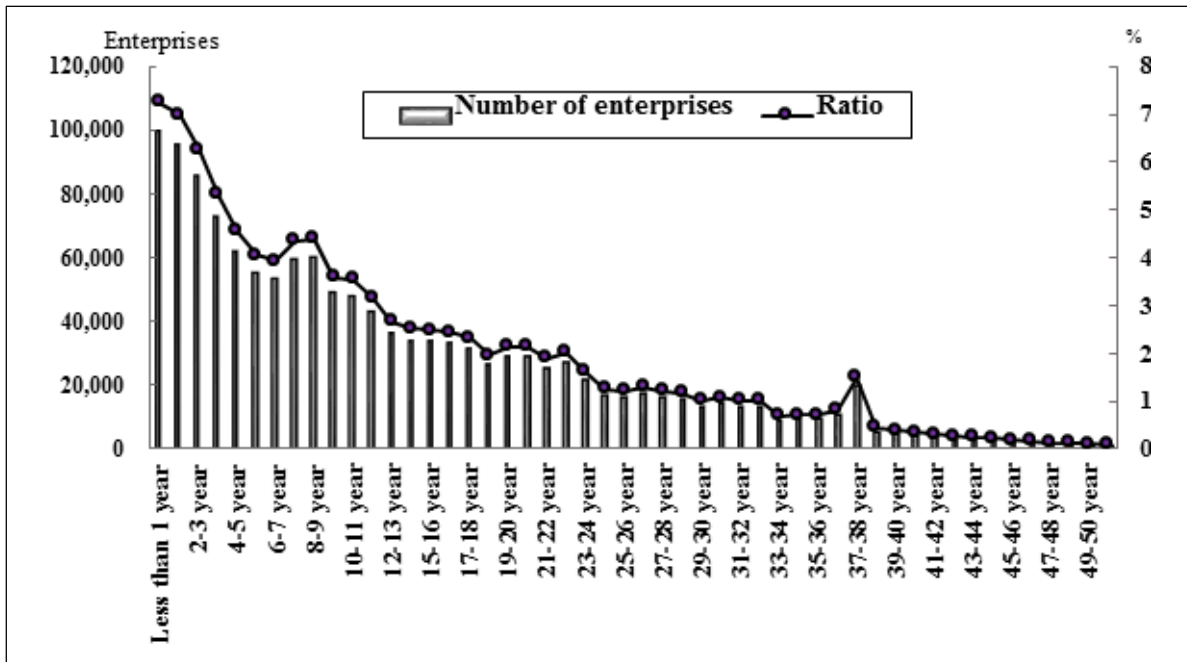
customer loyalty. SMEs must remain flexible and keep the entrepreneurial spirit throughout the corporate lifecycle to drive innovation, expansion, and successful second (and even third) transformation and upgrade. Based on life cycle of SMEs in different stages of Start-up, Growth, and Mature, government assistance measures must be tailor-made to address the key issues at each stage.

Figure 2 below showed that during the period from 2002 to 2013, share of SME owners who were above 55 years old grew substantially from 9.69% in 2002 to 28.49% in 2013; at the same time, share of SME owners who were above 65 years old in also grew fast from 1.70% in 2002 to 4.11% in 2013. This shows the continuous and fast aging trend of SMEs owners for many years. Figure 3 below showed the number and share of SMEs in existence over number of years. It shows in general, except a few years (year 7-9; 35-38), the longer the SMEs survive, the less the number and share of SMEs.



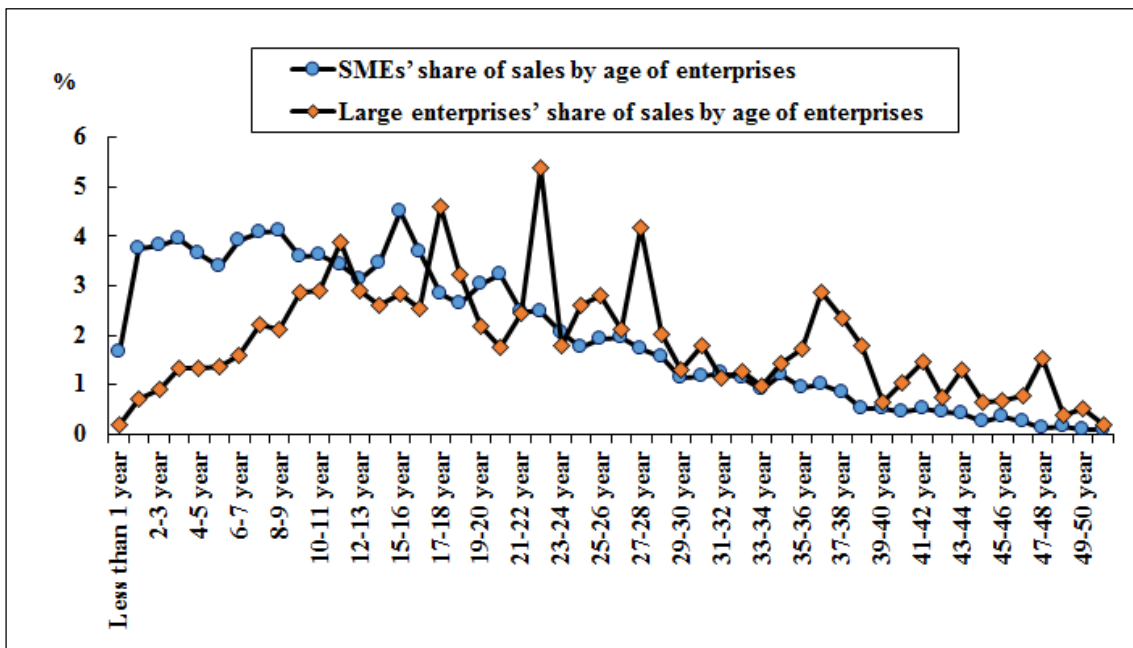
Source: Directorate-General of Budget, Accounting and Statistics (DGBAS), Manpower Survey data, 2002-2013.

**Figure 2. Aging Trend of Taiwanese SMEs' Owners**



Source: Fiscal Information Agency, Ministry of Finance, VAT data, 2013.

**Figure 3. The Number and Share of SMEs in Existence over Number of Years**



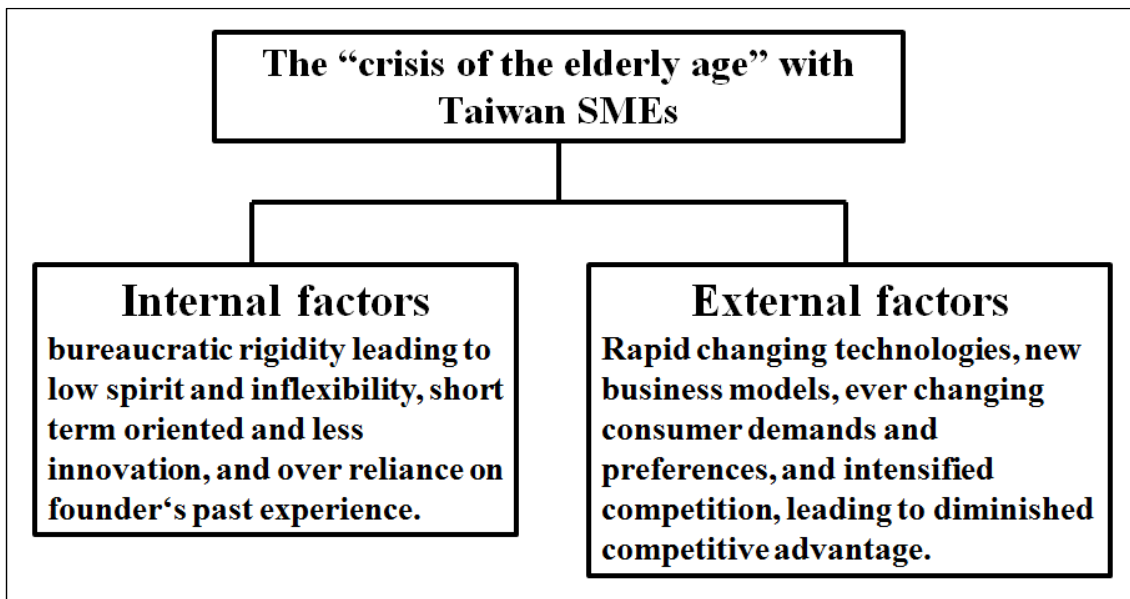
Source: Fiscal Information Agency, Ministry of Finance, VAT data, 2013.

**Figure 4. Share of Sales of Enterprises in Existence over Number of Years**

Figure 4 shows that while sales share of larger enterprises varied within each decade (with exception of first decade from start-up to growth stage), SMEs' share of sales peaked in year 16, varied between year 17-20, and then generally went down after year 20. SMEs seem unable to reverse their downward spiral once entering mature stage.

It can be seen that SMEs founded during the period of Taiwan's economic take-off have entered the mature stage. They began to face significant challenges: old business models unfit for high value-added creation, lack flexibility and innovation drive, and aging founders losing entrepreneurial spirit and thinking about quit. It seems that many SMEs have entered "the crisis of the elderly age." Therefore it is vital for these SMEs to craft strategies toward sustainable going concern.

In general, SMEs enter "the crisis of the elderly age" due to both internal and external factors. Internal factors include bureaucratic rigidity leading to low spirit and inflexibility, short term oriented and less innovation, and over reliance on founder's past experience. External factors comprise of rapid changing technologies, new business models, ever changing consumer demands and preferences, and intensified competition, leading to diminished competitive advantage.



**Figure 5. The "Crisis of the Elderly Age" with Taiwanese SMEs**

### **3. The Theoretical Views of Business Succession and Transformation for SMEs**

In the 21st century, many Taiwanese SMEs in traditional industries, despite their deep technical foundation, have found their old business models unable to operate successfully



in response to changing internal and external environment. The new generation succession has become an important topic for sustainable development of SMEs to rediscover and activate the entrepreneurial spirit, and enhance their vitality through business transformation as well as creative destruction.

While SMEs in mature stage have accumulated rich experience and operational resources, they tend to rely on past formula, and are reluctant to make bold and disruptive changes. Most SMEs are family businesses and often a few key family members or close relatives have dominant control over the operation, hence making succession and transformation far more difficult in terms of decision making process and enterprise governance.

### **3.1 The status and problem of business succession for SMEs**

Family businesses account for about 75% of all listed (or Over the Counter Market) companies in Taiwan. These family businesses pick successors mostly from family members: sons (over 70%), daughters (about 20%), or other family members. Major benefits of passing the torch to family members are trust, low succession cost, close teamwork, and effective transfer of network (contacts and relations).

Professional managers are unlikely to be picked as successors (less than 1%). However, in recent years, many of SMEs' next generation are reluctant to take over the family business, therefore picking the right professional managers as successors becomes an important topic.

The world facing second generation entrepreneurs is more complicated than the one in which first parents had success. Technology, competition, and workforces are ever changing in today's business environment and make up some of the most difficult challenges for "new" entrepreneurs. Couple these issues with the fact that the founder may still be actively involved and the job of running a family business by the second generation becomes monumental.

### **3.2 The status and problem of business transformation for SMEs**

Bibeault (1979) pointed out that an enterprise, after smooth succession by new generation, will face many internal and external challenges in transforming the existing business model. It is vital to adjust and find the right strategic direction for transformation to minimize the external shocks (political, economic, etc.) that the enterprise has no control. Three major areas to focus on in dealing with the internal challenges are: talent, business execution and management decision-making.

Taiwan CPA Association (2011) indicated that SMEs' lack of funding source was a major problem in transformation and expansion. SMEs need to have credible professional accountants, financial and accounting system, and sound internal control to overcome the difficulty in getting bank loans. Other obstacles toward successful business transformation are: lack of rules, complicated business, disagreement among senior top brass, over transformation and diversification by new generation successors, unable to effectively use professional managers, family relationship burden (for new generation successors), conflict between family members and professional managers (professional managers as successors; delegating effectively is very difficult), etc.

Table 1 is a summary of challenges and solutions for SME business succession and transformation.

**Table 1. The Challenge and Solution of SMEs' Business Succession and Transformation**

	<b>Challenge</b>	<b>Solution</b>
<b>Succession</b>	Selection of successor (2nd)	Evaluate not only potential successor's character and suitability, but his willingness to take over as well
	Planning of succession process	Besides succession planning, the current owner must conduct business planning, coaching and cultivation
	Mission and goals: mix of two generations	Pay attention to potential successor's values and attitudes; timely communicate and coordinate in making business decisions and crafting strategic direction
	Adapt to business and culture	Training and learning in accordance with the successor's position, capabilities, and job requirements
	Mix with old and new employees	Learn to get along with old employees, and gradually establish a new succession team
<b>Transformation</b>	Over reliance on past success formula	Introduce external innovative thinking and inspire a sense of urgency within the organization
	Over investment and over diversification	Seeking help from professionals or managers of other areas in business transformation
	Constant change of culture	Avoid bureaucratic organizational culture
	Lack of internal control	Establish management and audit system, accounting system, production standard, and operating procedures
	Professional manager: difficult to promote long term transformation	Establish cooperation mechanism between entrepreneurial family members and professional managers

Source: Analysis of author.

### **3.3 The theoretical views of making SMEs adapt to the crisis of elderly age in their lifecycle**

At present, almost 50% of Taiwanese SMEs have been in existence over 10 years;

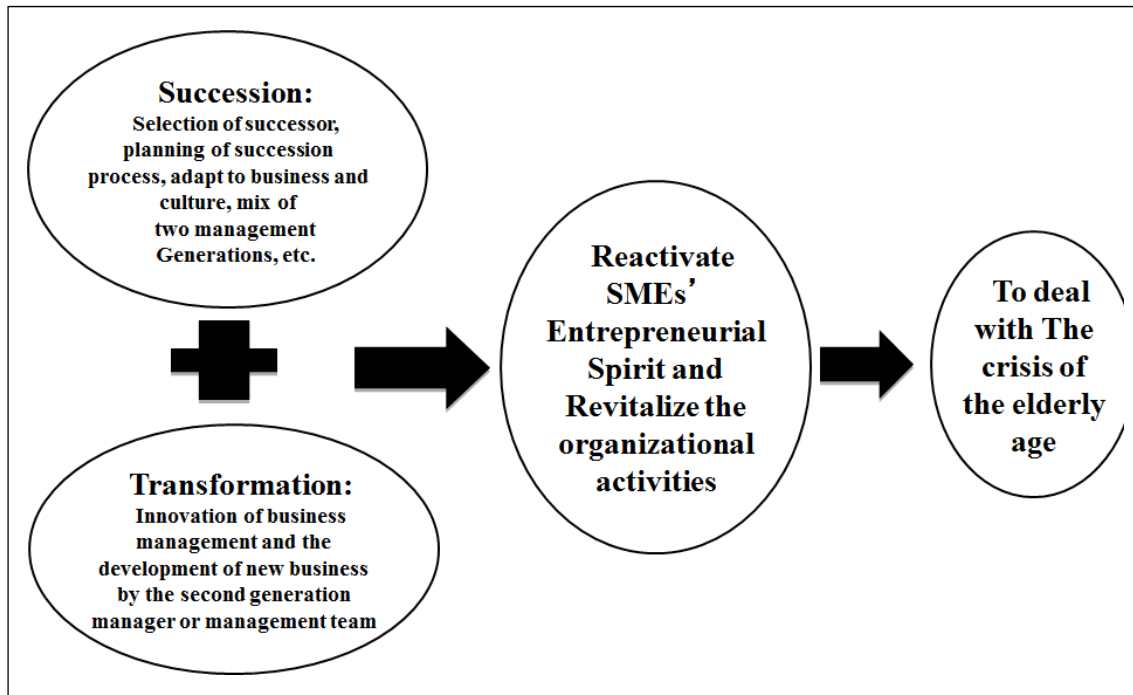
23.52% of these SMEs have been in existence over 20 years. As the first generation of entrepreneurs gradually retreated behind the scenes, the succession process of the new generation and the transition strategy will determine the future of these SMEs.

Miller and Friesen (1982) viewed corporate succession and transition as transforming entrepreneurial spirit from individual level into organizational innovation, especially when organizational change and strategic direction shift are necessary for enterprises in mature stage (typically over 10 years old with strong owner, stable management team and market share while facing intensified competition) to break the bottleneck and establish new business models in response to changes in the external business environment.

When SMEs face the business transformation problem, often the chief operation executives are not the founders (first generation entrepreneurs), but the next-generation successor who could be young family members or hired outside professional managers. The new professional team often possesses relatively new innovation management to transform the business operation toward new growth areas.

If an SME fails in succession and transformation, it could either closed (a mediocre SME in downward spiral) or be acquired by a large enterprise (an SME with unique resource of technology is easily a target of large overseas enterprises). For example: founded in 1985 in Taiwan, Magic Amah was acquired by the Nice Group (a mainland China firm in Zhejiang Province), because the second generation of the family did not want to take over.

Therefore, transformation has become an increasingly integrated part of business succession strategy to “Reactivate the SME Entrepreneurial Spirit” - a move in full swing by new generation successors in recent years (Figure 5).



Source: Analysis of author.

**Figure 5. The concept for making SMEs adapt to the crisis of elderly age**

#### **4. Case Studies of Taiwanese SMEs' Business Succession and Transformation to adapt to the crisis of elderly age**

In order to reactivate innovation and entrepreneurial spirit recognized in full swing during Taiwan's economic take-off period, and make SMEs in mature stage once again the key driving force of Taiwan's economic development, it is vital for SMEs to avoid the trap of "the crisis of the elderly age" through business succession and transformation with sound strategy to sustain renewed growth. New generation Successors are actively promoting a variety of innovative business models and planning tools to achieve organizational transformation and upgrading. This section presents case studies of SMEs with real life experience in business succession and transformation.

##### **4.1 Chuan Li Rice Cookie Food Ltd.**

Chuan Li Rice Cookie Food, formerly "Chuan Li Food" was founded by Mr. Jian Hsu-Chuan in 1971. It started as a humble traditional bakery for local residents with rice cookie as a sideline souvenir offering specifically for traditional birth, wedding, and Chinese New Year ceremony. The business was successful and won trust from the local community for its quality and taste. However, bread - its main product - was a highly

homogeneous one that quickly drew price competition. Chien Chih-yuan, Mr. Jian's elder son worked as a real estate investment specialist in Taipei before returning to Keelung in 2001. Mr. Jian occasionally talked about closing it for about five years after Chien returned. Chien was initially hesitant to become involved in Chuan Li, but committed to taking over management in 2007, when the company began focusing on rice cookies, and since then he has been determined to expand the business. In 2001 Mr. Jian passed the operation to Chien and his young brother who changed the existing business model and transformed its traditional bakery into a professional souvenir business: Rice Cookie Food Ltd.

#### **4.1.1 Succession - feature and problem**

##### **(1) Succession feature**

The new generation successors had a fundamental different business approach from the first generation entrepreneur. The new leaders figured that specialization with branding was a far better business model with pricing power and flexibility. They actively participate in various marketing and food science courses and never stop learning and obtaining more industry expertise, which was an important foundation for the transformation from traditional bakery to a specialty souvenir store. They began to enhance the marketing capability, which was understaffed and often the weakest link in traditional businesses, and started crafting short, medium and long-term marketing strategy.

##### **(2) Succession problem**

The first one is adaptation to new business and culture: because the new generation successors have had firsthand experience in helping sell bread in the store as well as production side since childhood. They had a chance to interact with employees, suppliers, and customers to gain their confidence and respect. It greatly shortened the adaption period in winning trust from the founder and senior employees.

The second one is inter-generational conflict: the conflict in different business strategy and management style between two generations. As the successors admit: kinship such as father and son in succession is a two edged sword. On one hand, the son can win trust and support of the founder and other family member relatively easily; on the other hand, father the founder could still have dominant influence - delegating effectively is very difficult, and few founders (especially fathers) excel at it. And this created obstacle to business transformation. Fortunately, the new leader communicated well with employees, and he made it clear that if his father had strong different opinions regarding business, his staff should follow based on filial piety, human relations and respect for the first generation founder, while he - the next-generation successor - is responsible for further

discussion and coordination to solve the difference.

The third one is the run-in period: talent retention and low employee turnover is essential, particularly in succession period, for continuity and credibility in dealing with outside sources such as banks and suppliers. When new generation successor led business transformation and disrupt the status quo, some old employees inevitably disliked the change. The new successor' attitude was that it was not a problem they didn't foresee and planned for. He stressed the importance of listening, and believed a true understanding of the feelings and motivations of the founder and senior staff would enable the successor to deal rationally and effectively with them.

#### **4.1.2 Transformation - strategic direction**

The first one is to renovate traditional food brand: it was a surprise that the side line rice cookie and rice cake were so well received by love of unexpected customers. Mr. Jian and his sons believe the rice products had potential to be a big hit as a main product line. Rice cookie has been an integrated part of traditional celebrations of birth, wedding, and Lunar Calendar New Year in Taiwan. A unique selling point is that the puffed rice cookie are round shaped which symbolizes completion, perfection, and happiness. A milestone in the company's development came in 2011, based on the concept "bread only sells three blocks, souvenir sells all over the country," the owners made bold decision to let go bread and focused on rice products, and officially changed its name to Chuan Li Rice Cookie Food Ltd.

The second one is to create new ways of eating and new flavors: from the first seaweed rice cookie, to numerous new flavors and tastes. Always driving for perfecting these traditional Taiwanese treats, in 2007 Mr. Jian and his sons began experimenting with ingredients that guarantee the cookie both healthy and tasty, using only canola oil with no artificial colorings, additives or preservatives. Because traditional rice cookie is easy to damp and lose its flavor, the new generation successors introduced the industry's first deoxy packaging that can retain the freshness and taste for three months. The successors also promote a new way of consumption: eating frozen rice cookie, and always focus on quality control and seek "high quality and classic taste."

The third one is institutionalized management: institutionalization has always been the goal for traditional SMEs. The new successors also believe that "shift from rule of a single man to institutionalized management" is the key to be a going concern with sustainable growth. Although the first generation owner remains as the company's "top salesman," successors looked forward to reshaping organizational structure so that in the near future, the enterprise can run smoothly without the boss being around. They are well aware of the tendency of micro-management without clear responsibility and enough delegation in

most SMEs. In the future, the company will establish internal quality management system and introduce customer relationship management system toward the institutionalized management.

The fourth one is word of mouth marketing leveraging social networks. It was expected that transformation to rice souvenir products would lead to loss of some old customers. However favorable market response to the new rice cookie attracted more media coverage as well as new customers. Recognizing rapidly changing consumer environment, the successors committed to word of mouth marketing and community opinion blog on the web that could significantly affect consumer behavior. They set up their own “Chuan Li Blogs” and “Chuan Li Rice Cookie Fans” Facebook pages and expand business through “B2C” and “B2B2C,” which drive many tourists to the store, as well as group purchase and “one deal a day” from white-collar network.

## **4.2 Shuter Enterprise Co., Ltd.**

Shuter Enterprise Co., Ltd (Shuter), established in 1969, started from a small parking lot, now has become the leading storage company in Taiwan. Between 1969 and 1979, Shuter was a small contract manufacturer of chocolate boxes, a wide range of knife handles, and playback rotary knobs.

With decade experience in OEM process and quality management, founder Wu Jinglin initiated the brand creation in 1979, and formally transformed itself into a consumer brand storage enterprise. Shuter currently owns four brands: “Shuter”; “Livinbox”, and “Orin.” So far, Shuter has reached the markets in Asia, America, Canada, Europe, Africa, Australia, and New Zealand.

### **4.2.1 Succession - feature and problem**

#### **(1) Succession feature**

Shuter was a small domestic player with about 100 employees until 2000, when Wu Yirui, the incumbent general manager, joined Shuter after finished study overseas and began to take over the company operation. Selected as the successor by default as the only born in the family, Wu was well groomed by the founder and sent to University of the Arts London, UK for further study.

However, in 2002 a fire ruined the plant built by the first generation of entrepreneur. The 30 year old company was on the verge of out of business. The crisis seemed to be the turning point. Wu overcame the crisis and began to explore transforming Shuter by focusing on creative design, green, and multi-brand strategy. He hired people based on capability and special skills for key roles with no family members involved (except accountant). He established the R&D team of 15 consisting of precision tool engineers

and graphic designers, and started creating the four brands and exporting to overseas. Shuter's product qualities meet or exceed the highest standards of national testing, especially in safety, pressure / impact resistant, durability, and non-toxic plastic material. Shuter has won multiple awards such as "21st National Award of SMEs" by SMEA, MOEA for its recognized quality and successful overseas expansion, "15th Rising Star Award," and "2014 Outstanding Entrepreneur Award."

#### (2) Succession problem

The first one is inter-generational conflict: the conflict in different business strategy and management style between two generations. The first generation think that creativity is "to create tomorrow's business," while the new generation successor considered it a process of "continuous innovation." Wu has been interested in creative design since childhood and even more persistent in inserting creative design concepts into products and continuous innovation in business operation after he finished study in University of the Arts London. In contrast, the founder had great experience in OEM model and focused on solid basic skills and manufacturing quality, which he feared could be disrupted or negatively impacted by his son's emphasis on fancy creative design.

The second one is adaptation to new business and culture: after returning from overseas, Wu served for one year in the company from bottom to understand the business and corporate culture. There was an identity problem between his low level position and the coming successor perceived by coworkers. This made it difficult for Wu to mix and communicate with workers naturally and effectively.

#### **4.2.2 Transformation - strategic direction**

The first one is to insert design aesthetics into the product development strategy: Wu has a degree in artistic aesthetics and is well aware of the influence of aesthetics in product design. He established the R&D team of 15 consisting of precision tool engineers and graphic designers, exclusively and independently responsible for all industrial design, product development, and visual aesthetic design to enhance the appearance and texture. The R&D department cooperates with the marketing team to generate product conception and 3D design, followed by prototype molding in manufacturing department.

The second one is manufacturing with green concept: Shuter's storage product qualities meet or exceed the highest standards of national testing, especially in safety, pressure / impact resistant, durability, and non-toxic plastic material. Use of non-toxic plastic material that can be 100% recycled without causing secondary pollution is essential to meet European REACH, ROHS, PAHS standards and USA FDA standards.

The third one is talent development strategy focused on capability and character. It not only keeps the legacy from first generation virtue of positive thinking, diligence and



frugality, but also introduces the concept of return on investment, aggressively seeking resources for growth and stresses the “three high” policy, namely high-quality personnel, high investment and high value added business strategy. In order to enhance the brand image, Shuter adopts “6S field management method,” which is the traditional Japanese 5S management system (i.e. sort, straighten, shine, standardize, and sustain) plus “soul” to create effective workplace organization and standardized procedures to improve safety, quality, productivity, and employee attitudes.

The fourth one is overseas expansion and multi-brand marketing. Founder Wu Jinglin initiated the brand creation in 1979, and formally transformed itself into a consumer brand storage enterprise. The new generation successor further promoted overseas expansion and multi-brand marketing. Shuter currently owns four brands: (A) “樹德 Shuter” – Taiwan’s No.1 brand in storage, targeting Taiwan domestic and India markets of office locked storage; (B) “Shuter” focused on steel and plastic storage cabinets and work tables serving domestic factories but mainly exporting to sixty overseas countries targeting foreign industrial and OA offices; (C) “Livinbox” - a high-end storage brand, specifically targeting furniture markets in U.S. and Australia, offering organizers, cabinets, tables, keyless lockers, chic multi-functional storage, etc.; (D) “原品 Orin” - focused on overseas ODM model. So far, Shuter has reached the markets in Asia, America, Canada, Europe, Africa, Australia, and New Zealand. It is aiming to offer a wide variety of distinctive branded storage systems all over the world. ” 樹德 Shuter” brand is well recognized in India as high value-added products of safety and quality, features typically sought after in the market.

The fifth one is to use flexible and multi-channel marketing. Shuter used to be a domestic enterprise, however, the next-generation successor adopted strategy of overseas expansion and multi-brand marketing leveraging on flexible and multi-channel marketing. Shuter actively participates in overseas exhibitions to enhance the brand visibility and exposure in the international market. Besides past B2B based marketing, Shuter extends to online B2C business model. In 2007, Shuter signed an agent as its exclusive distributor in India. Shuter is planning to replicate the successful India model of alliance in other overseas markets. Shuter set up My Shuter shopping website in 2012 and began to offer customized bulk service. Shuter also conducts “manufacturer’s auction” to sell off-season products.

### **4.3 Trans Electric Co., Ltd.**

Founded in 1968, Trans Electric is now an IPC and ISO9001, 2000-certified company engaged in the R&D, manufacture and sales of CATVs, multimedia accessories and

consumer electronics products. The company's growth path symbolizes the history of television development. It started manufacturing TV antenna and strong filter with B2B business model. Products are mainly sold to TV stations and residential buildings. In 1982, it became the world's top supplier of such products. During the coming cable television era, the company began producing CATV cable system equipment and entered the US market. Since 2002, it has transformed into a renowned manufacturer of branded consumer electronics specialized in product design and providing professional solution to audio and video integration for smart phone. Trans Electric portfolio includes Wireless AV, Wireless Audio series, HDMI, Digital Antenna, and CATV. In 2013, Trans Electric won the "21st National Award of SMEs."

The new generation successor started from bottom and later took charge of cable television equipment. He has been committed to innovation and transformation, leading the company toward B2B2C business model and brand marketing that didn't exist in the first generation business model which only emphasized production quality and efficiency. Employees have been taught to think as an innovator after the new successor (CEO) took over.

#### **4.3.1 Succession - feature and problem**

##### **(1) Succession feature**

After entering the cable era, the new generation successor at the time was given a considerable power to lead the CATV department because his management strength was proven. He started restructuring within the department and testing a new direction and strategy. Under his leadership, CATV Business Unit operated as an independent small business, where he thoroughly demonstrated his potential and won trust from his family members as a successor in the growth and achievement of CATV business.

The new generation successor worked more than 25 years for the company as production line operator, courier, field worker (antenna / cable), department manager, and all the way to CEO. The succession process was smooth as his capability and proven leadership track record has been recognized throughout the company.

##### **(2) Succession problem**

The main problem is inter-generational conflict: the conflict in different business strategies and values between two generations. After the succession, the first generation entrepreneur didn't fully transfer his power and still involved in business decision making. The ongoing conflict complicated the communication and transformation process. The first generation entrepreneur emphasized stable investment return and production efficiency while the new generation successor believed the old business model focused on production efficiency was no longer a viable one as a going concern in the new era.

The successor took considerable time to resolve conflicts through continuous communication and coordination, so that the first generation entrepreneur came to understand modern business model and the need to change.

#### **4.3.2 Transformation - strategic direction**

The first one is the establishment of quality management system with emphasis on consumer satisfaction. Introducing new equipment and instruments is just basic approach to enhance product quality. Innovative testing procedure is far more important. Trans Electric's product testing program is mainly divided into three tests: test by R&D, test by the quality control unit, and final verification by the customer service unit with emphasis on consumer perspective. Additional modifications and fine-tuning before mass production and marketing of an officially listed product are based on feedback from internal users and market test at small scale through a few distribution channels. The quality management process has now extended from the consumer electronics products to all types of products before mass production.

The second one is to enhance brand image and focus on long-term operating performance. The new generation successor believes that a viable business model must have pricing power and earn relatively high return on investment. Therefore, the company meets the consumer appetite for quality, fashion and experience - often seen in branded products, and add value across the price spectrum beyond cheap-basic categories.

The third is to strengthen R&D, dynamic integration of hardware and software technology, and value-added services. The new generation successor noted that Trans Electric has kept up with the advancement of television and smart phone era, from analog, digital, to the current smart audio and video systems. It is essential to constantly strengthen the R&D capability not only in hardware technology, but also to expand into smart cloud networking technology. In the future, the company will add a variety of value-added services in dynamic integration of hardware and software technology.

The fourth one is to actively manage customer service / user experience, and build long term trust relationship with distributors. In B2B marketing, distributors need to have trust and considerable confidence in product quality before committing significant resource in marketing and sales. Trans Electric also actively manage customer service / user experience. For example: when there are problems of products, consumers typically go first to 3C discount stores or other distributors for help. Trans Electric encourages distributors to allow customers to directly contact its customer service department for swift solution, which enhances the trust from distributors as well as users.

## **4.4 Tomax Enterprise Co., Ltd.**

Founded in 1964, Tomax Enterprise Co., Ltd. has been engaging in the processing, manufacturing and trade of spice for 40 years. It has introduced exclusive frozen grinding technology and facility to preserve the freshness and original flavor of spice in order to ensure the natural taste of spice. Committed to being the “best companion of consumers” and pursuing quality excellence, Tomax makes continual improvements and innovations and becomes the only domestic spice manufacturer that passed ISO9002 certification. Furthermore, it has established the hydrolysis and thermal reaction GMP production line for natural food ingredients under the guidance of the Food Industry Research and Development Institute. Tomax is also the only Taiwan’s spice manufacturer that implements the ERPS, displaying the enterprise’s intention toward sustainable development, perseverance in quality and performance.

In 1964, Mr. Dong Min-hsiang founded the Fu Kuo Industrial Company in Hsinchuang, New Taipei City to manufacture glass-bottled spice. In 1973 the company changed the name to Pao Kuo Food Company. In 1976, Tomax Enterprises Co., Ltd. was founded in Hsinchuang, New Taipei City, with 5 employees engaged in trade of spice (mainly pepper products).

The new generation successor registered trademark in 1986 and then inherited both companies in 1989 from his father and elder brother. In 2000, he merged these two companies to found Tomax Enterprise Co., Ltd., and transformed it as a professional full seasoning spice company adopting differentiation and diversification strategy. Tomax Enterprise has won multiple awards such as “21st National Award of SMEs” in 2012, Health Magazine’s Best Brand in Healthy Seasonings in four consecutive years from 2011 to 2014, and in 2009 new generation successor and his wife won “Outstanding Entrepreneur Award” and “Outstanding Entrepreneurial Couple Award.”

### **4.4.1 Succession - feature and problem**

#### **(1) Succession feature**

The new generation successor had worked in marketing in a food company. He had to quit the job and took over the family in 1989 after his father passed away and his elder brother was in poor physical condition. He quickly figured out the existing grinding and packaging of pepper and chili powder had no advantage over or differentiation from the ones by established manufacturers. In 1994, he repositioned the company as a “spice interpreter” and changed the original brand “Diamond” to “Tomax” to add imagination in the new brand name. To seek product differentiation, in 2000 after the merge, he started with western spices and repositioned the company to the “pursuit of the impossibility in

gastronomy.” The succession and transformation process showed that the next generation successor is not only a successor, but a new generation entrepreneur as well.

#### (2) Succession problem

Run-in period is rather smooth as the new successor had no problem communicate to old employees because the business was low technology and easy to understand. The real challenge was to make the family business viable and survive the competition. Two generations differed in strategy and mission. While the first generation entrepreneur focused on survival and stable profit to support the family, the new generation entrepreneur believed that short-term business profit is not a means to an end, a better business with great brand is far more valuable both in a sense of accomplishment in life and in long term performance as a going concern.

#### **4.4.2 Transformation - strategic direction**

The first one is to drive R&D of natural spices for the new brand: “Tomax,” which literally means “little mill” to add human touch and emotion and stands for caring consumers’ lives. The new generation successor insisted on preserving the freshness and original flavor of spice in order to ensure the natural taste from consumer perspective and consideration. Tomax Enterprise is the only domestic manufacturer using the frozen grinding facility imported from Germany to preserve the aroma and natural flavor of spice by grinding in a low-temperature environment chilled with liquid nitrogen. All shops, including the drying, grinding, mixing and packaging shops, are independent to prevent to prevent mutual interference of spice.

The second one is to differentiate by introducing western spices into domestic market. Tomax Enterprise entered the spice industry relative late and found itself difficult to differentiate in the market and break the habit of the consumer with fixed taste of domestic spices. The new generation successor, right after taking over the business, committed considerable time and resource to build and test extensive collection of the western spice material, and boldly introduced new products of western spice taste to the domestic market. As domestic consumer acceptance of the western spices improved in recent years, Tomax Enterprise was able to stay away from homogeneous market competition and began to gain pricing power from its new premium products of unique western spice categories.

The third one is to use the “Communication Troop” to establish marketing channels. After re-branding, re-positioning the market, and several plant expansions, the company did not have enough resource for traditional advertising and media coverage. Mr. Tung, the new successor, came up with the idea of “word of mouth marketing” and “product placement” to promote the brand. He built and led the “Communication Troop” to offer

cooking classes (with chefs and/or community colleges), spice knowledge and product demos to schools, associations, benefits committees, community colleges, etc.

The “Communication Troop” not only promotes the brand and sells products, but also spreads the knowledge of spice and provides valuable customer feedback to R&D for new ideas and constant innovation and improvement.

The fourth one is institutionalized management. Institutionalization was essential for Tomax Enterprise as most employees were family members in the period of the first generation entrepreneur. The new successor believed that “shift from rule of a single man to institutionalized management” is the key to establish good incentive system with clear organizational structure and responsibility, improve the communication, and promote from within based on measurable performance.

#### **4.5 Shiang Ye Industrial Co., Ltd.**

Shiang Ye Industrial Co., Ltd, founded in 1978, has manufactured and designed more than 100 chair products. Following its philosophy, “Innovation, Quality, Service, and Environmental Protection,” Shiang Ye has dedicated itself to high quality, customer service, and using recycling materials for environmental protection. Shiang Ye is ISO9001 and CNS mark certified and owns many domestic and foreign patents. Two famous chair series – “NOVITE” and “SLIM” have won international product design awards: NOVITE won German Reddot Design Award, XUEXUE Green Fashion Award Most Influential Product, and Green Procurement Mark from Environmental Protection Administration; SLIM won iF Gold Award of Product Design.

In 1991 Shiang Ye began to introduce automated production equipment. With the success of industry-university cooperation, the company developed new features for chairs and then expanded into overseas markets. At present, the company has strong R&D and manufactures 95% of all products it designed. Therefore it has far greater control of quality than most OEM.

30 years after founding the company, the first generation entrepreneur passed the baton to his daughter who graduated from an Italian university with major in design. The new generation successor established a design department to add modern design and aesthetic elements in structures, materials, and products. The new generation of successor has been building upon the traditional way of quality, technique, and entrepreneurs thinking and transformed the company into a professional chair manufacturer and designer with strong brands.

##### **4.5.1 Succession - feature and problem**

###### **(1) Succession feature**

In 2008, the new generation of successor returned to Taiwan from Italy so his father could take early retirement. She specialized in industrial design, not for succession but purely out of his personal interest. Interestingly, her love of industrial design turned out to be a main reason to take over and transform the family business. In 2011, the new generation successor established a new design and planning department and started transforming Shiang Ye into a professional branded chair manufacturer with its own design capability. At the same time, she improved production processes, so that the new products fully reflect the original design concept.

After the establishment of the design planning department, the company designed the two new series of folding chair: “NOVITE” and “SLIM” that won multiple awards. “NOVITE” series show the screw-less design concept of elegance and simplicity and claim to have even higher stability than screw-locking type chair back; “SLIM” series’ appeal is simple, light, and easy to fold at affordable price, which can meet the demand of majority of consumers in the mid-price range.

#### (2) Succession problem

The succession transition was rather smooth as the first generation entrepreneur and the new successor shared the same concept of transformation into professional manufacturer and designer of branded products. A typical interesting and effective communication type between two generations is that every time the new generation successor presents a new product design concept, the first generation entrepreneur would play the role of devil’s advocate questioning the feasibility on the real business side. This often leads to continuous improvement of the new design all the way to a successful product well received by customers.

#### **4.5.2 Transformation - strategic direction**

The first one is the establishment of the design and planning department to internalize the design and business planning processes. The first generation entrepreneur shared the same concept but didn’t have talent or its own design department partially due to limited resources during his tenure. So he outsourced the design to universities’ design departments or design centers. In 2011, the new generation successor established a new design planning department. She hoped that through close communication between company’s full-time designers and field production engineers to quickly improve design quality, reduce unnecessary production process, enhance workflow efficiency and reduce manufacturing costs.

The second one is to introduce design quality into manufacturing process. The new generation successor committed to synchronized cooperation mechanism between design and production. Any design problem in field production should get instant response from

design department. Defect rate decreased by quick modification and improved processes through this immediate reaction mechanism. The synchronized cooperation mechanism helps address the source of the problem and the fundamental process structure in production to achieve quality improvement rather than passively solve specific problems.

The third one is to use international award competition to confirm the strategic direction for design: the new generation successor introduced the design concept and skill she learned and promoted collaboration between designers and production engineers. Shiang Ye actively participate international design competitions to confirm its strategic direction for design or figure out problems through feedback from judges. The two famous chair series – “NOVITE” and “SLIM” have won international product design awards as mentioned above.

The fourth one is to lock young working generation as target customers and develop mid-level brands: In the past, Shiang Ye commanded large orders from international companies but had limited customer awareness due to its OEM model. The new generation successor created new brand “SITPLS” to meet the demand of young working generation as “affordable fashion design products.” She drives consumers’ emotion through “100 Chair Stories” for the new brand: “actually, you have known us for a long time, but you never realize.”

## **5. Discussion and Policy Implications**

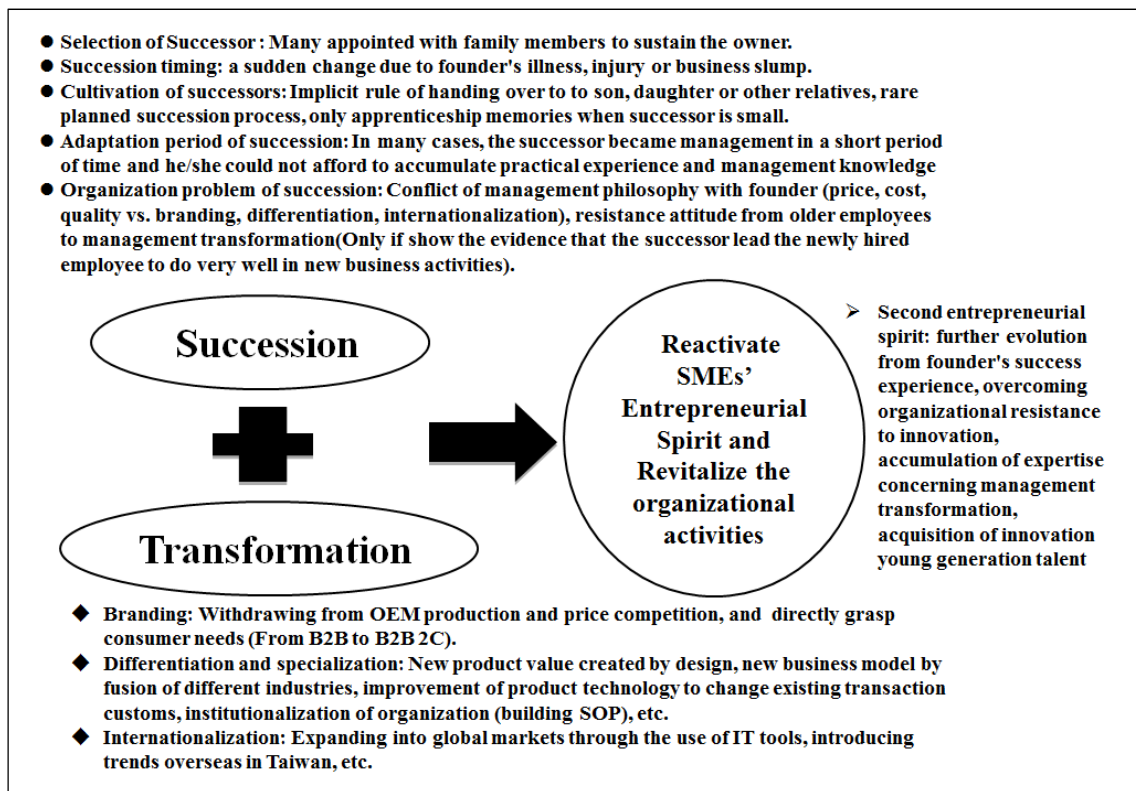
Based on the case studies, we analyze the problems of business succession and transformation strategies for Taiwanese SMEs. We could present the findings in the following chart. Then according to these findings, we also summarize some policy implications for supporting the succession and transformation of Taiwanese SMEs.

Firstly, the points for supporting SMEs’ Succession are suggested as: (1) promote market-oriented business management courses in colleges and universities; cultivate curiosity and creative thinking of potential new generation of successors; (2) form professional succession team in response to new business opportunities; match professional management talent to the need of business succession and transformation; (3) integrate existing knowledge exchange platforms for succession; provide customized mechanisms of knowledge sharing and exchange services required for different types of succession; (4) conduct a deep dive of current situation of SME succession; provide succession planning advice or match professional managers to succession needs for SMEs' sustainable development as going concerns.

Secondly, the points for supporting SMEs’ transformation are suggested as: (1) encourage new generation successors of SMEs to obtain innovation awards; reactivate



the entrepreneurial spirit of mature SMEs; (2) grasp the opportunity of succession and transformation to guide SMEs towards institutionalized management; (3) establish SME succession and transformation follow-up service mechanism linking research institutions, universities and private sector professional consulting companies to meet long term counseling needs for SME succession and transformation; (4) strengthen cross-industry cooperation mechanism for SMEs' sustainable development; guide the SME succession and transformation toward the direction of "professionalism," "branding," and "internationalization."



Source: Analysis of author.

**Figure 6. The characteristics of Taiwanese SMEs' business succession and transformation strategy**

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2015 May 17: Shiang Ye Industrial Co., Ltd.