

Revisiting the Issues Regarding the Inheritance System in the Chinese Family Business

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This presented research investigates the key issues regarding the inheritance system in the Taiwanese-owned Chinese family business. A qualitative research approach is employed. The key findings reveal that Taiwanese CFBs have adopted a distinctive inheritance system which has prevented their firms from being fragmented and has also enabled them to be transferred successfully from one generation to another. Furthermore, our findings suggest that the roles played by the female family members of the owner, such as the 'harmony keeper' and 'the successor', cannot be overlooked.

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1. Introduction

Traditional research into family businesses in the Western and Japanese context tend to focus on issues concerning family control, succession, sibling-rivalry, conflicts between family members and non-family members and professionalization (e.g. Yoshikawa and Rasheed, 2010; Kenyon-Rouvinez and Ward, 2005). Since the 1990s, a group of institutionalist scholars such as Redding (1990), Orru et al. (1997), Whitley (1999) and Redding and Witt (2010) have embarked on research into Chinese Family Businesses (CFBs). From the perspective of institutionalists, family businesses are deemed to be imperative economic actors in Chinese societies such as Hong Kong, Singapore, Taiwan and may perhaps also fulfil such a function in mainland

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China in the near future. Many studies which have been conducted by these institutionalists centre on the strengths (e.g. flexibility, fast decision-making and lower transaction costs) and weaknesses (e.g. nepotism, opportunism and difficulties in accumulating specific knowledge) of CFBs.

While the institutionalist approach has been successful in contextualising CFBs in Chinese societies, the roles played by women in CFBs (i.e. the wife, daughters, daughters-in-law and other female relatives of the owner) have received little attention in the abovementioned studies. It is still not clear in what way and under what kind of mechanism female relatives of the owner contribute to the development of CFBs. It is a vital area that deserves significant research as it links closely to the growth mechanism of CFBs. In this paper, we focus mainly on issues regarding the inheritance system in the Taiwanese owned CFB setting and will also provide certain insights into the role played by the female members of the owner with reference to inheritance. It has been suggested that the unique inheritance system of CFBs is prone to result in the fragmentation of the entire business (Wong, 1985). Nevertheless, in reality, many contemporary Taiwanese owned CFBs have been passed on to the second or third generations of the founder. Some of the CFBs have also developed into large sized multinational enterprises. This implies that the unique system of inheritance in the context of the CFB pose a limited threat to the development of CFBs. We intend to find out in what way the potential crises generated by the unique inheritance system can be successfully handled and the extent to which female family members of the owner have contributed to the success. This research will generate theoretical contributions to studies of the family business, organisation and Chinese capitalism (e.g. the National Business System framework developed by Whitley in the 90s) as well as implications for practitioners involved in family businesses and CFBs.

2. Literature Review

There is no single agreed definition of CFB. Some researchers (e.g. Tsui-Auch, 2004; Zheng, 2002) define the term “CFB” by simply borrowing the definition of family business from their colleagues in the field of family business studies. For instance, Tsui-Auch (2004) adopts Miyamoto’s (1984) definition of family business. According to Miyamoto, family business broadly refers to ‘family owned, controlled, or managed businesses’ (Tsui-Auch, 2004: 697). Others (e.g. Carney, 2002) employ Chandler’s (1990) term “personal capitalism” to define the CFB. According to Chandler (1990: 236), personal capital means ‘...firms managed by individuals or

by small numbers of associates, often members of the founder's family, assisted by only a few salaried managers, or [they are] federations of such firms'. This definition implies that there is a universal format of family businesses and CFBs only represent the embryonic stage. This is mainly due to the fact that the business practices of CFBs can be observed in the early stage of most family businesses in Anglo-Saxon societies (i.e. the UK and US). Moreover, it is assumed that all sorts of family businesses follow an identical trajectory as they develop. They are likely to gradually transform themselves into professionally-managed corporations when they expand in scale and size as many Anglo-Saxon family businesses (e.g. du Pont, Eastman Kodak, Kellogg, Pitney-Bowes, Roebuck and Sears) have done. However, this kind of approach towards the definition of CFBs which neglects the specific features of CFBs is unsatisfactory. It seems to undervalue the heterogeneity amongst family businesses caused by their distinctive culture and social institutions.

A CFB, in this research, is defined as a particular type of economic organisation which is owned and managed by either a single family or multiple families and is profoundly influenced by the values of *jia*, viz. Chinese family values. *Jia* is a Chinese word which is translated into English as family. The reason for employing the specific phrase—"values of *jia*" or "Chinese family values" is an attempt to emphasise the unique characteristics of the family (i.e. paternalism, nepotism and personalism or *guanxi*) embedded in traditional Chinese society. In Chinese societies such as Taiwan, the *jia* is the fundamental social unit (Sung, 1997: 361), the 'unit of procreation' and the 'foundational building block of a patrilineal, patrilocal kinship system' (Hamilton, 1997: 258) and the 'single most important social institution' (Farh, 1995: 285).

The values of *jia*, which are deeply associated with Chinese culture and Chinese social institutions, have a significant impact on the operation of CFBs. This definition means the specific organisational type of CFB which can be observed all over the world and is not restricted solely to Chinese societies, for instance, those CFBs in the US or Europe owned by overseas Chinese or their offspring. This can result in CFBs appearing distinct from each other as they may be influenced by the varying proximate social institutions in which they are situated. For instance, Ward et al. (2002: 209) point out that '...Malaysia, Singapore and Hong Kong have common roots, as all three countries were British colonies and their legal, economic

and educational systems have grown out of English traditions'. However, the most crucial point is that in spite of the differences between CFBs, certain shared characteristics (e.g. family members in key positions, distrust of outsiders, the fact that the successor is a member of the owner's family and *guanxi*-based business practices) are likely to be observed in this specific organisational type (Chang and Tam, 2004). In other words, although CFBs in Singapore may not appear to be exactly the same as CFBs in Taiwan, a certain degree of similarity can undoubtedly be found between them.

The pattern of inheritance in the CFB context appears to be unique and fairly complex. Since CFBs are considered the property of the owner's family, they suffer the same fate, on the owner's death, of being *equally* divided amongst his heirs (e.g. Zheng, 2002; Chung, 2001; Numazaki, 2000; Hamilton, 1997). This unique pattern of inheritance is blamed for weakening the foundations of CFBs, which, in turn, raises obstacles which prevent the organisation from developing (Wong, 1985). As Numazaki (2000: 167) points out, '...an adult member of a Chinese family can have his or her own private property and use it as...' he or she wishes. This notion suggests that heirs have a certain degree of autonomy in terms of utilising the property inherited from their father. In other words, the heirs are not constrained to continue collaborating with their siblings in the CFB. They can decide to withdraw from the CFB with the portion of the property they have inherited. This results in the fragmentation of the CFB. In the worst case scenario, CFBs may not be able to survive after the death of the owner (Yeung, 2000). This means that CFBs tend to grow and then break up again—a cycle of growth and restructuring. However, it can be argued that the property of the family does not have to be divided after the death of the owner. Indeed, Sung (1997) points out a slightly different method which is employed in Taiwan when it comes to the division of the family property. The division of the family property is split into two phases: *pun-ke* (family division) and *ke-sieng* (inheritance).

'*Pun-ke* can occur in several circumstances: when a family rearranges its social and productive activities, when younger sons marry, when family members squabble, when the head of the family dies, or when a brother takes a job in another town. In each of these cases, brothers have a right to ask for a division of the family. Thus *pun-ke* may take place before or after the death of the father, since it is a matter of rearranging family life for social and economic purposes in such a way that the

independence of each family subunit...and its members is increased...In contrast to *pun-ke*, *ke-sieng* can only occur at the death of the family head...*ke-sieng* is thus a matter of succession involving the transfer of certain rights and duties...from a deceased senior family member to a junior family member or members' (Sung, 1997: 361-362).

In accordance with this unique practice regarding the division of family property, it is appropriate to assume that the owners of CFBs in Taiwan do not always divide up the property of the family, viz. the CFB, in their will. Some of the property is divided in the phase of *pun-kei* which may occur prior to the death of the owner.

Many studies in relation to women in the workplace in Chinese societies (e.g. China, Hong Kong and Singapore) tend to focus on issues such as balance between family and work, how Confucianism affects women's roles at work, women's educational attainments and discrimination against women in different sectors (e.g. Hussain et al., 2010; Chou et al., 2009). Amongst these studies, very little attention has been paid to family owned firms. On the other hand, studies conducted in family businesses to investigate the role of women are likely to be in the Western setting, in particular the USA. Although a few recent studies (e.g. Halkias et al., 2011; Barrett and Moores, 2009) have begun to incorporate a cross-cultural perspective into studies of women in family businesses, the case of Taiwan is largely excluded. In general, research into the role played by women in Taiwanese owned CFBs is scarce. Kao (2002) examines the role played by the owner's wife in small and medium sized CFBs in Taiwan between 1966 and 1986 and concludes that the wife of the owner of CFBs plays a pivotal role in maintaining harmony within the family when it comes to inheritance.

3. Methodology

This research is a part of a large, ongoing research project which investigates the growth mechanism of Taiwanese owned CFBs. Although a mixed methods approach has been applied to the ongoing research, the findings of this paper have drawn on our qualitative data. In terms of the qualitative research approach, semi-structured face-to-face interviews are the primary vehicle for data collection in the research. One hundred and fourteen interviews with family members of the owners of CFBs and non-family members were conducted in Taiwan, Japan, the

Netherlands, the UK and the USA between summer 2001 and spring 2013. Each interview lasted one hour on average. The CFBs that participated in the research ranged from large multinational CFBs to small and medium sized CFBs in multiple industries, namely, manufacturing, food and beverage, services and trading.

4. Findings and Discussion

In contrast with Yeung's (2000) argument formulated from his research into Hong Kong multinational CFBs, the owners of the CFBs in this research take the issue of inheritance seriously into consideration. Professionals, viz. solicitors, are often consulted for advice on designing a succession plan. All the owners have gradually transferred their property to their heirs. Transferring property gradually to their heirs not only enables the company to pay less estate and gift tax, but also prevents the CFBs from becoming fragmented after the death of the owners. Accordingly, the planned inheritance practice can be considered as a feature of the CFBs' risk-management strategy. Apart from the tax issues, it is reasonable to propose that the Taiwanese way of dividing family property (i.e. *pun-ke* and *ke-sieng*) is adopted by the owners of the CFBs studied in this research. Consequently, the divergent practice of inheritance between owners of Taiwanese CFBs and their counterparts in Hong Kong can be attributed to the distinctive social and institutional environment in which CFBs operate.

In all these cases, the owner's eldest son appears to receive slightly more than his younger siblings. "More" here refers not only to quantity but also quality. There are two main reasons for this. Firstly, due to the Taiwanese concept of continuing the family line, the son of the eldest son is thought of as the person who will carry on the main duty of the family after his father's death. Hence, this eldest grandson also has the right to claim a small amount of property from his grandfather. The eldest son can act as a trustee to keep the property for his son. Wolf (1997) noticed that a small portion of property is also given to the son of the eldest son, but did not ascertain why this was the case. In contrast to Wolf, the present research illustrates the reason for this practice. Interestingly, the eldest son can still receive a portion of the property for his son even when the son has not yet been born. Secondly, in Taiwanese societies, parents generally tend to live with their eldest son when they are old. The eldest son has an obligation to look after his parents. Giving the eldest son slightly more property is regarded as a way of expressing their appreciation for his having fulfilled this obligation. This practice, namely the eldest

inheriting more than the younger siblings, also applies to CFBs. Based on the studies here, it is suggested that the concept of equal division is difficult to practise in Taiwanese CFBs. This finding is in sharp contrast to the findings of a number of researchers (e.g. Zheng, 2002; Chung, 2001; Yeung, 2000; Hamilton, 1997), who argue that the CFB is the property of the family and is equally divided between the owner's heirs. Moreover, the study further indicates that the successors tend to inherit a complete business or business domain rather than sharing a business or a business domain with others. This finding suggests that the notion of dividing property in the Taiwanese CFB context concentrates on the "item as a whole". The concept of the "item as a whole" means each heir inherits a property in its entirety.

Our findings indicate that the majority of the wives of the business owners participate in the inheritance process by playing the role of "harmony keeper". They are there to ensure that harmony is kept within the family and the business is transferred smoothly from one generation to another. This is somewhat in line with Kao's (2002) argument. Additionally, the wives of the owners claim that they play the role of 'harmony keeper' better than their husbands (i.e. the owners). This is due to the fact that they are *mothers* of the children and understand more about the characteristics of their children. This privilege enables them to reduce the chances of causing conflicts and, in turn, results in a successful negotiation with their children. As one of the interviewees stated,

"...it is difficult. Yes. Two of my sons wanted to inherit our business. We (the owner and his wife) decided to pass the core business on to our eldest son and the rest to the younger one. Our younger son was not happy at all, of course. I (the wife of the owner) had to persuade our younger son to accept the decision made...My husband asked me to talk to my two sons as he thought I am a woman and am a mother of the children. I was thought of as a better person to talk to them."

Moreover, we also found that in the cases when there is no male heir available in the family, the owners are not reluctant to pass their business on to their daughters as long as their daughters are willing to and capable of running the business. This practice differs significantly from that of their counterparts in Japan. In the context of Japanese family business, if there is no male heir available, the owner will adopt

the practice of “mukoyoshi” (adopted son-in-law) which means a capable male who has no blood connection with the owner will be selected and brought into to the family by the means of marriage, namely, marrying the owner’s daughter. This male will then become the heir of the business. Such a phenomenon has not been observed in our research of Taiwanese CFBs. Our findings further indicate that daughters of the owners are provided with the same opportunity as their male siblings in terms of education and training. This implies that the owners of Taiwanese CFBs do not exclude female offspring as their heirs during the initial stages of the inheritance process.

5. Conclusion

This study reveals certain changes which have occurred in Taiwanese-owned CFBs with reference to the inheritance system. First of all, the practice of equal division of property between heirs is less prevalent than previously thought, in particular in large CFBs. This may be due to the influence of the unique culture and social institutions of Taiwan. It also explicitly indicates that the notion of CFBs cannot be viewed as homogeneous across different global settings. This has, therefore, made theoretical contributions to the National Business System model. Secondly, in the Taiwanese-owned CFBs, the role played by female family members in relation to the inheritance process is far more crucial than extant literature has suggested. These women not only act as the harmony keepers, but also the heirs when needed. Confucianism, which supports female subordination and has been used widely in terms of generating stereotypes of women in Asian countries, seems unable to illustrate this phenomenon fully.

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