

The Effect of Family Leadership on the Growth of Family Business Groups

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Wenzao Ursuline University of Languages, 2023

Abstract

According to the analysis report put forward by the Taiwan Institute of Directors at the 2017 annual meeting, based on the total number of 1,624 listed and OTC companies in Taiwan in 2016, the analysis shows that family-owned businesses accounted for 63% of the total market value in Taiwan and 70% of the total number of entrepreneurs.¹ Therefore, family business is a very common phenomenon in Taiwan. The organizational structure of a family-style leadership and a team of professional managers. Some scholars believe that family resources and social capital (such as political connections) contribute to the growth of the group. However, another stream of literature believes that the organizational structure of the family group has limitations in terms of technology, management and finance, which hinders the development of the group. Facing these different arguments, I hope to find out through research whether family leadership contributes to the growth of the group business.

The author identified family-owned group companies from the top 100 large groups in Taiwan, and collected data for three consecutive years, with a total of 105 data collections. The author tested the hypothesis through regression analysis. The results revealed, first, the researcher found, the higher degree of diversification and internationalization of the group, the better performance of the company. Second, family members have good political relations, which can help business group to successfully diversified into different industries,

¹ 曾煌鈞, "淺談家族企業之治理," *證券暨期貨月刊*, 9, 2017, <https://www.fsc.gov.tw/fckdowndoc?file=%E6%B7%BA%E8%AB%87%E5%AE%B6%E6%97%8F%E4%BC%81%E6%A5%AD%E4%B9%8B%E6%B2%BB%E7%90%86.pdf&flag=doc>.

but can not significantly help business group to go global.

Key Words: family business, political connections, diversification, internationalization

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INTRODUCTION

Background

Family business has become very common in Asian countries. According to Ernst & Young's survey, about 85% of companies in Asia are controlled by family businesses, accounting for about 32% of the overall market value.² There are several fairly well-known family businesses in Taiwan. For example: Foxconn Technology Group, Formosa Plastic Group, Far Eastern Group, EVERGREEN Group and so on.

Although these groups are different in the domestic market and overseas markets, they have something in common: first, family-run management is almost a common governance model for group companies in these different industries; second, these family groups are all It is necessary to establish a more or less relationship with the government; finally, we can find that despite the huge changes in the environment, these family groups seek the growth momentum of their own family groups through diversification strategies in different ways.³

In these different industries, family groups with family business backgrounds have remained in the top 100 groups in Taiwan for ten consecutive years, and still have considerable influence. Its development is closely related to the process of Taiwan's economic development. The development path of some groups is still centered on their own business. For example, the EVERGREEN Group is based on the transportation industry; for example, in Taiwan, the Far Eastern Group is a representative enterprise of diversified development. Far Eastern Group can be seen in textiles, cement,

² 曾煌鈞, "淺談家族企業之治理."

³ 鍾喜梅;葉家豪, "The Role of Family Linkage and Political Linkage on Diversification Decision over Time: An Empirical Study in Taiwan's Family Business Groups," (02 2010), <https://doi.org/http://dx.doi.org/10.6792/OM.201002.0067>.

construction, shipping, education, department stores, and telecommunications. Through different ways of diversification, the Far Eastern Group has a place in various industries. For example: In the textile industry, the cement industry and the telecommunications industry are through vertical integration and horizontal expansion, while the construction industry and shipping industry adopt a horizontal expansion strategy.

The so-called family business needs to include the concepts of family, ownership and management rights by definition. Whether it is from different generations of family members to define the ownership and management of the business.⁴ Family members must control the ownership. If family members are willing to participate in the management, even the management rights are in the hands of family members. Therefore, decisions within a family business may be influenced by family members. In the discussion of social capital, this kind of link can also be called "individual-total link" (Micro-Macro link), which is used to represent the external link established by individuals (such as senior managers of enterprises). business decisions or performance). Because the core decision-makers of a family business or family group are mostly core family members, and the political and business relationships established by these core family members often have a profound impact on the development of the family business or family group, therefore, in a family business or family group In a family group, the political and business relationship established by family members is one of the sources of social capital for family members to establish an "individual-overall connection" to the outside world.⁵

⁴ John L Ward, *Keeping the family business healthy: How to plan for continuing growth, profitability, and family leadership*. (New York: Palgrave Macmillan, 1987).
<https://www.scholars.northwestern.edu/en/publications/keeping-the-family-business-healthy-how-to-plan-for-continuing-gr>.

⁵ 鍾喜梅,葉家豪, "The Role of Family Linkage and Political Linkage on Diversification Decision over Time: An Empirical Study in Taiwan's Family Business Groups."

In addition, with the overall development of the family groups, the development of the enterprises needs to rely on the help of the government. For instance, the government can protect enterprises in terms of regulations, or give enterprises preferential economic policies. From the government's point of view, the government's economic, political, and construction also requires investment from the groups. On the whole, establishing a good relationship between government and business, whether it is a business or a government, this way will be a win-win situation.

Motivation

This research is to explore what factors will lead to better performance when group companies are growing. Concentrating on a fixed market or diversifying into unrelated fields, which one can be easier for the group to pursue growth opportunities. Through my research, I want to know whether family members in a family group benefit from their control, or whether too much control by family members will hinder the group's development.

Research Purpose

The purpose of my study was to diversify business risks and enhance the competitiveness of the industry. First of all, diversification and internationalization operation will affect the company's performance, second, political and business

relations can easily obtain external resources, thirdly, the degree of family members control affects the company's decision-making.

Research Questions

1. What kind of growth strategy will help business group have better performance?
2. Will the resources of family members help the group grow, or limit it?

Contribution

There are two sides to every question to explain. Explained through my research can know, which side is more suitable. Past research may have only explored diversification, political relations and company performance alone. This study discusses the diversification, internationalization, political relations, and the degree of control of family members together, which can be regarded as an integrated study.

Limits

The limits of my study were the general managers and managers of large business groups are very busy, and the author is also still a student. Due to insufficient social connections, it is not possible to interview members of the family business in person.

Delimits

The delimits of my research was to study family business groups in Taiwan. I could not collect all of large enterprises in the world. Because I target top 100 family business groups for three consecutive years in Taiwan as research.

LITERATURE REVIEW

In this chapter, the author divided into four parts. Business groups, business conglomerate and family business, political connections, and diversification for the literature review. Among these above effect on the company's development, and establish research hypotheses.

Business Groups

Family firms have always been important to free-market economies. The names Rothschild, Medici, Ford, Thomson, Krupp, and Mitsubishi are inseparable from the sagas of economic development of today's industrial democracies. Indeed, Smith's words in the introductory quote reflect the view that "joint stock" (widely held) companies are a disreputable distraction from the real engines of growth in a free enterprise economy: family firms. Smith's view informs much current thinking regarding corporate governance. Thus, Jensen and Meckling, Shleifer and Vishny, and

others argue that concentrated corporate ownership leads to better corporate governance. We argue that this view is incomplete as regards the large family controlled business groups that dominate many economies. La Porta, Lopez-de-Salines, and Shleifer find that the role of leading families in corporate governance varies greatly across developed (and emerging) free market economies. Most large US and UK businesses are controlled not by families, but by professional managers acting, however imperfectly, as fiduciaries for multitudes of public investors.⁶

The reason why group business can exist in developing economies is that group business can solve the problem of market failure. For example: It is difficult to find good talents from outside the company, and the problem of insufficient personnel can be solved through the transfer of members within the group. Or it can be used for the circulation of resources, the circulation of information or the circulation of knowledge in the transactions within the group. Therefore, group business can exist in Asian countries, such as Japan, South Korea, and Taiwan.

Business conglomerate and family business

A group enterprise is based on capital as the main link and is composed of a parent company and a subsidiary company. Business conglomerates exist in different economic systems. The composition of the group is largely based on interpersonal

⁶ Randall Morck and Bernard Yeung, "AGENCY PROBLEMS IN LARGE FAMILY BUSINESS GROUPS," *Entrepreneurship: Theory and Practice* 27, no. 4 (2, June 2002), <https://pages.stern.nyu.edu/~byeung/agency>.

relationships such as family members or friends. Scholars have pointed out that the network of interpersonal relationships such as family members or friends is not only the basis of the ownership structure of small and medium-sized enterprises, but also the basic elements of large enterprises (such as groups).⁷ Among them, family business groups with blood relations have received special attention. Family business is very common in Chinese society or in Asian society. According to the 2018 analysis report of the Institute of Directors, family businesses account for 55% of the total market value of Taiwanese companies, and 65% of the total number of entrepreneurs. Family businesses can be said to be the core backbone of Taiwan.⁸ The decision-making process, succession issues, multi-dimensional decision-making, and degree of internationalization faced by the family businesses. Whether family business groups are different from the non-family groups? It is also an important topic for researchers to concern.

The organizational structure of a family group is different from a general enterprise. The organizational structure of a family-style leadership and a team of professional managers. It includes family, business, and board of directors. Strictly speaking, a family business must at least control the shareholders, that is, the board of

⁷ Xia Jiang, "Over-Investment of Free Cash Flow during CEO's Tenure," (July 28 2016), [https://www.scirp.org/\(S\(351jmbntvnsjt1aadkpozje\)\)/reference/ReferencesPapers.aspx?ReferenceID=1832806](https://www.scirp.org/(S(351jmbntvnsjt1aadkpozje))/reference/ReferencesPapers.aspx?ReferenceID=1832806).

⁸ 鍾喜梅;葉家豪, "The Role of Family Linkage and Political Linkage on Diversification Decision over Time: An Empirical Study in Taiwan's Family Business Groups," (02 2010), <https://doi.org/http://dx.doi.org/10.6792/OM.201002.0067>.

directors; as for corporate entity, which can still be dominated by professional managers.⁹

Political connections

The relationship between the family business and the government has rarely been explored in the past literature. In strategy discussions, researchers usually focus on the external connections established by senior managers, because senior managers often represent the company and have the decision-making power to determine the strategic direction.¹⁰ Therefore, the personal connections established by these senior managers, such as member representatives of various industry associations, directors and supervisors. This relationship often has a significant impact on the company's direction and even the development of performance.

It is often beneficial for enterprises to establish good political relations with the government. Regardless of whether a formal political connections or informal political connections. Political connections can help companies obtain more information and resources, and even obtain licenses for the franchise industry. In some government-controlled industries, getting tickets to enter the regulated

⁹ 鍾喜梅;葉家豪, "The Role of Family Linkage and Political Linkage on Diversification Decision over Time: An Empirical Study in Taiwan's Family Business Groups." (02 2010), <https://doi.org/http://dx.doi.org/10.6792/OM.201002.0067>.

¹⁰ Donald C. Hambrick and Phyllis A. Mason, "Upper Echelons: The Organization as a Reflection of Its Top Managers," *Academy of Management Review* 9 (1, Apr 1984), <https://journals.aom.org/doi/abs/10.5465/amr.1984.4277628>.

industries, such as the financial industry, construction industry, petrochemical industry and so on.

Therefore, through this research, the government and enterprises can obtain mutually beneficial benefits in the process of cooperation, and each side can get what they need. The proper and legitimate interaction between the government and enterprises not only promotes economic development, but also promotes political and social stability.

Diversification

In short, discussing diversification strategies from a resource-based point of view considers not only the constraints on the growth of diversification, but also the motivations of firms to diversify. Resource-based point of view can also predict the diversification direction of enterprises after using resources, and provide a rational analysis framework with a fairly theoretical basis for the relationship between diversification strategies and performance.¹¹

In today's increasingly fierce market competition, innovation ability is regarded as the driving force for economic growth and development. Whether a company should focus on specific industry for deep cultivation, or should it diversify into different fields? There are two sides to every question. Most past studies suggest that

¹¹ J. Rajendran Pandian Joseph T. Mahoney, "The resource-based view within the conversation of strategic management," *Strategic Management* (June 1992), <https://onlinelibrary.wiley.com/doi/10.1002/smj.4250130505>.

the company should diversify into different fields. There is a good practical example. For instance, the Far Eastern Group's industries include textiles, cement, construction, shipping, education, department stores, telecommunications, and so on. With a total of 12 different industries. From the perspective of resource-based theory, companies will have the motivation to expand and effectively utilize the organizational and management capabilities they have accumulated, so they will have the motivation to continue to grow, and it will be manifested in the form of diversified management.¹²

Case Study

Taiwan's leading business owners, capitalists and politicians have formed a complex but close kinship network through successive marriages. Not ordinary people can imagine. According to the latest statistics from Commonwealth Magazine, Taiwan's top ten new families control a total of 13 major financial and business groups and 77 listed OTC companies. However, they account for 5% of the listed OTC companies on the Taiwan Stock Exchange, but they account for the total number of Taiwan stock exchanges, 25.7% of the value, accounting for a quarter of the total market value of Taiwan stocks.¹³ Looking at the top ten families, most of their business entities are closely related to finance, infrastructure and traditional industries.

¹² Jay Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 17, no. 1 (March 1991), <https://doi.org/https://doi.org/10.1177/014920639101700108>.

¹³ 黃靖萱 張翔一, "華麗一族," *天下雜誌*, 15,12, 2010, <https://www.cw.com.tw/magazine/magazine.action?id=184>.

In other words, our basic needs of life, such as food, clothing, housing, transportation, healing, and happiness, have all turned into sources of income for large family businesses. The breadth of the family group's business today is comparable to the depth of private consumption.

Far Eastern Group (遠東) as an example

The Far Eastern Group's industries include textiles, cement, construction, shipping, education, department stores, telecommunications, etc., with a total of 12 different industries. If Taiwan has the most angular management award, then the Far Eastern Group must be the first.¹⁴ The whole day's life is almost related to the Far Eastern Group, which is not an exaggeration.

The Far Eastern is an entrepreneur from the textile industry. The first is the textile industry, and the second is the development of the cement industry. At that time, it was found that during the construction process, whether it is building bridges, paving roads, opening a port or building a factory, cement is not needed everywhere. Therefore, the cement industry is extremely developed. potential. The third is the transportation industry, because the biggest problem in the production of cement is

¹⁴ 游常山, "遠東版圖 徐旭東重劃," *天下雜誌*, 01,08, 1997, <https://www.cw.com.tw/magazine/magazine.action?id=727>. *天下雜誌*, 01,08, 1997, <https://www.cw.com.tw/magazine/magazine.action?id=727>.

transportation. In order to solve the transportation problem, in order to reduce the cost and reduce the unreliability of road transportation, was thought of sea transportation. Then there are educational institutions, hospitals, clinics, banks, securities, construction and so on. It can be said to cover and contain various industries.

With the growth of Taiwan's economy and society, the Far Eastern Group has developed into various fields, starting from the earliest textile industry, and then to the cement industry, transportation industry, department store industry, and chemical fiber industry. So far, it has also invested in various fields. These undertakings, from the background of their establishment and growth, are in accordance with the rhythm of the development of the whole society. Far Eastern Group is arguably the most diversified family group. The early years were investments made in accordance with the principles of government policy. In order to consolidate Taiwan's international status, with the encouragement of the government, it set up factories in Malaysia and Singapore. Another type of investment is made in the United States and Canada with the assistance of the Foreign Trade Association. Far Eastern Group is also highly internationalized.

Fubon Group (富邦) as an example

The Company's products and services including finance, communication, media,

construction, entertainment and other fields in Fubon Group. The financial sector is the core of the group. Cai Mingzhong and Cai Mingxing, are the representatives of Fubon Group. Although the relationship between government and business is important, the group itself has no strength, and only depends on government is unreliable. Because one of the family members in Fubon Group, who learned a lesson in political and business relations.

That is why the president in Fubon Group deeply believes that instead of spending too much time on political and business relations, it is better to improve the capabilities within the group.

CTBC Financial Holding Co., Ltd. (中信)as an example

CTBC Financial Holding Co., Ltd. is the third largest financial holding company in Taiwan. The Company's products and services are classified into eight categories: including banking, securities, bill, bond, insurance brokerage, telecommunications semiconductor industries; asset management, and security services. The Gu family has long since broken the curse of " wealth never survives three generations ", and has already taken over for the fourth generation.¹⁵ In terms of financial resources, the Gu family is not the largest family in Taiwan. However, when it comes to the relationship

¹⁵ 洪美娟, "和信集團 體系完整 串聯政商," 天下雜誌, 01,07, 1994, <https://www.cw.com.tw/index.php/article/5034430>.

between government and business, it is well deserved. Take Gu Chen-Fu for example, he has served as the chairman of the Straits Exchange Foundation, the President's Office and other important positions. And he is also a leader of CTBC Financial Holding Co., Ltd.

Just as the relationship between government and business is broad and deep, CTBC Financial Holding Co., Ltd. spans banking, finance, real estate and so on. As competition becomes more and more internationalized and globalized, good political and business relationship can support the enterprise. Moreover, family members have more control, reducing the development of the group. It is not enough to have no professional ability.

According to CTBC Financial Holding Co., Ltd., in addition to the close political and business relationship, there is also a great need for professional managers to manage. Through the research, the relationship between government and business has a positive impact on diversification.

Summary

The author chose these three groups as individual cases because they have some things in common. The first is overseas investment, the second is diversification, and the third is the relationship between government and business. After in-depth

understanding of these family groups, we can see the importance of family groups in Taiwan.

Research Hypotheses

Diversification can be driven by a range of perceived benefits associated with greater market power, more efficient allocation of resources through internal capital markets, utilization of excess productive factors, more efficient utilization of existing resources in new settings, or reduced performance variability by virtue of a portfolio of imperfectly correlated set of businesses.¹⁶ In short, it is known that a group with a high degree of diversification will perform better. Therefore, hypothesis 1 is:

H1: Diversification positively affects the performance of business group

When the company has excess resources, in order to avoid idle resources, it will start to consider how to allocate these excess resources. According to organizational slack resources, organizational changes are also triggered when organizations have excess resources. According to Greve, organizational surplus resources refer to the general term for resources available to an organization, such as employee time, underutilized capital, and underutilized facilities. When there are more organizational

¹⁶ Kulwant Singh, "Diversification and performance: evidence from East Asian firms," *Strategic Management* (3 July 2006), <https://doi.org/10.1002/smj.572>.

resources within a company, managers have more time, and managers have more opportunities to experiment with new ways of operating to improve the company's profitability, it will also lead to organizations wanting to change.¹⁷ To allocate excess resources flexibly, in addition to diversifying operations, we choose an international approach to maximize excess resources. It can improve the company's competitive advantage and bring good performance to the company. Therefore, hypothesis 2 is:

H2: Internationalization positively affects the performance of business group

Enterprises with government-business relations (or companies with more government-business relations) will have more information about entering a specific industry or market than other enterprises without such links. Therefore, such links will imply Positive social capital and produce the aforementioned resource characteristics, including: 1. Scarcity: not every enterprise has a relationship between government and business; 2. Valuable: It has a positive impact on enterprise strategy; 3. Difficult to imitate: the establishment of political and business relations must be recognized by both parties, not just the unilateral declaration of ownership by the enterprise is useful ; and 4. Difficult to replace: the relationship between government and business

¹⁷ 陳瓊蓉, "THE DETERMINANTS OF INTERNATIONALIZATION: BEHAVIOR THEORY PERSPECTIVE," *Commerce & Management Quarterly* 18 (2017), <http://www.cabmt.org.tw/uploads/upload/efbe1fb6d91fc0018dcae842c0caa908.pdf>.

The implied message advantage is often difficult to replace, especially in emerging economies.¹⁸

Whether formal or informal, political and business relationships have a positive impact on the group. Take the Far Eastern Group as an example: one of the research samples for this study. The founder, Mr. Hsu Youwei, has close ties with many dignitaries of the Chinese Nationalist Party (Kuomintang). Although his son and successor Douglas Hsu did not hold an important government position, he also inherited the personal connections left by the previous generation and developed other careers in the future (such as telecommunications industry), the priority has achieved a lot of favorable positions.¹⁹

Therefore, hypothesis 3 is:

H3: The higher degree of family members' political connections, the higher degree of diversification of group

The characteristic of the family group is that only family members are employed as professional managers, and the group is reluctant to introduce outsiders. Even if family members are found to be inappropriate for senior executives, outside

¹⁸ 鍾喜梅;葉家豪, "The Role of Family Linkage and Political Linkage on Diversification Decision over Time: An Empirical Study in Taiwan's Family Business Groups."

¹⁹ 游常山, "遠東版圖 徐旭東重劃."

professionals will not be brought in in order to keep family control of the group from being dispersed. Therefore, the more family members invest, it will affect the expansion of the family group. The way of the family gets involved in the business may take the key decision-making positions of each sub-enterprise. For example, the chairman position is the position of the key decision-making under the ties of the Taiwan's family business.²⁰

Therefore, hypothesis 4 is:

H4: The higher degree of family members' control, the lower degree of diversification

The domestic market is small in Taiwan, and it is necessary to expand the scope of the group through internationalization. In line with government policies, it can help the group to develop abroad. Past research has pointed out, in the process of business operations, Taiwanese investors usually face problems such as difficult training of employees, unclear ordinances of regulations, red envelope culture, and high governance over the rule of law. Many problems cannot be solved by following the legal or normal ways, they must be done in private and through special channels. In recent years, Taiwanese government has actively promoted The New Southbound Policy, more and more enterprises and even night market vendors have visited Vietnam

²⁰ 鍾喜梅;葉家豪, "The Role of Family Linkage and Political Linkage on Diversification Decision over Time: An Empirical Study in Taiwan's Family Business Groups."

to seek development. In addition to complying with relevant local regulations in Vietnam, some unique ways of negotiation under-the-table also cannot be ignored.²¹

Therefore, hypothesis 5 is:

H5: The higher degree of family members' political connections, the higher degree of internationalization of group

Different ownership forms are related to the degree of enterprise risk aversion, which in turn affects the internationalization strategy adopted by the enterprise. The research results show that the more concentrated the ownership, the more inclined to avoid risk, and therefore the lower the degree of internationalization.²² Family businesses tend to be conservative due to their financial capabilities and risk aversion discussed in the past literature, and it is difficult to change the organizational structure of the family group.

Therefore, hypothesis 6 is:

H6: The higher degree of family members' control, the lower degree of internationalization

²¹ 許卉儀, "State-Business Relations in Public and Under-the-table: The Business Strategies of Taiwan Investors in Vietnam," (2018), <https://www.airitilibrary.com/Publication/alDetailedMesh1?DocID=U0020-2409201821250300>.

²² 陳映秀, "家族涉入、外部董事對企業國際化之關聯性研究:以台灣高科技產業為例," (06 2011), <https://hdl.handle.net/11296/eyajj2>.

METHODOLOGY

Research Design

In this case, the researcher found the information on thirty-five large family groups in Taiwan as my research design. The purpose of this was to clarify the importance of the family groups in Taiwan and to understand the successful business performance of the family groups.

Sources of Data

The sources of my data are business groups in Taiwan. The author went to the library and borrowed the studies on large-scale companies in Taiwan over the years. Finding the required variables from the book. The information in the books are insufficient, so the missing variables were made up through the external electronic resources in the school. Insufficient variables like: total assets of parent company, and paid-in capital of parent company. Because Taiwan Economic Journal (TEJ) software is expensive, some licensed versions cannot be used on campus. Therefore, I spend three days to go to the National Sun Yat-Sen University Library to collect all the required materials for the convenience of my research. In addition, writing the group cases, the books with reference to practical cases, which books were borrowed from National Kaohsiung University of Science and Technology.

Tools for Data Analysis

After finishing collected the data, the researcher used Excel to code and edit the data. After that, the researcher transformed Excel into SPSS. Then I would start to analysis the data I have collected.

Data Collection

The author found useful data from the books on the BUSINESS GROUPS IN TAIWAN in 2019, the BUSINESS GROUPS IN TAIWAN in 2018, and the BUSINESS GROUPS IN TAIWAN in 2017. By the China Credit Information Service, Ltd. The writer chose 35 family groups and each family group has set up 25 variables in this database. There were two reasons why the author chose these 35 groups? First of all, all of the enterprises are family groups. Secondly, from 2016 to 2018, these companies have been on the list of the top 100 groups in Taiwan for three consecutive years. However, the resources in the book are limited, and the lack of information is made up through the collection of each family group's web page, Taiwan Economic Journal (TEJ) software, and Taiwan Economic Journal (TEJ) website. The variables of date of creation, operating period are from the group parent company web page. The variables of group name, number of subsidiary

entrepreneurs, number of domestic investors, number of overseas investors, China investors, diversification (number of operating industries), number of listed companies, group stock market value, total assets, net revenue, net profit, after tax net worth, number of employees, family core decision makers, family members act as molecular companies (number of companies), proportion of family members serving as molecular enterprises (number of companies), formal political and business relations, informal political and business relations are from Taiwan Economic Journal (TEJ) software. The variables of total assets of parent company, and paid-in capital of parent company are from Taiwan Economic Journal (TEJ) website. The variables of direct family ownership, shareholding ratio of core companies to molecular companies, and family leadership ambiguity are from Taiwan Economic Journal (TEJ) software in Wenzao Ursuline University of Languages library and in National Sun Yat-sen University library. After collecting the data, the author started to use the software of SPSS to process the collected data from the database. The following table is the names of 35 family groups.

Table 1 Table of Family Groups

Groups' Name	Date of Founded	Paid-in Capital
1.霖園關係企業集團	2001	\$147,025,101,280

2.富邦關係企業集團	1961	\$134,049,543,940
3.中信關係企業集團	2002	\$199,969,795,690
4.潤泰關係企業集團	1976	\$11,043,187,720
5.鴻海關係企業集團	1974	\$138,629,906,090
6.新光關係企業集團	2002	\$157,846,182,430
7.台塑關係企業集團	1954	\$63,657,407,810
8.元大金控關係企業集團	2002	\$125,015,589,920
9.正新國際企業集團	1969	\$32,414,155,360
10.統一關係企業集團	1967	\$56,820,154,210
11.遠東關係企業集團	1951	\$53,528,752,270
12.台新金控關係企業集團	2002	\$130,741,476,370
13.永豐餘關係企業集團	1950	\$16,603,714,950
14.三商企業關係企業集團	1965	\$9,224,957,030
15.聯華神通關係企業集團	1955	\$14,801,304,370
16.中纖關係企業集團	1955	\$16,862,097,450
17.日月光關係企業集團	1984	\$43,639,569,320
18.聯邦關係企業集團	1991	\$37,940,460,280
19.裕隆關係企業集團	1953	\$10,000,000,000
20.長榮關係企業集團	1968	\$21,164,200,820

21.遠雄國際關係企業集團	1978	\$7,815,962,410
22.金仁寶關係企業集團	1973	\$59,001,928,360
23.陽信銀行關係企業集團	1997	\$30,295,249,840
24.華新華麗關係企業集團	1966	\$37,313,329,480
25.台泥關係企業集團	1950	\$69,361,817,420
26.中租控股關係企業集團	2009	\$17,329,141,530
27.京城關係企業集團	1985	\$3,723,003,790
28.宏泰關係企業集團	1986	\$4,742,279,700
29.長春關係企業集團	1964	\$11,527,034,220
30.寶成國際關係企業集團	1969	\$29,467,872,130
31.台達電子關係企業集團	1975	\$25,975,433,290
32.光寶關係企業集團	1989	\$23,508,670,320
33.可成科技關係企業集團	1984	\$7,144,670,680
34.和泰汽車關係企業集團	1955	\$5,461,791,840
35.國巨關係企業集團	1987	\$5,292,720,050

Source: Edited by the Author

Measures

Dependent Variable

In this study, the author used firm performance as dependent variable. The previous study found that net income is more strongly associated with the market value of equity and predicts future operating cash flows and income better than comprehensive income. These results do not support the claim that income measured on a comprehensive basis is a better measure of firm performance than other summary income measures.²³ That's why this study used net income to measure company performance.

Independent Variables

Independent variable 1: diversification

and Independent variable 2: internationalization

It is calculated by the typical entropy method in strategy research.²⁴ In this research to collect the family businesses' diversification and internationalization, it is based on the data of the China Credit Information Service, Ltd.

²³ Robert Trezevant, "Is comprehensive income superior to net income as a measure of firm performance?," *Journal of Accounting and Economics* (1999), <https://www.sciencedirect.com/science/article/abs/pii/S0165410198000330>.

²⁴ Krishna Palepu, "Diversification strategy, profit performance and the entropy measure," (1985), <https://doi.org/https://doi.org/10.1002/smj.4250060305>.

Independent variable 3: political connections includes formal political connections and informal political connections

In the measurement of the relationship between government and business, this study refers to the practice of past research. The formal and informal political connections established by the family members who are listed as the core decision-makers in the family business are used as the political connections established by the family group degree.²⁵

Formal political connections

The degree of formal government-business linkage is mainly defined by whether the family members in the core leadership team of the family business have held important positions in the following government agencies: (1) Taiwan Provincial Councilor; (2) Taiwan Provincial Government Level 1 Supervisor; (3) Legislative member; (4) Heads of ministries and committees of the Executive Yuan; (5) National Policy Advisor of the Presidential Office; (6) Party positions of the ruling party, such as the Central Committee of the Kuomintang(KMT); (7) Various government-invited policy advisory positions, such as the President Government funding.

Informal political connections

The degree of informal political connections is mainly defined by whether the

²⁵ Sea-Jin Chang, "Business groups in East Asia: Financial crisis, restructuring, and new growth," (2006), <https://doi.org/10.1093/acprof:oso/9780199287345.001.0001>.

family members in the core leadership team of the family business participate in the following associations: (1) Member representatives, directors and supervisors of the ROC Association for Industry and Commerce; (2) China Member representatives, directors and supervisors of the Industrial and Commercial Construction Research Association of the Republic of China; (3) Member representatives, directors and supervisors of the National Federation of Industry and Commerce of the Republic of China; (4) Member representatives, directors and supervisors of various industry associations; (5) Positions in other informal corporate associations and foundations.²⁶

The books' name: BUSINESS GROUPS IN TAIWA collects data from 2017 to 2019. It is calculated based on the number of formal or informal positions held by family members.

Independent variable 4: family members' control

The so-called core decision makers refer to the inner circle members who are involved in the overall decision-making of the group.²⁷ Since a group enterprise has multiple molecular enterprises, the core decision makers can usually decide the future development direction and important decisions of the molecular enterprise. Therefore,

²⁶ 鍾喜梅;葉家豪, "The Role of Family Linkage and Political Linkage on Diversification Decision over Time: An Empirical Study in Taiwan's Family Business Groups."

²⁷ Gary G. Hamilton, "Organization and market processes in Taiwan's capitalist economy.," (1997), https://brill.com/display/book/edcoll/9789047442516/Bej.9789004168244.i-283_006.xml.

the degree of family involvement in business operations and decision-making, the number of family members in the inner circle can be calculated as the level of involvement of the family group in decision-making. This variable is referred to as the "core decision-maker of the family".

Control Variables

A control variable is any variable versus an outcome variable. In the past research, what will affect the company's performance? The size of the company and the length of the company's operations will affect the company's performance. Then, if the hypothetical variable put in can still be significant after these two are controlled, it means that the variable is significant enough and will not be diluted. Then if according to past research, our variable can still be significant, it means that we have found a variable that was less discussed in the past, but it has a strong explanatory power for the outcome variable. His explanatory power to a significant level.

DATA ANALYSIS

The data was collected from large scale business groups top 100 in Taiwan. In particular to the family businesses were the research object. There were only 35 family businesses in large scale business groups top 100 in Taiwan, others are general

businesses. After finishing collected the data, the researcher used Excel to code and edit the data. After that, the researcher transformed Excel into SPSS and used it to analysis and processed the data. The result of the study would present in this chapter, first of all, the author would analyze the database with standardized regression coefficients and presented through the table. Second, the author would test the research hypothesis and illustrate their relationship.

The result showed in the table 2, the model 1 are firm size and experience.

In this study, the size of company and the length of company's operations are controlled variables. The firm size is measured by the number of employees. And the experience is represented the length of the company's operations. As mentioned before, these two variables have a critical impact on the company's performance.

Furthermore, model 2 add in diversification. As long as the group is more diversified, the group performs better. Which means H1 was supported. ($\beta=0.320^{**}$, $p<0.01$). The same reason, and then model 3 add in internationalization. Internationalization positively affects group's performance. Therefore, H2 was supported. ($\beta=0.392^{*}$, $p<0.05$).

Table 2 Standardized Regression Coefficients from Analyses Predicting Performance(N=105)

Independent variables	Model		
	Model 1	Model 2	Model 3
Firm Size	0.631***	0.450***	0.289 ⁺
Experience	0.056	-0.061	0.005
Diversity		0.320**	
Internationalization			0.392*
Model F	34.895***	28.555***	26.254***
ΔF	34.895	9.833	5.733
R²	0.406	0.459	0.438
ΔR²	0.406	0.053	0.032
Adjusted R²	0.395	0.443	0.421

P<0.1 ⁺, p<0.05 *, p<0.01 **, p<0.001 ***

In table 3, total political connections are including formal political connections and informal political connections. Company number proportion is family members serve as the chairman or general manager of each molecular enterprise. In this table, model 2 is total political connections. The higher degree of political connections, the higher degree of diversification. Which means H3 was supported ($\beta=0.207^*$, $p<0.01$). And then model 3 add in the company number proportion (degree of family control).

In contrast, the higher degree of family control, the lower degree of diversification.

Therefore, H4 was supported ($\beta=-0.262^{***}$, $p<0.001$).

Table 3 Standardized Regression Coefficients from Analyses Predicting Diversity(N=105)

Independent variables	Model		
	Model 1	Model 2	Model 3
Firm Size	0.568 ^{***}	0.598 ^{***}	0.499 ^{***}
Experience	0.365 ^{***}	0.423 ^{***}	0.389 ^{***}
Total political connections		0.207 ^{**}	
Company number proportion			-0.262 ^{***}
Model F	47.903 ^{***}	36.870 ^{***}	40.832 ^{***}
ΔF	47.903	8.118	14.248
R ²	0.484	0.523	0.548
ΔR^2	0.484	0.038	0.064
Adjusted R ²	0.474	0.509	0.535

P<0.1 ⁺, p<0.05 ^{*}, p<0.01 ^{**}, p<0.001 ^{***}

In table 4, total political connections are including formal political connections and informal political connections. The degree of political connection is higher, the degree of internationalization is higher. H5 was not supported ($\beta=0.034$, $p=0.482$). This result showed that good political connections with Taiwan's government officials do not significantly help the international growth of family business groups.

Table 4 Standardized Regression Coefficients from Analyses Predicting Internationalization(N=105)

Independent variables	Model	
	Model 1	Model 2
Firm Size	0.872 ^{***}	0.877 ^{***}
Experience	0.129 ^{**}	0.138 ^{**}
Political connection		0.034
Model F	194.741 ^{***}	129.356 ^{***}
ΔF	194.741	0.499
R ²	0.792	0.793
ΔR^2	0.792	0.001
Adjusted R ²	0.788	0.787

P<0.1⁺, p<0.05^{*}, p<0.01^{**}, p<0.001^{***}

In table 5, the degree of control of family members negatively affects the degree of internationalization of the group. H6 was supported ($\beta=-0.277^{**}$, $p<0.01$). The outcome revealed that the level of interference from family members is too high, the professional managers are suppressed and outside professional managers fail to achieve their ambitions. Family members' capability will limit the growth of business groups.

Table 5 Standardized Regression Coefficients from Analyses Predicting Internationalization (N=105)

Model		
Independent variables	Model 1	Model 2
Firm Size	0.187 ⁺	0.207 [*]
Company number proportion		-0.277 ^{**}
Model F	3.749 ^{***}	6.831 ^{***}
ΔF	3.749	8.733
R²	0.035	0.111

ΔR^2	0.035	0.076
Adjusted R²	0.026	0.094

P<0.1 ⁺, p<0.05 *, p<0.01 **, p<0.001 ***

Table 6 Hypothesis supports Table (N=105)

Hypothesis	Result
H1 Diversification positively affects the performance of business group	Support
H2 Internationalization positively affects the performance of business group	Support
H3 The higher degree of family members' political connections, the higher degree of diversification of group	Support
H4 The higher degree of family members' control, the lower degree of diversification	Support
H5 The higher degree of family members' political connections, the higher degree of internationalization of group	Not Support

H6 The higher degree of family members' control, Support
the lower degree of internationalization

CONCLUSION AND SUGGESTION

If a group is ambitious, it wants to continue to grow, in order to improve its competitiveness and bring good performance to the company. Diversification and internationalization are common strategies. Business groups mostly exist in emerging countries, especially Asian countries. For Chinese society, family-led groups are quite typical. Family members will make core decisions in the group's decision-making, so family members play a very important role in the family-led group. Therefore, it is worth further discussion on the impact of the political connections established by the family-led group.

According to the data of Taiwan's family groups for several consecutive years, it results that too much control by family members will have a negative impact on the group. Because of factors such as personal emotions, blood relations, and human pressure, family members will have fetters in decision-making. In addition, companies need to expand outward in order to scale, but family members are reluctant

to take risks for their own interests. According to the empirical results of this paper, it is found that too higher degree of control of family members will hinder the growth of the group.

In addition, family members have external political relations, and the establishment of political relations in discussions has many benefits for the group. The advantages of this kind of connection for the groups are: first: to obtain more information; second: in the political and business occasions, the government will listen to the ideas of enterprises. Third: Early entry into government-regulated industries. Compared with groups without political connections, they can enter emerging industries preferentially, especially in industries that are regulated by the government or that require the government to establish relevant regulations.

Family members have formal political connections for the profits. First of all, to get financial benefits, and to obtain preferential economic policies or to obtain financing more easily. Second, obtaining more information on different industries can pave the way for the groups to enter into different industries. The reason why family business groups engaged in informal political connections, it can establish to contact for the groups, communicate with each other and exchange business methods.

According to the results of this study, the more members who hold formal or informal political connections, the more opportunities the group has to develop into

different industries, that is, the higher degree of diversification. Finally, it is possible to have in-depth research on family businesses in Taiwan.

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