

Entrepreneurship and Taiwan's Economic Dynamics

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Chapter 2

Towards a Structural Model of a Small Family Business in Taiwan

2.1 Introduction

The importance of small and medium size enterprises (SMEs) in Taiwan's economic development is well documented [for example, in a recent article, Wu et al. (2006) examine the contributions of SMEs to Taiwan's exports]. However, most studies on SMEs have not systematically examined the structure, people and entrepreneurial process of a typical small family business in Taiwan. More specifically, it would be fruitful to understand Taiwan's family business in terms of economic sociology. Such approach on Taiwan's SMEs has been conducted by Hamilton and Kao (1990), Kao (1999) and Chen (1993, 2001, 2007) in the tradition of Max Weber.¹ This chapter attempts to formulate a structural model of Taiwan's small businesses using theories of human agency given by Max Weber (1921/1968) and Alfred Schutz (1962, 1967, 1970). This chapter argues that a typical family business in Taiwan consists of three major components: entrepreneur or boss (laoban) (Sect. 2.2), boss's wife (laoban liang) (Sect. 2.3) and core team (bandi) (Sect. 2.4). The trinity of these components typifies a small business in Taiwan. Moreover, underlying small businesses in Taiwan is the Chinese family style of management which enhances competitiveness and flexibility in global markets.

2.2 Entrepreneur (Laoban)

In Taiwan or other Chinese economies, an entrepreneur is often referred to as "laoban". Though laoban is usually the person who establishes a business, the Chinese meaning of laoban comes closer to a "head-owner" than an "entrepreneur".

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Chen (2001, 2007) defines laoban as “a person who organizes and manages the company”. Though the term “laoban” is commonly used in the Chinese society, it was first adopted in English by Numazaki (1997, p. 440) who defines laoban as male boss and the boss’ wife as laoban liang (see next section). In Numazaki’s (1997, p. 442) words,

Laoban means “boss”, i.e., someone who is subordinate to no one but him/herself and who commands others at his/her own discretion. In business, a laoban is either a lone merchant or an owner-employer of workers. In short, a laoban is an independent proprietor. Large or small, a self-employed businessman or businesswoman is called a laoban. A street vender who sells noodles is a laoban. An owner manager of a small factory is a laoban. And, a president of a large corporation is also a laoban. Laoban is, therefore, an enterpriser who owns and uses any means of production.

What differs laoban from western entrepreneur is the Chinese way of thinking and doing things. Simply put, laobans in Taiwan display a kind of entrepreneurial behaviour which is embedded in Chinese culture. In this article, we examine major features of laobans in Taiwan and how these laobans using their management and entrepreneurial strategies to compete in world markets.

2.2.1 *Passion of Being a Boss*

It is well known that Taiwan is blessed with entrepreneurs. According to *White paper on SMEs in Taiwan, 2010* (Small and Medium Enterprises Administration 2010), there were 1,258,260 enterprises (including large and SMEs) in Taiwan in 2009. With a population of 23 million in 2011, one out of eighteen persons owns a company.² These “army of ants” have been the major contributors to Taiwan’s economic “miracle” (*Economist* 1998). Taiwan’s people exhibit a passion of being a boss. This has something to do with their Chinese thinking. According to the Chinese saying, people are “rather being the leader of chickens than the follower of an ox”. In other words, although chickens are small, one can still take the command. On the other hand, an ox is big. However, one is only a follower, living under the command of other people. This saying implies that one should be a boss, no matter how small the business may be, rather than working for the other person in a big company. Furthermore, in the Chinese tradition, parents expect their sons to continue with the family business. The eldest son has the obligation to expand his father’s enterprise. As a result, males in Taiwan are obsessed with being a boss. Moreover, when new generations become adults, they separate from their families. Their parents always support them to establish a new business whenever possible. This custom results in the formation of new small businesses.³

² The figure is one out of twenty in 2006 (see Yu et al. 2006).

³ For a detail discussion of factors incubating entrepreneurs in Taiwan, see Chap. 1.

2.2.2 *The Road to Become a Laoban*

There are two common ways of becoming laoban in Taiwan. The first way is to work as an apprentice in a factory and then set up a business on their own later. The second way is to spin off from a family business.

1. Starting out as an apprentice: In most cases, laoban starts as an apprentice in a factory. These apprentices are called “black hands” (hands become black and dirty due to working in a factory). After earning enough skills as an apprentice and saving enough money, they set up businesses and become laoban or “boss”. Hence, this process is referred to as “black hands turning into a boss” (Shieh 1993, pp. 98–99). As soon as being hired as apprentices, these black hands start to prepare themselves to become a laoban in the future. During their employment, they learn a wide range of jobs in the factory. For example, in printed circuit board, an apprentice learns handling materials, manufacturing printed boards, punching, packaging and quality control. Knowing a whole range of jobs gives them skills in establishing a business. Furthermore, while working as employees, they have set up good customer relationship so that current clients will become future customers of their own enterprises. Some employees are also involved in business development. The job provides them with the knowledge of where they find customers, buy materials, contact businesses, etc... Most importantly, the workers learn to be the middlemen whom they will exploit profit opportunities in future (Shieh 1993, p. 109).⁴
2. Many small laobans are nurtured by their own family businesses.⁵ Starting up a new business is a gradual process. Initially, an individual works in the business owned by his or her parents. Some individuals may work part-time in their family businesses. Step by step, parents provide offsprings with business skills and prepare them to set up their own businesses. In some cases, some jobs or orders are too small for the parent’s firm to handle. Parents then help offsprings to set up a small company to handle those small orders. In this way, family members start and learn business operation in a small unit. Though a new firm is independently owned, it is still linked with the family network. This business network satisfies economies of scale and flexibility, as well as the reduction of transaction costs due to the trust among family members (Shieh 1993, pp. 111–112).

⁴ Kirzner (1973) equates entrepreneurship with a middleman.

⁵ As noted by Greenhalgh (1995), in most of the societies that have been studied, family entrepreneurship has declined in importance as industrialization has proceeded. However, this is not the case in Taiwan.

2.2.3 Entrepreneurial and Management Strategies

Laobans in Taiwan adopt some entrepreneurial and management strategies which are similar to small businesses in other Asian latecomer economies such as Hong Kong and southern Guangdong in China (Yu 1997).

2.2.3.1 Entrepreneurial Alertness and Exploitation of Profit Opportunities

As mention in Chap. 1, the most important feature of Taiwan's laobans is their abilities to look for profit opportunities (see also Shieh 1993, p. 114). However, entrepreneurial alertness (Kirzner 1973) does not come out by itself. It is the result of diligent work. A question always lingering in those laobans' minds is: "Where is the golden ditch (opportunity)?" For example, in the electronics industry, the first and most frequently asked question during social gathering is whether certain PC connectors so far have been manufactured in Taiwan. If the answer is negative and that those components are imported from Japan, then they will try to go into that business. For an electronic component is not produced in Taiwan, this implies that the product can be imitated in Taiwan at lower costs and thus brings them huge profit margins. Also, the phrase "so far no one has produced it yet" implies that imitation needs to be done quickly. Soon many firms will join in and render the market no more profit. If there are competitors in the industry, then laobans will specialize on one niche product to get competitive edge (Shieh 1993, p. 114).

2.2.3.2 Short-Term Perspective

After identifying a profit opportunity, Taiwan's laobans surf on the waves of the growing market (Shieh 1993, pp. 119–122). For each product life cycle, they look for 2–3-year good time. Therefore, they do not do long-range planning. As long as they discover a good profit opportunity that others have not yet discovered, they will enter the market and shave off profit margins for 2–3 years (in their own slang, it is called "robbing good air"). As other competitors pour in, they will compete by lowering prices until good time disappears and leave the industry (Shieh 1993, p. 119). Therefore, these small enterprisers are competent on jumping on the bandwagon. For example, a small laoban in the electronics industry said: "I was in the audio business. My friend imported transducers from the United States. At that time, no one produced transducers in Taiwan. Then he and his friend formed a small joint venture to produce transducers in Taiwan. At the beginning, their firm was a monopoly and the profit was impressive. One company noticed our good profit in the business. It hired away our technicians and penetrated the market. Now there are four to five firms working in the area and the profit is not as good as before" (Shieh 1993, p. 120). Laobans in Taiwan always adapt to the rapidly changing environment. As one laoban in the electronics industry describes, "I am not too pessimistic in my

industry (PC components) as long as there are 2–3-year good time. It is important to know that each industry has its life cycle and won't have good time forever. I won't follow the book, write out a plan and carry out my plan step by step. No, I won't do that. For me, if the PC market is good, then my business will be good. If the PC market is not good, then I shall need to struggle during bad time" (Shieh 1993, p. 119).

2.2.3.3 Imitation as a Survival Kit

The basic trick for Asian latecomer firms to survive is imitation by duplication and reverse engineering (Yu 1997). However, they do make some product improvement with limited R&D. Small businesses in Taiwan compete by low cost of production and better product. Imitation is the key for the success of Taiwan's small businesses. However, pure copying can't survive long. One way out is to improve production process and reduce costs. For example, regarding manufacturing connectors, electronic items originally produced in Japan need to be plugged in the circuit board one by one. Taiwan's electronics laobans, by some R&D, discover that these items can be plugged in with the whole lots, and then finished the product by cutting off the other ends. The new method saves a lot of time and costs (Shieh 1993, pp. 115–116).

2.2.3.4 Chinese Family Style of Management

Small businesses in Taiwan are family instituted. The most distinctive feature of family enterprises in Taiwan is their Chinese way of business management. Chineseness is a social process and socially constructed. Chinese laobans in Taiwan manage their small businesses like a family (Redding 1988, 1990). Wong (1988, pp. 142–143) refers this institution as "entrepreneurial familism" with JIA (family) as a basic unit of economic competition. The notion of familism extends to financial loans, management techniques and marketing strategies. In a typical Chinese family firm in Taiwan, laoban and his wife act like parents while employees are family members. Laoban deals with clients outside while the wife handles internal affairs. Husband is the head while wife is the subordinate (Kao 1999, p. 72). This form of organization is described by Chen (1993, p. 206) as "quasi-family production". As will be discussed below, this Chinese family style of management has profound influences on division of labour between the boss and the boss's wife, as well as on the formation of a core production team.

2.2.3.5 Spin-off and Extension of Family Business Network

As mentioned, people in Taiwan are fond of becoming a boss. After having some years of experience in the factory, workers have gained enough skills and/or established good customer relations. They have the intention to leave their companies and set up their own factories, resulting in direct competition with their former bosses. Laobans, of course, are well aware of this possibility. Certainly,

the boss can keep their skilled workers by giving out impressive bonus at the end of the year. This is not the only way, however. In Taiwan's small family businesses, many laobans even encourage their skilled employees to spin off. This is the case when laoban reckons that, on the one hand, his skilled workers want to become a boss. On the other hand, some components used in the production are found not worthwhile to be manufactured in house due to economies of scale and therefore need to be outsourced. In this situation, the laoban will encourage his skilled employee to open a factory to supply the mother company with components (Shieh 1993, pp. 111–112; Chen 1993, p. 69). Just like a Chinese family, the father tells his son that it is time for him to get married and set up a family of his own. In this way, the family network multiplies and expands by branching out. Hence, father-and-son relationship can be maintained after the spin-off. This relationship has significant implications on reducing transaction costs. Trust is extended in the form of family network. In some situations, a laoban may even partially finance his employee with capital fund to help his staff become a component supplier. This is known as “internal business venturing” (Chen 1993, p. 216) or semi-spin-off. Therefore, instead of competing with the mother company, the new spin-off cooperates with its former boss. This kind of spin-off are mutually beneficial. This hybrid form of organization, linking upstream and downstream production in the form of family network, provides huge flexibility and competitive edge in global competition.

2.2.3.6 OEM and Subcontracting Strategies

A form of international subcontracting in Taiwan has been Original Equipment Manufacturer (OEM) business in which local manufacturers produce according to the requirements of the orders received from overseas companies. The strategy of OEM business is best summarised by the statement as “we make it, you sell it” (Yu 1997). In other words, products made by Taiwan's manufacturers are sold in overseas markets under the brand names of foreign companies. Engaging in OEM business, the firm does not need to involve in marketing and promotions. This strategy shuns grand marketing plans and multi-million-dollar brand promotions. Instead, Taiwan's laobans let overseas buyers bear the risk of the finished products. Despite the growth in the design skills of some Taiwan's firms today, OEM businesses still account for a large proportion of total electronics exports in Taiwan. Producing for overseas companies, firms such as ACER and Giant have contributed significantly to Taiwan's export and created what development economists call export-led industrialization.

2.2.4 *Personal Characteristics of Taiwan's Laobans*

The successes of laobans' entrepreneurial and management strategies in Taiwan have been built upon certain personal traits. Shieh (1993, pp. 96–98) identifies four personal characteristics of Taiwanese laobans:

1. Dare to venture: Taiwanese laobans dare to venture new businesses. While being employed during the daytime, they have already tried to set up a business with a friend at night. As long as they can earn a normal profit of NT\$30,000 per month for their survival (equivalent to 1 month salary of an university graduate with 3–4 years' working experience in Taiwan), they are not afraid of being a full-time laoban (Shieh 1993, p. 117). Some laobans bring boxes of products along with them to open markets in Africa. Without any connection in the other side of the globe, they look for businesses from door to door. All they want is to test their foresights.
2. Strive to succeed: In order to succeed, laobans in Taiwan do not mind working hard. They make full use of their time to maximize income. They can endure long working hours, often more than 12 h per day. Small laobans usually involve in a wide range of jobs in their factories, including loading cargo, delivery, driving the truck as well as packaging.
3. Drilling down the problem: Taiwanese laobans believe that only by drilling down the problems can make fruitful returns. With enthusiasm in their businesses, laobans are keen to crack their brains to solve business and technical problems. They firmly believe that putting more thoughts on their businesses will bring them success.
4. Willing to learn: Entrepreneurial learning is important in the market process (Yu 2007). Laobans in Taiwan are willing to learn. They learn to do business while they are employed. After they set up a business, they continue to learn new production skills, improve knowledge, choose better materials, reduce costs, and catch up new ideas. They know that learning will make one become more intelligent. Continuous learning keeps their business competitive.

2.3 Bringing the Wife (Laoban Liang) Back in Taiwan's Economic Transformation

The entrepreneur's wife plays an important role in Taiwan's economic development. In Taiwan's small businesses, the fact that the entrepreneur's wife totally devotes to her husband's business cannot be dismissed (Kao 1999, p. 5). However, her role in Taiwan's business organization and economic development has largely been ignored. Kao (1999, p. 171) calls for bringing the wife back into Taiwan's small business research. In Taiwan, the boss's wife is referred to as "laoban liang". The word "liang" in Chinese means mother. Laoban liang means the wife of the boss. Laoban liang is also referred to as "toujia liang".⁶ Toujia literally means the head. Toujia liang denotes the wife of the head (or boss's wife). In Chinese culture, liang as a mother occupies an important status in the society. The mother is highly

⁶ In this chapter, the two terms "laoban liang" and "toujia liang" are used interchangeably.

regarded in the Chinese society. Liang as a mother differs from general female in the sense that she is the one who manages the whole family and also the head of the household when her husband is not at home (Kao 1999, p. 151). Laoban liang is a mother, a wife as well as a business partner in Taiwan's small family businesses (Kao 1999, p. 96).

2.3.1 Toujia Liang (Boss's Wife): A Hidden Figure in the Chinese Society

According to the traditional Chinese value, in the society, "the husband sings and the wife follows". A Chinese female takes that once she gets married with the man, no matter how worse the character of her husband is, she has to accept her fate without regret. The male is an authoritative figure in the family and he exercises paternal guidance to his family members (Redding 1990). Women in Taiwan's traditional society are a silent group (Kao 1999, p. 14), though they may express their opinions privately to their husbands. While the husband struggles to keep the business alive outside, the wife has to take good care of internal affairs, i.e. family and daily activities in the factory. This is an acceptable form of division of labour in Chinese traditional culture. In the Chinese tradition, a woman should not have any business ambition. She is supposed to stand by her husband (Kao 1999, pp. 57, 79). She acts as an invisible crutch for her husband. This spirit can be highlighted by a statement made by one laoban liang in Taiwan: "I want people to feel that I am very 'small'. I am very afraid that people take me as a very capable and noisy lady. I want a harmonious family. That is it." (Kao 1999, p. 94). Toujia liang, as a female role in the Chinese society, accepts her humble position in the society. If the family business encounters problems, she has to overcome it, no matter how difficult it is. A traditional Chinese lady bears any burden falling on her without any complaint. If toujia liang is very unhappy with her husband boss, she "cannot" resign. At least, resignation by acting as a "runaway wife" is not her priority. For the sake of preserving her family as a whole, toujia liang is willing to stay behind even in a very unsatisfactory condition. Such attitude brings immense integrity, capabilities and flexibility to small family businesses in Taiwan (Kao 1999, p. 60).

2.3.2 The Changing Role of a Wife: Traditional Social Value Versus Economic Value

As mentioned, a wife in a Chinese family puts her husband, family and children on the priority. Females in Taiwan are confined to the family. Given this social value, it is interesting to investigate how they can move into the factory and help their own family manage a business (Kao 1999, pp. 72–73). A family business is taken as a

family. The wife believes that she, as a member of the family, should help her husband achieve his goals. When the business encounters difficulties, the wife has to assist her husband to solve the problems. In particular, at the early stage of business development, when there is acute shortage of manpower, the wife has to go to the factory to help her husband out. Hence, the housewife turns into a professional lady. The function of laoban liang emerges out of “need” consideration (Kao 1999, p. 76). Going out to work rather than staying at home is even approved by the most conservative person in the society and the most powerful man in the family, namely the grandfather. The grandfather believes that the daughter-in-law enters into the business for helping his son. Though she works in the factory, she is still “inside the family” and hence should be acceptable (Kao 1999, pp. 62–63). More importantly, for certain positions, the family business is reluctant to hire personnel from outside because the outsiders are considered not to be reliable. This is particularly true in financial management (see discussion below). The solution is to let the wife, the most reliable person, fill up this position.

2.3.3 *Many Roles of Toujia Liang: A Multi-Functional Staff*

As a mother of the family and a female head of the family business, what does toujia liang do? She does almost everything ranging from general management, accounting, quality control, production, supervising, loading cargoes from trucks, checking inventories, following bad debt, preparing lunch for workers, taking care of the boss's health, babysitting, worshipping during religious and festive days, cleaning and all miscellaneous works.⁷ Among these jobs, the most important role that toujia liang involves is accounting and financial control.⁸ Whenever the factory lacks manpower, she fills in the vacancy. If the account clerk resigns, she will do accounting. If a worker who is responsible for unloading cargoes resigns, she will help unload cargoes from the truck (Kao 1999, p. 35). She needs to take care of almost every affair in the factory.⁹ As a result, she is the person who knows in detail the operation of the factory (Kao 1999, pp. 106–107). Her functions in the family business are complementary to her husband boss who focuses on external affairs and business development. Thus, we may observe that toujia liang, on the one hand, wears a branded dress and drives a Mercedes-Benz when going out for a banquet dinner with her husband. On the other hand, she acts as an ordinary worker when the factory needs to beat the delivery deadline (Kao 1999, p. 140). In terms of salary, it can be said that she is “exploited” by the system. If the family business is a sole proprietorship, she is not paid at all. If it is in the form of partnership, she is paid

⁷ For a survey on the jobs involved by a working woman in Taiwan, see Lu (2001, pp. 263–297).

⁸ In Taiwan, around 75–80% of small business finances are controlled by toujia liang.

⁹ However a toujia liang seldom involves in business meeting or liaison external activities (Kao 1999, pp. 5, 35, 105). These jobs belong to her husband-laoban.

below the market wage rate. Her wage is honourable rather than the actual market level (Kao 1999, p. 5).

2.3.4 Moving Around Between the Private Domain (Home) and Public Domain (Factory)

When laoban liang works at home, she is in her domestic life and located in the private domain. When laoban liang works in the factory, she is working in the public domain. She thus moves around between two domains, i.e., family and factory (usually two locations are adjacent to each other) (Kao 1999, pp. 136–137). In the family, she takes care of household activities just like an ordinary housewife. In the factory, she helps her husband develop business. She is not paid. She has never been worried of being sacked. She is the only staff in the company that laoban does not penalize or give a bad face on. Given laoban liang's overlapping roles, it is hard to envisage how small businesses in Taiwan can exhibit such a high degree of organizational flexibility and dynamics if without the contribution of these females.

2.3.5 Toujia Liang as the Most Flexible Manpower

Toujia liang never has fixed working hours in the factory. She can come to the factory at any hour. Her working hours in the factory depend on the conditions of family and factory (e.g. seasonal reason) (Kao 1999, p. 5). Only a boss's wife is able to fit into these flexible working hours. Toujia liang needs to finish general household works and send children to school before she comes to the factory. She may leave the factory during business hours to pick up her kids or go back home to cook (Kao 1999, pp. 30–31). Moving around between home and the factory enables laoban liang to handle both family affairs (social) and factory affairs (economic). This is one of the most important sources of flexibility in Taiwan's small business.

For a small factory of four to five people, if one worker resigns, it means that one quarter or one fifth of the manpower will disappear. In that situation, toujia liang has to fill in the manpower gap as a matter of urgency since her husband is busy with clients outside. Hence, she is the most reliable source of labour supply (Kao 1999, pp. 34–35). Furthermore, with a small capital investment, the factory usually does not have enough manpower. Of course, it is possible for laoban to request workers to do overtime work. However, it is not always feasible. Therefore, it is very common that toujia liang works overtime in Taiwan's small factory. Sometimes, toujia liang even works overnight in the factory. In certain circumstances, raw materials are delivered to the factory by 6 o'clock in the morning. One cannot expect a worker to come to the factory in early morning. In this situation, both

laoban and laoban jiang have to come to the factory to help offload the cargoes. Therefore, it is not unusual that the couple works on average 12 h per day (Kao 1999, p. 31).

2.3.6 *Toujia Liang as a Financial Controller*

In Taiwan's small factory, toujia liang is largely involved in financial matters. It can be argued that Chinese males are in general not good in financial management which requires attention to money matters in detail. Chinese females are arguably more suitable to handle finance (Kao 1999, p. 109). While to some extent this is true, however, the phenomenon that toujia liang involves in financial management is largely out of economic consideration. On the one hand, laobans usually do not have time to take care of their own company's financial matters. On the other hand, traditional Chinese females are said to have the instinct of finding out what goes wrong with the accounts. Compared to Chinese males, it can be said that they are more stringent in business expenses. In other words, they are more frugal and pay attention to small accounts. Especially in writing out a letter of credit, timing and punctuality are important. Toujia liang can handle the job well. In loan management, laoban often easily agrees to give loans to customers or charge on account. On the contrary, toujia liang often thinks that her husband does not know how to reject customers' demands. However, it is not good for her husband boss to reject those customers' requests for it will harm public relation. Hence, toujia liang has a role to play on this matter. She serves as a "bad" person to reject the loan. When she goes out to call loan back, due to her female role, she also saves a lot of unnecessary activities in liaisoning with the clients in clubs or dinners which her husband usually does.¹⁰ As toujia liang handles business finance, her husband has to go through her if he wants to use funding. Hence, toujia liang serves as a gatekeeper, overseeing and controlling the company's budget and expenses. This is important especially for the small businesses with limited capital funding (Kao 1999, pp. 110, 114). Another reason toujia liang is mostly involved in financial management is trust. The most trustworthy person is the wife (Kao 1999, p. 33). Many things have to be done by "in-group". In finance, small business does not have the capability to hire a financial controller. Also, a hired person will not be so keen on calculating the value of each dollar spent. If this is the case, who is the most trustworthy people to manage the finance? Keep in mind that this person has to be familiar with the company's direction of development. Furthermore, in securing a loan from the bank, who is the most reliable person to act as a guarantor? The answer comes to the boss' wife. Laoban liang is the most trustworthy and reliable person to do the job. She keeps her husband's rubber stamp (as an authorized signature in

¹⁰ In Taiwan, such activities are important in building up good customer relationship (quanxi).

Taiwan). Furthermore, most small businesses in Taiwan keep two sets of account books. One set is prepared for the outsiders (for the purpose of auditing or taxation) and another set is used for internal use. The internal account involves many confidentiality of the company and is never disclosed to the outsiders. Hence only toujia liang can take up this duty (Kao 1999, pp. 36, 140).

2.3.7 Toujia Liang as Lubricant in Business Negotiation

Toujia liang is an unpaid lubricant in getting the business moving. Within the company, she is the second person to the head. Everyone in the factory respects her. She has certain authorities. When a staff shirks, she can exercise her power. On the other hand, if a staff is not happy with the company's policy, she can utilize her mother/female role to comfort the staff, serving as a channel for the staffs' complaints¹¹ (Kao 1999, p. 115).

Once being outside the company, she represents her company to negotiate with the customers. In particular, in business negotiation, if the supplier quotes a high price on raw materials, then laoban liang can act as an employee and says: "I am only a small cashier. If I take this price, my boss will fire me. Please do not give me hard time" (Kao 1999, p. 52). On the other hand, clients also understand that laoban liang is the boss' wife with certain authority in decision making. Hence, negotiating with her is same as with her husband, this can also save time. When negotiating with a client on the phone, laoban liang can act as a staff member, a boss's wife, a section head, or just a junior staff without any power, depending on whom she is talking to. By performing different roles, laoban liang exercises a high degree of flexibility in business operation. In some cases, when people come to borrow money and the boss is not suitable to meet them, then toujia liang is the one to go out to handle the situation (Kao 1999, p. 53). Her role moves between toujia liang and an employee.

¹¹ Of course, conflict between Toujia Liang and her staffs is always possible. On the one hand, having worked with laoban for many years, many team members behave like brothers with laoban. On the other hand, males in the Taiwan society regards toujia Liang as "more calculating" and "more picky on little things". Given such a possible bias, senior workers may not be willing to be directly supervised by toujia liang and hence conflict may occur. In this situation, laoban often acts as an moderator. Alternatively, in some factories, laoban simply instructs his wife not to openly handle workers' problems in the factory. If anything wrong related to staff members occurs, all she needs to do is to inform her husband-laoban who can tackle the issue or settle the disputes on his own (Kao 1999, pp. 116–117). Hence, laoban too acts as a shock absorber from both sides.

2.3.8 Collective Decision Making and an Interactive Learning Team

It is true that laoban is the major decision maker in the company while laoban liang is subordinate to her husband boss. However, it is more correct to say that decisions in the family firm are collectively made by both laoban and laoban liang. When the husband boss brings out a new idea on business development and the wife (laoban liang) does not agree, then disputes will arise. Given their intimate relationship, if two persons disagree on an issue and quarrel, this will not cause much damage to the business. Being the boss's wife, laoban liang knows laoban's behaviour well. If there is a conflict of viewpoints between them, the quarrel will soon be forgotten next day. Hence, she is the one who dares to make the boldest suggestion and advises to the boss regarding the business development. Understanding that his wife's advice is for the sake of the company, most of the time, the husband boss will modify his idea based on his wife's advice. In this way, the wife's opinion serves as a checking point for the development project. Laoban liang will often set a brake on the speed if her husband is driving too fast on the expansion lane (Kao 1999, p. 103).

Laoban and laoban liang work together in a factory. This will produce interactive effect in two aspects: being a "husband and wife" and "a working partner". In this way, two people sail on the same boat. They share hard time and good time. This is how a family business in Taiwan goes. Once a decision is made on the business, the wife will support her husband all the way.

A wife and husband team can easily communicate regarding many issues. Through continuous interaction, both parties will influence each other viewpoints and compromise for the best of the company. This cannot be done with a stranger. In this sense, laoban liang acts as a business consultant. Hence, two persons perform complementary roles. Each of them learn and grow together via the family enterprise. This special relationship helps to boost company's development (Kao 1999, pp. 63, 86).

Furthermore, efficiency is an important source of competitive advantage of a small family business over a large corporation. The small business is more flexible and quick in response to changing conditions. The factory does not need formal meeting to make decision. Many decisions can be made by the husband and wife team immediately. In many cases, just a gesture to the partner, the other will understand whether the business should go ahead or not. This is what a large corporation cannot achieve (Kao 1999, p. 36).

In short, in Taiwan where in tradition men dominate, women seem no place at all in the society. Ironically, in Taiwan's small family businesses, laoban liang controls the factory's finance. She influences the business development of the company. She is the second most powerful person in the company (Kao 1999, p. 112). Her position and role in the company can never be clearly defined. Her job nature is not specific but cannot be replaced by anyone. Such unique role attributes to her special role as a boss wife, as well as the company's deputy leader. Toujia liang has helped Taiwan create what the World Bank (1993) referred to as "East Asian miracle".

2.4 The Core Production Team: The Bandi

Production in a team will be impossible if team members do not communicate with each other. Imagine that an entrepreneur on earth hires an alien from another planet, communication, hence production, is impossible. Production can be effectively carried out if the boss and workers know expectation from each other. The coordination perspective of the firm implies that organisational efficiency can be facilitated if team members possess similar stocks of knowledge. Establishing a business with members who share same stock of knowledge is more likely to yield convergent expectations. Accordingly, there is an incentive for laobans to hire workers from their family members because they share similar stock of knowledge. However, not all laobans can obtain human resources from their families. Hence, they have to hire workers from outside. However, hiring a stranger may render communication and understanding problems. In order to facilitate communication and production, laobans in Taiwan's small businesses turn their production teams into a family-like organization. This core production team is commonly termed "bandi" in Chinese societies. Literally, the term "bandi" means core production team. The term bandi is commonly used in Chinese business and commercial fields.¹² Chen (2007) defines the bandi as "a working group which is made up of a few individuals, whose formation is based on professional solidarity and emotional solidarity. The working group determines the growth of the firm". Hsing (1998, p. 72) describes bandi as follows:

Bandi are the inner circle of the company and form an important support group around the boss. They share the work of daily operations on the shop floor as well as in the administrative office. Bandi members have expertise in a variety of fields, such as production management, product development, manufacturing technologies, personnel management, financing or marketing. Some may also possess strong personal connections with trading companies. Some bandi members are family members of the boss, but many simply have developed a patronage relationship with the boss after working for the company for a long time.

Furthermore, the bandi is not a formal association bounded by legislations, but an informal group operated by the "tacit consensus" of members (Chen 2007).

2.4.1 Formation of the Bandi: Screening Potential Workers

The bandi does not form on random base or emerge spontaneously by itself. Instead, it is a planned design by laoban. It takes time for the boss to cultivate a working team to become a bandi. At the beginning, the boss pays attention to the performance of each worker and tries to figure out which worker is diligent and self-motivated.

¹² The term is not only confined to business fields in Chinese society. It can also be applied to political party. For example, in mainland China, when we talk about Hu Jintao's bandi, we refer to the team members whom Hu trusts most.

The boss also needs to find out the potential of each worker. After identifying those workers with good performance, the boss will provide more incentives and training to these workers. More importantly, the boss will try to keep them in the factory. In few years' time, after screening out some workers whom the boss regards as unproductive, a small professional team (bandi) will then be formed. Once the bandi gets into routine operation, the output of the factory will accelerate (Chen 1993, pp. 61–62).

2.4.2 *The Nature of the Bandi*

The bandi as an efficient organization in Taiwan consists of two dimensions, namely economic and social. These two dimensions, reinforcing each other, provide strong competitive advantage in world markets. In terms of economic rationality, the bandi is a professional team. Members of the bandi are a team of competent personnel, screened by laoban through long-term observation. Each member possesses professional knowledge and is capable of solving problems independently. Socially, the bandi is bounded by sentimental solidarity manifested in Chinese family style of management.¹³ In other words, the team is cultivated in a family-like environment. Laoban takes bandi members as “one of us” (or “ingroup” in Schutz’s term 1970).¹⁴ Taking the position that “my staff is my family” (Redding 1990, p. 156), laoban often takes care of the staff’s family and personal welfare. Laobans in Taiwan exhibit a strong sense of responsibility toward employees that is not only moral, but also economic reasons. They have an obligation to look after their staffs, knowing that this will benefit them in future (Ibid 157). Though there are some disputes on certain business issues among the bandi members, such disputes will be settled for the sake of the company. Just like a family, arguments among brothers or sisters will be forgotten next day. Therefore, unless encountering an extremely adverse situation, bandi members will not consider moving to another company. This enhances a high degree of stability and loyalty within the organization.

2.4.3 *Tacit Understanding in the Bandi*

Probably, the most important attribute of the bandi is that the team members exhibit tacit understanding (or mo-chi in Chinese¹⁵) among each other. With tacit

¹³ Chen (2007) uses the term emotional solidarity.

¹⁴ In Chinese culture, a family member is also referred to as “one of us”. See Chen (1993, p. 64) for the Chinese term.

¹⁵ In Chinese, this kind of cognitive relationship is termed “mo-chi”. Chen (2007) refers “mo-chi” as tacit consensus. In English, it is similar to “can read each other mind” or “we were on the same

understanding among the team members, works can be done much more easily. Where does tacit understanding originate from? Tacit understanding does not exist among the strangers. It generates out of long-term interaction between individuals.¹⁶ At first, a boss hires a new worker. Both parties try to understand each other or interpret each other's action. After working together for a long period time, if they still cannot get along with each other, or make sense out of each other's actions, due to the differences in characters or poor communication skills, then it can be said that there is no tacit understanding (or *mo-chi*) between them. As a result, the worker may find another job or be sacked. However, if both parties can well accommodate their own way of thinking, then we can say that tacit understanding has been built upon between them. Tacit understanding is essentially built upon intersubjective understanding (Schutz 1970, p. 32). In an extreme form, when the relationship between two persons exhibit a high degree of tacit understanding, then it can be said that their minds are in the same communication environment (see below).

2.4.4 *The Importance of the Bandi*

The economic rationale behind the *bandi* can be easily explained in terms of transaction costs. As mentioned above, an important attribute in the *bandi* is tacit understanding among the team members. Inside the *bandi*, each member is well familiar with each other in terms of characters and the way of doing things. Negotiation and coordination can then be easily conducted. Decision making can be made promptly and formal meeting is avoided. For example, a small company surveyed by Chen (2007) reveals that a formal meeting was only held once a year. In other words, tacit understanding can reduce "transaction costs".

The *bandi* as an organization to solve communication and coordination problems via tacit understanding in the production can be further explained in terms of Weber's and Schutz's contributions. In their theories of human agency, the *bandi* is a meaningful creation of *laoban*. By creating the *bandi*, *laoban* creates a "communicative common environment" (Schutz 1970, pp. 31, 165). It is an environment shared by a group of people who are able to communicate with one another. Treating the firm as an entity that supports shared mental constructs, Foss (1997) rightly remarks that "an important part of the rationale of firms is that it makes sense out of the world for a subset of the economy's input-owners by cultivating a shared knowledge-base that promotes the coordination of the plans of these input-owner in the face of change". Accordingly, by establishing the *bandi*, *laoban* in Taiwan is in

wavelength" or "unspoken consensus". With *mo chi*, people do not need to speak out, they think the same.

¹⁶ In Weber's (1947/1964) term, it is a process of typification.

fact building a coherent world of knowledge¹⁷ and a cultural community (Schutz 1970, p. 81).¹⁸ Employing labour and other resources to work under one same roof (common environment) by laoban, the team facilitates mutual understanding and consent. Events are experienced simultaneously and in common.¹⁹ In Schutz's terms, laoban expands the "I" in the bandi, so that the common environment becomes a "we" relationship (Schutz 1970, p. 32). Bandi members would work as if they were at "home". In Schutz's argument, the laoban creates an ingroup (bandi) out of the outgroup (market). In this way, the bandi with tacit understanding among members significantly facilitates production and allows small family businesses in Taiwan successfully compete in global markets.

2.5 Summary and Concluding Remarks

This chapter has presented a structural model of a small family business in Taiwan. Using the human agency approach, this chapter argues that a typical small business in Taiwan consists of three major components: entrepreneur (laoban), boss's wife (laoban liang) and core team (bandi). Underlying small business dynamics in Taiwan is the Chinese family style of management which enhances competitiveness and flexibility in global markets. Entrepreneurs of small family businesses in Taiwan are always alert to profit opportunities and surf on the waves of rising markets. They only do short-term planning and strategically behave as an imitator. They engage themselves in original equipment manufacturer businesses through international subcontracting. Their success has been built on four behavioural elements, namely "daring to dream", "strive to achieve", "willing to learn" and "drilling down the problems". The boss's wife is a multi-functional staff. She moves between the family (private domain) and the factory (public domain) with great flexibility. Combining the role of a housewife and the role of a deputy head, the boss's wife contributes significantly to the dynamics of small businesses in Taiwan. In handling coordination problems, laobans in Taiwan incubate a core production team (bandi) in the factory. By cultivating the bandi, laoban creates a "communicative common environment". Putting competent human resources under the same roof (common environment) and reinforcing it with the Chinese family culture, the bandi facilitates mutual understanding and consent. This unique type of organization enables small enterprises in Taiwan to achieve a high degree of organizational capability and efficiency to compete in world markets.

¹⁷ Schutz (1970, pp. 80–81) argues that the world of knowledge is incoherent, only partially clear and not free from contradiction.

¹⁸ This is the concept of organisational culture in management literature.

¹⁹ It follows that a family firm exhibits the most common environment because its members have socialised together and shared the same culture (Yu 1999).

Given the fact that small family businesses contribute significantly to Taiwan's economic growth, it is reasonable to argue that this type of family entrepreneurship can be applied to other Chinese economies such as mainland China and Hong Kong since they share similar Confucian teachings and family values. This may even hold true for some Nanyang nations such as Thailand, Malaysia, Indonesia and Singapore which compose high proportion of Chinese population. However, whether the Taiwan's family model is applicable to the countries in Latin America, Africa or Middle East, where cultures are entirely different from Taiwan's begs for an answer. Can other developing nations employ the Chinese style of family entrepreneurship to emulate another "East Asian miracle"?

Specifically, mothers are important to all families in this world. A question will then be raised whether mothers in other developing economies should learn from Taiwan's *laoban liang* so that small businesses in developing countries can exhibit the same kind of dynamics as those in Taiwan.²⁰ We all agree that economic performance of a nation in general and of a business firm in particular depends heavily on historical, cultural and institutional conditions. Taiwan essentially adopts Chinese culture in their everyday life business. This Chinese culture, which has a long history, forms strong institutional forces that can impede any change. Women in the Chinese tradition have no place in business world. They are not allowed to work outside. However, Taiwan's family businesses can evolve in such a way that a wife working in her family factory is not regarded as working outside (see above). Furthermore, in traditional Chinese culture, females have no status in the society. They are subordinate to their husbands. However, mothers in the Chinese society have a high respectable image. This allows mothers working in Taiwan's small family businesses to exercise their parental functions to supervise as well as to take care of their employees, just like a mother taking care of her kids. These two specific illustrations suggest that given historical and institutional constraints, small family businesses in the Taiwan society can still successfully adjust and adapt themselves to meet the competition in the changing world. They are able to incorporate the contribution of females and Chinese culture so as to seize profit opportunities in world markets. It is correct to say that the dynamics of Taiwan's small family firms are deeply embedded in Chinese culture and cannot be applied to other developing countries. However, even being embedded with powerful and rigid Chinese culture, Taiwan's small family firms are still able to evolve into a dynamic business organization. Therefore, it is not whether the model of Taiwan's small family firms in general or the model of Taiwan's mothers in particular can be applied to other developing countries. The crucial issue is whether firms in latecomer economies can successfully develop family entrepreneurial strategies out of their cultural and political constraints so as to exploit international market opportunities. Unfortunately, in many countries, business practices are tightly bounded by their cultures so that small firms fail to adjust and adapt to the rapidly changing world that renders these firms lack of competitiveness in global markets.

²⁰ I thank the anonymous referee of *Journal of Small Businesses and Entrepreneurship* for raising this important question.

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