A Study on Internal Entrepreneurship Mechanisms in the Context of Succession and Innovation in Family Businesses: A Case Study of Fangtai Group

Huaiyi Zhang*

Wuhan University of Technology,Wuhan, Hubei 430000,China

*1355757302@qq.com

Abstract. Using Fangtai Group as a case study, this research examines the structure, characteristics, and mechanisms of internal entrepreneurship within family businesses against the dual backdrop of succession and innovation. Intergenerational succession in family businesses is often accompanied by a decline in innovative vitality[7], whereas internal entrepreneurship serves as a key pathway for sustained innovation and strategic renewal[8]. As a successful model of Chinese family businesses, Fangtai has successfully completed intergenerational succession while achieving business transformation and sustained innovation. This study employs a qualitative case study methodology to examine and analyze Fangtai's succession model, innovation strategy, corporate culture, and related practices, identifying the key drivers, organizational support systems, and specific models of its intrapreneurship. The findings reveal that Fangtai's "co-entrepreneurship" succession model lays the foundation for leadership and culture in intrapreneurship; the integration of Confucian culture—centered on "benevolence"—with modern management creates a powerful driving force for intrapreneurship; platforms such as the Fangtai School empower employees by providing knowledge and capability support; and systematic innovation incentives combined with the "company-shareholding system for all employees" foster an atmosphere that encourages innovation and accountability. Fangtai does not rely on a single model of intrapreneurship but flexibly employs various approaches—such as strategic incubation, organizational empowerment, and strategic investment—based on business development needs. This study reveals the unique characteristics of intrapreneurship in family businesses driven by values and guided by culture, offering theoretical insights and practical references for family businesses facing challenges of succession and innovation.

Keywords: family business; intrapreneurship; succession and innovation; institutional research

1 Introduction

As a vital component of the global economy, the sustainable development of family businesses has a decisive impact on economic growth and social stability. However,

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intergenerational succession poses a significant challenge for family businesses. Numerous studies indicate that the transfer of power within family businesses can result in substantial erosion of corporate value and even lead to a significant decline in innovation[1]. After completing the succession process, many family businesses may experience a decline in both R&D investment and innovation output due to increasingly conservative strategies or the loss of entrepreneurial spirit.

In a rapidly changing market environment and fiercely competitive landscape, companies must continuously innovate and create value to ensure their long-term viability. Intrapreneurship (also known as corporate entrepreneurship) serves as a vital strategic tool that enables established companies to stimulate new growth opportunities within their existing organizational frameworks. By fostering employees' creative initiatives to incubate new businesses and tap into new markets, it facilitates continuous innovation and strategic renewal within the organization[2].

Against this backdrop, a key question emerges: How can family businesses—particularly those currently undergoing or having completed generational succession—effectively establish and utilize internal entrepreneurship mechanisms to overcome the innovation inertia that succession may bring, and continuously enhance their innovation capabilities? Many family businesses face the dilemma of declining innovation capabilities during the succession process[1], whereas Fotile, through its unique "co-entrepreneurship" succession model[4], not only achieved a smooth transition but also actively promoted corporate transformation and innovation during the succession period. This entrepreneurial and transformative spirit, exemplified by the top leadership, has fostered a dynamic corporate culture that encourages new thinking. This has laid a solid foundation for subsequent, more structured intrapreneurship initiatives, enabling the company to go beyond merely maintaining existing R&D activities and actively seek out new talent from within.

The central research question of this study is:This study aims to examine the composition, characteristics, and mechanisms of action of the intrapreneurship mechanism within the Fangtai Group in the context of family business succession and innovation.

2 Literature of Review

To explore these issues in depth, this study will review the literature in the following three core areas:

Family business succession: Succession in family businesses involves not only the transfer of power and wealth but also the continuation of family values and entrepreneurial spirit [3]. Succession theories include the stewardship theory, agency theory, and the resource-based view, while the Social Emotional Wealth (SEW) theory offers a unique perspective for understanding decision-making in family businesses[4]. SEW emphasizes the non-economic goals that families pursue in business operations, such as family control, family identity, and intergenerational continuity. The presence of SEW may have a dual impact on corporate innovation: constraining SEW may suppress innovation to avoid risk and maintain control, while expansive SEW may drive innovation investment to secure the family's long-term reputation and influence[11]. Key challenges during the succession process include a decline in corporate value and a reduction in innovation capacity[1], while successful succession requires a high degree of alignment between the successor and family values, a strong sense of responsibility, and the ability to embody the entrepreneurial spirit of the founding generation[1].

Innovation in Family Businesses: Innovation in family businesses encompasses technological innovation (new products and processes), managerial innovation, and institutional innovation[3]. Among these, institutional innovation is particularly important for establishing a long-term mechanism to sustain the entrepreneurial spirit[3]. Characteristics of family businesses, such as a long-term orientation and patient capital, may be conducive to innovation; however, they also face the common challenge of insufficient investment in innovation, particularly a decline in R&D spending following generational succession[3].

Intrapreneurship: Intrapreneurship refers to the process within an existing organization where employees, acting as the driving force, identify and capitalize on business opportunities to foster the incubation and growth of new ventures, with the aim of enhancing the organization's competitive advantage and achieving strategic renewal[5]. Its primary models include strategic incubation, organizational empowerment, strategic investment, and organizational spin-off[5]. The drivers of intrapreneurship can be categorized into individual-level factors (such as entrepreneurial orientation, risk-taking ability, and innovation capacity) and organizational-level factors (such as organizational culture, resource support, leadership style, incentive mechanisms, and autonomy[5]).

Although existing literature has examined family business succession, innovation, and intrapreneurship separately, research that organically integrates these three elements to thoroughly analyze the intrapreneurship mechanisms within family businesses that have successfully achieved intergenerational succession and sustained innovation—particularly through detailed case studies grounded in the Chinese cultural context—remains underdeveloped. This study aims to address this research gap by examining the case of Fangtai.

3 Research Design and Methods

3.1 Research Methods

This study employs a qualitative single-case study methodology, focusing on Fangtai Group. Through a systematic review and analysis of secondary sources—including academic papers, industry reports, and corporate publications—it identifies key insights and practical approaches regarding succession, innovation, and intrapreneurship.

The structure of this paper is as follows: the introduction outlines the research background and research questions; the theoretical framework reviews core theories on succession, innovation, and intrapreneurship in family businesses; the case background introduces Fangtai's development history and succession characteristics; the core analysis delves into the driving forces and support systems of Fangtai's intrapreneurship mechanisms; and the conclusions summarize the findings, propose theoretical contributions, offer practical implications, and outline future research directions.

3.2 Theoretical Foundation

Core Theories of Family Business Succession.
The "succession" of a family business carries dual significance for both corporate management and family development; it represents the continuation of the founder's entrepreneurial vision and requires the preservation of the predecessors' entrepreneurial spirit, achievements, and values[3]. Intergenerational succession is an insurmountable challenge in the development of family businesses. Research indicates that significant value erosion often occurs during leadership transitions; for instance, the market capitalization of family-owned listed companies in Hong Kong and Taiwan has plummeted by as much as 60% during such transitions, and levels of R&D and innovation frequently decline significantly following succession[1]. Therefore, navigating the power transition period smoothly while maintaining the company's sustainable development and innovative capacity is a core challenge for family businesses.

Successful succession requires the joint efforts of two generations of the family to enhance the alignment between the successor and the family's values and to instill a sense of responsibility toward the family and the enterprise[1]. The second generation must acknowledge the hardships involved in building the business and draw spiritual strength from their parents' enterprising spirit to preserve and advance the enterprise[1].

The Social-Emotional Wealth (SEW) theory provides an important perspective for understanding succession and innovation behaviors in family businesses[9]. SEW refers to the non-financial emotional value that a family derives from the business, including the family's control over the business, sense of identity, continuity of values, and desire for intergenerational succession. It is categorized into two types: constraint-oriented and extension-oriented. Constraint-oriented SEW, which focuses on maintaining control and avoiding risk, tends to inhibit innovation; extension-oriented SEW, which emphasizes the business's long-term development, social reputation, and contributions, drives the business to engage in strategic investments and innovation activities[4].

Fangtai Group has consistently upheld a culture of "benevolence" and a corporate mission of "working for the happiness of millions of families," embodying the typical characteristics of an extended SEW model. By deeply linking corporate success with social value, the company has transcended the mere pursuit of family control and wealth accumulation. Driven by these values, innovation and intrapreneurship are viewed as proactive measures to fulfill the corporate mission, shape the company's social image, and benefit the family's long-term interests—rather than as mere financial risks or threats to control. This perspective provides a powerful internal driving force for Fotile to continuously promote innovation and intrapreneurship as it transitions through generations.

4 Intrapreneurship: Concepts, Models

4.1 The Concept and Models of Intrapreneurship

Intrapreneurship, also known as corporate entrepreneurship, refers to the process by which entrepreneurial employees within an existing organization identify and capitalize on business opportunities to launch and foster the incubation and growth of new ventures, thereby helping the parent company achieve strategic renewal and enhance its competitive advantag[5]. Models: Based on the level of organizational involvement and the degree of relevance between the new venture and the parent company's existing business, intrapreneurship can be categorized into four main models:

Strategic Investment Model: High parent company involvement, low relevance to the new business; aims to explore emerging fields while managing risk.

Organizational Spin-off Model: Low parent company involvement, high relevance to the new business; involves separating businesses that conflict with the core business into independent entities.

Strategic Incubation Model: High parent company involvement and high relevance to the new business; seeks synergies and involves low risk.

Organizational Empowerment Model: Low parent company involvement and low relevance to the new business; the parent company provides resources, while employees take the lead in entrepreneurship.

5 Case Description

5.1 The Development History and Distinctive Family Heritage of Fotile Group

Fangtai Group was co-founded in 1996 by Mao Lixiang and his son Mao Zhongqun, and from the very beginning, the company has focused on the research, development, and manufacturing of high-end built-in kitchen appliances. This father-son partnership model inherently instilled the spirit of "co-founding" into Fangtai's legacy.

Mao Lixiang carefully considered succession planning and proposed the well-known nine-year succession policy of "mentoring for three years, assisting for three years, and observing for three years" [4]. This phased, step-by-step plan was designed to allow Mao Zhongqun to gradually familiarize himself with the business, assume responsibilities, and integrate his own management philosophy and strategic vision. Due to Mao Zhongqun's outstanding performance, the plan was completed ahead of schedule; he took over full leadership in 2002[4] and, through a share transfer in 2010, became Fangtai's principal shareholder, thereby fully completing the succession process.

A notable feature of Fangtai's succession process is that "succession and transformation occurred simultaneously"[4]. Alongside the leadership transition, Fangtai also underwent a transformation from the lighter business to high-end kitchen appliances, from a non-branded entity to a company with its own brand, from sales promotion to marketing, from a traditional family-run system to a modern corporate structure, as well as the deepening and upgrading of its corporate culture[4]. Mao Zhongqun played a leading role in this series of transformations. His firm commitment to high-end positioning and his dedication to product innovation guided Fangtai's development direction. For example, in the early days of the company, it was Mao Zhongqun who strongly advocated entering the range hood market rather than the microwave oven project, which was more favored by the government at the time. This demonstrated his keen insight into market opportunities and his entrepreneurial spirit of daring to take risks.

This succession model not only ensured a smooth transition of power but also instilled a culture of dynamic change within the company. It conveyed the core value of innovation from the top down, laying a solid cultural foundation for the development of internal entrepreneurial initiatives.

5.2 Fotile's Innovation Strategy and Cultural DNA

Fotile has consistently maintained its high-end brand positioning and is committed to becoming a "premium kitchen solutions provider." The company places sustained, large-scale R&D investment at the core of its innovation strategy, allocating no less than 5% of annual revenue to R&D, with "no upper limit" on funding for major R&D projects. As of November 2019, the company held over 5,000 patents; by November 2021, the number of valid patents had reached nearly 6,600, including over 1,600 invention patents, demonstrating its robust innovation capabilities.

Fangtai's innovation is guided by the philosophy that "the source of innovation is benevolence, the principle of innovation is moderation, and the goal of innovation is happiness," emphasizing a people-centered approach and focusing on addressing user pain points and enhancing well-being. Its corporate culture is distinctive. Mao Zhongqun fused traditional Confucian values—such as "benevolence, righteousness, propriety, wisdom, and integrity"—with modern Western management practices, forming a management philosophy that "draws on Chinese wisdom to understand the Way, leverages Western expertise to refine techniques, integrates East and West, and governs technique with the Way." He proposed concepts such as "heart-centered management" and "guiding people toward goodness," thereby establishing a "Way, Law, and Technique" cultural system.

By integrating "benevolence" into its innovation philosophy and corporate culture, Fangtai has created a unique driving force for innovation. This approach guides employees to identify entrepreneurial opportunities from a humanistic perspective, giving rise to value-driven internal entrepreneurial initiatives such as the development of the sink dishwasher. As a result, Fangtai's innovation incorporates ethical and humanistic dimensions that go beyond traditional approaches.

6 Case Analysis and Discussion

Exploration and analysis of Fangtai group's internal entrepreneurship mechanism.

6.1 Drivers of Internal Entrepreneurship Against the Dual Backdrop of Tradition and Innovation

The emergence and development of Fangtai Group's internal entrepreneurship initiatives stem from a driving force shaped by its unique succession context, innovation strategy, and deep-rooted cultural heritage[10].

Mao Zhongqun himself experienced a "co-entrepreneurial" succession process and, after taking the helm, has continued to advocate for and promote innovation, demonstrating far-sighted strategic vision.

A mission-driven culture centered on "benevolence" serves as a powerful internal driving force. Fotile integrates "benevolence" into all aspects of its operations, guiding employees to address users' genuine pain points through its corporate mission of "for the happiness of hundreds of millions of families." Furthermore, by embodying the "Three Virtues" (personal integrity, corporate integrity, Products" and the "Five Ones" (set one aspiration, read one classic, correct one fault, practice filial piety once, and perform one good deed daily), subtly shaping employees' entrepreneurial spirit. These qualities—such as proactivity, discipline, a growth mindset, and empathy—are precisely the psychological traits shared by successful entrepreneurs and intrapreneurs[6], and they form the foundation for employees to identify opportunities within the company and take proactive action.

With ample innovation resources serving as its material foundation, Fotile allocates no less than 5% (and often more) of its annual revenue to R&D. This sustained and substantial investment provides the necessary funding for the initial exploration phase of internal startup projects.

An innovation strategy focused on users' fundamental needs ensures the right direction. Fangtai adheres to the philosophy of "avoiding hype around disruptive innovation and focusing on users' fundamental needs." This pragmatic approach to innovation is more likely to generate internal entrepreneurial opportunities that are sustainable and possess genuine market value.

6.2 Organizational Support System: The "Fangtai School" as an Empowerment Platform

Fangtai has established a multidimensional organizational support system for internal entrepreneurship. Founded in 2016, the Fangtai School serves as the core empowerment platform, with a functional scope that goes beyond that of a traditional corporate university. Internally, the school focuses on training in "cultural heritage, organizational development, talent development, and knowledge management." Adhering to the unique teaching philosophies of "dual competency enhancement," "integration of training and practice," and "knowledge management," it balances the imparting of professional skills with the internalization of core values to cultivate employees who are both morally upright and professionally competent. In terms of organizational structure, the school has established specialized colleges for R&D, supply chain, and other fields to strengthen employees' professional capabilities, cultivate talent for internal entrepreneurship, and lay a solid foundation for employees' capacity and aptitude to participate in internal entrepreneurship.

Externally, the school also encompasses functions such as entrepreneurship education and the preservation of traditional Chinese medicine. In particular, the traditional Chinese medicine preservation initiatives conducted through the "Yunhe Institute of Traditional Chinese Medicine" not only promote health and wellness knowledge and provide healthcare services but also explore the incubation of health-related industries. This has transformed the institute from an internal training facility into a potential incubation platform and organizational empowerment vehicle for exploring and cultivating new business ventures, helping Fangtai explore new business areas that align with its core values and extend beyond the traditional kitchen appliance sector. This aligns closely with the "strategic incubation" or "organizational empowerment" models of internal entrepreneurship and has become a distinctive feature of Fangtai's internal entrepreneurship mechanism.

7 Conclusion

In response to business development needs, Fotile has flexibly adopted a diversified combination of internal entrepreneurship models: the expansion of its core kitchen appliance business employs a strategic incubation model; organizational empowerment is explored in the health services sector; and strategic investment models are utilized for cutting-edge technology initiatives. The knowledge empowerment provided by Fotile University, complemented by material incentives such as the "company-shareholding system" for all employees, provides sustained momentum for internal entrepreneurship.

From a theoretical perspective, this study enriches the application of SEW theory, demonstrating that when SEW manifests as a "socially oriented" model focused on social contribution, it can effectively channel family resources toward internal entrepreneurship, thereby challenging the conventional wisdom that "succession inevitably leads to a decline in innovation." At the practical level, family businesses should view generational succession as an opportunity for "joint entrepreneurship," fully leveraging the unique advantages of family culture to drive internal innovation, and establishing a comprehensive ecosystem that includes learning platforms and multi-tiered incentives to provide employees with psychological security and resource guarantees for their innovative endeavors.

8 Limitations of the Study and Future Prospects

Since this study is a single-case qualitative analysis and Fangtai possesses a unique cultural context, the generalizability of its conclusions is somewhat limited. Furthermore, due to constraints on publicly available data, we were unable to obtain first-hand data regarding the internal new business units (such as the Traditional Chinese Medicine Society) in terms of budgetary independence, decision-making processes, and financial performance, making it difficult to comprehensively characterize the "maturation path" of internal entrepreneurship projects. Future research could expand the sample size to conduct comparative analysis and quantitative validation, and through long-term tracking and in-depth interviews, further explore the governance structures and evolutionary patterns of intrapreneurial projects within family businesses.

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