

Agency Conflicts and Governance Improvements in a Manufacturing Family Firm: A Case Study of a Buzzer Manufacturer — Changzhou Chaoyin Electronics Co., Ltd.

Rui Jing

*Shanghai Qibao Dwight High School, Shanghai, China
rjing_zakrey@163.com*

Abstract. Why do small family firms still have agency problems? They do not have the usual split between owners and managers. This paper looks at one such firm. It is a buzzer maker in Changzhou. Its production process uses materials such as piezoelectric ceramics, soldering metals, and plastic casings. The study uses a literature review and a case study. It finds three agency conflicts that are often overlooked. First, there is tension between the powerful founder and a quiet minority shareholder. Second, there is a gap between intuitive decisions and formal rules. Third, supply chain pressures push the founder to ignore long-term environmental risks. The firm's current governance tools are weak. These include debt discipline, family supervision, and customer audits. They are not enough, especially as the founder nears retirement. The paper suggests a step-by-step plan. This plan includes a family council, an outside advisory board, profit-sharing for key technicians, basic ESG steps (such as RoHS certification and waste tracking), and a clear succession roadmap. These findings help extend agency theory to a new setting: small family firms in China. They also provide practical assistance to similar firms dealing with environmental regulations and leadership change.

Keywords: Family business, Agency conflict, Corporate governance, Environmental compliance, Succession planning

1. Introduction

Buzzer manufacturing sits at the intersection of electronics and materials chemistry. The process draws on piezoelectric ceramics, soldering metals, and polymer casings—materials that bring both technical challenges and environmental risks. Small and medium-sized enterprises in this sector operate under intense competition and razor-thin margins, yet they cannot ignore tightening environmental regulations or the compliance demands of downstream customers such as automotive and home-appliance manufacturers. Surprisingly, corporate governance research has focused overwhelmingly on large publicly traded corporations, leaving a blind spot when it comes to family-controlled SMEs. Even fewer studies attempt to integrate materials chemistry knowledge with governance analysis.

This paper tries to fill that gap by examining a real family-owned buzzer manufacturer. Three questions guide the inquiry. First, beyond the conventional shareholder-manager conflict, what specific agency tensions exist in such firms? Second, how do the current ownership structure, decision-making habits, and incentive arrangements shape those tensions? Third, what governance improvements could help the firm cope better with succession pressures and environmental demands?

To answer these questions, the study adopts literature analysis and a single-case qualitative design. The case company is Changzhou Chaoyin Electronics Co., Ltd., a family-founded firm still controlled by a close family member of one of the authors. This gives the author access to inside information, but the company name is not disclosed to protect privacy.

The research has several contributions. In theory, it extends agency thinking to small Chinese family factories. In practice, it gives advice to buzzer firms and other family workshops and it also tries to bring a chemistry perspective into governance analysis. That is a small interdisciplinary step.

2. Theoretical foundations and industry context

2.1. Agency theory in family firms: beyond the shareholder-manager conflict

Jansen and Meckling [1] argued that a separation of ownership and control creates agency costs. Managers may use company money for their own benefit. But what if the owner and the manager are the same person? In many small family firms, that is the case. Does that mean no agency costs exist? Research suggests otherwise.

In family firms, other conflicts appear. One conflict is between the controlling shareholder and minority shareholders. The majority owner can transfer value away from minority shareholders. This is called tunneling [2]. Another conflict is between family members and non-family managers. Non-family employees may feel excluded. They receive lower compensation and fewer opportunities for advancement [3]. A third conflict happens during succession: the founder may not want to let go. The next generation may not be ready. This can harm the firm [4].

In China, these problems are often bigger. Family culture values hierarchy and loyalty. Formal rules are weak [5]. Thus, a family firm that looks peaceful externally may conceal real agency costs internally.

2.2. Buzzer manufacturing: technology, materials chemistry, and competitive landscape

Making a buzzer is not very hard, but it is not simple either. There are two main types: piezoelectric and electromagnetic. Piezoelectric buzzers use lead-based ceramics. Electromagnetic buzzers use coils and magnets. Both types need soldering, plastic injection molding, and circuit board assembly.

Each step comes with environmental risks. Lead waste can come from the ceramics and soldering. Wastewater can come from electroplating. Plastic molding gives off volatile organic compounds. Solid hazardous waste is also produced.

Why does this matter for governance? Because the market for buzzers is very competitive. Many small firms compete on price. Big buyers like car or appliance makers now ask for certificates like RoHs (Restriction of Hazardous Substances). They also ask for ISO 14001. If a small firm cuts corners on the environment, it saves money today. But it may lose customers tomorrow. It may also face fines or a bad reputation. So the decision to spend on environmental protection is a kind of agency problem. The manager prioritizes short-term gain over long-term safety.

3. Agency conflicts in the case buzzer manufacturing firm

3.1. Ownership and control structure: founder dominance and minority shareholders interest

The case company is entirely owned by the founding family. The founder holds more than 90% of the shares. A silent relative holds the rest. This relative does not work in the firm. At first glance, there is no owner-manager conflict because the founder is both owner and manager. But two hidden conflicts exist.

First, the silent minority shareholder has no real power. She cannot see the full financial records. She cannot stop the founder from making deals with his other businesses. In theory, the founder could pay himself a high salary or sell products at low prices to another firm he owns. This is the tunneling problem [2]. Is it happening here? Probably not in an overt way. But there is no board or supervisor to check the founder. His only constraints are his own integrity and the desire to maintain family harmony. Those are not strong enough.

3.2. Management incentives and decision-making: intuition versus formal governance

The firm has about 50 workers. Among them are two non-family technicians and three production supervisors. The founder makes big decisions alone. He decides what raw materials to buy, which orders to take, what prices to set, and when to buy new machines. There are no budgets, no performance reviews, and no planning meetings. The two technicians get a fixed monthly salary. They do not get any share of the profit.

This way of working has kept the firm alive for many years. But it has hidden costs. Why would a technician suggest a better way to work? If the idea works, the founder gets the gain. If the idea fails, the technician may be blamed. So they stay quiet [3]. Also, the founder is not always rational. He recently bought an expensive machine just because a competitor has one. He did not perform any calculation on whether it would pay back. This looks like herd behavior. No one in the firm is allowed to ask him, "Why are we doing this?"

3.3. Environmental and supply chain pressures as a new source of agency costs

The factory creates lead waste and plastic waste. It has the basic permits required by local law. It does a third-party test once a year. But it does not have RoHS or ISO 14001. Some customers, especially those who sell to Europe, have asked for RoHS certificates. The founder said no because it would cost about 11,000 dollars upfront.

This is a clear agency problem. The founder prefers to save money now. He does not sufficiently consider the future. If the firm loses those customers or gets fined, the loss would be bigger than 11,000 dollars. But the founder plans to retire in about five years. He may not be the one to suffer the loss. This is called a horizon problem [4]. In a company with a board, someone would challenge him. In this family firm, no one can.

4. Governance mechanisms and improvement recommendations

4.1. Evaluating existing governance levers: debt discipline, informal supervision, and client audits

Even without formal governance, three things still limit agency problems to some degree. First, the firm has a small bank loan of 1 million yuan. The bank asks for basic financial statements each year.

It also visits the factory sometimes. This debt-based discipline reduces the founder's freedom to waste cash [6]. Second, the founder's wife keeps the accounting books. She sometimes asks questions about unusual spending. But she is neither independent nor a trained accountant. Third, big customers conduct factory audits. These audits focus on product quality rather than environmental performance. They provide some limited benefit, but are ultimately insufficient.

As the founder gets older, these weak controls will not be enough. Succession is coming. The firm needs stronger governance.

4.2. Designing a succession-ready governance structure: board building, incentives, and ESG integration

What can a small form like this one do? The changes should be practical and step-by-step.

First, start a family council. Meet every three months. Include the founder, his wife, the next generation leader (if chosen), and an older family member who is neutral. This council does not run daily work. It talks about big investments, succession plans, and family conflicts. This brings more security to big decisions.

Second, bring in an outside advisory board. Hire two external experts. One should know finance or accounting. The other should know environmental compliance, like RoHS and ISO 14001. They do not get voting power. But they write a short opinion on any big spending over 2000 dollars. This is a cheap way to get independent views. It also sends a good signal to banks and customers [5].

Third, give the two key technicians a share of profit. Set aside 5% of yearly net profit. Split it based on quality and waste reduction. Right now they have no reason to care about waste. With this change, they will.

Fourth, do basic ESG work. Get RoHS certification. Keep a simple log of waste. Appoint on person to be responsible for environmental issues. These steps do not cost much. They reduce risk and show customers that the firm is serious.

Fifth, write a three-year succession plan. Decide who will take over customer relationships and daily operations. Write a buy-sell agreement so that family fights do not happen later. Review the plan each year with the family council and the advisory board,

These changes take time and money. But the benefits are larger. Agency costs go down. Customers stay longer. Succession goes smoother. Good governance is not just for publicly traded companies. It is also for a family workshop that wants to live beyond its founder.

5. Conclusion

This paper studied a family-owned buzzer maker in Changzhou. It asked what agency conflicts exist and what governance changes can help. The findings show that even when the founder owns and runs the firm, other agency costs still exist. These include the risk of tunneling from the founder at the expense of a silent minority shareholder, the lack of incentives for non-family workers, and a horizon problem that makes the founder avoid environmental spending.

The paper also looked at the existing governance tools: a small bank loan, family supervision, and customer audits. Each one helps a little, but none is strong enough. So the paper proposed a step-by-step plan. This includes a family council, an outside advisory board, profit-sharing for key workers, basic ESG steps, and a clear succession roadmap.

This study has limits. It is only one case. The findings may not apply to other firms. Also, the author could not see all financial data. Future research could study more firms or use surveys. But

despite these limits, this paper shows that agency theory works for small family firms as well. It also gives practical advice that a real business can apply.

Acknowledgement

The author thanks go to the course instructor for helpful feedback. Any mistakes are the author's alone.

References

- [1] Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.
- [2] Claessens, S., Djankov, S., Fan, J. P. H., & Lang, L. H. P. (2002). Disentangling the incentive and entrenchment effects of large shareholdings. *The Journal of Finance*, 57(6), 2741-2771.
- [3] Schulze, W. S., Lubatkin, M. H., Dino, R. N., & Buchholtz, A. K. (2001). Agency relationships in family firms: Theory and evidence. *Organization Science*, 12(2), 99-116.
- [4] Handler, W. C. (1994). Succession in family business: A review of the research. *Family Business Review*, 7(2), 133-157.
- [5] Nave, E., Ferreira, J. J., Fernandes, C. I., Paço, A. do, Alves, H., & Raposo, M. (2022). A review of succession strategies in family business: Content analysis and future research directions. *Journal of Management & Organization*, 1-20.
- [6] Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review*, 76(2), 323-329.