

SUCCESSION PLANNING TOWARDS BUSINESS SUSTAINABILITY BASED ON
KNOWLEDGE MANAGEMENT

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DECLARATION

“I declare that this thesis entitle ‘Succession Planning towards Business Sustainability Based on Knowledge Management’ is my own work except the citation and excerpts of each of which I have mentioned in the references”

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DEDICATION

To my family, lecturers and friends

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First of all, I would like to thankful to the Almighty Allah SWT for giving me the ability, time, courage and strength to successfully completing this Projek Sarjana Muda (PSM) within the time given. I sincerely appreciate and thank for the help, teaching, monitoring, support and contribution to my beloved supervisor Dr. Norhidayah bt Mohamad and millions of appreciation and infinite of gratitude to all those involved either directly or indirectly assist or support the success of this project. This research will bring forward as requirements in completing my studies to graduate in Bachelor of Technopreneurship at Universiti Teknikal Malaysia Melaka (UTeM).

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ABSTRACT

Business sustainability is the term that are used to measure the stability of the business to keep sustain in the market. Therefore, entrepreneur needs to have a succession planning where it contains strategy to identify next successor to continue the business legacy. In succession planning, knowledge management has become very crucial due to the tacit knowledge is very difficult to transfer. Entrepreneur needs to know how to transfer the tacit knowledge from experienced generations to another generation. The problem arise here is how the entrepreneur will survive in market if they do not have a succession planning and do not realize the barriers that occur while transferring the tacit knowledge. Thus, the aim of this paper is to identify the relationship between succession planning, and barriers of transferring tacit knowledge towards business sustainability for Small Medium Enterprises (SME) entrepreneurs. This research employed quantitative research method and the data are collected from primary sources only where 100 questionnaires has been distributed to entrepreneur from food industry located in Kedah. This research using Statistical Package for Social Sciences (SPSS), to analyzed the collected data. As the result, all the independent variables which are succession planning and barriers of transferring tacit knowledge have a positively relationship with the dependent variable which is business sustainability. Result also shows that communication is the main barrier that occurs in transferring tacit knowledge. So, as a conclusion, in order to make the business sustain in the market, entrepreneur itself should play their own role in managing the business by having a long term goals in term of successor and also the management of the tacit knowledge among the employees.

ABSTRAK

Kelestarian perniagaan adalah istilah yang digunakan untuk mengukur kestabilan perniagaan untuk terus bertahan dalam pasaran. Jadi, usahawan perlu mempunyai perancangan pengambilalihan di mana ia mengandungi strategi untuk mengenal pasti pengganti seterusnya bagi meneruskan legasi perniagaan. Dalam perancangan pengambilalihan, pengurusan pengetahuan menjadi sangat penting disebabkan ilmu tersirat amat sukar untuk dipindahkan. Usahawan perlu tahu bagaimana untuk memindahkan pengetahuan tersirat daripada generasi yang berpengalaman kepada generasi lain Masalah timbul di sini ialah bagaimana usahawan akan bertahan di pasaran jika tidak mempunyai perancangan pengambilalihan dan juga mengenalpasti halangan yang berlaku semasa memindahkan pengetahuan tersirat. Maka, tujuan kertas ini adalah untuk mengenalpasti hubungan antara perancangan pengambilalihan, dan halangan memindahkan pengetahuan tersirat ke arah kelestarian perniagaan bagi Perusahaan Kecil dan Sederhana usahawan (PKS). Penyelidikan ini menggunakan kaedah penyelidikan kuantitatif dan data dikumpul daripada sumber-sumber utama sahaja di mana soal selidik telah diedarkan kepada 100 orang responden yang merupakan usahawan dari industri makanan yang terletak di Kedah. Kajian ini menggunakan Pakej Statistik untuk Sains Sosial (SPSS), dimana semua data dianalisis. Hasilnya, semua pembolehubah bebas mempunyai hubungan yang positif dengan pembolehubah bersandar iaitu kemampuan perniagaan. Keputusan juga menunjukkan bahawa komunikasi adalah halangan utama yang berlaku dalam memindahkan pengetahuan tersirat. Jadi, sebagai kesimpulan, untuk membuat perniagaan yang bertahan dalam pasaran, usahawan itu sendiri perlu memainkan peranan mereka dalam menguruskan perniagaan dengan mempunyai matlamat jangka panjang dalam tempoh pengganti dan juga pengurusan pengetahuan tersirat di kalangan pekerja.

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LIST OF ABBREVIATION

ABBREVIATION	MEANING
SME	Small-Medium Enterprise
GDP	Gross Domestic Product
SMFE	Small-Medium Family Enterprise
ICT	Information and Communication Technology

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CHAPTER 1

INTRODUCTION

1.1. Background of the Study

Business is important because it creates job opportunities and contributes to the economic growth. Whether it is a big company or small-medium enterprise, they are the biggest contributors in term of offering a lot of jobs and produce more money in the country. Explained by Coomaraswamy (2007), small and medium firms are a major engine for job creation, because of its heavy reliance on labor intensive techniques of production and the use of local input as raw materials. It shows that small-medium enterprise is important for a country in order to enhance the national economic growth by creating more job opportunities.

Other than using the succession planning to sustain the business, knowledge management is also an important element that needs to be focused on. There are two types of knowledge which are explicit knowledge and tacit knowledge. Explicit knowledge according to Kikoski and Kikoski (2004) is what can be embodied in a code or a language and as a consequence, it can be verbalized and communicated, processed, transmitted and stored relatively easily. In a simple word, explicit knowledge can be learnt from many sources like books, journals, mass media like newspapers and television. Tacit knowledge on the other hand is different. This is because tacit knowledge is gained through experience, observation and imitation along the learning process. Tacit knowledge is difficult to share because to ensure the other person gain the

same experience with us is impossible because every person will go through different experiences during the learning process.

After a general introduction in chapter 1, this research is organized as follows: Chapter 2 reviews on literature of the main topics related to the study. Firstly, it started with the overview of succession planning, knowledge management, Small-Medium Enterprises (SMEs) and Business Sustainability. The section ends with a proposed framework to be used as a guide for this research which links to the business sustainability by succession planning base on knowledge management. Chapter 3 describes the methodology designed to identify the relationship between knowledge management in succession planning for business sustainability by using quantitative methods. Chapter 4 is about the analysis of the data collected by using questionnaires that have been distributed to 100 respondents. This section shows the analysis results of the questionnaires by using SPSS, correlation, correlation coefficient and regression. Chapter 5 presents the conclusions, and future research of the study.

1.2. Problem of Statement

Most of the entrepreneurs do not realize that tacit knowledge is important to their business. This is because tacit knowledge is a 'soft' knowledge that cannot be transferred through educational learning or any formal classes. Tacit knowledge can be shared through experience and sharing the soft skill. Tacit knowledge can be a platform for business owners to manage his or her business succession plan. Succession planning is needed to ensure the sustainability of the business in the future. There are several factors that influence the decision in succession planning such as skills, interest, education level and the desire to continue the business operation. Among this factor, knowledge management can be the important factor that needs to be considered. Therefore, this research is focusing on how far knowledge management, especially tacit knowledge can give impact towards the succession planning for business sustainability?

1.3. Research Questions

Informed by the above problem statement, this research explores the following key questions:

- 1) What is the relationship between barriers of transferring tacit knowledge towards business sustainability?
- 2) What is the connection between succession planning and business sustainability?
- 3) What is the relationship between awareness of tacit knowledge and business sustainability?
- 4) What is the main barrier in the process of transferring the tacit knowledge that gives effect to business sustainability?

1.4. Research Objectives

Knowledge management is divided into two which are explicit knowledge and tacit knowledge. So the objective of the study is to identify the effective ways of transferring tacit knowledge to the next generation family members. Moreover, the study also investigated the relationship between tacit knowledge and business sustainability. To be sustained in the business, the study also identified barriers occur in the process of transferring the knowledge in succession planning.

The objectives for this research are:

- 1) To identify the relationship between barriers of transferring tacit knowledge and business sustainability

- 2) To investigate the relationship between succession planning and business sustainability
- 3) To analyze the relationship between awareness of tacit knowledge and business sustainability
- 4) To identify the main barriers in transferring the tacit knowledge in SMEs that give effect to business sustainability.

1.5. Scope of the Study

The researcher more focus on the barriers to transfer the tacit knowledge towards the sustainability of the SMEs by considering the positive impacts of the tacit knowledge and the sustainability of the business. The researcher only covered the topic above as had been focused in order to achieve and ensuring a superior result for the business sustainability and the outcomes are able to make these objectives of research achievable. This scope aspect is a very crucial element so that consistency and comprehensive way of research, evaluation and execute the intelligence idea for the good and systematic succession planning of the organization. Respondents are chosen from the SMEs that are located in Kedah.

1.6. Importance of the Study

The importance of this research to prepare a better understanding, references and sources regarding the succession planning towards business sustainability based on knowledge management. This research is a practical study that gives additional knowledge and benefits to the small business owner in understanding how to sustain the

business, growth and succession planning based on knowledge management in term of transfer the tacit knowledge. It is important because many small business owners usually do not have a good succession plan for their organization. Besides, this research also identifies the barriers that prevent the process of transferring the knowledge among this small business owner. Usually the owner does not realize what kind of barriers occur in the transferring process period.

This research offered a learning example for small business owner especially for small-medium enterprise (SME) business on how to ensure their business running well and sustain in the market for a long time. Successful in the study will surely give benefits to many small business owners in Malaysia does not matter what size of business they run.

1.7. Summary

Knowledge management gave big positive impact for small-medium enterprise if it being conducted correctly. This is because in knowledge management it is divided into two parts that an entrepreneur should know in order to maintain their business. The first knowledge is explicit knowledge and the second is tacit knowledge or implicit knowledge. Usually most of the entrepreneurs have explicit knowledge, but they overlooked about the tacit knowledge. Actually tacit knowledge is more important because this kind of knowledge can only be learnt through experience and with a long term education. The next chapter will discuss about the literature review of the research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The study of succession planning activities discovers how succession planning affects the business sustainability. This is because a smart planning will give a beneficial effect to the business in a long term. Most of the researchers study about how to sustain the business but very few researchers who study about the succession planning towards business sustainability. This is because succession planning is one of the factors that can give effect to the business sustainability. Nowadays, we can see that businesses that have been established in 5 years and above will usually start having a problem in terms of management of the business operation. This is proven by Reiss (2006) that said some statistics suggest that the failure rate of small businesses in their first five years is more than 50%. It shows that the earlier growth of the business, the possibility for them to face a failure is high. This is because many of the business owners did not have a good plan on how to build their next successor. Let say the owner of the business never thinks about the next successor, high probability their business to be closed is high. So SMEs must realize about this matter quickly.

Business sustainability is a major issue that must be addressed by all business owners. This is because SMEs have also contributed to economic growth. The important factor in order to maintain their business is succession planning. Succession planning is one of the ways to keep the business continuity. To execute the succession planning,

business owners once again have to ensure that they are able to do this plan. The most important factor is knowledge management. Knowledge management is divided into two; explicit knowledge and tacit knowledge. Explicit knowledge is knowledge that is easy to get. Example of the sources of this knowledge is through books, journals and other scholarly resources. For tacit knowledge, it is difficult to deliver because this kind of knowledge is related more to experiences, observation and imitation of the activity performed by others. For this research, the researcher wants to highlight about the importance of tacit knowledge in succession planning for business sustainability. This is because rather than focus on the skills and interests of the next successor, tacit knowledge is important to be focused on.

In this research, the researcher study about the succession planning towards business sustainability. Other than that, this chapter focuses on the barrier in transferring tacit knowledge into succession planning. There are several factors that become barriers in transferring the tacit knowledge like culture, time, motivation, communication, and trust. By using several methods as well as some combination of theoretical approaches and a result of previous studies, the researchers believe that the goals and objectives of this study can be achieved.

2.2 Overview of Succession Planning

Succession planning is an important issue because by having a good future plan will help the business owner to identify their future successor. Succession planning is a method in which a business owner going to hand over the ownership of the business to the next successor. Usually this handing over process occurs due to the death, retirement or disability of the current owner. This process also involves the assignment of assets and wealth accumulated by the company. According to Sambrook (2005), succession planning is increasingly becoming an important issue for both large and small firms due to demographic factors such as the rising number of employees due to retirement and the

dwindling number of younger workers stepping in to replace them. Succession planning is an identification and development of possible successors to be the next in line for a position in an organization, through a systematic evaluation process and training. Succession planning also can be defined as the process of developing future leaders for an organization through purposeful action, with specific application of employee development in order to meet long-term strategic goals of an organization (Barnett & Davis, 2008; Jarrell & Pewitt, 2007; Reeves, 2010). In a simple word, succession planning is about continuity of leadership.

By looking at the definition, it concludes that succession planning is important to maintain the business sustainability. Sadly, many organizations did not aware of this matter or they do not care about the future planning. This is supported by Handler (1994) where cited choosing not to plan for the future is committing 'corporeuthanasia', when the owner kills off the business by failing to provide the organization with plans for clear continuity into the future. Research on succession planning has developed a large number of studies to understand the barriers organization have with succession planning. The barriers that always occur in succession planning are related to time, cost, lack of trustworthiness and the business owner more focusing on their own needs rather than thinking the future of the business. This kind of barrier might be vary according to the organizational culture, strategy and economical environment.

2.3 Knowledge Management

According to the Oxford Dictionary (2010), knowledge is a fact, information, and skills acquired by a person through experience or education. Through this definition, knowledge can be gained through two different paths. Firstly, knowledge can be acquired by education. It means that, a person needs to read books or any secondary resources to master in a certain area. The second path is by learning through experience. For this kind of knowledge, a person should make themselves involves in the process of