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THE FACTORS OF FAMILY
BUSINESS IN PERAK AND
SELANGOR THAT AFFECT
COMPANY'S SURVIVAL AND
GROWTH DURING ECONOMY
DOWNFALL PERIOD IN 2015.

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UNIVERSITI TEKNIKAL MALAYSIA MELAKA

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**Laporan ini dikemukakan sebagai memenuhi sebahagian daripada syarat
penganugerahan Ijazah Sarjana Muda Pengurusan Teknologi
(Pemasaran Teknologi Tinggi)**

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‘Saya akui bahawa telah membaca
karya ini dan pada pandangan saya karya ini
adalah memadai dari segi skop dan kualiti untuk tujuan penganugerahan
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“Saya akui laporan ini adalah hasil kerja saya sendiri kecuali ringkasan dan petikan yang tiap-tiap satunya saya telah jelaskan sumbernya”

Tandatangan :

Nama :

Tarikh :

DEDICATION

I would like to dedicate the appreciation to my family members especially my parents Mr. Long Keng Hold and Mrs. Ng Sew Ngoh who supported me from spiritually and financially, beloved supervisor and panel who guided me throughout the research, housemates and course mates that assisted me through the journey of research.

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ABSTRACT

In Malaysia, there are a lot of family businesses in the Small and Medium industry, also known as SMEs, but there are not many huge family businesses. Family businesses are very different from non-family businesses almost in every aspect, the operating systems, the approach methods, the entry requirements and the wealth distribution, just to name a few. Family businesses always emit a sense of intimacy to outsiders, making them feel like home and leading the family businesses owners to better business relationships with customers, suppliers and etc. Even though family businesses do not always shine in their usual performance but they tend to do better than non-family businesses during economy crisis and downfall period. In 2015, Malaysia had face its economic downfall period, causing negative impacts to non-family operating small and medium enterprises, SMEs. Family businesses had no exception to this situation. But being in the same situation, family businesses tend to do well and past records has proven this fact. Referring to this point, the researcher found out the backbone for family businesses to continue growing and surviving during situations like economic downfall faced by Malaysia during the year 2015.

ABSTRAK

Di dalam Malaysia terdapat banyak bisnes keluarga dalam Industri Kecil dan Sederhana, juga dikenali sebagai SMEs, tetapi tidak terdapat banyak bisnes keluarga yang besar. Bisnes keluarga adalah amat berbeza dengan bisnes biasa dalam banyak aspek, sistem operasi, cara pendekatan, dan distribusi kewangan, dan lain-lain. Bisnes keluarga selalu memberi perasaan yang rapat kepada orang luar, mencipta perasaan seperti di rumah yang merapatkan hubungan pemilik bisnes keluarga dengan pelanggan, pembekal mereka dan lain-lain. Walaupun bisnes keluarga tidak memberi keputusan yang amat cemerlang tetapi apabila pada situasi seperti kejatuhan ekonomi, bisnes keluarga memberi keputusan yang lebih cemerlang. Pada tahun 2015, Malaysia menghadapi kejatuhan ekonomi, menyebabkan impak negative kepada semua bisnes dalam SME. Bisnes keluarga juga terlibat dalam situasi ini. Tetapi, dalam rekod lepas, bisnes keluarga memberi keputusan yang lebih cemerlang berbanding dengan bisnes biasa. Merujuk poin ini, penyelidik mendapat tahu tulang belakang untuk bisnes keluarga untuk terus berkembang pada masa kejatuhan ekonomi yang berlaku di Malaysia pada tahun 2015.

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CHAPTER 1

INTRODUCTION

1.1 Background

Undeniably, there are many successions of family business managed by the second generation in the 21st century. According to the compilation prepared by Center for Family Business at the University of St. Gallen, Switzerland in cooperation with Ernst and Young's Global Family Business Center of Excellence, a market leader in advising and guiding family businesses, the famous examples are IKEA Group (Germany) by the Kampard family, Schwarz Group (Germany) by the Schwarz family, and Amway Corporation (United States) owned by the Andel & DeVos families. Some family business like the Wal-Mart Stores Incorporation (United States) by the Walton family does not own 100%, only 50.9%, of their business share, but they are still the main shareholders of their family business.

Meanwhile in Malaysia, from the same compilation mentioned, there are five public listed family businesses. They are YTL Corporation Berhad, founded by Tan Sri Dato' Seri Yeoh Tiong Lay, by the Yeoh family, Genting Berhad by the Lim family, IOI Corporation Berhad by the Lee family, Kuala Lumpur Kepong Berhad by Hian family, and Berjaya Corporation Berhad by the Tan family. All these family business are not 100% ownership by the founders.

From the Malaysian perspective on family business succession (Hassan, 2014), it is still a new phenomenon to the country. In Malaysia, family-operated firms failed to step out from the traditional structure as they do not prefer in the openness to firms' and decide to remain the status quo in the business as the business still owned by the original founders. As highlighted above, the big family businesses are those listed on Bursa Malaysia, but the bigger proportion of the family-owned businesses in Malaysia is constituted by the small and medium enterprises (SMEs). The author claims that SMEs is the backbone for Malaysia's economic growth and has contribute great share to the country's gross domestic product (GDP). Family succession leads to business sustainability, leading to contribute in Malaysia's welfare.

According to Kachaner et al. (2012), a family business is a business owned by the founder families of 30% of the company account with over \$1 billion company sales. From the same article, it is shown that these family business do not do well as other dispersed-ownership-structured companies during good economic times, but family businesses do outshine their performance during economic downfall periods. Therefore, during this economic breakdown currently faced by Malaysia, these well-known family businesses are surviving and performing better than the other companies.

A research conducted by two researchers (Arfiyah Citra and Wawan, 2012) shows a few reasons on a success in Islamic family business. The researchers clarify that Islamic family business is ethical business which must include the ethics like honesty, clarity, good intention, and positive thinking on conflicts. On the same reference, Chinese family businesses consist of a great sense of kinship, creating a more harmonious business environment, keeping the main ownership of the business to the nuclear family, and preferably hiring the family members and relatives, and desire of continuing the business across generations. Meanwhile for the Korean Immigrant Business, the keys for successful business should include sincerity, diligence, effort and honesty.

In the research Family Business in the New Economy: How to Survive and Develop in Times of Financial Crisis (Siakas et al., 2013), that entrepreneurship can be a main support for a country's economy especially during financial downfall. The combination of emotion with entrepreneurship leads family members towards the

common ultimate goal and through the ‘family’ and ‘business’ collaboration, these systems manage to create a dynamic growth during the financial downfall period.

In a Greece-conducted research (Vlachakis, 2011), family businesses can operate in crisis periods and fulfil business needs more effectively compared to non-family business due to the built-in mechanisms found in family businesses. During times like economic downfall, a forced opportunity is perceived for businesses that function in many areas.

While a lot of researches claim that family businesses are doing better than non-family businesses, there are some that thinks family businesses are struggling to survive in the market (James, 2013). The research is mainly done in Australia’s family business sector and the reasons behind the struggling survival are ageing, poorly managed, out of touch, unambitious and pessimistic. The lack of updating themselves with technology and design and the innovation of the business are causing the rundown of the family business in Australia. According to Sue Prestney mentioned in the report, chairman of MGI Australasia, the lack of ambition element found in these family businesses is normal because the main goal of the family businesses is to accumulate family wealth and not aiming for the best and biggest firm in the country.

From all the research supports mentioned above, the family business in Malaysia, especially in Kuala Lumpur and Selangor area, will continue to survive and grow through the financial downfall they are facing in 2015.

1.2 Problem statement

During the current economic downfall period in Malaysia, most companies are negatively affected and some small and medium enterprises have to stop their run in the market. Based on a news report from The Malaysian Insider dated 19th August 2015, foreign company in Malaysia such as Japanese professional electronics corporation, JVC has closed their Malaysian branch in Shah Alam, JVC Kenwood Malaysia Sdn. Bhd., in 2015, causing shocking news to the world especially Malaysia

itself. The issue then followed by many foreign investments and companies withdrawing their share from Malaysia market. This leads to the drastic fall in Malaysia market, and at the same time, negatively impacting the Malaysian currency.

But from all these negative impact, some big corporations are trying their best to survive and hopefully to grow through this financial downfall. And among these big corporations, there are corporations run by family. It is not true to say these family-running companies are doing very good but they are performing better than their peers as mentioned by Nicolas Kachaner, George Stalk, and Alain Bloch in their article in Harvard Business Review (November 2012). Therefore, the researcher wants to know how the family businesses in Malaysia sustain and grow during the economic breakdown. The researcher is also looking for the precautions done and taken by these family-run companies.

The examples of family businesses in Malaysia that are continuing to survive and grow are as YTL Corporation Berhad, Genting Berhad and Berjaya Corporation Berhad.

1.2.1 Research question

Regarding to the research, which is to find out the family businesses' survival and growth during the economic downfall in Malaysia in 2015, the researcher has come out with the research questions mentioned below:

1. What are the issues and problems faced by family businesses in Perak and Selangor during the economy downfall period?
2. What are the factors enabling family businesses in Perak and Selangor to survive and grow during the economy downfall period?

1.3 Research objective

The research objective of the study is to find out the methods used by the family businesses in Malaysia to survive and grow during the economic downfall. Therefore, the following are the research objectives:

1. To identify the issues and problems faced by family businesses in Perak and Selangor during economy downfall period.
2. To investigate the factors that allow family businesses in Perak and Selangor to survive and grow during the economy downfall period.

1.3.1 Research proposition

The researcher forecast that family business will strongly practice responsible management by adopting constant self-control aiming so that major errors are unlikely to happen. This is due to the pressure awaiting for the family business leader comparing to a Chief Executive Officer (CEO) of a dispersed ownership company if the business is likely to fail. Family property and bad family reputation and the sense of erase of family's legacy are all at risk.

If family businesses are as described in background, relevant knowledge and actionable information obtained from past education and experience are must have for the organization's innovation and competitive advantage (Silvia, 2013). To ensure the longevity of a family business, a long-term firm performance is unavoidable and to maintain the consistency of high performance of the family business, relevant and applicable knowledge are needed. During these economic downfall periods, past education and experience, which form the current knowledge, are the only guidance for the family business leader have to overcome the bad situation the firm is in.

The researcher also feels that a back-up plan is important for a firm to deal with the financial downfall period. The back-up plan mentioned is not a last-minute plan made when the firm is in the bad spot of the financial downfall, but should be made

when the firm is on their best form. The back-up plan should be a plan that could lead the company to an exit and minimal damage to the firm during negative situations such as the financial downfall.

1.4 Scope & limitation

The scope of the research is to find out how family businesses in Kuala Lumpur and Selangor survive and grow during the country's current economic downfall period. To conduct this research, the researcher has targets such as YTL Corporation Berhad, Genting Berhad and Berjaya Corporation Berhad to be the respondents for the questionnaires which will be given by the researcher. Questionnaires will be sent to the family-run companies by emails by the researcher and the selected companies are asked to answer all the questions found in the questionnaires.

Meanwhile there are some limitations to the conducted research. For instance, the researcher is only allowed to conduct the family business within the area of Malaysia which limits the selection of research targets. During the distribution of questionnaires, there are some delays in receiving the replies from the companies due to their hectic schedule. The researcher might have to remind the companies repeatedly to get their replies as soon as possible.

1.5 Importance of research

The outcome of the research carried out by the researcher is very important for a few parties, such as the Malaysia government, family business groups, dispersed-ownership-companies will benefit from the result. The options and solutions found in this research might help these beneficiaries in receiving minimal negative impacts during financial downfall in future. Besides that, the research suggests the best actions and methods to execute to overcome the problem and issues faced during the economy downfall period. Do not forget this might also be a great reference for family

businesses in other countries which are influencing by economic crisis or unstable economy.

Business groups and government parties can still identify the factors that is affecting the growth and survival ability of their businesses and national's economy. These factors allow the beneficiaries to start taking preventive actions on facing financial downfall in future so that minimal damage can made to the involved parties. Through these preventive steps, the research can help business groups and the government to predict the problems and issues and assist them in their decision making on choosing the best action to be executed.

Chapter 2

Literature review

2.1 Introduction

Schwass (2013) mentioned that family businesses are usually labelled as the economy backbone through channels like providing wealth and job opportunities to respective communities. Meanwhile, a handbook from Coutts & Co. (2013) states that the family business definition depends on the priority set on the family or the business itself. If the family business believes in birth-right, family are likely to be preferred in promotion and other benefits. If the family business prioritise the business, family and non-family members are treated equally. Based on Vaknin's (2010) research, there are two schools of thought on the analysis of family business performance: the family-based family business which tend to make irrational decisions, led by nepotism, and usually involves conflicts between the owner family and the outside participants like shareholders; the business-centred family business, where family members and employees' commitment to the business is strong, leading to a longer and more stable management compared to non-family business companies.

Walsh (2010) has summarize the impact of the Family component on the family business with The Three Circle Model which created by Renato Tagiuri and John Davis in the 1970s.

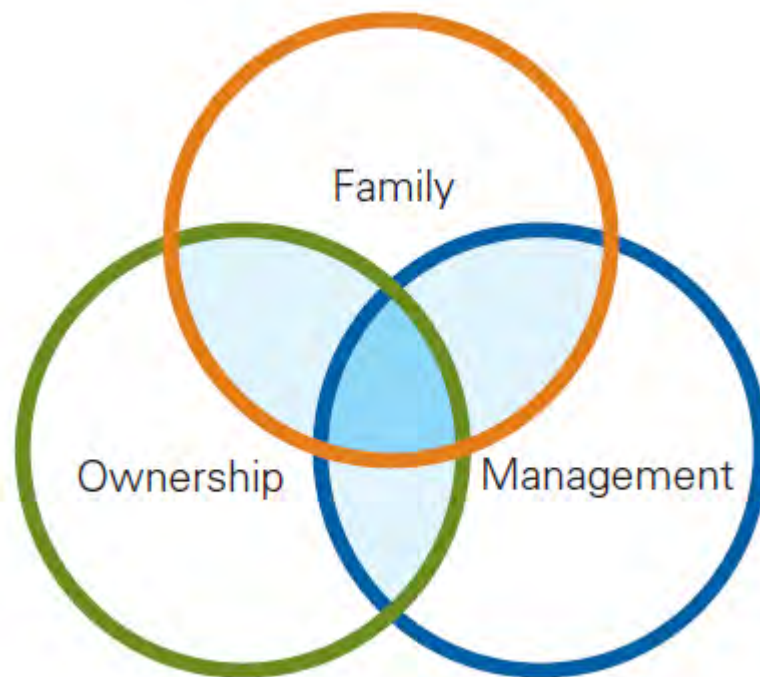


Figure 2.1 The Three Circle Model by Tagiuri and Davis (1970)

Non-family businesses have both ownership and management elements, but what differs family businesses and non-family businesses is the family element because the ownership and management of the family business both involve family members, leading to a significant part in running the whole family business. McCabe (2012) has clearly describe the elements by examining them in detail. McCabe states that the model provides a serious method in doing business, especially during the family business is embarking on new client relationships. Based on Barrett's (2014) theory, the addition of 'Ownership' element in the initially dual system, which only includes family and business, allows researchers to focus on the positive and negative consequences of the results obtained from the overlapping by the three elements and since became the development and growth for the operation to family businesses.

Stewart and Hitt (2012) have clearly show the differences between family businesses and non-family businesses in terms of ownership, governance, returns, rewards, networks, leadership, careers and management. Family business has concentrated ownership and kinship based but non-diversified (Morck et al., 2005; Achmad et al., 2009). Family business governance unties ownership and control with

the board internal dominance which leads to non-transparency and secrecy (Sirmon et al., 2008; Parada et al., 2010; Gedajlovic et al., 2004). The returns for family businesses are non-economic outcomes but they are important because they are private benefits for the family (Chrisman et al., 2010), and the rewards are particularistic criteria (Chua et al., 2009). Family business embed in kinship networks (Ingram and Lifschitz, 2006) and personalized their social responsibility (Muntean, 2009). The entrenched leadership skill (Ostwald et al., 2009) found in family business leader are trained practically (Jorissen et al., 2005). The succession system is naturally draws on kinship pool (Perez and Gonzalez, 2006). Family members are the majority occupy majority of the total staff numbers with usually long term career horizons (Galambos, 2010). The management of family business usually includes emotional and intuitive elements (Zellweger and Astrachan, 2008) with organic and mutual accommodation (Zhang and Ma, 2009).

Meanwhile, non-family business is obviously dispersed ownership without kinship but are well diversified (Achmad et al., 2009; Morck et al., 2005). The ownership and control of the business is split (Sirmon et al., 2008) with external influences from the board (Parada et al., 2010) which lead to a transparent business to the public (Gedajlovic et al., 2004). Non-family businesses are largely economically defined and no private benefits with minority shareholders protected (Chrisman et al., 2010; Martinez et al., 2007). The rewarding system for non-family business is based on employees' performance and universalistic criteria (Chua et al., 2009). The non-family business networks are based on external ties of distinct business and family spheres (Mutean, 2009). The leaders in non-family business, also known as top managements, occupy with high turnover with market discipline (Ostwald, 2009). The succession candidates are draws on large pool (Perez and Gonzalez, 2006) and must be formally high educated (Jorissen et al., 2005). The non-family members such as salaried managers usually have shorter career horizons due to better offer from other companies (Galambos, 2010), but leaders make more rational and analytical decisions, bringing innovative and formalized commands and control (Zellweger and Astrachan, 2008; Zhang and Ma, 2009).

2.2 Factors of Family Business

We know family business have distinct strength comparing to non-family businesses due to their unique internal strength where the competencies that give them critical advantage in the market. (Johnson, 2011) But from all these attributes, which are the ones that play the main role? After reading the related articles, the researcher managed to list out the factors affecting the growth and survival of family business in Perak and Selangor during the economy downfall in 2015.

1. Communication
2. Trust
3. Commitment
4. Loyalty
5. Honesty
6. Great wealth management
7. Flexibility in decision making
8. Exceptional human resource management
9. Reducing expenses
10. Change according to trend
11. Employees
12. Talents

2.2.1 Factors affecting growth and survival of family business

There are some factors that strongly helps family business to survive and grow. These factors might be the backbone for family business to survive and grow. Below are the possible factors that are pushing family business to grow and aiding the family business to survive.

Without a clear understanding of what is going on, it is almost impossible to get commitment and a total team effort. Successful businesses make it a point not to ignore or exclude their in-laws in discussion about the business (Klinefeliter, 2001).

Schwass (2013) mentioned in his findings that how family can choose when it is best to decide in the family's interests rather than the ownership or management's interests? The answer is, rather than suppressing the difficult questions and dilemmas, they have adopted an open mind-set and a transparent process based on open and honest communication. Johnson (2012) mentions that when considering the transition of management and ownership of a family business, good communication is considered a key differentiator between those transitions that are smooth and successful, and those that are not. Based on family business rulebook by BDO Unibank (2010), many family business managers make the mistake of assuming that, as the family is involved in the business, there is free and open communication. This is unlikely to be the case and often the opposite is true. Through great communication, there will be less misunderstanding during internal competition between employees. According to Trikha (2012), a little friendly competition between colleagues could be the motivation source to unlock greater achievements.

Trustworthiness is an important factor that needed to be practiced in not only the leader or owner of the family business but throughout the whole company as well. Honesty creates trust and trust creates good relationship. Good business relationships bring great and lasting business results (Arfiyah Citra and Wawan, 2012). Williams (2013) suggests that trust is the most valuable business commodity. The willingness to be transparent during challenges has helped his team to bounce back higher from failures. The relationship between the founder and successor, and between successor and other family and business members, and the degree of trust in the relationship has been cited as a contributing factor in effective succession (Henry et al., 2013). Meanwhile, commitment is also closely related to trust. According to Walsh (2011), family members also tend to be more committed to its success and are more passionate about what the business stands for. With strong trust within the family business, commitment from the top to bottom of the organization will be carried out naturally and effectively.

Following trust and commitment, the next factor leading to a successful family business is loyalty. Family members in business tend to demonstrate a greater sense of loyalty to each other and to the business (Walsh, 2011). Meanwhile, Johnson (2010) suggests in her findings that staff retention is closely related to loyalty. In family