

IDENTIFY THE SUCCESSION FACTORS THAT
ENHANCES THE FAMILY BUSINESS
PERFORMANCE IN SELANGOR.

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DECLARATION

“I declare that this thesis is my own work except the citation and excerpts of each of which I have mentioned in the references.”

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Date :

DEDICATION

This Final Year Project is dedicated to my parents for their loves, endless support, encouragement and prayers.

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First of all, thanks to Allah SWT, whom with His willing giving me the opportunity to complete this Final Year Project. Besides, I would like to express my deepest appreciation to my supervisor, Dr Sentot Imam Wahjono for patience in guiding me throughout this two semester (2015/2016) duration of this final year project, for the kind attention and motivation that has helped me in completing this research. I am truly honored to have such a dedicated supervisor.

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ABSTRACT

Term of business is something that is familiar to all of which involves the process of everyday life. Family business is a business that involves the participation of one generation to another. In Malaysia, the family business grew from year to year. As it is aware, the family business was the largest contributor to the national economy. Overall, the objectives of this research were to explore and identify the succession factor of a family business that enhances the performance of the organization. Theories of family business success factors have been highlighted in this research. These theories will be consulted to determine whether it is still relevant to the organizations that run family business in the present. In-depth interview has been conducted on a number of organizations in the focus group that runs the family business in Selangor. This research has been identified a few succession factors that enhances the performances of family business in Selangor. The major factor that enhances the performances of family business also explained in this study. As the conclusion, the succession factor that enhances the family business performances obtained and listed from the research has been explained well.

ABSTRAK

Perniagaan merupakan sesuatu yang tidak asing bagi semua yang mana ianya melibatkan proses kehidupan seharian. Perniagaan keluarga merupakan satu perniagaan yang melibatkan pembabitan dari satu generasi yang lain. Di Malaysia, pertumbuhan perniagaan keluarga meningkat dari tahun ke tahun. Seperti yang sedia maklum, perniagaan keluarga merupakan penyumbang terbesar kepada ekonomi negara. Secara keseluruhannya, objektif bagi kajian ini adalah untuk meneroka dan mengenalpasti faktor-faktor berjaya sesuatu family business terhadap pencapaian organisasi tersebut. Teori-teori tentang faktor kejayaan perniagaan keluarga telah diketengahkan dalam kajian ini. Teori-teori ini akan dirujuk bagi mengenalpasti adakah ianya masih relevan untuk digunapakai oleh organisasi keluarga pada masa kini. Temubual secara terperinci akan dijalankan terhadap beberapa organisasi di dalam kumpulan fokus yang menjalankan perniagaan keluarga di sekitar Selangor. Kajian ini telah mengenalpasti beberapa faktor penggantian yang telah membantu meningkatkan prestasi perniagaan keluarga di Selangor. Faktor utama yang meningkatkan prestasi perniagaan keluarga juga telah dijelaskan di dalam kajian ini. Kesimpulannya, faktor penggantian yang meningkatkan prestasi perniagaan keluarga yang telah diperolehi dan disenaraikan daripada kajian ini telah dijelaskan dengan baik.

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CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter evaluated about the background of the study and also discussed about the research question and research objective for this study. In this chapter the scope limitation in this study is explained. Besides, the significant of the research also emphasized in this chapter

1.1 Background of The Study

Business may be defined as an institution organized and operated to provide goods and services to the society with the objective of earning profits (Business Organisation and Management-Y.K.Bhushan-Sultan Chand & Sons). Business as a form of activity pursued primarily with the object of earning profit for the benefit of those on whose behalf the activities is conducted. It is involving production or exchange of goods and services to earn profits or in a broader sense, to earn a living. The business activities include production and distributions of goods and services which can satisfy human wants.

Family controlled firm or family business is the most common form of organization in the world. As everyone knows, business is a major drive of developing economies of a nation. Family business is a family-owned firm which is

dominates most of the world's economies and is the major source of entrepreneurship especially in a cross-cultural way. Based on Malinen (2001), family business has been acknowledged as a sources of sustainable economic growth and the family business has a major influence and control over the firm in terms of the business ownership and management control. Most of the small and medium size enterprise (SME) are family business. Family holds the majority of the shares and control the management of the business.

Normally, the success of a business is a family business mainly influenced or involve a number of factors that make it always gives a great performance. Among the factors that are commonly seen are the factors affecting the management and the people who manage the business. These factors are major contributors to the success of a business. And it should be taken seriously in managing a business. For example, factors that involve people who manage these businesses will find examples of his personality, characteristics shown leadership in managing a business.

In addition, how to manage family relationships when conducting business deal involving family members is a matter for concern because it can also be said as one of the contributors to the success of a business. In addition, the external can also be associated as a contributor to the success and the good performance of the business. It involves a number of things, such as market conditions and market size of the business.

As we know, although intergenerational transition is a great challenge for family enterprises, performance of them is the most significant problem (Gumustekin, 2013). Family business which are founded and grown by an entrepreneur through a lot of sacrifices could not be properly transferred to the later generations for several reasons, and eventually either closed down or sold. When employment generated by these enterprises and when the fact that they are also social entities is taken into account, it is a fact that performances of these enterprises is not only an economical but also another factor.

1.2 Problem Statement

Malaysia is a country with a majority of the population is not in formal employment and thus most people compelled to start a business in a variety of sizes and different skills base. In addition, most of them formally employed have also participated in various business ventures. As you are aware, is the largest contributor to the world economy, especially in our country Malaysia. Similarly, the family business became the main pillars of the national economy. The many types of businesses provide jobs for those who need a job.

However, most of the family businesses in Malaysia today are rarely succeed or survive when left in the hands of the next generation of family members. This situation usually occurs in a business that is involved in a variety of industry especially the food industry. This scenario caused by the process of taking over the business because the current generation of their business cannot maintain business continuity in terms of providing the product to the consumer. Typically, the conflict in the management of the family business is family relationships between members of the business (Levinson, Conflict That Epidemics Family Business).

Due to a conflict usually found in managing the business in which the majority of the board of family members is only about one-third of family businesses survive the first generation to the second generation (Yong, 2004). In addition, only about one-third of the survivors of a generation the second to the next. Therefore, a special challenge for entrepreneurs in the family business is the wisdom to lead through separation between the family and the relationship between the family and the way to go in business.

In addition, this study was conducted to address some of the problems that typically involve a conflict in a particular company that operated the family business, whether internal or external conflict. Family businesses are the engines of both the developed and developing countries. Some family businesses are not aware of the factors that can lead to the performance of their business. Therefore, this study was conducted to identify the factors of success that can help improve the performance of family businesses today. This study was conducted to enable an

organization to manage the family business to identify what can be important for improving performance.

1.3 Research Question

The main research question has been constructed following the study need to achieve and fulfil the research objective. And below are the questions.

1. What are the succession factors that lead to the performance of family business?
2. Is personal factor enhancing the performance of family business?
3. Is family relationship factor enhancing the performances of family business?
4. Is external factor enhancing the family business performance?

1.4 Research Objective

In order to achieve the aim of this study successfully, research objectives have been listed down according to the research requirement. Below are the objectives:

1. To identify the succession factors that lead to the performance of family business
2. To investigate the personal factor, enhance the performance of family business
3. To identify family relationship factor, enhance the performance of family business.
4. To examine the external factor enhances family business performance.

1.5 Scope and Limitation

This study is mainly focused on the succession factor that enhances the performance of family business and need that contributed to the firm perception and opinion regarding to the factor that effect the performance of family business after the business is take over by the next generation. In contrast, this research study is not cover about the other factors such as financial factor which is also enhances the performance of family business. The other limitation is lack of time to further the research and the researcher also has lack of resources in collecting data for this research. Besides, the limitation of research area where the researcher conducts this research only in a few place such as Selangor and the limitation number of respondent also.

1.6 Significant of the Study

From the previous details of the background in this chapter, the aim of the study, scope and limitation have been stated accordingly to give clear view in the next following chapter. By doing so, its aim to help the family firms to restructure their strategy in order to be sustaining in the market. This research can be a model for the future research. Besides, the researcher assumes that it also can be used by the organizational as a guide in order to enhance its performance and productivity. Its help the organization to formulate appropriates strategies in order to be performing in the market.

CHAPTER 2

LITERATURE RIVIEW

2.0 Introduction

A literature review is an evaluative report of studies found in the literature related to the selected area. The review should describe, summarize, evaluate and clarify this literature. It should give a theoretical basis for the research and help to determine the nature of the research. A literature review goes beyond the search for information and includes the identification and articulation of relationships between the literature and the field of research (Boote, 2005).

2.1 What Is Business?

According to Akrani (2011) business is an economic activity, which is related with continuous and regular production and distribution of goods and services for satisfying human wants. All of us need clothing and shelter. People also have many other household requirements to be satisfied in their daily life. People met these requirements from the shopkeeper.

The regular production or purchase and sale of goods undertaken with an objective of earning profit and gaining wealth through the satisfaction of human wants. Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted. Business

also defines as a human activity directed towards producing or acquiring wealth through buying and selling of goods. Thus, the term business means continuous production and distribution of goods and services with the aim of earning profits under uncertain market conditions.

2.2 What Is Family Business?

Term of “Family Business” has defined as one in which both ownership and policy making are controlled by members of an “emotional kinship group” and one of the most fundamental research topics in the study of family business is “family business successions”, which refers to the actions, events, and developments that affect the transfer of professional control from one family member to another Carsrud, (1994).

Traditionally, a family business is defined as ‘an enterprise in which a family or a group of families has invested a major share of capital. Some researchers said family businesses are those enterprises managed or controlled by a group of people whose interests are tied together by a family unit. This definition did not consider the close identification of the firm with at least two generations.

Donnelley (1964) has defined a family firm as ‘one which has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family.’ The researcher interested to know about the performance of these businesses can be sustained after it is passed down from one generation to another generation.

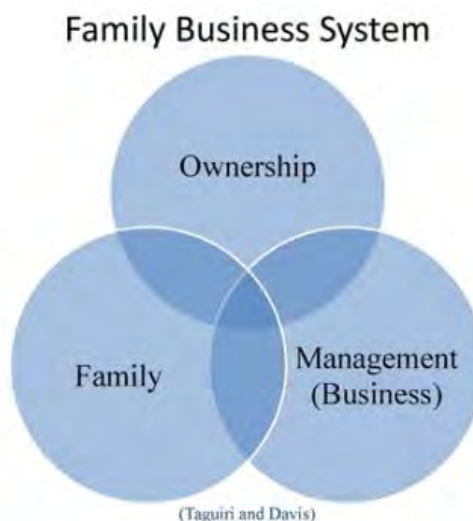
According to Anna Frances Carmon, (2012) family businesses are business governed and/or managed with the purpose to shape and follow the vision of the business held by a leading partnership controlled by members of the same family or a small number of families in a manner that is possibly sustainable across generations of the family or families.

Refers to Collins and O'Regan (2011) note that family business is a growing of research field. The involvement of the family is the key essential issue that differentiates family business from non-family business. However, it involves aspects of entrepreneurship and family control.

According to Mazzola (2008) family firms are those in which the family controls the business through involvement in ownership and management positions. Family involvement in ownership (FIO) and family involvement in management (FIM) is measured as the percentage of equity held by family members and the percentage of a firm's managers who are also family members.

According to (Harms, 2014) company is considered a family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family.

2.2.1 Family Business System



Source: Three-Circle Model developed by Renato Tagiuri and John A. Davis.

Figure 1.2: Family Business System

The Three-Circle Model of the Family Business System was developed at Harvard Business School by Renato Tagiuri and John Davis in the 1970s. It quickly became, and continues to be, the central organizing framework for understanding family business systems, used by families, consultants and academics worldwide, Davis (2012)

This framework clarifies, in simple graphic terms, the three interdependent and overlapping groups that comprise the family business system: family, business and ownership. As a result of this overlap, there are seven interest groups present, each with its own legitimate perspectives, goals and dynamics. The long-term success of family business systems depends on the functioning and mutual support of each of these groups.

2.3 Family Business Succession

According to Ibrahim *et al.* (1999) succession is possibly the most important and critical issue in the family business. A proper succession planning process provides the family business with the opportunity to select the effective leaders who are able to take the business to a new level.

Based on the statement that stated by Islam (2009) succession is not simply a single step in time and space which takes place at once; it is a multistage process that exists over time, beginning before heirs even enter the business. Furthermore, the effectiveness of succession is not limited to whether a successor has been chosen; but the entire process of succession also depends on the individual nature of the predecessor and successor as well.