

**FACTORS OF TRANSFERRING TACIT KNOWLEDGE IN FAMILY BUSINESS
SUCCESSION IN MALAYSIA**

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**Report submitted in fulfilment of the requirement for the degree of Bachelor of
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DECLARATION

“I declare this thesis entitled „Factors of Transferring Tacit Knowledge in Family Business Succession“ is my own work expect the summary and experts of each of which I have mentioned the source”

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SUPERVISOR VERIFICATION

„I acknowledgement that have read this research project and in my opinion this research project is sufficient in terms of scope and quality for the award of Bachelor of Technology Management (Innovation)“

Signature :

Supervisors' Name :

Date :

DEDICATION

This thesis would have remained a dream had it not been for my family. A special feeling of gratitude to my beloved father (Wellun Bacho), my mother (Sitti Sarah Ampiana) and my family who believed that I would one day pursue a bachelor degree. Their unwavering love, support and prayers over the course of my research and during my final months of writing have kept me motivated to accomplish this momentous juncture in my life.

I also dedicate this thesis to my friends whose gives words of encouragement that push my tenacity to finish this research study. That always gives support and strength during all the way of done this research study.

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ABSTRACT

This research covers knowledge management. Knowledge management is the power of collective wisdom to increase responsiveness and innovation. Knowledge management divides up with the unanticipated stimuli and creative unplanned reactions. Knowledge management consists of tacit knowledge. This research is to identify the factors of transferring tacit knowledge in family business succession. Tacit knowledge can become the valuable asset to help sustain the family business in future. Therefore this research is to explain the importance of relation between successor and predecessor; and characteristics of tacit knowledge transfer towards succession planning. Sample of 100 respondents from selected small medium entrepreneurs that related to family business have been collected. The SPSS 20.0 version has been used to analyse the data by using multiple regression analysis, Pearson Correlation analysis and crosstabulation data analysis. The result shows that relation between successor and predecessor is significant in transferring tacit knowledge towards succession planning. In conclusion, good relation between successor and predecessor can influence the process of transferring tacit knowledge in succession planning.

Keywords: Family Business, Relation between Successor and Predecessor, Characteristics of Transferring Tacit Knowledge, and Succession Planning

ABSTRAK

Kajian ini meliputi pengurusan pengetahuan. Pengurusan pengetahuan adalah kuasa kebijaksanaan kolektif untuk meningkatkan kepantasan bertindak dan inovasi. Pengurusan pengetahuan membahagikan dengan rangsangan reaksi kreatif yang tidak dijangka dan tidak dirancang. Pengurusan pengetahuan terdiri daripada pengetahuan tersirat. Kajian ini adalah untuk mengenal pasti factor-faktor yang memindahkan pengetahuan tersirat dalam penggantian perniagaan keluarga. Pengetahuan tersirat boleh menjadi asset yang berharga untuk membantu mengekalkan perniagaan keluarga pada masa akan datang. Oleh itu, kajian ini adalah untuk menerapkan kepentingan hubungan antara pewaris dan waris; serta ciri-ciri pemindahan pengetahuan tersirat ke arah perancangan penggantian. Sampel 100 responden dari usahawan sederhana kecil terpilih yang berkaitan dengan perniagaan keluarga telah dikumpulkan. SPSS versi 20.0 telah digunakan untuk menganalisis data dengan menggunakan analisis regresi berganda, analisis korelasi Pearson dan analisis penjadualan silang data. Hasil menunjukkan bahawa hubungan antara pewaris dan waris adalah penting dalam memindahkan pengetahuan tersirat ke arah perancangan penggantian. Kesimpulannya, hubungan baik antara pewaris dan waris boleh mempengaruhi proses memindahkan pengetahuan tersirat dalam perancangan penggantian.

Kata Kunci: Perniagaan Keluarga, Hubungan Pengganti dan Pendahulu, Ciri-ciri daripada Memindahkan Pengetahuan Tersirat dan Perancangan Penggantian

TABLE OF CONTENT

CHAPTER	TITLE	PAGE
	DECLARATION	i
	SUPERVISOR VERIFICATION	ii
	DEDICATION	iii
	ACKNOWLEDGEMENT	iv
	ABSTRACT	v
	TABLE OF CONTENT	vii
	LIST OF TABLES	x
	LIST OF FIGURES	xi
1	INTRODUCTION	
	1.1 Background of Study	1
	1.2 Problem Statement	5
	1.3 Research Questions	5
	1.4 Research Objectives	6
	1.5 Scope	6
	1.6 Limitation	7
	1.7 Significant of the study	7
2	LITERATURE REVIEW	
	2.1 Introduction	9
	2.2 Characteristics of Transferring Tacit Knowledge towards	14

	Succession Planning	
	2.3 Relation between Successor and Predecessor and the Succession Planning	16
	2.4 Theoretical Framework	18
	2.5 Location	19
3	RESEARCH METHOD	
	3.1 Introduction	20
	3.2 Research Design	21
	3.3 Research Method	21
	3.4 Research Strategy	23
	3.5 Sampling Techniques	24
	3.6 Primary Data and Secondary Data	25
	3.7 Validity and Reliability	25
	3.8 Validity Test	26
	3.9 Reliability	26
4	DATA ANALYSIS AND DATA FINDINGS	
	4.1 Introduction	27
	4.2 Survey Response Rate	28
	4.3 Respondent's Demographic Profile	28
	4.4 Reliability	36
	4.5 Correlation Coefficient	38
	4.6 Multiple Regression Analysis (MRA)	41
	4.7 Crosstabulation Data	45

5	DISCUSSION AND CONCLUSION	
	5.1 Introduction	57
	5.2 Discussion	57
	5.3 Discussion on Research Objective	58
	5.4 Limitation of Study	61
	5.5 Recommendation for Future Study	62
	5.6 Conclusion	63
6	References	64
7	APPENDIX	70

LIST OF TABLES

TABLE NO.	TITLE	PAGE
2.1	Knowledge Type and Properties	13
4.1	Overview of Respondent's Demographic Profile	29
4.2	Cronbach's Alpha and Internal Consistency	36
4.3	Reliability of Research	37
4.4	Correlation Coefficient	39
4.5	Result for Correlation Coefficient of the Variables	40
4.6	Model Summary of MRA	42
4.7	ANOVA ^a	43
4.8	Coefficients ^a	44
4.9	Level of Education * Relation between Successor and Predecessor and the Succession Planning Crosstabulation	45
4.10	Job Experience * Relation between Successor and Predecessor and the Succession Planning Crosstabulation	47
4.11	Age starting business * Relation between Successor and Predecessor and the Succession Planning Crosstabulation	49
4.12	Level of Education * Characteristics of Transferring Tacit Knowledge Crosstabulation	51
4.13	Job Experience * Characteristics of Transferring Tacit Knowledge Crosstabulation	53
4.14	Age starting business * Characteristics of Transferring Tacit Knowledge Crosstabulation	55

LIST OF FIGURES

FIGURE NO.	TITLE	PAGE
2.0	Theoretical Framework	18
4.3.1	Respondent's Gender	30
4.3.2	Respondent's Age	31
4.3.3	Respondent's Level of Education	32
4.3.4	Respondent's Marital Status	33
4.3.5	Respondent's Job experience in Family Business	34
4.3.6	Respondent's Starting Age Involve in Family Business	35

CHAPTER 1

INTRODUCTION

1.1 Background of study

Family business has vital contribution to economic development. According to Siu (2000) states that generally concluded that small business (SME) contribute to economic development. In Malaysia and many other countries, small firms have played an important to economic development. In the US, 99% of business establishment are SMEs, in Holland 95%, in Philippines is 95% and in Malaysia, SME constituted about 80% (Kheng, 2003).

Refer to SME Annual Report 2012/2013 of Performance of SMEs in Malaysia (Growth Trends from 2006 – 2012) shows that the latest statistics from the Economic Census 2011 indicates that SMEs constitutes 97.3% of total business establishment in the country (645, 000). Most of the businesses are in wholesale and retail trade, restaurants and accommodation as well as manufacturing of textiles and food products (SME Annual Report 2012/2013).

Ibrahim and Abdul Samad (2010) states the empirical evidence shows that the percentage of family ownership or controlled firms is significant to the business organizations in the world. By referring to the study by La Porte et al. (1999) on a sample of firms in 27 rich countries, with market capitalization exceeding \$500 million,

finds that 50% of the firms are controlled by family, while 40% are widely held firms. Furthermore, they also find that, on average about 34 and 45.15% of large and medium-sized publicly traded firms, respectively, are family controlled companies at 20% cut off level (La Porte et al., 1999).

In terms of family ownership, there already various studied have been done on the effect of ownership structure and performance in Malaysia. Abdul Rahman (2006) specifies that many listed firms in Malaysia are owned or controlled by family and that these companies appear to be inherited by their own descendants.

Family business is actually involved family members as the owners and managers. According to (Simon & Hitt, 2003; Koiranen, 2002) there are discussions on who should be included in the concept family. It is only relations by blood or are external members included by for example marriage? In many cases of research on family business spouses play an important role and should therefore be included (Sten, 2006).

Koiranen (2002) points out about the uniqueness of all family businesses and the risk of placing the business on equal footing only because they are defined as family owned. All family business have their own characteristics based on history and structure, both dependent on personalities within family (Neubauer, 2004) but also the number of members and the ownership structure will affect the business characteristics (Sten, 2006).

For a family business network Stokes et al. (2010) explain trust in a strong internal network is a key factor in the success of family businesses as a form of enterprise. It defined as any business that employs more than one family member, they account for three-quarters of all businesses and are particularly prevalent amongst small enterprises. Family businesses also share common issues that are not typical of other enterprise including: coaching and encouraging the next generation of owners and coping with family politics within a business context and making agreements for inheritance and gift taxes.

Tacit knowledge is a concept that is known for difficulties to share it with others. Due to its characteristics as difficult to articulate, implicit, personally embedded and based on experience (Polanyi, 1966: Nelson & Winter, 1982), it is easy to conclude that same methods and factors can not be used in sharing tacit and explicit knowledge. Explicit knowledge is often shared verbally, spoken or written. This is not appropriate for tacit knowledge sharing where methods as observation and experience are recommended by researchers (Polanyi, 1966: Tsoukas, 2002).

According to Daniels et al., (2009) mention that tacit knowledge is knowledge imbedded in people, which usually can be transferred only on a person-to-person basis rather than through printed material. Frappaolo (2006) tacit knowledge is experiential know-how based on clues, hunches, instinct, and personal insights, as distinct from formal, explicit knowledge. In some cases, knowledge believed to be tacit is only so labeled because no one has ever taken the time and energy to codify the knowledge.

Gamble and Blackwell (2001) state that all this about tacit knowledge; it is about experience, about wisdom and about empathy. Polanyi (1966) represented knowledge (sometimes referred to as formal or explicit knowledge) and embodied knowledge (sometimes referred to as informal or tacit knowledge). Gamble and Blackwell (2001) indicates the key distinction is that represented knowledge can be stored in an artifact, such a piece of paper, a drawing, or a computer. Embodied knowledge is personal; it involves personal beliefs, perspectives and values. The storage medium for embodied knowledge is therefore generally people. Knowledge is equivalent to tacit knowledge and tends to be stored in people's head. Represented knowledge is codified knowledge that may be either tacit in origin or explicit.

According to Business Dictionary, tacit knowledge is an unwritten, unspoken, and unhidden vast storehouse of knowledge held by practically every normal human being, based on his or her emotions, experiences, insights, intuition, observation and internalized information. Tacit knowledge is integral to the entirety of a person's consciousness, is acquired largely through association with other people, and requires joint or shared activities to be imparted from one to another.

Cambridge Dictionary explains that tacit knowledge is knowledge that you do not get from being taught, or from books, etc. But get from personal experience, for example when working in a particular organization.

1.2 Problem Statement

Succession planning is important in every family business in order to maintain the business in future. However, some owner of family business thinks that succession planning not really important. Owner of family business thinks that his or her child will eventually take over the family business in future without a proper succession planning. They also do not think that tacit knowledge is not important to transfer to their child. Owner or predecessors believes that successors can get that tacit knowledge through learning at schools or gain experience at the outside before entering family business.

Predecessor not prepare for transferring tacit knowledge in succession planning because they do not aware of importance of tacit knowledge. This is due to the lacks of knowledge of importance of tacit knowledge and factors that relate to the transferring tacit knowledge.

1.3 Research Questions

In this research, the focus is to determine the factor that use in transferring tacit knowledge in successor of family business succession. So, the research question constructed as:

1. What are the characteristics of transferring tacit knowledge in succession planning?
2. What is the relation between successor and predecessor and the succession planning?

1.4 Research Objectives

The aim of this study is to identify the factors of transferring tacit knowledge in family business succession. To achieve above aim, the following objectives have been identified:

1. To determine the characteristics of transferring tacit knowledge towards succession planning.
2. To identify the relation between successor and predecessor towards succession planning.

1.5 Scope

This research analyzes the small medium entrepreneurship focus on family business. Variety of small medium entrepreneur involved family business was included. The study was carried out with a careful study on data collection in term of respondents' area of research. The mainly on questionnaires survey was asked about the factors of transferring tacit knowledge in family business succession. The questions included the succession planning by predecessor; the characteristics of transferring tacit knowledge succession planning; relation between successor and predecessor and the succession planning.

The researcher methods are by distributing the questionnaires among owner of the family business. It is to build an understanding of family business succession by focusing on the transfer of knowledge between the older generations to the younger generation.

1.6 Limitation

There are few of limitation has identified in this research study. Firstly, the researcher focuses in the transferring tacit knowledge into the next successor. But researcher only focuses on the characteristics of transferring tacit knowledge towards succession planning; the relation between successor and predecessor towards succession plans. Secondly, researcher has time limitation to get more than 100 respondents. Researcher spend more time on each respondents during survey session, it took more time due to researcher needs to explain the aim of this study and some terms that respondents not familiar with such as tacit knowledge. Moreover, group of respondent are focus on the owner of the business if they have plan for the succession process to the successor. The area also was limited only two regions that are Melaka and Johor Bahru. It also has time limitation to distribute the questionnaires within these two regions.

1.7 Significant of the study

The importance of this study is to identify the factors of transferring tacit knowledge to the successor in order they can manage the family business in future. The successor can understand, handle and solve the problem face by using the knowledge that has been learned. Proper training or succession of transferring tacit knowledge to successor can help to expand the family business and help the successor more understand about the family business.

Therefore this study identified that the relation of successor and predecessor and the succession planning becomes the most important factors on the process of transferring tacit knowledge in family business succession. It shows that good relationship between successor and predecessor helps the process of transferring tacit knowledge more easily. Besides that, predecessor also can identify the other factors that significant to the process of transferring tacit knowledge.

The result of this study will be very useful information for owner of family business in Malaysia. Owner of family business will be exposing to the importance of tacit knowledge in succession planning. From this research study, predecessor can start to plan about the succession planning in their family business. A proper succession planning will be conduct by the owner of family business in order to retain their business in future.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Family business succession becomes popular nowadays. The succession of family business is important to continue the business legacy. In order of family business continuity by the next generation, several factors, types and stages of transferring tacit knowledge should be identify. An increasing number of family businesses are facing succession-related concerns (Allen et al., 2003). At the same time, succession is often not effectively conducted, especially not during the lifetime of the founder (Fox et al., 1996; for an overview, see Stavrou, 2003). For the value of internal family succession, Pollak (1985) discusses the advantages and disadvantages of family businesses from a transaction cost perspective and identifies a number of advantages of family firms, including incentives, control, altruism, and loyalty. Pollak (1985) suggests that family firms are most appropriate in uncertain environments or societies where nonfamily members are not expected to behave in a reliable and honest way, as well as in sectors with relatively simple technologies.

Family business succession is a process that takes place over a number of years. Researching the family firm from a resource and knowledge basis requires that succession be a longer-term process, not one event (Fiegener et al., 1994; Sharma, 2004). Since family firms are often transferred from one generation to the next, it follows that research should consider the process as generational (Lambrecht, 2005). This research can have led to the view that succession is a series of stages or phases.

According to Henry (2012) by referring about knowledge generation, knowledge management, and knowledge transfer from the founder to the successor are important for business to succeed (Sambrook, 2005; Steier, 2001). Although this knowledge can take both explicit and tacit forms, the nature of the knowledge as part of the familiness of a firm primarily tacit. This tacit knowledge is often held by owner and other key individuals, has significance for the development and maintenance of a firm's competitive advantage, and is more important to the family firm than to non-family firms (Cabrera-Suarez et al., 2001; Dyer, 2003; Osterloh, Frost & Frey, 2002). The tacit knowledge embedded in the founder is a strategic asset and is more effectively transferred than in non-family firm (Cabrera-Suarez et al., 2001).

Business know-how or knowledge plays an important role in the family firm and can exist as both explicit knowledge (knowledge that is available and easily identified) and tacit knowledge (knowledge that is not immediately known to all). Knowledge is a key resource that contributes to the success of the firm, and it is important to understand how this knowledge is created and transferred. A substantial body of literature focuses on the transfer of explicit knowledge in firms, but considerably less on the transfer of tacit knowledge in organizations, and in particular, in the context of family business. This tacit knowledge is one form of a firm's social capital; it is commonly embedded in the founder and understood to be a key factor in the founder's business success (Swart & Kinnie, 2003).

According to Nonaka (2004) tacit knowledge is highly personal. It is hard to formalize and, therefore, difficult to communicate to others. Or in other words of the philosopher Micheal Polanyi (1966), “We can know more than we can tell.” Tacit knowledge is also deeply rooted in action and in an individual’s commitment to a specific context – a craft or profession, a particular technology or product market, or the activities of a work group or team. Tacit knowledge consists partly of technical skills- the kind of informal, hard-to-pin-down skills captured in the term “know-how.”

At the same time, tacit knowledge has important cognitive dimension. It consists of mental models, beliefs, and perspectives so ingrained that we take them for granted, and therefore cannot easily articulate them (Nonaka, 2004).

Tacit knowledge has been identified as a key strategic resource and passing this knowledge from the founder to the successor is a key element in transition that ensures the business is viable and remains in the family (Henry, 2012). Herrgard (year) state that knowledge sharing can be affected by different factors such as the assignor’s willingness to let go or the successor’s to take over the family business. Also to the individual’s possibility and ability to share knowledge and especially tacit knowledge affects the sharing.

Main factors of pass on the tacit knowledge to the successor is ensure the legacy of family business develop into an excellent business and build a good reputation of the family business brand. Stinchcombe (1965), without doubt, the succession processes in family firms represent the most critical period confronting family businesses, since it is precisely when the business is transferred one generation to the next. Moreover, one of the main dreams of a founder typically has is to hand down his legacy to his offspring, given that he has accumulated capital, commitment of potential members, entrepreneurial skills, and legitimacy.