

SUCCESSION PLANNING IN FAMILY BUSINESS: A STUDY OF FAMILY  
ENTREPRENEURIAL TEAMS IN MELAKA.

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## SUPERVISOR'S APPROVAL

I hereby declared that I had read through this thesis and in my opinion that this thesis is adequate in terms of scope and quality which fulfil the requirements for the award of Bachelor of Technopreneurship

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The thesis is submitted in partial fulfillment of the requirements for the award of  
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## DECLARATION OF ORIGINAL WORK

“I hereby declare that this project paper is the result of my own and independent work except the summary and experts that have been specifically acknowledgement”

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## **DEDICATION**

I would like dedicate the appreciation to my family members especially my parents Mr. Mohmad Sidek bin Sukimon and Mrs. Jimileh binti Dobok who motivate me in completing this research. They continuously give me support and advice to fulfil the requirement of the research.

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## **Abstract**

Family business is common business venture in worldwide and act as economic resources for all country's including Malaysia itself. Report from Kuala Lumpur Stock Exchange (KLSE), family ownership in Malaysia contributes over 43 per cent of the main board in Bursa Malaysia. However, from the observation, not all firms successful transfer their business to the next generation. Therefore, this research was conducted to identify the business succession factor that can help family business performance and maintain their business to the next generation. In this study data was collected by using questionnaires in Melaka area. The owner or successor to family business was selected as the respondent. The collected data was analyses using multiple regression analysis with IBM SPSS Statistic 22. The result from the analysis shows that the business succession factor can give impact to family business performance.

Keywords: Family business, business succession factor, family business performance

## **Abstrak**

Perniagaan keluarga adalah usaha perniagaan biasa di seluruh dunia dan bertindak sebagai sumber ekonomi untuk semua negara termasuk Malaysia sendiri. Laporan dari Bursa Saham Kuala Lumpur (BSKL) pemilikan keluarga di Malaysia menyumbang lebih 43 peratus daripada papan utama di Bursa Malaysia. Walau bagaimanapun, dari pemerhatian, tidak semua firma keluarga berjaya memindahkan perniagaan mereka untuk generasi akan datang. Oleh itu, kajian ini dijalankan untuk mengenal pasti faktor penggantian perniagaan yang mampu membantu prestasi perniagaan keluarga dan mengekalkan perniagaan mereka kepada generasi berikutnya. Dalam kajian ini, data dikumpulkan dengan menggunakan soal selidik di kawasan Melaka. Pemilik atau pengganti kepada perniagaan keluarga dipilih sebagai responden. Data yang diperolehi, dianalisis menggunakan analisis regresi berganda dengan menggunakan IBM SPSS Statistic 22. Hasil bentuk analisis menunjukkan faktor pewarisan perniagaan boleh memberi kesan kepada prestasi perniagaan keluarga

Kata kunci: Perniagaan keluarga, faktor pewarisan perniagaan, prestasi perniagaan keluarga



## TABLE OF CONTENT

<b>CHAPTER</b>	<b>CONTENT</b>	<b>PAGES</b>
	<b>DECLARATION OF ORIGINAL WORK</b>	i
	<b>DEDICATION</b>	ii
	<b>ACKNOWLEDGEMENT</b>	iii
	<b>ABSTRACT</b>	iv
	<b>ABSTRAK</b>	v
	<b>TABLE OF CONTENT</b>	vi
	<b>LIST OF TABLE</b>	x
	<b>LIST OF FIGURES</b>	xi
	<b>LIST OF ABBREVIATION</b>	xii
	<b>LIST OF APPENDIX</b>	xiii
 <b>CHAPTER 1</b>	 <b>INTRODUCTION</b>	
	1.1 Background of Study	1
	1.2 Problem Statement	2
	1.3 Research Objectives	3
	1.4 Research Questions	3
	1.5 Scope and Limitation	4
	1.5.1 Scope of Study	4
	1.5.2 Limitation of Study	4
	1.6 Significant of Study	5
	1.7 Summary	5

<b>CHAPTER 2</b>	<b>LITERATURE REVIEW</b>	
	2.1 Introduction	6
	2.2 International Entrepreneurial Culture	7
	2.3 Succession Planning	7
	2.4 Entrepreneurial Culture in Family Business	8
	2.5 Entrepreneurial Behaviour	9
	2.6 Entrepreneurial Teams	9
	2.7 Family Entrepreneurial Teams	11
	2.8 Preparations of Heir	12
	2.9 Family Business	12
	2.10 Family Business Performance	14
	2.12 Family Business in Malaysia	14
	2.12 Research Framework	16
	2.13 Hypothesis	17
	2.14 Summary	17
<b>Chapter 3</b>	<b>RESEARCH METHODOLOGY</b>	
	3.1 Introduction	18
	3.2 Research Design	19
	3.3 Research Method	20
	3.3.1 Quantitative Research	20
	3.4 Data Sources	21
	3.4.1 Primary Data	21
	3.4.2 Secondary Data	22
	3.5 Research Location	22
	3.6 Research Strategy	23
	3.7 Population and Sampling	23
	3.7.1 Nonprobability Sampling	24
	3.8 Research Instrument	24
	3.9 Questionnaire Design	25
	3.10 Pilot Test	26
	3.10.1 Cronbach's Alpha	26
	3.11 Reliability	27

3.12	Validity	27
3.13	Time Horizon	27
3.14	Analysis Techniques	29
3.14.1	T-Test	29
3.14.2	Analysis of Variance Techniques	29
3.14.3	Descriptive Analysis	30
3.14.4	Multiple Linear Regressions	30
3.14.5	Pearson Correlation Analysis	30
3.15	Summary	31
<b>CHAPTER 4</b>	<b>DATA ANALYSIS AND FINDING</b>	
4.1	Introduction	32
4.2	Reliability Analysis	33
4.2.1	Cronbach's Alpha	34
4.2.2	Reliability Test	34
4.3	Demographic Analysis	36
4.4	Descriptive Analysis	38
4.4.1	Business Succession Factors	38
4.4.2	Planning and Control Activity	39
4.5	Research Objectives and Hypothesis Testing	40
4.6	Pearson Correlation Analysis	40
4.7	Multiple Regression Analysis	43
4.7.1	Model Summary	43
4.7.2	ANOVA	44
4.7.3	Coefficients	44
4.8	Objectives and Hypothesis Verification	45
4.8.1	Objective 1	45
4.8.2	Objective 2	46
4.8.3	Hypothesis 1	46
4.9	Summary	47

<b>CHAPTER 5</b>	<b>CONCLUSION AND RECOMMENDATION</b>	
5.1	Introduction	48
5.2	Discussion	49
5.3	Demographic	49
5.4	The Conclusion of Objectives	50
5.5	Summary of Hypothesis	53
5.6	Planning and Control Activity	54
5.7	Limitations	54
5.8	Suggestion to Future Researcher	55
		,
	REFERENCES	57
	APPENDICES A	
	GANT CHART PSM 1	63
	GANT CHART PSM 2	64
	APPENDICES B	
	QUESTIONNAIRE	65

## LIST OF TABLES

<b>TABLES</b>	<b>TITLE</b>	<b>PAGES</b>
3.1	Cronbach's Alpha	26
3.2	Gantt Chart of Timeline of Research	28
3.3	Analysis Technique Table	29
3.4	Correlation of Coefficient	31
4.1	Cronbach' Alpha Coefficient Value	33
4.2	Reliability Statistic	34
4.3	Reliability Test	34
4.4	Demographic Analysis	36
4.5	Descriptive Analysis	38
4.6	Planning and Control Activity	39
4.7	Correlation between variables	41
4.8	Model Summary	43
4.9	ANOVA	44
4.10	Coefficient	45
4.11	Summary of Analysis	47
5.1	Categories of SMEs	50
5.2	Percentage of preparation of successor	52

**LIST OF FIGURES**

<b>FIGURES</b>	<b>TITLE</b>	<b>PAGES</b>
2.1	Theoretical Framework	16
3.1	Research Strategy	23
4.1	Values of Correlation	42

**LIST OF ABBREVIATIONS**

ANOVA	=	Analysis of Variance
BSKL	=	Bursa Saham Kuala Lumpur
EB	=	Entrepreneurial Behaviour
EC	=	Entrepreneurial Culture
ET	=	Entrepreneurial Teams
FET	=	Family Entrepreneurial Teams
FBP	=	Family Business Performance
IEC	=	International Entrepreneurship Culture
KLSE	=	Kuala Lumpur Stock Exchange
PACA	=	Planning and Control Activity
POH	=	Preparations of Heir
SME	=	Small Medium Enterprise

**LIST OF APPENDIX**

<b>APPENDICES</b>	<b>TITLE</b>	<b>PAGES</b>
A	Gantt Chart PSM 1 & PSM 2	64
B	Questionnaire	66



## CHAPTER 1

### INTRODUCTION

#### 1.1 Background of Study

Family controlled firm or family-owned business is the most common form of business organization in the world (Ibrahim & Samad, 2011). Based on the World Competitive Report in 2000 provided by the Lausanne Management Centre, Switzerland, 80% of all entrepreneurs in comprise one-third of Standard and Poor`s 500. Further evidence has been provided by Klein (2000) in Germany; Astrachan and Shanker (2003) in US and Morck and Yeung (2003) in Sweden.

In line with current developments, in terms of separation of ownership and control, study in nine East Asian corporations (Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand) shows that Malaysia has the third highest concentration of control after Thailand and Indonesia (Claessens, Djankov, & Lang, 2000). Family ownership in Malaysia constitutes over 43 per cent of the main board companies of the Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange (KLSE) from 1999 through 2005 (Ibrahim & Samad, 2011). Research by Claessens, Djankov, & Lang (2000) also highlight the

most concentrated firms in Malaysia are dominated by family founders and their inheritors.

Eventhough family business is said as a main economic resources for a country in a world there is still a little doubt that family controlled firm are large contributors to the U.S economy this is because there a diversity to the definition of family business. Experties differentiate family business in terms of percentage of ownership, strategic control, involvement of multiple generations, and the intention for the business to remain in the family. Different definition obviously show different result in determine size of the family business universe. However, based on the previous study, contribution family business in United States result a massive impact on the economy as a whole (Astrachan & Shanker, 2003).

## **1.2 Problem Statement**

Nowadays, research on family business has become a major area of study among other researcher. Family controlled firms said to dominate most of the world`s economies and as a major source of entrepreneurship however this statement still under researched especially in a cross-cultural way (Brice & Richardson, 2009). Previous study on entrepreneurial orientation has been conducted mostly in the context of developed countries such as United States and a very little conducted in emerging economies or other developing country such as Malaysia (Zainol & Ayadurai, 2011).

According to Ghee, Ibrahim, & Abdul-Halim (2015), family business in Malaysia is widespread and Malaysia is the third highest concentration in family controlled firm but based on observation not all family firms grow successfully. In some cases the firm only survived in one generation only. Past research has suggested that only 30 per cent of family business survive into the second generations of family ownership and 15 per cent into third generation (Poza, 2010; Ward, 2011). Previous literature by Brice and Richardson (2009) advise that

successful firms have important part of their competitive advantage to family culture. Some expertise also said there are significance difference between family-owned firm and non-family firm in terms of strategic in conducting their firm. As a result produce a difference firm performance (Ibrahim & Samad, 2011). Therefore, this study is to determine business succession factors that contribute towards family business performance.

### **1.3 Research Objectives**

There a few objectives arise in this study based on the problem statement above as follows:

1. To identify the relationship between business succession factors and family business performance.
2. To determine the main factors that contributes to family business performance.

### **1.4 Research Question**

Research question that related of the study are:

1. What are the relationship between business succession factors and family business performance?
2. What are the main factors that contribute to family business performance?

## **1.5 Scope and limitation**

### **1.5.1 Scope of study**

Literature review from other researcher shows that Family business in Malaysia act as biggest contributor to country economic resources. Based on research by Hassan (2014), record from Malaysian Department of Statistics shows there are 192, 527 founding in services sector and 186,728 of these are made up of SMEs. Almost 90 per cent of SMEs are in the retail business with small in size and made up mainly proprietorships and family run business. Literature by Amran & Ahmad (2010) stated 975 companies listed in Bursa Malaysia from the year 2003 until 2007. However, there is no official statistic in showing how many family business firms in Melaka. Therefore, researcher takes initiative to conduct convenience and snowball sampling. These types of sampling enables researcher to find selected respondent as many as possible in order to fulfil this study. Questionnaires and survey will be conducted in Melaka area especially in Bandaraya Melaka which expected to has many family business venture.

### **1.5.2 Limitation of study**

Family-owned firms dominate most of the world's economies and are a major source of entrepreneurship yet this under-researched especially in a cross-cultural way. Most of the previous study has been done in developed country rather than developing country. Therefore there is need further research regarding entrepreneurial culture in Malaysia as Malaysia is one of the developing country.

Since family business in Malaysia is the larger economies contribution thus further study about family business also is needed due to little research has been done before. Another limitation is, this study only cover up in Melaka area thus it is actually not compatible to represent family business growth in Malaysia. Deep research need to be done with a large scope that suitable to represent Malaysian family firms.

## **1.6 Significance of Study**

This research provides beneficial to academician by giving an in-depth knowledge about entrepreneurial culture in family business. In Malaysia study about family business and entrepreneurial culture is limited. Thus this study can be served as future reference for academician in conducting future research.

Furthermore, industry practitioner can also be beneficial from this study. This study not only provides entrepreneurial culture in family business but also expose what are entrepreneurial behaviour that can give impact to family business performance and what are family entrepreneurial teams that influence family business in Malaysia.

## **1.7 Summary**

These chapters briefly explain about the background of study, research questions and objectives are pointed out in this chapter. Other than that, this chapter also explains the scope and limitations faced by researcher in conducting the research. The following chapter will describe in detail the literature review of family business and entrepreneurial culture. Research framework and hypotheses will also be prepared in chapter 2.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter describe about the previous study related to the understanding entrepreneurial culture in family business. Independent and dependent variables also form in this chapter. Besides that, this chapter also encompasses several parts which include the literature review on entrepreneurial culture, entrepreneurial teams, understanding family business and family entrepreneurial teams, characteristic of family firms. All of these explained in detail in this chapter.

## 2.2 International Entrepreneurial Culture

Zahra (2005) suggest in previous study an international culture is the organizational culture that enables and accommodates the entrepreneurial activities of the firm internationally. In international entrepreneurship field, organizational culture and international entrepreneurship culture (IEC) are terms that increase employed activities of both small and large firms. Dimitratos, Johnson, Plakoyiannaki, & Young (2016) suggest in their study behavioural differences for the firms in those dimensions which is time, market, presence and mode may be endorsed to the IEC characteristics. Zahra (2005) suggest that IEC affects the way entrepreneurs in born global become alert to and exploit international opportunities.

An opportunity-based conceptualized of IEC consist of six connected organizational culture dimensions known as international market orientation; international learning orientation; international innovation propensity; international risk attitude; international networking orientation and international motivation (Dimitratos & Plakoyiannaki, 2003). These six dimensions capture various facets of the organizational culture of the internationalized firm irrespective of size, age, sector or time to foreign markets. It may provide a complete and accurate picture of the factors that induce opportunity-action activities abroad (Armario, Ruiz, & Armario, 2008).

## 2.3 Succession Planning

Succession is an activity or process that will be possessed in all businesses regardless of their size either sooner or later (Dyck et al., 2002). Succession activities including selection, development, training and attempt to cover retirements, death, serious illness or promotion, and any new position that need to be fulfil (Wilhelm, 2012). While according to Abdullah et al., (2011), succession planning is a process of transfer the ownership in the future. Replacement activity occurs when the owner wishes to exit from the firm yet want the business keep sustain.

Abdullah et al., (2011) also stated that there are three internal factors impelling the succession planning which is preparation level of heirs, relationship among family and business members and third is planning and control activity. Succession planning is an important part especially among small and medium business in order to maintain the continuity and sustainability in developing and developed country.

### **2.3 Entrepreneurial Culture in Family Business**

Entrepreneurial culture in family business symbolizes beliefs, aspirations, histories and self-concepts that are likely to effect a firm's disposition to support and sustain entrepreneurship (Zahra, Hayton, & Salvato, 2004). Past research suggest that family business exposure may influence the individual entrepreneurial intent of individuals. The dominance of founding generations has key effects as the transmission of entrepreneurial cultures to potential successors may be neglected or delayed (Carr & Sequeira, 2007).

Entrepreneurial culture features including education, language and religion. These features play an important role in developing entrepreneurial skills and contribute to the endurance of business venture (Altinay & Altinay, 2006) and (Basu & Altinay, 2002). Both religion and attitude to education shape values and beliefs (Basu & Altinay, 2002), while entrepreneurial skill such as English fluency is a fundamental key in accessing and leveraging social, financial and organisational resources (Ucbarasan, Wright, & Westhead, 2003). Previous study by Basu and Goswami (1999) found that educational improving entrepreneur's communication thus influence the growing of firm. Ability of entrepreneur is measured by ability to speak, write and read the language fluently (Altinay, 2008).