THE IMPACT OF PERFORMANCE FAMILY BUSINESS IMPLEMENT SUCCESSION PLANNING: STUDY IN SMEs MELAKA, MALAYSIA

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The thesis is submitted in partial fulfillment of the requirements for the award of Bachelor of Technology Management (High-Tech Marketing)

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DEDICATION

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

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ABSTRACT

Family businesses can increase the economic system in Malaysia and with the Small and Medium Enterprises (SMEs) also can improve the gross domestic product. Family business in SMEs that conduct succession planning needs to achieve the criteria required for the performance of family businesses successfully. Overall, the objective of this study is to examine the factors that can affect the performance of the current family business succession planning process and to know the dominant factors that impact business performance over the family business. The surveys will be distributed to identify several factors that help improve the performance of family businesses that also been described in this study. The SPSS is using for know the outcomes of dominant factors that impact family business by analyze the pilot test using validity and reliability. Plus, correlation coefiicient and multiple linear regression also used for examined the factors performance family business and to know dominant factors among four factors in this research. The analysis finding found that three factors that impact the family business performance which are leadership style, succession plans and founder influencer. Hence, the most factor that impact family business performance is succession plans. The important of succession plans in every family business is to help business in preparing properly after the absence of founders. The dominant factors have the great impact to family business. The performance of family business indicates that leadership style and founder influencer plays a role during succession plans. The researcher would like to suggest doing one plan in every family business that explaining the method of generational transition hoping that next founder could make a good preparation.

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ABSTRAK

Perniagaan keluarga dapat meningkat sistem ekonomi di Malaysia dan dengan adanya Industri Kecil Sederhana (IKS) juga membaiki keluaran dalam negara kasar. Industri Kecil Serdahana berasaskan perniagaan keluarga memerlukan perancangan penggantian untuk mencapai kriteria-kriteria yang dikehendaki semasa menjalankan perniagaan keluarga dengan jayanya. Secara kesulurhannya, objektif bagi kajian ini adalah untuk mengkaji faktor-faktor yang boleh memberi kesan kepada prestasi perniagaan keluarga semasa proses perancangan penggantian dan untuk menganalisis faktor yang dominan. Soal jawab selidik akan diedarkan untuk mengenalpasti beberapa faktor penggantian yang dapat membantu meningkatkan prestasi perniagaan keluarga juga telah dijelaskan dalam kajian ini. Tambahan, pekali kolerasi dan regresi linear juga digunakan untuk mengkaji faktor pretasi perniagaan keluarga dan mengtahui faktor yang dominan antara empat faktor yang dibincangkan. Analisis dapatan mendapati bahawa tiga faktor yang memberi kesan kepada prestasi perniagaan keluarga iaitu gaya kepimpinan, rancangan penggantian dan pengasas influencer. Oleh itu, yang paling faktor bahawa prestasi perniagaan kesan keluarga adalah rancangan penggantian. Yang penting dalam rancangan penggantian dalam setiap perniagaan keluarga adalah untuk membantu perniagaan dalam menyediakan dengan betul selepas ketiadaan pengasas. Faktor dominan mempunyai kesan yang besar kepada perniagaan keluarga bahawa gaya kepimpinan dan pengaruh pengasas memainkan peranan semasa rancangan penggantian. Penyelidik ingin mencadangkan melakukan satu pelan dalam setiap perniagaan keluarga yang menjelaskan kaedah peralihan generasi harapan bahawa pengasas berikut boleh membuat persediaan yang baik.

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CHAPTER 1

INTRODUCTION

1.1 Research Background

Nowadays, a term of 'family business' is familiar relatively effects from phenomenon on Malaysia. The family business plays a role in developing economic in Malaysia. Some advantages could gain from family business in term of economy development includes Gross National Profit (GNP) or Gross Domestic Profit (GDP), employmensthip and creating middle class with bigger purchasing power.

As reviewed from Department of Statistics Malaysia (2016) (that the Leading Index (LI) which monitors the economic performance in advance for August 2016 moved up by 2.0% to 117.4 points from 115.1 points in July 2016, supporting that family firm rise up the country's economies. The growth of family firm among Malaysian can gain

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opprtunities as Malaysian could fill in any occupational that offered from businesses, the increases the family firm in Malaysia, the decreases the unemployment of Malaysia. This shows the important of family business are improves in generating incomes among family members and growth of skills and competencies in family members and non-family member.

Other than that, the developing of family firm in Malaysia creates the performance of sales and profit. From of this perspective, PwC Malaysia (2015) implements 'Global Family Business Survey 2014 Focus on Malaysia' that approve the percentages of growth in sales on 2013 are 64 %. Hence, 66% and 16% steady percentages of aims to growth over next five years and aim to grow quickly and aggressively in next five years respectively (PwC, 2015). End up, the good performance will gain good management in family business and run smoothly with a good succession planning.

The performance of family business that are sales and profit also can make a purchasing power of middle class is bigger. By saying that, year by year will be more business launched. There will be more people too to purchase their product or services instead of to increasing the family business profit and sales.

Succession planning defined as a draft of planning to gain a success in family business in management whether in implementing and controlling the businesses. The implementation is carrying out with perfect succession planning and follows that successor to running the business smoothly. The PwC Malaysia mentioned in 'Global Family Business Survey 2014 Focus on Malaysia' about succession planning is one of key challenge on businesses in the long term respectively at 16% and 48%. The few key challenges faces by family firm are will issues, fierce competition, need for innovation, return on investment, and others (PwC, 2015). The task on succession planning is to clarify which assessment need to take action due to overall businesses performance need to access that best succession planning and do that assessment of succession planning with similar method on different department. If small owned family firm, a succession planning conducts with easy practices that can reach whole businesses. The key challenges as mentioned earlier could overcome with process of succession planning in family firm.

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In relation of family business, a small medium enterprise (SMEs) usually holds by family members and family members also involves on shares and control management of the businesses. The growth of SME does not contribute aggressively to the economy as mentioned by the Finance Minister II Datuk Seri Ahmad HusniMohamadHanadzlah (Business Times,2009). In this situation, the failure of SME to stimulate the economic growth was due to the lack of capabilities and lack of competencies of SME to be competitive (Davies, Hides and Powell, 2002).

1.1.1 Small and Medium Enterprises (SMESs)

In emerging country, SMEs gain many advantages could from the productivity in SMEs' Malaysia such as economy developments (Rachagan and Satkunasingam, 2009). Some advantages of Malaysia SMEs approved that there are some contribution such as growth of SME to employments. There are some evidences to approve the SMEs contribute advantages to country.

Figure1.1: Share of SMEs Employment to Overall Employment

Sources: Department of Statistics Malaysia (DOSM) and SME Corp. Malaysia

Figure 1.1 shows bar graph of SME Employment Statistics includes both share of SME Employment to Overall Employment and SME Employment Growth in year 2010-2015 indicates rising percentages in year by year from both finding.

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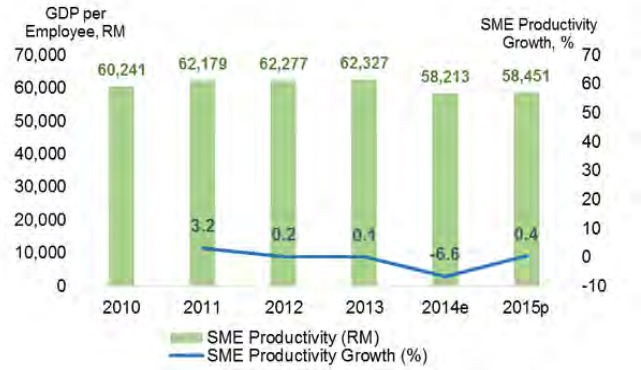

Sources: Department of Statistics Malaysia (DOSM) and SME Corp. Malaysia

Figure1.2: Productivity of SMEs

Figure 1.2 shows the result of both GDP per Employee in RM and SME Productivity Growth in percentage. This is another example of Malaysian SMEs' advantage found that significantly positive effects toward both SME productivity and SME productivity growth.

Sources: Department of Statistics Malaysia (DOSM) and SME Corp. Malaysia

Figure1.3: SMEs' Contribution to Exports

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Figure 1.3 shows that the percentages of share of SME Export to Overall Export are increasing steadily from 2013-2015 but the lowest percentages of SME Export Growth in 2015 are -0.4. Recently, government should encourage SMEs to join exporting due to higher numbers of SMEs that did not involve in internationalization (H. NikAbd and N. Shahrul, 2011).

1.1.2 Defined SMEs

Small and medium-sized enterprises (SMEs) would categorized when one firms have number of employees between 1 and 249 providing a significant source of jobs and economic growth on European economy (Schmiemann, 2009).

The term of SME can be SMI defined as Small and Medium Industries (M.A. Burhanuddin., et al: 2009).

Table 1.1 : Standard SMEs Definitions in Malaysia

Size	**Number of Full-Time Employees**		**Annual Sales Turnover**	
	Manufacturing (including Agro-based & MRS)	*Services Sector (including ICT and Primary Agriculture)*	*Manufacturing (including Agro-based & MRS)*	*Service Sector (including ICT and Primary Agriculture)*
Micro	Less than 5 full-time employees	Less than 5 full-time employees	Less than RM250,000	Less than RM200,000
Small	Between 5 and 50 full-time employees	Between 5 and 19 full-time employees	Between RM 250,000 and less than RM10 million	Between RM200,000 & less than RM1 million
Medium	Between 51 and 150 full-time employees	Between 20 and 50 full-time employees	Between RM10 million and RM25 million	Between RM1 million and RM5 million

Sources: SME Corp.

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By following the Table 1.1 it can simplify that the meaning of SME can classify by number of full-time employees and annual sales turnover and split into size of firm and types of industries.

For example, for medium manufacturing, and services and other sectors stated that sales turnover are between RM 15 million and RM 50 million, and between RM 3 million and RM 20 million respectively. For number of employees for both industries are less 200 people and less 75 people respectively (SME Corp. Malaysia, 2015)

1.1.3 Melaka Business

Melaka business represents one of activities that boost up Melaka economy and leading tourist industry. The business in Melaka will produce more goods and services due to Melaka was tourist destination choices with situation of during year-end holiday would be engrossing treat tourist as customers with best services at hotel, café, restaurants, and shops.

Melaka business not only focused on tourism industry but Melaka also known as centralization of manufacturing industry involving many local and foreign investors. So, this expansion of Melaka business contributes great advantages to Melaka business communities and others. By that, the local and foreign investors establish factories in Melaka that producing various products and services.

Table 1.2: Malaysia versus Melaka Competitiveness Performance

Pillar	Score	
	Malaysia Average	Melaka
Institutions	4.37	4.96
Infrastructure	4.22	4.60
Macroeconomic Environment	5.35	5.35
Health and primary education	6.07	6.44
Higher education and training	4.40	5.12
Goods market efficiency	4.77	5.26
Labor market efficiency	4.41	4.95
Financial market development	4.91	5.36
Technological Readiness	3.88	4.27
Market Size	4.87	4.87
Business Sophistication	4.47	5.04
Innovation	3.90	4.52

Sources: Malaysia Productivity Corporation (MPC), 2014

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Table 1.2 above clearly indicates the performance between Malaysia and Melaka competitiveness. It clarifies the good position of economy's Melaka as evidence by analyzing the pillar from this table which is goods market itself. Hence, Melaka has proven as attraction tourism in the same time making an improving economy.

Table 1.3: Distribution of SMEs by Sector in State

Distribution of SMEs by Sector in State

State	Services	Manufacturing	Agriculture	Mining & Quarrying	Construction	Total SMEs
Selangor	110,714	8,314	834	23	6,019	125,904
WP Kuala Lumpur*	78,448	4,201	5	2	2,023	84,679
Johor	60,618	4,828	994	27	2,407	68,874
Perak	53,322	3,833	962	84	1,827	60,028
Sarawak	40,608	1,977	322	19	904	43,830
Sabah	37,612	1,382	812	24	1,054	40,884
Pulau Pinang	36,899	2,614	269	7	1,035	40,824
Kelantan	35,372	1,814	326	30	281	37,823
Kedah	33,123	2,809	603	17	540	37,092
Pahang	26,815	1,305	630	13	699	29,462
Negeri Sembilan	21,633	1,495	435	11	968	24,542
Terengganu	19,882	1,782	196	37	617	22,514
Melaka	19,694	1,107	252	4	618	21,675
Perlis	4,484	291	63	1	214	5,053
WP Labuan	1,761	109	5	0	77	1,952
Total SMEs	**580,985**	**37,861**	**6,708**	**299**	**19,283**	**645,136**

**Includes WP Putrajaya*

Sources: Department of Statistics Malaysia (DOSM)

The Table 1.3 shows distribution of SMEs by sector in every state in Malaysia. There are highest distributions of SMEs which are Selangor and Kuala Lumpur in services sector.

Hence, for the Melaka SMEs state indicates most distribution by services sector that gain 19, 694 than manufacturing collect 1,107. Thus, this data exhibit highest distribution among Malaysia SMEs by sector is services and Melaka might be high distribution in services sector due to attraction place for tourist that accommodated people with hotel and restaurants.

Thus, to conclude from data overview above; the Melaka was moderate amount of distribution of SMEs. Hence, it can be improve by sustain family SMEs in Melaka with developing more efforts looking for good performance of this.

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Table 1.4: Melaka Population and GDP (Gross Domestic Product)

Melaka @ a Glance						
		2012	2013	2014	2015	2016
Area (km^2)*		1,652	1,656	1,652	1,652	
Population (million)						
	Total	0.84	0.86	0.87	0.89	0.90e
	Male	0.42	0.43	0.44	0.45	0.45e
	Female	0.42	0.42	0.43	0.44	0.45e
Average Annual Population Growth Rate (%)		1.1	1.6	1.7	2.0	1.4e
Birth and Death (per 1,000 population)						
	Crude Birth Rate	16.9	16.0	16.3p		
	Crude Death Rate	5.4	5.5	5.4p		
Total Fertility Rate		2.2	2.1	2.1p		
Life Expectancy (years)						
Male		71.6	71.9	72.0	72.2p	72.2e
Female		76.9	77.2	77.3	77.3p	77.4e
Gross Domestic Product (GDP)						
	GDP at constant 2010 prices (RM million)	27,276	27,933	30,071e	31,715p	
	GDP per capita at current prices (RM)	34,965	35,699	38,656e	39,853p	
	GDP Growth (%)	7.0	2.4	7.7e	5.5p	

Sources: Department of Statistics Malaysia (DOSM)

Table 1.4 displays amount of the Melaka population and the GDP. At first, data above had collected the amount of population in Melaka increasing year by year. This data exhibit the increasing population in Melaka, the increasing business and increasing product and services too in Melaka.

Why GDP indicator is important to economy's country? This is because GDP represent the total amount of producing the good and services including salaries of workers. The GDP significantly positive after the businesses present low unemployment and wages increases which means there are economy health. Contrary, unhealthy GDP happens during recession in country due to declining business revenue and unemployment (KobaCNBC, 2011).

By analyze the data from Table 1.4 shows that preliminary of GDP growth in year of 2015 is 5.5%. Comparing between 2014 and 2015, there was slightly decreased from 7.7% to 5.5% as Malaysia need improve family SMEs in order to create better growth of GDP.

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1.2 Problem Statement

Main problem of this research is rarely implementing the succession planning in Malaysia. The less of number is doing of this research about succession planning in Malaysia between family firms. A few researches that had been met about succession planning in family firm that focused on Malaysia not cover all countries in Malaysia.

One of problem in firm either family owned or notto gain a success in short term period is hardly because of difficulties in growth for all long-established firms whether there are maturing markets, intensifying competition and changing technology.

The next research problem, the family firm may facing the any challenges during cooperate each other within family member. One of challenges is family member successor conflict by being talk each other, cooperate together, so that by represent good partnerships can overcome average business decisions, but bad partnerships will destroy even the best business.

The next problem of family firm why succession is very slow because lack of parental role model for the teamwork and servant leadership skills. So, prevent slowly succession for the next generation to work together or even to own a business together as a partnership of siblings.

Others than that, there are lack of competencies and expertise when left hands to the next generation and taking over by other family members. This issue wills faces when family members becomes a manager and does not know how to handle proper management like before.

After that, succession planning becomes one of issue in family firm during the issue of taking over to the next generation as difficult to assign the family members as committee in family firm. Some of family member does not give any cooperation during the event of passing the position.

Every SME owner and manager must have career motivations and a personal expectation due to this is the most crucial restriction on SMEs as several SMEs do not achieve the aim of growth instead of little contribution in economies (Gray and Lawless,

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