

SUCCESSION CHALLENGES IN SMALL-MEDIUM
OUTBOARD MARINE BUSINESSES OF
MALAYSIAN CHINESE FAMILY
OWNERSHIP

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ABSTRACT

This research study focuses on the succession challenges in small-medium outboard marine businesses of Malaysian Chinese family ownership. The founder-owners face challenges in convincing the next generation members to establish their careers within the family business and to ensure successions are in place to safeguard the family's wealth. A gap exists in the research literatures concerning such family business owners; and their experiences would provide valuable information to other Malaysian Chinese family businesses planning to start the succession journey. An exploratory case study methodology to research five Malaysian Chinese family businesses cases in Klang Valley, Selangor, Malaysia is used in this study. The primary qualitative data were obtained through in-depth, semi-structured interviews and observations. The research data lead to the identification of the following themes: generational change affects the survival of small-medium Malaysian Chinese family-owned businesses; the founder-owners' intention and desire for business to pass to the next generation give rise to the imperative of succession; the founder-owners' motive and goals, family context and the business nature would determine a large part to how the succession plans are carried out and the upbringing, expectation and obligations would determine how the next generations of children would view the prospect of taking over the family business. From this, a succession model that detailed an inclusive approach to succession planning process between the two generations is established. This research study could also facilitate other Malaysian family businesses to rethink and refocus on the importance of undertaking an inclusive approach to succession planning. The success of family-owned Small-Medium Enterprises (SMEs) would justify the Malaysian Government's continual efforts to support their growth.

APPROVAL PAGE

Declaration

I hereby declare that the thesis submitted in fulfilment of the DBA degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

1.1.1 Malaysian Chinese Family Business

This study focuses on the challenges of continuity of Malaysian Chinese small and medium family-owned enterprises' (SMEs) sub-sector of outboard marine businesses especially in the area of succession planning from first-generation founder-owners to the second-generation children. Business longevity is typically one of the major concerns of the family business owners, and they think about long-term viability and continued family engagement in the business for generations to come. (LeCouvie & Pendergast, 2014). However, it is difficult to achieve sustained growths for any businesses due to maturing markets, intensifying competitions and ever-changing technology (Ward, 1997).

During my 15 years (2001-2016) of managing two marine and industrial products companies in Malaysia, Mercury Marine Sdn. Bhd.¹ and CLLSE Sdn. Bhd.² respectively, we have network of Malaysian Chinese family business dealers who are involved in SMEs distributive trade business³. Most of the businesses have been in operation for the past 20-30 years. The typical profiles of these Chinese businesses are as follow: founder-owners of age between 50-65 years; very little formal education and little or no system in their businesses. The family business normally begins when it is established by one or two-family members; either husband and wife or between

¹ Mercury Marine Sdn. Bhd. (www.mercurymarine.com)

² CLLSE Sdn. Bhd. (www.cllse.com.my)

³ SMEs distributive trade business is explained in section 1.7 Definition of terms.

siblings (the first generation). These typical Chinese family businesses normally started in very humble ways with few capitals or resources. However, the thriftiness, hard work and entrepreneurial spirit shown by the founder-owners over the years enable the businesses to make good profits and put their children through very good education and live comfortable lifestyles. Many of these first-generation founders are starting to consider the prospect of handing over the business to the next generation due to old age or health issues. They often wrestle with the issue of who will succeed them in the business when they retire. On one hand, they would like to pass the business to their children as they feel this would be the best path for their children to emulate their success and autonomy in life (Ward, 1996). They also saw that with the children in the business, the heritage and prosperity of the business would continue and their own secure retirement would be assured (Ward, 1996). This is because, from my experience interacting with all the outboard marine dealership businesses in Malaysia, much of the wealth created by them inside the businesses are in the form of cash, inventory, account receivable, intellectual property and goodwill. This wealth represents a life-time of risk taking, determination, discipline and hard works by these outboard marine dealership owners. The dilemma that they face now is with so much wealth concentrated on one stock – their own business, there run a high risk of their wealth being eroded due to market forces and life-events that are outside of their control. But at this critical junction, the children of these outboard marine businesses prefer to establish their career outside of the family business. There are long-term employees who are capable and ready to manage the business but are not considered because they are not family members (Tong, 2014). They found also that those children who are in the business are not qualified or lack of required aptitude to take over the business (Friedman, 1991). Fukuyama (1995) also stated that this dilemma is

due to the inability of many Chinese family business to transition themselves from entrepreneurial mindset operation to professional management. This eventually lead to the decision to either close down the business or sell them off. The critical question facing the owners is that who will risk their capital to invest in the family dealership businesses where size and market dominance is no guarantee to business survival compared to relationship and goodwill of the owners.

What are the reasons for this dilemma? How many of Malaysian Chinese Small-Medium size family businesses will cross this hurdle of effective succession transition? Succession planning is a thus a very important component for sustaining the family businesses over generations (Olson et al. 2003).

1.1.2 Family Business Succession

It has been documented that many family businesses do not survive to the second or third generations (Ward, 2004; Miller & Le Breton-Miller, 2006). The success rate for Malaysian family-owned outboard marine businesses is no more or less impressive than in other industries. Since every family businesses operates under different circumstances with regard to structure, environment and family make-up, it is recognized that there is no single formula for succession planning (Scholes, Westhead, & Burrows, 2008). Even though the succession issue is of such importance, most of the time the families do not plan for it and left it to chance (Dunemann & Barrett, 2004).

The challenge of continuity in Malaysia small and medium Chinese family businesses is best sum up by the following two cases:

A popular porridge seller in Penang, Mr. Ooi, 64 inherited the business from his father who started the business in 1938. He is now looking to sell his porridge business. The reasons for him wanting to sell out are that the works are too laborious for him now with high rental and shortages of labour. If he could not find someone to take over the business when the lease expires, the option for him is to just close down the business. He has three sons aged between 26 and 34 but none of them are in the family business. Mr. Ooi mentioned that the sons all have decent jobs and are doing well as engineers and teacher. He does not want them to take over and the children have no desire also to take over the business. This is a typical mindset and scenario of the small Chinese family businesses where the founders feel that the children would have a better future as professionals outside of the family businesses (Chow, 2016).

In another case, Cocoland Holding Berhad, a public-listed company in Bursa Malaysia⁴ was reported to have the intention to sell the business as there is no next generation family members to take over the succession at the company (Tee, 2015). This is a sad case for the business as the family has seven brothers and many second-generation family members working in the business to be considered as potential successors. The failure of proper succession planning for Cocoland reflects a major issue in the professionalism and long-term sustainability of the Chinese family businesses to grow to professional status companies rival that of the multi-national companies of USA, Japan, UK and Europe (Shambaugh, 2012).

⁴ Bursa Malaysia is an exchange holding company. It is one of the largest bourses in ASEAN and is home to more than 900 companies across 60 economic activities, which are listed either on the Main Market for large-cap established companies, or on the ACE Market for emerging companies of all sizes. <http://www.bursamalaysia.com/>

1.1.3 Motivation for this Study

During my time working as General Manager with Mercury Marine Sdn. Bhd. from 2004 to 2016, this topic of what to do with their businesses as they are approaching the twilight of their careers keep cropping up whenever I visited the Chinese family-owned outboard marine dealers. They are seeking solutions to their problems. At that time, as a practicing manager, I did not feel adequately equipped with a language and tools that I could use to help them to broaden their perspective on their businesses. This issue has been troubling me ever since. As a practicing consultant now, I want to be able to help my clients to understand this important aspect of the business and direct them to the right path. This has spurred me on to study the subject of business continuity especially succession planning in the Malaysian Chinese family businesses.

Although the research in this field of family succession planning is widely conducted in various literatures oversea, studies on family business succession planning in Malaysia is quite recent and have not been done very extensively in Malaysia (Abdullah, Hamid, & Hashim, 2011). There are also very few similar studies done on the family-owned public companies listed in Bursa Malaysia, where about 70% of the companies are considered family businesses (Amran & Ahmad, 2010; Mohd. Sehat & Abdul Rahman, 2005). The study by Jasani (2002) only provided a brief descriptive review on what are the current practices faced by family businesses on succession planning. It does not provide deeper research on how the founders undertake the succession planning process. There is not much information of succession transfer processes from first generation founders to second generation family members (Wasserman, 2003).

Studies show that the majority of the family business would not go past the third generation (Nancy, 1991). In fact, Le Breton-Miller, Miller, & Steier (2004) stated that only 30% of the family-owned businesses succeeded in passing the business to the second generation and about 10-15% of them survived into third generation. Furthermore, studies also show that there are different survival rates between the various SME sectors of industry (Foo, Bajuri, & Wong, 2013). There are still many research studies need to be conducted on the sustainability of the family-owned SMEs in various groups and sub-groups in different industries in Asian countries (Chin, 2003). There is generally a lack of information regarding succession process among the Malaysian Chinese family-owned SMEs (Azuan, 2012). They encouraged strongly more studies to be conducted on succession planning among the local family-owned SMEs.

1.1.4 Important to Understand Malaysian Chinese Family-Owned SME Business

In Malaysia, a significant number of the SMEs are owned by the Malaysian Chinese (Omar 2006) and a large proportion of them are run by families (Jasani, 2002; Classens, Djankov, & Lang, 2000). Their contribution was acknowledged as a driver for economy growth and industrial development in Malaysia.

As mentioned, the chances of family owned businesses lasting into a second generation is very low about 30% (Fernandez-Araoz, Iqbal, & Ritter, 2015). In Malaysia, there are many Chinese family businesses that were started by the first generation have either closed down or been sold off. One example is the closure of many traditional local family- run coffee shops that are common in Malaysia (Rahman, 2010). These coffee shops have been forced to close due to ever emerging of new

multi-national coffee chains like Starbucks and other independent cafes over the past few years. Similarly, the family businesses for retail sector in Malaysia which include the sub-sector of the SMEs marine products companies under this study are slowly being displaced by large multinational companies' (MNC) stores (Wrigley & Lowe, 2010). An example of this for marine, hardware and industrial products companies is that of Ace Hardware which has 18 stores in Malaysia and over 4,600 stores around the globe⁵. These MNCs have economics of scales and can procure products more cheaply than the local SMEs. The decline and subsequent demise of family business in a community can cause serious social and economy problems as family businesses are important sources for employment opportunities and economy development in many countries (Lansberg, 1988; Ward, 1987). To illustrate this point, in 1955, two years before Malaysia's independence, a little upstart Chinese-owned family construction company was commissioned to build ammunition depots and garrisons to fight the communist insurgency. Today, after 61 years on, YTL has transformed into one of Malaysia and regional biggest diversified corporations. YTL is among the largest companies listed in Bursa Malaysia and as at 31 August, 2016, it has a combined market capitalisation of approximately RM32.0 billion⁶. A small family business today can become a giant corporation in years to come. Other examples include IOI group, Kuok group, Rimbunan Hijau, Top Glove Berhad and Hong Leong group, which continue to prosper and generate wealth for their families and shareholders (Ibrahim & Samad, 2011). In this study, we would focus on the distributive trade sub-group of Outboard Marine products companies.

⁵ Ace Hardware is a world leading hardware retailer from the USA. www.acehardware.com.my

⁶ Obtained from YTL Corporation website: www.ytl.com

1.2 Research Questions of the Study

- What are the succession practices implemented to ensure business continuity of the small medium outboard marine businesses?
- How will succession planning help overcome challenges of the succession process in Malaysian Chinese family-owned small-medium outboard marine businesses?
- How do social and cultural factors (e.g. values, personal background, family profile and upbringing) have on founder-owner's attitudes toward succession?
- How was the planning for management succession implemented in the case families?

1.3 Statement of the Problems

Malaysian Chinese family businesses in the small-medium outboard marine sector face challenges in convincing the next generation members of the family that there is a long-term future in establishing their careers within the family businesses. A research conducted by Zellweger and Sieger (2012) stated that just one in five (19.7%) children from a family business background plan to one day take over their family firm. The two generations of family members face generational differences that prevent the next generation members from fully engaging with the founder-owners and also different “expectations” – the views of the first-generation founders toward business continuity and the expectations of next generations toward their own ambitions, careers and family business (PwC, 2016). These gaps could represent career aspiration, gender issues and professionalism of the family business.

Various researchers have founded that only about 30% of family businesses survive the transition from first generation founder-owners to the second generation. (Poutziouris, 2000; Wang, Watkins, Harris & Spicer, 2000). In Malaysia, a report found that about 69% of all family businesses have next generation family members working in them but more than 31% of them have no succession plan in place and only 15% of family businesses have a proper documented succession plan. (PwC, 2016). Unlike large corporation, small and medium size family businesses without management succession plans often fail when the owners retire, become incapacitated or died (Robaton, 2016). Ip and Jacobs (2006) further stated that succession failure was one factor that accounted for 30% of all family business closure. Despite these findings, there are not many studies conducted to better understand how to help the first-generation founders-owners and the family businesses to minimize this risk (Ip & Jacobs, 2006). Chung and Yuen (1999) and a research report by UOB-SMU (2015) stated that effective and systematic succession is the key to family business sustainability and continuity. But what does “effective and systematic” succession entails? Van Beveren (2003) argues that there are a range of factors (hard and soft factors) that affect succession process and we need to understand how they influence the outcome of any succession. According to Alternative Board’s survey mentioned by Marks (2014), the first-generation founder-owners of family business must realise the stewardship responsibility entrusted in them in the businesses and focus their efforts in formulating a robust strategic plan for the future generations.

The founder-owners of the Malaysian Chinese small-medium outboard marine businesses consist mostly of baby boomer generation. They still practice the traditional management approaches built on a Confucian style model of patriarchy. The flaw in the Confucian model is that the patriarch is accountable to no one, but his successor is

typically answerable to the patriarch and other family members. The children of these marine outboard businesses are all Generation X and Y members and they tend to have more modern outlooks influenced by western education and cultures. The two generations face challenges in resolving the generational, communication and credibility gaps in ensuing successful management succession. This study will endeavour to find out how these gaps affects the succession planning process of the case family businesses.

It is estimated that there were about 90,700 fishermen in Malaysia of which about 51,480 fishing on coastal water (FAO, 2009). Most of these fishermen are poor and relied on the small-medium marine outboard businesses to provide financing, skill and knowledge to help them improving their livelihood. The outboard marine operators who are mostly Malaysian Chinese family-owned SMEs play a vital role in the distribution of engines, parts and services. There is a need therefore to investigate more about this phenomenon of succession planning process in this sector through learning from the experiences of the relevant persons who would usually be involved in this process and studying the pattern of succession that there are in such family business units in order to establish answers to some of the research questions related to the “what”, “how” and “when”.

1.4 Objectives of the Study

1.4.1 General Objectives

This research study focuses on the management succession of Malaysian Chinese family-owned SMEs especially the sub-sectors of Outboard Marine distributive enterprises. The ultimate aim is for the family businesses to be sustainable and continue for generations to come.

1.4.2 Specific Objectives

- a) To explore the succession practices in the management succession process undertaken by the incumbent business owners of the Chinese family-owned SMEs.
- b) To examine the decision-making process outcomes in the management succession process undertaken by the incumbent business owners of the Chinese family-owned SMEs.
- c) To identify the major factors influencing management succession in the family-owned SMEs.
- d) To establish a management succession model that overcome challenges of the succession process from incumbent founder-owners to the next generation family members.

1.5 Significance of the Study

There is a total of 907,065 active Small and Medium Enterprises (SMEs) Malaysia, representing 98.5% of total business establishments (Census Report SMEs, 2016). Of this, about 76% are microenterprises, 22% are small SMEs and the balance 2% represents the medium sized SMEs (Economic Census, 2016).

SMEs play an important role in the success of the economy development of a country (Radam, Abu, & Abdullah, 2008). Khan and Khalique (2014) stated in their research that the developing nations like Malaysia should make assisting the SMEs to succeed as one of the main focus. According to SME International Malaysia (2013), some developed countries have succeeded because SMEs form a significant part of