

# Next-generation leadership development: a management succession perspective

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Next-generation leadership development

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## Abstract

**Purpose** – This research study focusses 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.

**Design/methodology/approach** – 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.

**Research limitations/implications** – A small purposive sample is included, and it is recommended that a larger and more diverse sample be collected in future studies. This study follows a nuclear family structure of parents and children. If more Chinese family businesses are selected based on a wider set of family members such as uncles and cousins, the findings may differ.

**Social implications** – 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 and also help potential next-generation successors in understanding and working towards attaining the qualities that family firms look for in future leaders.

**Originality/value** – The researcher summarizes the study findings into a management succession model. An inclusive succession approach is needed to overcome these challenges and would enable sustainability, continuity and longevity of the family business. This would help the family business to understand that succession is not a single event but a process that needs to be planned together with the next-generation family members over a certain period of time.

**Keywords** Succession planning, Family business, Malaysian Chinese, Generational change

**Paper type** Research paper

## 1. Research background

### 1.1 Malaysian Chinese family business

This study focusses on the challenges of continuity of Malaysian Chinese small and medium family-owned enterprises (SMEs) subsector of outboard marine businesses. Longevity is typically foremost in the minds of family business owners, and unlike many of their competitors in non-family businesses, they think about long-term viability and continued family engagement. (LeCouvie and 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).

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. On one hand, they would like their children to take over the business 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). Much of the wealth created by them inside the businesses is 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. But at this critical junction, the children of these outboard marine businesses prefer to establish their career outside of the family business. There are capable employees who can take over the business, but they are not family-related and not considered (Berger, 1994). 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). This eventually leads to the decision to either close down the business or sell them off. It has been documented that many family businesses do not survive to the second or third generations (Ward, 2004; Miller and Le Breton-Miller, 2006). Since every family business operates under different circumstances with regard to structure, environment and family makeup, it is recognized that there is no single formula for succession planning (Scholes *et al.*, 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 and Barrett, 2004).

### *1.2 Problem statement*

Malaysian Chinese family businesses in the small-to-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. Malaysian Chinese family businesses in the outboard marine sector face a challenge in convincing the next-generation members of the family that there is long-term future in establishing their careers within the family businesses. 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 towards business continuity and the expectations of next generations towards their own ambitions, careers and family business (PWC – Family Business Survey, 2016). The two generations face challenges in resolving the generational, communication and credibility gaps in ensuing successful management succession. These gaps could represent career aspiration, gender issues and professionalism of the family business. This research study aims to establish a succession model that detailed an inclusive approach to succession planning process which would bridge these differences between the two generations. This study would also be beneficial to the next-generation family members seeking to understand and work towards attaining the leadership qualities that family firms look for in the succession process.

### *1.3 Research question*

- (1) How will succession planning help develop the next-generation family members in taking the leadership roles?

### *1.4 Objective of the study*

- (1) To establish a management succession model that overcomes challenges of succession process from incumbent founder-owners to the next-generation family members.

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### 1.5 Significance of the study

A survey conducted by [Jasani \(2002\)](#) showed that the majority of the family businesses in Malaysia are of small scale that employ less than 51 people. In our current study, the Malaysian Chinese family-owned outboard family businesses generally have sales turnover range from RM 3m to not exceeding RM 20m and having full-time employees of between 5 and less than 30. We will classify them as SMEs in the services sector based on sales turnover not exceeding RM 20m or number of full-time employees not exceeding 75. SMEs in Malaysia plays a significant role in the development of the economy of Malaysia ([Omar et al., 2009](#); [Saleh and Ndubisi, 2006](#)), constituting about 98.50% of the business establishments and employing about 65.3% of the workforce. It also contributes more than 36.6% of the country's gross domestic product (GDP) ([Economic Census, 2016](#)). The Malaysian government would expect the SMEs sector to contribute 41% of the country's GDP in order to help the country to achieve its vision 2020 ([Azuan, 2012](#)). These SMEs are majority run by families. ([Claessens et al., 2000](#)); [Jasani \(2002\)](#). Even though they are small, these SMEs have the potential to grow and help in the nation building by providing employment opportunities. The progress of Malaysia would depend on how the government helps in the development of the SMEs sectors ([Radam et al., 2008](#)). It is important to study the development and survival rate of the family-owned SMEs, as some of the current family-owned SMEs will grow to become larger, public listed companies.

## 2. Literature review

### 2.1 Overview of family businesses

**2.1.1 What makes a family business?** After reviewing various literatures, it was cleared that there is no single definition of what is a "family business". A common definition does not exist ([Shanker and Astrachan, 1996](#)). In Malaysia and is the case with other part of the world, a family business may range from the small neighbourhood "Mom and Pop" store for the Malaysian Chinese business to the large multinational company Bursa-listed companies such as YTL Corporation, Top Gloves and so on. For the family to take advantage of the scholarly research, the discipline must be grounded in a more common definition; otherwise, it is a little like comparing apples to oranges. Furthermore, the SMEs in Malaysia are classified further under micro, small, medium and large. Each group of the industry can be all identified as "family business" and yet the issues surrounding them like succession planning can be vastly different from one another. So, a proper definition of family business is one of the most challenging tasks facing the business researchers. In this research study, the definition of the family business is one where more than one family member are involved in the firm as owners, and the business is influenced by a family or by a family relationship, and that perceives itself to be a family business ([Leach, 2007](#)). This definition allows us to discuss the more prevalent small- and medium-size family-owned businesses in Malaysia under this study. It is critical to define the meaning of family business as the corner stores "Mum and Pop" businesses, and some large public listed companies have different business and succession issues and yet they all can be classified as "family business".

Family firms have different goals and characteristics in running their business ([Jaffe, 1990](#)). Financial profitability is certainly one of the utmost requirements of the family business. But other non-financial goals are also important motivators for the fulfilment of the family's social responsibility achieved through the family business ([Davis and Tagiuri, 1989](#); [Tagiuri and Davis, 1992](#)). Davis and Taguri further stated that these aspects of shared identity, mutual awareness and emotional involvement and ambivalent towards own family members exhibited in the family businesses are due to the existence of "bivalent attributes directly derived from the overlap of family, ownership, and management status".

## 2.2 Family business theories

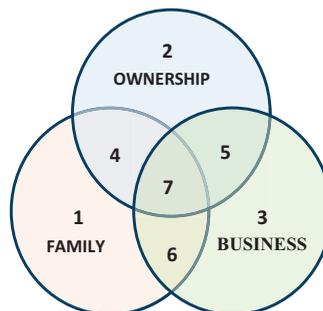
**2.2.1 The three-circle model – the system approach.** The model implies that family-owned business comprises of three interdependent and overlapping groups of family system (Figure 1). The three main circles are family, ownership of the business and management of the business. The model shows that the three circles are overlapped meaning that as the business grows, the three circles diverge and include more sub-group of family members and non-family members in the business. This sub-group of people will have their own interests, agenda. The ultimate success of the business would depend on the support and proper function of each group (Taguiri and Davis, 1996). The three-circle model illustrated in Figure 1 shows that the circle sizes for each of the family, ownership and management components are the same. This might give the false impression that in a family business all the components have equal influence and impact to the business. But in most typical family business, especially in our case study family businesses, the family circle tends to be much more prominent and has a much greater impact on the management and ownership of the business. In these situations, learning how to effectively manage the family component is even more important. The ability of family businesses to successfully transfer the business to the next generations is very much dependent on their ability to manage their “family component”. It is therefore very important for the founder-owners in this research study to understand the complexity of their business through this three-circle model.

Description:

- (1) Family members with no involvement
- (2) External shareholders
- (3) Non-family employees
- (4) Family shareholder not involved in business
- (5) Non-family shareholders employed in business
- (6) Family employees
- (7) Family owners and manager

## 2.3 Succession planning

The presence of family component in a family business makes it very challenging to balance the interests of founder, family and the business. Handler (1994) states, “succession is not simply a single step of handing the baton; it is a multistage process that exists over time, beginning before heirs even enter the business. Furthermore, the effectiveness of succession



**Figure 1.**  
The three-circle model

Source(s): Taguiri and Davis (1996)

is not limited to whether a president has been designated; the ongoing health of the firm, quality of life, and family dynamics are critical to the success of the succession process”.

Giarmarco (2012) mentioned of the need to differentiate between ownership and management in the succession process. Succession can be achieved in two ways: transfer of ownership (ownership succession) and transfer of management responsibility (management succession) (Magrath, 1988; Bracci and Vagnoni, 2011). The questions of who, when and how the ownership of the firm will be transferred is directly related to the ownership aspect of succession planning, while the questions of what changes will the transition bring, when will they be accountable for results and how will results be realized are connected with the issue of management in succession planning.

However, there are many various ways when a combination of ownership and management arrangement can work out well for a family considering succession process. Certain functions can be shared differently by family members who have expertise in that functions, the rest of the functions can be handed over to non-family professional managers (Beckhard and Burke, 1983).

#### *2.4 Current situation in Malaysia on family succession planning*

Jasani (2002) conducted a study on the attitude and dynamics facing family businesses in Malaysia. The study showed that most of the family-owned SMEs are still managed by the first-generation founder (59%). About 30% of them have been passed to the second generations which are mostly the founder’s children. Most respondents would prefer their children to start from the bottom and be familiar with all aspects of the business operations before assuming the management position. There is also more inclination and willingness to engage professional managers who are not family-related to assume leadership position on profit-sharing basis. Also, the founders would leave it to their children to decide whether they want to join the family business without forcing the decision on them. On succession planning issue, a third of the respondents were of the view that there can only be one management successor.

According to Kalra (2014), about 66% of the family businesses in Malaysia do have succession planning plans. However, PWC’s Family Business Survey (2014) stated that 24% of business owners will pass the baton to the next generation, while 38% said they would sell the business. The first-generation founders admitted that the selection of possible successors among the siblings is one of the hardest decisions (58%) they have to make in their business career. Thus, the founder needs to devote sufficient time to planning the succession of their business, or else they will be left with few options when they want to retire.

In a survey in Malaysia, it was found that about 74% of the respondents mentioned that they would choose the successors based on meritocracy and free of gender biases and also open to the engagement of professional managers (Labuan IBFC, 2014). However, the survey shows that 97% of the second-generation companies are still run by family members and about 92% of these leaders are sons even though daughters are present in greater number in family business these days.

One interesting observation is that many family-owned companies take continuity as a given. They assume that the business will last for generations to come. But the goal of continuity cannot be taken for granted and needs to be pursued as a goal. So, if the founder-owners want the business to continue to the next generation, then it is imperative to identify a shared vision for the future and engage the next generation in the succession planning process.

Even though succession planning is such a critical part of the business, many family business owners do not plan for succession (Dyer, 1986; Lansberg, 1988; Ward, 1987). Despite the vast subjects on the perils of poor and non-existence of succession planning, many family

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businesses still are unprepared when the time comes and leaves the process to chance (Leon-Guerrero *et al.*, 1998).

Why do owners, whose very success and business longevity point to their more-than-average smartness, choose to ignore a proper and effective succession planning until all too late?

Amran and Ahmad (2010) stated that the founder-owners have difficulties in letting go of the power and authority vested in them; emotional entrapment in the business as they were the ones who started and built the business; the children are not joining the business and those in there are not ready or capable to take charge of the business.

As long as the founder appears healthy physically and managing the business profitability, nobody would bring up the topics of succession. Everyone knows his or her place. When there is no major “trigger event” such as death, illness, the family would leave the business status quo, hoping that the incumbent can go on forever. This is a denial to something like fear of death that eventually would happen in each individual’s life (Lansberg, 1988), and when it happened without preparation, then chaos will reign.

But fear of death should propel oneself to plan as a way of controlling events or mitigate the effects of the event so that the family would be well taken care of after death. In Asian culture, sometimes to discuss succession is to equate with death and many families would simply refuse to talk about it. Some founders who want the continuity of the family business would typically gravitate the succession to family members, whether they deserve it or not. In other situation, in planning for business transition, certain decisions and strategies have to make explicit: children no good; conflicts between siblings. There are also instances when the founder has no desire to continue the business and has no intention of passing the baton to their children or employee. What are the causes that lead to this? Accordingly, Aronoff and Ward (1992) view succession planning as the ultimate management challenge for family-owned business. But for businesses that are slated to become family businesses, transition and succession planning are a hallmark of the willingness to face the future together.

Chinese family has the tradition of selecting one of their children preferably male to take over the business. What happened if the chosen child is not willing to take over the father’s business? Would it be more effective for entrepreneurs to pass the top management positions to professional managers? For example: Loh Boon Siew, once dubbed as “Mr. Honda Malaysia”, the shrewd billionaire identified the right person to help him manage and expand his business empire long before he passed away. In choosing the right successor, Boon Siew picked an “outsider” son-in-law – Datuk Robert Wong Lum Kong even though Boon Siew still had an adult son and four adult daughters when he made the decision (Foon, 2016). Under his son-in-law Wong’s stewardship, the company, Oriental Holdings Berhad, continues to grow in size and profitability. Its revenue increased from RM 1bn in 1987 to RM 4.38bn in 2015. Sometimes, the parents would force their children especially the sons to take over the family businesses to the detriment for the entire companies and families if the desire and commitments of the children are not there. There is a need to find out why there is resistance for management succession planning from both the perspectives of the two generations (Ying, 2014).

### *2.5 Theoretical approaches to succession*

In researching various literatures on succession planning process, the following models are selected which provide good insights into some current thinking on effective ways to conducting succession process to nurture the next-generation family members during the succession process.

Miller and Le Breton-Miller (2004) suggest a four-stage model for family business succession planning. The initial stage is where the vision and future directions of the family business are set and agreed by all family members and each potential successor’s role is determined and guidelines to train and develop the potential successors are established. Next,

the potential successors are put through various training, education and work experience under experienced mentors and progresses are evaluated regularly. The third stage is the selection of the potential successor. The final stage is the formal handover of the managing of the business to the chosen successor. De Massis *et al.* (2008) stated that one of the most important determinants of family business succession is the incumbents' attitude towards intra-family succession. Their model (intra-family succession) shows that incumbents' attitude towards intra-family succession is greatly influenced by both situational and individual antecedents as well as by their interaction. The situational antecedent could consist of number of children, number of family shareholders, the duration of family ownership and perceived positive firm economic performance. They found that the higher the corresponding demand (i.e. the higher number of children), the more positive the attitude towards intra-family succession. The incumbents' emotional attachment to the business which constitutes the individual antecedent in the model makes them very reluctant to transfer the leadership succession to any non-family members. This is because even handing over to non-qualified family successor would minimize the emotional cost as the business is still "in family hand". The fourth factor of interaction effects stated that perceived positive firm economic performance has a positive effect on the incumbent's attitude towards keeping the succession in the family. This model is very important in explaining the behaviours of family and non-family firms in terms of succession in our case families' context.

#### 2.6 *The succession process: factor and process*

There are numerous types of influences or forces on the family business succession process that have been mentioned in the surveyed literatures. Van Beveren (2003) argues that these forces affect succession process outcome and we need to understand how they influence the outcome of any succession. Other searchers' emphasis terms these forces and influences as "hard" and "soft" factors. (Venter *et al.*, 2003). It is important to understand what factors contribute to the effective succession process. The factors are relationship (Lansberg, 1983; Dyer, 1986), communication (Hamilton, 2003; Thomas, 2002), psychology (Barnes and Hershon, 1976), life stages (Berkhard and Dyer, 1983), preparedness (Morris *et al.*, 1997), cultures and values (Garcia-Alvarez and Sintas, 2003), commitment (Chrisman *et al.*, 1998) and management system (Fritz, 1997).

It is important to understand what factors influence the outcome of any succession process as it would help to increase satisfaction of the succession process and help in the continued sustainability of the family business after succession.

#### 2.7 *The Malaysian Chinese family business in Malaysia*

Lee (1996) advocates that there are four key characteristics of Chinese management that are present in most Chinese family firms and are quite different from Western companies. These four features are: human-centeredness, family-centeredness, centralization of power and small size. These four features are not necessarily the domain of Chinese businesses, but when grouped together the features create a strong force that provides the main strength for the Chinese family businesses.

In Malaysia, the biggest issue that affects the survival of family-owned businesses is the generational change (Gomez, 2004). Succession between generations in family businesses is less straightforward than it used to be. There is a general saying that Chinese business consists of three-generation model: the first generation works very hard, lives a frugal life and invests most of its earnings and creates a profitable business. The second generation, with good education and business practices, expands the business substantially, increasing both risk and profitability in the process. The third generation, taking the propensity of wealth for granted, has no motivation and inclination to sustain the business and dissipates the family

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fortune (Gomez, 2007). Is this due to the traditional management approach which is evidenced in most Chinese family businesses? Does family upbringing and cultures affect the three generations' curse?

Sharma and Irving (2005) addressed some very interesting and important issues of the commitments and obligations that the children may have towards the family and business to counter the notion that the next generation of children are reluctant to inherit the family business. They discovered that commitment plays a big part in the successful participation of family members in succession planning process. Ng and Leong (2016) stated that for a succession process to be successful among the Chinese family business, the founder (first generation) and the second generation need to overcome the following three-generation issues: generation gap, communication gap and credibility gap. These issues are the "real and present danger" faced by the family business in Malaysia.

*Generation gap:* It is generally hard for first generation to grow the firm but even harder for second or third generation to sustain the business. The founders need to be aware that the interests, commitments, obligation and desire of their children in the family business are different from them. The children are generally much better educated and have better exposure to new technology and can explore other career path than their parents. The Internet and information technology phenomenon have affected the way of lives for the next generation.

*Communication gap:* Malaysian Chinese family business is normally built on an authoritarianism style of management, influenced largely by Confucianism (Yue and Kean, 2016). The typical scenario is that the owner commands respect and unquestioned loyalty of all employees in the manner of the parent–children relationship. His decisions are final and generally he is not accountable to anyone (Hsu, 1949; Chan and Chiang, 1994), whereas the successor typically still needs to report to him and seek his approval for most of the decisions. This has hindered open communication between the owners, successors and the staff. Managing transitions is a difficult challenge to the business, and because of the added dimension of possible intra-family upset and conflict, it is much bigger challenge for family businesses than for others.

*Credibility gap:* In a typical business environment, the founder who started the business has a long and strong relationship with the suppliers and customers. These relationships or *guanxi* established the cornerstone of the success and longevity of the business. This becomes an issue when during the transition, the suppliers and customers still prefer to deal with the founder instead of the successor. This illustrates the importance of having the children in the business at an early age, learning the in and out of the business and establishing relationship with the customers, employees and suppliers to gain the necessary respect and credibility.

While most second-generation successors of the Chinese family business have acquired high educational standard and adapted well to the modern business environment such as information technology, new business practices, knowledge acquired through formal education in universities may be considered too general to contribute to the day-to-day operation of the business. The second-generation successors typically have a higher opinion of themselves and think they are more capable than the incumbents (Ghee *et al.*, 2015). The family founders have over the years built up strong *guanxi* with the suppliers, key customers and staff and acquired tacit knowledge unique to the family business. It has been suggested that the effectiveness of the succession and ultimately the performance of the firms would depend on how well the successors acquired these special networks and tacit knowledge from the founders (Cabrera-Suarez *et al.*, 2001).

The aforementioned details stress the important to recognise the three succession issues that arise between the first and second generations to ensure effective succession. There is general agreement that the participation of the next generation in the organization is critical

to the transfer of power between generations (Barach, *et al.*, 1988; Davis, 1982). In order to bridge the gaps as mentioned, it was necessary to understand fully the feeling and experience of the next generation going through the succession process (Handler, 1992). That entails putting together a structure process and plan to ensure the potential successors are equipped with all the skills, experience and credibility to undertake the succession process.

Studies have shown that the younger generations being under Western management trained do understand the values of Chinese management. They know the strengths and weaknesses of both management approaches, but they encountered difficulties in integrating the two and also support from the first-generation founders. As most of them are exposed to Western management thinking and model their family business to the large, Western multinational corporations such as Apple, Google, General Electric and so on, they understand the requirements and disciplines needed in growing and expanding their family business. They know that it is important to “professionalize” the family business in order to be able to compete and grow. The difference in the approaches of both generations is due to the fact that the older generation tends to be more traditional (Collectivism) in their approaches to life while the younger generation tends to be more Western in their thinking (individualism) (Lee, 1996).

According to Kalra (2014), about 66% of the family businesses in Malaysia do have succession planning plans. However, PWC’s Family Business Survey, 2014 stated that 24% of business owners will hand over the business to the next generation, while 38% said they would sell the business. The first-generation founders admitted that the selection of possible successors among the siblings is one of the hardest decisions (58%) they have to make in their business career. Thus, the founder needs to devote sufficient time to planning the succession of their business, or else they will be left with few options when they want to retire.

Even though succession planning is considered one of the most important concerns for the founder and the family with regard to the continuity and longevity of the family business (Chua *et al.*, 2003), many family business owners do not plan for succession (Dyer, 1986; Lansberg, 1988; Ward, 1987). Despite the vast subjects on the perils of poor and non-existence of succession planning, many family businesses still are unprepared when the time comes and leaves the process to chance (Leon-Guerrero *et al.*, 1998; Rue and Ibrahim, 1996).

Amran and Ahmad (2010) in their article mentioned that various reasons that business fails to plan for succession are that the founder still wants to take control and is reluctant to relinquish control; sentimental attachment to the company by the founder; no capable or suitable successor to take over the management of the business; preference of male children over the female even though the female children are more capable; the children are not trained, exposed or encouraged to take over the business.

### 3. Research methodology

#### 3.1 Research approaches

Family businesses are not alike; they have different makeup, cultures, goals and visions (Sharma *et al.*, 1997; Chrisman *et al.*, 2004). An exploration of all these issues remains highly subjective, and therefore, it is more appropriate to use qualitative than quantitative approach (Yin, 2009). Svensson and Dumas (2013) also concur that it is important to approach this type of study as cases in context as human behaviours are shaped by various outside influences and each case is different from the rest.

#### 3.2 Research method

Case study method is used for this exploratory study. The case study method is appropriate to understand behaviour, people thinking, events that happened and activities that occurred (Nordqvist *et al.*, 2009). By using case study method, the researcher is able to gain a good

understanding of the cultural context in which the respondents are situated and identify various factors which are not visible from the outside world (Baxter and Jack, 2008).

### 3.3 Data collection

The data collection was conducted within the Klang Valley region in Malaysia and focussed on the Malaysian Chinese family-owned outboard marine SMEs. The major rationale for conducting the study in Klang Valley is that it accounts for nearly one-third (32.6%) of the total SMEs establishment in Malaysia according to [Economic Census \(2016\)](#). The Klang valley is a very important region to study the trends of the national economic and commercial development as it contributes about 30% of the country's total gross national income (Permandu).

### 3.4 Case selection – population and samples

In this qualitative study, the samples were chosen in a deliberate manner known as purposive sampling to ensure that the research study would yield the most relevant and plentiful data through the selection of the specific study units, according to the topic of study (Yin, 2011). Five (5) family businesses were identified (Table 1); each has its own of family characteristics, educational background and business operation structure. The form of business organization was specified as a family business in which the majority ownership or control was within a single family, and at least one family members is managing and/or operating in the business. It was proposed to study the succession process from the first-generation founder to the next-generation children.

### 3.5 Data collection method

This qualitative research is designed to be exploratory. In this research, we will obtain the primary data through interviews. The secondary data is to be obtained from observation of the firms' operation and other information such as company's annual financial reports and websites. Generally, interviews can take the following two forms: structured interviews and qualitative interviews. The characteristics of the five family businesses are shown in Table 1.

## 4. Research finding

From the interviews conducted in the study, all the founder-owners commended about the difficulty and uncertainty involved in the passing of the business to the next generation. The reasons cited can be summarized as the following: firstly, the founder-owners were successful because they fulfil a need in the marketplace for the products that they sold. They were

**Table 1.**  
Demographic  
description of small-to-  
medium outboard  
marine businesses of  
Malaysian Chinese  
family ownership

Cases	Case 1	Case 2	Case 3	Case 4	Case 5
Name	Mr. A	Mr. B	Mr. C	Mr. D	Mr. E
Age	51–60	51–60	61–70	61–70	41–50
Children	5	3	3	3	5
Gender	Male	Male	Male	Male	Male
Education	Primary	Secondary	Primary	Primary	Primary
Work experience	Fisherman	Sales	Sales	Technician	Technician
Children in business	No	Yes	Yes	Yes	Yes
Average annual revenue (RM)	RM 10m	RM 17m	RM 15m	RM 12m	RM 10m
Number of employees	5	10	25	20	20
Number of years in industry	23	34	32	32	20

entrepreneurs and work hard and maintain low overhead. They were more of a leader than manager. Secondly, the successors when handed the business tended to view the family business as old fashion and was in a hurry to expand and modernize the business. This can directly conflict with the founder-owners' way who would view the younger generation as reckless. The successors tended to be more structured in their management approach in contrast to the founder-owners' entrepreneur style. Due to this scenario, tension would arise between the founder-owners and their successors. Handler (1989) concluded that it is important to focus on the next-generation family members in the succession process. From the research findings, we can identify that the three most important tasks for family businesses to engage the next-generation successors during the succession process are generational, communication and credibility gaps. The research data lead to the identification of the following themes: generational change affects the survival of small-to-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.

Like non-family business and listed public companies, the family businesses in Malaysia need to look at the succession planning process in an inclusive way by encompassing right management techniques and structure as they seek to grow and attain the business sustainability and continuity. Professionalization of the family business is inevitable. Succession and estate planning are critical. Conflicts resolution and management among family members need to be formalized and implemented. However, all these would not help the business to succeed and ensure continuity without proper implementation of the right corporate governance, the right business paradigm, strategy, structure and system, as well as competent family members, qualified professional managers, attracting talent and retention, the right leadership, strong commitment from next generation and strategy renewal to ensure business sustainability. Other factors such as ethical consideration and corporate social responsibility should also be considered but are not within the scope of this study. An inclusive approach to succession planning should be adopted to ensure business sustainability and continuity (Table 2), without which a succession process for the sake of having the next-generation family members to take over the business is meaningless.

## 5. Future research

Future research can focus on the psychological dimension, especially from the viewpoint of non-family employees, next-generation family members and clients. This would include a number of emotional issues associated with succession process in the family business (retirement, mortality, identity and self-worth) that can impact a family's judgement or cause the business owners to postpone or abandon succession planning.

- (1) Leverage on family-capital conundrum in fine-tuning family business
- (2) Finding the right governance structure
- (3) Creating a new business paradigm, strategy, structure and system
- (4) Influencing with the right leadership
- (5) Enhancing education and competencies for family business
- (6) Motivating the non-family executives and fostering their support
- (7) Reformulating strategy and renewing business

**Table 2.**  
Approach to management succession planning for the small-to-medium outboard marine businesses of Malaysian Chinese family ownership

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## 6. Implications for family business owners

The research also revealed that the succession plan was mostly kept in mind of the relevant parties; therefore, the prospective successors experience uncertainties of their future despite their proven capability and performance. Its implication for business is that a written succession plan on which the family and business roles are clearly defined will help reduce conflicts that overrule business reason.

The study has also noted varieties of succession process experience for the next-generation members. The right approach pertaining to timing to designate, criteria set and the selection method were subject to the company's internal applicability. The implication to practice is a policy that is compatible to one family business might not be suitable for another business. The number of family members involved in the business contributed a certain complexity. For instance, in some families, selection was to the first-born son while this was not the case to the family with no sons. In other families, no in-laws are allowed to work in the family business.

One of the significant findings in this study was that a family, who has business, may start educating their children about life without a burden to join the business. The fact that the children were willing to join was directly and indirectly based on the foothold of the family business. The parents, however, must instil in the next-generation family members the benefits of joining the family business and taking it as their ultimate career.

Successor's competence is crucial but integrity and commitment to business are paramount qualities that must not be sacrificed for competence. The research helps potential successors in understanding and working towards attaining the qualities that family firms look for in their future leaders.

## 7. Limitation of this study

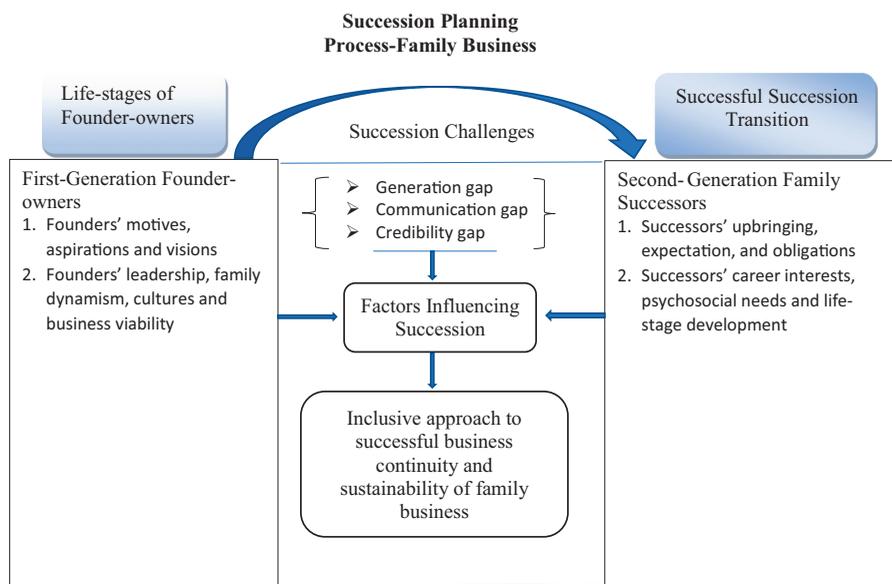
The researcher acknowledged the limitations of this study, including a small purposive sample, and recommended that a larger and more diverse sample be collected in future studies. In addition, because this study intended to explore many issues related to Malaysian Chinese family-owned outboard engines business succession as possible, it had to sacrifice depth for breadth. Future research would benefit by focussing in depth on a few related issues rather than trying to cover all issues discussed in this study.

## 8. Conclusion – the succession model

The researcher summarizes the study findings into a management succession model (Figure 2) for business transition from first-generation founder-owners to the second-generation family successors of the Malaysian Chinese small-to-medium outboard marine ownership. An inclusive succession approach is needed to overcome these challenges and would enable sustainability, continuity and longevity of the family business. This would help the family business to understand that succession is not a single event but a process that needs to be planned together with the next-generation family members over a certain period of time. This research study focusses on the family circle/dimension, individuals' motivation and aspirations as well as the social and cultural characteristics connected to the family members and the influence of these family components to the management succession process. The researcher hopes that this study would help the Malaysian Chinese family business ownership in other sectors of the SMEs to rethink and refocus on the issues discussed in enabling sustainability, continuity and longevity of the family businesses.

First-generation founder-owners

- (1) Founders' motives, aspirations and visions



Next-generation leadership development

**Figure 2.** Management succession model that depicts the challenges of succession process from first-generation founder-owners to the second-generation family members

(2) Founders' leadership, family dynamism, cultures and business viability

Second-generation family successors

(1) Successors' upbringing, expectation and obligations

(2) Successors' career interests, psychosocial needs and life-stage development

The following outlines the steps that can be taken by the family, founder-owners, next-generation successors to engage in the succession process:

- Step 1. The need for family members to understand the founders' motives, aspirations and visions of the business. The leadership style, family dynamism, culture and business viability need to be studied and conveyed to the family members. Can the founder-owners make the transition from "me" to "we" as illustrated by the three-circle model?
- Step 2. The founders need to interact, understand and communicate with the second-generation family members/successors regarding their career interests, psychosocial needs and life-stage development. The founders must take into account the successors' upbringing, expectation and obligation towards the family and the family business. Does the next generation wish to own and/or operate the business?
- Step 3. Both the family founders and the second-generation family members/successors need to work through the gaps (generational, communication and credibility) identified from the study as the main factors that affect the successful transition.
- Step 4. Factors that influence succession outcome as mentioned in [Section 2.6](#) need to be analysed and addressed. By understanding the factors and taking appropriate measures to tackle any issues, the outcome of successful transition for the next generation would be more assured.

Step 5. The family business to establish a plan to ensure both the founders and the successors undertake an inclusive approach to succession plan as mentioned in [Figure 2](#). The founder-owners need to align the business and family strategies. This would involve preparing the successors and leadership transition for the next-generation family members.

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