



## PRIMA research

### Timely survey to address changing business scenario



Dato' N.K. Jasani is the Managing Partner of Shamsir Jasani Grant Thornton.

Family businesses form a significant part of our country's economy. In some cases, these companies have evolved from small enterprises from the yesteryears to giant conglomerates today.

From our vast experiences of working with these businesses, we have seen how difficult it can be to reconcile personal priorities with the needs of the business. Yet, there has been a shortage of formal research done in the area of owner-managed and family-run businesses until recently. In recognition of the complexity and special circumstances surrounding these unique businesses, Grant Thornton developed its specialist service, PRIMA (People and Relationship Issues in ManAgement) which was subsequently adopted on a worldwide basis by member firms of Grant Thornton in their respective countries.

By early 2002, an estimated 30 countries will have been involved in this international academic research into family businesses which underpins PRIMA.

Here in Malaysia, we are proud to have sponsored this pioneer research which was jointly carried out with the Malaysian Institute of Management (MIM). It has certainly been a mutually rewarding and fruitful experience for both the establishments. Then, of course, this Report would not have been possible too without the support from our respondents who gave us their time to complete the questionnaires.

With this Report, we hope to shed more light on the classic and contemporary issues governing family businesses in today's competitive environment and provide solutions to help them achieve their true potential.

## Executive summary of findings

We set out to explore the present scenario of family businesses in Malaysia through a nationwide survey in order to further understand the characteristics of these companies and assess the management concerns, attitudes over the involvement of family members and their development plans amidst globalization. A total of 225 companies responded to this nationwide survey comprising 55% small, 35% medium and 10% large scale enterprises.

The study shows that the Small and Medium Scale Enterprises (SME) are still very much managed by the founder and anchored to the family through funding and employment. Although the majority of the founders held a practical and realistic view towards business growth and development, they still regarded it to be family run business. A large number of respondents however felt that the family and business matters must be kept apart.

All enterprises irrespective of their size showed concern over the introduction of outside shareholders into their business, citing greed and a need to change their lifestyle if they grow their businesses.

The large, medium and small scale enterprises were receptive to the employee share options to motivate and enhance the performance and productivity of their employees.

In respect of children participating in the business, most respondents preferred their children to start from the bottom so that they would be better equipped with the relevant knowledge of the business before assuming management positions.

On the question of successor, a third of the respondents were of the view that there can only be one management successor. In fact, sibling rivalry was considered by a large number of respondents to be unhealthy for business.

Most respondents were of the opinion that professional advisors understood the uniqueness of their business and could advise them in decision-making.

Small scale enterprises relied more on family funding than funding from financial institutions. On the other hand, the large and medium scale enterprises were more inclined towards funding from financial institutions for their development.

Most respondents formally plan for their expansion and address the issues of globalization through modernizing of facilities, upgrading and updating human resource and forming strategic alliances. However, some small scale enterprises appeared not to be taking adequate steps towards addressing globalization issues.

## Overview of findings... a closer look

### I. Characteristics of the family business

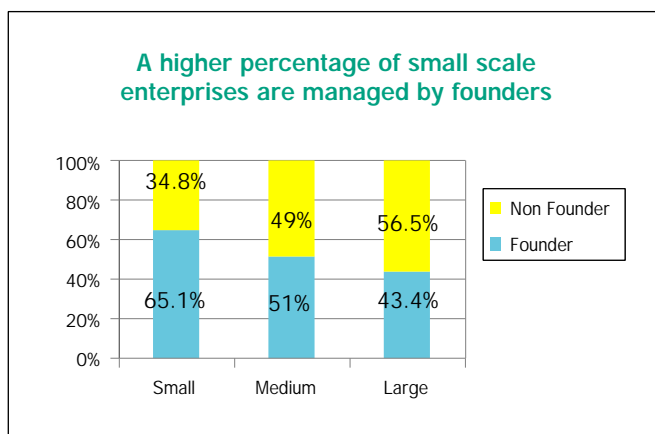
This section endeavours to obtain background on how the business came to be founded and at what stage of the generation cycle it is in and whether business owners still consider their business a family business.

#### Characteristics of the family businesses are as follows:

- Most of the businesses (59%) are still run by the founder
- Most small scale enterprises (65%) are managed by founders
- 55% of the businesses are small scale enterprises employing below 51 persons
- Manufacturing (35%) is the main activity of family business

Our study found that most of the businesses in Malaysia are still currently run by the founder (59%), while 30% are run by the second generation, the majority of whom are children of the founder. As compared to large scale enterprises and medium scale enterprises, small scale enterprises emerge as the sector which is still very much run by the founder (65%).

A substantial number of the businesses were small scale enterprises employing below 51 persons (55%), while 35% were medium scale enterprises employing between 51-250 persons. About 10% were from large scale enterprises employing more than 250 persons. The main activity of family business lies in manufacturing (35%), followed by retailing (12.9%) and construction (10%).



#### Characteristics of business owners:

- Respondents (52%) felt that children should join the business only if they wanted to
- Most respondents had an average of 6 ½ years of working experience prior to joining/starting the business
- Less than 10% expressed regrets joining the business
- Majority of small and medium scale enterprises still considered themselves to be family businesses

The study indicated 21% of the respondents wanted their children to be involved in the business, while 52% were of the opinion that the children should be involved only if they wanted to and this was especially so in the large scale enterprises (69%).

In the managing of the businesses, the founder is supported by:

- brothers & sisters (45%)
- children (24%)
- distant relatives (14%)

Of the 24% of children involved in the family run business:

- 46.5% is the first child
- 28.2% is the second child
- 13.7% is the third child
- 11.4% is the fourth child.

These statistics indicate a considerable involvement of family members and relatives in the business. It is found that a very high percentage of respondents (91.6%) expressed no regrets in joining the businesses. The majority of the small scale enterprises (65%) and medium scale enterprises (64%) still considered the businesses to be family run businesses, whereas 48% of large scale enterprises considered their business to be so.

It is interesting to note that most of these businesses were founded by people who had had an average of 6½ years of working experience elsewhere before starting or joining the business, while 33% joined the business after tertiary education or professional training.

## Overview of findings... a closer look

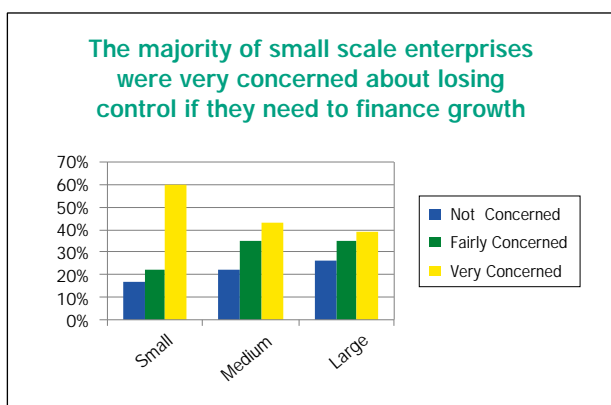
### II. Business concerns

For a business firm to progress and grow significantly, it needs to attract resources from beyond what the family can provide. However, previous studies show many business firms although recognizing the benefits of securing expertise and resources from outside the family are reluctant to do so. This section endeavours to seek their main concern with regard to this area.

#### Financing is often a crucial issue for owner-managed businesses...

...and with the pressures of globalisation and new technology fast setting in, many family businesses were forced to face the harsh reality of staying competitive in such a changing business scenario.

There is a general concern about bringing outside shareholders into the enterprises and this is more conspicuous among the small scale enterprises (54.5%). In fact, the majority of them (62%) were concerned about losing control if they were to involve outsiders to finance growth. Comparably, medium scale enterprises were moderately concerned about having outsiders in their business (43%), with 44% expressing concern over losing control of the business. As for large scale enterprises, they were equally less concerned (39%) about outsiders coming into the picture and taking control of the business (39%).



However, it is surprising to note that large scale enterprises (52%) were more concerned with regard to outsiders changing the way the business is run, as compared to medium scale (45%) and small scale enterprises (44%).

Our study found that a large number of respondents (72%) who had invested a great deal of their wealth in the businesses, were very concerned if their businesses were to get into trouble. This explains why a good portion of the respondents (63.1%) seemed concerned over the performance of their business. While a large number of the respondents (62.2%) were concerned with regard to the worth of their business, they had mixed thoughts about selling it.

It is apparent that most respondents are aware of the need to grow their business at one stage or another, but most of them (91.6%) cited worries over the anticipated change in their lifestyle if they were to take this extra step.

More than half of the respondents (65.7%) expressed serious concern about having disagreements or disputes with their business partners. However, this same seriousness was not reflected in the event of separation from spouses.

#### Bringing family members into the business...

The large scale enterprises seemed to be less concerned (48%) about bringing family members into business as compared to the small scale (31%) and the medium scale enterprises (29%).

Generally, most of them (72%) were concerned about the performance of their children in the business, although there is a fair number who did not show such concern.

Another area of concern for most of the large, medium and small scale enterprises was about giving key employees a share in the business, with the small and medium scale rating equally at 81.7%, followed by large scale enterprises at 69.5%. They were also found to show reasonable concern on how to provide for their children separately.

## Overview of findings... a closer look

### III. Family involvement

This section looks at the interface between the family and the business with regard to succession, their training, education and exposure. We posed some statements to the respondents to get their feedback...

#### Most respondents agree with the following...

1. Children should be introduced to the business at an early age
2. Children's education should be geared towards the business needs
3. There can only be one management successor
4. Criteria should be set up to decide how family members join and leave the business
5. The business is stronger with family members involved
6. Parents should retire when the children are ready to take over the business
7. Founder and subsequent generations should always have a formal role in the business
8. Family and business affairs should be kept separate
9. Professional advisers understand the unique issues facing the family business

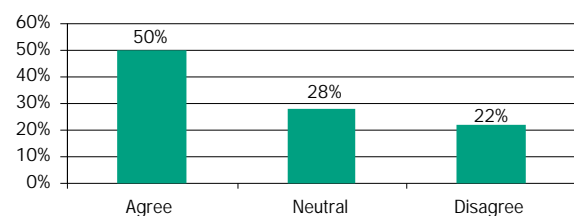
#### ...and disagree that

1. Children should receive shares only on the death of the previous generation
2. Children should receive some shares only when they join the business
3. Shares should only be transferred to members of the family
4. Family members are entitled to differential pay arrangements from the rest of the employees
5. Sibling rivalry is good for the business

Half of the respondents (50%) strongly agreed to introduce their children to the business at an early age and that they should start at the bottom. In fact, more than a third of the respondents (43.4%) felt that the children's education should be geared towards the business needs and that they should be interested in the markets and products of the business.

Irrespective of the size of the business, slightly over half the respondents were of the opinion that there should only be one management successor although they were relatively mixed over whether the successor should be chosen from the family. A large number of respondents (61%) were of the opinion that sibling rivalry would hinder business harmony.

#### The majority of respondents strongly agree to introduce their children to the business at an early age



Generally, all businesses were of the opinion that there should be set criteria to decide how family members should join and leave the business. They were also of the opinion that the children should receive shares irrespective of whether they joined the business or not and that they did not have to wait for the death of the previous generation before receiving their shares.

Most of the respondents (64%) agreed that the founder and subsequent generations should always have a formal role in the business. In fact, about half of them (48.4%) felt that the business is stronger with family members involved in it. In this respect, the smaller and medium scale enterprises seemed to think the business is stronger with family members involved in it, while large scale enterprises were neutral on this issue.

Nearly half the respondents (48%) felt that the parents should retire when the children are ready to take over and that business and family matters should be kept separate. Meanwhile, most of them (50.2%) felt that professional advisors understand the unique issues of the business.

Although there were mixed feelings over whether the children should receive equal share in the business, nearly half the respondents disagreed (48%) that it should only be transferred to family members. A number of them (53.8%) also disagreed that family members should be entitled to differential pay arrangements compared to the rest of the employees, although they were relatively indifferent towards pension benefits for all members of the family.

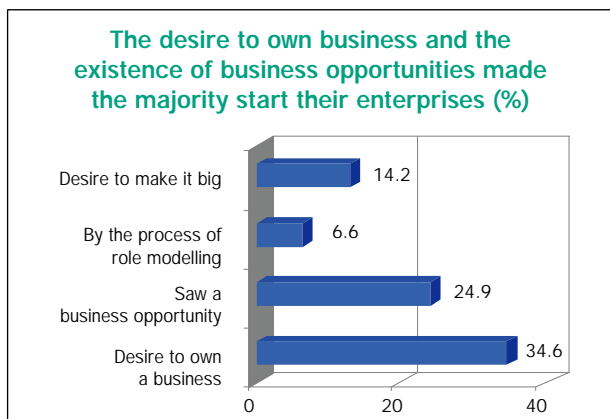
## Overview of findings... a closer look

### IV. Business development

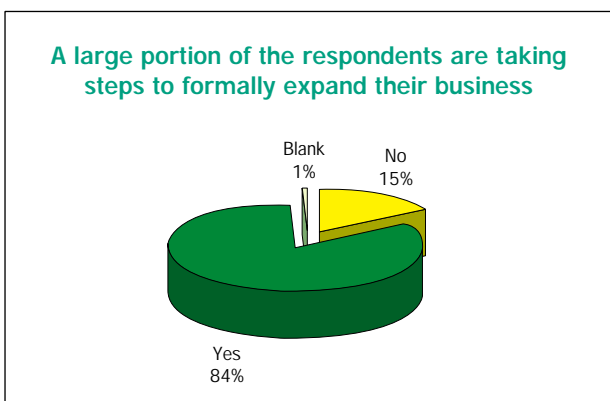
This section explores the motivation behind the founder starting the business and how he or she financed the start up. In the light of growing competition and globalization, this section also explores the families' action/inaction in dealing with these challenges.

#### The desire of owning a business...

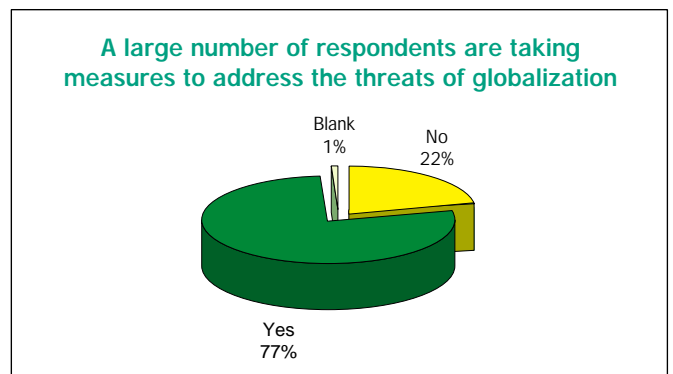
...seems to be the most frequently cited motivation in commencing the enterprises. In fact, the major source of funding for small scale and medium scale enterprises was family funding as opposed to financial institution funding for large scale enterprises. The medium scale enterprises appear to avail themselves of financial institution funding more than the small scale enterprises.



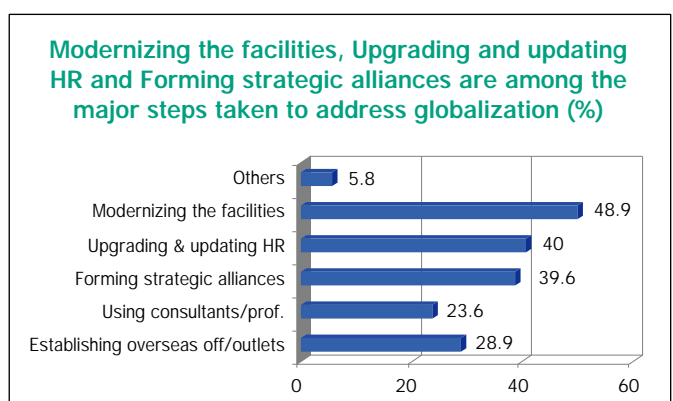
The study indicated 84% of the respondents were taking steps to formally expand their business and address the threats of globalization (77%).



**"The importance of association with local chambers of commerce and taking advantage of programmes initiated by MIDA and SMIDEC, just to name a few..."**  
- respondent



About 22% of the respondents appear not to be addressing the issue of globalization of which the majority are from the small scale enterprises. For those who are taking steps to address globalization, modernizing of facilities, upgrading of human resources and forming strategic alliance seem to be the major steps taken. However, the medium scale enterprises seem to give relatively higher emphasis on upgrading and updating human resources.



## Key findings

### ...in a nutshell

The study conducted through a 55-item questionnaire covered a broad spectrum of family business relating to the characteristics of the family business, management's concern over their business, family involvement and the development of their business and highlights the following...

- **Hindrances to business growth**

The small and medium scale enterprises are still managed by founders and very much anchored to the family, which could hinder their growth.

- **Considered family business**

Most of the small and medium scale enterprises have strong family affiliation and consider their business to be "family business".

- **Business growth potential**

The business environment is relatively young and as such there is good potential to learn and grow.

- **Practical and realistic view towards business**

The majority of the founders hold a practical and realistic view towards business growth and development and refrain from forcing their children into business, which is indicative that they might bring in professionals if the children are not involved.

- **Working experience**

A large number of founders had acquired working experience elsewhere before starting their own business.

- **Concern over outside shareholders and competitiveness**

A substantial number of respondents (50%) expressed serious concerns over bringing in outside shareholders because they fear the latter's greed and their changing the way the business is run. While the concern of outsiders changing the way the business is run may be accepted in the short term, there was concern that in the long term it could affect the competitiveness of the enterprise.

- **Business Funding**

Although the small and medium scale enterprises use mainly family funds for business development, they still rely on funding from financial institutions, but to a lesser extent than the large scale enterprises. This less reliance on funding from financial institutions indicates that these enterprises may be less aware of the availability of government assisted funding or that they have difficulty obtaining the necessary funds. This suggests that the chambers and government agencies may need to play a more active role in these sectors, particularly the small scale enterprises, to help them meet the challenges of industrial development in the country.

- **Fear of change**

The majority of the respondents were very concerned that the need to grow the business might change their lifestyle. This is more prominent in small scale enterprises. There seems to be an inherent fear for change, which could inhibit their future growth and success.



## Key findings

### ...in a nutshell

**"If family members are not capable of managing the business, outside professionals can be considered for profit sharing and managing of the family business"**

- respondent

...continued from previous page

- **Key employees share option**

The large, medium, and small enterprises are now receptive to ideas to give key employees (non family members) share options to motivate and enhance their performance and productivity. This is consistent with research findings of successful companies around the world.

- **Children starting from the bottom augurs well for the business**

A substantial number of respondents (50%) would want their children to start from the bottom to get exposure to the operations of the business. This will be good for the business, as this would give them a better base for decision making in the future.

- **Realistic view of management successors**

In terms of succession, the respondents seemed to hold a realistic view that there should be only one management successor and they need not come from the family.

- **Keeping business and family apart**

A large number of respondents felt that business and family should be kept apart. This is indeed good business practice.

- **Professional advisers/consultants**

The majority of respondents felt that professional advisers or consultants understood the unique nature of the business, which would indicate that they are prepared to use the services of professional advisers and consultants.

- **Addressing globalization**

A substantial number of respondents (84%) formally plan for their expansion and are addressing globalization (77%) by modernizing facilities, upgrading human resources and forming strategic alliances. However, some respondents appeared not to be taking adequate steps to address globalization, particularly the small scale enterprises, which presumably may just be contented with being sub-contractors to large scale enterprises.

**In order to meet the challenges of Vision 2020, there needs to be change in management thinking and technological innovations if firms are to enhance their competitive edge. While the medium and large scale enterprises seem to be aligning themselves to the above, the small scale enterprises appear to be lagging behind in these important areas.**

#### Acknowledgements

Special thanks to our research partner, the Malaysian Institute of Management for their dedication and professionalism, Professor Sue Birley from the Imperial College, London for the technical support and advice, the respondents for their valuable time, and all other parties involved in making the research project a success.

#### Disclaimer

The Family & The Business Report outlines key findings obtained from the nationwide research project jointly conducted by Shamsir Jasani Grant Thornton and the Malaysian Institute of Management on family-run businesses in Malaysia.

Please be advised that the information contained herein is for general guidance only. Any reader intending to base a decision on the information contained in this publication is advised to consult us before proceeding. You are welcome to direct any comments or queries to:

#### Shamsir Jasani Grant Thornton

Corporate Communications Dept  
Level 11-1, Faber Imperial Court  
Jalan Sultan Ismail, P.O. Box 12337  
50774 Kuala Lumpur, Malaysia  
T (603) 2692 4022  
F (603) 2691 5229  
E [sjgt@gt.com.my](mailto:sjgt@gt.com.my)  
W [www.gti.org](http://www.gti.org)

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