Family Business Ownership Research: Case Study of Malaysia

Mei Ling Sai, Kalai Vani Kalimuthu, Vikniswari Vija Kumaran, Chew Fong Yee, Mohamad Fared Mohamad Makmor, and Suresh Nodeson

Faculty of Business and Finance, Universiti Tunku Abdul Rahman, Jalan Universiti, Bandar Barat, 31900 Kampar, Perak, Malaysia
{saiml,kalaivanik,vikniswarivk,yeecf,faredm,suresh}@utar.edu.my

Abstract. Malaysian family businesses are not easily identifiable, yet the subject still has its desirability as the studies are being conducted with scattered information related to the phenomenon which can give a good idea about its magnitude. After the impact of covid-19, digital transformation is treated as a necessity for the family as it is always being in the back of their mind, to begin with. However, there are always internal issues prevailing in the family business, although the sector contributes the most especially to the economy and society in this nation. As such, this research has attempted to understand the performance of the family business in Malaysia with two case studies as examples at end of this discussion.

Keywords: Family business · Malaysia · Case studies

1 Introduction

Family business stands for what (Lansberg et al. 1988)? It is one of the hard questions to be answered in the research because until today there is no any generally recognized definition of Family Business (Chua et al., 1999). Studies show that family businesses are different in terms of shape and size, and the roles that exist (Hamilton, Disca Cruz & Jack, 2017). Even though there are no special criteria that are categorized in forming a family business, the background and family relationships are prerequisites to determining a family business (Kubica & Szarucki, 2016). Family business means where a family owns equity and will be involved in the top management and has the power to control the strategy for their business (Pounder, 2015). Normally, in the family business, three out of six directors are the main shareholders. The research in the family business is still new and just started about two decades (Kubica & Szarucki, 2016) mainly to study the relationship between family dynamics and business performance (Paradise, 2014). The involvement of family members in the implementation of business strategies brings new dynamics, politics, and opportunities for exploration in the business (Sharma, 2013).

In the late 1970s, there is an attraction in the study of family business because of its different dimensions and context. Based on research, the engrossment of family members has been recognized as the main factor in making strategic decisions in business (De Massis & Kotlar, 2014). Most of the studies in the family business of the late 1990s studies...
aligned with families before shifting to family relationships to increase the target and performance in business (Sharma, Chrisman, & Sharma, 1997). Most family businesses are engrossed in management events and business performance (Paradise, 2014). The results of this study have been oriented toward improving efforts to increase the profit of the family business and at the same time maintained for a long period by looking at family and interpersonal relationships, succession planning, leadership styles, and conflict. Even though there is no difference between family businesses and normal businesses in terms of strategy and goals, the differences in processes and roles in this business cannot be denied, for example through the involvement of family members in business functions. The number of family leadership and management in family businesses also varies in family businesses and can have a long-term impact on the business (Heidrich, Németh, & Chandler, 2016).

There are several well-known firms controlled by family members and the quantity of these businesses has been growing in Malaysia and listed in Bursa Malaysia due to positive long-term growth (Bursa Malaysia, 2018). Although some well-known family businesses in Malaysia like Tan Chong, Sapura, Oriental, YTL, Melewar Group, Berjaya Group, and Genting play an important role in various economic sectors, there are small family companies such as Habib and Kamdar that retain their businesses in their particular sectors.

Recently, the focus is more on innovation in the family business (Migliori et al. 2020 and Strobl et al. 2020) and stimulating the family business in the tourism sector (Guttentag, 2015). The tourism sector is believed to create a new life for rural people (Alrawadieh & Alrawadieh, 2018; Kokkranikal & Morrison, 2011) by increasing the competitiveness of the destination (Obermayer et al., 2021; Kumar et al., 2021; Santos et al., 2021; Shekhar et al., 2021; Camilleri & Valeri, 2021).

Based on the Family Business Survey (2021), the COVID-19 pandemic cause more than 70% of the family business to experience a decrease in profit. It is important for a country to encourage the sustainability of family-related companies. Thus the primary purpose of this paper was to highlight the opportunities and obstacles of the family business. This study will emphasis the factor affecting family business, the impact of the family business, strategy for the family business, problems in the family business, and how to overcome problems in the family business. To give a clear picture of the family business, Eu Yan Sang and BOH Tea Plantation’s performance as a family business was used as a case study at the end of the discussions.

2 Literature Review

2.1 Factors Affecting Family Business

There are three categories of factors related to family business such as business factors, family factors, and individual factors. The previous study has shown that business factors play an important part in the success of a business (Danes, Loy & Stafford, 2008a, b; Remble, Keeney & Marshall, 2010). The sustainable family business model combines family and business elements and proves that disruption in the family can delay business progressions, and so do conversely (Danes et al., 2008a, b). Every family business has different goals, including maximizing profits and integrating family members into the
business. Business goals are determined by what the business owner wants from his business. Differences in business goals can determine the state of the business and what will be achieved, whether their goal is profit only or ensuring leadership that inspires all members of the organization. In addition, the location of business and industry is a business factor that needs to be paid attention to. Tax and business policies often differ from one place to another place, which can disturb estate planning. Therefore, family business owners need to make wise choices that will bring benefits to their business.

Next, the relationship that exists between the owner and other family businessmen is a family factor that drives business success. A very impactful factor in the family business in terms of the transfer of power to the younger generation. The readiness of the replacement to take over the business is equally important as the readiness of the older generation to pass the business to the following generation. Accordingly, certain family structural factors have an important impact on the process of succession. The successor of the family business become more difficult and the clear decision about who will take over the family business becomes less clear if there is a doubt on who is the next person to take over the business. Generally, business owners hesitate to step down and hand over their business to the next generation (Salamon et al., 1986) because of the fear of losing wages and profits (Upton, 1991). Additionally, the fear of the business will not be the way he envisioned is also one of the reasons that hesitate in the handover process.

Next, the individual factor shows that the value of the family organization is the dominant role of the founder in the process of forming values. The founder’s personality, values and beliefs are important determinants in the formation of organizational culture. The organizational culture determined by the founder will train each family member in the organization to follow disciplined rules that bring success in management and business. Furthermore, the importance of a founder’s lifestyle is also an important individual factor for the success of a family business. For example, past research conducted on 290 small business owners in Australia, the surveyed respondents were asked to rate things related to lifestyle and financial measures used to evaluate business success, the results showed that a flexible lifestyle, pride in work, and personal achievement is a more important sign of business achievement rather than the wealth creation or financial indicators (Walker & Brown, 2004). This case clearly shows that the founder’s lifestyle determines the direction of his business.

2.2 Impact of Family Business

Family businesses play a main part in the economic development of a country. A study by Paul (2020), shows that family businesses are a basis of economic steadiness across the world by creating employment opportunities and a source of financial invention. According to Davis et al., (1997), the world record shows that 40 to 60% of domestic output is from family businesses and 35 to 70% of new job opportunities are created by family businesses. According to a recent study, family businesses play an important role in expanding the country’s GDP by creating job opportunities in the country (Tirdasari & Dhewanto, 2012). According to Osunde (2017), there are five economic impacts that can be produced by a family business.
The first economic impact is to increase government revenue through tax revenue. This is because most family businesses show high profits in business and are able to pay the prescribed taxes. The government uses tax revenue to develop the country by implementing development projects. With tax collection, the government can also improve the welfare of the public by building various infrastructural facilities such as LRT, public hospitals, and so on.

Not only that, but family businesses can also survive in a declining economy and create job opportunities in the country. This is because, family businesses are usually businesses that have been operating for a long period of time and have their own way of facing any challenge. With the availability of job opportunities in a declining economy, the pressure and cost of living of the people can be reduced. This is because when the economy declines, most of people will be forced to quit their jobs and be squeezed by the increasing cost of living.

Referring to the World Business Council for Social Development - WBCSD (2000), corporate social responsibility is one of the commitments of business institutions in contributing to sustainable economic development where family business owners work together with employees, their families, the local community and society in general, to improve their quality of life. According to Utting (2005), among the corporate social responsibilities that can be done is to improve the safety and health management system of employees; environmental conservation efforts, develop triple bottom-line financial reports; develop certification schemes and labels for products and services; implement partnership efforts with NGOs; organizing a dialogue with stakeholders; and increase support for community development projects and programs.

The next economic impact is maintaining a business from one generation to another with innovation in business. Innovation means being able to produce new products that satisfy the desires and needs of consumers. Innovation is one of the main factors in attracting the attention of customers and increasing sales. With the presence of innovation in a family business, a business can maintain its position in the market and subsequently dominate the entire market.

The last economic impact is that family businesses rarely have debt problems. Debt or loan means borrowing money from a third party that will be repaid within a set period, and with interest. Most businesses will apply for a loan due to a lack of capital to start a business or expand a business. Being in debt in business is normal but debt needs to be paid and not added to. This is because the debt that increases or is not paid as stipulated will cause hardship to the business because the business cannot continue when there is a lot of debt.

Family businesses also have an impact on social problems in a country. Most social problems exist when job opportunities in the country are reduced. This is because people need income to pay the rising cost of living. With a family business that is always profitable and looking for new employees to expand the business, social problems can be reduced. Usually, the crime problem will increase when there is an increase in the unemployment rate. With family businesses, the unemployment rate in a country can be controlled or reduced.

Not only can that, but the poverty rate in a country also be reduced by having a family business. This is because people can increase their income when they venture
into business. This situation can indirectly reduce the poverty rate. Not only that but the taxes paid by businesses can be used to reduce poverty in a country.

2.3 Strategy for Family Business

Customers are an important asset for a business because, without customers, the business cannot sell its business products. There are several strategies that can be used to keep customers in business. One way is to retain existing customers. This strategy can stabilize monthly sales in the business. Among the qualities that a family business owner must have are humility and friendliness. This feature can attract existing customers to come back to make purchases. In addition, this trait can also turn a customer into a friend. Next is to get new customers from existing customers. A good relationship with existing customers will cause them to promote this business to their contacts and will indirectly add new customers. The next strategy is to get new customers who don’t know you. Businesses can get unknown new customers by promoting the business on the website or social media. With a website or social media, anyone can find and become a new customer for a business.

Every business needs to have a long-term marketing plan and adapt that plan to the opportunities available in the ever-changing environment. Most businesses cannot compete because they do not have a marketing plan. There are three steps that businesses need to take in a strategic marketing approach. The first step is to identify the mission and vision of the business. A mission is a formal statement of the purpose a business is established for, while a vision is what the organization wants and is a long-term perspective with an emphasis on the future. The next step is to form the company’s objectives or goals. An objective is something that an organization wants to achieve based on its mission. The third step is to analyze the type of business portfolio. A business portfolio is a group of products or business units owned by a company. Portfolio analysis can identify whether the business will be profitable or unprofitable.

There are several methods of finding a successor in a family business. The first method is to identify the quality of the substitute. The successor must have sufficient knowledge of the business, and be honest, capable, healthy, energetic, enthusiastic, and confident. The second way is to understand the pressures that will affect the selection. Among the things that need to be taken into account when choosing a successor are family issues and business culture, the concerns of the owner, and the concerns of family members. The next method is to implement a succession plan by identifying a successor, preparing potential successors, and agree to the plan by holding a meeting to ensure the transition of power is done smoothly.

2.4 Problems in Family Business

Family businesses are one of the economic catalysts in most countries. The study conducted by Frederick & Kuratko (2013) states that family business holds an important place among Asia Pacific countries such as Thailand and Korea. In addition, even in Malaysia, family businesses do not have a clear report, but we cannot deny that family businesses are contributing and will continue to contribute to the national economy. As mentioned, family businesses make a great contribution to the national economy, and to
ensure that family businesses run smoothly, various problems that exist in family businesses need to be given attention. The problems that are an obstacle to the development of family businesses are diverse, such as leadership, succession issues, and the quality of financial reporting and thinking that lacks vision.

Family businesses come from a tradition where two or more majority owners are members of their own family. According to Hashim & Deraman (2011) family business can be defined as a business owned and managed by two or more family members, and business activities are largely controlled by family members. Past studies (Adiguzel 2013; Abdullah, Yusof & Nor 2010) can identify that the administrative structure and way of managing an organization is closely related to the quality of financial reporting in an organization. As proven in previous studies, it is clear that the majority of family business activities are under the control of family members because this causes problems in the quality of financial reports. In addition, this control power is due to the large capital investment from family members who intend to get a good profit but they forget that effective management drives a business to continuous profit especially in the management of financial reporting.

Further, the conflict between family members leads to problems in the organization. In particular, the issue of leadership cannot be separated from the phenomenon of a family business. As explained, the reason that mainly creates conflict in family businesses is that there is no separation between ownership, management and leadership. When matters in the business are managed by family members, the way of operating the business is often more to satisfy personal goals compared to the overall goal for the welfare of all shareholders. Next, the problem of unfair dividend distribution between shareholders exists and causes dissatisfaction among other shareholders. The study of Michael & William (1976) states the same thing, which is that agency theory notes that ownership and management need to have a separation of powers to achieve fair success in the organization. Furthermore, the conflict between older family members and the current generation. Most things in business require innovation and technological involvement to align the business with the progress of the world today to keep the business in the market. However, the elderly who are in the family business often refuse to accept modern ideas from the current generation which brings conflict in opinion.

There is also the issue of business succession which is a barrier to family businesses. In addition, family businesses have shortcomings in planning the handover of power to the next generation. According to Porfirio et al., (2020) succession from one generation to another generation is one of the long-recognized problems in a family business. Furthermore, believed that the tourist and hospitality industries related to family businesses endure beyond the first generation since there are no clear succession plans which causes an increase in conflict and deteriorating family relations between the family members. This is due to, older family members always protecting business information to ensure they monopolize the business and do not want the changes proposed by the younger generation (Lee, 2006). This matter is closely related to the systematic thinking of family business owners. If an owner thinks systematically, he will certainly prepare a business succession strategy for the future of the business. As well as conducting training or programs in the organization between family members to share important business information such as vision, mission and responsibilities to family members who have
the potential to be successors in the future. There is experiments and risks in the transfer of proprietorship and administration from one generation to another generation (Ahmad et al., 2021; Kumar et al., 2021).

2.5 How to Overcome Problems

As discussed above, there are various family business problems that hinder development and raise conflicts between family members in the business. Firstly, the quality of financial reporting in family businesses needs to ensure the appointment of financial experts to manage audit matters. If the director or manager of a family business is someone who has accounting and legal expertise, it is an advantage for the business (Woidtke & Yeh 2013). Further, a potential director with financial expertise can gain confidence from investors and eliminate conflicts between shareholders by providing clear and quality financial reports. In addition, managers who specialize in financial management can ensure operational funds, manage the organization’s income and allocate budgets for different projects in the organization wisely. Next, the financial experts in the audit committee members can reduce the cost of the firm’s agency as there is no need to appoint an audit agent from outside while the members in the organization have expertise in financial management.

In addition, conflicts between family members are common in family businesses. This challenge brings problems in matters of leadership and succession in family businesses as discussed above. This challenge brings conflict due to the desire between family members to hold high positions and at the same time, the parents’ favor may only be towards one child which leads to jealousy between the other children in the business. In order to overcome conflict and disagreement between family members in the business, the powerful members need to identify that this symptom exists in the family business. After identifying the fair treatment should be practiced in the business so that each member feels satisfied and they will support the decisions taken by the director in the family business without bringing conflicts in the business. In relation to that, the current owners want to bring a new generation into the business, so they may be more open in business management.

Next, family businesses need to practice values, norms, and business ethics in their organizational culture. When the values, norms, and business ethics are practiced by the members of the organization they act according to them and can reduce the conflict in the family business (Stoilkovska, 2011). Next, the business idea holds a strategy for sustainable development to ensure that the continuation of the family business has the right direction in the future. Among them is to create a financial strategy, personnel, and all the resources needed for each activity as well as strategy evaluation. Sustainable development strategies can identify issues of succession and leadership resolved in a more systematic way.

2.6 Case Study

2.6.1 BOH Tea Plantation

The history of BOH Tea plantation began when initially, this farm was sold to a Chinese contractor in the plains of Malaya. In 1934, the amount of tea from this farm was prepared
for export to foreign countries such as London. After Russel’s death, and as a result of the economic downturn, the business suffered a decline. Kathleen, his wife, carry on to financing the farms, which were under professional management by selling all farms. Then in 1949, Tristan who is the son of Russell took over the business after completing a degree in agriculture.

The United Kingdom is the main importer of the Boh Plantations before World War II and started experiencing losses when the country imposed restrictions on tea imports. Since the Boh Plantations have a growing demand domestically, the company decided to create a domestic market in the post-war period. Furthermore, there is an increase in imports from India, China, and Sri Lanka. The changes in imported can be seen clearly when they increase from 3.75 million pounds in 1931 to 5 million pounds in 1947. However, the imposed import duties caused the Boh Plantations to face competition. Boh tea has been graded as the same quality as the higher level teas of foreign countries, for example, Sri Lanka. By 1947, about 50% were sold domestically. Tristan aggressively increased production and marketing in order to increase Boh Plantations’ domestic market share. There are various strategies were used to organize and supervise operations. The works have been modernized and the labor force larger, while social media such as newspapers and television have been used to advertise products.

The cartoon character of ‘Mr. Boh’, was created in the mid-1950s, for marketing purposes. A wide distribution network has been created, through the Peninsula by using the agents and retailers. However, the imposition of the New Economic Policy in 1970, become the company’s most serious concern as a foreign-owned company. This policy enables a wide government intervention in the economy and the transfer of at least 30% of Malaysian corporate equity to Bumiputeras.

In 1990, their investments were moved overseas, however, they managed to maintain management control by allowing Permodalan Nasional Bhd (PNB), and the government investment agency to own 27% of its equity. The issue of business management control continues to be modernized through the use of machinery, especially in harvesting, fertilizing, and packaging.

There is an upgraded packaging factory with the installation of high-speed packaging machines. In 1988, Caroline Russell, the daughter of Tristan, joined the family business after graduating with a degree in business in Edinburgh. In fact, she introduced a more innovative marketing strategy. John Russell, a young man, and a software designer who runs a company in the United States has changed the policy of efficient administration and management. Boh Plantations is able to maintain its place as the top tea company in Malaysia. They control 60% of the local market and only around 5% of production is exported to Japan, Singapore, the United States, Brunei, and Denmark.

### 2.6.2 Eu Yan Sang

Eu Yan Sang continues to grow under the leadership of Richard Eu, the fourth generation family after more than 100 years in business. Today, the business has grown into a respected international brand in Traditional Chinese Medicine (TCM) from what started out as a retail store in northern Malaysia. Since its public listing in 2000, Eu Yan Sang has achieved impressive growth. This business is able to occupy international markets such as Singapore, Malaysia, and Hong Kong. Efficient administration and management
in a family business start with putting the company and the family as the first factor. Every business decision will be discussed with the family first and the decision should be based on what is best for the company.

But as the main shareholders of the business, family members must align themselves before joining the board to prevent differences of opinion that can have a negative impact. The process through generations of family ownership is the main strategy of this business. The whole family has struggled to implement an effective succession plan for a period of two to three years, adapting to local tastes and preferences is the key to Eu Yan Sang’s success. Although it is very difficult to know the needs of the local market, it becomes one of the strategies due to the different buying experiences of its customers. Assistants in their stores are trained to take care of customers’ needs by sharing knowledge about their products and are also encouraged not to force consumers. In fact, this company encourages patience and sharing experiences among business partners in business as one of the recipes for success. Richard Eu, the director of the company emphasized that the attitude of traders is a factor in success. The confidence and humble attitude of a leader is the ‘backbone’ of the long-term growth of the business. When a family member sells the business to a public investor, he takes back control. He managed Eu Yan Sang to new markets with new channels and new products. He has a high degree of patience and often does not expect success overnight, especially in a family-based business.

3 Conclusion

The driving success factors for a family business turned out to be prime issues for growth in a local setting. The experience of COVID-19 should be a wake-up call for all the leaders of the family business and might shift their priorities to move forward. As such, emotional and relationship elements of business sustainability demand third-party for instance adviser, or mediators to sort out internal issues and avoid any potential conflicts. Passing over a business from one generation to another generation is not always a solution to protect family businesses but creates frustration and unwanted issues among the current generation. Foremost, digitalization is meaningless for a developing country such as Malaysia and is believed to be in the infancy stage compared with its peers in Asia-Pacific, North America, and Europe. Empirical studies are badly required in order to enforce the implementation of digitalization in competencies and put more effort into exploring new industries or markets without avoiding the core business.

References


