



Family Business Dilemma: Who Will Inherit?

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Abstract

This case identifies cogent human resource (HR) issues that are related to succession planning an entrepreneur in small family business should take cognisance of to guarantee strategic business success and sustainability. The case highlights the challenges encountered by Mr Farid in ensuring successful transition of the family business to the next generation. Mr Farid has always been motivated, enthusiastic and committed to the continuous growth and survival of his business. His company, 5Ds manufactures varied and robust array of classy designs of steel grills, windows, doors, house/office cabinets and other allied services. As age takes its toll on his ability to continue to manage the business; the 74 year old Farid struggles to craft a successful transition plan in the event of his retirement or death. He has been actively mentoring and engaging family members in the management and administration of the business towards future transition of ownership and positions to no avail. Thus, he is overwhelmed and worried that a successful transition of his business to the next generation is getting bleak. The case is aimed at providing opportunity to study and understand succession and challenges faced by most small family businesses. Importantly, it is also aimed at emphasising how it can be efficiently and effectively addressed to guarantee sustainable growth and success of family-based businesses in the context of Malaysia's economy.

Introduction

Mr Farid, the Managing Director (MD) as well as the owner of 5Ds, stared at the figure walking through the door of his office. "It's time to go boss," said one of his staff to signal the close of work. Farid nodded in admittance and bode the staff farewell as he watched him go through the door again. It is almost sunset on a bright but windy day in September 2018 in Kuala Lumpur, Malaysia. Farid peeped through his office window looking far into the horizon as the sun disappears into the clouds; he lowered his gaze filled with tears and repeatedly says, "it's time to go!". Farid knew that as a 74-year-old who has just survived stroke in a country where the life expectancy is 72 years; retirement and death is quite near.

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As a quintessential entrepreneur, Farid is filled with extraordinary patriotic drive to mentor and nurture successful entrepreneurs. He believes and preaches the need to continuously create and assist entrepreneurs for the country's sustainable economic growth, as well as achieving the national goal of transforming into high income developed economy in the nearest future. He is an inspiration to budding entrepreneurs in his community. In recognition of his passion; giving constant aid and developing entrepreneurship spirit and drive in the community, the Malaysian government chose him, among selected worthy few, for a short course on entrepreneurship and entrepreneurship development in one of the leading universities in United Kingdom. Since his return after the completion of the course three decades ago, he has mentored and nurtured many successful small and medium scale entrepreneurs. He knew and recalled that he had always warned his mentees that succession is a very challenging issue to small and medium scale businesses, and the preparation for smooth and successful transition of ownership "should have started yesterday." After pacing through his office in deep thoughts, he sunk in his office seat trying to go through the company files on his table; he paused and stared up the ceiling repeatedly asking, "How prepared am I for succession?"

Farid, 5Ds and the Journey So Far

Farid is a creative, visionary, thoroughbred and experienced entrepreneur. He has over five decades of entrepreneurship experience up his sleeve. He got the inspiration, zeal and drive for entrepreneurship at a very young age. "Entrepreneurship has always been my passion," he said. Farid is a proud *Merdeka* (independent Malaysia) youth. As a young and vibrant high school leaver in the 1960s, the first decade of the nascent independent Malaysia, he saw huge prospects and opportunities for Malaysians as the nation struggles to build a viable and successful independent economy. Farid spotted the urgent need to create modern businesses that will engage the citizenry in new industries. He quickly picked interest in the printing industry and enrolled as an apprentice with a printing press in his hometown Kedah, Malaysia. In three years, he was sufficiently skilled and experienced to create his own business and start his entrepreneurial journey. In want of needed capital, he decided to go into a joint venture with his wealthy elder brother by establishing a printing press. It was there in Kedah he learnt and experienced how to manage a family business as young entrepreneur.

In 1980, attracted by the allure and abundance of business prospects in the capital city, Farid decided to leave the rural Kedah for Kuala Lumpur. Equipped with requisite skills and experience from Kedah, he immediately started his own printing press in the heart of the city. However, due to the economic crisis the nation experienced in the late 1980s, the new business found it tough and challenging to sustain operations. Down but confident and hopeful, Farid had to shut the business and work as an employee first in the printing and then real estate industry. Although, he was successful, admired and well remunerated by his employers in the real estate industry, his childhood passion for entrepreneurship refuses to go. He preferred the passion to pay.

Though befuddled on how to rekindle his entrepreneurship spirit and drive, his experience in the real estate industry opened a new vista of opportunities to explore. Aside securing excellent real estate deals, Farid also delivered home insurance, security

systems and other related services to his clients. While providing these services, Farid saw opportunities that come with a very robust demand for steel grills and doors in the then newly built up Ampang area of Kuala Lumpur. Riding on the scarcity of suppliers of these products and the vast network of clientele he had in the real estate industry; he decided to give his entrepreneurship dream another shot by catering for these needs.

Finally, in 2002, Farid left his real estate job in pursuit of his entrepreneurial venture by establishing 5Ds as a modern steel design company. He had a smooth and successful kick off as he was able to leverage on the network of clients he built in the real estate job. The company operated as a family business. Since inception, his wife worked with him as a full-time staff while his six daughters and son assisted at one time or the other as part time staff in areas of financial and customer management. Craftsmen are also engaged for the technical works on both full time and project-based employment.

Currently, 5Ds has expanded its services to all districts in Federal territory of Kuala Lumpur inclusive of the Ampang district. The company continue to provide trendy and customised services to its clients. Its products include a wide range of steel and aluminium designs for homes and office security and furniture. Through the years, 5Ds continuously upgrade its services by always monitoring and keeping pace with current trends in global steel designs to meet up with the ever-changing tastes and demands in the market. In the past, the company keep tab of new and fashionable designs from catalogues but, in recent times the ubiquity of the internet has made it easier and timely. Farid's daughter is also a gifted designer and she has been actively providing beautiful designs for grills, doors, windows, cabinets and other allied products to the satisfaction of customers who desire customised services.

Alongside individual customers, the company also provide services for government institutions and a wide range of public and private businesses especially in the retail sector. The business opens six days a week from 9am to 7pm and engages staff on overtime when there are special projects. Presently, the company has eight artisans who work full time and part time positions are offered when there are special commercial projects. The company has continued to grow, and it has recorded great success. Starting from the humble beginning of a single shop lot; it has expanded to six with a robust network of satisfied individual, corporate and government clientele. Although, he might not be part of the future, Farid believes the company is presently a success story and still have huge potentials to grow.

Path to Succession

5Ds as a family business operates in the challenging 3D (difficult, dirty and dangerous) jobs sector of the Malaysian economy. The nature of job the company undertakes is labour intensive hence, the current workforce of eight full time staff with periodic part time employees. The 3D sector is challenging as locals are not willing to take up jobs on offer because of the relatively low wages in this sector. This has forced companies to scramble for few available foreign workers. Currently, 5Ds workers are from Myanmar, Nepal, Bangladesh, and Indonesia; aged between 24 and 40 years. Most of them are skilled and experienced craftsmen who work and produce steel window grills, steel doors and steel furniture items. Farid manages the day to day operations of the company; he also selects designs and guides artisans through the production process. Mrs Mona oversees the financial management, customer relation management and other

administrative activities. The children also took part time positions when they were young especially assisting Mrs Mona on her job in the company. Farid, his wife and the children have been the pillars of the business.

Farid has seven children, six daughters and a son aged between 51 and 43. The eldest daughter and child, Sarah, is an American architecture degree holder working with a reputable architectural firm in Kuala Lumpur. Three of the daughters are university staff, Najwa and Aishah are lecturers while Salwa works as an executive admin staff. The other two daughters, Salmi and Asila are budding SME entrepreneurs. The only son, Fauzan is a retired army officer who has a medium scale company that presently produces and supplies printed t-shirt and embroidery works. “We are blessed with seven beautiful children who are endowed and built with entrepreneurial spirits. We engaged them through their teen years till they are married in 5Ds and made sure they are skilled enough in running the business and by extension any other business,” expressed Mrs Mona. Asked about the children Farid grinned with a radiant face, “luckily three are successful entrepreneurs and the other four are white collar careerists.” “We should be concerned about the entrepreneurs amongst them,” he jokingly said. Just like Farid, the women entrepreneurs among them are self-starters, disciplined, creative, determined, and passionate with strong skills and strong work ethics. Asked about his only male child, he paused and smiled, “naturally he is my rival, we are just two in the family, you know,” he replied. Farid feels he did not have enough time to bond with his son as an entrepreneur while he was growing up as he left home in his teens to enlist with the national army. Nonetheless, Fauzan has grown up to be his own self today as a successful CEO of medium scale firm. Unlike his sisters, he is self-opinionated, aggressive, courageous, charismatic but self-centred in his entrepreneurial pursuit.

Farid’s Family Background

Name	Age	Relationship	Qualification	Profession
Mona	72	Wife	Diploma in bookkeeping & Business Management. Former English Teacher, Clerk at Malaysia Meteorology Department	Retired and currently helping Mr. Farid in managing 5Ds.
Sarah	51	Daughter	Degree in Architecture from USA	Working in Architect firm
Salmi	50	Daughter	Completed high school	Tailor & small business (textile supplier for schools)
Salwa	48	Daughter	Degree in Arts from local university	Working in public university as an executive/administrator
Najwa	48	Daughter	Master & Degree in Accounting from overseas (UK & USA)	Lecturer in public university.
Fauzan	47	Son	Diploma in Business & Ex-Army officer	Medium business (T-Shirt printing & Embroidery)
Asila	44	Daughter	Diploma in Business from local university	Doing small business from home
Aishah	43	Daughter	PhD in Education from local university	Lecturer in public university.

Furthermore, it is worthy of note that all staff in 5Ds are immigrant workers. They are trained and experienced artisans with little or no formal education. They are mainly recruited based on their skills and competence. Those selected are people with the highest potentials, who matches the industry's specificities and can contribute significantly to immediate and long-term business performance. Even though 5Ds operate in an industry powered by immigrants who are in short supply, the company's employee retention rate is one the highest in the sector. This is because 5Ds pay package is higher relative to industry standards and the employee's immigrant visas are renewed promptly. They are also given return flight tickets back to their home country every two years. The company ensures they are given up-to-date and continuous training to meet up with industry standards and the ever-changing customer tastes and demand. Most of the workers have shown commitment to the company, particularly, there are four workers who have worked with 5Ds for over a decade. The four employees are trusted, dedicated and reliable workers and Farid is satisfied and comfortable working with them. They have stayed long enough to garner required experience to work unaided and understand the complexity of the technical aspects of the business.

The Succession Dilemma

To the aged and weak MD of 5Ds, succession is a tough nut to crack. Farid had no formal succession plan. "I remember while in the university in UK we had classes on succession management and I have since read a lot of succession stories and challenges, but I never envisaged it will be this difficult in 5Ds!" he interjected in disappointment. The vision behind establishing 5Ds has always been the provision of jobs especially for his children and the citizenry. The goal is to run the business sustainably in such a way that the children will grow up to find the business as an employer of choice and will take pride and passion in participating, nurturing and especially emerge as capable successors in managing the business after the retirement or final exit of the current owner from this world. "But, just have a look at us today!" exclaimed Mrs Mona. "We were more resolved and challenged by the Chinese family businesses in Malaysia who are quite successful at attracting and retaining their well-educated children in the family business, but our determination and efforts seem not to be in line," added a sad Farid.

Farid's children are successful in their chosen fields and careers and just as most Malaysians especially the upper middle class to which they belong, they find the 3Ds sector unattractive and unrewarding. Farid has tried to convince them individually to take up positions in the company to no avail. They have been hesitant and unyielding to the need to be involved in 5Ds. Though, they can all manage the company, they don't see 5Ds as attractive. Najwa states that, "we are working in the high paying university and architectural firms, 5Ds cannot pay us comfortably moreover, 5Ds is not pensionable." They just find it difficult to envision a bright and rewarding future in the family business. His children who are successfully self-employed also hold the same view. According to the only son "enlisting in the army at eighteen denied me the needed opportunity to gain enough skills and requisite experience in running 5Ds; and immediately I retired from the army, I established my personal business which thankfully today, it is very profitable as a medium scale business. I find my business very demanding with great prospects."

It is Farid's utmost wish as an entrepreneur to retire the company in the hands of immediate family members or close relatives who can administer the business successfully and sustainably after he quits or dies however, none is interested enough to take position and acquire the required technical and administrative skills needed from a successor. Even those that have been engaged among close relative soon left the company without notice or any reasonable excuse. It is so unfortunate 5Ds is left with no choice other than totally relying on the few available immigrants to keep the business running.

Farid had no plans for shares transfer or outright sale to parties outside the family. Albeit, he has not engaged valuers and analysts to evaluate 5Ds books in the same way potential buyers and competitors would, Farid is confident the business is sufficiently liquid with a healthy balance sheet. He is determined to avoid shares transfer or outright sales of the business. To him, part or outright sales of the business to non-family members is not in consideration and it is an option he is determined to resist.

The Way Forward

Keen on finding a way out of the nagging succession challenge, Farid has always envisioned a future where he will gracefully handover the management of a successful and sustainable family business to the family wherein his family members and indeed Malaysians can work and attain individual economic freedom and by extension contribute significantly to national growth and development. As a proud and dedicated patriot with over 40 years of meritorious entrepreneurship experience, a business owner and business mentor; he has dedicated the greater part of his life to entrepreneurship and mentoring entrepreneurs nationwide on how to build successful and sustainable businesses. He hopes the next generation appreciates the significant role family businesses play in building a strong, independent, and prosperous economy. It is his utmost wish they accept the call to entrepreneurship as a call to patriotism as well as protect and nurture such businesses into growth and survival.

During his recent illness, Farid had a management arrangement in which his trusted artisans managed the technical aspect of individual projects while the profit was shared with the management based on agreed ratio. Fortunate to have skilled, experienced and committed artisans whose competence in factory maintenance and technical productions in 5Ds is not in doubt; during his brief illness, Mrs Mona oversaw the marketing, financial and administrative jobs, the daughter provided the needed quality designs and the artisans led by Suraimi, a Bangladeshi, were engaged on project specific profit-sharing approach which worked successfully and had been retained even after his resumption. This arrangement has turned out successful in 5Ds, and Mr Farid is quite elated about it. He finds this interesting and going forward, he hopes it will help his succession plans.

Aside the project specific profit-sharing arrangement, Farid has been working on his youngest daughter who has been producing quality designs pro bono through the years to take position in the company and handle the marketing, financial and administrative aspects of the business. Hinting on this, Farid states "All my children are trusted and capable hands when it comes to handling the non-technical aspect of the business hence, my youngest daughter, Mrs NJ is being considered and cajoled to take up position in 5Ds and oversee finance, marketing, and administration aspects of the business."

Though the response has been discouraging, he remains unrelenting and hopes she gets the spark and buy the idea soon. Asked about this, Mrs NJ responded hesitantly, “even though I have been providing quality designs free of charge to 5Ds through the years; it is just a way of satisfying my passion for artistic designs and a pay back to my parents. Also, it is true I have been in series of meetings with my parents where succession issues in 5Ds have been raised and I’m prodded to take position, however I believe when we go to the bridge, my siblings and I will surely cross it.”

Farid believes his options have thinned out and he is left with no other choice for succession in 5Ds.

DISCUSSION QUESTIONS

1. How prepared is 5Ds for succession?
2. What are the available succession options for Farid and 5Ds and how are they applicable to 5Ds case?
3. How should Farid and 5Ds develop strategies to overcome the succession challenge?
4. How can the potential option be used to solve 5Ds succession dilemma

Additional Readings

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