QUOTE OF THE WEEK

NO ONE'S EVER ACHIEVED FINANCIAL FITNESS WITH A JANUARY RESOLUTION THAT'S ABANDONED BY FEBRUARY. | SUZE ORMAN

THE WALL

NEWS

Key concerns of Malaysian family-run firms

BY **NURUL IMAN DIMYATI**

Uncertain global market conditions and staff recruitment are key concerns for family businesses over the next 12 months.

According to PwC's Global Family Business Survey 2014: Focus on Malaysia entitled "Up Close and Professional: The Family Factor" released on Jan 26, 60% of Malaysian family-run firms believe that global market conditions, such as those in the eurozone, will be a key concern in 2015. Government policies and regulations (40%) and competition (34%) will also be important issues in the coming year.

Staff recruitment is the top issue when it comes to the business itself (60%). Other concerns include cash flow/cost control (20%) and staff training (18%). For the survey in Malaysia, PwC spoke to 50 decision-makers of family-run businesses.

More than half (58%) of Malaysian family firms believe the top two challenges over the next five years will be the need to continually innovate and attract the right skills and talent. Professionalising the business is also deemed important to move to the next level of growth. This area is a key concern for family-run firms across the globe due to competitive pressures, rising costs and megatrends.

About 46% of Malaysian family-run firms believe there is a need to professionalise the business, compared with the global average of 40%. Some firms also want to ensure that the family does not dominate the decision-making. Thus, it comes as no surprise that 70% of Malaysian family-run businesses have non-family members on the board of directors.

The report states that professionalising the firm is all about ensuring the business will continue to grow once it reaches a certain size, and when it is no longer feasible for just one person to run it. Family firms feel there are three areas in which they need to professionalise operations — processes, governance and skills.

Key issues for Malaysian family businesses when it comes to skills and talent are staff recruitment and retention. "If family firms are to expand internationally, diversify into new markets, manage risk better or innovate more effectively, many of them will need to bring in the people to do it. This applies as much to our region as it does to the rest of the world.

"[But] there is no point hiring new people unless you have professionalised the systems and processes that will make it possible for them to do their jobs," says the report.

The family itself must be professionalised for its long-term survival. Professionalising the family means putting processes in place to govern how it will interact with the business. Infrastructure for decision-making and formal channels for communication have to be established as they will become important when tensions or difficulties arise.

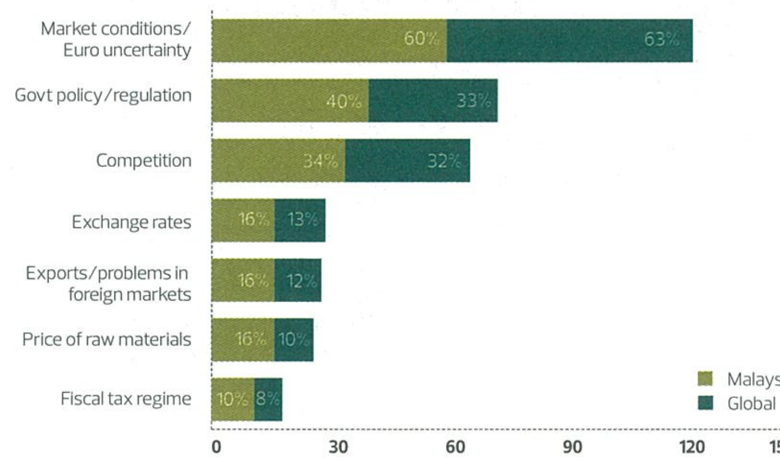
According to the survey, 84% of Malaysian family businesses have at least one mechanism or procedure in place to deal with potential conflict, compared with 83% globally. Meanwhile, 34% of them have a shareholders' agreement (54% globally) and 20% have family councils (32% globally). About 16% of the local family firms have no such mechanisms.

Business succession is another key issue for family-run businesses. While 38% of the families are looking to hand over the reins to the next generation and 36% plan to bring in professional managers after passing the baton, only 16% of Malaysian firms have a formal succession plan. According to the report, many of these firms are still run by the first generation — the patriarchs or founders — who have yet to establish a succession plan.

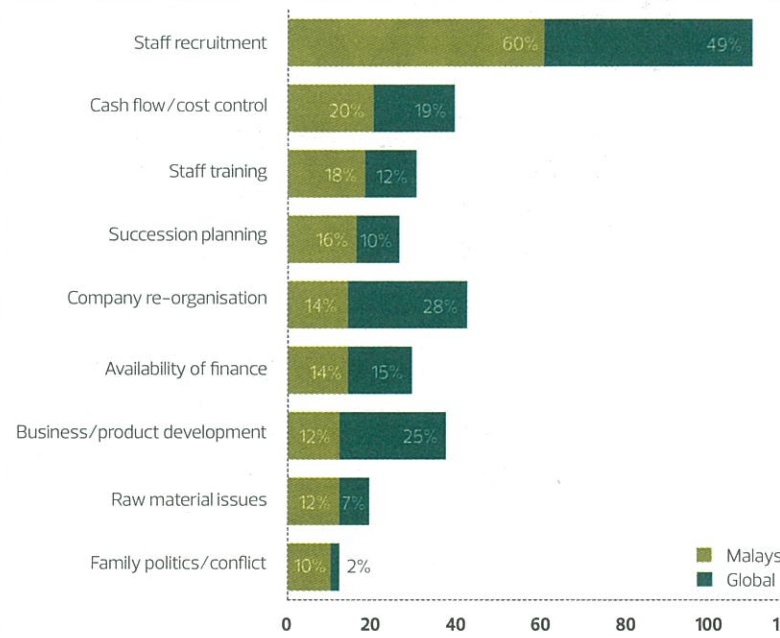
When it comes to family-run businesses, countries in Europe and North America have endured for many generations. But in Malaysia, they are still in their infancy. PwC Taxation Services Sdn Bhd senior executive director Fung Mei Lin says most of the active family businesses here are run by the second or third generation.

SOURCE: PwC's Global Family Business Survey 2014: Focus on Malaysia

KEY EXTERNAL ISSUES IN THE NEXT 12 MONTHS



KEY INTERNAL ISSUES IN THE NEXT 12 MONTHS



"As with most transitions, there will be challenges — emotional and personal. However, the inaugural PwC Malaysia Family Business Survey 2014 has shown that the challenges faced by family businesses in Malaysia are not very different from those around the world," she adds.

Despite the challenges, Malaysian family businesses are continuing to grow. About 64% of these firms saw sales growth last year, while 66% of them are expecting steady growth over the next five years.

Family businesses around the world report similar figures. About 65% reported growth over the last 12 months, and 70% expect to grow steadily over the next five years. At a global level, 15% of the family firms aim to grow aggressively over the next five years, compared with 12% in 2012. E

Debt repayments an impediment to retirement savings

Debt repayments, such as mortgages and for the children's education, are hindering the Malaysian workforce from preparing for a secure retirement, according to HSBC.

In its latest report, "The Future of Retirement: A Balancing Act", almost half the respondents surveyed (49%) said paying off debts was preventing them from preparing adequately for their golden years.

At the top of the list of debt repayments is paying off a mortgage. Some 41% of the respondents said buying a home was a life event that had a significant impact on their ability to save for retirement. Their other concerns include paying for their children's education (30%) and getting into debt or severe financial difficulty (28%).

The long-term impact of the global economic downturn is also weighing on Malaysian workers, with 32% of the respondents saying it will impact their retirement savings plan. Due to the volatile environment, many of them have stopped or reduced saving for retirement, whether through cash deposits, annuities or investments (20% each). A smaller portion have stopped saving through insurance (16%) and pension schemes (15%).

On average, pre-retirees expect their retirement savings and investments (excluding pension) to last just 11 years after retirement. Therefore, based on the average retirement age of 55 and a lifespan of 74 years, Malaysians are looking at an eight-year gap where they will have to rely solely on the state, employer or their own pension provisions.

Nevertheless, a majority of them (64%) now have more faith in their financial prospects for the future than a year ago. More than two-thirds (74%) believe their second property and cash deposits are good ways to generate income, followed by investments (71%) and employer pension schemes (69%).

The report is based on HSBC's survey of 16,000 respondents worldwide. E