

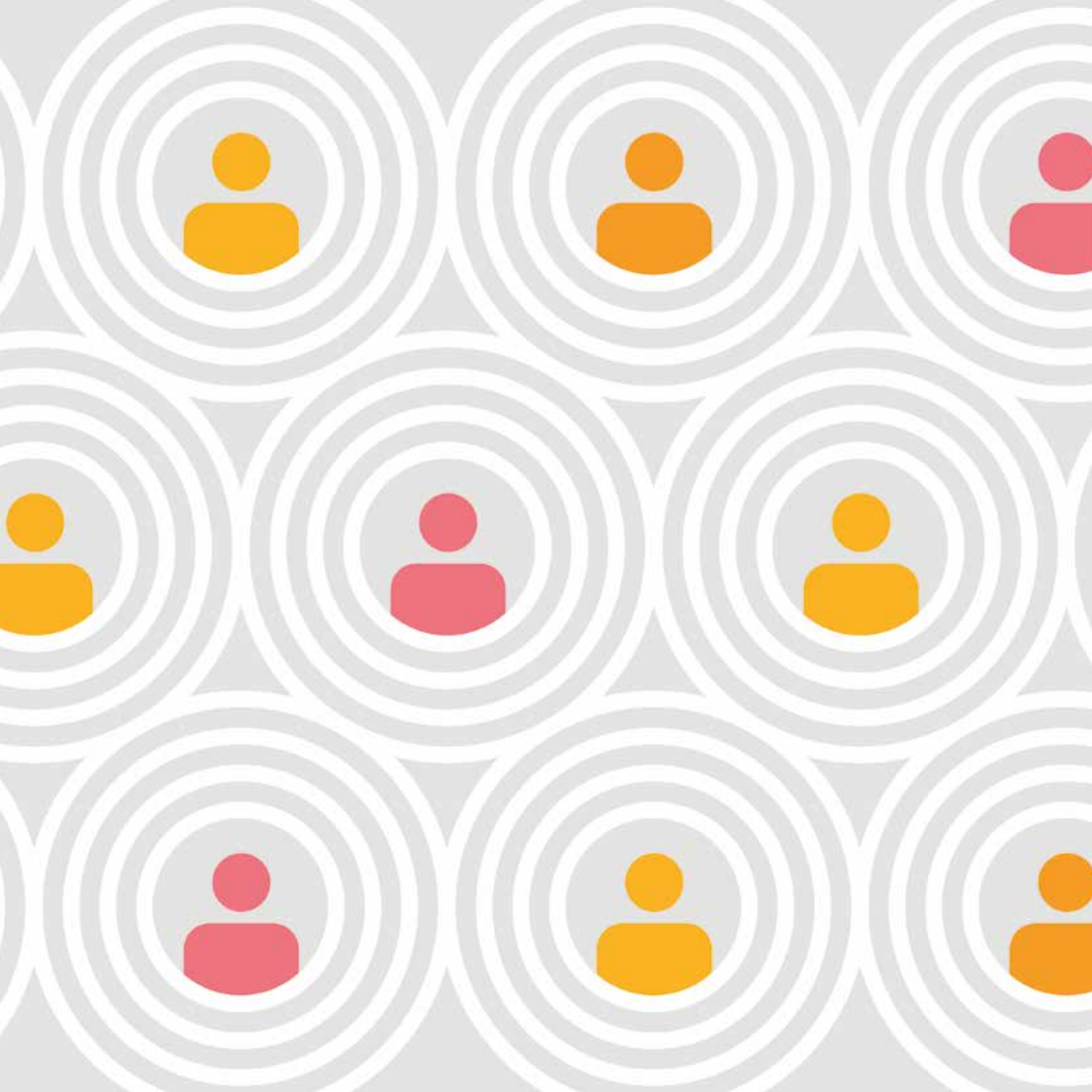
Family Business Survey 2018
The Malaysian Chapter

www.pwc.com/my

The values effect

How to build a lasting competitive
advantage through your values and
purpose in a digital age





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Foreword

It is my pleasure to present to you the PwC Family Business Survey 2018 – The Malaysian Chapter. This year's theme “**The values effect**” goes back to the fundamentals as Malaysia moves forward with renewed focus on good governance and responsible stewardship under the new administration.

No matter how established or new your family business is, it is driven by the values upon which your family business is built (e.g. building trust among

customers, and promoting fairness in hiring practices).

A business too needs to find the right balance between the profit motive and in pursuing its purpose. This may include providing for the family and community, and fostering an innovative way to solve a societal issue.

This report looks at whether **values** and **purpose** have made a difference to family businesses in Malaysia – and if so, what is its impact. The diverse responses from Malaysian family business respondents on values

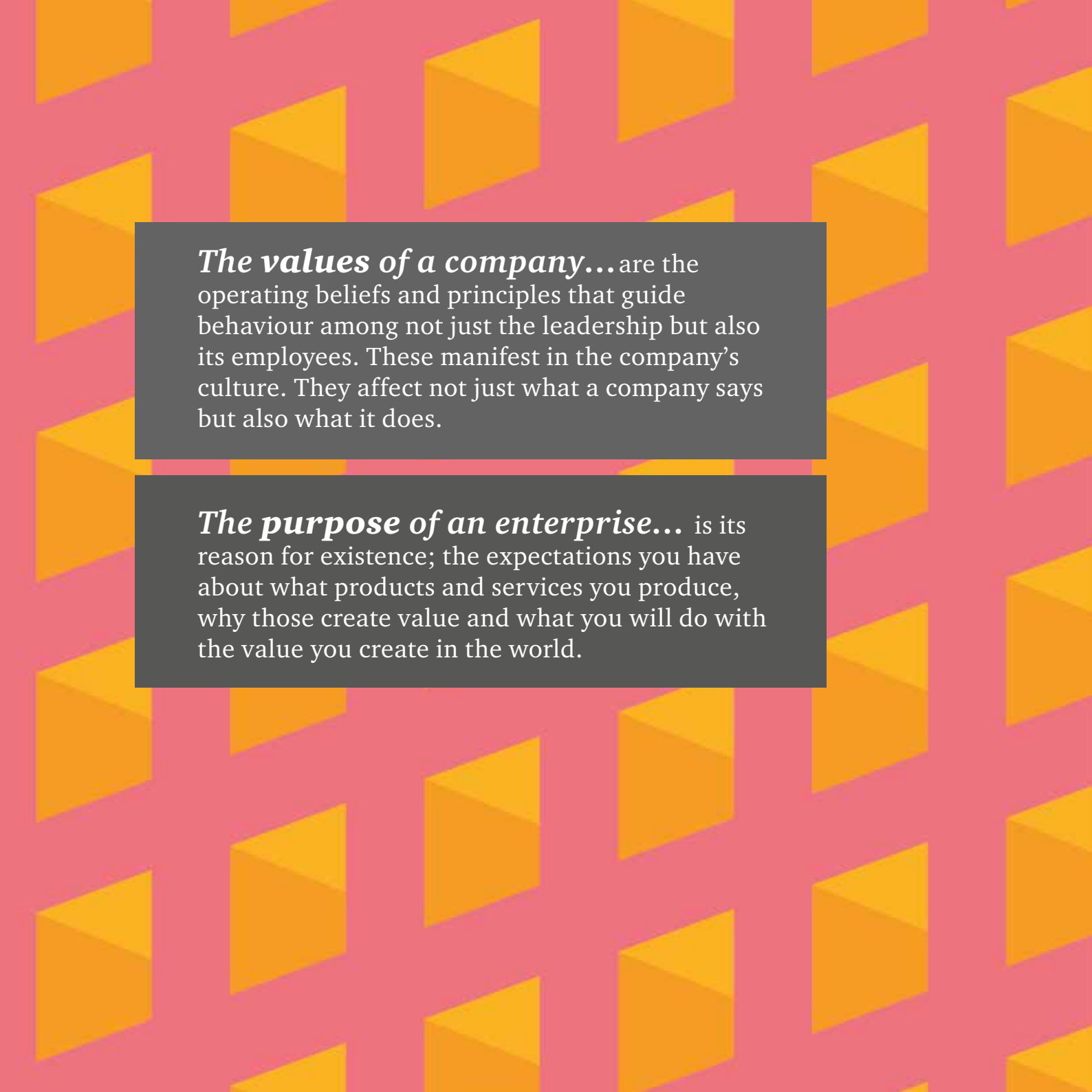
reveal a number of positive outcomes.

For many family businesses, leaving a legacy is an important long term business goal, and we look at what this means to them. Our respondents also tell us what their challenges and opportunities are in response to digital disruption.

I hope this report will help identify key learnings and takeaways for current and next generations to build stakeholder trust as they pursue their growth ambitions, both professionally and personally.

Fung Mei Lin

Entrepreneurial & Private
Business Leader,
PwC Malaysia



The values of a company... are the operating beliefs and principles that guide behaviour among not just the leadership but also its employees. These manifest in the company's culture. They affect not just what a company says but also what it does.

The purpose of an enterprise... is its reason for existence; the expectations you have about what products and services you produce, why those create value and what you will do with the value you create in the world.



Values subscribed to by the respondents' companies (among those whose companies had a clear sense of family values)



Growth prospects



expect positive
growth over the
next two years

90%

Experience matters



80%

have next generations
working in the business,
but **72%** expect family
members to **gain
experience outside the
business** before joining
the family business

Key Findings

We believe the time has come for family businesses to view values and purpose through a different lens in these extraordinary times. Firstly, treat your values and purpose as your unique assets for enhanced competitive advantage. Get your next generation involved in contributing ideas on digital disruption and what it means for the future of your business. And last but not least, build your succession plan around a healthy balance of ideas based on what's worked for you, and new ideas to help your family business grow.

Values driving growth



78%

have a **clear sense of
agreed values and
purpose** as a company



90%

believe that values made
the company a happier
workplace for employees



81%

believe values and purpose increased the
company's revenue and profitability

Succession planning



23%

have a robust, formalised and communicated succession plan

What does long term success look like?



80%

want to protect the business as the most important family asset

Ramping up digital readiness



Only **28%**

feel their business is vulnerable to digital disruption, but **55%** will be making **significant steps in their digital capabilities** to achieve their goals in the next two years



68%

want to become environmentally sustainable



63%

want to create employment for the wider community

Optimism in growth prospects



Malaysian family businesses are displaying a positive outlook with 90% expecting positive growth over the next two years. As the survey took place between April to August 2018, this optimism may be attributed to the shift in sentiment since the nation's general election in May 2018.

To achieve growth, 87% of Malaysian family businesses are looking to boost this through international sales compared to only 60% two years ago.

90% of family businesses expect positive growth over the next two years.

What are the drivers of family business success?

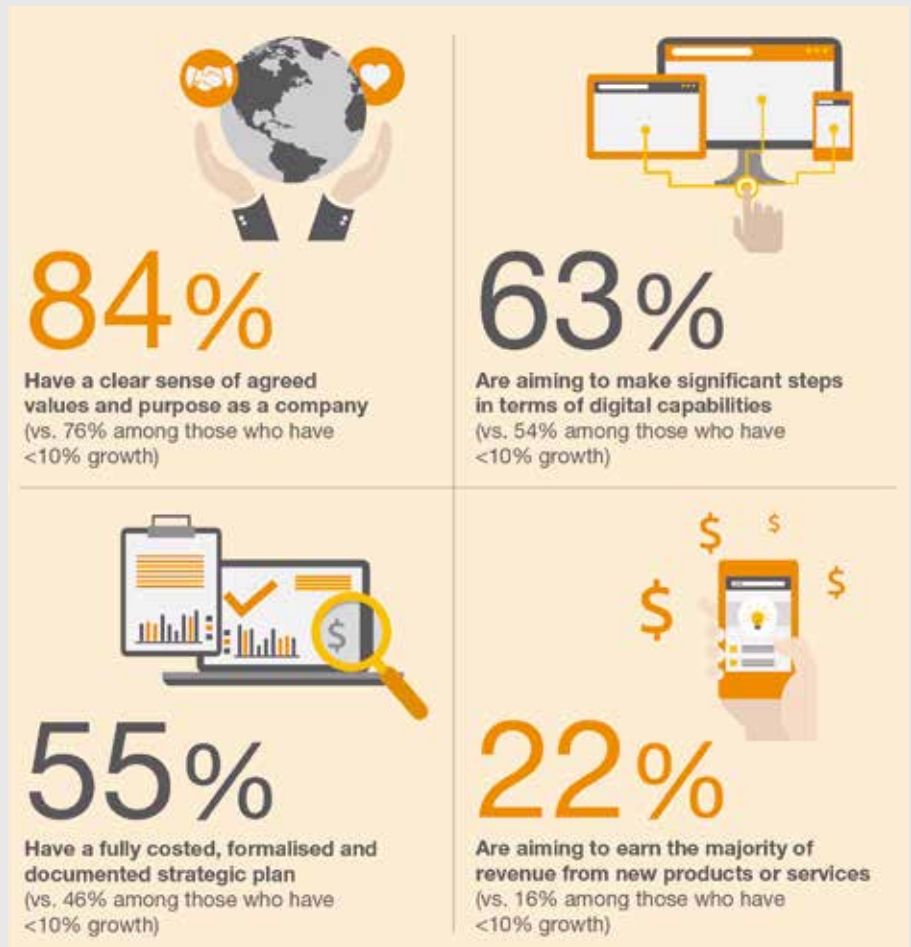
Family businesses that are displaying robust growth tend to display some common attributes. As we can see globally (refer to visual), a majority of the family businesses with more than 10% growth have a clear sense of agreed values and purpose as a company (84%).

This tells us that it pays to take an active approach to living your values and purpose as a family business.

Other drivers of family business success are:

- aiming to make significant steps in terms of digital capabilities (63%)
- have a fully costed, formalised and documented strategic plan (55%)
- aiming to earn the majority of revenue from new products or services (22%)

Behaviours of family businesses with 10%+ growth

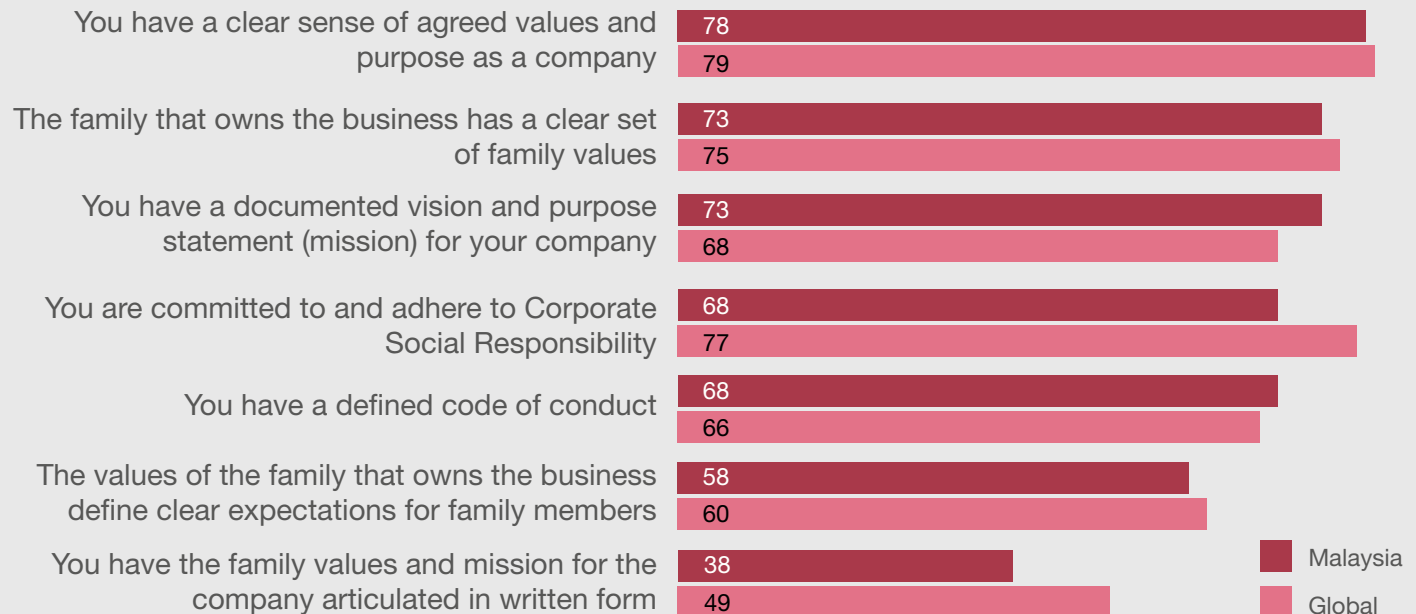


Base: all global respondents with 10%+ / <10% growth
Source: PwC Global Family Business Survey 2018

Translating values and purpose into growth

78% of Malaysian family businesses have a clear sense of agreed values and purpose as a company. This is supported by the fact that the family that owns the business itself has a clear set of family values, as reported by 73% of respondents. Those with a clear sense of agreed values feel that this has helped them better develop their mission and vision for the company.

Agreement with statements (on values, purpose, vision/mission) (%)

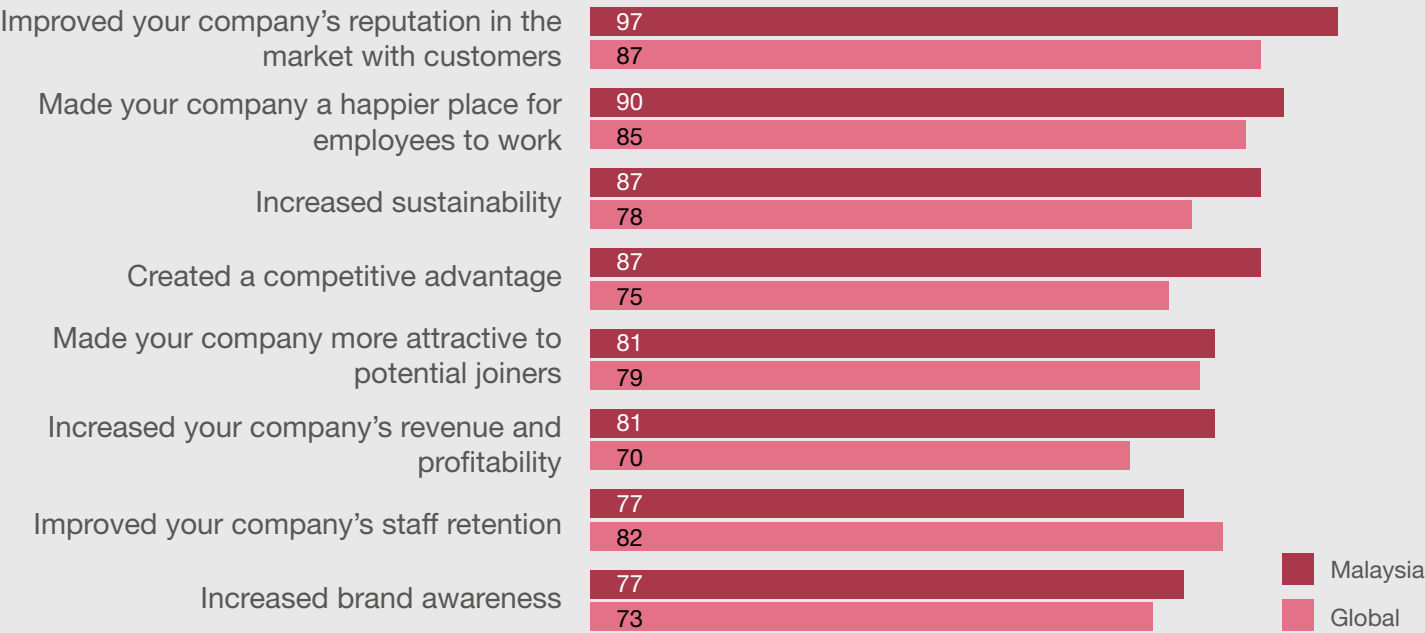


More than 75% of respondents say that values and purpose have always been present in the family and have become stronger over the years. Such values translate into intangible benefits for the company; notably in improving reputation with customers (97%) and in making the company a happier place to work (90%). 87% feel their values and purpose have created a

competitive advantage for the family business, while 81% feel their values and purpose have led to an increase in their company's revenue and profitability. Given the importance of values and purpose from a business reputation and employee engagement perspective, companies should continue to make known their values (both in practice and written form) to employees, suppliers

and customers alike. And to display authenticity in their actions in a way that is congruent with their values, in order to build stakeholder trust. For instance, a business that says it's committed to diversity needs to give equal opportunities for women to advance to the management level, if they're capable.

Would say that values and purpose... (%)



The family that works together, stays together

Joseph Tan,
Executive Director
Claytan Group



The Claytan Group is a diversified manufacturer of ceramic products consisting of sanitaryware, tableware and vitrified clay pipes, exporting more than 70% of its products overseas to locations including Australia, Japan, Europe, the UK and USA.

Source: www.claytangroup.com

The Claytan business began when Joseph's grandfather, who migrated to Malaya from China during the 1920s, decided to set up a cottage workshop for ceramic products in Segambut, Kuala Lumpur. Now, as a third generation member of his family business, Joseph feels there is still much to achieve in bringing the family business to the next level.

Joseph took the initiative to put the business values to paper after receiving the nod from his late father (who was the Managing Director and main shareholder then). The business values reflect the virtues that

Case Study

his late father practiced – ‘Trust and long term partnership’, ‘Excellence’, ‘Accountability’ and ‘Be market leading’.

Like his late father, Joseph believes that the head of the family business must live their values and lead by example. At Claytan, employees are part of the family, and the family that works together, stays together. As such, Joseph hopes to get full buy-in on the business values from junior staff to the Board of Directors.

Presently, he is starting this with the factory employees that he is responsible for. As the values will be incorporated into the employee appraisal

framework, he works closely with employees to fine-tune the system based on their feedback.

He has begun to see benefits. For example, there are fewer disagreements between new joiners and older employees as they now adhere to the same business values. By incorporating them into the recruitment and appraisal process, this helps create a positive environment where employees work towards the same goals.

While the values are currently being communicated internally, it is part of Joseph’s long term plan to communicate these values to external

stakeholders such as suppliers and customers, so that they, too, understand the culture of Claytan to facilitate better working relationships.

Once these values are in place, Joseph hopes it will attract experienced hires and independent directors in areas in which family members may not have expertise, and diversify the business into previously untapped areas of opportunity. When the family business is bound by shared values and purpose, he hopes that he will hand over a much more consolidated family business to future generations.

Family succession planning

Close to 90% of Malaysian family businesses encourage family members to work in the business, and 80% of Malaysian family businesses have next generation family members working in the business.

It is heartening to know that Malaysian family businesses today are embracing a meritocratic

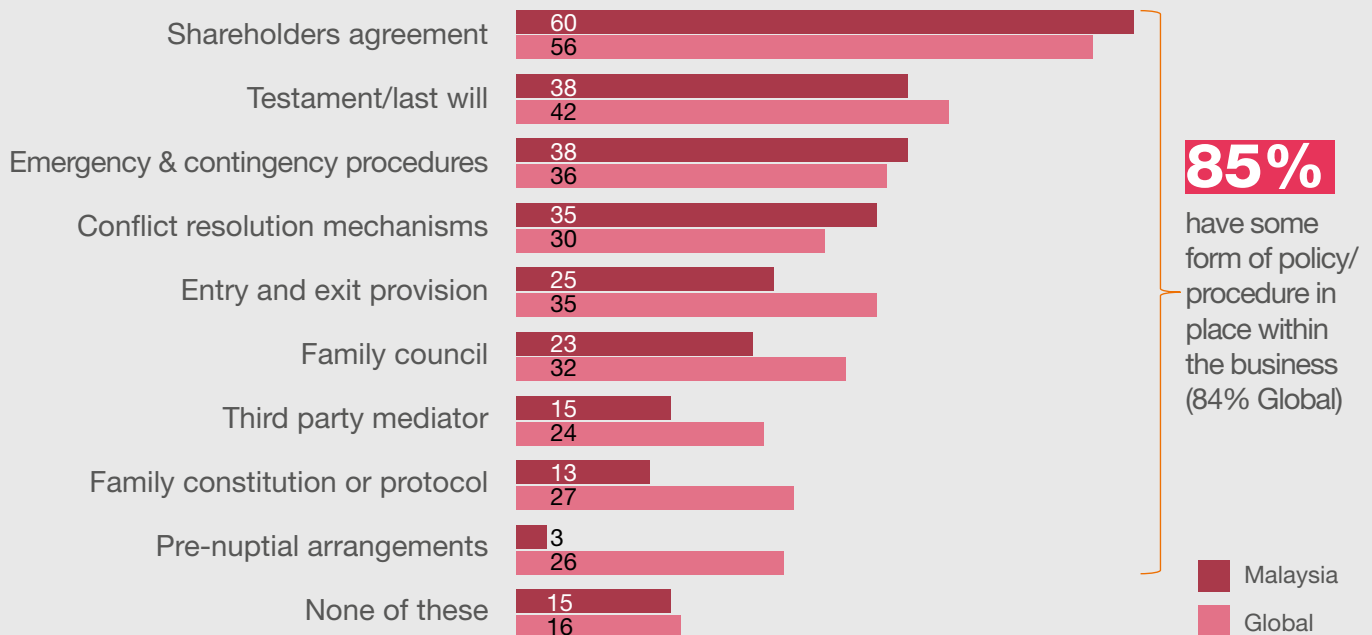
approach to appointing next generation members in positions within the company, and expect them to compete on an equal footing with other employees. In fact, 72% of Malaysian family businesses expect the next generation to first gain experience outside the family business before

joining the family business.

Given the existence of family members within the business, there should be procedures in place to deal with governance and conflict.

More than half (60%) of Malaysian family businesses have a shareholders' agreement in place,

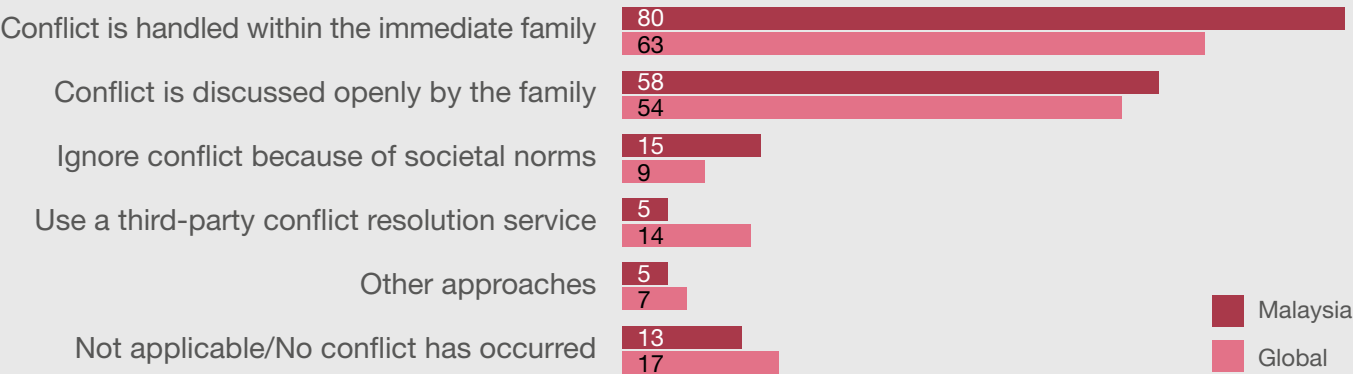
Policies and procedures in place (%)



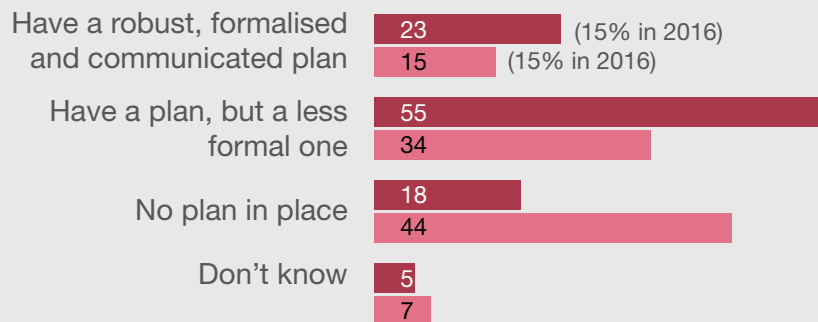
consistent with 58% of Malaysian family businesses who are prepared to openly discuss conflicts. Family councils and family constitution still rank below global standards as the preferred choice in governing family members who are employees.



Approaches used to handle family conflict (%)



Have a succession plan in place? (%)



Among those with any sort of plan...

84%

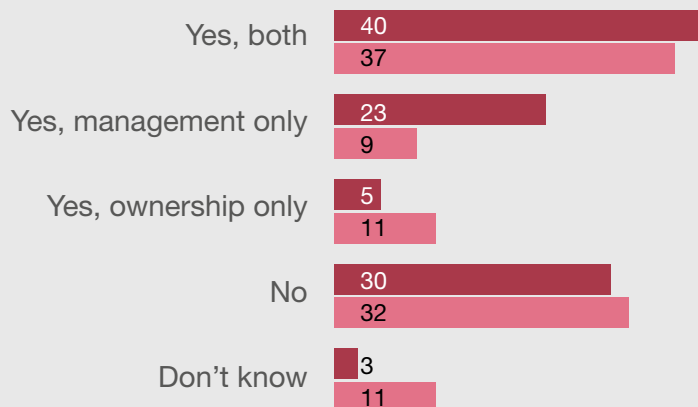
say key people within the business are aware of the succession plan (84% Global)

52%

say the plan has been discussed with other family members (68% Global)

Malaysia Global

Passing on management/ownership to the next generation? (%)



68%

of those with no next generation family members in the business plan to pass on management and/or ownership to the next generation (57% Global)

75%

of those who already have next generation family members working in the business plan to pass on management and/or ownership to the next generation (68% Global)

Malaysia Global



Hard work and honesty make the team work

Yoong Hau Chun,
Group Chief Executive Officer
HeveaBoard Group



The HeveaBoard Group and its subsidiaries manufacture, trade and distribute a wide range of particleboard and particleboard-based products. HeveaBoard takes the lead in the manufacturing of particleboard while its subsidiaries are involved in downstream businesses including particleboard-based ready-to-assemble furniture and the cultivation of king oyster mushrooms.

Source: www.heveaboard.com.my

HeveaBoard is now in the hands of fourth-generation family member, Yoong Hau Chun. That in itself is a remarkable feat, as only about 15% of family businesses make it beyond the third generation¹.

Hau Chun was exposed to the business from an early age, and officially joined the family business in 1999 upon graduation from university.

In managing a group with an annual turnover of more than RM500 million, Hau Chun does not believe in luck alone. Hard work and honesty are two core values that the family business abides by.

“My father is a very determined individual. When he decided to expand the business in 2006, we had

¹PwC Family Business research

Case Study

to borrow substantially to finance the expansion and shortly after, the financial crisis happened. It was hard but we managed to pull through, thanks to his perseverance, focus and dedication. I believe that because he put to practice the value of hard work, our business is what it is today.”

The elder Mr Yoong was a forward looking individual who understood that unless HeveaBoard diversified, it cannot remain competitive. Thinking ‘out of the box’ for the long term success of the family business has seen HeveaBoard venture into ready-to-assemble furniture in 2001, and more uniquely, the cultivation of king oyster mushrooms in 2017.

It took time for Hau Chun to adapt to his father’s way of doing business. “My dad is a risk taker and that is how he has grown the family business. I was not used to taking risks in that manner initially. However, over the years, I have attuned myself to the way he runs the business. Now, I would say I am a more moderate version of him when it comes to taking business risk.”

As the HeveaBoard family business exists for its future generations, it is important to the company that the business is carried out responsibly and honestly.

To do so, HeveaBoard has obtained relevant international standards to ensure its products and manufacturing processes

meet the highest quality standards expected by its global customers.

Just as his father and grandparents have done before him, Hau Chun is exposing his children to the family business. He believes that they should be introduced to the family business in a positive manner. If they decide to join the business one day, he plans to provide guidance and communicate with them constructively to instill a sense of pride in working in the family business.

Securing legacy in a digital age

Key challenges over the next two years

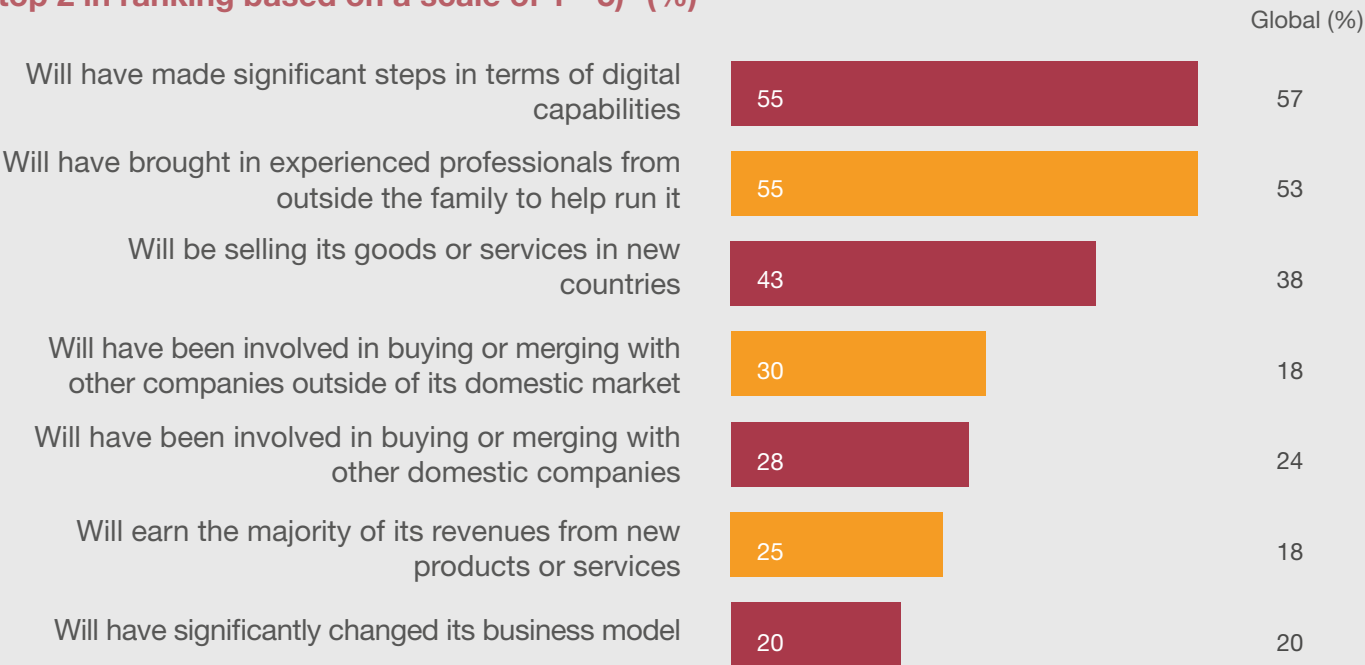
- The need to innovate to keep ahead
- Accessing the right skills and capabilities
- Digital regulation

Personal and business goals over the next two years (Among the top 2 in ranking, based on a scale of 1 - 5*)

- To attract and retain the best talent for the business - 93%
- To be more innovative - 85%
- To improve profitability - 83%

*On a scale of 1 - 5: 1 = it's not important to you over the next two years; 5 = it's essential to you over the next two years

What family businesses will do to achieve their goals in the next two years (top 2 in ranking based on a scale of 1 - 5)* (%)



*On a scale of 1 - 5: 1 = not at all likely; 5 = very likely



Readiness for the digital age

Slightly more than half of Malaysian family businesses interviewed said that building up their digital capabilities is key to achieving their business and personal goals over the next two years. The threat of digital disruption is generally seen as challenging their existing business model. However, when asked what these threats are, only a minority were able to talk about specific technologies impacting their business.

Quotes from Malaysian respondents: In what ways are you vulnerable to digital disruption?

“From a marketing and sales perspective, I think manufacturers may go directly to the consumer through e-commerce digital platforms.”

“Robotics. Artificial Intelligence. We find it difficult to keep pace with manufacturing technology like these, which are developing so quickly.

“We have been hacked before. We are looking at the security of our data storage. We now keep it in a server and we are now moving to the cloud. We have no idea what the hacking motives were.”

Only **28%** of Malaysian family businesses feel vulnerable to digital disruption

40% of Malaysian family businesses feel vulnerable to a cyber-attack

Building a sustainable legacy

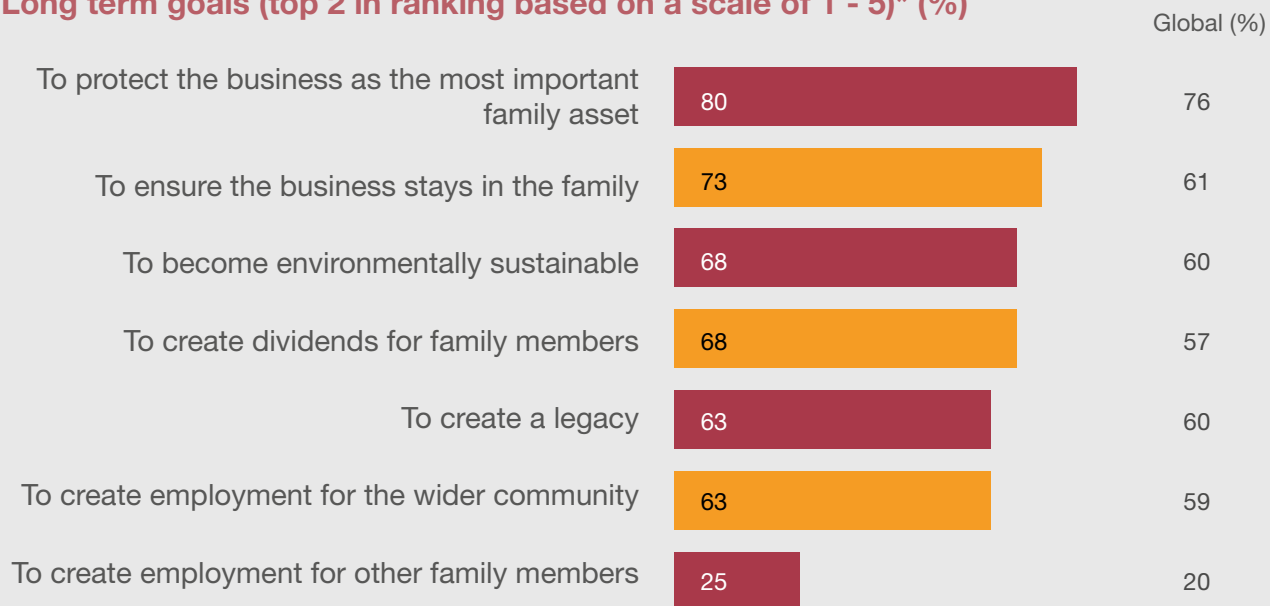
Over the longer term (the next five years), 80% of Malaysian family businesses want to protect the business as its most important family asset, and 73% want to ensure the business stays in the family. Given this ambition, continuity is key to creating and leaving a legacy of a

successful family business passed on through the generations.

Interestingly, many family businesses define success not only in terms of financial wealth, although that is important, but in less tangible elements of personal growth and development, community

building, employee support and upholding of core values (e.g. integrity, honesty). These priorities will be able to sustain them though the future, through both buoyant and volatile environments.

Long term goals (top 2 in ranking based on a scale of 1 - 5)* (%)



*On a scale of 1 - 5: 1 = it's not important to you over the long term; 5 = it's essential to you



Quotes from Malaysian respondents: What would you like your lasting legacy to be?

“I think, to be known as an industry leader, this is not only measured in terms of market share, but also in terms of attracting talent. Being the most innovative and relevant company in the industry and giving back to the environment and employees.”

“I’d like my company to continue being a main player in the industry, enjoying sustainable growth and profitability through further diversification while creating stable employment opportunities for employees.”

“I hope that my company will have a good reputation in the market and community, and uphold the good values of the family and business in the future.”

“We aspire to be a specialised and unique business, providing customers value for their money while also being kind and generous to employees.”

A final word

Values > Purpose > Impact > Legacy

There is a keen sense of optimism among the Malaysian family business community about growth prospects. A clear sense of purpose and values goes a long way in establishing the family business legacy in this disruptive era.

Key takeaways from this survey:

Treat your values and purpose as your unique assets. This is a powerful way to seek competitive advantage and portray your unique identity. Doing this right will help you build long term trust among your stakeholders.

Invite your next generation to share their ideas on the purpose and impact of digital disruption to your business as part of your strategic planning. One of the ways the next generation can help to address the digital skills gap of the older generation is by reverse mentoring their parents or older employees.

Building and sustaining an effective succession plan requires a balance of knowing what ideas should be retained and new ideas that should be included to grow in a different world from that of the previous generation.



Research methodology

'Family business' Definition

For the purposes of this survey, a 'family business' is defined as a business where:

1. The majority of votes are held by the person who established or acquired the firm (or their spouses, parents, child, or child's direct heirs);
2. At least one representative of the family is involved in the management or administration of the firm;
3. In the case of a listed company, the person who established or acquired the firm (or their families) possess 25% of the right to vote through their share capital and there is at least one family member on the board of the company.

Survey methodology

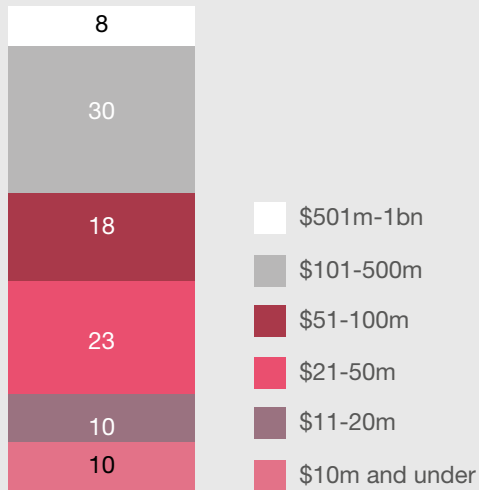
Between 20 April and 10 August 2018, 40 semi-structured telephone and online interviews took place. Face-to-face case study interviews were also conducted.

The telephone and online interviews were conducted by an independent research firm and averaged 35 minutes per interview. The annual turnover of participating Malaysian companies ranged from US\$5m onwards. All results were analysed by an independent research firm.



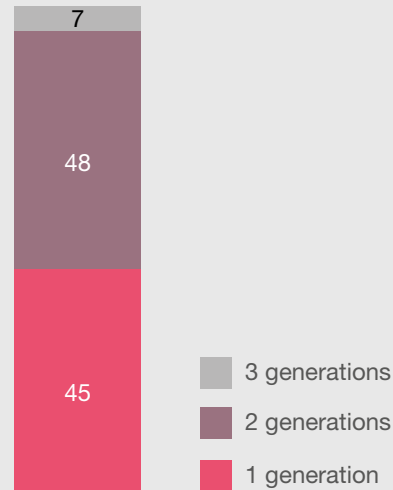
Malaysian respondent profile

Turnover (sales) (US\$)

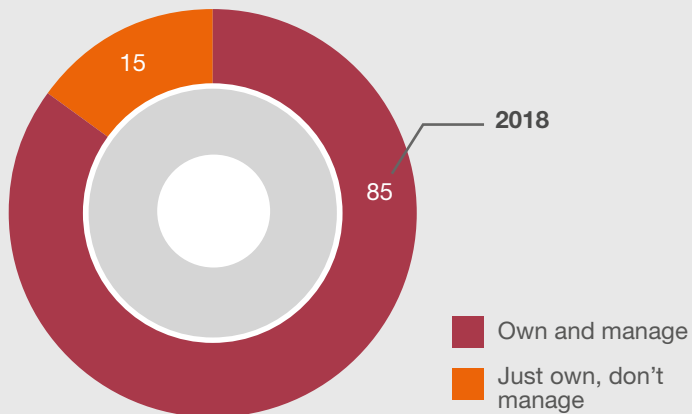


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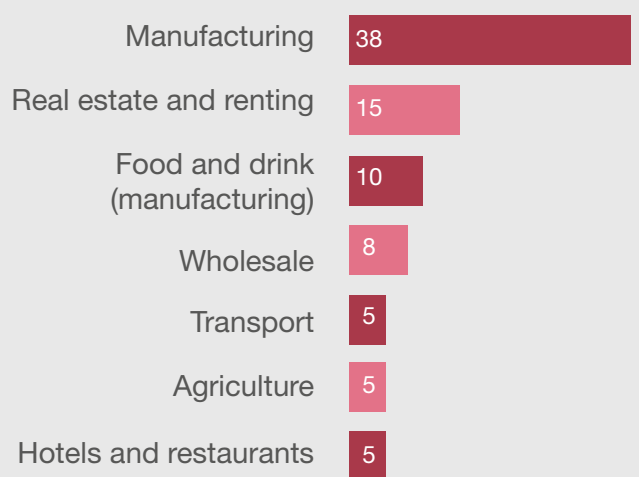
Number of generations in the business (%)



The family's role in the business (%)



Sectors represented (%)



Other sectors: 3% or less

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