Family Business Survey 2021

The Malaysian Chapter

From trust to impact

Why family businesses need to act now to ensure their legacy tomorrow

April 2021



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About the Family Business Survey

Introduction

The events of the past year have been nothing short of extraordinary for people in business. Family businesses in particular, still reeling from the effects of the pandemic, and grappling with greater demands on accountability, are facing new opportunities and risks that could either make or break them.

PwC's Family Business Survey 2021: The Malaysian Chapter shares some interesting perspectives from a survey of key decision makers in family businesses as they recover from the pandemic. 49 Malaysians were among the 2,801 family businesses who responded, sharing their views, both present and future, around what it takes to propel their business forward in the new normal.

Themed 'From trust to impact', the report shares how family businesses can instill greater trust through a renewed approach for long term success based on accelerated digital transformation, prioritisation of environmental, social and governance (ESG) goals, and professional family governance.

Clearly, there are no shortcuts to building trust. A family business that fails to demonstrate their commitment to sustainability through concrete actions for instance, may risk losing the trust and goodwill necessary for them to keep their lights on.

To bolster their growth prospects, family businesses will need to act now if they aspire to build a solid legacy for future generations.



Respondents at a glance









2,801

interviews conducted with key decision makers in family businesses

Online interviews averaging 17-18 minutes and conducted in local language

Interviews were conducted between 5 October and 11 December 2020

Across 87

49

interviews were conducted in Malaysia in this period

Headline findings in Malaysia

1

Organisation performance and priorities

Growth aims among Malaysian (MY) family businesses are more ambitious in 2022 compared to 2021



Pre-COVID-19 performance (MY) for 2020

Sales growth	47%
Sales reduction	29%



Growth ambitions (MY) for 2021 and 2022

	<u>2021</u>	2022
Grow quickly/aggressively	18%	33%
Grow steadily	43%	59%

Malaysian family businesses saw mixed performance over the last financial year (pre-COVID-19), with 47% experiencing growth in terms of their sales performance vs 55% globally. 29% of Malaysian family businesses saw a sales reduction vs 19% globally.

Growth ambitions are understandably cautious for 2021 compared to 2022, which indicate more promising growth prospects.

Technology, new markets and products, and protecting the business are top of mind

Key priorities for the next two years (5 most important issues)

importa	ant issues)	
((%))	Increasing use of new technologies	61%
વુંજી	Improving digital capabilities	59%
	Expanding into new markets/client segments	59%
وئ	Protecting our core business (covering costs/survival)	59%
	Introducing new products/services	49%

To address these ongoing priorities, Malaysian family businesses will need to have relevant and sufficient resources, be it through the right skills or the necessary budget to work on these improvements.

Headline findings in Malaysia (cont'd)

2

Digital capabilities

Short on digital but it's among the top priorities for family businesses

Digital capabilities

24% Strong

76% Long way to go

Digital capabilities which were once a 'nice to have' are now a 'must have, with 59% of Malaysian respondents putting a priority on improving digital capabilities.

However, most Malaysian family businesses say they have a long way to go in improving their digital capabilities, and are trailing behind their counterparts in Asia Pacific, North America and Europe in this space. 3

Family cohesion & trust

Trust in family leadership but differing views in terms of company direction

Levels of trust and communication

61% Family members regularly communicate about the business

Relevant information is shared in a transparent and timely way between family members

45% All family members involved or affected have similar views/ priorities about the company's direction

Given the gaps in family alignment on company direction and levels of transparency, it is important that family businesses take steps to minimise potential conflict.

Trust can be further improved by implementing procedures to deal with governance and conflict. Only 59% of Malaysian family businesses have some form of governance policy in place within the business (vs 79% globally).

4

Sustainability

Looking after the community but not prioritising sustainability

Environmental, social and governance (ESG) perspectives

Family businesses have a responsibility to fight climate change and its related consequences

Reducing carbon footprint is a key priority for family businesses

ESG is expected to play a crucial role in future proofing family businesses.

If not properly addressed, ESG issues can have significant repercussions, both financial and non-financial implications as we can see through widely reported news on plantation and manufacturing sectors.



Growth in the time of COVID-19

The COVID-19 pandemic has been an extraordinary test of resilience for almost all businesses. Family businesses are rising to meet the challenge at a time when financial uncertainty was already affecting forecasts.

Even before the pandemic, only 47% of respondents from Malaysia were predicting sales growth for 2020. Globally, slightly more than half (55%) predicted sales growth for 2020.

Growth in last financial year (pre-COVID-19), %



The unprecedented, tumultuous events of the past year have presented family businesses with complex challenges. With COVID-19 impacting sales, more than 70% of family businesses in Malaysia saw a decrease in profits, in the last year.

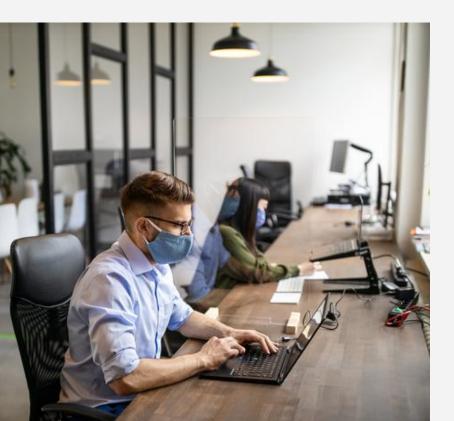
And although many have demonstrated significant resilience amid the crisis - the rapidly changing state of the world has served as a wake-up call for family business leaders to adapt various aspects of their business, including finance and liquidity, operational and supply chain considerations to new norms in the marketplace.

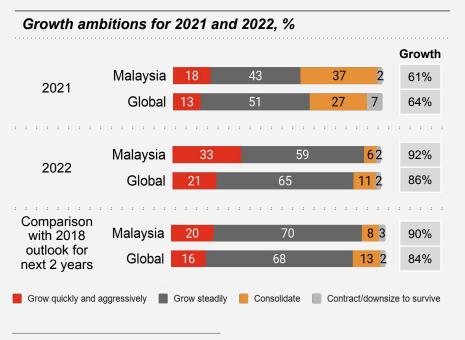


Back to business as usual in 2022

Although COVID-19 adversely affected many businesses, near term growth prospects look relatively bright. 92% of those surveyed anticipate a return to pre-pandemic growth rates by 2022 (expecting to grow quickly and aggressively, as well as to grow steadily), which was surprisingly optimistic given that no vaccines had been approved when the survey was conducted between October - December 2020. In fact, their 2022 ambitions are in line with the ambitions of family businesses surveyed in 2018.

This optimistic outlook is somewhat consistent with sentiments observed among Malaysian business leaders from growing private businesses as well as public-listed companies and government-linked companies, who participated in **PwC's 24th Global CEO survey**¹ in January and February 2021. 44% of respondents in the CEO survey highlighted that they were very confident about their organisation's prospects for revenue growth over the next three years.



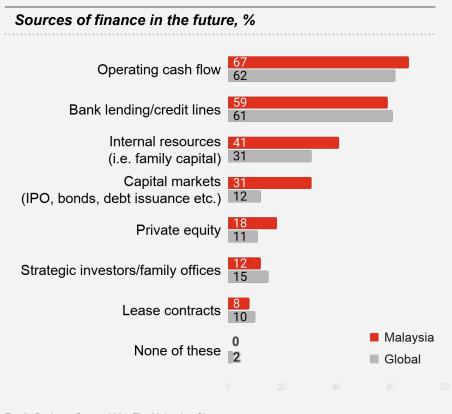


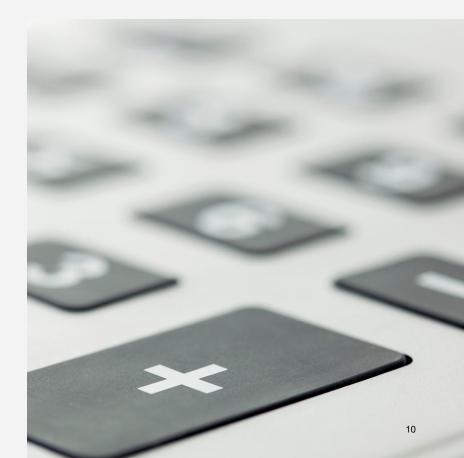
¹PwC, 24th Annual Global CEO survey Malaysia findings, March 2021 https://www.pwc.com/my/en/publications/2021/24th-ceo-survey-malaysia-findings.html

Back to business as usual in 2022 (cont'd)

Our Family Business survey findings indicate that Malaysian family businesses were adaptable amid the pandemic.

Traditional forms of finance (operating cash flow and bank lending) will still be used primarily to help drive growth, reflecting a more conservative and cautious approach to managing financing and business operations.



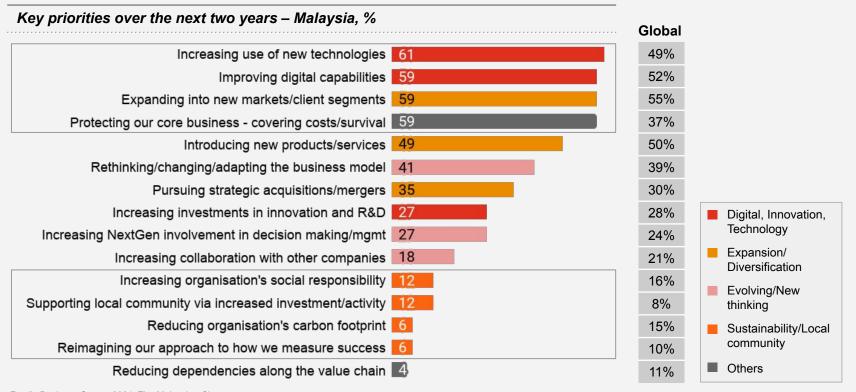


Back to business as usual in 2022 (cont'd)

Family business' optimism isn't blind; it's based on planning and risk management. Issues related to innovation, digitalisation, expansion and protecting the core business are top priorities for Malaysian family businesses over the next two years. These are key strategic areas for businesses to adapt to and stay relevant in. However, ESG-related priorities are at the bottom of the list.

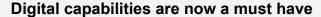
For family businesses, the opportunity to achieve their top priorities, expanding into new markets and protecting their core business - could serve as the impetus to invest not only in digital capabilities but ESG as well in the long run.

With the government introducing measures to promote digitalisation and push the sustainability agenda forward among companies, this could very well change the rules of the game for family businesses.





Pressing the pedal on digital



In the current landscape, businesses will need to adapt and act fast - pivoting operations and processes, to stay competitive.

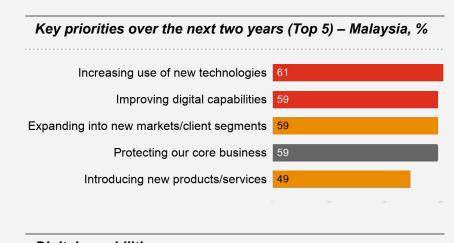
Digital capabilities which were once a 'nice to have' are now a 'must have'. This sentiment is reflected in the survey with **increasing use of new technologies** and **improving digital capabilities** being ranked as the top two priorities amongst 61% and 59% of Malaysian family businesses respectively.

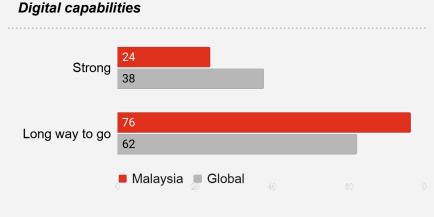
However, progress in the digital space has been slow. Only 24% of Malaysian respondents say that they have strong digital capabilities, while 76% believe they have a long way to go.

Upskilling their workforce and identifying the areas with skills mismatches will be crucial. This is supported by **PwC Malaysia's 2020** '**Digital resilience in a new world' survey**² (on technology, jobs and skills) where 70% of respondents believe that technology will change their current jobs in 3 to 5 years.



As it is, in terms of digital skills competitiveness, Malaysia's family businesses face the risk of being left behind in the digital space compared to their regional counterparts. Our survey revealed that 33% of Asia Pacific respondents say they have strong digital capabilities vs 41% in North America and 43% in Europe.





²PwC report, Digital resilience in a new world survey, July 2020, https://www.pwc.com/my/en/assets/publications/2020/pwc-digital-resilience-in-a-new-world.pdf

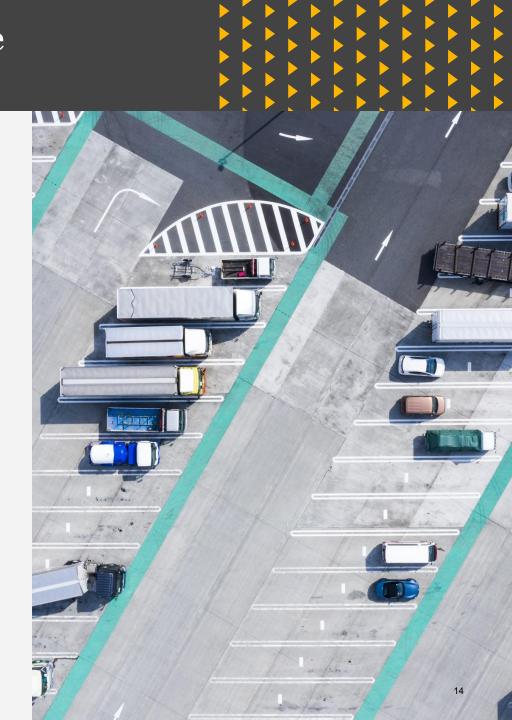
Integrating digital into the family business

The time to act is now

With increasing use of new technologies and improving digital capabilities being key priorities for Malaysian family businesses in the next two years, this represents a significant opportunity for growth.

To succeed in the digital space, family-owned companies will need to integrate their plans for digital transformation into the **owner strategy**. This must be built around the family's shared, long term vision and values.

It's also important for family businesses to consider articulating a clear narrative around the mindset needed for this change. Equally important is being open about how they will support their employees with reskilling so that they can continue to be relevant.



Involving the NextGen

The NextGen's role in moving the family business up the digital curve

The next generation (NextGen) is in a unique position to lead the family business digital transformation initiatives. They are more exposed and familiar with using technology compared to the current founders.

In addition, PwC Malaysia's NextGen survey 2019³ highlights that 88% of Malaysian NextGens are engaged in their family business. Hence the NextGen can work closely with the owners to set and drive the family business digital direction and integrate them into the owner strategy, in alignment with the family's shared long term vision and values.

Having a growth mindset will be crucial in revisiting the goals to be achieved by the family business based on the ever-changing environment, shaped by variables like supply chain uncertainties and new technologies introduced by competitors.



³PwC report, PwC's NextGen survey 2019 - Malaysia report, March 2020, https://www.pwc.com/my/en/assets/publications/2020/PwC-NextGen-Survey-2019-MY.pdf

Involving the NextGen (cont'd)

Here are some key areas where the NextGen can play a leading role, whilst working with the owners to set the digital transformation agenda:



 Set a flexible digital budget policy of between 2% to 5% of revenue to finance digital transformation. Budgets may vary and increase depending on the requirements of the new systems.





prepared to change and upskill if given the chance, as indicated in PwC Malaysia's 2020 'Digital resilience in a new world' survey⁴ where 85% of respondents appear to have a strong appetite to learn a new skill and/or willing to completely retrain to improve their future employability.

Citizen-led innovation can be through micro-digital solutions developed by end users (employees) aimed at improving processes or creating efficiencies in the business. This can create an innovation mindset and inculcate a response amongst employees when encountering manual tasks, or planning for various innovation and automation opportunities.

 Be data-savvy. At the centre of any digital transformation is intelligent management and this relies on data. Family businesses can gain insights such as customer preferences, market trends and sales team performance through dashboard reporting and data visualisation in order to make informed decisions.

To do this effectively, they will need to understand the data that they accumulate through their business processes, and be able to identify data and/or data quality gaps. Being data-savvy goes a long way in helping them stay one step ahead of their competition, for instance using relevant analytics that can help them understand patterns or make predictions about sales growth based on past trends.

⁴PwC report, Digital resilience in a new world survey, July 2020, https://www.pwc.com/my/en/assets/publications/2020/pwc-digital-resilience-in-a-new-world.pdf

Building blocks for digital upskilling

Enhancing family business digital capabilities

Once the family business owners set the digital direction and put together a plan, the next step is to enhance the workforce digital capabilities to close the gap in achieving the digital priorities selected.

Here are several areas that family businesses need to consider to address the digital capabilities gap:



Assess current and future business needs as well as areas with skills mismatches.

Beyond technical digital skills, this extends to soft skills such as curiosity, innovation and adaptability.



Leaders should recognise their employees' fears of being replaced, including senior management.

Regular communication needs to be done to create ownership among their employees to upskill themselves. The message needs to be clear; that the digital transformation process is an opportunity for employees to upgrade their expertise to suit the marketplace of the future.



Culture setting starts from the top.

Family business owners would do well to promote the right behaviours in moving towards a people-led innovation culture.

If family members are not convinced about the benefits of investing in technology and making that change, then the digital priority will always remain a priority, instead of being put into practice to bear fruit for the company.



Evaluate the return on investment from upskilling programmes and select the ones that are relevant.

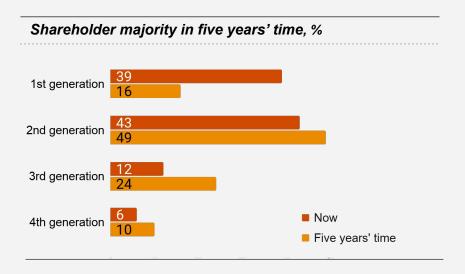
A structured training programme needs to be developed to apply the relevant digital upskilling capabilities people can use in their jobs including problem solving skills, critical thinking and data visualisation skills.

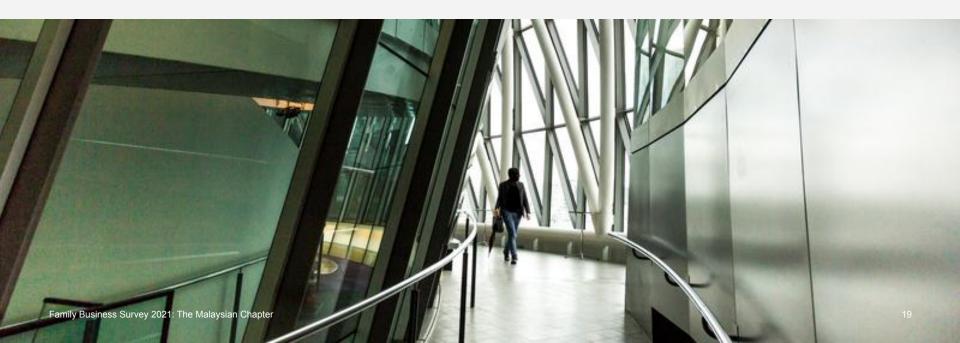
Family businesses should focus on building talent for future business needs rather than labour to perform certain tasks that can't be automated.



Who is succeeding the family business?

In the next 5 years, the Malaysian family business respondents have forecasted that a larger proportion of the next generation (in particular, the second and third generation of the business) will be the majority shareholders in their respective family business.

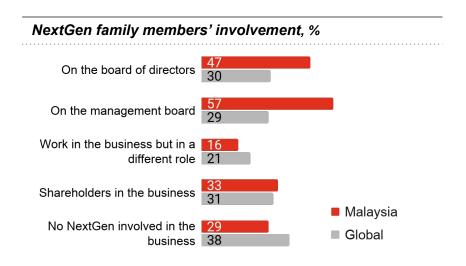




Who is succeeding the family business? (cont'd)

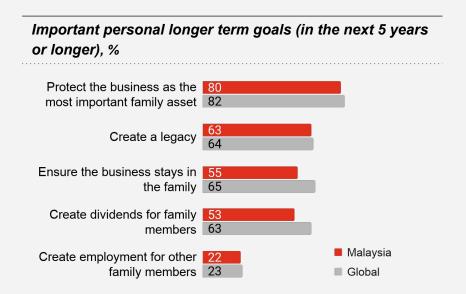
It is encouraging to note that presently, a large proportion of the next generation (NextGen) are already working in the family business in Malaysia, with 47% on the board of directors, 57% on the management board and 16% working in the business but in a different role.

This amounts to 69% of NextGens working in the family business, greater than the 55% of NextGens globally, although we need to also take into account the smaller sample size in Malaysia.



Against this backdrop, it is not surprising that from the survey, 80% of Malaysian family businesses place protection of the family business as the most important family asset.

Therefore, this begs the question: why do only 59% of Malaysian family businesses have some form of ownership governance policy compared to 79% globally?







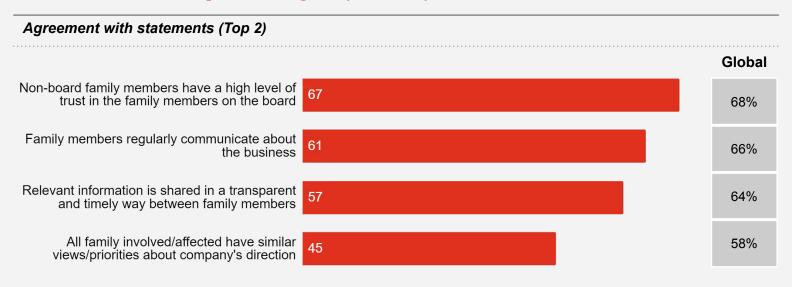
The level of trust and communication can and will impact how well the family members can move forward in the same direction for the business. There are gaps in this regard as only 45% say that all family members involved or affected have similar views/priorities about the company's direction, while 57% say that relevant information is shared in a transparent and timely way between family members.

This is concerning as there could be differences among family members even though 61% of Malaysian respondents feel that they have a strong leadership team in place.

In some cases, the current generation may feel that the younger generation do not appreciate the foundation of hard work and question their decisions and suggestions. This may be more prevalent in Asian cultures which have a more patriarchal approach to succession planning.

In other instances, NextGen family members may voice their frustration over not knowing if or when they will become owners or how much ownership they will receive. As a result, they feel tremendous pressure and urgency to prove they deserve the position and that they can perform.

Communications can be improved among Malaysian family businesses



Structuring the ownership for succession and family cohesion

If the ongoing COVID-19 has taught us anything, it would be that nothing is certain and it is of utmost importance to prioritise succession planning to ensure the longevity of the family business as well as family cohesion. Both generations need to define the roles, responsibilities and rights of the owners and to carefully design the ownership structure of the company through an **effective owner strategy**.

In general, the current generation is pivotal in defining the ownership structure, ownership roles and engaging the next generation in ownership discussions so that they can begin contributing to ownership decisions. They need to build trust within the business before they can earn the trust of their customers and other external stakeholders.



Structuring the ownership for succession and family cohesion (cont'd)



Becoming an owner and learning to make ownership and leadership decisions take practice and time, but the impact it makes on the business and the community it serves can be significant, for instance, in terms of reputation, trust and brand loyalty.

It is useful to make a headstart in this area. While this may require a certain level of input from professional advisors and time spent by the family, if they are able to **co-develop a succession plan** with contributions from the current generation and the next generation, this would potentially reduce conflict as there has already been some buy-in from the future family shareholders.

Starting this process early would allow the relevant family members to understand how they can contribute to the family business to sustain and grow it, and make their mark in the business landscape.

What the current generation can do:

- 1. Define the criteria for ownership
- Plan the ownership structure and intentions for the next generation of owners
- 3. Engage and train the next generation to be effective owners
- Provide an avenue for owners to communicate and align with the business
- 5. Demonstrate how to let go of the business gracefully

What the next generation can do:

- 1. Communicate well and build good rapport with the management and owners
- 2. Practise humility, demonstrate maturity, behave responsibly
- 3. Love the business, support it and be passionate about it
- 4. Be open-minded. Know your own limitations and admit to mistakes and learn from them.
- 5. Join forums that relate to the business to get an outside perspective



Future-proofing your business through ESG

ESG not top of mind for Malaysian family businesses

Based on the Malaysian survey results, shown in the charts, there is a discrepancy when it comes to translating family core values into concrete actions that demonstrate their commitment to environmental, social and governance (ESG) priorities.

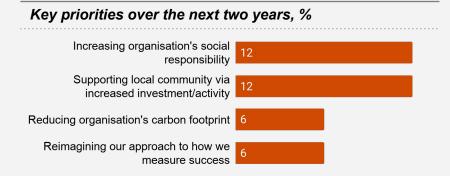
ESG risks if not properly addressed, have significant implications on the balance sheet. For instance, rising sea levels, flooding and lower future crop yield could trigger the impairment of asset value.

ESG risks are also becoming more material. For example, some glove and palm oil companies are facing export bans to the US due to suspected forced labour practices.

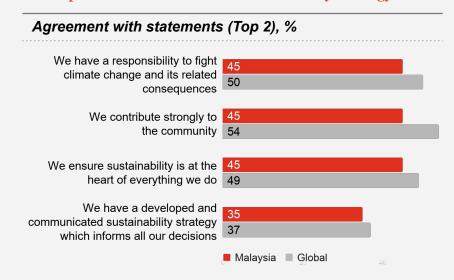
On the flipside however, the value or returns from investing in ESG is not immediately visible.

This could explain why only a handful of Malaysian family businesses make ESG a priority over the next two years, while only a third of Malaysian family businesses have a developed and communicated sustainability strategy.

A handful of Malaysian family businesses have prioritised ESG



Only a third of Malaysian family businesses have a developed and communicated sustainability strategy







Why ESG matters to family businesses

For family businesses, success is not defined by financials alone but long term value creation.

Malaysian family businesses placed protection of the family business as the most important family asset as well as creating a legacy as important long term goals, as highlighted in the previous section.

ESG can help family businesses achieve these goals as it aims to **promote long term value** by proactively managing parts of the business that are vulnerable to climate change and changing social norms.

Investors are also becoming more active in demanding for companies to disclose and address ESG risks and its impacts on business resilience.

For family businesses, they have an opportunity to **craft their own sustainability narrative** and define their value to the marketplace and the community, which can present new business opportunities and a clear competitive advantage.

But to do this properly, they need to first get their house in order, by getting the necessary buy-in from their people, such as through regular dialogue and family meetings and via a strong tone from the top.

Embedding sustainability: Where to start?

A shift in mindset

How can family businesses take steps to integrate sustainability as part of their strategy and operations?

As a start, they need to take a long term perspective on ESG which is crucial in future proofing the business rather than just focusing on short term gains.

Investing in sustainability is often viewed as a cost by family businesses as they usually focus on operations, cash flow, and other bread and butter issues.

Based on our conversations with family businesses, ESG is often viewed in the context of a reporting exercise, one that is onerous and done out of obligation due to increasing regulatory developments.

A shift in mindset is needed to move sustainability beyond philanthropic and check box activities and into improving operational resilience such as managing vulnerabilities arising from ESG risks.

A family business that can show that its business values align with the family's values makes it very clear to stakeholders including its customers that it is there for the long term and that it aspires to be a good steward of the earth.

It also opens doors to new opportunities that drive shareholder value creation beyond just the profit motive.





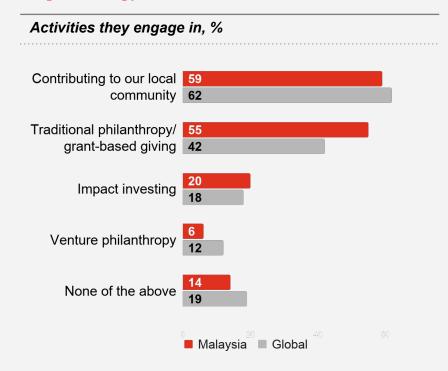
Currently, Malaysian family businesses are making progress in philanthropic activities, with 59% contributing to the local community and 55% engaging in traditional philanthropy/grant-based giving.

The challenge is how can they move from a profit maximisation lens (which is often the basis of investing in check box activities) to a value optimisation lens?

For example, this involves moving sustainability into practices that lead to cost savings and cash generation in the future.

This is an area where the next generation (NextGen) can play a role. As the next generation is the driving force behind sustainability and the future of the business, their interest in sustainability could also attract younger family members into the business.

Malaysian family businesses are making progress in certain forms of social responsibility activities, such as contribution to the local community or traditional forms of philanthropy



Embedding sustainability: Where to start (cont'd)

Tone from the top

Embedding sustainability throughout any business shows that the company is taking proactive steps to ensure the long term resilience of the business. However, implementing ESG practices is a process and cannot be achieved overnight.

Family businesses should start to future proof their business now by setting the right tone and values in focusing on long term value creation.

This could be through reducing waste, digitising manual processes or supporting suppliers that have made a commitment to adopt sustainability practices.

The leader of the family business or top management has the overall responsibility to lead by example or create ownership among employees by making these practices part of individual KPIs for example.

ESG commitments can also be made part of the company's core values and defined as part of the owner strategy for greater structure and alignment.



Involving the NextGen

With family businesses being behind the curve in addressing ESG issues, the NextGen's interest in sustainability is important to encourage and drive the sustainability agenda throughout the organisation.

It also provides an opportunity for NextGens to take ownership in an area that may be unfamiliar to the current generation. The NextGens can start future proofing the family business by:

- Gaining knowledge and experience on ESG risks, having access to sufficient information about the financial impact of these risks
- Ensuring the strategic plan of the company supports long term value creation that includes ESG considerations
- Challenging management's evaluation of the impact of ESG risks and encouraging adequate disclosures.



3 key takeaways: Redefining the formula for family business success

For family businesses, these survey findings can be both hopeful and also a wake-up call in some ways.

Family businesses' relatively optimistic outlook on growth and priorities around innovation, digitalisation and expansion into new markets makes them well-positioned to succeed. This hinges on their ability to build trust in creating both financial and non-financial impact to the business as well as society, which ensures their continued existence.

To summarise, these are the three key areas for family businesses to consider in securing a lasting formula for success for generations to come.



Develop digital capabilities

Family businesses know that improving digital capabilities and using new technologies that benefit the business are important. Investing in these areas involves setting the right tone from the top, changing the culture to one that embraces digitalisation and developing a relevant ongoing digital training programme for their people.

Upskilling will help convert labour into talent and bridge the digital capabilities divide of family businesses. It is not enough to have an upskilling programme; it needs to be accompanied by strong conviction from the family business owners that upskilling is for the long haul, and constant improvements will need to be made to keep up with the pace of changes in the business landscape.



Sustain trust through family governance

As there are evident gaps in family alignment on company direction and levels of transparency, family dynamics will need to be improved.

Investing in an **owner strategy** is a key element in addressing various aspects of governance, including having constant and clear communication between the family business owners and other members of the family within the business.

Involving the next generation in developing an owner strategy will be important for greater alignment of family strategy and business strategy. While there isn't a one-size-fits-all solution for owner strategies, having a well managed governance process in place will certainly help foster family cohesion and build an environment of trust, respect and openness within the family.



Deliver on ESG

Family businesses may be currently more focused on prioritising the health and welfare of their employees and the communities in which they operate, for instance, through philanthropic activities.

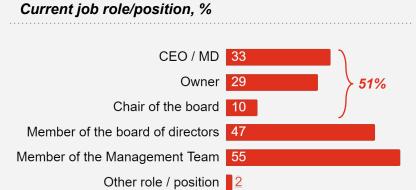
With ESG gaining momentum in the marketplace, the risk is that larger listed companies are claiming the ESG agenda for themselves while family businesses are seen to be trailing behind.

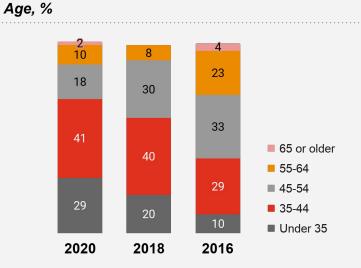
Family businesses need to understand how ESG can bring value to them in the mid to long term, and balance these priorities against the cost of investing in ESG. Understanding how to measure ESG and why this exercise is important can help set the right direction for the family business to ensure an enduring legacy for future generations.



Malaysia respondent profile – whom we spoke to

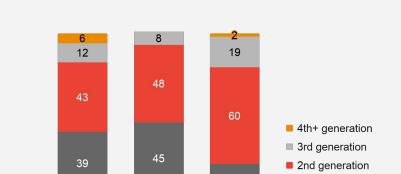




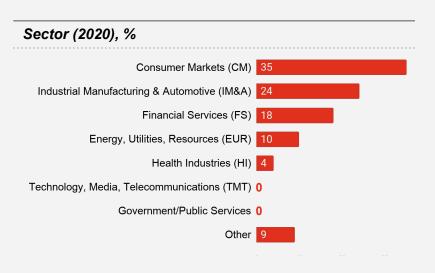


Malaysia respondent profile – whom we spoke to (cont'd)

Turnover (sales) (US\$), % ■ \$1bn+ ■ \$501m-\$1bn \$101-500m **\$51-100m** ■ \$21-50m ■ \$11-20m ■ \$10m and under



Shareholder majority, %





1st generation

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