

A second look at the next generation of family business owners

BY JOTHAM LIM

There is little doubt that the next generation of family business owners (NextGens) are the key drivers of change in the Malaysian economy. Family businesses have dominated industries of all types and sizes, such as Karex Bhd in condom manufacturing and See Hoy Chan Sdn Bhd in property development.

However, the NextGens that will soon hold the reins of the family business are facing heavy resistance from the current generation of business owners, who have disrupted many initiatives to implement change in the organisations, say subject-matter experts.

According to PwC's NextGen Survey 2019 -- Malaysia Report, 40% of the survey's respondents identified themselves as "transformers", or ambitious leaders who are looking to drive change in their family businesses.

Some 88% of Malaysian NextGens are already actively engaged in their family businesses while 70% have been given leadership roles for specific projects and initiatives. However, about a third of them still lack confidence, feeling the need to prove themselves to the current leadership before they can put forward their ideas for change.

"Most of our respondents are between 25 and 40 years old. I would say they are pretty new to the business and there is an element of earning the trust of the current generation when it comes to getting their foot in the door," says Loke Shu Kew, NextGen club lead at PwC Malaysia.

"Trust needs to be earned and it is not easy to earn that trust from the current generation because they have been working in the business for the last four or five decades potentially, and it is difficult to let go of the business they have built up all these years."

In a global landscape where hiring professional managers to help run the company is increasingly commonplace, it is still important to cultivate NextGens and provide them with opportunities to play a larger role in the family business, says Loke. That is because, unlike their global counterparts, Malaysian family businesses are relatively young.

"We see professionalising happening more in Western countries, where it has reached the third or fourth generation, where in-house expertise is probably exhausted and they require external help," he says.

But in Malaysia, most family businesses are just in their second generation, Loke points out. "There are still a lot of things that can be done. Given the NextGens' enthusiasm, determination and being more digitally savvy, that is enough for the time being."

About two-thirds of survey respondents are second-generation business owners, with a severe lack of representation from the fourth generation and beyond. This is in contrast to most Western countries, where third and fourth generation business leaders are more commonplace.

Fung Mei Lin, entrepreneurial and private business leader at PwC Malaysia, says family businesses and their non-family counterparts differ slightly in their business objectives. Non-family business entities are primarily focused on metrics such as profit and loss, key performance indicators and shareholder interest, whereas family businesses have a strong focus on preservation, legacy and family reputation.

"Not to say that profit is not important, but they have a slightly different perspective on it. For them, success means being able to provide for their family

and giving back to society. With that in mind, you will find that family businesses do not buckle at the first sign of a recession," says Fung.

She adds that in times of trouble, family businesses are the ones that strive to retain their employees. Even if they have to slash their salaries to remain afloat, the family will not terminate staff who have remained loyal to for years. "We have cases where, when the company is short of staff, the employees will persuade their friends to join the company and vouch for their boss as a good employer."

Fung says that being in close proximity to the first generation of business owners also puts pressure on NextGens to continue the business. "These NextGens are part of an entrepreneurial family. The parents talk about business 24 hours a day, seven days a week. Sure, there is a small percentage who decide to branch out and pursue their own ambitions. But most of them will follow through on the business."

"This ties into the NextGens' lack of confidence. It is difficult to build confidence when you are trying to convince your parents to change, when they have used a formula that has worked for several decades. NextGens are rejected at home and in boardroom meetings, so their confidence takes a beating."

While the current leadership may not feel an urgent need for change, NextGens have identified several key drivers that will keep the family business on its toes. The survey shows that an overwhelming majority of NextGens have witnessed fierce competition from other industry players as well as changing customer needs and behaviour in a rapidly evolving marketplace.

The survey shows that NextGens' top priority is to prepare the business for the digital era. About two-thirds of respondents wanted to implement a digital business strategy, with about 60% prioritising the upskilling of employees and investing in new business ideas.

To implement these changes and garner the confidence of the current generation of business leaders, Malaysian NextGens are looking at working within their realm of competency and focusing on areas of improvement. Some 67% of the respondents believed they were highly competent in problem solving and strategic thinking while 48% rated themselves highly in terms of understanding the business and economic trends.

Conversely, leadership skills and technological know-how were the two key areas of focus, with only 33% of the respondents believing they were highly competent in leadership and 24% in technological skills. To overcome this, 83% of the respondents believed that international exposure would help provide them with a fresh outlook and new ideas. About 70% think that being mentored and shadowing the current leadership is essential to improve leadership skills while 67% believed in learning from their fellow NextGens.

"Peer-to-peer learning is really powerful for NextGens. They were born at about the same time, raised in similar environments and most of them are already in the business. It makes sense for them to mix together," says Loke.

"As for mentoring, it is not just about getting mentorship from the incumbent generation. It is also about receiving guidance from professionals who have been helping the first generation — the 'uncles' who have been in the business with their family for the longest time."

Fung says the effectiveness of peer-to-peer learning is compounded when paired with international exposure, citing examples from the PwC NextGen

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> Fung



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> Loke



Gender disparity among Malaysian NextGens

Malaysian family businesses seem to heavily favour male heirs, as 80% of those who participated in PwC's NextGen Survey 2019 were male compared with only 63% globally.

"From my experience working with family businesses, like it or not, I have not seen a large portion of them favouring females. We still have a large portion who believe that their daughters will be married off and become part of their husband's family," says Fung Mei Lin, entrepreneurial and private business

leader at PwC Malaysia.

She points out that for many of the current generation of business leaders, the family business is a legacy that transcends generations and they want to preserve it as best they can. While it is possible to pass the reins to the daughters, the business will risk losing the family name, something that many would rather avoid.

But it does not mean the incumbents are actively preventing their daughters from participating in the family business. From Fung's

experience, many female NextGens were told that they were free to participate in the business, but many of them understood their parents' thought processes and chose to honour their intentions.

"However, there is increasingly a trend where the current generation says they do not mind whether the daughter or son takes over the business, as long as they are capable of running it. The mindset is slowly changing, but it is not enough to swing the numbers around yet," she says.

Club. "We had an Asia-Pacific NextGen Club, where we brought participants from 10 countries to visit Shanghai last year. The response was so overwhelming that we had to stop registrations and tell them we were full.

"They talk to each other, mingle and exchange cards. There is an element of networking for business purposes, but it also helps them understand what they are doing differently compared with their regional counterparts. International exposure is not just for building confidence but also helps them to prove themselves, build contacts and represent the company."

THE THREE-GENERATION MYTH

According to a study of more than 3,200 high-net-worth families by the Williams Group, a family wealth consultancy firm, 70% of families lose most of their wealth by the second generation and 90% by the third. As the saying goes, "the first generation makes the money, the second spends it and the third blows it".

PwC's own statistics indicate that a similar trend is happening in family businesses, with a tapering of representation further down the line of heritage. "If you look at the third and fourth generations, the way they run the business is drastically different," says Loke.

"The first generation would have had it the easiest as they would have had only a few children to hand over the business to. But as you go further down the generations, there are cousins, the children of siblings and their wives involved in the business as well.

"When it reaches the fifth generation, the business will have hundreds of shareholders. Each may have a different view and direction. This is where professionalising comes into play. You need someone professional to run the company."

On the surface, it may seem that family businesses are heading towards a statistically proven, seemingly impending doom. However, Fung says this belief may be exaggerated, considering how we define "first-generation business owners". She also

says corporate restructuring is not the same as having a business shut down.

"By the third generation, relationships between family members are not as close anymore. The family business would have reached a stage where some nuclear families wanted to run one part of the business and another family another part of the business," she says.

"As a result, they may conduct a business reorganisation process. Hence, it is not that the business has shut down or disappeared. It has just spun off into another family business unit and reset the whole process — back to the first generation."

Fung suggests intergenerational communication to foster understanding between the incumbents and the NextGens. "It is difficult for them to communicate. Many NextGens crave feedback. Are they going off at a tangent? Are they making good progress? Many NextGens view their parents as leaders because they have seen and done everything that needed to be done to grow the business. And now, NextGens are seeking guidance from them."

She recalls a father privately telling her that he thought his son was doing a great job, a fact that he had refused to acknowledge publicly. She asked him why and he said that his son needed to learn on his own.

"He wanted his son to earn his stripes. He probably thought that if he praised him, his son may become complacent. However, experience has shown that this may not be the most effective way," says Fung.

"Why not give the son feedback and advise him on how he can deal with certain issues? This is better than having the son struggle on his own and maybe not achieve what he needed to."

The lack of experience and confidence remains a key challenge for many NextGens. Still, there are no fixed thresholds or benchmarks to determine how much experience is enough to garner the support of the current generation. **E**