SUCCESSION PLANNING DILEMMA IN SMALL FAMILY BUSINESS: A CASE OF 5Ds ENTERPRISE

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This case was written by Abdul Halim Abdul Majid, Noor Asma Jamaluddin, Adedapo AbdGhaffar Alagabi, Universiti Utara Malaysia and Phathara-on Wesarat, Prince of Songkla University. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Synopsis

This case highlights some specific human resource (HR) issues pertaining to succession planning. An entrepreneur in small family business should give adequate attention on these issues to ensure strategic business success and sustainability. This case discusses the challenges faced by Mr JM in planning successful transition of the family business to the next generation. Mr JM had always been inspired and enthusiastic in contributing towards the growth and survival of his business. His company is involved in manufacturing of a wide range designs of steel grills, windows, doors, house/office cabinets and other related services. Old and infirm at 74, Mr JM desired a successful transition when he quit or died. He had been actively engaging and encouraging family members to take over key positions and ownership in the future due to his ill health or exit. However, he found this worrisome because he failed to achieve this failed in achieving this and hence the situation had become worrisome and his hope for successful transition of his business to the next generation was getting bleak. The case provides an opportunity for readers to study and understand the challenges faced by most small family businesses on succession issues. Importantly, it also aims to underline how it can be responsively addressed to help sustain the growth and continuity of family-based businesses in the context of Malaysian economy.

Introduction

Mr JM, 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 the staff to signal the close of work. JM nodded in admittance and boded the staff farewell as he watched him go through the door again. It was almost sunset on a bright but windy day in September 2018 in Kuala Lumpur, Malaysia. JM peeped through his office window and watched as the sun disappeared into the clouds; filled with tears he repeatedly says, “it’s time to go!”. JM knew that as a 74-year-old who had just survived stroke in a country where the life expectancy is 72 years; retirement and death were quite near, and he needed to act fast on who will take over his business after his demise or retirement.

The experienced JM built 5Ds enterprises from the scratch to a successful family business with a sales turnover of over two million (> RM2 million) Malaysian Ringgit and ten (10) employees operating on five (5) connected shop lots in Ampang AU3 at the heart of Kuala Lumpur, Malaysia, dedicated to the designs of steel grills, windows, doors, house/office cabinets and other related services. He was an extraordinaire entrepreneur with fabulous patriotic drive to mentor and create entrepreneurs. He believed and preached that for the country to progress comfortably into a developed nation, there was a need to constantly create and aid entrepreneurs who will not only provide employment but power the economy to greater heights. Entrepreneurship was his passion and in recognition of this, the Malaysian government had sent him for a short course on entrepreneurship at one of the universities in United Kingdom about three decades ago. Since he came back, he had mentored many successful small and medium scale entrepreneurs. He knew as he had always warned his mentees; succession was a very challenging issue in business. Going through the company files on his table and looking at his office walls he asked, “How prepared am I for succession?”

JM, 5Ds and the Journey So Far

JM was a creative and weathered entrepreneur with superlative vision. He had over four decades of business experience up his sleeve. He got the spark for entrepreneurship at an early age. “Entrepreneurship has always been my passion,” he said. As a young high school leaver in the 1960’s in a new independent Malaysia struggling to build its economy, JM knew there was an urgent need
to provide modern businesses and to engage the citizenry in the new industries. He quickly saw an opportunity in the printing industry and started out as an apprentice with a printing press in his hometown, Kedah, Malaysia. In three years, he was skilled enough to start his own business. He went into partnership with his elder brother to establish a printing press. There in Kedah, he spent several years learning how to manage a family business.

In 1980, the young JM relocated to Kuala Lumpur for greener pasture. Motivated by his experience in Kedah, he decided to establish his own printing business in the heart of the city. However, the new business could not survive because of stiff competition from other printing press who had the monopoly of the thriving KL market. Challenged but undeterred, JM had to close the business and seek for employment first in the printing and later in real estate industry. Albeit, he was successful working in the real estate industry, his childhood passion for entrepreneurship had refused to go.

Though not sure of what to do, his experience in the real estate opened a lot of opportunities to explore. On the side-lines of his real estate deals, JM arranged additional services such as home insurance, security systems and other domestic amenities to his clients. While delivering these services, JM observed that there was a very high demand for steel grills and doors especially in Ampang area of Kuala Lumpur. Picking on the scarcity of providers of these products and his huge network of clients, he decided to rekindle his entrepreneurship vision catering for these needs.

In 2002, JM quit his real estate job and setup 5Ds as a full-fledged steel design company. He got a comfortable start by leveraging on the network of clients that he had in the real estate job. The company was managed as a family business with his wife had been working full time and his six daughters and a son were helping as part time staff in areas of financial and customer management. Craftsmen were also employed for both full time and project-based employment.

Till date, 5Ds serviced the areas of Federal territory of Kuala Lumpur especially in the Ampang district. 5Ds provided standard and customised services to its clients. It offered a wide range of steel and aluminium product designs. On this, JM remarked “We always keep pace with trendy designs and upgrade our services to keep with changing customer demands. Over the years we get inspiration for design from catalogues and more recently, internet.” JM continued “my daughter is also a gifted artist and she has been actively designing grills, doors and allied products to customers who desire customised services.”

Aside individual customers, the company also provided services for government institutions and prominent companies and private businesses in the retail sector. The business operated six days a week from 10am to 7pm but also engaged staff overtime when there were special projects. Aside his family, the company presently had eight artisans who worked full time while part time positions were offered when there are major commercial projects. The company had grown in leaps and bounds and recorded high success. 5Ds had come from the humble beginning of a single shop lot to the present six and a robust network of satisfied clients. According to Mr JM, “I believe the company still have huge potentials to grow into the future of which I am not part of, but presently it is a success.”

**Road to Succession**

5Ds as a family business operated in the 3D-job sector (difficult, dirty and dangerous) of the Malaysian economy. The company’s operation was labour intensive and its workforce comprised of eight full time employees. “Since the 3D sector is shunned by locals especially because of its relatively low wages on offer, our workers are foreigners from Myanmar, Nepal, Bangladesh, and Indonesia;
aged between 24 and 40 years old. Most of them are very skilful artisans who work and produce steel window grills, steel doors and steel furniture items” said Mrs RJ (i.e. JM’s wife). JM supervised the day to day activities of the company, he also provided designs for production by the artisans. Mrs RJ took care of the financial management, customer relation management as well as other administrative activities. JM added “When the children were young; they also worked on part time basis to mainly help Mrs RJ. My wife and the children have been the back bone of the business”.

JM had seven children, six daughters and a son aged between 51 and 43. The eldest daughter and child, Mrs N.J. is an architecture degree holder from an American university and worked with a reputable architectural firm in Kuala Lumpur. Three of his daughters were university staff; Mrs B.J. and L.J. were lecturers and H.J. worked as an executive administrative staff. The other two daughters, namely J.J. and M.J. were budding SME entrepreneurs. The only son, Mr A.J. was a retired army officer who had a successful medium scale company that presently produced and supplied printed t-shirt and embroidery works. “We are blessed with beautiful children who are endowed and fostered 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 RJ.

**JM’s Family Background**

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>RELATIONSHIP</th>
<th>Qualification</th>
<th>Profession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mrs R.J</td>
<td>72</td>
<td>Wife</td>
<td>Diploma in book keeping &amp; Business Management. Former English Teacher, Clerk at Malaysia Meteorology Department</td>
<td>Retired and currently helping Mr. JM in managing 5Ds</td>
</tr>
<tr>
<td>Mrs N. J</td>
<td>51</td>
<td>Daughter</td>
<td>Degree in Architecture from USA</td>
<td>Working in Architect firm</td>
</tr>
<tr>
<td>Mrs J.J</td>
<td>50</td>
<td>Daughter</td>
<td>Complete high school</td>
<td>Tailor &amp; small business (textile supplier for schools)</td>
</tr>
<tr>
<td>Mrs H.J</td>
<td>48</td>
<td>Daughter</td>
<td>Degree in Arts from local university</td>
<td>Working in a public university as an executive/administrator</td>
</tr>
<tr>
<td>Mrs B.J</td>
<td>48</td>
<td>Daughter</td>
<td>Master &amp; Degree in Accounting from overseas (UK &amp; USA)</td>
<td>Lecturer in a public university</td>
</tr>
<tr>
<td>Mr A.J</td>
<td>47</td>
<td>Son</td>
<td>Diploma in Business &amp; Ex-Army officer</td>
<td>Medium business (T-Shirt printing &amp; Embroidery)</td>
</tr>
<tr>
<td>Mrs M.J</td>
<td>44</td>
<td>Daughter</td>
<td>Diploma in Business from local university</td>
<td>Doing small business from home</td>
</tr>
<tr>
<td>Mrs L.J</td>
<td>43</td>
<td>Daughter</td>
<td>PhD in Education from local university</td>
<td>Lecturer in a public university</td>
</tr>
</tbody>
</table>

Meanwhile, the workers were all immigrant workers and trained artisans with little or no formal education. They were carefully selected and recruited based on their skills and competence. According to JM, “We ensure they are people with the highest potentials, who match the industry’s specificities and can make a difference to the business performance through their immediate and long-term contribution. 5Ds’s immigrant worker retention rate is one of the highest in the sector. This is because they are well remunerated relatively to industry standards. Their immigrant visas are renewed as at when due and return flight tickets home are given every two years.” Mrs RJ added “we ensure they are given additional and continuous training to make sure they are up to date and meet increasingly changing customer demand.” Most of the workers had been consistent, indeed there were four workers who had over 10 years of experience working with 5Ds. On these four, JM
commented “These four especially Suraimi, a Bangladeshi married to a local with over twenty (20) years meritorious work experience, rising through the ranks to be chief supervisor in 5Ds, are trusted and reliable workers, I enjoy working with them and they have stayed long enough to work without supervision and understand the dynamics of the technical aspects of the business.”

The Succession Dilemma

For the old and infirm MD of 5Ds, succession was a nagging challenge. JM had no formal succession plan. “I have read about succession stories and challenges, but I never knew it will be this challenging in 5Ds!” exclaimed JM. While establishing 5Ds, it had been JM’s dream of providing jobs not just for the citizenry but particularly for his children. “At the beginning of the business we had the vision of building the business sustainably in a way that the children will be comfortable and take pride in working and managing the business after we might as well be gone, but here we are today!” quipped Mrs RJ. JM continued “the Chinese family businesses in Malaysia are rather successful at that, their well-educated children are quick to join the family business, so we thought we can.”

JM’s children were well established in their chosen field and just like average Malaysians the 3Ds sector was not attractive to them. JM had insistently invited them to join the company, but they were hesitant. “I know they can manage the company, but they found 5Ds unattractive” expressed JM. Mrs BJ affirmed that “for those of us working as employees in the university and architectural firm, 5Ds cannot pay us comfortably and 5Ds is not pensionable. We just don’t see a rewarding future in the family business.” His children who were self-employed also shared the same view. According to the only son “enrolling in the army in my late teens denied me the needed opportunity to gain enough experience in 5Ds; as soon as I left the army, I started my personal business and today it is doing well as a medium scale business. My business is very demanding with great prospects”.

It was JM’s utmost wish to leave the company in the hands of family members who can nurture and sustain the company after he quit or died but none was dedicated enough to stay or acquire the required skills needed from a successor. Referring to this, JM conveyed “those that have been engaged soon left the company without notice or any tenable excuse. It is so bad we had to rely on immigrant workers for successful running of the business during the period of my illness”.

JM had no plans for shares transfer or outright sale to parties outside the family. To him the business had enough liquidity and healthy balance sheet albeit he has not valued and analysed 5Ds in the same way a potential buyers and competitors would. To JM, shares transfer or outright sale was something he would resist. Referring to this JM remarked “I have no plan now or in the future to prepare for part sales or outright sales of the business to none family members”.

The Way Forward

Struggling for a way out of the succession challenge, JM expressed “I have always envisioned a future where I will bequeath a successful and sustainable family business in which my family and indeed Malaysians can manage and work to attain individual economic freedom as well as national growth and development. As a patriotic Malaysian with over 40 years of entrepreneurship experience, a business owner and business mentor, I have passionately worked and preached for successful and sustainable businesses. I hope the next generation sees family businesses as a call to patriotism and ensure such businesses grow and survive going forward.”
JM has decided to have a succession arrangement in which his trusted artisan was engaged on a project profit sharing ratio basis. On this JM stated “I have experienced and dedicated artisans who have displayed competence in factory maintenance and the technical productions in 5Ds. I have observed that during my brief illness, while my daughter provides the designs and my wife takes care of the marketing, administrative and the financial aspects; the artisans led by Suraimi, a Bangladeshi, were engaged on an agreed project profit sharing approach which was successful and had been retained since my resumption”. “This has worked well, and my husband is quite excited about it. Going forward, he is hopeful this will help in the succession plans…” added Mrs RJ.

Along with the project profit sharing arrangement, JM was working on his eldest daughter who has volunteered to produce the designs over the years to take over the marketing, financial, and administrative aspects of the business. Harping on this, JM commented “My children are capable hands when it comes to the nitty gritty of the non-technical aspects of the business, hence my eldest daughter, Mrs NJ is being persuaded to take up the design, marketing, financial and administrative aspect of this business. The result has not been encouraging but I hope she gives it the needed consideration” he chuckled. Asked about this, Mrs N.J answered unconvincingly “it is true I have provided designs free of charge and my parents have been discussing succession issues in 5Ds with me nonetheless, when we get to the bridge, I and my siblings will surely cross it”.

JM believed he was out of options and could only anchor his hope for succession on this for now.

What other succession options were available for JM and 5Ds? If there was, how could the potential option be used to solve 5Ds succession dilemma? Was 5Ds well prepared for succession? What strategy should JM and 5Ds use to overcome the succession challenges?

**Additional Readings**


