

Family-Owned Businesses: Towards a Model of Succession Planning in Malaysia

Moha Asri Abdullah*, Zarinah Abdul Hamid**
and Junaidah Hashim***

Succession planning for businesses is highly essential. The essence of succession planning is crucial especially among small and medium businesses as they cannot afford to withstand various major setbacks for continuity and sustainability in developing and developed countries alike. Malaysia is not exceptional to this. This present paper focuses on succession planning in family-owned retailing and manufacturing businesses of East Coast Economic Region (ECER) in Malaysia. This paper attempts to delineate three succession issues in family business i.e., succession dilemma, successor attributes and succession plan. This paper argues that to a certain extent, SME owners face some dilemmas while various factors such as business challenges, managerial capabilities, trustworthiness, loyalty, flexibility etc. are related to succession attributes. The findings generally indicate that the respondents agree to adopt succession planning in their businesses even though only half of them have succession planning. A positive relationship among succession planning, successor attributes and succession dilemma is derived based on a correlation analysis. The succession planning model is established with successor attributes and succession dilemma as the determinants for succession planning.

Keywords: Family-owned business, succession dilemma, attributes and planning

1. Introduction

Sustainability in businesses contributes to sustainable economic growth and development. In this relation, family-owned businesses, their presence and sustainable development is believed to contribute greater impact on the economy as Small and Medium Enterprises (SMEs) that constitute a significant proportion of family-owned businesses in many countries, including Malaysia are focused on sustainability. Similarly, family-owned businesses, many of them are SMEs, their expansion and developments over generations are highly viewed as crucial for economic activities, economic growth and wealth creation. They are, indeed, “the backbone” of the economy of many countries, developed and developing countries alike (Wang, Harris & Spicer 2004; Poutziouris, Steier & Smyrniotis 2004; Moha Asri 1999, 2002).

*Professor, Department of Economics, Faculty of Economics and Management Sciences, International Islamic University of Malaysia,

**Faculty of Economics and Management Sciences, International Islamic University of Malaysia,

***Professor, Faculty of Economics and Management Sciences, International Islamic University of Malaysia

A family enterprise is a 'total system' that is derived from a number of sub-systems, including the founding entrepreneur as an entity, the family-member as an entity and the enterprise as an entity (Dyer and Handler 1994). Undeniably, each sub-system has its own unique characteristics and cultures as it evolves through its own lifecycle. In this view, not all businesses would have successful family succession and transition. There are basically two specific stages where business transitions take into effect, i.e.; business involvement of the heir; and leadership succession. Thus, family business entrepreneurship represents a relatively stable system as long as the founding entrepreneur is in place. However, when the founding entrepreneur is no longer around, conditions would be risky. A number of research studies (Beckhard & Dyer 1983, Lansberg 1988, Maynard 1999) found that when owners or managers retire, less than one-third of family-owned businesses are continued by the next generation.

Thus, in family-owned businesses, succession planning is a major issue of concern. It is an explicit process by which the firm will be transferred to the family's next generation. Whilst the successful succession of CEOs is a crucial goal for these firms, without the next generation's leadership and direct management, the firm cannot survive as a family-owned firm, let alone maintain its character (Barach & Ganitsky 1995).

Although some research studies have been done on entrepreneurship and/or SMEs, research on family-owned businesses is relatively recent, especially in Malaysia. Thus, studies in such an area remain unexplored and need to be conducted. This paper therefore, examines the status of family-owned enterprises, their succession issues and succession planning in Malaysia.

2. Selected Review of Literature on Succession Planning

Succession planning is a process where firms plan for the future transfer of ownership. In fact, it occurs when the firm owner wishes to exit from the firm nevertheless wants the business to continue. The motive behind this is to transfer ownership of the firm to any of the family members rather than shutting down the business altogether. Succession planning is generally considered to be a unique, case-by-case process, where a one-size-fits-all mentality is simply not appropriate (Sambrook 2005).

There are several concerns associated with succession planning. The questions of who, when and how the ownership of the firm will be transferred is directly related to the ownership aspect of succession planning, while the questions of what changes will the transition bring, when will they be accountable for results and how will results be realized are connected with the issue of management in succession planning. Succession planning can be unsuccessful if these two processes are not coordinated or addressed collectively (Lansberg 1999).

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Scholars emphasise that succession planning is important in ensuring the continuity and prosperity of a business (e.g., Christensen 1953, Ward 1987, Ward 2000). Some have even gone to the extent of stating that dealing effectively with the issue of succession planning is the single most lasting gift that one generation can bestow upon the next (Ayers, 1990). Unfortunately, despite cautions, succession planning appears to be left to chance by many family-owned firms (e.g., Leon-Guerrero et al. 1998, Rue and Ibrahim 1996). While some other researchers attribute this apparent neglect of succession planning to the emotions generated by the process; it forces incumbents to face their mortality and makes other family members confront the need for change (Beckhard & Dyer 1983, Dyer 1986, Lansberg 1988).

2.1 A Review of the Model of Succession Planning

Succession planning, as Francis (1993) asserted, is a dynamic process requiring the current ownership to plan the company's future and then to implement the resulting plan. It is also a complex process involving the interaction of several factors operating at the personal, relational and organizational levels. These factors include both the personal and career development of the successor, succession planning and control activities.

Along similar lines, others articulate the 'hard' and 'soft' factors and how they affect succession. Understanding the factors that influence the outcome of any succession process is important and two factors have been suggested: the satisfaction of participants with their experience of the succession process itself; and the continued profitability of the family business after succession (Venter et al. 2003).

Handler (1991) argued that the following factors influence the effectiveness of succession criteria: degree of training, degree of responsibility, experience outside the organization, as well as communication concerning succession and planning around succession. Motwani et al. (2006) discovered that in terms of skill requirements, respondents rated decision-making ability of successor, the successors' commitment to the business, and interpersonal skills as the top three successor attributes. Bachkaniwala, Wright & Ram (2001) reported that most founders educated their offspring in order to enhance their labor market prospects and not just for succession purposes. However, founders were also involved in succession planning by guiding their heir to undertake relevant education.

There are three types of internal factors influencing succession planning. Firstly, preparation level of heirs which includes formal education and training, work experience, motivation to join the firm, developing familiarity with social relationships which may have commercial benefit etc. (Mulholland 1997). Secondly, relationship among family and business members which also covers issues like trust and communication among family members, sibling rivalry and

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failure to accommodate one another as those may threaten family firm survival (Kets de Vries 1993). There are other issues, involving refusal by the founder to delegate responsibilities to successor, resentment and jealousy among the offspring (Handler 1990) as well as the importance of sharing values and traditions among generations (Dyer & Handler 1994). Lastly, planning and control activities include the development of succession and estate planning, the involvement of outside board directors, role of family business consultants and the creation of family council (Beckhard & Dyer 1983).

Table 1: Underlying Determinants of Successful Transitions

| | |
|---|--|
| <p>Preparation level of heirs:</p> <ul style="list-style-type: none"> · Formal education, training, and work experience (outside firm); · Entry-level position · Year(s) working within firm (and/or industry); · Motivation to joining firm; · Self-perception of preparation. | <p>Planning and control activities:</p> <ul style="list-style-type: none"> · Succession planning; · Tax planning; · Use of outside board; · Use of family business consultants/advisors; · Creation of a family council. |
| <p>Relationships among family and business members:</p> <ul style="list-style-type: none"> · Communication; · Trust, commitment, and loyalty; · Family turmoil and sibling rivalry; · Jealousy/resentment; · Conflict; · Shared values and traditions. | |

Source: Morris et al. (1996)

There are several steps which are required to satisfy a total of twelve elements (including above ten) of succession planning. In practice, every business has its distinct characteristics such as structure, relationship with family, suppliers and customers, goals and objectives etc. Morris, et al. (1996) identified three specific stages in the transition of family business: personal development of the heir prior to working in the firm, business involvement of the heir, and leadership succession.

A more detailed model was proposed by more recent studies. For instance, Ibrahim et al. (2004) proposed that the succession process in the family business includes three critical steps. The first step is to prepare the offspring for future leadership role at an early age prior to joining the family firm. The second step is to integrate the offspring into various job positions of the family firm. The third step involves the offspring taking over the control of the family business. On the other hand, Scarborough & Zimmerer (2006) highlighted that succession management involves a lengthy series of interconnected stages which begins very early in the life time of the owner's children and extends to the point of final ownership transition. Their model involves five stages. Stage 1 is early

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involvement of the successor with the business in routine tasks. Stage 2 is where the successor will undergo rotation among various assignments during vacation period. In stage 3, the successor will be given an entry-level position with planned job rotations, regular performance appraisals and mentoring. In stage 4, the successor is given greater responsibility where he or she will be exposed to departmental or functional managerial jobs, and Stage 5 is the stage where the successor is assigned general manager responsibilities. Figure 1 illustrates the stages of succession as proposed by Scarborough & Zimmerer (2006).

| | | | | |
|---|--|--|------------------------|----------------------|
| Early involvement with the business routine tasks | Rotation among various assignments during holidays | Entry-level position with planned job rotations and regular performance evaluation | Greater responsibility | General Manager post |
|---|--|--|------------------------|----------------------|

Figure1: Stages in management succession

Source: Adapted from Scarborough, N. M. & Zimmerer, T. W. (2006). Effective Small Business Management: An Entrepreneurial Approach, p. 660

3. Research Methods

The present research conducts a field survey and develops a questionnaire for the respective officials and individuals who are involved in family businesses succession and sustainable development. The questionnaire includes all possible areas of family business and its succession such as businesses/firms profiles, levels and types of family businesses, succession planning, problems and issues in practicing family businesses and their sustainable development.

This research is fully based on case study (questionnaire) to critically examine the family businesses and sustainable development with an in-depth observation of their organizations. The selection of respondents was made based upon this compilation using a pre-determined sampling method. The structured questionnaire contains some open-ended questions i.e., mainly for company background and profile of the owner. The research applies the 'Likert Scale' (considered on 1-5 points scale) to measure the perception of respondents in their business succession planning. The points of the scale indicate the degree of agreement or disagreement; '1' represents the lowest level of satisfaction or strong disagreement, whereas '5' represents the highest level of satisfaction or strong agreement.

Although the present research is highly dependent on the primary sources, it also examines some secondary sources to understand the concepts, definitions,

theories and empirical results related to succession planning. Several books, private and multi-national agencies as well as numerous reports, research literatures, articles, journals and thesis have been used as secondary sources for study. Internet sources were also used as a secondary source for this research.

3.1 Methods of Data Analysis

Generally to fulfill the objectives of this study, this analysis focuses on Correlation Analysis while using Multiple Linear Regression to derive the economic model. However, Exploratory Analysis need to be conducted first to check the usefulness of the independent variable in this analysis before other analysis can be done for prediction purposes. To find the economic model, this analysis used the “Ordinary Least Squares (OLS)” method to find the estimation parameter by using SPSS and Microsoft Excel software. The summary for the steps and methods used in the study analysis is shown in the following section: Theoretical Framework of the Methodology.

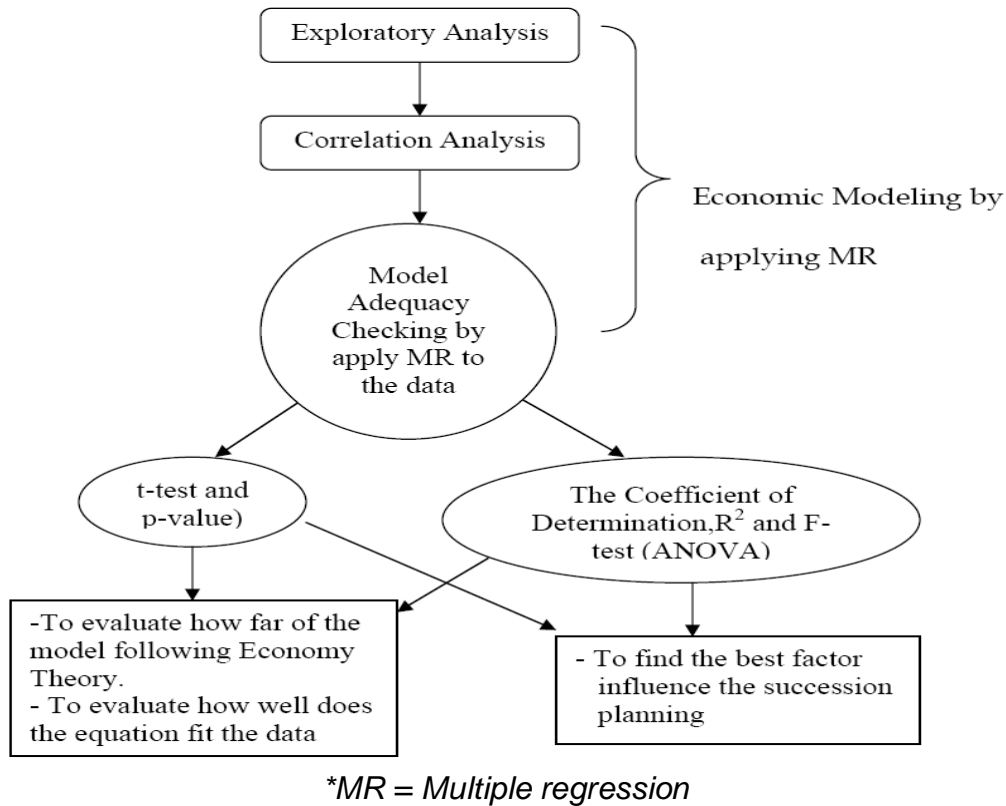


Figure 2: Theoretical Framework of the Methodology

Multiple linear regression model was used to evaluate the model for succession planning (Sanayei et al., 2008 and Gomez et al., 2005). This model can be used to find the best factors that will influence the succession planning. The factors are successor attributes, succession dilemma, nature of business, annual gross, number of staff, year business operating, status succession planning, age of

owner, gender, marital status, educational qualification, year of experience, type of owner and generation of successor.

3.2 General Model

Succession Planning = f (successor attributes, succession dilemma, nature of business, annual gross, number of staff, year business operating, status succession planning, age of owner, gender, marital status, educational qualification, year of experience, type of owner and generation of successor)

Mathematical Form:

$$\hat{Y} = \beta_0 + \beta_1SA + \beta_2SD + \beta_3NB + \beta_4AG + \beta_5ST + \beta_6BO + \beta_7SS + \beta_8AGE + \beta_9GE + \beta_{10}MS + \beta_{11}EQ + \beta_{12}YE + \beta_{13}TO + \beta_{14}GS + \epsilon_t$$

Where:

\hat{Y} = Succession Planning

1. SA = Successor Attributes
 2. SD = Succession Dilemma
 3. NB = Nature of Business
 4. AG = Annual Gross Sales
 5. ST = No. of Staff
 6. BO = Year Business Operating
 7. SS = Status Succession Planning
 8. AGE = Age of Owner
 9. GE = Gender
 10. MS = Marital Status
 11. EQ = Educational Qualification
 12. YE = Year of Experience
 13. TO = Type of Owner
 14. GS = Generation of Successor
- ϵ_t = Error Term

4. Profile of Owners and Background of Businesses

Out of the 126 owners of businesses surveyed, more than half (54 percent) fall under the age group between 40 to 60 years whereas none of them are below 20 years. The survey results show that 58 percent of the total owners are female whereas 42 percent of the owners are male. Moreover, in case of marital status, majority of the owners (92 percent) are married, only a few (8 percent) are found unmarried. Surprisingly, the field survey shows that half of the total owners (50 percent) have Medium Certificate of Education (MCE) and one tenth (7 percent) of total owners have diplomas as their educational qualification.

Majority of the owners (42 percent) have business experience of between 10 to 20 years. Data indicates that the founder owners are more than that of successor owners of their business concern. Among the owners, 55 percent are found

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under the first category (successor) where around 44 percent are found under the second category (founder) of business. It is found that around 61 percent, 14 percent and 11 percent of the owners are from first generation, second generation and third generation respectively. The succession planning is very much related to the number of family members. It shows that about half of the owners (49 percent) have number of children between 4 and 8, one-third (33 percent) of them have number of children less than 4 and only a few (6 percent) of the owners have number of children more than 8.

The study covers only manufacturing and retailing business. Most of the businesses (86 percent) are retailing while a small number (14 percent) of respondents are from manufacturing business. The findings indicate that about 78 percent of the total owners have less than 10 fulltime workers, while the number of owners is 83 percent. Less than half (48 percent) of the businesses have been in operations for less than 10 years while second majority (39 percent) of the businesses have been in operations for between 10 to 20 years. In a response to the question whether the owners have any succession planning for their businesses, about 54 percent acknowledge they have a succession planning. About 40 percent of them have a business built upon their own interests, while some whom initiated their businesses following their family heritage those whom set off their company only for extra income and for profitability consist of 22 percent and 12 percent respectively.

5. Qualitative and Quantitative Findings on Succession Issues in Family Businesses

5.1 Qualitative Findings

Altogether there are 13 items measuring succession dilemma faced by the SME owners. These 13 items have been computed as the total score and the mean score is 3.21. This indicates that the SME owners do to a certain extent agree that they faced some dilemma. The findings show that more than 90 percent of the respondents agree that the successor is appointed because of the family ties. Furthermore, 89.9 percent of the respondents agree that the successor must be well received by other family members.

The successor attributes which the respondents rated highly among others: the capability to face the shortcomings and challenges in the business (96.1 percent); possessing the managerial capabilities (96.1 percent); trustworthy, committed and loyal to the company (96 percent), ability to handle the business (95.3 percent); ability to handle the family conflict and rivalry (93.7 percent); flexibility to adapt changes and having global outlook (92.8 percent); having the motivation to run the business (92.1 percent); having the requisite business skills (91.3 percent); and knowledgeable in company operations (91.2 percent).

Succession planning which consists of 12 items that are related to succession planning in the business indicates an overall mean score of 3.56. This reflects that the respondents agree to adopt succession planning in their business. On the issue of business survival, 80 percent of the respondents show their positive attitudes; however, only 10 percent of them do not have the confidence to run their business in the next five years. On the other hand, 78 percent of the respondents agree that the company needs a detailed plan for the future growth of business. Moreover, the owners of business (89 percent) feel the necessity of succession planning as an important factor of business continuity and sustainability. A majority (87 percent) of the respondents realize that the succession planning process should be considered as part of company's strategic planning process.

5.2 Quantitative Findings

Before a regression model for succession planning is carried out, an exploratory data analysis is conducted using the *Shapiro-Wilk test* (as the sample size is below than 2,000) to determine the level of normality of distribution of the dependent variables. The study found that normality is apparently assumed with the value of 0.156 which is greater than significant level of 0.05 ($0.156 > \alpha = 0.05$).

To enable the study to establish its model from a general model indicated earlier, 14 independent variables were analysed using "Enter" step technique of the SPSS and found that a total of 12 variables were dropped step by step after one another based on their values which were insignificant. The most insignificant value was dropped first and the process is complete once all 12 variables were excluded from the model. Through this process, the estimation model is eventually constructed with two independent variables having significant values as indicated below:

$$\hat{Y} = - 0.316 + 0.624SA + 0.420SD$$

Where:

\hat{Y} = Succession Planning
SA = Successor Attributes
SD = Successor Dilemma

In order to verify the relationship between the two independent variables (SA and SD) and dependent variable (succession planning) in the model, a statistical test of significant is conducted. Based on the t-test and p-value above, it shows that the regression coefficients β_1 and β_2 are significant at 5% level. This is because the p-value is less than the significant level = 0.05 (Table 2). It can be concluded that the successor attributes (SA) and the succession dilemma (SD) do influence the succession planning significantly and is significant to the model at 5 percent level of significance.

Table 2 Significant test of variables

| Variables (factor) | T | p-value |
|---------------------------|-------|---------|
| Successor Attributes (SA) | 6.607 | 0.000 |
| Succession Dilemma (SD) | 3.564 | 0.001 |

A further test is carried out to determine the correlation between two independent variables used in the model. Table 3 indicates the results of Correlation Matrix which shows highly positive relationship between the value of succession planning and the successor attributes. The successor attributes do influence the amount of succession planning with ($r = 0.571$, $p < 0.05$). Thus, higher succession planning is associated with higher succession attributes. In addition, there exists a moderately positive relationship between the value of succession planning and the succession dilemma. Data reveals that the succession dilemma do influence the amount of succession planning with ($r = 0.415$, $p < 0.05$). Thus, higher succession planning is associated with higher succession dilemmas.

Table 3 Correlation Matrix between Variables

Correlations

| | | Succession_ Planning | Successor_ Attributes | Succession_ Dilemma |
|-----------------------|---------------------|----------------------|-----------------------|---------------------|
| Succession_ Planning | Pearson Correlation | 1 | .571** | .415** |
| | Sig. (2-tailed) | . | .000 | .000 |
| | N | 126 | 126 | 126 |
| Successor_ Attributes | Pearson Correlation | .571** | 1 | .308** |
| | Sig. (2-tailed) | .000 | . | .000 |
| | N | 126 | 126 | 126 |
| Succession_ Dilemma | Pearson Correlation | .415** | .308** | 1 |
| | Sig. (2-tailed) | .000 | .000 | . |
| | N | 126 | 126 | 126 |

** . Correlation is significant at the 0.01 level (2-tailed).

The study observes that there is a relatively low value of Coefficient of Determinant (R^2). Therefore a diagnostic test is conducted to further signify the model and it is found that the value of R^2 is .389. This means that 38.9% of the total variation in succession planning is explained by the changes in those independent variables. Low R^2 signifies that there are other independent variables which could explain succession planning, nevertheless are not included in the model. As shown in Table 4, the correlation matrix reveals that there is a moderately positive relationship between both independent variables, SA and SD with ($r = 0.308$, $p < 0.05$). This finding could be one of the reasons why the R^2 is having a relatively low value.

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Table 4: Coefficient of Determination, R^2

Model Summary^b

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1 | .624 ^a | .389 | .379 | .41671 | 1.678 |

a. Predictors: (Constant), Succession_Dilemma, Successor_Attributes

b. Dependent Variable: Succession_Planning

The study also conducted the Analysis of Variance (ANOVA), to validate the whole model established for family owned businesses in Malaysia. Data reveals that regression model is significant at 5% level (Table 5). This finding implies that the independent variables can be used to represent the regression model.

Table 5: Analysis of Variance (ANOVA)

ANOVA^b

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|--------|-------------------|
| 1 | Regression | 13.600 | 2 | 6.800 | 39.158 | .000 ^a |
| | Residual | 21.359 | 123 | .174 | | |
| | Total | 34.959 | 125 | | | |

a. Predictors: (Constant), Succession_Dilemma, Successor_Attributes

b. Dependent Variable: Succession_Planning

Therefore, the linear regression model for succession planning is:

$$\hat{Y} = - 0.316 + 0.624SA + 0.420SD$$

Where:

\hat{Y} = Succession Planning

SA = Successor Attributes

SD = Succession Dilemma

Based on the study, it is found that the factors that influenced Succession Planning are successor attributes and succession dilemma. Based on the moderate value coefficient of determination ($R^2 = 0.389$), it means 38.9% of the total variation in succession planning is explained by the changes in the independent variables. It shows that the independent variables possess a moderate capability of predicting succession planning. This may not seem like a high percentage, but it is highly notable that there are many other factors that may contribute to the owner's succession planning.

6. Concluding Remarks

This research provides an empirical result of succession planning in family-owned business in the case of retailing and manufacturing businesses of East Cost Economic Region (ECER) in Malaysia. This research focuses on three succession issues in family business i.e., succession dilemma, successor attributes and succession plan. A mean score of 3.21 indicates that the SME owners agree that they faced some dilemma in succession planning. Majority of the business owners agree on family ties as an important factor for successor planning. Significant proportion of the business owners agree to adopt succession planning in their businesses with mean score of 3.56.

The correlation analysis shows that there is a positive relationship among succession planning, successor attributes and succession dilemma and there is a weak positive relationship among succession planning, number of employees, status of succession planning and year of business experiences. In the succession planning model, only successor attributes and succession dilemma do influence succession planning which indicate that both of successor attributes and succession dilemma is significant to the model at 5% level of significance. The R^2 (0.389) value is low which indicates that there are other independent variables which could explain succession planning, however are not included in the model.

On the basis of the research findings, a few propositions may be provided for future research in the area of succession planning in family-owned businesses. Firstly, future research should be carried out using different methodologies such as face-to-face interviews and focus group. Although survey provides quick, inexpensive, efficient and accurate means of assessing information; interviews and focus group offer the unique advantage of obtaining immediate feedback, as well as the opportunity to probe for clearer and more comprehensive explanation. Secondly, future studies should also include other possible items in the tested instruments which are considered to be more suitable to expand the knowledge base in the area of succession planning. For instance, future research should attempt to measure the impact of succession planning on ROI (Return on Investment). It may also include a cross-cultural study on neighboring countries to obtain interesting findings. Thirdly, with regards to research sample, the present study focuses merely on two types of business (Batik Songket and Gold) in Malaysia and such a limited sample lowers the external validity of the study and the small sample size in some way restricts generalization of the findings. Therefore, future studies should include more than two types of business and use larger sample sizes in order to increase the external validity and reliability of the research findings. Finally, while this study attempts to look into the practices and approach of succession planning in family businesses, there still remain many fruitful avenues for future research. It is expected that the findings of this research and the direction for future research would add valuable contribution to the literature of succession planning and family businesses.

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