On family businesses and finances

The MALAYSIA SME™ Biz Networking and Seminars (BNS) held recently showcased solutions in overcoming challenges in handling a family business and applying for finances from local financial providers.

By Vickneswari Gannason

Family business is the oldest most dominant form of business and we see many SMEs involved in this type of outfit.

Talking about the challenges of family business management in 21st century was Bank Rakyat School of Business and Entrepreneurship, Universiti Tun Abdul Razak academician and researcher Leilanie Mohd Nor during the MALAYSIA SME™ Biz Networking and Seminars (BNS) held on Dec 14 in Shah Alam.

Leilanie said that the voting majority is usually in the hands of the controlling family and research has shown that they typically outperform non family business in sales, profit and other growth measures.

“Two third of family business however, does not survive the second generation and 95% of the remaining does not survive the third generation,” she said.

The weaknesses she highlighted to be poor management, insufficient cash, non-alignment of incentives among family members, lack of articulated practices, procedures, lack of discipline, etc. She continued and said: “As per the saying goes the first generation makes the money, the second generation tries to keep it and the third generation loses it.”

She shared a case study of Lee Kum Kee, a successful Malaysian company that grew strength to strength despite being a family business. It is now running on its 5th generation ready to be passed on to its 6th generation. The secret of their success is manifold but one of the many practices they employ is that every member of the family is mandatorily required to meet twice a year in which once a year would be on large family retreat. Interesting to note is that wife’s of the family is not allowed to join the family business.

Thus, she said it is imperative to balance between the family and business interest and the philosophy behind the establishment of the company would direct the success or the detriment of the company. Knowledge sharing, she stressed is important and should take place as early as possible, even as early as childhood when there is a family business.

Also sharing the stage was Malayan Banking Bhd SME Banking and Community Financial Services, Head of Training and Advisory Entrepreneur Development assistant vice president Zainuddin B Zakaria. He spoke on the sources of finance available and the loan application criteria for SMEs.

“99% of businesses fail because of the lack of financial management,” he said. The imperative thing to look at when applying for financial help is to carefully plan out how much your company would need in Overdraft facility and how much for working capital. As both these facilities have different uses for and the repayment requirement differs.

“With an overdraft facility there is no repayment period. In terms of the working capital loan, it is a term loan and is usually used to purchase fixed assets, i.e. equipment, etc.” he said.

Zainuddin also advised the entrepreneurs present to ensure they get insurance coverage, highlighting the key man insurance as an example. This he said would provide more confidence for financial institution to fund the SME concern.

Speakers, amongst others were American Express International (Commercial Cards) business development manager Sandeep Kapoor, Malaysian Assurance Alliance Bhd [MAA Assurance] New Business (SME and SMI) senior manager Ben Foo and Webvisions Network Services Sdn Bhd country manager Patrick Saw.

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controlling family typically outperform non-family businesses in sales, profit, and other growth measures. Research has shown that family businesses typically outperform non-family businesses in sales, profit, and other growth measures. — Leilanie Mohd Nor