THE MODERATING ROLE OF THE STRATEGIC PLANNING ON THE IMPACT OF FAMILY MEMBER CHARACTERISTICS AND WILLINGNESS TO CHANGE TOWARDS ENTREPRENEURIAL ORIENTATION OF FAMILY BUSINESS IN KOTA KINABALU.

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ABSTRACT

Family business consists of large majority firms in most countries. In Malaysia, it is about 70% of listed companies owned by family related business. However, there is lack of research on the entrepreneurial orientation in family business. Thus, this study aims to examine the relationship of strategic planning between family member characteristics and willingness to change that will enhance the entrepreneurship orientation of the family business in Kota Kinabalu. It was found that family member characteristics do not have relationship with the entrepreneurship orientation for family business in Kota Kinabalu. Thus, strategic planning did not have any moderating on this relationship. Meanwhile, willingness to change does have relationship with the entrepreneurship orientation in family business and subsequently, strategic planning does have moderating effect in this relationship. Strategic planning does enhance willingness to change in relation towards the entrepreneurship orientation.

ABSTRAK

Kesan moderasi perancangan strategik kepada impak ciri-ciri ahli keluarga dan kesediaan untuk berubah terhadap orientrasi keusahawanan perniagaan keluarga di Kota Kinabalu.

Perniagaan keluarga terdiri daripada majoriti firma besar di kebanyakan negara. Di Malaysia, ia adalah hamper 70% daripada syarikat tersenarai yang dimiliki oleh perniagaan berkaitan keluarga. Namun begitu, terdapat kekurangan penyelidikan ke atas orientasi keusahawanan dalam perniagaan keluarga. Oleh itu, kajian ini adalah bertujuan untuk mengkaji hubungan antara perancangan strategic dengan ciri-ciri ahli keluarga dan kesediaan untuk berubah yang akan menambah orientasi keusahawanan oleh perniagaan keluarga di Kota Kinabalu. Didapati adalah ciri-ciri ahli keluarga tidak mempunyai hubungan dengan orientasi keusahawanan untuk perniagaan keluarga di Kota Kinabalu. Oleh itu, perancangan strategik tidak mempunyai sebarang moderasi di atas hubungan ini. Manakala, kesediaan untuk berubah mempunyai hubungan dengan orientasi keusahawanan dalam perniagaan keluarga dan seterusnya perancangan strategik mempunyai kesan moderasi di dalam hubungan ini. Perancangan strategik ada menambah kesediaan berubah dalam hubungan terhadap orientasi keusahawanan.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

About 70% of listed companies in Malaysia are owned by family related business (Amran and Ahmad, 2010). Family businesses contribution in fuelling economic development and growth has always been reckoned and acknowledged where owners are credited for nurturing across generations entrepreneurial talent, a sense of loyalty to business success, long term strategic commitment and corporate independence (Poutziouris, 2001). Past research has shown that family firms play a significant role in emerging and developed economies in terms of GDP growth and employment (Carraher, 2005; Carraher & Carraher, 2006). Miller and Le Breton Miller (2005) reported that multidivisional enterprises such as Michelin, Armani, WalMart, Home Depot, and IKEA were founded and are still controlled by families. Such family-owned firms continue to dominate most of the world's economies and remain as the major source of entrepreneurship amid under-researched.

Malaysia is of no exception in this regard. In Malaysia, the family-owned businesses which continue to thrive include Adabi, Ramly, Takaso Rubber, Olive and Hong Leong Group with annual sales recorded over USD 1 billion (Norlela, 2007). Most of the family businesses in Malaysia are actively involved in manufacturing, retailing and construction industries, that is 35% compared to other sectors (Azrain, 2010). Inevitably, besides business concerns and market challenges, family business faces unique challenges due to family member's involvement in the business (Zumilah, 2010).

Family business consists of large majority of firms in most countries. Their broad definition uses the criteria of family's retention of voting control over the strategic direction of a firm. In addition to retention of such control by the family, the mid-range definition includes firms with direct family involvement in day-to-day operations. In an environment of rapid change and shortened product and business model life cycles, future profit streams from existing operations are uncertain, requiring businesses to constantly seek new opportunities where family firms may benefit from adopting corporate entrepreneurship (Rauch *et al.*, 2009). The experience scale measures the breadth and depth of dedication of family members to the business through the number of individuals and generations of family members involved in the business. Family's commitment to the business and values are used for the culture scale and thus family member characteristics towards entrepreneurial adoption in an established family firm are important.

The importance of anticipating, embracing, and inducing change to entrepreneurial thinking (Miller, 1983) is reflected in our consideration of family members' willingness to change. In addition, because Miller argues that researchers need to distinguish different types of firms when examining entrepreneurial activities, the generational involvement of the family firm was included. Unfortunately, some family firms are reluctant to change (Beckhard & Dyer, 1983; Vago, 2004; Ward, 1987) because they believe it will cause conflict, be too expensive (Vago, 2004), or they are simply unwilling to let go or to modernize (Beckhard & Dyer, 1983; Handler, 1989; Stavrou, 1999). Such a fear of change by family firms has been shown to be associated with stagnation and loss of market share (Miller *et al.,* 2003). Willingness to change has been linked to innovation (Karagozoglu & Brown, 1988) and similarly, willingness to experiment supports organizational adaptation and long-term viability (Hedberg, 1981). This leads toward the study of willingness to change characteristic into family business if entrepreneurial orientation have been successfully embraced.

Apart from that, family firms need to gain competitive advantage by evaluate, acquire, shed, bundle, and leverage their resources efficiently. The interaction between family and business in these firms provides some advantages and challenges to pursuing these activities. To truly understand the strategic decision processes of family firms, it is important to incorporate the role of family beliefs and culture. Sharma and Manikutty (2003) have presented a conceptual model for understanding the interactive role of prevailing community culture and family beliefs on resource-shedding decisions in family firms. Strategic planning is expected to play an important role in a family firm's (Salvato, 2004) and this study investigate strategic planning as a facilitating process in family firms as a moderator. This study will conceptualize strategic planning as an integrative effort (Ketokivi & Castaner, 2004) that may help to align entrepreneurial activities with organizational priorities, thus enhancing the effects of willingness to change and family member characteristics.

1.2 Problem Statement

Although many studies have been conducted on entrepreneurship in Malaysia, but the study of family business is still lacking (Moha Asri *et al.,* 2011; Noor Afza *et al.,* 2009). Kellermanns and Eddleston (2004) had make a study on generational involvement, willingness to change, and the ability to recognize technological opportunities impact corporate entrepreneurship in family firms. They also examine strategic planning in family firms as a facilitating process. This study was done in United States which is an overseas study without relating other family member characteristics. Meanwhile, there is as yet no study for entrepreneur orientation for family business in Malaysia especially in Kota Kinabalu, Sabah. Various factors driving the family business can not last long. Therefore, to ensure the sustainability of the family business in Malaysia, they need to apply entrepreneurial orientation in their firm whereas the family member characteristics and willingness to change were most important drive. Thus, this study would found if family business applies these characteristics and would strategic planning enhance the entrepreneurial orientation in family business?

Meanwhile, in Universiti Malaysia Sabah, entrepreneurship courses are offered to both undergraduates and postgraduates level. With the supports and assistance from the School of Business and Economics, the faculty which is responsible for teaching the entrepreneurship courses, students in UMS has the opportunity of creating their own business with their family members as their best supporter. It is important to determine the level of entrepreneurial orientation in other to remain competitive in the markets. Accordingly, this study investigates the entrepreneurial orientation of family business and characteristics that will be associated to them.

1.3 Research Question

The empirical research in this study considers family member characteristics and willingness to change as the factors that related to entrepreneurship orientation in family business. Meanwhile, strategic planning was also associated with the level of entrepreneurial orientation in family business. Thus, the research questions for this study are as follows:

a. How do family member characteristics influence the entrepreneurial orientation in family business?

b. Is there a relationship between willingness to change and entrepreneurial orientation in family business?

c. Does strategic planning moderates the relationship between family member characteristics and willingness to change towards entrepreneurial orientation in family business?

1.4 Research Objective

Specifically, this research addresses the following objectives:

a. To investigate whether family member characteristics influence the entrepreneurial orientation in family business.

b. To investigate whether there is a relationship between willingness to change and entrepreneurial orientation in family business.

c. To study whether strategic planning moderates the relationship between family member characteristics and entrepreneurial orientation in family business.

d. To study whether strategic planning moderates the relationship between willingness to change and entrepreneurial orientation in family business.

1.5 Significance of Study

This study was designed to lead to the understanding of the entrepreneurship orientation of family business in Kota Kinabalu. One of the objectives is the examination of the acceptance of willingness to change and family member characteristics do influence in the entrepreneurial orientation in Kota Kinabalu's family businesses. According to Zellweger and Sieger (2012), entrepreneurial orientation was important for long-term success for family business but need to be dynamically adapted over time to capture the full extent of entrepreneurial behaviors. In other word, family business would need to apply entrepreneurial orientation in their business but subjected to certain conditions such as family member characteristics and their willingness to change. Strategic planning acceptance as the important tools was studied as whether it will influence the willingness to change and family member characteristics towards the application of entrepreneurial orientation in Kota Kinabalu's family businesses.

1.6 Scope of study

This study will study the scope of the characteristics of family business in Kota Kinabalu. Their family member characteristics will includes the executive's age, tenure, generations in the fire and the size of the firm executive's gender. Their willingness to change will take into consideration of acceptance towards new challenges, openness towards new things, fascinated by novel ideas and their acceptance towards changes. Meanwhile, strategic planning discussed about the strategy to achieve goals, their plan, and their objectives.

Questionnaire will be distributed by using convenience sampling and snowball sampling in order to collect quantitative data. Respondents will be comprised from the CEO or managers of family business in the surrounding area of Kota Kinabalu. The selection of CEO or managers of the family business is because of their understanding of the operation of the family business while they can identify the characteristics of the owners of the family business.

1.7 Definition of variable

1.7.1 Family Business

A family firm is one in which at least 50% of the ownership and management falls within one family – whether related by blood or marriage (Lee-Chua, 1997). "The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Chua *et al.,* 1999). Although there is some debate over the precise definition of a family business, most revolve around the kinship of family members owning and running a venture (Heck & Trent, 1999; Rogoff & Heck, 2003; Wortman, 1994). Family business or firms have several unique resources that have been referred to as the "familiness" of the firm (Sirmon & Hitt, 2003). Habbershon and Williams (1999) describe familiness as the unique bundle of resources created by the interaction of family and business. Familiness can create both advantages and disadvantages. Herein, we examine several unique resources of family businesses (e.g., familiness) and the effects of resource management, which together can lead to competitive advantage and wealth creation.

1.7.2 Strategic planning in Family Business

Strategic planning has been known to helps a firm to properly exploit its resources, thereby improving its performance (Hamel & Prahalad, 1989).Ffamily firms must be capable to manage their resources effectively and participate in strategic planning in order to successfully compete in increasingly competitive environments (Sirmon & Hitt, 2003).

1.7.3 Willingness to change

A family firm willingness to change is the culture which facilitates rapid and effective change will be conducive in the pursuit of entrepreneurial activities (Zahra *et al.*, 2004). A firm's willingness to take risks can induce change has long been associated with entrepreneurial behavior (Miller, 1983). Indeed, the fastest growing family firms have been found to pursue first-to-market and early-follower market-timing strategies (Upton *et al.,* 2001), thus suggesting the importance of flexibility and the pursuit of new ideas.

1.7.4 Family member characteristic in Family Business

In this study, family member characteristics were associated with entrepreneur activities where unique characteristics of individual family members and the nature and extent of family involvement in the firm. Then, this characteristic would determine the affect of entrepreneurial behavior at the firm level (Zahra, 2005). It was commonly known that personal characteristics of the CEO was the key factors in predicting entrepreneurial behavior since family firms tend to be overly dependent on a single decision maker (Feltham *et al.,* 2005). It was known that CEOs taht tend to remain in power much longer than the CEOs of nonfamily firms (Gersick *et al.,* 1997). Additionally, generational involvement may be one of the characteristics that will influence the entrepreneurial behavior in family firms given that family members from newer generations tend to be a driving force for change (Kepner, 1991) and innovation (Litz & Kleysen, 2001).

1.7.5 Entrepreneurial Orientation (EO) of Family Business

More literature has investigated that EO was a core concept of corporate entrepreneurship in the context of family firms (Martin & Lumpkin 2003; Nordqvist *et al.,* 2008). EO refers to the strategy-making processes and styles of firms that engage in entrepreneurial activities (Lumpkin & Dess, 2001). EO was known to have important dimensions such as autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness in the context of family businesses (Lumpkin & Dess, 1996). However, in this study, EO was measured in two most important scales which are the entrepreneurship and innovativeness adopted from Hult et al., 2003. Entrepreneurship was understood to be a function refers to the disruption in a firm caused by the creation and application of new combinations of resources. Meanwhile, innovation was the invention or adoption of something which is new or different with distinction. Lumpkin and Dess (1996,) define innovativeness as: "a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes."

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter explained specifically about the variables included in the independent, moderating and dependent. The independent variable would be the family member characteristics and willingness to change. The moderating effect would be the strategic planning and dependent variable is entrepreneurial orientation in family business in Kota Kinabalu.

2.2 Family Business

Family business has been understood to play a key role and become the backbone of a country's economic growth (Jasani, 2002; Chua *et al.*, 2003; Poza, 2004; Hemalatha, 2010). In Malaysia, more than half of the Gross Domestic Product (GDP) (Ngui, 2002) was contributed by family businesses. There are many studies showed that more than 90 percent of the businesses that exist in democratic countries are a family business (McCann *et al.*, 2001; Davis & Harveston, 2001; Voithofer & Mandl, 2004).

About family business in Malaysia showed 70 percent of businesses owned and controlled by families (Claessens *et al.*, 2000) and inherited from their own descendants (Rahman, 2006). Family business in Malaysia is still considered small (51 employees and below) and are still managed by the founder of which is focused on manufacturing activity, retail or construction (Hemalatha, 2010). Similarly, studies by Jasani (2002), revealed that the family business in Malaysia consists of 55 % of small enterprises, 35 % and 10 % of medium enterprises with large scale. Meanwhile, small and medium enterprises (SMEs), 65 percent were still managed by the founder himself, especially those involved in trade, manufacturing and retail.

Family businesses represent a dominant form of economic organization throughout the world (Beckhard & Dyer, 1983; Shanker & Astrachan, 1996). Family involvement is worthy of consideration in research on new and existing businesses only if that involvement leads to materially different behaviors and outcomes from what would occur were there no family involvement. An important contribution family firm make was by invoking system theory is to define the criteria that must be met before resources and capabilities resulting from family interactions may qualify as "familiness." Among those criteria were uniqueness, inseparability, and synergism— have not been articulated together before. Resources can also distinguish family from nonfamily firms must be unique, inseparable, and synergistic. As such, this provide a theoretical basis for explaining how family firms are different from nonfamily firms and how that difference might manifest itself in sustainable competitive advantages (Chrisman *et al.*, 2006)

Family firms have always been important to free-market economies. The names Rothschild, Medici, Ford, Thomson, Krupp, and Mitsubishi are inseparable from the sagas of economic development of today's industrial democracies. Most large US and UK businesses are controlled not by families, but by professional managers acting, however imperfectly, as fiduciaries for multitudes of public investors. In contrast, La Porta *et al.*, (1999) document that most large firms in most other countries are organized into business groups controlled by a few wealthy old families. However, the economic importance of these groups to their countries far outweighs the importance of the largest widely held firms to the US or UK. Inherited wealth might be associated with low economic growth simply because each generation is a bit less able than its predecessor and that extensive corporate control by heirs adversely affects corporate decision making. La Porta *et al.* (1999) show that family business groups dominate many economies in most markets.

Schumpeter (1942), Romer (1986), and many others argue that investment in innovation is a key determinant in the pursue of economic growth. Entrepreneurs who able to devise innovations, developed them, and raise the productivity of the whole stocks of the economy's existing capital and labor, will be bringing economic growth. When corporate control passed from a highly able entrepreneur to the next generation, the heir is likely to be less able, and the heir's heir even less able. In a widely held firm, shareholders can oust inept heirs, but in a family business group this is not possible because the family holds voting control over every firm in the group. In particular, founding family members often make themselves maintain the decision-making authority over newer generation family members (Handler, 1989; Lansberg, 1988). However, in successful family firms, the incumbent and newest generations have more communicate ideas, offer feedback, and encourage mutual learning (Handler, 1991).

2.3 The Moderating Role of Strategic Planning in Family Business

Strategic planning has been an integral part to family firm success and they must be capable in managing their resources and strategically plan for the future to succeed in today's competitive landscape (Sirmon & Hitt, 2003). The most successful family firms have been found to invest in effective management, allocate resources for business growth, develop new products and services, and encourage the participation of all employees (McCann *et al.,* 2001). Fast-growth family firms are more likely to engage in strategic planning than their slower growth counterparts (Barringer *et al.,* 1998). In the same way, strategic planning may affect the degree to which willingness to change, generational involvement, and perceived technological opportunities contribute to family firm corporate entrepreneurship.

Many more research on fast-growth family firms has suggested that family firms should adopt strategic planning in order to integrate innovation and foster new product development throughout the organization (McCann *et al.,* 2001; Upton *et al.,* 2001). Entrepreneurship is more prompted by deliberate strategic and managerial intent that reflects the willingness of management to change and experiment (Karagozoglu & Brown, 1988), and it is indeed, the most entrepreneurial firms continually strive to keep pace with change and often induce changes in their environments through strategic planning (Miles & Snow, 1978; Miller & Friesen, 1982). Therefore, in this study, the theory to be discussed is when willingness to change is accompanied by strategic planning, entrepreneurial activities are more likely to occur in family firms.

Strategic planning can give purpose to the family members working in the family firm and channel their efforts toward a greater participation in the corporate entrepreneurship process, thus heightening the positive effect of generational involvement on corporate entrepreneurship. Founders often stifle their business growth by becoming fixated on a previously successful strategy and failing to plan for the future (Ward, 1987). Founding generations often are reluctant to let the next generation join in the decision making of the business (Handler, 1989; Lansberg, 1988) and this will also affect the next generation less in applying entrepreneurial activities. Strategic planning is thus seen as an integrative device (Ketokivi & Castaner, 2004) that allows family member to better understand where the organization is heading and can reduce individual conflicts (Ketokivi & Castaner, 2004).

As a business grows with multiple generations, it is increasingly important to take part in formal strategic planning (Jaffe & Lane, 2004). For businesses to continue to grow, new strategies need to be developed for each new generation of leadership (Ward, 1987). The growth in family members and outside connections that occurs in multigeneration family firms requires more formal organization and strategic planning if the firm is to remain successful and family controlled (Jaffe & Lane, 2004). Thus, strategic planning offers the opportunity to coordinate and create cooperation among family members and in turn facilitate entrepreneurial orientation. The strategic planning process provides a framework that guides individuals in their understanding of their environment and strategic issues in current market (e.g., Burgelman, 1983; Hambrick, 1981). It has been argued that corporate entrepreneurs have to undergo sense-making processes to integrate insights and facilitate further entrepreneurial activities and learning (Zahra *et al.,* 1999).

Strategic planning is the most widespread managerial tool with which to approach strategy formulation (Rigby, 2001). It requires managers to collect data, reflect, conceptualize, model, and construct alternative future scenarios, and evaluate them through forecast to find answers to crucial questions concerning the actual and desired positioning of the company (Boyd, 1991). Strategic planning is an explicit and ongoing organizational process (Armstrong, 1982) that includes several stages in large corporations: planning guidelines, drafting a business plan, discussion with corporate, revising the business plan, setting an annual capital and operating budget, corporate planning, board approval, performance targeting, and performance appraisal (Grant, 2003)

2.4 Willingness to change

With today's global competition, shorter business cycles, and diverse workforce, willingness to change is become increasingly important to family firm success (Vago, 2004). Eventually, many firms need to make organizational changes if they are to survive the current environmental shifts and clever in taking advantage of opportunities (Bloodgood & Morrow, 2003). A family firm culture that facilitates rapid and effective change should therefore be quite conducive to the pursuit of entrepreneurial activities (Zahra *et al.,* 2004). A firm's willingness to take risks and to induce change has long been associated with entrepreneurial orientation (Miller, 1983). Indeed, the fastest growing family firms have been found to pursue first-to-market and early-follower market-timing strategies (Upton *et al.,* 2001), thus suggesting the importance of the pursuit of new ideas.

Unfortunately, some family firms are reluctant to change because they believe it will cause conflict, be too expensive, or they are simply unwilling to let go or to modernize (Beckhard & Dyer, 1983; Vago, 2004; Ward, 1987; Handler, 1989; Stavrou, 1999). Such a fear of change by family firms has been shown to be associated with stagnation and loss of market share (Miller *et al.,* 2003). It appears that family members frequently develop emotional attachment to their organization's strategic positions (Miller *et al.,* 2003). Some rigid characteristics of family member prevents the business from having the flexibility to adapt when situations change (Duncan, 1973). Indeed, businesses can have difficulties adapting to shifts in their environments when they resist change and view innovation as a threat (Miller & Friesen, 1982). These tendencies highlight the importance of an organizational culture that supports change (Karagozoglu & Brown, 1988).

Willingness to change has frequently been linked to innovation and similarly, willingness to experiment supports organizational adaptation and long-term viability (Karagozoglu & Brown, 1988; Hedberg, 1981). Accordingly, willingness to change can be an important factor that distinguishes entrepreneurial family firms from their less entrepreneurial counterparts. Specifically, family firms that demonstrate the greatest willingness to change may have the highest rate of corporate entrepreneurship. Culture of the family firm is important in willingness to change matters to corporate entrepreneurship. This underscores the importance of the family in understanding family firm entrepreneurship and success.

2.5 Family Member Characteristic in Family Business

2.5.1 Age

A study by Levesque and Minniti (2006) argued that a CEO's entrepreneurial efforts will decline over time. With CEOs grow older, their decision making might limit to commonly held norms of industry behavior, rather than seeking unique and strategic directions (Hambrick & Finkelstein, 1987). Younger entrepreneurs have been found to adjust their expectations faster in response to new information than older entrepreneurs, supporting that older entrepreneurs are more complacent than their younger counterparts (Parker, 2006). Age may be a predictor of entrepreneurial behavior in family firms since their CEOs often become preoccupied with succession issues as they age (Feltham *et al.,* 2005).

When succession grows nearer, the aging CEO may place greater importance on a smooth transition than the need to pursue entrepreneurial endeavors. Further, leaders of family firms are often motivated to build a lasting legacy for their children, they often become conservative in their decisions because of the high risk of entrepreneurial ventures (Morris, 1998) and their fear of losing family wealth (Sharma *et al.,* 1997). Therefore, these CEOs may naturally become