The Effect Of Successor Related Factors On Business Continuity On Agrobased Smes In Malaysia

Zuraina Dato’ Mansor\textsuperscript{a,}* , Dalowar Hossan\textsuperscript{b}
\textsuperscript{a,b}School of Business and Economics, University Putra Malaysia, Selangor, Malaysia
*Corresponding author: aina_m@upm.edu.my

ABSTRACT: Succession planning is part of human resource plan that is becoming a hot topic as it is very important to support the business continuity. However, many businesses failed to plan their successor well especially the small medium enterprises (SMEs) which also causing the business continuity at risk. According to past researches, small firms mostly found to be unable to sustain and often struggle to retain key employees. In this study, we focused on the successor-related factors relevant to SMEs in determining business continuity. Based on the literature review it was found that the issue received very limited attention. The study also examined the moderation effect of company’s age in the relationship between successor’s related factors and business continuity. The study has distributed 400 questionnaires to Agro related SMEs in Malaysia, and however, 113 sets of questionnaires were successfully returned. Data was analysed using SEM-AMOS and the findings showed that succession planning has positive significant effect on business sustainability while company’s age does not moderate the relationship between succession planning and business sustainability. The findings could assist managers and higher authority of SMEs to plan and recognized the impact of successors related factors in determining the business continuity.

Keywords: Business continuity, Agro-based SMEs, Malaysia, Successor related factors

INTRODUCTION

Succession Planning involves firm’s plan for its next successor. Most of the time, it occurs when the owners of the businesses wish to resign, but they wish the business to continue (Magasi, 2016). Past research in this area has studied a number of factors that influence succession process, for example Sharma (1997) and Saan, Enu-Kwesi, and Nyewie (2018), however, there is still mixed findings on which factors critically influence it (Venter, Boshoff & Maas 2005). Further, it is stated that if less emphasis is placed on the importance of grooming successors, it is not surprising for the youngsters to refuse in taking over the organization (Shamsuddin, Chan, Wahab & Kassim, 2012), it even causes the challenge for the business continuity (Magasi, 2016; Mokhber, Gi Gi, Abdul Rashid, Vakilbashi, Mohd Zamil & Seng, 2017).

Past researchers suggest successors related factors as one of the factors that need to be given attention in order to ensure an effective succession process. For example, as pointed by Sharma and Rao (2000), the level of interest of the potential successors and their willingness to commit to working for the business especially in the family related business, are important. This notion is agreed by another researcher who recommended that when the potential successor is unhappy with any members, there is unlikely that he/she will be willing to accept responsibility to continue the business due to demotivation (Venter et al., 2005).

Most of the past studies focused on successor factors and succession planning (Venter et al., 2005), and none in specific has examined between successor factors and business continuity. A study that focused on succession process or succession planning only will exhibit limited findings and will not be enough to support the need for the continuity of the business (Lucky, Minai & Isaiah, 2011; Magasi, 2016). The reviews of literature have helped identified few motivations for this study. First, past research on succession process mostly focused on the family businesses only, and they focused on the survival rates of the business (Poutziouris, 2000), and studied on the succession management (Chua et. al., 2015). Second, a study by Ghee et al. (2015), denote succession and business performance as important, but majority of earlier researches have been given attention in the Western countries, and those studies commonly addressed on the performance or success levels from different perspectives, (such as a study by Lansberg and Astarchan (1994). Third, past research also suggested that successors related factors as very important to ensure the succession process run effectively (ex.: Sharma & Srinivas Rao, 2000; Chua et. al., 2015), however, Lucky et al. (2011) emphasised that there is a need for study that examines succession and business continuity. Additionally, Venter et. al., (2005) depicted the importance to examine the relationship between potential successors individual factors and other factors such as their motivation to take over the business (Venter et al., 2005). Again, many of these literatures discussed results from a family related business. Based on these limitations, this paper aims to examine the relationship between successor related factors and
business continuity of SMEs in Agro related business in Malaysia, and add value in this succession related factor and business continuity.

LITERATURE REVIEW
Past researches denoted only few family businesses survive the succession processes, especially from second generation onwards (Morris, et. al, 1997; Handler, 1991). Thus, it is undeniable this topic is the most important concern of family business leaders (Sharma, Chrisman & Chua, 2003). There are many studies that have focused on the succession factors and have put them under some categories, such as individual factors, relational factors, financial factors and environmental factors (Chrisman, Chua, De Massis, Fratini & Wright, 2015). Some other studies examined the effective of succession planning (Ibrahim et al., 2001a; Kets de Vries, 1993) and grooming the offspring (Ibrahim, Soufani & Lam, 2001b). In this paper, the study was focused on examining the successor related factors on business continuity and also we test the moderating effect of the business age.

SUCCESSOR RELATED FACTORS IN INFLUENCING SUCCESSION PLANNING
Past research such as Levinson (1971) and Kets de Vries (1993) discovered that succession process can be challenging and complicated if there exist personal issues on the side of potential successor or the incumbent, due to some reasons such as, i) lack of the necessary skills required to operate the business, ii) lack of willingness of the successor to take over the family business, and iii) lack of preparation of the potential successors before joining the family business.

The study starts with reviewing the empirical studies from the past literatures and this includes examining several succession planning models were examined. For example, Miller, Steier and Le Breton-Miller (2003), have examined the effects of factors such as strategy, organization, government and culture on succession patterns, but their study failed to measure how intergenerational succession could lead to succession and continuity of the business. Earlier, a study by Handler (1989) has suggested a model of the leader and the successor, the sole operator and the successor; and the predecessor and the next generation. Further, Sharma and Irving (2005) have examined the relationship between successors’ affective commitment and the potential successor in taking over the business from the predecessor. Chua et. al., (2015), proposed a model on how difficulties can cause potential successors not willing to take over the business, however, all the factors were suggested for intra family succession. Prior to that, it has been suggested by Levinson (1971) and Kets de Vries (1993) that one of the main problems in the managing succession process is due to the individual factors of the potential successor such as, i) lack of the necessary skills in supporting the potential successor to continue the business, ii) lack of willingness to take the responsibility to continue the business in family business, and iii) lack of preparation before joining the family business.

Relationship between Successors Related Factors and Business Continuity
Past literatures such as Donnelley (1988) has confirmed that there is positive relationship between succession management and firm performance. A study by Motwani, Levenburg, Schwarz, and Blankson (2006) explained that succession in a family business is an explicit process of handing over the business from earlier generation to the next generation. Gephart (1978) suggested that succession is inevitable and should be both anticipated and managed for the continuity of business. Davis and Tagiuri (1989) using the stakeholder theory explained that succession in a family business entails three components, comprising a leader who hands over the leadership role, a successor who takes over the role, and a mechanism by which the transition takes place. Further a study by Sharma, Chrisman and Chua (2003), who used the theory of planned behaviour, examined antecedents such as the successor’s interest to continue the business in the family, the family’s supports, and the willingness of the successor to continue the family business in the succession planning activities. Other researchers also confirmed that there are many reasons that could enhance the willingness of potential successor to continue the business, these include the enjoyment to be part of the business, meeting personal expectation, as well as for securing their financial needs. For example, Dumas, Dupuis, Richer and St.-Cyr (1995) depicted the importance of financial opportunities as a source of motivation for successors to join business. However, Sharma (1997) disagreed as she found no evidence in the relationship between rewards from the business and the propensity of the successor to take over the business. Instead, she identified the relationship between the propensity of the successor to take over the business and the alignment of the career interests of the successor available in the business. Based on the review on these literatures, it was decided for this paper, the study is focused on individual successor related factors and its effect on the business continuity.

This study has two (2) research questions which are (a) what is the relationship between successor related factors and business continuity, and (b) does company’s age moderate the relationship between successor related factors and business continuity. Based on the research questions, we develop two (2) research objectives, that are (a) to
examine the relationship between successor related factors and business continuity, and (b) to examine the role of company’s age in moderating the relationship between successor related factors and business continuity.

The following will discuss how the paper developed its research hypotheses. In general, the younger generation or potential successor in the modern organizations, would feel that they know everything and can do many things. This is based on the notion as suggested by Ghee, et. al (2015), who stated that Successors most likely would assume that they can operate the business but may lack of confident to sustain it. Earlier, a study by Chung and Yuen (2003) denoted that even though a successor can develop their skills needed to manage their Chinese family-owned businesses, but the future growth of the business is actually at risk for many issues and concerns. This has been agreed by other studies in business transfer, which have identified the required certain elements to ensure a successful transfer. For instance, Morris, Williams and Nell (1996) pointed that the successors’ self-perception of preparation has a positive relationship with the smoothness of the succession. Handler (1991) has pointed that the ability to work together between the predecessor and the successor as being supportive for succession process. And, this can be further enhance, if the individual successor has higher willingness to continue the business (Venter et al., 2005), higher level of self-confidence (Goldberg, 1993) as well as higher level of interest (Sharma & Rao, 2000). All these literature thus suggest that the potential successors ability to take the responsibility to continue the family business can increase or decrease will depend on whether they are satisfied or dissatisfied with the family business, and moreover, it must be supported with a certain level of motivation (Le Breton-Miller, Miller & Steier, 2004; Venter et al., 2005).

Literature further stressed that for effective succession process to take place, the successor needs to accept the culture that only family members who will take the responsibility to continue the family business (Morris et al., 1996; Lee, Lim & Lim, 2003). Thus, it is important to make the potential successor feel welcome and willing to continue the business. As suggested by Venter et al. (2005) and Miller et al. (2003) if both the predecessor and the successor have a mutual understanding about the future of the family business, there will be less potential for conflict and there is a higher chance for effective succession. The quality of the relationship between the successor and other family members, such as siblings, also considered important in the succession process (Brockhaus, 2004). Based on the literatures, the following hypothesis can is formulated.

**Hypothesis 1**: Successor related factors have positive relationships with business continuity.

The business will continue when it has performance and able to survive in the market. But the sustainbility does not necessarily depend on the size or even the age of the business. Therefore, the study also aims to examine whether company’s age does matter in affecting the business continuity. According to a study by Pervan, Pervan and Ćurak (2017), they have noted that some past studies have found a positive relationship between firm size and its performance, but some found it as having a negative effect or non-existent. They also pointed the interest with regards to the firm age began to grow as there is a need based on theoretical explanation whether the age and profitability has relationship. Thus, the hypothesis is set as;

**Hypothesis 2**: Company’s age moderates the relationship between successor related factors and business continuity.

**RESEARCH METHODOLOGY**

This study utilised quantitative research methodology and cross-sectional. Two set of questionnaires were prepared and labelled with ‘Family Business’ and “Non-Family Business”. This study targeted successors who are termed as Agropreneurs, they must be involved in the Agro related SMEs in Malaysia to answer the questionnaire.

**Measurement Instruments**

**Successor related factors.** In this study, successor related factors acted as independent variable. Under successor related factors, five (5) dimensions were used. The dimensions include willingness to take over business, personal needs alignment, family harmony, preparation level of successor, and relationship between predecessor and successor. All the items are adapted from Venter et al. (2005) and Sharma (1997). Items were rephrased to suit the study and using 5-likert scale.

**Business Continuity.** Business continuity was discussed based on perceived of the succession process. The 11-items were adapted from Venter et al. (2005).

All items used 5-likert scales and rephrased from successor’s point of view to suit the study. For example, original item in Venter et al. (2005) stated “During the succession process I was mentored by someone other than my father/mother who prepared me to take over the business”, this question was then adapted to be used in non-family related business questionnaire as “During the succession process, I was mentored by someone other than the predecessor”. On top of that, some terms in the 2 set of questionnaires were changed to suit the nature of the
business. For example, in the Questionnaire Set 1 (family business), the term ‘family harmony’ was used while in the Questionnaire Set 2 (non-family related business) the term ‘family harmony’ was changed to ‘team harmony’.

Sample and Procedure
Two (2) sets of structured close-ended questionnaires were used to collect the required data. Here, successor related factors were taken as independent variables, and business continuity as the dependent variable. This study used purposive and snow ball sampling techniques, and 400 questionnaires were distributed to the targeted respondents to complete the data collection procedure. However, with approximately less than 30% response rate, only 119 filled up questionnaires successfully returned, and with 6 questionnaires had missing data, it was left with 113 respondents. From 113 respondents, 69% is successors from family business SMEs and remaining 31% is successors from non-family business. Response options ranged from (1) “strongly disagree” to (5) “strongly agree”.

The Respondents Business Profile
Respondents selected in this study were Agropreneurs who are involved with Agro related business, either at the downstream or upstream level, but the products are based on agriculture products. The owner or top management were those who responded to the questionnaire in this research. In the year of 2017, there is 907,065 establishments of total SMEs, and agricultural sector constitutes 1.1% of it which equivalent to 10,218 SMEs establishments.

RESULTS AND DISCUSSION

Results
The demographic of the respondents’ businesses are described as follows. Family business (sole proprietorship 43.8%, partnership 31.3% and corporation 25%) contributes 45% in manufacturing sectors, 36.3% in primary agriculture and 18.8% in corporation sectors (but all of them are involved in agro related business and considered as Agro entrepreneurs). Non-family business (sole proprietorship 41.7%, partnership 44.4% and corporation 13.9%) contributes 36.1% in manufacturing sectors, 30.6% in primary agriculture and 33.3% in corporation sectors. Most of the family business started their operation 20 years ago while for non-family related business mostly is has started the operation less than 10 years. Further, in terms of the number of full time employees, both type of business, majority of them have less than 10 employees.

Overall respondents for this study are 69% respondents (88.8% Malay, 8.8% Chinese, 2.5% Indian) come from family related business while another 31% (83.3% Malay, 11.1% Chinese, 5.6% others) from non-family business. Majority of the respondent’s age for both types of business are within the range of 26 to 45 years. 61% are married and 38.8% are single for family business while 44.4% and 55.6% respondents are single and married respectively for non-family business. Only 2.5% respondents who have perused their masters or above degree and 36.3% respondents have taken SPM and below for family business. On the other hand, the respondents of non-family business are more educated than the respondents who operate family business. 8.3% have taken masters or above degree, 13.9% have completed SPM and below for non-family business. 50% respondents who operated non-family business have 1-5 years of working experience prior joining this business when it is 47% for family business employee. However, around 47% of them for both kind of business have somewhere related prior knowledge about current business. All items have good reliability result of more than .80 as shown in Table 1.

<table>
<thead>
<tr>
<th>Table 1 Model fit information</th>
<th>α</th>
<th>CR</th>
<th>AVE</th>
<th>Discriminant Validity (r ≤ .90)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRF</td>
<td>0.975</td>
<td>0.977</td>
<td>0.71</td>
<td>Correlation between a pair of latent</td>
</tr>
<tr>
<td>BC</td>
<td>0.965</td>
<td>0.965</td>
<td>0.818</td>
<td>exogenous construct was less than 0.90.</td>
</tr>
</tbody>
</table>

Tables 2 depicted that the mean value of SRF (m=3.6195, SD= ±1.25094) and the mean value of BC (m=3.6450, SD=±1.20532) are in moderate level. Table 3, showed the correlation analysis of SRF (r=.681, p<0.00) have a positive relationship with BC (Business Continuity). It is also showed that there is a high-level of SRF leads to an increase in the level of BC (Business Continuity).
Table 2 Correlations

<table>
<thead>
<tr>
<th>Variables</th>
<th>SP_AVG</th>
<th>BS_AVG</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRF_AVG</td>
<td>Pearson correlation</td>
<td>1</td>
</tr>
<tr>
<td>BC_AVG</td>
<td>Pearson correlation</td>
<td>.681**</td>
</tr>
</tbody>
</table>

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

Standardized Direct Effect Using Structural Model

Table 4 indicates the direct effect of SRF and BC (Business Continuity). Overall, SRF explained 84% variance in BC (Business Continuity). \( R^2=0.51 \). Specifically, the results indicated that SRF has a significant positive effect on BS (Business Continuity). \( \beta=.713, p<0.000 \). Thus, H1 is accepted.

Table 3 Standardized Direct Effect

<table>
<thead>
<tr>
<th>Variables</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRF</td>
<td>BC</td>
<td>.713</td>
<td>.098</td>
<td>7.603***</td>
</tr>
</tbody>
</table>

In more specific, when the data between family business and non-family related business were analysed, the results is shown as in Table 5.

Table 5 Relationship between DV and BC (Family business)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.468</td>
<td>.212</td>
<td>2.207</td>
<td>.030</td>
</tr>
<tr>
<td>Willingness to take over</td>
<td>.314</td>
<td>.145</td>
<td>2.162</td>
<td>.034</td>
</tr>
<tr>
<td>Personal needs alignment</td>
<td>.111</td>
<td>.136</td>
<td>.119</td>
<td>.415</td>
</tr>
<tr>
<td>Team harmony</td>
<td>.131</td>
<td>.095</td>
<td>.153</td>
<td>.172</td>
</tr>
<tr>
<td>Preparation level of successor</td>
<td>.109</td>
<td>.085</td>
<td>.104</td>
<td>.203</td>
</tr>
<tr>
<td>Relationship between predecessor and successor</td>
<td>.210</td>
<td>.092</td>
<td>.231</td>
<td>.025</td>
</tr>
</tbody>
</table>

The findings in Table 5 depicts that for every 1-unit increase of items; willingness to take over, personal needs alignment, team harmony, preparation level of successor and relationship between predecessor and successor; the business continuity of family SMEs will increase by 0.366, 0.119, 0.153, 0.104 and 0.231 respectively. Successor’s related factors have direct effect on business continuity for non-family business. For every 1-unit increase in the Successor’s related factors, the business continuity will increase by the beta coefficient value (.885).

Table 6 Relationship between DV and BC (Non Family business)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.308</td>
<td>.344</td>
<td>.893</td>
<td>.379</td>
</tr>
<tr>
<td>Willingness to take over</td>
<td>.253</td>
<td>.175</td>
<td>1.445</td>
<td>.159</td>
</tr>
<tr>
<td>Personal needs alignment</td>
<td>.276</td>
<td>.172</td>
<td>1.606</td>
<td>.119</td>
</tr>
<tr>
<td>Team harmony</td>
<td>.224</td>
<td>.134</td>
<td>1.671</td>
<td>.105</td>
</tr>
<tr>
<td>Preparation level of successor</td>
<td>-.009</td>
<td>.133</td>
<td>-.070</td>
<td>.945</td>
</tr>
</tbody>
</table>
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| Relationship between predecessor and successor | .075 | .135 | .089 | .553 | .584 |

The findings from Table 6 show that for every 1-unit increase for items willingness to take over, personal needs alignment, team harmony, relationship between predecessor and successor; the business continuity for non-family related business will increase by 0.316, 0.288, 0.278 and 0.089 respectively. However, the result also suggests there is opposite result between the preparation level of successor and the business continuity (-0.010).

Testing Company’s Age as the Moderator
In order to test the moderating effect, we used multigroup analysis (AMOS, Version 22) in the SRF-BC link in the model. In AMOS, the first step is to test the moderation effect on the overall SRF-BC model. This effect can be identified by comparing the unconstrained model (variant-group) against measurement residuals (invariant – group). Both models should be significant and in terms of chi-square (X2) the unconstrained model must be smaller than the measurement residual model. Result has shown that for (SRF-BC), the chi-square (X2) value (196.393) of unconstrained model is smaller than measurement residual model (230.1444) but both of the models are significant. So, it can be said, there is moderation effect of company’s age on the relationship between SRF and BC.

Our result also found the difference between the chi-square (X2) values of measurement residuals and unconstrained (230.1444 - 196.393= 33.751). But this difference is not statistically significant. So, it can be said, though there is a moderation effect of company’s age on the relationship between SP and BS but this moderation effect is not statistically significant (P=.173≥ .05).

This study found a significant relationship between the successor’s related factors (SRF) and business continuity (BC) in a moderate effect. The result stressed the importance factors related to the successor that could directly influence succession such as the willingness of the successor to take over the business, the preparation level of the successor, the relationship between the predecessor and successor. The study also examined the effect personal needs alignment and family/team harmony with the business continuity of Agro related SMEs. Based on the data from 113 Agro related SMEs, the results indicated that SRF has significant positive effect on BS (Business Continuity) that is (β= .713, p<0.000) and using the correlation analysis, the results depicted that both SRF (r= .681, p<0.00) have a positive relationship with BC (Business Continuity) and also there is a high-level of SRF leads to increase the level of BC (Business Continuity). This result is similar and in line with the results found by Venter et al. (2005) and Mokhber et al. (2017).

The findings of this research present invaluable understanding that whether the company is a non-family or family business, the predecessors need to study and acknowledge the importance of the SRF and how it is going to give impact to the BC, more importantly as the test of variance suggested that SRF explained 84% variance in BC (Business Continuity).

The study also tested the moderation effect of company’s age. The finding suggested that there is a moderation effect of company’s age on the relationship between SRF and BC, however, this effect is not statistically significant (P=.173≥ .05), which mean, whether the company is a long established or newly established, it did not give any significant difference on the relationship between SRF and BC. Thus, it can be concluded as the owner of the firms put higher attention on the SRF, there is high potential for BC.

CONCLUSION
The findings are important to help SMEs understand better how they can improve their business performance and expect the business continuity by placing more emphasis on the key factors influencing succession planning. Other than putting greater attention to the preparation level of heirs, such as on education, outside training, motivation and strong self-perception of preparation, a good relationship and harmony between successor and members in the firm, willingness to take over the business, rewards and personal needs alignment also considered as important to ensure business continues to a longer time.

The results overall suggest a significant relationship between SRF and business continuity, and when tested the moderation effect of company’s age between SRF and BC, it shows no effect. So, this suggest that predecessors do not have to worry whether their business is already long established or still at the young age, but what more important in order to ensure business continuity is to properly plan the successor willingness and preparation.
In sum, the practical implication from this research that can be suggested in order to enhance the business continuity is by giving attention to the following:

a. Planning early for succession so that successor can increase the willingness to take over the business.

b. Enhancing support and involvement in the family business, spouses or team in the business, this is important to ensure there will be a good relationship between the successors and the rest of the members in the organization.

c. Involving the successor intimately in the planning activities to ensure a successful succession process, this will help to forecast the mutual understanding, low potential for conflict between predecessor and successor in the future.

d. Involving the successor early in the process will increase a commitment and will make the successor be more prepared

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