

# The Non-Financial Performance of Small and Medium Family Businesses in Malaysia

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*Abstract—This study provides information and insights of small and medium family businesses (SMFBs) in Malaysia on the aspect of self-perceived satisfaction toward the non-financial performance of said businesses. The outcomes are deduced based on 167 valid and usable responses collected through a self-administered questionnaire survey. The findings, limitations and future research on the subject are discussed.*

**Keywords— non-financial performance; Malaysia; small and medium family businesses; socioemotional wealth**

## I. INTRODUCTION

This study aims to examine the non-financial performance of small and medium family businesses (SMFBs) in Malaysia. There has been little discussion on the non-economic or non-financial goals in the family businesses literature [12, 26]. However, recent findings proved that family businesses are, in fact, motivated by non-financial aspects which inspire family owners to maintain and sustain their socio-emotional wealth (SEW) [5, 13, 14]. Nonetheless, the current empirical evidence on the SMFBs in Malaysia overall performance is still insufficient especially in the non-financial aspect since past studies emphasized mainly on the issues which matters are involved such as corporate governance and financial performance [1-3, 15-17, 19] that used secondary data or issues of succession and business performance which used cross-sectional data that only involved a small number of respondents who did not provide enough data to support the statement [18]. Therefore, more studies to be conducted on the subject are necessary to provide further understanding on this unique aspect of family businesses. This current study aims to address the gap of information on the matter by adopting the concept of socio-emotional wealth (SEW) as a representation of the non-financial aspect in the performance of existing family business. SEW considers the non-financial benefits that a family derives from the business(es) conducted by them in which, [13] defined as “the non-financial aspects of the organization that meet the family's affective needs such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty” (p. 106).

## II. LITERATURE REVIEW

Family businesses have a far-reaching impact on economies throughout the world, including Malaysia. However, till date, there is a lack of official database on Malaysian family businesses although unofficial sources indicated that nearly 70% - 80% of Malaysian firms that are family controlled [9] and they contributed more than half of Malaysia's GDP [23, 31]. As such, this study aims to study the non-financial performance of small and medium family businesses in Malaysia, as suggested by previous researches, that due to the factor of family consideration, these family businesses might be pursued to achieve the non-economic goals as well [4, 6, 7, 11, 24, 25,29]. To name a few of the non-financial goals pursued are family reputation, family sustainability, and family obligations [11]; emotional values [4]; family harmony, social status, and identity [8]; the efforts of turning the family business into a family dynasty [21]; strengthening the well-being of the family by providing employment to family members, the perpetuation of family values through the business as well as the psychological benefits of belonging, intimacy, and affection [13]; as well as control, continuity, family pride, harmony, trustful relations, family reputation, sense of belonging, and cohesion [28].

## III. METHODOLOGY

In this study, small and medium enterprises (SMEs) were taken as sample frames since there is no ready and available small and medium family businesses database in Malaysia for the study to be based on. As such, small and medium family enterprises are defined according to the following criteria: (i) manufacturing firms that have sales turnover not exceeding RM50 million or full-time employees not exceeding 200 workers; and (ii) for services and other sectors, sales turnover not exceeding RM20 million or full-time employees not exceeding 75 workers (SME Corporation Malaysia), (iii) the business owner/management perceives the business as family enterprise, and where one of the following four criteria is met: (a) at least one of the family member on managerial level (CEO/manager/executive/officer/supervisor), (b) family control at least 10% of all shares, or (c) at least two family members are employed in the family enterprise, or (d) the family is represented on the Board of Directors. In order to collect the required data, 500 self-administered questionnaire forms were

distributed in 2014 and yielded about 220 responses. After screening and analysing the questionnaire answers based on the included criteria, about 167 valid and usable responses were obtained. To analyse the data, the Partial Least Squares (PLS) - SmartPLS 2.0 software was utilised.

To measure the non-financial performance of the SMFBs, a questionnaire consisting of nine items was prepared. The questionnaire was adapted from [11]. It represents the internal or intrinsic benefits of operating a family business to the family and related to the importance of family preservation in the business. The coefficient alpha value for this questionnaire is .857. In relation to that, the respondents were asked to indicate their satisfaction to the non-financial performance of their family business by circling the number of their choice within the scale 1-5 (1 = not at all satisfied; 5 = extremely satisfied). Items included in the questionnaire are the: (1) 'Sentimental value of the firm to the family', (2) 'Maintaining the unity of the family', (3) 'Preservation of family dynasty in the business', (4) 'Fulfilment of family obligations through the operation of the business', (5) 'Contributing to the well-being of the family through the operation of the business', (6) 'Maintaining control of the firm within the family', (7) 'Happiness of family members involved in the business', (8) 'Maintaining our family values through the operation of our business', and (9) 'Maintaining our family principles through the operation of our business'.

#### IV. RESULTS

##### A. Respondents' profile

The majority of the respondents are male (60.5%); married (80.8%); college /diploma graduate (41.3%); business owner (61.1%) and own by either multifamily (31.1%) or married couple (25.7%), or one owner (25.7%) with very minority business ownership by sibling /cousin/ other. The findings suggested that the SMFBs respondents were generally satisfied with them of non-financial performances as the mean value is 3.934 out of a possible 5.0 with the highest reported score of 5.00 and has a standard deviation of .70.

#### V. FINDINGS AND DISCUSSION

The research findings suggested that SMFBs are satisfied with their non-financial performance, which is consistent with previous on Malaysian family businesses that showed the importance attributed to family in Malaysian's culture such as giving emphasis on family relationship [27], and aiming of 'dynasting', controlling, or managing the family business [20, 21]. In conclusion, the findings are also consistent with the views of other researchers that the performances of family businesses are most likely to overlap both family and business dimensions [22], and to support this, '...family businesses cannot survive without financial success. At the same time, financial success is not the only goal of most family businesses'[30].

This study adds to the body of knowledge by providing empirical evidence on the non-financial performance of SMFBs in Malaysia by adopting the concept of socioemotional wealth. Reference [10] argued that although majority of business studies use financial performance as the main success indicator of businesses and the financial bottom-line that is necessary for

sustaining viability, non-financial performance is seen to measure the success of firms and businesses with more insight to the owner's commitment or passion toward his/her firm. This argument is relevant in the family business context since non-financial success is always seen as one of the goals that they aimed to achieve.

One of the limitations of the study is that the sample is drawn from the owner-manager or the managerial level employees in small and medium family businesses, thus, future researches are seen to be able to examine the perception of different groups of employees (e.g. managerial v.s. non-managerial, employees among family members v.s. non-family employees) if they have different opinions on the non-financial performance aspect of family businesses.

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