

Strategizing family business with a Chandlerian perspective on 3Ms: a case study of London Biscuits Berhad in Malaysia

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Abstract

Purpose – This paper aims to explore and explain following a generational change, the latter generation in Chinese family firm is seen to apply different innovation strategies to thrive in a competitive environment. The Chandlerian perspective on management, marketing and manufacturing techniques (3Ms), derived from American business historian, Alfred Chandler has shown conclusively that one of a small yet established enterprises in Malaysia, London Biscuits Berhad (LBB) was able to capture a larger market by focusing on strategy and structure. This case study analytically and empirically describes the insights surrounding enterprise development among family small and medium enterprises (SMEs) in Malaysia.

Design/methodology/approach – By using the longitudinal way to compare the development of family business through time, the historical profiles that were obtained from Malaysia's companies commission house (Suruhanjaya Syarikat Malaysia) shows how organizational characteristic is often formulated by capitalizing tacit knowledge as a controlled input in the production process while promoting organization capabilities, as generations change. Secondly, findings from the interviews will show how the latter generation of this family firm innovates and adds value in product manufacturing by upgrading its quality, using resources and revitalizing the stages of business cycle.

Findings – Findings show that enterprise development is influenced by objective setting during generational change. As time goes by, the next generations have a tendency of minimizing risk and maintaining harmony in the family enterprise. The next generation starts to recruit and retain professional staff while contributing innovative ideas toward the enterprise development, in comparison to the founding generation. The findings also show that diversification activities (manufacturing), improvement in domestic and international networking (marketing) and professional management adoption (management) can clearly be seen in the development of LBB.

Practical implications – This case study traces how organizational and administrative characteristics of a firm are crucial if the enterprise is to capitalize on tacit knowledge and commercialize it through product development. It also clearly indicates that family enterprises may last several generations if the Chandlerian perspective on 3Ms is successfully transferred and practiced among family members.

Originality/value – The selected case study focuses on the Chandlerian concept, which is the contribution of organization capabilities that foster strategic competition. This is done by investigating a successful enterprise run by a prominent Chinese family in Malaysia, which has gone through generational change. This paper proves that strategizing a family enterprise through the Chandlerian concept of 3Ms can transform a small business into a large and successful multinational enterprise.

Keywords Family business, Malaysia, Strategic management, Generational change, Organization capabilities

Paper type Case study

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1. Introduction

In Malaysia, nearly 80% of Malaysian businesses are family-owned and most of them are small and medium enterprises (SMEs) with activities in trading, manufacturing and retailing contribute RM521.7bn (US\$124.98bn) of the nation's gross domestic product

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in 2018 (Ngui, 2002; Amran and Ahmad, 2010; Kheng and Minai, 2016). SMEs provide 5.7 million jobs to 70% of Malaysia's workforce (SME Annual Report 2018/2019, 2021). Approximately 25% of the SMEs in Malaysia are still managed by Chinese families in Malaysia (Zwart, 2007) and are often small (Abdullah *et al.*, 2015; Chin and Lim, 2018), except for few public listed Chinese firms (Gomez, 2012).

Eventually, majority of these family SMEs in Malaysia evolved away from traditional SMEs, as they strive to manage the longevity of the business. Some of these family SMEs will survive into second generation or even third generation by retaining a business culture like the founders (Yew, 2020). This indicates that family SMEs in Malaysia prefer to share a strong attachment to their respective cultural values. The key challenges of these SMEs are always associated with succession planning, openness innovation, talent management and retention (Nee, 2007). Nevertheless, some family SMEs in Malaysia can manage their strategic planning effectively while others are stuck with poor management and inter-generational aspirations. A study conducted by Price Waterhouse Coopers - PWC (2018) shows that less than one-third of the surveyed family SMEs have a robust and formalized succession plan by transferring the management to the next generation or by hiring professional management.

Chinese businessmen in Malaysia have a history of intra-ethnic business partnership. The business traditions exist among migrants in the colonial period with some firms diminishing halfway and some emerging professional family firms (Gomez, 2004; Nee, 2007). Gomez (2004) on the other hand states that the economic success of most family enterprises in Southeast Asian countries is caused by Chinese immigrants. Some were founded by the first generation of migrants from China and have since been handed down to the second and even third generation of family members to run professionally.

As stated in the list of the 40 richest Malaysians in 2008, 32 out of the 40 richest people is dominated by Chinese families and accounts for 80% of the top 40 (Singh, 2008). Therefore, preparing the new generation on how to handle the family business is necessary in cases where a family dreams that the legacy would live on while ensuring the firm's growth, nurturing entrepreneurial spirit in the family by devising the best business plan or knowledge transformation (Welter, 2011). While the topic of family influence in entrepreneurship has been studied by Aldrich and Cliff (2003), more research is still required to understand how knowledge transformation may impact innovation, corporate venturing and renewal of strategies, especially in countries like Malaysia.

In investigating the theory behind the entrepreneurship of multigenerational family-owned enterprise, it is pertinent to gain understanding on the connection between family, knowledge transformation, generational change and entrepreneurship (Drakopoulou Dodd *et al.*, 2013; Randerson *et al.*, 2015; Seaman, 2015). The paradigm shift toward generation plays a vital direction on the enterprise's development. In other words, the prospects of family SMEs will be threatened. Considering the claim that "a family enterprise does not survive beyond the third generation" (Lee and Li, 2009), this case study recommends that much focus should be given from the Chandlerian perspective on organization capabilities which facilitates the enterprise development of family businesses in Malaysia. The evolution from family enterprise to professional management can now be seen in firms all over the world.

1.1 Chinese family business in Malaysia

Generally, Chinese family businesses in Malaysia have three types of enterprise structures which are "old wealth," "new wealth" and "declining wealth." In simple words, old wealth describes the family-owned enterprises which were established before the introduction of the New Economic Policy (NEP). Most of them are founders who started the business with poor technological skills and tend to "have entrenched poor management and control

pyramids." However, some changes in the structure of these Chinese family businesses have been observed upon the introduction of the NEP (1971–1990). The NEP had two prongs, namely, "poverty eradication regardless of race" and "restructuring society to eliminate the identification of race with economic function." Sino-Malay alliances were soon formed where the Malays became "a silent partner" in a Chinese-owned business (Gomez, 2003; Chin and Teh, 2015).

For enterprises that can adapt to the new policy, the structure is known as new wealth. Their success was owing to the fact that these enterprises were ran by a well-educated second generation with no difficulties to create joint venture, especially between Malays in the public sector and Chinese businessman, in promoting inter-ethnic business coalitions (Chuah *et al.*, 2016). However, if an enterprise is unable to cope with the changes by adapting to the new policy, this results in "either the decline or stagnation" stage (Heng and Sieh, 2000; Helen, 2014). This unfavorable structure is called declining wealth. The deteriorating performance could be attributed to inefficiencies and slow growth resulting from lack of innovation through research and development (R&D) and professional management (Báez and Schenatto, 2017; Singh and Gaur, 2018).

Chandler (1962) substantiated his "structure follows strategy" thesis based on three focus areas – 3Ms which is management, marketing and manufacturing. This evolutionary approach is used to identify how the 3Ms developed over the changes through generations in London Biscuits Berhad (LBB). The 3Ms can be segregated into three parts. The first part refers to the manufacturing techniques on acquisition of resources such as technology upgrading and quality control. The second part refers to the management administration which was implemented to increase efficiency. The third part, the adoption of marketing strategy, aims to create growth and diversification into new market. Using tacit knowledge effectively by strategizing development for a family business with 3Ms is a research method that has not been used in Malaysia.

To gain better insight into the generational change of LBB as one of the successful Chinese family businesses in Malaysia, these specific questions have been set out:

- Q1. How has LBB substantiated innovation strategy following a structure to retain prominent presence in the food industry?
- Q2. Was the deployment of 3Ms (Management, Marketing and Manufacturing) in LBB a core factor in enterprise development during generational change?

2. Literature review

2.1 Evolution of structure follows strategy in family business

According to Chandler (1962), the multi-division form or M-Form is "a corporate federation of semi-independent product or geographic groups plus a headquarters that oversees the corporate strategy and coordinates interdependencies." However, the definition of a family business may vary internationally, and changes of family ownership may involve different characteristics that boost capabilities in specific societies (Church, 1993). Chandler states that the necessity to restructure stems from a strategic shift which is influenced by market and technological changes. The emergence and co-evolution of M-form with the development in the manufacturing industry allows the company or family firm to manage across space and time. Chandler's model is widely implemented in some European countries and Asian countries such as Japan, as the model can be used as a generalizable hypothesis to explain the worldwide development of management comprehensively (Lamoreaux *et al.*, 2008). Furthermore, it has been reported that organization capabilities that instill functional and effective competition can be promoted by taking advantage of economies of scale, owing to the nature of industry that is fast paced (Casanueva *et al.*, 2013) because of the rapid changes in the industry.

In his study, Chandler emphasized on a firm's development, as well as organizational and managerial structure. His focus was on "how and when change occurred within a firm." To further understand whether cumulative learning has been performed in an enterprise, he used the "organizational capabilities" concept (Chandler, 1990). Not only did he highlight the necessity of vertical integration in the process of production, he also stressed on the intervals when business activities diversification is needed, seeing that these aspects could influence the company's growth or decline. He summed up three fundamental keys which could contribute to a business failure if these structures do not follow strategy, namely, "manufacturing, marketing, and management (3Ms)" in *Scale and Scope: the Dynamics of Industrial Capitalism* in American big businesses (Chandler, 1990).

In his work, Chandler (1962) demonstrated that by emphasizing on the 3Ms, a small enterprise is capable of overcoming the first-movers' advantage and capture a place in an oligopoly market. 3Ms contribute to the promotion of "organization capabilities" that fosters effective, functional and strategic competition by deeply influencing and exploiting economies of scale. The 3M story also shows how a smaller firm can grow by effectively exploiting economies of scope, by improving methods of production and technological innovations carried out within the enterprise. It also brought shifts in market share, with an enlarged business in the global oligopoly.

The conversion of organizational structure in a firm from hierarchical to a flattened one allows better flow of new ideas (Davis, 1983; Dyer and Handler, 1994; Upton and Heck, 1997). The chances to become a modern industrial enterprise would be higher if some investment is made in R&D, while forming new markets and developing a new customer base (Chandler, 1996; Chandler *et al.*, 1997). A family firm must first review its strategy, then pursue a different structure. The relevance of business history is an important topic for organizations (Colli and Rose, 2003). This case study shows the transformation of a family business, from a traditional snack foods manufacturing firm that restructured into a large conglomerate firm consisting of different food companies.

2.2 Innovation of generational changes and enterprise development in family business

In family business, the processes of transferring and converting knowledge are especially challenging among multi-generation family enterprise (Letonja and Duh, 2016). A multi-generation entrepreneur is referring to individuals who are associated with a family firm and experiences the same historical events or knowledge exposure at a point in time and influences the structure of the family firm in the long run (Fletcher, 2000). In general, the first generation in a family firm tends to put family importance first, rather than business matters, while the future of the business is more inclined "to enhance the reputation and status of the business in the local community" (Tong *et al.*, 2008). However, each generation shows different characteristics, management styles and objectives setting (Okorafo, 1999). Based on their previous experience and background, new improvements and innovation can be brought to the table by each generation (Ward, 1987; Drozdow, 1998). In an organization, knowledge transformation from tacit knowledge to codified knowledge is highly connected to enterprise evolution (Polanyi, 1966; Aoki, 2001).

For one generation to learn from the other, one must know the stages of enterprise. In short, there are three stages: partnership, single owner/family business and managerial control (Gersick *et al.*, 1997). In majority of cases, the period of transition from Stage 1 to Stage 2 occurs at a fast pace, which normally happens several years after the company has been established. Meanwhile, the next transition, from Stage 2 to Stage 3, is quite time-consuming as it usually occurs after several generations (Chandler, 1962, 1977; Penrose, 1980). In the available literature, research on ownership and control patterns within the firms has been reported. However, limited studies are conducted to explore the impacts of these changes over a prolonged period. During a generational change, a family firm's

sustainability and longevity has been connected to a firm's innovation capacity which contributes to major alterations in business practices (Christensen, 1997). This is supported by Chandler *et al.* (1997) where they reported that large firms tend to innovate more than small firms. Some studies have also noted that Chinese SMEs are more efficient in certain sectors (Gomez, 2007; Tan *et al.*, 2019).

In the context of Asian business, Rawat (2020) stated that to gain better access to growth opportunities, a company should form vast networking with foreign contacts and master technological advancements. Numerous studies argued that too much reliance on local knowledge sources such as tacit knowledge may reduce the innovativeness of the firms in the long run. Firms need to establish linkages with non-local knowledge sources to maintain the inflow of new knowledge into the region (Belderbos *et al.*, 2004; Tippakoon, 2020). In different studies, capacity of innovation is seen to be affected by family involvement in knowledge transfer. During generational change, the founder is responsible to grant the highest autonomy in management to his successor (Ward, 1987, 1999, 2008; Corbetta, 1999). This can enhance the evolution of family firms in the long run (Yacob, 2012).

3. Methodology

Family business is a diverse area that may involve multiple theoretical lenses and levels of analysis, and this variety should be mirrored in ways in which case study is used (De Massis and Kotlar, 2014). Simons (2009) pointed that case studies "can document multiple perspectives, investigate contested point of views, and exhibit the influence of key actors and interactions between them." According to Yin (2016), a single case study is preferred when studying a person or a group of individuals. In an older research, Dyer *et al.* (1991) mentioned that to avoid from collecting trivial data when performing a study, it is suggested for researchers to use case-intensive methodologies. This method is reported to be helpful especially when investigating themes such as generational change which helps in gaining understanding on key elements of these businesses (Litz, 1997).

Based on the current studies on qualitative studies, single case study can offer important support in the family firms, particularly on growth strategies and evolution processes. Prior thoughtful reviews (Kontinen and Ojala, 2010; Pukall and Calabrò, 2014; Fernández and Nieto, 2014; Reuber, 2016) have made a strong case for the relevance of and need for process-based research on family firms' growth and internationalization. As this study aspires to delve into the real-life setting, experience, realities and changes between the generations of Chinese family business in Malaysia, a phenomenological research would be the most suitable method. While there have been studies of the development of firms owned by ethnic minorities in Malaysia, none have used this growth strategies and evolution as their primary perspective. This study will use the phenomenological research method to understand the connection between the family and business strategy since family members may offer rich narratives. Cope (2005) conceptualizes phenomenology as the "description of things as one experiences them, or of one's experiences of things." It is also stated that phenomenological inquiry offers a relevant opportunity to understand strategic thinking in family businesses (Gill, 2014).

Adopting a phenomenological approach to study families in business asks for a research design that allows a deep understanding of experiences. Families in business that have survived for generations do not often tell the whole world about their strategies, they often keep it to themselves (De Massis *et al.*, 2014; Gioia, 2017). Therefore, at first, openly unstructured form of interview and business reports evaluation were adopted in this present work to understand on how 3Ms can produce a big family-own firm, i.e. LBB, from the Chandlerian perspective. To offer rich insights into the dynamics between family and business over time and within the company, a comprehensive interview questions were drafted as shown in Table 1. In preparing the case study as shown in Table 1, the main information explored is based on the authors' interview between the first-generation CEO of

Table 1 Design of interviews, primary and secondary data used

<i>Interviewed person/ generation change</i>	<i>No. of interviews/time and venue</i>	<i>Primary and secondary data used</i>	<i>Innovation milestone</i>	<i>Description of the interview questions</i>
Dato Liew Kuek Hin, founder, LBB/First Generation	3 times 1. 18.9.2011, 3–5 P.M. 2. 28.11.2011, 4–6 P.M. 3. 3.12.2011, 2–4 P.M. All interviews have been conducted in London Biscuits Bernhad, Ulu Tiram, Johor, Malaysia	Primary Data <ul style="list-style-type: none"> ■ Annual Report 2006–2012 ■ In-depth interviews Secondary data <ul style="list-style-type: none"> ■ Nanyang University Alumni ■ New Straits Time ■ Sin Chew Jit Poh ■ KL Stock Exchange 	1994–2000 <ul style="list-style-type: none"> ■ From timber industry and venturing into corn snacks production ■ Setup factories to produce different kinds of biscuits and roll cakes 	<ul style="list-style-type: none"> ■ Business history ■ Structure and roles between founder, wife and his family heirs in the family business ■ The fundamental ideas of 3Ms in leading the family business ■ Transferring tacit knowledge to the next generation by upgrading skill and family involvement
Dato Liew Yew Chung Hin, Second generation CEO, LBB/ Second Generation	4 times 1. 10.2.2012, 2–4 P.M. 2. 15.3.2012, 4–6 P.M. 3. 5.4.2012, 5–7 P.M. 4. 10.5.2012, 3–5 P.M. All interviews have been conducted in London Biscuits Bernhad, Ulu Tiram, Johor, Malaysia	Second generation Primary data <ul style="list-style-type: none"> ■ Annual Report 2006–2012 ■ In-depth interviews Secondary data <ul style="list-style-type: none"> ■ The Edge ■ China Press ■ KL Stock Exchange ■ Astro and Radio FM ■ Drexel University, Philadelphia 	2001–2020 <ul style="list-style-type: none"> ■ From London Biscuits production to acquire other food related business ■ To be the largest roll cakes producer in Southeast Asia and acquired Malaysia largest egg poultry farm 	<ul style="list-style-type: none"> ■ Development history ■ Structure and roles between sibling partnership and professional staffs in the public listed family firm ■ The revolutionary approach of 3Ms in leading the public listed firm ■ Strategizing the transforming of tacit knowledge in engaging siblings and professional management by innovating skill and market venturing

LBB, Dato Liew Kuek Hin and the second-generation CEO of LBB, Dato Liew Yew Chung. Meanwhile, to record data from the participants through “conversations with a purpose” (Marshall and Rossman, 1995, p. 80), we retrieved a detailed historical information on the company which was filed with the Companies Commission of Malaysia.

The interpretive approach is deployed by using in-depth interviews, which determines how the next generation pursues organization flexibility, innovation, product upgrading and professional management in Malaysia’s food industry. In this work, annual company reports were analyzed as a mean to collect primary data. The reports contained information regarding annual return, directors list, the incorporation and details on how the company has changed over the years, particularly following a generational shift or after public policy amendments. Secondary materials from the local library and local newspaper reports and articles on the company was also gathered. Additionally, we referred to videos retrieved from *Media Prima Berhad* and *Astro* as the secondary data source to triangulate the primary data.

Next, the face-to-face interviews that lasted around 3 h per session were performed with the directors from first to second generation as they have the best grasp on the firms’ history and the management of strategy amidst generational change. In this methodology, the in-depth analysis of the case during generational change and their cross-examination are used to identify similar constructs and themes (Eisenhardt and Graebner, 2007). Summaries of measures and constructs in comparative tables help visualize differences and similarities in the single case during intergenerational evolution. Overall, this methodology is more “factual” and proves that qualitative evidence is important to convey trustworthiness and reliability. Moreover, the study design can be further strengthened by providing meaningful tables as shown in Figures 1–2 and Table 2, namely, structure and role of the firm, revolution of 3Ms and innovation strategizing approach during generational change in family firm.

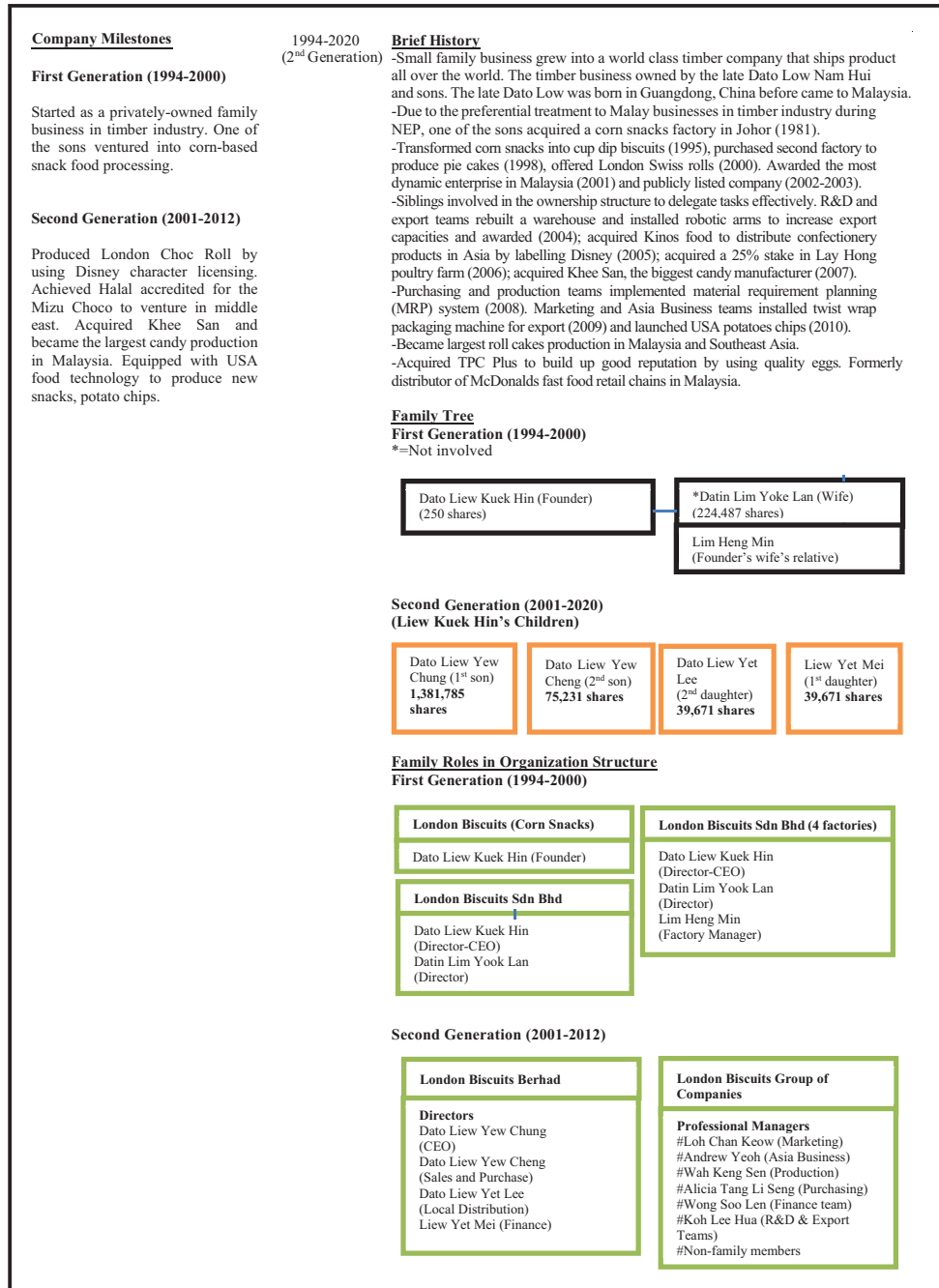
4. Findings

4.1 Reviewing the findings

According to Chandler, strategy can be defined as “the determination of the long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out those goals” (Crainer and Dearlove, 2003). He stated that after an organization has planned a strategy, an appropriate structure of organization can be formed to execute the said strategy. Changes in an organization’s goal and strategy led to new administrative problems which, in turn, required a new or refashioned structure for the successful implementation of the new strategy. The adoption of new technology or the penetration of a new market warrants a review in strategy, which in turn merits an organizational restructuring in LBB. This mode of organization restructuring, emphasized through innovation linked with supply chain management, affects organizational change and development. The growing specialization of roles within each component of the firm, such as administration, production, distribution, leads to management structures that is soon crowded with low, middle, and top managers who become more autonomous from the founder’s family as shown in Table 2.

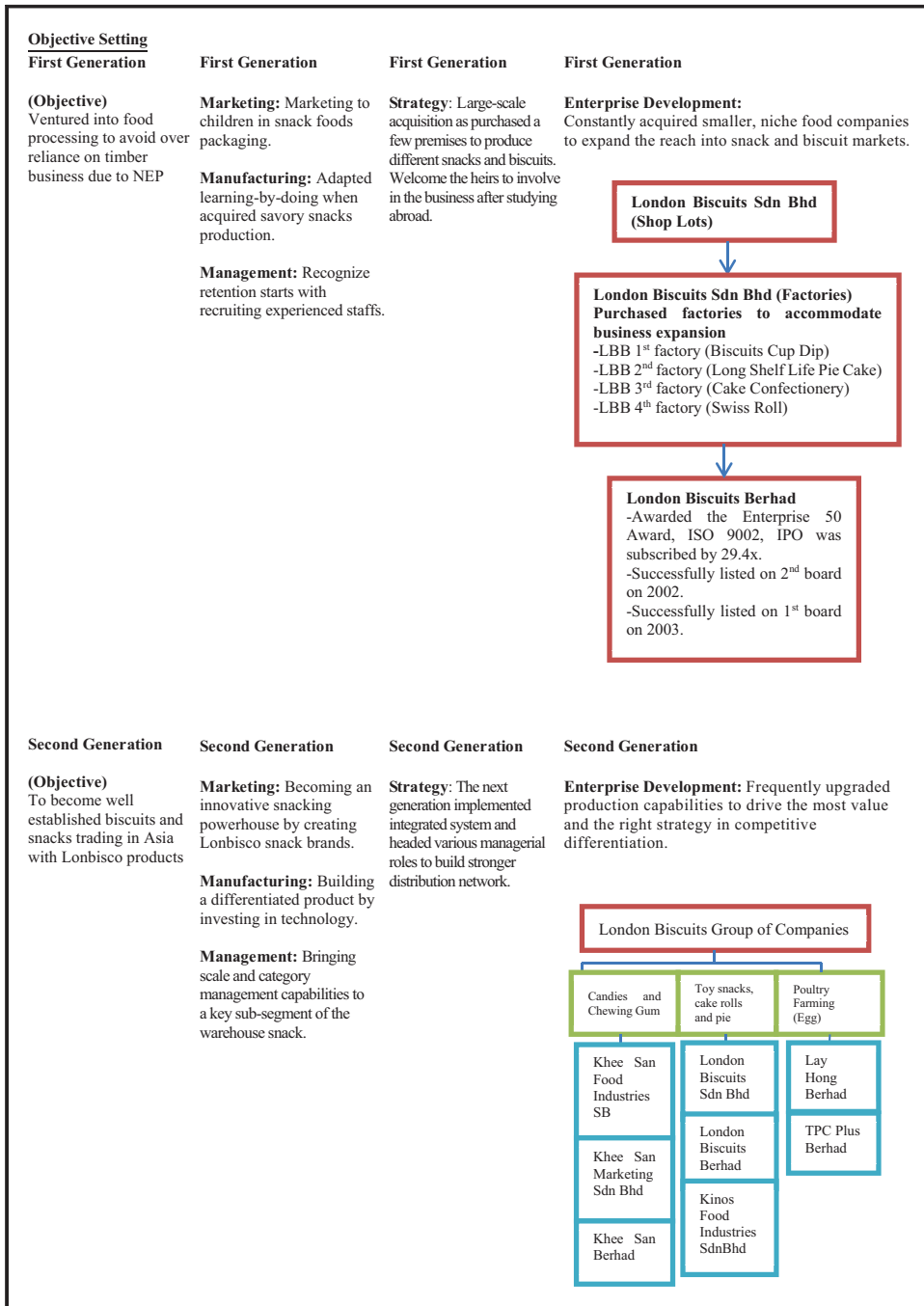
In Table 2, the paradigm shift from family capitalism to financial capitalism occurred as the development of family firms demanded more investment and financial strength where professional managers share top management decisions. In the end, the transformation from a small family enterprise to the largest confectionery snacks manufacturer in Southeast Asia is due to the distribution and allocation of resources with corresponding strategies. With the rise of modern enterprises, the transformation of food manufacturers such as LBB, triggers the birth of first movers in national and international marketplaces. The emergence of new organizational structure occurs to improve managerial coordination in developing a

Figure 1 Structure and role of LBB



corresponding administrative form by dividing their products into snack, candy, and confectionery food segments as LBB's group of companies. We can see that LBB expanded their operations by acquiring other confectionery manufacturers. One of the LBB subsidiaries is Kinoss, which is a well-known brand of snacks in Malaysia. Through this venture, LBB managed to gain new knowledge on different snacks and become the largest confectionery chain in Malaysia.

Figure 2 Revolutionary approach of 3Ms in LBB



Today, LBB exports its products worldwide, thanks to good business decisions. LBB is the living proof that any small business can be turned into a great multi-million business with the right strategies and implementations. Undeniably, planning a great strategy and devising a strong structure contributes greatly toward this success. This highlights Chandler's opinion that "new challenges give rise to new structures" as shown in Figure 2. When faced with obstacles on complexity and size, together with the advancement in management control, techniques and communication, these could result in decentralization and divisionalization

Table 2 Innovation strategizing approach in LBB

<i>Tacit knowledge transformation</i>	<i>First generation</i>	<i>First generation</i>	<i>First generation</i>
<i>First generation</i> (Valuing tacit knowledge) – Learning from traditional knowledge of timber-based forest products (Conceptualizing an idea) – Transfer of new knowledge in food processing after having acquired knowledge in savory snack foods	<i>First generation</i> Skill: Transformation of agricultural products into food after learning from timber processing. Top down: Ensuring the staff are willing to stick around in every department and always have their own forecasting system. PUI: Perceived innovation is something that is unique, differentiated, and healthier in Lonbisco products. Involvement: Hands-on in getting things moving and has a structured succession plan	<i>First generation</i> Strategy: Building the connections by applying past knowledge to new situations Evaluating new niche markets for Lonbisco products	<i>First generation</i> Enterprise development: Established multiple production lines of snack foods by acquiring other snack companies, appear more valuable and build a longer-lasting connection with its target audience
<i>Second generation</i> (Clarifying tacit knowledge) – Offered different choices of convenience snacks to be a bigger player in the market (Exploring innovations) – Rebranding Lonbisco products to remain in a crisp and flavored condition. Disney character licensing to get consumer acceptance in the export trading (Developing an enterprise) – Collaborated with foreign partners, mostly Hong Kong and China distributors to promote Asian snacks	<i>Second generation</i> Skill: Valuing local knowledge by transforming traditional corn snacks into Lonbisco products, from cakes to chips. Top down: Assigned new Chief Operational Officer (COO) to assist the family members to develop and maintain organization plan. PUI: Perceived innovation to identify brand's unique strengths and perspectives as largest roll cakes production in Southeast Asia. Involvement: Although the family members are already firmly in the board of directors, they still have the advantage of turning to the founder for help and advice	<i>Second generation</i> Strategy: Extended innovation capacity to promote Asian savory snacks, roll cakes and candies. Participated in SNACKEX exhibition to bring all stages of demand and supply chain networking with top management	<i>Second generation</i> Enterprise development: Established LBB group of companies to widen the distribution networks not only in local market, attract a large scope of consumers and target concentrated population such as China, Indonesia and middle east countries (Halal market)

in 3Ms, namely management, manufacturing and marketing. Through generational change, the same issues persist and pushes toward new structural solutions, which is the coalition of multi-company. In [Figure 2](#), the patterns observed during the transition in ownership within family firms help draw some attention to whether non-family members can develop tacit knowledge to adapt to new market demands and economic changes in food production. Generational changes in terms of working styles and educational backgrounds contribute to new interpretations of tacit knowledge and its deployment as well as the implementation of the 3Ms to foster organizational and innovation capabilities in creating highly entrepreneurial companies.

Nevertheless, successful innovation always starts with organization capabilities that recognize the usefulness of strategic change and of being innovative, as seen in [Table 2](#). Managing cross-functional teams, top-down relationships, customer relationship management, skills upgrading and talent management as well as nurturing sub-contract ties are antecedents of innovation capacity. However, most family enterprises lack the ability to nurture and catalyze innovation capacities for a brighter future. Additionally, the culture of family businesses may restrain innovative dynamics even though knowledge and

expertise are inherently present within family businesses. Innovation capacity and strategy are linked, and exploring innovation capacity is necessary for enterprise development.

As shown in [Table 2](#), innovation capacity is positively influenced when expectations among top-down relations are aligned with organizational outcomes and objectives. Additionally, a firm's innovation capacity is enhanced when LBB translates their strategies into clear business unit targets. Again, family involvement influences innovation capacity because of the characteristic of the family top-down relationships. During generational change, the founder would have given a high degree of managerial autonomy to the next generation. As the business matures, the top management formed professional teams to manage overseas businesses and higher investments in plants and machinery. For example, to fulfill customer demands, LBB and its supplementary companies worked on upgrading their facilities to enhance the production capacity since 2010. At last, LBB achieved their objective to be a largest confectionery snacks production with massive distribution channels in at least 30 countries, more than 200 single product types. There are 12 factory premises with over 600 employees under production, warehouse and office facilities.

5. Discussions

5.1 Managerial continuity with functional roles

[Chandler \(1962\)](#) described strategy as the determination of long-term goals and objectives, the adoption of courses of action and associated allocation of resources required to achieve goals. Besides, Chandler defined structure as the design of the organization through which strategy is administered. To avoid the failure of an institution, [Chandler \(1977\)](#) adopted the "administrative coordination" concept in highlighting the management professionalism. Synchronized with the embeddedness of hierarchies into an enterprise, ownership and professional control structures became separated. Therefore, in this case study of LBB, the founder has a structured succession plan to ensure managerial continuity with functional roles. Dato' Liew Kuek Hin has four children, who are all directors of the company. Dato Liew Kuek Hin is a substantial shareholder of the Company by virtue of his direct and indirect interest in shareholdings held by his immediate family-owned company. As the firm is going through succession planning, as per tradition, Dato Liew Yew Chung as founder's eldest son holds the biggest shares of 1,381,785 shares. Full autonomy is given to Dato Liew Yew Chung with the right competences to design and oversee the roles and responsibilities in LBB.

Dato Liew Kuek Hin, founder of LBB mentioned;

Instead of eyeing new markets, I think LBB is going to change its strategy, focusing and targeting different niche markets with more margins. LBB would be venturing into a more health-oriented line of snacks. Every department needs to adequately advance the coordination of professionalization to promote any new innovative ideas for differentiation and competitive advantage. Therefore, choosing the right candidate to lead LBB is important.

Over the years, Dato Liew Yew Chung recognizes that the nature of the market is changing and that the firm needs to diversify. Therefore, developing the sibling partnership in the transition process is fundamental. In 2000, Dato Liew Yew Chung was appointed as the managing director cum Chief Executive Officer (CEO). At the same time, he assigned a chief operation officer to oversee the overall organization structure of the firm to alter or instill new practices to promote innovation and enhance the products' market share. This is correlated to a review on the managerial form of evolution by Chandler in *The Visible Hand*, where a family-owned enterprise can be managed professionally when internationalized. [Chandler \(1977\)](#) claimed that modern industrial growth is influenced by its capability to improve its technology for large-scale production and wide product distribution, as opposed to depending on the company's capital and management. Dato Liew Yew Chung observed:

In LBB, we work as a family in the business. All of us were appointed on board in December, 1993. Sibling partnership tends to be more open to new markets, acquire modern machinery, hiring competent personnel or managers by promoting family participation to implement new ways of doing business. Of course, both of my sisters always make sure that LBB is within the budget. They are the accountants and auditors.

LBB demonstrates the importance of selecting the candidate who best fits and matches the needs, strategy and goals of a family firm. During the first generation, long-serving managers and technical staff have joined the board of directors, and these individuals have played an important role in the decision-making process of the company, because of their skillful knowledge in savory snacks processing. Consistent with a good managerial succession system, LBB managed change carefully, facilitating its longevity and sustainability. With the advent of the NEP in 1971, the state essentially abandoned its *laissez-faire* policy in creating a Malay commercial and industrial community. Dato Liew Kuek Hin then decided to venture into food processing rather than timber industry. He partnered with his wife, Datin Lim Yoke Lan and later passed the leadership role to his four heirs. The heirs acquired Kinoss which specializes in candy and wafer snacks making and subsequently be the major shareholder for Khee San, Lay Hong and TPC Plus, which is the largest poultry farm in Malaysia (for direct supply of fresh eggs).

5.2 Sustainable competitive advantage through acquisition

In 1994, LBB bought the sixth factory and acquired Kinoss. Twelve years later, this company managed to acquire 25% stake in Lay Hong, which is an integrated poultry farming company to produce pasteurized liquid eggs. Next, LBB continued its success by acquiring a majority stake holding in Khee San. To exploit opportunities for sustainable competitive advantage, the founder of LBB finally re-establish its market position through innovation, reinvention and adaptation. The next generation believes that the firm's product portfolio can match the customer needs more suitably if there is "a fit-to-market between an organization's form and its market structure." The "fit-to-market" connected to the "fit-to-strategy" did exhibit the necessary strategic changes in 3Ms. To expand its cake production activity, Dato Liew Kuek Hin strongly argued:

LBB is the only manufacturer using pasteurized eggs for cake manufacturing. Even though it adds some cost, we think that it is worth it to ensure quality and hygiene for our customers, both in the domestic to international market. We need to acquire companies that are related to our primary business, and crucially transfer technology that will fit into our strategy. Hence, this is done by streamlining all the processes under one roof.

Since Kinoss became a subsidiary of LBB, the production capacity utilization of the company has boosted to 48.99%, while capacity utilization of the cake line has rocketed over 50%. In 2008, LBB introduced new products, namely, London chocolate roll and milk roll cake products and bought its ninth factory. In the following year, the company launched a new line of potato chips range. The main problem and challenge faced by LBB is the current financial year ending 30 June 2011 to be another "challenging" year. LBB's net profit fell more than 80% to RM804,000 (US\$192,875.00) for third quarter ended 31 March 2011 against RM4.03m (US\$967,000) a year ago owing to the weakening in Malaysia Ringgit and rising of raw material cost.

LBB slowly targeted Teck Peng Chan (TPC) plus Berhad, Malaysia's largest poultry farm that involved in McDonald's supply chain in their growth and expansion by proposing a voluntary takeover offer to acquire all the remaining shares in TPC Plus Berhad for 30 cents per share or RM16.2m (US\$389,000). Liew's siblings always ensured food safety and freshness by using quality ingredients. The next generation then implemented an integrated system to streamline the processing. They installed twist wrap packaging machine, robotic arms and customized power stream MRP system with capabilities strategy to launch new products after the acquisition. Considering China's wide distribution of population, LBB took

advantage of this to enhance their marketing. Through foreign partnership, LBB managed to widen the distribution networks, attract a larger scope of consumers and target concentrated population. Dato Liew Yew Chung expressed:

Hong Kong and Singapore are two markets in the region with the highest potential of becoming major sales hubs. When LBB established its presence in Hong Kong in 1995, our group paid particular attention to overseeing developments. We trained the management staff to serving the dynamic Hong Kong market. To date, Hong Kong is the largest export destination for LBB, as reflected in its turnover of more than USD100 million. We use different models for different countries because not all countries have the same infrastructure.

5.3 Differentiated innovation by valuing tacit knowledge

Certain SMEs made the effort to revive a poorly performing “old enterprise” into a new one. To survive and grow even during the economic crisis, various strategies have been adopted by LBB to nurture differentiated innovation. Crafting good strategies to meet the dynamic market needs, invested in new technology and forming the strategic alliances through partnership (Suess, 2014; Hauck and Prügl, 2015) certainly make a difference in family business.

In facing a generational change, strategic planning is required to ensure sustainable firm growth. Under the management of Liew family, they acquired differentiated innovation from corn snacks processing by introducing new products, namely, chocolate-coated snack variants marketed under Lonbisco. LBB increased product visibility by participating in exhibitions in target countries such as THAIFEX (Thailand), FHA (Singapore), International Biscuits Fair (Germany), Foodex (Japan) and SNACKEX (USA). Continuing to grow the number of factories, LBB ventured into the production of cake confectionery Swiss role line with good manufacturing practice which kick-started their signature product, the London Roll. Dato Liew Kuek Hin said:

Food safety has always been an issue due to lack of knowledge about contamination and hygiene standards. When people see our logo, we want people to know that this is a brand they can trust. When they see an LBB product, it is something that is safe to eat. Good quality is the best way to ensure customer satisfaction and loyalty. All our products are certified Halal and with hazard free accreditation too.

Valuing tacit knowledge is important in creating new products in the next generation, the following generation combined both tertiary education and tacit knowledge to further improve the original product by adding values to it (Jo and Lee, 1996; Shepherd and DeTienne, 2005). To ensure an effective skill in valuing tacit knowledge converted into explicit knowledge, LBB used family legacy and professional management practices. Aiming to instill new values in management without straying away from the founder's practices, the next generation encouraged the siblings to work with the staff to dive in knowledge dissemination and omit practices which limit innovation capabilities. This allowed them to improve 3Ms, modernize technology and explore new markets in China, Hong Kong and UAE countries which enabled LBB to maintain its position as a market leader. At the same time, LBB established foreign partnership with networks who were keen to expand the current market with distribution points by focusing in R&D. Dato Liew Yew Chung pointed out:

My father always taught me that networking is working. I did study in US and found out many Asian grocery products are going through Hong Kong before getting available in US. Given the spread of the population in China, we aim to use Hong Kong as a platform to enter the mainland market. To serve as the launching pad of London Biscuits' business on the mainland, we seek partnerships with distributors in Hong Kong, particularly companies with many distribution points – ideally composed of 2,000 to 3,000 outlets. Therefore, sibling partnership is important to run our business without any culprits merely based on trustworthy built up in the family.

6. Conclusion

While previous works claimed that “family members are not actively involved in business, even for Malaysian firms” ([Gersick et al., 1997](#); [Ward, 1999](#); [Ogbonna and Harris, 2000](#); [Gomez, 2007](#)), this study demonstrated through LBB that second generation entrepreneurs with good education played vital roles in management as well as research and development. This case study research practically implies that the Chandlerian perspective of 3Ms can be adapted through varied manufacturing activities, improve networking for the purpose of marketing in both international and domestic, and in professional formal management. All in all, it is apparent that generational change in terms of objectives, 3Ms and innovation has great influences on the organization.

With this said, there are difficulties to enhance and maintain the sustainability of competitive advantage in 3Ms owing to tacit knowledge transformation, which challenges the innovation capacity during generation change. However, the key success factors are the next generation upgraded their skills frequently, stayed updated with technology, improved the production or variety of the signature products and create a trusted brand image domestically and internationally. From a practical point of view, LBB shows that tacit knowledge transferred from a founder to a next generation is important but not sufficient for advancing the knowledge innovation. It should be combined with the knowledge gained outside the family business.

To sum, this case study demonstrates that the capacity in innovation can be developed effectively when superiors are transparent with their expectations and share clear goals with their staff. Moreover, planning a foolproof strategy revolving 3Ms could increase a company’s innovative capacity. This is in accordance with previous studies which dictated that “tacit knowledge is best transformed in close interpersonal relationships with each other” ([Nonaka, 1994](#); [Turner and Makhija, 2006](#)). This case study has also clearly indicated that family enterprise may last several generations if the Chandlerian perspective on 3Ms is successfully transferred and practiced among family members.

7. Limitations and future studies

This study relates to inter-generational difference in innovative capacity among the Chinese family business in Malaysia and the implications of this on organizational structure. The findings argue that the traditional, intuitive and entrepreneurial style of the patriarch served the family business well in its early establishment and expansion. However, as the family business grew in size, complexity and global reach, the traditional style of the aging patriarchs came to be increasingly at odds with the need for innovation. The first generation had a particular tacit knowledge that allowed the firm to grow during a specific period in history. The founder was open to adopting innovation to develop tacit knowledge but the founder lacked the expertise or professional managers to develop the business. However, a revolution began when the next generation emerged. The sets of three managerial parties (family members, managing partners and directors) from within and outside the families have guided the firm toward the next level of development. These managing partners together with the directors were the driving force behind change, supporting Chandler’s view of the need for “managerial capitalism,” namely, the separation of ownership from control.

Therefore, from the perspective of enterprise development in Malaysia, these are the main reasons on why Chandler perspectives are fundamental. Nonetheless, while the present study focuses on key success factors of large-scale enterprise such as LBB, attention should be given to other varieties of capitals such as small enterprises, multinational corporations and state-owned companies by looking at key failures too. One of the limitations in Chandler’s work was on the lack of emphasis on the shop floor’s development. According to [Galambos \(2003, p. 24\)](#), “economies of scale and scope did not enable US

firms to hold their market shares when they failed to achieve innovation from the bottom up as well as the top down” (for a critique of Chandler see [Amatori and Jones, 2003](#)).

Additionally, we can see the challenge of the Chandlerian perspective as a whole, from a theoretical and empirical point of view, he did not review on the political aspects of a government or the state’s role in advocating the development of enterprise, and instead he focused on managerial forms within large companies. As a result of power struggles, matters of power shifts and power distribution could pose huge impacts for the control and ownership of family firms or conglomerates in this country. Hence, considering these issues, it is recommended for future studies to consider performing an analysis in the aspects of economic and politic within corporate sector or family firms in Malaysia.

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