

# Succession role of indigenous and non-indigenous family business in Indonesia to achieve business sustainability

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**ABSTRACT:** This study aims to conduct a deeper study of the succession stages that occur in the family business through the stage of pre-succession (introduction/initiation) and the stage of the succession process (integration and involvement in management) to see how the succession of family business is able to maintain business sustainability between two different trends of fluctuating industry. The research used a qualitative approach. The design of this study is descriptive in order to describe the phenomenon of ongoing leadership succession at the time the research was carried out and actual problems. This research does not only describe the phenomenon but also obtain the meaning and implications of the succession that occurs in the family business so as to provide an overview of the situation objectively towards the succession of family businesses to achieve business sustainability. The result gives succession stage models. The first stage of succession is initiation or introduction. The second stage is the stage of integration or apprenticeship. Third stage is joint management stage. The last is stage of retirement or resignation. Other results are 2 family business types namely Family Owned Enterprise (FOE) and Family Business Enterprise (FBE).

*Keywords:* succession, succession stage, family business.

## 1 INTRODUCTION

Family Business is the most basic business model because a large business entrepreneur can become a family business when founding partners and children join the business as shareholders and employees. Poza (2007) instead of Ye (2013) says that around 85% of family businesses fail for the first 5 (five) years of business, only 30% can be transferred to the second generation, and the situation is getting worse when the transition of the second and third or the third and fourth generation of owner takes place. One of the issues of family business failure is family overlap, management, and ownership which are considered as the main differentiators between the family business and other businesses.

There are some studies on the succession process of family businesses with an approach of comparing the succession that occurs in Chinese family businesses and family businesses in other countries such as in America, Europe and Japan. Ting (2009) in his research entitled "Succession in family Business - Difference between foreign family business and Chinese family business" comparing foreign family

businesses (America, Europe, Japan) and Chinese family business and found some of the most important visions of the Chinese family business that must form a more modern company system with separate ownership and management. Family businesses in China must include talented external employees to enter the family business so that they bring new ideas and build companies. Although Chinese family businesses are growing rapidly, there are still many problems in the family and family businesses because most Chinese family business relies on families so that they ignore employees who have the potential to enter management and are not fully able to dismiss family members who do not have the ability.

There are some studies on the challenges faced by the family business in the succession process with a case study of 6 Chinese descent families in Australia. Ye (2013) study, titled "Challenges of family Business Succession: Chinese - Australian Case Study" shows that the succession process takes place with the duality of experience in family systems and business systems where businesses are managed by family members and professionals as non-family

members. Thus, the tendency of Chinese-Australian family businesses to support family-based or business-based succession with flexible and pragmatic decision-making avoids disputes between extended families and businesses can continue to grow.

This study aims to conduct a deeper study of the succession stages that occur in the family business through the stage of pre-succession (introduction/initiation) and the stage of the succession process (integration and involvement in management) to see how the succession of family business is able to maintain business sustainability between two different trends of fluctuating industry. Not only that, this study will compare two family businesses with different cultures and ways, namely indigenous and non-indigenous that have successfully passed the succession process.

Cadieux & Lorrain (2002) instead of Ye (2013) study on the process of succession summarizes four phases, as follows (Figure. 1).

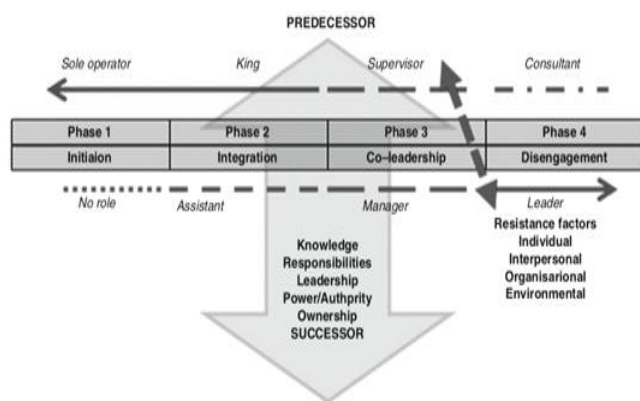


Figure 1. Process of succession.

Initiation phase, the owners or so-called the predecessors are the master and commander as they hold the highest position in the business. In the initial phase, the predecessor has the intention of 1 day ceding the business to his or her successor(s) and in this phase, there are few chances for the successor(s) to be involved in the business.

Integration phase, second phase, the successor will be integrated in the business. Moreover, the successor undergoes an apprenticeship period, where he will have the chance to gain the needed technical knowledge and managerial skills to ensure the continuity and development of the family business.

Joint-management phase, the successor officially assumes his or her title in the business, which means a progressive transfer of responsibilities, know-how, and authority from the predecessor. This phase may lead to a certain tension between the predecessor and the successor, which is followed by consequences on

the activities of the business. To avoid these tensions and conflicts, it is necessary to share tasks, duties, and competencies between the predecessor and the successor.

Disengagement phase is the last phase of the succession process. It is only completed if the predecessor has effectively retired and transferred all responsibilities, leadership, authority, and ownership to the successor.

According to Susanto (2009) instead of Ye (2013) study, there are 2 family business types namely Family Owned Enterprise (FOE) and Family Business Enterprise (FBE) as follows. First, Family Owned Enterprise (FOE) is a type of company owned by a family but managed by professional executives from outside the family environment. In FOE type of business, families play the role of owners and do not involve themselves in the operations, thus the company can be managed professionally. With this division of roles, family members as company owners can optimize themselves in the supervisory function. Second, Family Business Enterprise (FBE) is a company owned and managed by members of the founding family. Both ownership and management are held by the family.

## 2 RESEARCH METHODS

The research used a qualitative approach. The approach was chosen because of the broad stages and scope that explore various possibilities in depth about leadership succession which is the company's strategy to achieve a sustainable business.

The design of this study is descriptive in order to describe the phenomenon of ongoing leadership succession at the time the research was carried out and actual problems. This research does not only describe the phenomenon but also obtain the meaning and implications of the succession that occurs in the family business so as to provide an overview of the situation objectively towards the succession of family businesses to achieve business sustainability.

## 3 RESULTS AND DISCUSSIONS

As stated by Cadieux et al (2002) instead of Ting (2009) regarding succession stage models in two companies, the results are as follows:

### 3.1 PT BAMA

The first stage of succession is initiation or introduction. At this stage, successors do not have positions in the company. This stage is the stage where the

successors are introduced to the company by the predecessor, while the introduction stage is in the form of visiting offices and factories, meeting with internal companies (employees) and external companies (customers, suppliers, and banks), reviewing project locations, and telling predecessor experiences to successors.

The second stage is the stage of integration or apprenticeship. At this stage, the predecessor provides an opportunity for the successor to learn the ins and outs of the family business more deeply to enrich the successful experience of the business. Moreover, the successor is provided with education both academics, social, religion, and kinship which are the provision for the future to join the company.

The joint management stage officially indicates the entry of successors into the company. This stage began when the successor starts to serve as Director of Finance to fix the company whose finances are still traditional. It takes 5 years before the successor is promoted to be President Director. Moreover, there are professional people who direct the successors and translate the vision / mission of the company to successors.

The stage of retirement or resignation is the last step in the succession process. At this stage, there is a transfer of leadership, the predecessor only provides input or recommendation or suggestions for decisions made by successors.

### 3.2 PT ACI

The initiation stage at PT. ACI is almost the same with PT. BAMA, in the forms of visiting factories and offices, meeting / being introduced to third parties such as customers, suppliers and banking, the introduction stage was carried out by successors since they were young.

Integrity/internship stage PT. ACI required the successors to work in several national and multinational companies, before entering PT. ACI.

Joint management stage at PT. ACI takes place when successors learn about all company divisions such as marketing, purchasing, finance, production without holding any position. After finishing the internship process, the successor became a Production Director and then Director that makes all decisions.

The stage of retirement or resignation. Although there has been a transfer of leadership from predecessors to successors but the predecessor has not resigned from his position but is now becoming a commissioner.

According to Susanto (2009) instead of Ye (2013) study, there are 2 family business types namely Family Owned Enterprise (FOE) and Family Business Enterprise (FBE), where the two company

types have different cultures and cultures as summarized as follows: PT. BAMA: It is FBE because the company is owned and managed by its founding family members, but it is not completely FBE because some key positions such as the Finance department is managed by professionals.

PT ACI: It is FBE where ownership and management are managed by the founder's family especially for key positions like the Director of Finance that is held by close family (predecessor's nephew) because the culture of non-indigenous descendants according to Wah (2001) instead of Ting (2009) states that Chinese is influenced by traditional Chinese culture and various general characteristics in terms of business operations. Characteristic of Chinese ethnic include the existence of a system of power and autocracy, familial systems, relations (Guanxi), self-esteem and dignity (Face and Prestige), and flexibility & survival (Flexibility and Endurance).

## 4 CONCLUSION

Research concludes sustainable aspects in two companies as follows: Social Influence: A business will sustain if the company can provide wide-ranging impact on stakeholders and the surrounding environment. In fact, PT. BAMA and PT. ACI have provided CSR both for employees and the surrounding environment a corporate obligation that must be carried out.

Environmental Impact: At this stage, the business will sustain if the company is able to give a big and important impact on a business that is connected to the environment and needed for the company's decision-making process. In fact, PT. ACI has been registered as having a blue PROPER permit where the waste already has good waste management treatment, while PT. BAMA that is known as a service company has no AMDAL and UKL / UPL.

Organizational Culture: this stage is the corporate culture upheld by employees. PT. BAMA and PT. ACI mention that the corporate culture of family relations must be upheld by employees and management because the company is a family business.

Finance: Profits of PT. BAMA and PT. ACI increased during the succession process from the first generation to the second generation. Likewise, during the succession period, PT. BAMA has more business subsidiaries but still maintain its one core business.

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