

## **SUCCESSION PLANNING IN A FAMILY BUSINESS (CV. MANIKAM JAYA PLASTIK)**

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### **ABSTRACT**

*In Indonesia there are a lot of family business, whereas when we are talking about family business we won't be able to miss the word "succession" or "leadership regeneration" in one's company, which basically means the transfer of responsibility from the founder to the successor of the said company, whereas most of them are because the founder has entered the age of retirement which is no longer productive to rule the company*

*In this study observation will more focused on the succession problems of a family business, in an attempt to improve the succession planning in CV. Manikam Jaya Plastik as well as a valuable input for other family businesses. The study will be based on several underlying factors in some other family business which may cause the succession problem, and then bring the opinion of an expert to find the solution of those problems, which then can be made as a solution for the succession of CV. Manikam Jaya Plastik*

*The results of this study indicate there are needs for : open relationships between the founder and the successors, clear job description, to tell the successor in advance regarding the succession so succession can happen gradually, also there is a need to promote the interest of a successor so that he is more inclined to do succession than pursuing his own dream*

**Keywords :** Family Business, Succession Problems, Leadership

### **INTRODUCTION**

Businessmen are the core in one's country economy. Businessmen have some brilliant ideas to design something which can help/improve the life of many, gaining profit in return. To realize their ideas they need to form a business which later be named as family business

The Jakarta Consulting Group (2008) said, according to some research from Backard, Gibb Dyes, 90% of 15 million big companies in America are from family business, a third of 500 rich companies in America are family controlled. 40% GNP or 59% GDP of America are from family run business. From that, we can conclude though not large family business have been the backbone of America's economy

According to the Price Waterhouse Cooper (PwC). More than 95% of companies in Indonesia are family business. According to PwC family business is defined as a company in which the majority of the votes are in the hand of the owner or in the hand of the ones who acquired the business, e.g : wife, siblings, nephew, etc,

and there's at least 1 family member must be in the management or administrative position in that company

The problem is, succession of those family business from the owner to their next generation is not in their priority list, despite its importance. According to Family Firm Institute untuk jurnal Family Business Review (2008). Only 30% of Indonesia's family business manage to get to their 2<sup>nd</sup> generation, and 12% can get to the 3<sup>rd</sup> generation, only 3% actually managed to get to the 4<sup>th</sup> generation

There are usually problems arise in the family business such as : Determining compensation vs competency, mix emotion between family and professional attitude, structural management, reward/profit distribution

In the light of those events, researcher would like to conduct a research to further examine in one's own family business, CV Manikam Jaya Plastik, a company which involves in plastic flakes supply, whether there is already a succession planning or is it enough. By comparing with other family business we can observe what factors determine the succession planning

The main problems that need to be solved in this research is : How is the preparation of succession in a family business. Which will be later used to determine the factors influencing the succession, and further can be used as a good model for CV. Manikam Jaya to plan their succession planning

## **LITERATURE REVIEW**

A research entitled “Studi Deskriptif Persiapan Suksesi Kepemimpinan Pada Perusahaan *Freight and Forwarding*” by Hadinugroho & Mustamu (2013). The research involved a freight forwarding company whose owner trained his son to be the general manager of the company in the future. The researcher used 3 steps to measure the succession planning of the companies : pre succession, succession process, and post succession. In pre succession, there are 2 pointers to be observed : successor's motivation and education/experience level. In succession process the researcher observed more on : responsibilities, the way of thinking, decision making of the successor. Under post succession, the researcher observed the owner's hope toward the successor and comparing it with the reality. And the conclusion of the research was during pre succession the owner did not thoroughly observe the successors' qualifications. Moving on to succession process, the transition of knowledge went well, however the successor still needs to learn the importance of employee. The conclusion of this research was, the succession was going well despite being not entirely effective

The second research entitled “Analisa Suksesi Kepemimpinan Pada Perusahaan Keluarga PT. Fajar Artasari di Sidoarjo” by Halim (2013). This research was focused on the characteristics that need to be had to be a good leader, be it for the successor or the owner of the family business. Also, how the owner passed the leadership knowledge to the successor. The conclusions of the research were : 1) PT. Fajar Artasari used Democracy or Aristocracy leadership depending on the situation, 2) The leadership tends to be one way going from the owner > leader > going down to the employee, so the subordinates tend to only follow their leader/managers without much thinking, 3) Regarding leadership transfership to the successor PT. Fajar Artasari did a good job

The third research entitled “Left in the dark: Family successors' requirement profiles in the family business succession process” by Schleppehorst dan Moog (2014). The research observed the attributes required of each successor to be qualified to be the successor of the family business, according to the owners' point of view, successors' point of view, as well as general point of view. The results were : 1) soft and hard skills are both required in a successor, 2) a lot of owners still has no preparation over their successors, 3) And therefore the successors

are often left in the dark, questioning what kind of skills/contributions needed to be able to take part in that business

From all of the above researches, it can be concluded that there are a lot of factors as well as the way to determine that factors in a preparation to select a family business successor which are often neglected by the owner of the family business. In the light of that even CV. Manikam Jaya Plastik would like to know the factors determining the succession planning based on the view from the successor, owner, and an expert in the family business

## **RESEARCH METHODS**

This research was mainly focused on 2 family businesses which helped the researcher to create what obstacles/problems were mainly found in the family business successions, which were later analyzed and reviewed together with the help of an expert in a family business, and the findings could later be used to create a good succession model for CV. Manikam Jaya

Qualitative descriptive research method was used in this research. According to McMillan & Schumacher (2003) qualitative research is usually called investigative research, in which usually the researcher are trying to collect the data by directly interacting with the informants in the vicinity. Qualitative research can also be called as if the data found aren't collected from any kind of statistical results or any form of mathematical calculations (Strauss & Corbin, 2003)

To determine the informant sample, purposive sampling technique was used. According to Notoadmodjo (2010) purposive sampling is the technique to find a sample based on the predetermined characteristics

Data source is primary, in which the data are directly collected from the informant without any medium (Sugiyono, 2012)

The place and time to interview the 2 informants are during September-October 2016, in their own houses

To maintain the credibility of this research, according to Sugiono (2012) there are 6 methods that can be used. In this research 3 of them were used :

1. Triangulation
  - According to Wiersma (Sugiono, 2012), triangulation is to check the credibility of a research by cross checking the data with several different people in a different time
2. Using references
  - Using some evidences to support the credibility of the research, eg : photos, recordings
3. Improving accuracy
  - By improving the accuracy as well as the quality of the questions that were to be asked to the informants, researcher could then be more careful and selective to choose which answers are more accurate/suitable to answer the question

The research were analyzed with the aid of genogram and perception maps. Genogram is a method of analyzing the link between each family member, to determine how closely related one to each other, using genogram the researcher may gather the information about the link between each family members, more importantly between the successor and the owner of the business. Perceptual maps is a mapping system to map the strengths and weaknesses of one

person according to him/herself and according to other people related to them, and by using the perceptual maps, some info regarding the informants could be generated

## **Results**

### **Overview CV. Manikam Jaya**

A family owned business which has been going in the plastic flakes business for over 10 years and now is having a problem to find a good succession plan. 2 other family businesses were used as benchmark to identify the underlying problems which usually arise in family business

### **Overview Company 1**

Involves 2 companies which are owned by 1 owner age 55 years old, and have 2 daughters age 26 and 24. Feature of each company

1. PT. Dwilingga Manunggal Pratama

A company which offers a service to store as well as cleaning shipping containers. The prepared successor is the younger sister

2. PT. Prima Integrita Utama

A property developer company. The prepared successor is the elder sister

### **Interview conclusion for company 1**

The elder and younger sisters, both just participated in the business for less than 6 months. Its therefore their scope of work is still limited. The elder sister is handling the marketing of properties in the family run property developer company, the job description that can be handled were recruiting staffs, finding places for a marketing event. The younger sister in the other hand is handling the finance in the container storage company, she's just learning about the company's finance, following the owner to negotiate and discuss the pricings with a customer or supplier

The perceived thought of the owner according to himself is the owner thought that his weaknesses are he's aging, and as an aging generation he's not that adaptive to the surroundings technological advances as well as laws, also some connections and partners are aging as well undeniably decreasing over time. That's why he thought there's a need for succession. For the 2 daughters of his, they are perceived by the owner and themselves, that the elder sister is more of an aggressive type of business woman, meaning the moves/decisions made are fast, but sometimes too reckless and disobeying some rules/guidelines. Meanwhile the younger sister is more of a defensive type of a businesswoman, she's more afraid to do something, and there must be some clear guidelines/rules to follow in order to move, thus making the decision making slower. In this area the strength and weaknesses of both candidates are still observed to find a suitable positions for them in the business in the future

The owner introduced the elder sister to some property agents, taught her to learn to calculate the pricing of a property, the cost to build a building as a part of learning process. Meanwhile the younger sister was taught about the process of working in a container storage service company, asked her to follow the owner to various customers, as well as self learning from the existing staffs

There are monthly meetings that were occasionally held to discuss the problems in both companies, additionally within family members they often talk internally to solve the problems.

About the retirement plan, according to Widjajanto (2009), retirement can be divided into 2 meanings, one is retired due to being fired or out of job during a productive age, the other one which was used in the research is the retirement due to old age, and the body is no longer productive. In this company, the owner has no retirement plan, however he has a dream to merge all of his company into one big name and then the successors could easily monitor the activities of the company

Commitment of the successor. The elder sister loved her job in the company, and pretty determined to continue the family business. The younger sister likes the job just because she has nothing to do at the moment, but prefer other job of her dream in the future

### **Overview Company 2**

The owner owns a daily needs store which sell rice, sugars, eggs, etc. The owner has 2 sons, but only the elder brother, is currently raised to be the successor

### **Interview conclusion for company 2**

The owner thought he still needs a lot to learn to expand the market of his business, he also thought the successor is too reckless on running the business/making decision. While the successor thought of himself as an indeed a reckless person, he doesn't think for too long to make a decision. The successor perceived the owner as a person who has a vast knowledge within the industry, but the owner has a weakness of having a hard time making changes, and tend to stay in the comfort zone

The successor had been in the family business for over than 6 years ago, when he was studying in the college, helping his parent running the shop every once he had a free time. Now he has been assigned a responsibility to manage the shop's finance as well as selling to the customers

The knowledge which was transferred by the owner to the successor was how to differentiate the good over the bad qualities of rice grains, any other things the successor learn by himself over the course of 6 years. Until now he can independently work by himself, although the owner is still watching and giving advices to him.

For the most part, conflict in this company is handled internally within the family/employees, since the business is not too complex

The retirement planning of the owner was not planned. Although, he might want to still watching and observing the company run by his successor when he's already retired

The successor has his own business to run in the financial company, however the successor had a thought that its important to preserve the family business which has been going on for 2 generations before him

### **Conclusion by the expert**

By gaining some defining factors for some problems which usually arise in the 2 family businesses above. The experts have some saying of what could be done right to correct those problems :

1. Owner's character
  - They need to have an open minded thinking, to allow successors to give their opinion, instead of just following order
2. Perception of owner-successor
  - They both need to build a good images between each other. Having good relationship will definitely help toward a good succession planning
3. Job assignment
  - Job assignment to the successor needs to be specific, starting from the small part of the company, then gradually increase the workload

4. Decision Making
  - A successor needs to have their freedom to undertake small problems, and have their own decision with the guide of the owner. They need to have confidence and a chance to prove their ability to the owner
5. Knowledge transfer
  - Business or practical knowledge should be transferred gradually instead of suddenly. This allows 2 involving parties to be comfortable, and promoting good environment for learning purposes
6. Conflicts in the business
  - Conflicts in the business should be discussed and handled as soon as possible. Conflicts that can be handled by a successor can create trust from the owner as well as gaining more confidence to handle larger conflicts
7. Retirement planning
  - Many family business owners especially in eastern countries, dont plan their retirement, unlike its western counterparts. They thought that the business means a pride for themselves, thus they tend to run the business until their body can no longer work, or at least still observing the company while being run by his successor, they wont let go 100% of their control over the company
8. Successors Commitment
  - A successor commitment to continue the family business is influenced by their ambition to work outside the family business. An expert says, some people who actually work outside the family business and then choose to have commitment in the family business, tend to be more successful, then the ones who do not have any other job/experience previously outside their family business

## **RESEARCH LIMITATION**

1. This research was only done to 2 families only. To be able to generalize the result, reserach should be done to much more families/companies (sample size)
2. Experts' oppinion are only based on 1 expert only, thus some subjectivity on the information given might be found
3. This research only use some limited parameters to determine the succession' pattern. In reality there are a lot more paramters to consider to form a truly perfect succession planning patern

## **CONCLUSION**

Suggestion/advice for CV. Manikam Jaya

1. There is a need for the successor to be given small tasks first, then increase the workload as it progress
2. There is a need to have an open minded thinking between the owner-the successor
3. There is a need to increase the interest of the successor in the family business, so that the successor is more willing to do succession
4. When there is a need to do succession, succession should be done as early as possible, so the knowledge transfer can be done gradually bit by bit

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