

SUCCESSION PLANNING IN FAMILY COMPANIES

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ABSTRACT

Succession in a family owned company needs considering so that the company is able to operate properly. Problems occur if no proper transition governance within the family members is carried out. As such, guidebooks are provided in order to ensure smooth successor transition process. The study on the Guidebook uses qualitative method. In fact, a smooth transition needs to consider a personality system, a family system, a ownership system and a management system. This study uses observation and interview as tools to collect data with purposive sampling used as a sampling technique. Factors are identified in order to determine the succession of BLT in a family owned company and other companies in transition periods. This study aims at preparing the succession of BLT by providing guidelines while focusing on such aspects as personality, family, ownership and management systems. These guidelines are expected to offer the lens for companies to process smooth succession without resulting in any complications. Hence, the sustainability of the companies is guaranteed.

Keywords: Family Business, Succession, Personality System, Family System, Ownership System, Management System.

INTRODUCTION

Expedition or logistics is a vital sector in the economy not only in Indonesia but also in other countries. Logistics play an important role in the economic growth since they supply people's needs from urban to rural areas. The growth of logistics can be a good indicator for economic growth of a country.

According to the PWS Survey (2014), Indonesia's family business has contributed 25% to GDP with a total wealth reaching USD 134 trillion, and with a population climbing up to 0.2%. It is obvious that family business is a vital sector in the economic growth of developing countries. To many cases, these types of companies are the forerunner to multinational companies. Nevertheless, family owned companies have more complex problems than those of non-family. Poza (2010) has reported that in the United States 70% of the incorporated company are classified into family companies. In fact, as many as seventeen million companies are still in operation (including those with single ownership). According to Susanto (2008) one-third of the five hundred rich companies in America are owned and controlled by the families; meanwhile, 40% of GNP or 59% of the US GDP have been obtained from the family companies.

More than 95% of all business in Indonesia belongs to family business. Meanwhile, 60% in Southeast Asia listed open company are family companies whose leadership inheritance

becomes one of the main priorities of the according to PWS survey in 2014. According to Susanto et al (2008), about 3% were classified as family companies that strated to operate from 1932 to 1943. Meanwhile, there were only 2% that started operating from 1944 or 1955 to the present time. This condition must be alarming given that family companies are the foundation of the country's economic growth.

Bukit Lombok Transport (BLT) is a company engaged in land logistics using truck as transportation. The family structure of this company consists of parents and two girls and a boy. The decision making process in the company is handeld by one person after getting some suggestions from other family members. Sometimes, this person also takes decision for many company matters.

BLT is currently managed by four family members, first generation of who become the company director with two of their children become the heads of the company branched in two logistic destination in Surabaya and Bali. The two children of the first generation have the same power to make decisions both in the area of Surabaya and Bali. Nevertheles, this power sharing is likely to generate leadership dualism which potentially results in complication during the succession if not well prepared.

LITERATURE REVIEW

According to Susanto (2008), there are two types of family companies: FOE (Family Owned Enterprise) and FEB (Family Busines Enterprise).

FOE is a company owned by the family but managed by professional executives who come from outside family circles. The family acts as the owners but not involved in the operation field. The management of the company is generally run professionally.

FEB is a company owned and managed by members of the founding family. In this case, either the ownership or the management is held by the same party, the family. According Aronoff, et al. (2011), the narrow sense of succession is the transfer of ownership and leadership of the family business from one generation to the next. Meanwhile, the broader meaning of the succession is a long process of planning and managing that includes a wide scope to ensure the sustainability of the business passed through a generational change. Ownership transfer management and good leadership enable the company to to renew their strategies.

Generally, there are three succession patterns typically used in Indonesia.

- a. Planned Succession refers to succession planning that focuses on the candidate who will occupy key positions. These positions have been prepared through a scatter process with the designated criteria determined. They will later be given accelerated development program to a variety of important issues, and to enhance experience and policy thinking.
- b. Informal Planned Succession refers to succession planning which is more directed to the administration experience and given to people whose positions are below "the number one". They directly receive orders and instructions from that person.
- c. Unplanned Succession refers to the top leadership transition to his successor based on the owner's decision or personal considerations.

Demand Poza, (2010) in his book entitled "Family Business" and Aronoff, (2011) a successor should have the following characteristics in order to be successful:

- a. Knowledge of the business (Passion).

Potential successors should be introduced with various kinds of company matters from the very beginning. As they get used to holding responsibilities, they become familiar with the ins and

outs of the business. This recognition process later helps them love the work loads and companies.

b. Work experience outside the family firm.

Prospective successors are required to have work experience outside family companies. As such, they become knowledgeable and skillful and they can later use their skill and knowledge to effectively and efficiently solve the problems especially during the time they begin running family companies. In addition, both experience and knowledge are assessed for the potential successors to reorganize and develop family business.

c. Education.

Formal education is another important aspect for a successor to obtain. Such education should be in accordance with the field of business and strategies that the company has run. Non-formal education is also the necessity that helps the successors broaden their knowledge when running family business.

d. Having a willingness to lead and serve the company.

Potential successors should have willingness to lead and serve the company. These attitudes indeed affect their performance especially during the time when they lead the family company.

e. Having a good relationship and the ability to accommodate the other.

Family company is a complex company where the relationship between family members and work are often blended into one. As such, potential successors must have a good relationship with all family members so that they can accommodate the interests of the company and individual to be in line with company objectives.

According to Susanto, et al. (2008) there are three learning phase that prospective successors need to develop the followings.

a. Need Assessment Training

This training is designed to help the successors improve their skills: perform the tasks more effectively, complete jobs and prepare work in different fields.

b. Mentoring Programs

Mentoring programs can be said to be effective if they offer benefits people to run companies at the present time and in the future. With an effective mentoring approach, companies can promote career development in order to produce a successors' productivity. The following are types of mentoring programs:

a. Planned Mentoring: It occurs through a structured program, with the form of mentoring selected and adjusted through a formal process.

b. Natural Mentoring: It occurs through friendship, co-workers, coaching, and counseling.

c. Team-Based Project

In Team-Based Projects, the team members are likely to have a sense of responsibility. The sense of responsibility occurs because each member has a chance to "win" together. Coaching should not be abandoned since it provides guidance and support for the coachee to completely see their current conditions. In addition to maximizing the strength, coaching also encourages and improves communication. Moreover, it also helps coachee achieve its objectives more quickly.

There are three stages in proportion and effective succession models: pre-transition, transition phase and post-transition phase. Pre-Transition concerns personality and family system; meanwhile Transition Management and Ownerships system are important issues to discuss in addition to the Post-Transition Phase (Baur, 2014).

Here is a scheme for proportion and effective succession models:



Figure 1. Proportion and Effective Succession

Source: Journal of America Academy of Business, Cambridge 19 (2).

Each existing system has categories that need to be considered for an effective succession.

Personality System

1. **Successor Qualifications:** The successors must have educational backgrounds relevant to the business types. In addition, they also need to develop their personal capabilities.
2. **Entrepreneurial Orientation:** The successors must have orientation to entrepreneurship. Hence, they should maintain the spirit of strong determination, dare to take risks with good estimation, work quickly, take initiatives to innovate by changing the values or creating values.
3. **Willingness to take responsibility:** Successors must have a strong conviction to take responsibilities. This attitude is due to their strong motivation to get involved in the family business.
4. **Personality traits, management and leadership:** In addition to have good relationship with previous generation, good successors must have good management skills to cope with the withdrawal of skilled workers in the event of succession transition process.

Ownership System

1. **Governance and controlling authority:** Effective successors prefer owner-managed structures while being able to save the agency cost with trust to the family. Agency cost is the cost incurred by owners of the company to manage and oversee the actions of the managers so that they act according to the interests of the company (Jensen and Meckling, 1976).
2. **Transfer of capital and estate planning:** Effective successors inherit the business operations, with the exception of non-operative to improve equality in the family assets and to maintain the integrity of the family.

3. Performance and assessment; Effective successors must have a better performance and conduct than their predecessor. Hence, they are expected to have higher performance expectation than those of their predecessors.

Family System

1. Family values and culture; Effective successors are people who are able to put the business as the top priorities (Business First), and then the successor should determine what to achieve through that business.

2. Family dynamics and conflict; Effective successors admit that there are possible disputes due to differences of opinion. However, they should be able to avoid the conflict in order to keep the family unity.

3. Family trust and appreciation; Effective successors must earn the trust of all family members. It is also based on the fact they have shared the basic values with older generation.

Management System

1. Development Strategies and Business Management; Effective successors should be the ones who can make decisions. It is intended to avoid complexity in the family business. Effective successors should also be able to take the best strategies and develop the existing management within the company.

2. The purpose of the company and implementation strategies; Good successors would make some changes if necessary, especially when such amendment is likely to be effective problems solving strategies to promote company development and business objectives.

3. Leadership Transition; Effective successors own a clear map of the succession, and the leadership transition will be a very important moment for successors. Effective successors will understand that previous generations would be very hard to show their full responsibilities to their successors, despite being out of business. Hence, the successors should have alternative strategies to engage the previous generation after the leadership transition is completed.

4. Leadership style and organization culture; Effective successors seeks to realize the business as an attractive workplace. The leadership should be built according to the needs of the company so that they can develop into bigger companies.

RESEARCH METHODS

The method used in this research is quantitative method. Using quantitative method, the reserchers intend to portray what happens to a family company BLT, especially during the succession planning. The population of this study includes a family company running road transport business. The samples of the present study are family company leaders, and the leaders of the second generation in the family companies with similar business fields (the second generation that has become the successors to the family companies). Key informants are determined by means of purposive sampling method. Depth interview and observation are data collection techniques in this study. Data analysis techniques are conducted as follows: conducting data collection, coding, data presentation, and conclusion. Triangulation method is used for checking data validity.

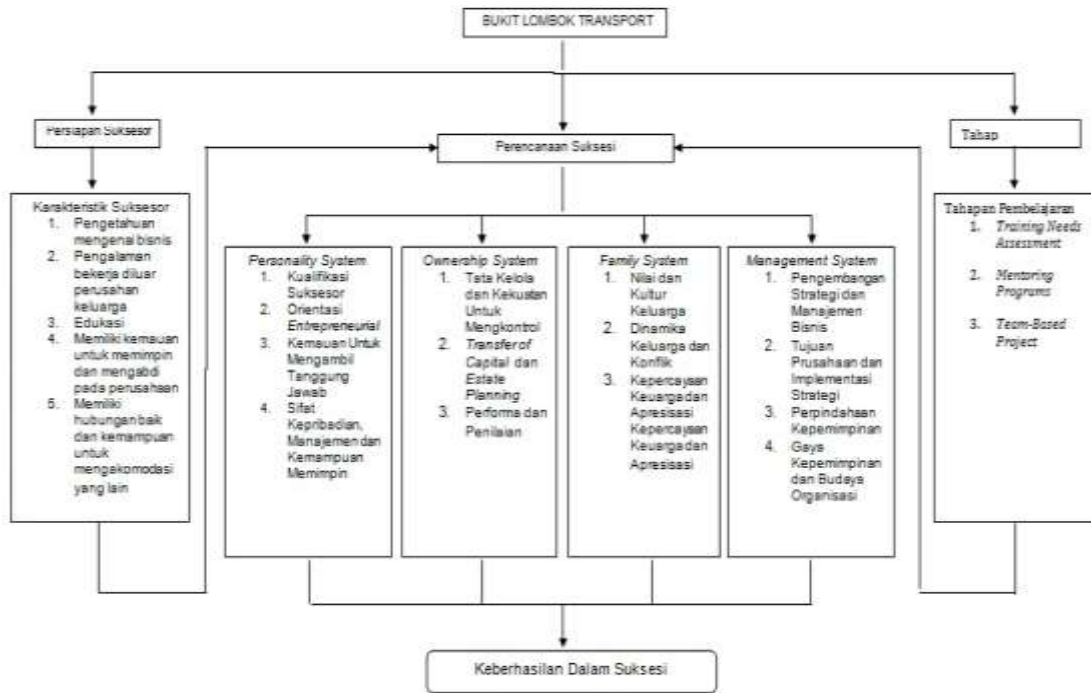


Figure 2. Analytical Model

Source: Baur (2014); Aronoff, et al. (2011); Susanto, et al. (2008) Prepared By Author

FINDINGS

Knowledge about Business: Knowledge about business affects the ability of the successor as to identify the problems in the family companies. Such ability not only encourages them to be interested in his family's company but also foster their business based thoughts. Mindset of the business is very important for prospective successor to take the right decisions in running the business.

Work Experience Outside Family Company: That first generation has willingness to teach the successor is one of the most important things. Information pertaining to the development programs can be easily accessed because we live in the era of globalization. The successors' experience can be assets for them to improve the performance of family companies. It should be noted that the successors have to be able to sort their experience and knowledge relevant to companies. They have to select which to have positive impacts on the companies.

Education: Potential successors are suggested to continue their education to S2. Nevertheless, their subjects should be in accordance with the needs of the family business such as management and marketing

Having willingness to lead and serve at the companies: It is important that the first generation teach this attitude to the successors.

In terms of having the will to lead and serve the company will be owned by any successor when nurtured early on by the first generation. With a growing willingness to lead in a way to be involved early in a family company will produce a successor who love to own the company so that the successor will have the will to lead and serve the family company which will be

inherited. In the process of engaging a successor as early as possible on what companies need to be instilled sense of family for a successor

Integration and sustainability of family life

Having a Good Relationship and Ability to Accommodate Others: Successors should be able to avoid complexity in the family companies. By being honest, successors earn the trust of the family members so that there will be good relationships between the family and them. Successor must understand how to differentiate their own business and family's so that stability and company good atmosphere can be achieved. In short, they must be able to accommodate the interests of the family.

1. Personality System:

Education is one of the most important qualifications for choosing reliable successors. They are required to pursue education whose department is suitable with the needs of the company. In terms of business orientation, the successors should have renewal orientation, development, and a great awareness that family members rely on the companies. The successors must not be greedy and they also must have a good relationship with the family and employees. Moreover, they never give up, be persistent, patient, assertive, and flexible.

Successor should get involved in the family company from the very beginning. Hence, they are able to know the family well, and growing love for the company. The successors themselves must take the responsibility to develop and improve the companies by making good decisions. They successors who dare to take responsibilities earn the trust and respect from the workers. Successor should be someone who knows about all the ins and outs in the family company so that they are capable of managing the company matters appropriately.

2. The Ownership System;

Having FOE (Family Owned Enterprise) structure as to build a professional company management, the successors are likely to have time to develop a company or build a new business. While using professional power companies would have issued agency cost, the presence of professionals is intended to build better companies in a more transparent and better ways.

The first generation splits up the assets. Nevertheless, all assets related to the companies must be named under company. Company share distribution is given to second generation who has been running the company. For that reason, they deserve to have bigger shares. The successors are expected to have better performance than their predecessor. To do so, it is worth considering both internal and external factors. The internal factor has something to do with successors' own traits; meanwhile, the external factors are related to environment surrounding the successor. In addition to these factors, the successors themselves must have the courage to innovate and make improvements to the company's family so that they can exceed the performance of the predecessor.

3. The Family System;

Good successors should be able to maintain favorable working environment. This environment should not be mixed with all family affairs for the sake of the company's performance. On the other side, the whole family must unite their commitment regarding kind of family business. Family commitments had to be a voice in determining the direction of development and the

purpose of the family company. Professionalism itself must be inculcated in the family company not only on the successor but all members of the family.

The successors must have a commitment about showing transparency when running the family company. It is intended to reduce possible problems in the family company. To gain the trust from the family, the successors have to prove the quality of their work while paying attention to their traits and behavior. The successors must establish good communications with all family members and workers so that they can know what the family and employees expect them to do. The concept of professionalism in the company will help the successors to manage the company well.

4. In the Management System;

Successor must be placed into an absolute decision maker in the family company, so it will reduce the complexity of the family company. What if the decision was fatal successor themselves should ask the opinion of the other family members. On the other hand his own successor has pendirian more than generasi first, expected successor is able to establish a management system that is better than the one built by the first generation. Successor should be aware of vision and mission. Both vision and mission will assist the successor to determine steps and goals.

In a family company traditionally managed many aspects to be able to be improved successor especially the cost savings that can be done with the addition of IT. The transfer of power in the election of a successor to the absolute right of the first generation and should be respected by all members of the family and kariawan. The process of leadership transition should be carried out gradually for the sake of stability of the company. Leadership transition would be good for the family and the company if the first generation of picking the right people and do the transfer of power at the right time. In a business environment successor also expected to build a safe and comfortable environment for all kariawannya. Own successor should be one who is able to accommodate the entire family and all of its employees. Good communication skills are also required by successor to be able to build a comfortable working environment for the family company.

5. In the Learning Phase;

Successors should receive natural mentoring that first generation often neglect. Structured learning is the necessity for the prospective successors to handle a family enterprise in the future.

CONCLUSION

The preparation for succession must be properly planned and discussed as early as possible with the rest of the family members. Lack of awareness of the first generation could backfire for the family company because many aspects need to be noticed in the leadership transition from first generation to second generation and so on. Successors' qualification is very important especially related to education and their personality traits, the aspects of which serve important consideration for decision making for potential successors to the family company. Besides that, successors must be familiar with family company as well. The company assets also need to be considered in the preparation of succession so that they will no longer become problems later. Potential successor should be able to build and maintain a good working environments, in

addition to instill the concept of professionalism. This can be done by establishing good communication with family members and the workers in the company. Potential successors must have a vision and mission to develop a family company so that family companies do not stagnate. Natural Mentoring is also necessary to do by learning from first-generation's experience or friends. In addition, potential successor should equip themselves with training and skills development in order to excel their soft and hard skills in systematic ways (planned mentoring)

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