

ANALYSIS THE INFLUENCE OF TRUST ON SUCCESSION PLANNING (STUDY AT SONOKEMBANG GROUP)

¹Amanda Syafrida Paramita, ²Christina Whidya Utami*

Ciputra University
INDONESIA

Email: starmandy82@gmail.com

ABSTRACT

Phenomenon that is often encountered in family business is the fewer number of family business that can sustain until the third or fourth generation. In order to survive and develop, succession planning is necessity. The trust from predecessor generation is one of the supporting factors in succession planning. The purpose of this study is knowing and analyze the main dimensions of trust which are competence, integrity, and benevolence against succession planning. Research subjects were consumers, employees and family of Sonokembang. This quantitative research is using questionnaire with Likert scale. Sampling method by proportionate random sampling and processing data using Structural Equation Modeling Partial Least Square (SEM-PLS). This study found that competence, integrity and benevolence have significant effect on trust, trust has significant effect on succession planning, and competence, integrity and benevolence have significant effect to succession planning.

Keywords: Family enterprise, succession planning, trust, competence, integrity, benevolence

INTRODUCTION

From a family business survey conducted by PWC in 2014 found that more than 95% of businesses in Indonesia are family owned and in Southeast Asia 60% of public companies are family businesses. However, many family businesses are difficult to pass through three generations. Referring to research conducted by the Family Firm Institute for The Family Business Review (Hall, 2008), it is known that only 30% of all family-owned enterprise survived at the transition period between generations in the second generation, while only 12% survive in third generations and only 3% are capable of developing until the fourth generation.

The planning and implementation of succession is one thing to maintain the existence of a family company and continue to develop in a better direction (Noraini & Ahmad Najmi, 2009). Succession is a crucial issue in maintaining the sustainability of the family business. A survey conducted by The Jakarta Consulting Group states only 67.8% companies that have prepared the next generation with succession planning (Susanto, 2007). This survey shows that there are still many companies that have not or have not done succession planning.

Succession planning is a very complicated and often makes the founder or predecessor generation does not want to do so. This reluctance may be due to concerns about the death of the company, to give up control of the company, the fear of loss of self-identity, or even jealousy or rivalry toward its successors. Another reason not to be prepared for succession is that the founder feels that the younger generation is not interested in participating in the

company, or it is difficult to determine which child is competent enough to continue the business. What often happens is that despite officially declaring retirement from the company, in fact the senior generation is interfering in the business activities. Meanwhile, the child feels burden of advancing the company as his parents or the burden of uniting family members in the event of internal conflict. In addition of burden, the feeling of less appreciate from senior is also one of the obstacles in succession planning.

Sonokembang Group is a family enterprise legalized since 1987. Its business unit is 4 (four) catering business units located in Surabaya, Malang, Semarang and Jakarta and 1 (one) wedding decoration business unit in Surabaya. Currently its ownership and leadership have reached the second generation and some of the third generation family members have started joining at entry level and managerial in the catering business unit.

The current situation in the Sonokembang company is that some of the family members have occupied managerial positions but have not been given full trust and authority in making business decision, have communication problems, lack of appreciation for achievements made by third generation, and other third generation family members have not clearly understand the vision of this company so they show lack of interest in joining the company. This study was conducted with consideration of the current state of the company and the Sonokembang family, especially the second-generation trust factor of the third generation and vice versa. The purpose of this research is to know and analyze the influence of competence, integrity and benevolence to trust and influence of trust, competence, integrity and benevolence to succession planning.

LITERATURE REVIEW

Previous Research

Previous research used as a reference in this study is a study conducted by Krot and Lewicka (2012) entitled "The Importance of Trust in Manager-Employee Relationship." The purpose of the research is to see the role of the dimension of trust in multi-level organization in a company. From the results of the research, the result shows that competence is the least important in all types of relationships, integrity is an important thing in trust between fellow workers, and benevolence is the most important thing in the relationship between managers and employees. Second is the research conducted by Gupta and Choudhary (2016) entitled "An Emprirical Study Assess the Impact of Various Relationship Dimensions on Supplier Relationship in Indian Scenario". This study aims to determine the dimensions of the relationship between trust, satisfaction, cooperation, communication and commitment to supplier relationship in India. The results of the study stated that there is a relationship between competence and trust. The relationships owned by both variables are positive so when competence increases it will affect the trust given positively. The third study was a study conducted by Heinre and Mahmbe (2015) entitled "The Influence of Integrity and Ethical Leadership on Trust in The Leader". This study aims to investigate the relationship between integrity, leadership and trust in the leadership model. The results of this study indicate a positive relationship between ethical leadership and trust, integrity and leadership and also integrity and trust.

Family Business

According to John L. Ward and Craig E. Arnoff (2002, in Susanto, 2007), a family business is a company consists of two or more family members who supervised the company's finances. Robert G Donnelley (2002, in Susanto 2007) state that an organization is called a family business if there are at least two generations involved in the family and they influence company policy.

Sonokembang Group belongs to a family company because it is now a second-generation ownership and second generation management as a board of directors and some of a third generation who occupy managerial positions.

Family Business Life Cycle

Ichak Adizes (1989) introduces 10 life cycles of a company: courtship, infant, go-go, adolescence, prime, stable, aristocracy, early bureaucracy, bureaucracy, death. Like humans who have a life cycle from infancy to adulthood then become an elderly, the company also has a life cycle. Unlike human that age is determining the life cycle, the company's age is not a determining factor of a company's life cycle.

Sonokembang Group is currently at the Prime-Stable state where its organization is growing and making improvements to its working system by Standard Operating Procedure (SOP), organizational structure, international certification for food safety. This condition needs more attention, especially from the second generation, because making a succession planning is a must in order to maintain the existence of the company, considering only 35% of third generation who has already joining the company.

Succession

In order to maintain the sustainability of family business, there is a need for succession process. Within a family company, family members expect the successful from the next generations.

Susanto (2007) states that leadership succession is a natural event and reached various managerial layers. Succession is related to various corporate policies, including changes in the pattern of corporate movements, corporate development, and career planning policies, promotion systems and mutations. Succession, therefore, is not limited only the transfer of the top leadership, and also not only based on age nor from owners to next generation and professionals. Succession should be planned and implemented for a broader purpose.

Based on the Company's life cycle (Adizes, 1989) a founder should perform succession planning at the Go-Go stage because the company will die along with the death of its founder. The founder could not work alone, he must prepare delegation of authority to his next generation, administrative system and procedures so that the company is not always tied to its founder. While in the second generation and onwards the succession planning should begin in the Prime and Aristocracy phases where in this phase organizational development takes place which requires the involvement of outsiders to take control in the managerial ranks and directors to maintain the company's sustainability.

Succession Planning

Succession planning aims to maintain and develop the standard excellence of the company's performance as well as the competencies it possesses and responds to the preparation needs of "Future Executives" who has to be ready for future challenges (Peter Ashe in Susanto, 2007). Succession planning is made for the effectiveness in the family business.

Effective succession plans mean planning it as early as possible by involving family members. There should be an option for the next generation whether joining or not in the company (Susanto, 2007).

Trust

Trust is an important core of the family business (Eddleston, Chrisman, Steier and Chua, 2010) and is the privilege in family business (Davis & Harverston, 1998). Rousseau et al. (1998) defines trust as a psychological condition to accept others based on positive expectations of the person's intentions and behavior (in Atsan & Erden, 2015). Trust is the foundation of a relationship. A relationship between two or more parties will occur if they trust one another. This trust can not be simply recognized by others but must be built and proven from the beginning.

Dimension of Trust

Interpersonal trust has a cognitive and affective basis (Atsan & Erdem, 2015; Mc Allister, 1995). Cognitive based beliefs are built on perceptions and interests as they relate to performance and achievement through direct contact with others. Cognitive trust occurs when a person makes a decision to believe based on knowledge (McAllister, 1995). While affective trust is based on an emotional bond that often tends to go beyond business or professional relationships or prior knowledge. These emotional bonds make the basis of trust.

Cognitive trust builds on the beliefs of competence, integrity, responsibility, credibility, reliability, and dependability. The affective trust consists of benevolence, interest, loyalty, altruism, commitment and mutual respect (Atsan & Erdem, 2015; Ribiere & Sitar, 2010).

Trust in a family company succession

The dominant factor in successful succession in family firms is family relationships. In a previous study conducted by Morris, Williams and Nel (1996) about factors affecting family company succession, it was stated that trust between family members and firms was the determinant of a successful transition.

Competence, Integrity and Benevolence in Succession Planning

Poza (2010) states that competence without integrity or commitment will not make the predecessor feel confident in terms of leadership transfer with the future generations. Although the next generation fulfills all the specified qualifications but does not gain trust in making decisions for both businesses and family interests then the child is still declared has not ready to lead the company.

The Influence of Competence on Trust

Competence is the ability of a person in fulfilling all tasks appropriately to his work. Supported by research conducted by Krot and Lewicka (2012) there is a relationship between competence and trust. It happens to a new organization or company where competence has a high role to build trust in relationships within the organization. Trust can be built through someone competency because it does not contain emotional elements and expected to have higher performance in accordance with the mandated.

H₁: Competence affects trust.

The Influence of Integrity on Trust

Integrity is one of the belief-forming dimensions of honesty aspect, strong character and courage (Poza, 2010). It shows that leaders need to have integrity to gain trust in the organization or company he leads. The relationship is supported by Krot and Lewicka (2012) research results that explain that integrity can influence the trust that occurs in relationships within the company. It happens to a company that has grown, so that integrity plays a larger role compared to competence and benevolence.

H₂: Integrity affects trust.

The Influence of Benevolence on Trust

Benevolence is a willingness to pay attention to the trustor's interests in the decision-making process (Krot & Lewicka, 2012). It shows that with the nature of the benevolence has the belief that all good deeds done by people who are given trust, there is no effort to get benefit from people who gave trust. This is supported by the results of a research conducted by Krot and Lewicka (2012) which also explains that there is a relationship between benevolence and trust. The results also suggested that benevolence is the most important dimension in trust that occurs

between employees and managers. Therefore, if a person's own benevolence increases, then the trust given will also increase.

H₃: Benevolence affects trust.

The Influence of Trust on Succession Planning

Trust is an important factor on family business (Eddleston, Chrisman, Steier and Chua, 2010). Trust is the foundation of a business relationship within a company. The first priority of a family leader is to build trust among family members. The existence of this relationship is supported by the research conducted by Morris, Williams and Nel (1996) on factors that influence the succession of family companies. The result of this study suggested that trust among family members and firm is a determinant factor of successful transition. Therefore, trust is related to the successful of succession planning in an organization or family enterprise.

H₄: Trust affects succession planning.

The Influence of Competence on Succession Planning

Competence is necessary in an organization or company. In family enterprises, competence is also considered in succession planning. This is related to the next generation of companies that need to qualify before continuing the company management (Poza, 2010).

Based on results of the research, Hatak and Roessi (2015) note that competence has a strong relationship with the transfer of knowledge in the succession of family companies. If the competence increases will affect the transfer of knowledge in family succession also increase. The succession will be well planned.

H₅: Competence affects succession planning.

The Influence of Integrity and Succession Planning

Integrity is also one of the dimensions associated with succession planning in the family company (Poza, 2010). Integrity means doing what should be done and emphasizes on honesty, strong character and courage. Poza (2010) states that competence without integrity or commitment will not make the predecessor feel confident in terms of leadership transfer with the next generations. Although the next generation fulfills all the specified qualifications but does not gain trust in making decisions for both business and family interests then the child is still declared not ready to lead the company.

H₆: Integrity affects succession planning.

The Influence of Benevolence on Succession Planning

Benevolence is a willingness to pay attention to the trustor's interests in the decision-making process (Krot & Lewicka, 2012). Given the nature of benevolence such as paying attention to every employee and family member and doing good to the employees or future generations such as the welfare of family members, the transfer of values as a family culture will be effective for the next generation preparation that includes knowledge, legitimacy and credibility so that succession planning becomes effective and family business can run well.

H₇: Benevolence affects on succession planning

RESEARCH METHOD

This type of research is quantitative study. This approach is used because the data in this study is using statistical methods to determine the relationship between independent variables which are competence, integrity and benevolence and dependent variables which are trust and succession planning. The data collection used in this research is survey method using instrument in the form of questionnaire with Likert scale (1 = strongly disagree, 2 = disagree, 3 = enough, 4 = agree, 5 = strongly agree) which then analyzed by using SEM -PLS (Partial Least Square Structural Equation Modeling).

The population in the study is 223 people consisting of 35 members of the Sonokembang family who came from the second and third generation, 60 employees and 128 consumers of Sonokembang Catering Semarang. Meanwhile, the sampling technique is using proportionate stratified random sampling technique. Used the Slovin formula and error rate of 5%, the sample size is 143 people with the proportion of 22 person family members, 39 employees and 82 consumers of Sonokembang Catering Semarang.

Figure 1 below is a research model as a summary of the seven hypotheses

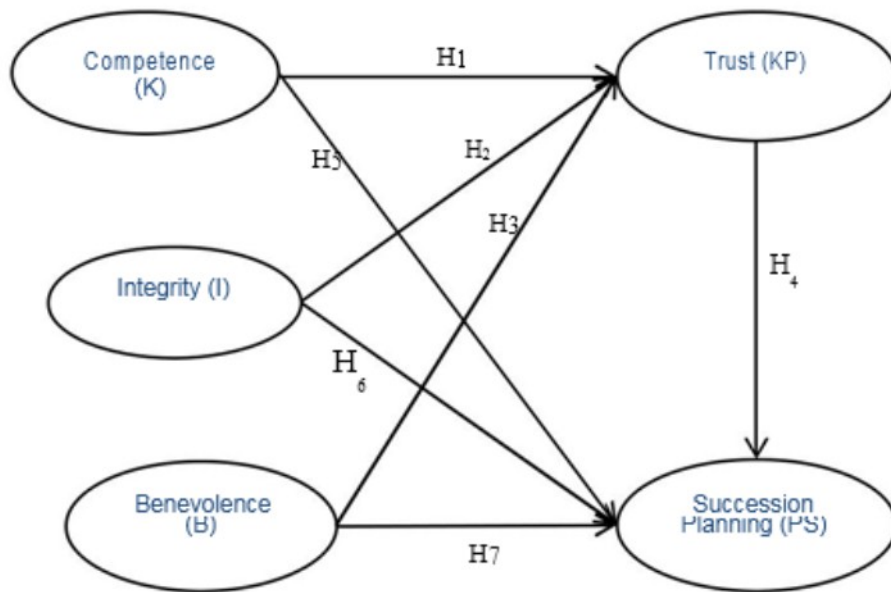


Figure 1. Research Model
Source: Developed by the authors

RESULTS AND DISCUSSION

Results of data processing using PLS - SEM method with Smart PLS 2.0 M3 which includes evaluation of measurement and structural model.

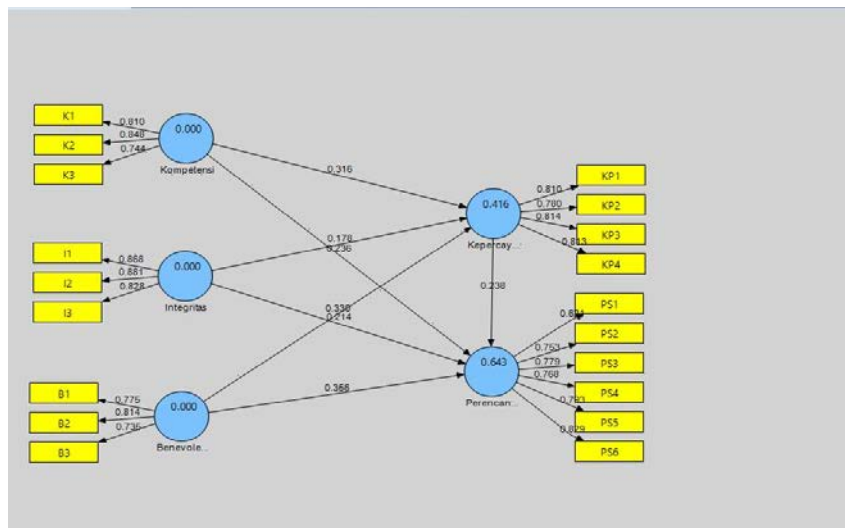


Figure 2. The Partial Least Square Measurement and Structural Model
Source: Developed by the authors from the survey data

The following is an explanatory evaluation of the measurement of outer model that includes validity and reliability test:

a. Validity test

The convergent validity includes loading factor, Average Variance Extracted (AVE) and communality. From the calculation results of loading factor all indicators are ≥ 0.7 except on the PS1 indicator (variable Successional Planning) which has a value of 0.6. According to Prof. Dr. Imam Ghozali, M.Com an indicator has a significant loading factor at minimum 0.7, exceptional for research with non establish variable, loading factor at 0.5-0.6 is allowed.

Table1. Validity Test

	AVE	Communality
<i>Benevolence</i>	0.601230	0.601230
Integritas	0.738035	0.738035
Kepercayaan	0.646967	0.646967
Kompetensi	0.643407	0.643407
Perencanaan Suksesi	0.577380	0.577380

Source: Developed by the authors from the survey data

From the table above shows the Average Variance Extracted (AVE) and communality of all variables is ≥ 0.5 . The three values above show that the data used is valid.

b. Reliability

Here are the values observed in the reliability test which include cronbach's alpha and composite reliability:

Table2. Realibility Test

	Composite Reliability	Cronbach's Alpha
Benevolence	0.818688	0.667011
Integritas	0.894137	0.822117
Kepercayaan	0.879924	0.818289
Kompetensi	0.843686	0.721790
Perencanaan Suksesi	0.890548	0.851703

Source: Developed by the authors from the survey data

From the table above shows the value of Cronbach's alpha ≥ 0.6 and composite reliability ≥ 0.7 . This indicates that the data used is reliable.

Evaluation of Structural Model (Inner Model)

a. R – square

The first inner model evaluation is the R-square value for each endogenous latent variable as the predictor force of the structural model. Changes in R-square values can be used to describe certain exogenous latent to endogenous latent variables (Ghazali, 2012). R-square value 0.75, 0.50, and 0.25 can be concluded that the model is strong, moderate and weak.

Table3. R-square

Variable	R-square	Keterangan (0.75=Kuat; 0.50=Moderat; 0.25=Lemah)
Trust (KP)	0,4158	Moderat
Succession Planning (PS)	0,6432	Moderat

Source: Developed by the authors from the survey data

The R-square value for the trust variable is 0.4158 or moderate, meaning the percentage of the diversity of trust variables can be explained by 42% competence, integrity and benevolence variables while the rest is explained by other variables outside the model. The R-square value for succession planning variables is 0.6432 or moderate, which means that the diversity of succession planning variables can be explained by competence, integrity, benevolence and trust variables of 64% while the rest explained by other variables outside the model.

b. Q - square Predictive Relevance

Q-square Predictive Relevance used to validate model prediction capabilities. The interpretation of the result Q-square Predictive Relevance is that when the value is greater than 0 indicates the independent variable is good or appropriate as the explanatory variable capable of predicting the dependent variable (Yamin, S., & Kurniawan, 2011).

Table4. Q-square Predictive Relevance

TOTAL	SSO	SSE	1-SSE/SSO
<i>Benevolence</i>	429,0000	338,6159	0,2107
Integritas	429,0000	233,7160	0,4552
Kepercayaan	572,0000	338,4898	0,4082
Kompetensi	429,0000	304,1642	0,2910
Perencanaan Sukses	858,0000	508,8353	0,4070

Source: Developed by the authors from the survey data

From the data above shows that all values of Q² above 0. This indicates good predictability relevance for each variable. From the data also shows that integrity has the highest value, meaning it has better prediction relevance than competence and benevolence.

Goodness of Fit (GoF)

To validate the model entirety can be seen from the Absolute Goodness of Fit (GoF) using this following formula:

$$GoF = \sqrt{\text{communality} \times R^2}$$

The value of the upper-bound communality is the average value of communality while the upper bound R² value is derived from the average value of R². Based on the calculation, the average communality is 0.6414038 and the average R² is 0.52951. The following equation for Goodness of Fit:

$$GoF = \sqrt{0.6414038 \times 0.52951}$$

$$GoF = 0.5827776$$

Based on the above calculation shows that the value of GoF > 0.36 which can be concluded that this model has a great predictability.

Hypothesis testing

The hypothesis is eligible or acceptable if the t-statistic value (t-count) has a value greater than the t-table value (1.96).

Table5. Path Coefficients

	PATH COEFFICIENTS	T- STATISTICS	SUPPORT TO HYPOTHESIS
B → KP	0.329787	4.252211	Yes
B → PS	0.356382	3.872201	Yes
I → KP	0.178160	2.507196	Yes
I → PS	0.213873	3.767097	Yes
KP → PS	0.237882	3.602011	Yes
K → KP	0.315799	4.377248	Yes
K → PS	0.235666	3.283348	Yes

Source: Developed by the authors from the survey data

From table 3 above can be concluded that the first hypothesis was proven. Competence has a significant effect on trust. The result of Krot & Lewicka (2012) study that examines the relationship of trust among workers and between workers and managers also shows that competence gives influence to trust. In addition, the results of the research also show that in new organization, competence has the most important role in building trust.

The second hypothesis also gave positive effect. Integrity has significant effect on trust. Heine and Mahmbe (2015) study by using SEM Statistical Analysis has a positive relationship between integrity with the leader's trust. A leader who actively shows examples of integrity such as honesty, consistency and moral behavior will succeed in building trust between leaders and workers.

Third hypothesis was proven. Benevolence has a significant effect on trust. This is supported by previous research conducted by Krot & Lewicka (2012) which states that benevolence affects trust among employees and trust between employees and managers because employees tend to trust their managers if they show interest and concern for their welfare.

The fourth hypothesis gave positive effect. Trust has a significant effect on succession planning. Eddleston, Chrisman, Steier and Chua (2010) state that founders of family firms have experienced the creation of their businesses can influence how they will run their business, the makin of corporate culture, the strategy adopted and succession planning. These experiences will influence founder on trusting others both family members and non-family members.

The fifth hypothesis was confirmed. Competence has a significant effect on succession planning. The results are supported by Poza (2010) in his book entitled "Family Business" stating competence is something that is considered in succession planning.

The sixth hypothesis was confirmed. Integrity has significant effect on succession planning. The results are supported by Poza's (2010) assertion that competence without integrity or commitment will not gain the precursor generation's trust in the transfer of leadership to the next generations.

The seven hypothesis was confirmed. Benevolence has a significant effect on succession planning. The results obtained by Krot & Lewicka (2012) also stated that the nature of benevolence in the family company can be a good deeds to employees and family members. It is necessary to prepare the next generation for effective and better succession planning.

CONCLUSSION

Competence, integrity and benevolence have an impact on the trust of Sonokembang employees and customers. In addition, the competence, integrity, benevolence of the third generation influences the second generation's trust and in the process of succession planning. The research hypothesis states that the variables related to trust and succession planning in Sonokembang and the research problem in this study can be answered.

REFERENCES

- Abdillah, W., Jogiyanto, HM., 2015. Partial Least Square (PLS) Alternatif Structural Equation Modelling (SEM) dalam Penelitian Bisnis, Penerbit ANDI, Yogyakarta
- Aronoff, 2003, Business Succession: The Final Test of Greatness, Family Enterprise Publisher
- Gupta, M, 2016, An Empirical Study To Assess The Impact Of Various Relationship Dimensions On Supplier Relationship In Indian Scenario. *Int. J. Indian Culture and Business Management*, Vol.12, No.2, 2016
- Hatak, I.R., Roessl, D., 2015, Relationship Competence-Based Knowledge Transfer Within Intrafamily Succession, *Family Business Review* Vol. 28(1) 10-25
- Heine, G., Mahembe, B., 2015, The Influence of Integrity and Ethical Leadership On Trust in The Leader, *Management Dynamics* Volume 24 No.1, 2015
- Krot, K., Lewicka, D., 2012, The Importance of Trust in Manager-Employee Relationships, *International Journal of Electronic Business Management*, Vol. 10, No. 3, pp 224-233
- Latan, H., Ghozali, I., 2012, Partial Least Squares Konsep, Teknik dan Aplikasi Smart PLS 2.0 M3, Badan Penerbit Universitas Diponegoro, Semarang
- Poza, Ernesto J., 2010, *Family Business 3E*, South-Western Cengage Learning, USA
- Sugiyono, 2015, *Metode Penelitian Pendidikan Pendekatan Kuantitatif, Kualitatif, dan R&D*, Penerbit Alfabeta, Bandung
- Susanto, AB., Susanto, P., Wijanarko H., Mertosono, S., 2007, *The Jakarta Consulting Group on Family Business*, Divisi Penerbitan The JCG, Jakarta