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The Pattern Analysis of Family Business Succession: A Study on Medium Scale Family Business in Indonesia

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Abstract:

The family business is a business family members have developed, whose ownership and policy-making are dominated by members of a group with emotional kinship.

The purpose of this study is to analyze whether the management succession patterns including a personality system, a family system, a ownership right system and a management system become the primary factors determining the success of the family business

The results of the study, using Partial Least Square showed Family System variable, had significant influence on Sustainability Family Business Meanwhile, Personality System, Ownership System and Personality system variables had no significant effects on Sustainability of the family business.

***Keywords**: Family Business, Personality System, Family System, Ownership System and Management System, Sustainability Family Business.*

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1. Introduction

Business organizations have evolved through a series of life cycle and they are conceptually different from one to another (Adizes, 1979; Churchill and Lewis, 1983; Griener, 1972). The life cycle model of family business organizations often goes through a cycle. Their growth (organizational outgrow) has commonly been supported by people with excellent managerial capacity more than by those of the owners' family. These models commonly ignore succession issues and failures that most family businesses concern.

Seen from "total" approach or perspective, family companies consist of subsystems. In this respect, businesses, families, and entrepreneur founders are regarded as entities (Beckhard and Dyer, 1983a; Dyer and Handler, 1994; Thalassinos *et al.*, 2012; Sultanova and Chechina, 2016). Each subsystem has a unique identity and culture, moves through its own life cycles, and has its own subsystem. They are dependent on each other. There will be potentials about competition and conflicts among subsystems or opposition to one another (Tcvetkov *et al.,* 2015). However, it is also possible to have opportunities or alternatives to cooperate and synergize with one to another. Kepner (1983) refers to the "co-evolution" of the family and the company when currently discussing how each affects and get affected by others.

Family company system is relatively stable if each member has been tied to the seniority of their late founders or elder family members. Nevertheless, their system becomes quite unstable when employing professionals in their companies. It is common that conflicts among family members and professionals employed by a family company become unavoidable. Beckhard and Dyer (1983a) show successful adaptation was affected by company conditions (such as state of maturity, health economics) and the dynamics of the family (e.g. family closeness, interdependence among family members, and competition among relative members, and financial conditions of the family members).

Family businesses have provided significant contributions to country's economic growth. Fransisca and Praptiningsh (2014) stated that the family owned businesses were the milestones to the country as well as to the world's economy. In fact, family companies have controlled 80-98% of national businesses and even the world. In China 70% of large enterprises were family-owned (Martin, 2010). In the same way in the United States, 24 million family businesses have absorbed 62% of the workforce and accounts for 64% of (Gross Domestic Product) GDP of the country.

A 90% of 15 million large companies were those dominated by family groups, In India, 16 of the 20 key business sectors and 66% of private sector assets were controlled by family firms. The family business has big impacts on Indonesia's economic condition. Martin (2010) said 61% of the Indonesian companies were worth over US $ 50 million, and 81% of large-scale enterprise belonged to family businesses. A survey in Australia shows that businesses were mostly owned by family-owned companies of the first-generation: 20% of the business was owned by the first successor and not more than 9% by the next successor (Astrachan, 2003). In Indonesia, many big companies were family businesses. In reality, 90% of 15 million companies were dominated by family business groups. However, not more than 3% of the family company could survive as founded in 1932 to 1943, and only 37% of the companies that were built in from 1992 to 2003 could survive until 2007 (Nature and Gunawan, 2007). The results showed that 70% of family businesses did not survive the second generation and 90% would not continue into the 3rd generation (Family Firm Institutee, 2004). Thus maintaining the family business seems to be a very important factor and can be done by regenerating or conducting good succession (Břečková and Havlíček, 2013; Břečková, 2016; Dasanayaka and Sardana, 2015; Firescu and Popescu, 2015; Havlíček *et al.*, 2013; Liapis *et al.*, 2013).

According Fransisca and Praptiningsh (2014), there are some factors to consider in family business: (a) the control of ownership (15% or more) by two or more family members, (b) the company's strategies are influenced by family members participating in company management. They can actively form family culture in the company, serving corporate counsel, or acting as active shareholders, (c) these companies are very concerned with family relationships, and (d) they have a dream to continue the business to the next generation.

Kepner (1983), in examining the interdependence between the family life cycle and the business cycle of the family, concluded that stress in the family increased when the transition in the family coincided with the transition in the company. He argued that any systems tended to protect themselves and to be more resistant to differentiation and separation. The result can be the main symptoms of dysfunction in the relationship the family company. In implementing the succession in family businesses, there are two things to note are: succession planning and succession patterns. Family business management succession patterns will be analyzed through the personality system, family system, ownership system, and management system. Thus the pattern of succession can be explored in more depth from broad perspectives. This study focuses on the exploration succession patterns to maintain a successful family business in particular medium-scale family business of the second generation in Indonesia.

2. Research Problems

The research problems of the present study are as follows: does the pattern of management succession including the personality system, family system, opportunity system and management system have significant effects on the efforts to maintain the success of the family business (Studies in Family Business Medium Sized second generation in Indonesia).

2.1 Family Business

A company can said to be a family company if there are at least two generations in the company, and their presence influences the company's policy (Robert G. Donnelley, 2002). According to Satya Raju (2008) there are fundamental differences between family system and enterprise systems which can be shown in Table 1.

Table 1. *The Differentiation Between Family System and Business System*

Area of Conflict	Family System	Business System
Goals	Developmeny and support of family members	Profit, revemue, efficiency, growth
Realtions	Deeply personal	Semi personal/impersonal
Rules	Informal	Written and formal
Evaluation	Members rewarded	No Systematic evaluation
Succession	Caused by death, divorce, voluntary willingness	Caused by Retirement
Authority	Based on Family position or Seniority	Based on formal position
Commitment	Life Time, based on identity with the family	Short term, based rewards received

Source: *Satya Raju (2008)*

2.2 The Theory of Family Company

There are two types of family companies in the business terminology (Susan et al., 2007:4): family owned enterprise and family business enterprise. Family Owned Business Enterprise (FOE) is a company owned by the family but managed by professional executives who come from outside the family circle.

Family Business Enterprise (FBE) is a company owned and managed by members of the family who built it. Either ownership or management is held by the same party, the family. In this type of family company, the company important positions are held by members of the family. The perspectives of the systems theory by Poza (2007) [28] concern three parts in the family company: ownership, family, management. Each of these parts determines the managerial approaches of the companies: family first business, management first business and ownership first business.

In the family-first business job opportunities are determined by the heredity or family closeness. In the management-first business, the company reduce the influence or the role of family members, and require that each member of the family to have experience outside the company, before joining the family firms.

In the ownership-first business, the enterprise investment term and the risk of investment become a major issue to the first business ownership and also have a shorter time frame and is very dependent on the financial evaluation of the company. In this case, the family members as the owners are not active in running the business.

Rothwell (2010) states a succession planning is one of the important issues in a family business. A succession plan is a way to identify key management positions, starting from the lowest level of project managers and supervisors to the highest position in an organization. The succession plan also describes a management position to provide maximum flexibility in the movement of the forked management, ensure workers' seniority as individual for obtaining achievement and comprehensive management capabilities, and become mingled in relations as a whole rather than just in one department alone.

Cadieux, Lorrain and Hugron (2002) define a succession plan as a dynamic process. In this case, the roles and duties of the two main groups (the predecessor and successor) have to develop interdependency, overlapping with the ultimate goals. In so doing, they are capable of transferring both managements and business ownership for the next generations. According to Lumpkin and Brighman (2011) succession plan is a planning process involving a number of components in the company of family and trying to achieve the level of awareness and the persistence of high to ensure long-term sustainability of the company.

According to Fransisca and Praptiningsih (2014) the succession plan is a process of identifying and planning between the owners and the prospective successors whose ultimate goal is to give ownership to a company's long-term sustainability.

According to Susanto, Susanto, Wijanarko, and Mertosono (2008) there are "three succession patterns to the top level management such as:

a. *The Planned Succession:* This succession focuses on the candidate who will occupy the key positions. The accelerated development program is to provide exposure to a variety of important issues, and to enhance the experience and policy thinking.
b. *The Informal Planned Succession:* This succession planning aims at providing experience to people by giving them the position right after the "number one". The former directly receive orders and instructions from the latter.
c. *The Unplanned Succession:* It is the transition from the top leadership to his successor based on the owner's personal decision.

According to Baur (2014) effective succession models consist of four components. The personality system includes:

1. *Successor Qualification:* The successors have appropriate educational background relevant to the business and continue investing in their personal development. Effective successors conduct complete intensive trainings either outside or inside the company.
2. *Entrepreneurial Orientation:* Effective successors have high orientation to entrepreneurship. They have strong determination, dare to take decisions,

have speedy performance, and maintain flexibility. They take initiatives to create something new by adding their added values.

3. *Willingness to take over responsibilities:* The successors are willing to effectively take over the responsibility in the family business.
4. *Personality traits, management and leadership skill:* The successors are polite and have self-confidence. Effective successors should maintain good relationship with the previous generations. They use knowledge about management and leadership skills from the previous generations.

Family system includes:

1. *Family Culture and Value:* The successors should respect and understand family's cultural values. They also adhere to the values inherited by older generations. They should put business on the top position. They should decide what to achieve.
2. *Family Dynamics and Conflicts:* The successors have to admit some possibilities of having different ideas among members of the family.
3. *Family Trust and Appreciation:* Successors have to trust all family members for they have shared the basic values from older generations.

Ownership system includes:

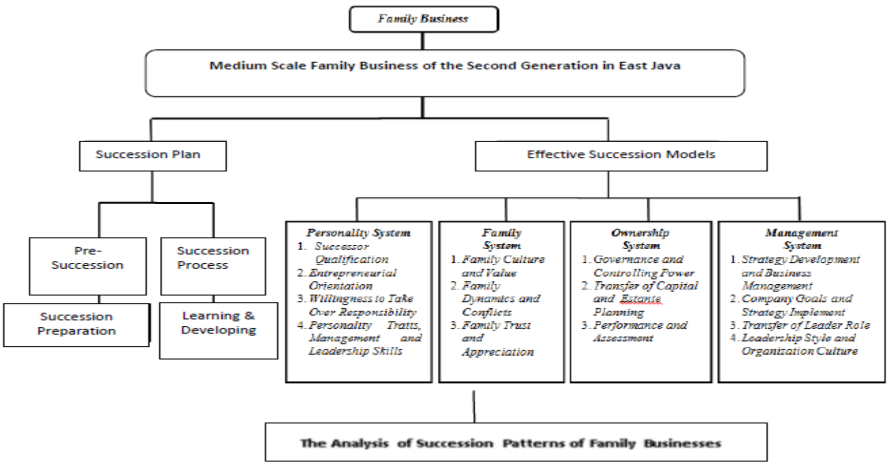
1. *Governance and Controlling Power:* Effective successor use the prevailing rules, structures and governance as managed by their predecessors. They must also be able to manage the business based on mutual trust in the family and control the balance of business interests and family's interest.
2. *Transfer of Capital and Estate Planning:* Effective successors inherit business operations. Non-operative assets should be excluded from the business in order to improve the equality in the family assets and to maintain the integrity of the family.
3. *Performance and Assessment (performance and appraisal):* Effective successors should have good performance and good judgment. They need to have higher expectations of the business performance of their predecessors. This will lead to better business performance.

Management system includes:

1. *Strategy Development and Business Management:* Effective successor should have a good development and management strategies in the company. They must have creative ideas to develop the family business and the existing company's management systems.
2. *Company Goals and Implementation Strategies:* Effective successors have the aim to lead the company to better and more advance enterprises. They have to be prepared with obstacles in the family business.
3. *Transfer of Leader:* Effective successor have a clear map of succession process and transfer of the role of the leader. They try a big picture the family business.

4. *Transfer of the Leaders' roles:* Effective successors must understand clear arrangements signs about the leadership transition. Generally, these signs involve celebrations and ceremonies. Effective successors have senior generation who support them. However, effective successors need to consider how difficult it may be for the older generation, trying to find alternative strategies to get them involved in the company after the transition process.
5. *Leadership Style and Culture Organization:* The successors effectively attempt to advance the business as an attractive workplace. Their effective leadership should be concerned with the implementation of tasks, partnerships to achieve the results. In addition, they also have to understand the culture of the organization of the family company.

***Figure 1.** Research Framework of Succession Patterns of Family Businesses*



***Source:** the present study, 2016*

Medium scale family businesses in Indonesia managed by the second generation become the objects of the study. For data analysis, two perspectives were employed: succession planning and effective succession models. The succession models were evaluated based on the personality system, family system, ownership system, and management system.

3. Research Methods

3.1 The Scope

Indonesia's medium-scale family companies employing 20-99 people became the objects of the study. The scope of the research was limited to the management succession patterns, including the personality system, family system, ownership system and management system, by which the success of the family business could be achieved (studies on the success of first, second, and third-generation family business in Indonesia).

3.2 Sampling Techniques
Given the large number of population in Indonesia, the sampling technique of the present study was to consider the selection of medium scale family firms based on the criteria of number of workforce such as 20-99 people. The sample size of this study was 50 medium-scale family business owners who have met the criteria: the second generation employing 20-99 workforce.

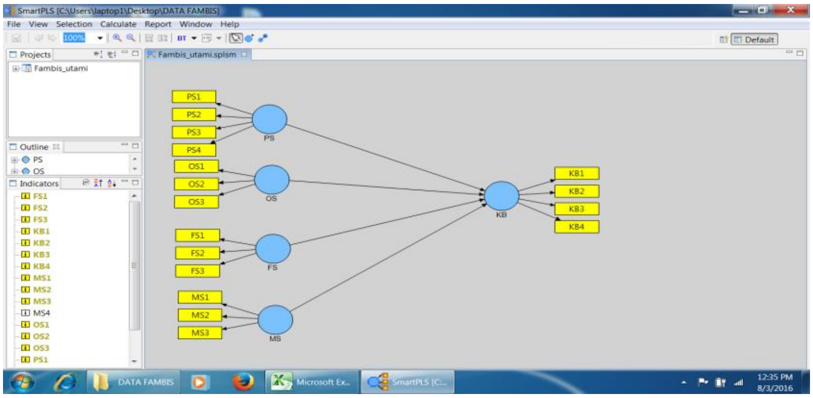
3.3 Data and Source of Data
The data were collected by using observation, interviews, questionnaires, interviews, and Focus Group Discussion (FGD). The data obtained from the interviews were considered as the primary data; meanwhile, the secondary were obtained from published reports.

3.4 Analytical Methodology
This research method used Partial Least Square (PLS) that concerned the examination of the relationships among latent variables. It was also used to confirm the theory (Ghozali 2012; 6). SEM-PLS consists of two models: measurement model and the structural model. SEM-PLS is capable of mapping the path of various dependent variables in the same research model and analyzing all paths in the structural model simultaneously.

3.5 Conceptualization of the Model
a) Outer Model
The design of the measurement model was to determine the characteristics of indicators from each latent variables: whether the indicators were reflective or formative in accordance with the underlying operational definition of variables. Basically: theory, empirical research beforehand, or rational.

b) Inner Model
The structural model was intended to describe the relationship among latent variables based on a substantive theory.

Figure 2. *Variable Diagram in SEM Constructing the Path Diagram*



Source: *Partial Least Square (PLS) (Latan and Ghozali, 2012)*

3.6 Converted Path Diagram to Equivalency System

This equivalency model of the path diagram is written as follows:
Latent variable of exogen (Formative)
X_1 Variable (Personality System)

$$X_{1.1} = \lambda_1.X_1 + \varepsilon_1$$
$$X_{1.2} = \lambda_2.X_1 + \varepsilon_2$$
$$X_{1.3} = \lambda_3.X_1 + \varepsilon_3$$
$$X_{1.4} = \lambda_4.X_1 + \varepsilon_4$$

X_2 Variable (Ownership System)

$$X_{2.1} = \lambda_5 X_2 + \varepsilon_5$$
$$X_{2.2} = \lambda_6.X_2 + \varepsilon_6$$
$$X_{2.3} = \lambda_7.X_2 + \varepsilon_7$$

X_3 Variable (Family System)

$$X_{3.1} = \lambda_8.X_3 + \varepsilon_8$$
$$X_{3.2} = \lambda_9.X_3 + \varepsilon_9$$
$$X_{3.3} = \lambda_{10} X_3 + \varepsilon_{10}$$

X_4 Variable (Management System)

$$X_{4.1} = \lambda_{11}.X_4 + \varepsilon_{11}$$
$$X_{4.1} = \lambda_{12}.X_4 + \varepsilon_{12}$$
$$X_{4.1} = \lambda_{13}.X_4 + \varepsilon_{13}$$
$$X_{4.1} = \lambda_{14}.X_4 + \varepsilon_{14}$$

$Y_{1.1}$ Variable (Business Success)

$$Y_{1\cdot 1} = \lambda_{15}.Y_1 + \varepsilon_{15}$$
$$Y_{1\cdot 2} = \lambda_{16}.Y_1 + \varepsilon_{16}$$
$$Y_{1\cdot 3} = \lambda_{17}.Y_1 + \varepsilon_{17}$$
$$Y_{1\cdot 4} = \lambda_{18}.Y_1 + \varepsilon_{18}$$

Inner Model
Y_1 Variable (Business Success)
$Y_1 = \lambda_{19}.X_1 + \lambda_{20} X_2 + \lambda_{21}.X_3 + \lambda_{22} X_4 + \varepsilon_{19}$

3.7 Goodness of Fit Evaluation

Outer Model
Formative Outer Model was evaluated based on two criteria: weight and multicollinearity. The following table shows the significant weight and multicollinearity.

Table 2. *Rule of Thumb hypothesis testing of Formative Outer Model*

Criteria	*Rule of Thumb*
Significant Weight	✓ >1.65 (significant level 10%) ✓ >1.96 (significant level 5%) ✓ >2.58 (significant level 1%)
Multicollinearity	✓ VIF <10 atau <5

Source: *Partial Least Square (PLS) (Latan and Ghozali, 2012)*

Outer Model Reflection
Outer model with a reflective variable has two tests, namely, validity and reliability. The following validity and reliability of as *outer model* (reflection). Outer models with reflective variables have two tests, namely, validity and reliability.

Validity
Kuncoro (2009) said that validity was used to measure the accuracy of the questionnaires/questionnaires in spread or given to all respondents. The validity of the questionnaires/questionnaires was indicated with their ability to reveal desired things. The following table shows the validity outer model (reflective):

Table 3. *Rule of Thumb Hypothesis Testing of Outer Model Reflection*

Criteria	Parameter	*Rule of Thumb*
Convergent Validity	✓ *Loading Factor* ✓ *AVE* ✓ *Communality*	✓ > 0,7 ✓ > 0,5 ✓ > 0,5
Discriminant Validity	✓ *Cross Loading*	✓ > 0,7

Source: *Partial Least Square (PLS) (Latan and Ghozali, 2012)*

Reliability
Reliability concerns the consistency of the measurement (Jogiyanto, 2013). This study concerns the anta item reliability (Jogiyanto, 2013) how consistent the respondents' answers produce the same result. The following Table presents reliability in outer model (reflective).

Table 4. *Rule of Thumb Hypothesis Testing of Reflective Outer Model*

Criteria	*Rule of Thumb*
Cronobach's Alpha	✓ >0,7
Composite Reliability	✓ > 0,7

Source: *Partial Least Square (PLS) (Latan and Ghozali, 2012)*

Reliability testing of the present study sought the accuracy, consistency, and accuracy of the instrument in measuring the construct. There are two ways to measure the reliability of a construct: using the reflective indicator Cronbach's alpha and composite reliability.

a) *Inner Model*

In the inner models tested, there are two criteria, R-square and f2 effect size. The following table shows both of those criteria

Table 5. *Rule of Thumb Hypothesis Testing of Outer Model Reflection*

Criteria	*Rule of Thumb*

R-Square	✓ 0.75, 0.50, and 0.25 strong, *moderate, and weak* (Hair, *et al.* 2011)
Effect Size f^2	✓ 0.35, 0.15, and 0.02 (strong, moderate, weak)

Source: *Partial Least Square (PLS) (Latan and Ghozali, 2012)*

Hypothesis Testing (Boots-trapping Re-sampling)
Testing the hypothesis (β, γ, and λ) was performed by bootstrap re-sampling method, namely, t test. Re-sampling method allowed free distributed data and did not have a normal distribution assumption. It did not require large samples (minimum of 30 respondents). Hypothesis testing was performed using the t-test≥ significant (α = 5%), it was concluded significant and vice versa.

Table 6. *Rule of Thumb hypothesis testing*

Criteria	*Rule of Thumb*
Significant (2-tailed)	✓ *t-value* ≥ 1,65 (significant at level of 10%) ✓ *t-value* ≥ 1,96 (significant at level of 5%) ✓ *t-value* ≥ 2,58 (significant at level of 1%)

Source: *Partial Least Square (PLS) (Latan and Ghozali, 2012)*

Using PLS method, if the results of the study was ≥ 1.96, then H1 was accepted, or vice versa. In the hypothesis testing, there were three models: the statistical hypothesis for the outer models: outer measurement results significantly, the indicator could be used as a variable laten H0: $\lambda i = 0$, H1: $\lambda i \neq 0$.

Statistical Hypotheses for the inner models
The result of the model inner was significant, meaning there was an influence latent variables on other variables. H0: $\gamma i = 0$, H1: $\gamma i \neq 0$. The statistical hypotheses for the structural models: If the structural models were significant, meaning that there was significant effects latent variables on other latent variables H0: $\beta i = 0$, H1: $\beta i \neq 0$.

4. Discussion

In investigating the management succession pattern including personality system, family system, opportunity system and management system appropriate, in order to maintain the success of the family business (Studies in Family Business Medium Sized second generation in Indonesia), this study found it was variable Family System that significantly influenced the effort to maintain the success of the family business.

For reasons, it is due to the successors who have been successful at appreciating and understanding the culture of the family, respecting and understanding the value of family values. In addition, they also have the ability to manage the dynamics of the family, to manage conflict, to gain the trust of family and appreciation from the family. It is the most important aspects in succession in Family Business. This finding is supported by the fact: 39% of respondents had a family business headed by leaders with S2 education level, 37% with S1 education level and 24% with a high school education. Thus the leaders of the family companies have fairly high level of education. It also supports the concepts put forward by Poza. The most powerful of three elements in the company management is separated into three approaches: Family-First Business where the family company of this type of employment in the company depending on the descent or family closeness.

This approach emphasizes that the purpose of the establishment of family company is for the sake of the family. Respecting and understanding the culture of the family, the value of family values, having the ability to manage the dynamics of the family by a successor, to manage conflict, gaining confidence and getting the family's appreciation are among important aspects in the succession process of the family bisnis

The findings of this study are consistent with the results of the research by Filser, Kraus and Mark, (2013) and Morris, Williams and Nel, (1996). This approach to the succession in family system companies has several limitations. This should be addressed wisely by the family members: granting the compensation in the family business based on proximity descent.

However, ironically the interests of the family have become the main focus. Thus, the commitment to continue the management of the company by the next generation depends very much on the plans of each individual successor and the level of conflict in individuals of future generations (Adizes, 1979). One of the outstanding characteristic of the family company is strong desire to appoint family members to lead the companies. These characteristics generally rely on the role of the family in a family company: utilizing and supervising the available resources, determining the level of specialization and integrity, facilitating communication and coordination, as well as regulating the authority and trust (including determining who led enterprises).

With the management of family business, the position arrangement of family members along with other workers, developing job descriptions which limit the office duties and authority becomes the necessity. It is also important to establish strict rules so that each family member will understand their limitations. In so doing, they can prevent any deviation and thus leads to improvement. However, family business of any kind would always require effective management system if they intend to have want to have professional family business.

5. Conclusions

Based on the analysis and discussion it can be concluded that only variables Family System, has significant influence on the Family Business Sustainability. Meanwhile, Personality System, Ownership System and Personality system variables do not have a significant influence on the family business sustainability. The suggestions of this study are the following:

a. Learning from the analysis of responses, it is worth considering the question "are the equal numbers of the assets owned successor important?" Most respondents, 3,598 respondents, has given the lowest responses. This indicates that the asset equality owned successor is no longer the important thing in the context of the process of succession in the family company. For that, it is important to provide a proper understanding associated the awareness about this equality of asset.
b. The highest average respondent's answer is to the question "Is it important that the successor has a good performance?" An average of 4,573 respondents is the highest answer. This means a good performance becomes a major consideration in succession. In this respect, we need to create good and fait performance assessment standards.

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