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## **ANALYSES OF FAMILY OWNED ENTERPRISE'S CONTINUITY (CASE STUDY OF FOUR FAMILY OWNED ENTERPRISE IN JAKARTA)**

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### **Abstract**

The purpose of this study<sup>4</sup> is to examine the roles that have an influence on the Family-Owned Enterprise (FOE) succession. This issue is raised because of the transition phenomena that occur between generations of the FOE, is interesting to study. Transition within the meaning of the Family Owned Enterprise is business continuity between generations. Gender aspects, was appointed as one of the problems in this study because gender is related to the sustainability of the Family-Owned Enterprise, among others because of aspects of the approach. Aspects of leadership became one of the problems in this research because it has relevance to the sustainability of the Family-Owned Enterprise, among others because of aspects of decision making. The aspects of entrepreneurship was appointed as one of the problems (because they have a relationship with the Family-Owned Enterprise continuity, partly because aspects of entrepreneurial orientation). This research will focus on all three roles at the level of Small and Medium Enterprises and Medium Enterprises. Literatures used in this study includes: Unified System, Sustainable Family, Dynamics Triangular. This research method is qualitative, and the approach is inductive-deductive. Information in this research will be conducted in four companies, namely small and medium enterprises and medium enterprises engaged in rice distribution.

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4 Part of doctoral dissertation originally titled "Analisis Keberlanjutan Bisnis Milik Keluarga (Studi Kasus Empat Bisnis Milik Keluarga Di Jakarta)", written by Anita Maharani, supervised by Dr. Arya Hadi Dharmawan, Prof. Eriyatno, Dr. Iin Mayasari, this dissertation has thorough public defense on January 17th 2013 at Department of Doktoral Manajemen Bisnis (DMB), Institut Pertanian Bogor, Jawa Barat, Indonesia.

**Keywords:** succession, roles, leadership, gender, entrepreneurship, family owned enterprise, continuity

## **Introduction**

In the world of business, almost entirely successful business today was established from family started business. Family builds network within inside and outside, and set up a business known as the FOE. There is an important phenomenon in FOE, which was established as a family business, run by a family and continued because it is considered part of the family.

However, some facts about the existence of FOE in Indonesia, companies in Indonesia are FOE's based. FOE in Indonesia can thrive and survive because of the trust and similarity of vision interwoven. Also, family system in Indonesia is rooted, so it is not surprising that large companies now are former (and possibly still) FOE.

One of FOE in Indonesia is the taxi company called Blue Bird Group (BBG), which was founded in 1972 by Mutiara Djokosoetono, this company operates with 25 taxi fleet. However, until now, the company owns 19000 taxi fleet. In addition, the leading company today that formerly stood on the foundation of the family, among others are Kalla Group, Sinarmas, Bakrie Group, Ciputra, Alam Makmur Sembada, Astra Group.

Based on the facts, the forerunner of the Indonesian company which originally departed from the business run by the family. An important issue rose in line with the development of the phenomenon of FOE. The issue is that the FOE is not a single organization but it is composed from different units, including business units, family units and management unit. Family units as a starter, runs business that operated by the family and called as business units, and management unit as a controller for business and ideally separated from family in order to encounter the emergence of any kind of self interest.

These units combined a unique colour when examined more deeply, because the impact is not just limited to the business, but also about the influence of family on business.

Issue of business in general is on how a business can take place continuously or have a long-term establishment, this does not only apply to the professionally managed business, but also on FOE. Besides on how business takes place, the next issue is on business succession. Succession is a way business is transferred from older to younger

generation, according to Gimeno et al, 2006 (in Poutziouris et al, 2006) one of the factors that led to succession is the transmission of values from founder to the next generation, because of the expectations of the founders to the next generation to continue BMK (outside of the economic factors).

Relating to the business, if the business succession is professionally managed it will need a system to regulate, and control the management of the business. However, this maybe not the same with FOE.

FOE, established because the values established by the founder generation-related with business. Value or values that apply in FOE is usually consist of unwritten guideline and foundation, it also reflect the way of life that has been agreed, these are to be implemented in good faith because FOE basically reflects the values and identity of the group of families (Lansberg, 1988). Succession is thus intimately associated with the extent of business succession that can follow and implement the values that have been instilled by the founder generation.

In addition to the value or values issues, succession is said to be successful if the offspring is still regarded as the next potential generation. Morris, Williams dan Nel (1996) stated that descent is one of the vital aspects in succession, due to genetic connection in the sense that the family is the primary and natural bond in the process of succession. Another thing that supports the argument that heredity as an aspect in succession, is because regeneration can be performed in an informal situation without formal rules. Family relationships are something that supports and strongly will influence the success of a succession. The closer the family ties in succession, the easier it will be implemented succession. On the contrary, the more distant the family relationship, the higher difficulties on implementing succession (Morris et al 1996).

Another aspect that affects the success of a succession is control function (controlling). Some things in the FOE that are part of the controlling family, is the issue of ownership and it will have relations with organizational structure. Hillier dan McColgan (2009), stated that although FOE is a business organization that is relatively easy to do, but on the other hand it has a weaknesses that it often result in weak governance system, why? because it is fully controlled by the family. Therefore, there is a need for involving other parties outside the family, that will responsible for the controlling function, the non family member will serves as part of the control management system, more objective

and neutral. However, controlling will play an important role especially during the leadership succession or ownership.

Controlling also plays an important role in the succession process; and the controller's quality refers to the competency of the individual. The competency however, is important, and especially in FOE because it will play a dominant role in governance system, and vital enough to run the system that applies in (Kellermans et al, 2008).

According to paragraphs above, it can be stated that there is a component in FOE, there is leadership, and it relates with willingness to proactively anticipate to problems, intuitively to anticipate to problems, the desire to take risks, being an independent, and has a distinctive leadership style.

Besides of leadership, there is a component related to entrepreneurship. This relates with level of commitment to the business, customer orientation, intuition, creativity and flexibility. Entrepreneurship relates with behaviour, value and beliefs and through entrepreneurial orientation (EO) there are five aspects of entrepreneurship, they are proactive, risk taking, innovation, autonomy and competitive aggressiveness (quoted in Lumpkin and Dess, 1996) that is important for companies to be able to deal with business challenges.

And in addition to leadership and entrepreneurship, there is one other component that is also important, namely gender. Gender, became one of the components, because it can influence the selection of the next generation when appropriate, according to the results of several studies, among others, the dilemma in choosing the next generation, whether it is men or women, as the candidate for the next generation.

Finally, this study raised three research questions, as follows:

1. Are gender determining the sustainability generation FOE succession?
2. What type of leadership succession determine the sustainability generation in FOE?
3. Is entrepreneurial character role in determining the sustainability of a FOE?

**The purpose of this study is as follows:**

- Assessing on what extent will gender determine the strategic decisions in FOE succession generation.
- To review features, style or the typology leadership roles in the FOE business succession.

- Assessing entrepreneurial character of individual that has role in the FOE succession.

**This research, however, expected to bring novelty as follows.**

- Research in the domain of this family-owned business succession using the method of extracting information by interpretive approach
- This study reveals the three roles that can drive successful business succession in FOE, the gender roles, leadership and entrepreneurship
- This study reveals how the quirk in the FOE were caused by family background, that can affect the value and business perspective in the FOE

### **Research Method**

This is a qualitative research paradigm-subjectivism - interpretivism or in other words the scientific truth is the truth subjective.

Sources of information in this study consists of three levels namely, a) family, the parents (father and mother) and the inner circle (siblings) who have a relationship with FOE, b) management, the manager of the divisions that exist in the business organizations, c) business, the Chief Executive Officer (CEO) or CEO's equivalent. The research was conducted on small and medium businesses that cater Law. 5 of 1999. The company selected to meet the following criteria: a) the size of the business meets Law. 5 of 1999, b) managed to make the transition from one generation to the second generation, c) have the same type of business. On the fact that companies that meet the requirement were originated from two ethnicity, Pribumi and Chinese<sup>1</sup>. Therefore, the eligible sources that correspond with the requirement were four unit of analysis. The four units of analysis, namely Pribumi Medium Enterprise (PME), Chinese Medium Enterprises (CME), Pribumi Small Business Enterprise (PSBE) and Chinese Small Business Enterprise (CSBE). The four currently has been controlled by the second generation, thus gone through the process of transition between generations.

This study raised gender roles, leadership and entrepreneurship because researchers suspect the role of these is the fourth business succession business.

Data collection were done between January 1st – May 21st 2011, venue at Pasar Induk Beras Cipinang Jakarta Timur.

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<sup>1</sup> The information was collected from an unstructured interview with PIBC's management on January 1<sup>st</sup> 2011

Selection technique of source of information of this research is with purposive method. Purposive method, according to Patton (1990) is a popular method in the qualitative approach, due to a phenomenon or a specific theme that made the goal. Purposive method is also considered appropriate, because of four companies chosen are used to understand the phenomenon of FOE. Retrieval of information sources is done by way of snowballing effect. Data mining use for this research through in-depth interviews and participant observation.

## **Result and Discussion**

Actors within FOE rely on informal policy that has set in the family. However, there are also entitled to the appointment of the actors involved family members that are influential in business (as occurred in the PSBE and CSBE). As with the involvement of actors, business succession initiation also depends on the policies that apply to the business that has been decided by the family members of the most dominant in the business process. However, it can happen that no option to decide a successor, so that the responsibility will be transferred to FOE professionals (as in the case of CME, in which the second generation find it difficult to involve family members into the business core. According to the second generation, the FOE began to open up divisions that served as the basis for decision making and the division is filled by the people who recruited professionally).



FOE's Profile Pribumi Medium Enterprise (PME), Chinese Medium Enterprises (CME), Pribumi Small Business Enterprise (PSBE) and Chinese Small Business Enterprise (CSBE).

FOE	Establisher	Capital	Human Resource	Recent income	Expansion
CME	Couple	Savings and loans from family	Porters and owners	> Rp. 2,5 Miliar – Rp. 50 Miliar	None other than a deliberate division was established to facilitate business processes
PME	Women from local merchants who decided to start a business in Jakarta	From savings	Porters, clerks and owners	> Rp. 2,5 Miliar – Rp. 50 Miliar	Expansion has no connection with the main business, and short-lived
CSBE	Grocery merchants who want to focus on one product	Profit margins of the grocery trade	Porters and owners	N/A	Do not have an expansion
PSBE	Traders who would like to start working on his business independently	Resulted from selling personal belonging	Porters and owners	N/A	None expansion

### **Gender and Sustainability of FOE**

Among the four FOE raised in this study, the involvement of men are more dominant than women. Gender involvement will affects approach in succession of FOE, and the presence of women as part of the succession will emphasis on the emotional approach. Women who have an important role in the FOE is practiced in PME, but it is not practiced in the case of CME, PSBE and CSME. All three businesses are positioning women on invisible role in the context of succession in order to sustain the business.

### **Leadership and Sustainability of FOE**

Leadership roles in a case of FOE's succession, can be seen within relationship established between the leader - follower, 1) Within the CME, the leader-follower relationship is between generations or intragenerational, 2) within the PME, the leader-follower relationship is

between generations, intragenerational, and copreneurial, 3) within CSBE the leader-follower relationship is between generations and copreneurial, 4) within PSBE the leader-follower relationship is between generations. Based on these explanations, the local medium enterprise have been thorough a combination of leader - follower relationships, from between generations - copreneurial - intra-generation and later generations.

Leader-follower relationships in CME have shifted from intergenerational into extrafirm (due to the lack of presence of the next generation in the nuclear family). Then PSBE experienced intergenerational relationships, from father to son and CSBE experienced relationship between husband and wife that afterwards shifted to intergenerational relationship between father and son. Each association will influence the succession of each FOE. Forms of leadership among FOE as follow, 1) CME is transitional, 2) PBE is autonomous, equal, transitional, 3) CSBE is autonomous, 4) PSBE is autonomous.

Thus, it can be conclude that the process of succession in FOE, shows the practice of leadership derive from the founder generation rather that the next generation. It implies in the way the founder generation deliver business decision and dominate business decisions rather that the next generation. Leadership, between the cases of FOE, shows a phenomenon experienced by CME that is the transitional leadership by having professionally managed company, while in the three other cases shows tendency of autonomy from the founder generations, that still happens although succession theme is on progress.

### **Entrepreneurship and Sustainability of FOE**

In CME, the fifth aspect of the entrepreneurial orientation emerged, and it is motivated by the dominant aspect of autonomy that are associated with proactive aspect, this is in addition to the effort to transform FOE to become a professionally manage company. In PME, aspects of entrepreneurship orientation appears almost entirely, but aspects of autonomy is not supported by the flexibility of communication that occurs between the founder generations to the next generation, so that the other aspects are not fully supported, despite the presence of these aspects are still recognized in PME.

Two aspects that exist in PSBE and CSBE is proactive and risk-taking. Experience from the founder is use as a guide by the next generation, and experience shown by the founder generation is being duplicated by the next generations. If PME and CSBE emphasize only proactive aspect and risk-taking aspect, then those two businesses probably will

not anxiously to strive for competing to others, and therefore not being able to see the development of business competition, so in the end the FOE can not be sustainable.

### **Theoretical Conceptualization**

Based on the above explanation, the evidence suggests that there is need to develop the theoretical conceptualization as follows.

- FOE originated from the cooperation by couples, termed as copreneurial.
- Gender became part of the FOE and its role in the company is determined by its position in the ownership structure.
- Family organizations and business organizations is an integral and inseparable part unless specified otherwise by the founder of the FOE or can be termed as co-existence of family toward business
- FOE ownership structure is never separated from family members or family embeddings of business organization
- Leadership in the FOE is determined by the procedure of thinking founders FOE
- Entrepreneurship is part of day to day activity that has become commonplace if FOE
- And, there is the phenomenon of organization sustainability by anxiety

### **Conclusion**

Gender roles in the ongoing succession FOE caused by the historical background. On PME, female gender has space involvement at the time of the first generation and second generation, because the female gender who has the leading role in the establishment of FOE. In the CME and CSBE, women do not have a gender and role, because their position is easily replaced and established as having the role of minorities in the FOE.

Leadership role in the ongoing succession caused by historical and cultural background. Especially to the cultural background, it embedded as tacit knowledge, and culture in this study is more relevant to the culture that embraced in the family, not the ethnic culture.

Role of entrepreneurship in the ongoing succession very unique, when compared with professional companies or non FOE. Entrepreneurship is said to develop more in a professional company because there is a possibility that to meet all dimensions of entrepreneurial orientation, whereas FOE not. FOE assumes that the competitive aspect aggressiveness and risk taking is not important, so the development of

FOE according to this assessment can be stagnant, especially if FOE is switched from generation to generation. In fact, there is a possibility that dimension is embedded in the FOE, so it is not considered important, because being a part of the tacit knowledge.

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