International Conference on Asia Pacific Business Innovation and Technology Management

Family Business Succession in Indonesia: A Study of Hospitality Industry

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Abstract

Winoto and Graito (2008) drew up that family business dominates the business in Indonesia and spread in various fields of industry and organization, including in hospitality industry [28]. Family businesses worldwide are facing the problem of succession, inclusive in Indonesia. They can not avoid the issue of succession which generates a succession planning in family business needs. This paper investigates a number of issues regarding succession in family business, such as: a succession plan had by owner/managers of family business, the formulation of succession plan and factors do influencing on the formulation of a succession plan. A study of family business in hospitality industry is carried out in Indonesia. This study uses a qualitative method by conducting some interviews. The results shed light on the issue of succession planning in family business for hospitality industry. The contribution from this study is to provide an overview for consideration by the owner/managers of family business in hospitality industry and to be references about family business in Indonesia which is very limited.

Keywords: family business; succession planning; hospitality; Indonesia.

1. Introduction

Winoto and Graito (2008) drew up that family business dominates the business in Indonesia and spread in various fields of industry and organization, including in hospitality industry [27]. Family businesses worldwide are facing the problem of succession, inclusive in Indonesia. They can not avoid the issue of succession which generates a succession planning in family business needs. The number of researches concerning family businesses in the tourism and hospitality sectors was small, yet family businesses predominate in many tourism regions [1].

Succession is a sensitive theme to be resolved to anticipate conflict and disorganization in family business. The key topics that must be dealt with to ensure continuity of family business firms are management succession and structure. With the result that, once these are defined, other topics with
possibility for family conflict are easier to overcome [5]. Succession of management is a significant moment in the life of family business. Succession is one issue that requires analysis from the perspectives of family, management, and ownership with an eye to understand exactly the viewpoint of the different stakeholders [6]. A previous study revealed four weaknesses of Indonesian family business, namely financial structure, strategic planning, business risk management and succession planning [24].

During the replacement of the leader or succession was one of the critical points in the journey of family business. Not a few of family businesses could make a stand because failure in the transfer of the management. This is where the importance of preparing the next generation early. For instance by giving the concept of the business, heading successor career from beneath, carrying out the rotation in order to know the family business’ management in a manner spread, and so forth. Regarding the concept of the business also must be supplied how to undertook the business ethically [25].

Based on this matter, this paper formulates the research questions as follows:

1. Does your family business have a succession plan?
2. Who will you select to be your family business successor?
3. How will you prepare and develop your family business successor?

2. Literature Review on Family Business

Morris et al (1996) revealed that a family business is defined as one in which both ownership and policy making are dominated by members of an "emotional kinship group" [22]. They classified controllable factors influencing family business transitions into three groups: preparation level of successors, family relationships, and planning and control activities. As a result, reasonably well-prepared successors, positive family relationships, succession planning and informal control activities are the factors that support successful transitions. Trust and communication in family relationships are the most significant impact on transitions. A family firm is defined as an organization owned and/or controlled by members of a family or kinship group [18]. “The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” [29].

Winoto and Graito (2008) wrote out that the classification of industries among Indonesian family businesses are divided into wholesalers and retailers (36%); manufacture and distribution (24%); professional service (14%); have two different industries (13%); agriculture and fishery (4%); construction (3%); finance and real estate also transportation (2%); and hotels and entertainment with service (1%) [28]. Values in family businesses tend to be adopted from values in family. Therefore, the core values of family businesses are similar to the ideal values of family [18]. Andersson et al (2002) argued that family businesses within the hospitality sectors react to a unique set of opportunities and challenges [1].

2.1 Succession in Family Business

One of a tool to improve succession is academic courses for family business members. Family business courses have become common recently, but there has been few researches conducted on the effectiveness of these courses [6]. Gaining experience outside the business has been recommended by some researchers [11] [21]. Experience outside the company helps the successor develop its own identity and prepare for the problems that may confront the organization [5] [10]. Longenecker and Schoen (1978) revealed that the transfer of management is a long stage and beginning in childhood [20]. Davis (1986) revealed that personal skills and organizational development are needed for a family business to develop through various stages [12]. Likewise Handler (1990) stated that succession is a multiple-stage process [16]. There is a strong belief that the successor needs management responsibilities and diversity of experiences inside the family business. This includes contacts with suppliers, customers, and others. Experience inside the family business enables the successor to develop relationships within the company and understand the culture of the family business [11].

The important conditions affecting management succession is the family’s attitude [4]. Davis (1986) stated that personal relations among relatives often take precedence over maximum profit in family businesses [12]. Therefore, a number of researchers believe that potential successor must have the trust of family members within the business [14] [17]. Of particular concern is the level of members’ interest of the junior generation [9] [15] [20] [27]. Stavrou (1999) stated that successor intentions to join or not join the family business were related to individual needs, goals, skills, and abilities [26]. She further found that the family issues have relation to the successor’s decision not to enter the family business.
Drozdow (1989) stated that there has been a tendency by family businesses to select a successor who was not the eldest son [13]. A daughter or youngest son is increasingly selected as the successor of the family business. Chrisman, Chua, and Sharma (1998) found commitment to business is more important than gender and birth order [8]. It is often recognized that the eldest may not always be the best and sons may not necessarily be better than daughters [2] [19]. However, Barnes (1988) found that in order to preserve family harmony, a family business may be discouraged from choosing a younger son or a daughter as successor [3].

Succession in family business has its implications for the various involved parties. These parties can include family members both in and out of the business, nonfamily employees, the founder owner, customers, suppliers and so on. Individual transitions can be characterized by how well-planned the stages are, conflicts that occur between the current head and the successor apparent over time, conflicts experienced within the family and by nonfamily employees, and many more [22] [30].

3. Research Design

The research adopted a qualitative methodology and provides evidence from three family restaurant businesses in Indonesia. List of questions was designed. Qualitative evidence was collected in April 2012 via interviews and informal conversations. The sample was selected by convenience. In addition, all companies are particularly in restaurant industries. The interviews were conducted in Bahasa Indonesia and translation into English was at the written stage of analysis.

Cross-case analysis is a grouping common responses to interview as well as analyzing different point of view on core issues [23]. This analysis begin with writing case for each unit studied, then grouping answers together according to questions, themes, or central issues. The current analysis is based on one main theme that is common to all family business research namely, succession planning. Questions covered basic business information, including ownership, the roles of family members involved in the business, number of employee, when the business was established, the education levels and previous business experiences of owners. Interviews were conducted with individual family members at a time and location convenient for respondents, mostly at their restaurant which is also their home. All participants signed a consent form and full names are written on the consent form. The businesses selected for study are representative of family restaurant businesses.

4. Results of the Study

Research information of family business succession plan was gathered during interview processes provided by the authors. Table 1 provides background information for the three family businesses.

<table>
<thead>
<tr>
<th></th>
<th>Company 1</th>
<th>Company 2</th>
<th>Company 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variety of business</td>
<td>Chinese Restaurant</td>
<td>Palembang Restaurant</td>
<td>Indonesian Restaurant</td>
</tr>
<tr>
<td>CR</td>
<td>(CR)</td>
<td>(PR)</td>
<td>(IR)</td>
</tr>
<tr>
<td>Year business was founded</td>
<td>1950</td>
<td>1993</td>
<td>-</td>
</tr>
<tr>
<td>Current location</td>
<td>West Java</td>
<td>West Java</td>
<td>East Java</td>
</tr>
<tr>
<td>Total employees</td>
<td>100</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Family ownership</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Generation</td>
<td>Third</td>
<td>First</td>
<td>First</td>
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</tbody>
</table>

The three companies are aged between 19 and 62 years old, situated in Java, Indonesia, and range in size from 10 to 100 employees. CR is managed by a woman in the age of 40s, PR is owned and managed by man in the age of 40s, and IR is owned and managed by a woman in the age of 60s.

Manager of CR is a bachelor graduate and has two children. She is the third generation of her family business. The first generation was her grandmother and the second generation was her father. Some family members who are getting involved in the family business are her sister as the second owner and some family members who are responsible for the warehouse and purchasing. Even though she is a newbie in business, she was an employee before, being the third generation is her own desire. She saw CR as becoming the culinary legend in Bogor, West Java with the typical characteristics of noodles and the heritage recipes. The goodwill is a pity if the family business is not being continued. So, continued this family business was her wish, there was no force or was told by other persons. And now she has
two branches of CR. She plans to retire after the following generation is ready, she will prepare the following generation (the forth generation) previously. Unlike CR, owner at once manager of PR is a high school graduate and has six children. He is the first generation of his family business. Armed with his previous business experience as a traveling salesman, he decided to start the family business because business has no limits, unlike the work that has a limit. In managing PR, he was helped by his wife as the vice owner and his children as the staff. He plans to retire start from now because this is the time for regenerating the family business. Different from others, IR started her family business because she saw an opportunity by her college friends beside her skill was only cook.

**Does your family business have a succession plan?**

In general, all of the respondents do plan for their succession, even though not in written or in other words informal. They encourage their children to participate in family business and send them to management or business school.

**Who will you select to be your family business successor?**

Surprisingly, the three respondents will select their first daughter to be the family business successor, in despite of IR which select her daughter in law to be the successor. This finding supports some researchs that a daughter is increasingly selected as the person best able to be the new leader of the family business [8][13].

CR succession plan emerged since her first child was 8 years old. She saw her child had passion in the restaurant business. She had never discussed about the restaurant business with her child, but her child was skilled enough in the cashier and waitress. In the age of 8 years, her child could have served the consumer in accordance with the SOP. Her child had said if she wanted to have five outlets of the restaurant business. Her child is female. According to her, gender had no influential towards the succession plan. PR will select his first daughter to be the family business successor, assisted by the second and the third child (male). He chooses them to be the family business successor because of their own desire and he saw they have talent in restaurant business.

**How will you prepare and develop your family business successor?**

In term of preparing and developing the family business successor, CR is more prepare than PR and IR. There are conditions for the successor in managing CR family business. This is as a result of CR famous heritage noodles recipes; therefore the successor must have a good grip of these recipes. These recipes must directly taught by the current manager to the following successor. In addition, the successor also must school previously, like school of restaurant management. She wants the successor become a professional. The last condition, the successor must also get involved directly with CR. According to her, it was unimportant if the successor had work experience outside, because the point is the successor can observe other restaurants cleverly so the successor can personally determine the room for improvement. CR will send her daughter to management school of restaurant after her daughter passed the senior high school. After successor graduated, successor must directly get involved to the family business. Because successor must indeed get involved personally in various aspects in the restaurant and that was increasingly fast increasingly good. Recently, successor begins to get involved directly in the restaurant once a week, successor herself who made the schedule 4 hours on weekend and 1 hour on weekdays. At least she liked to help. In preparing and developing the family business successor, passion is the most important requirement for CR. The family business will be difficult to be expanded if the owner did not have passion. Unlike worked in the office, in doing business we must know many aspects, like financial, marketing, operational, and so on. If not having the desire and the high spirit entrepreneur, that will be troubles.

Least equal to CR, PR will ask the successor to get involved directly in the family business and blended with the staffs. He has sent his first daughter to the management school in Malaysia. Moreover he told the second child to be responsible for the financial part because his second child could be believed, and he told the third child to be responsible for the supplies of materials (the warehouse checking). His plan, this family business could become franchise. Conditions for PR successor are apart from having desire, the family business successor also must be able to cook *pempek* (traditional food from Palembang, South Sumatera) and could carry out all the work in the restaurant including the cleanliness. In preparing and developing the family business successor, skill is the most important requirement for PR. Moreover understood trading and the work experience inside (get involved directly) are also very important factors. Education and the work experience outside are not the important factor.
This finding contrasts to some researchers that recommend gaining work experience outside and an academic course for developing successor [6] [11] [21].

Different from the others, IR will continue her family business to her daughter in law. Even now the successor has not helped. This is as a result of the successor has just graduate from college and still worked in another place.

After the family business was inherited, all the three respondents will continue to be involved in the family business. CR will act as advisor for her family business, where she stopped did operational but was assigned as carrying out observation and giving advices. According to CR, the difference between the nonfamily business with the family business was the generations above must continue to provide advices to the successor. PR will keep controlling the family business while the successor managing the family business.

5. Conclusion, Contribution and Limitation

It would appear from these results that owners of family restaurant business in Indonesia have plan for their succession, even though not in written. All of them will select their daughter to be the family business successor and most of them encourage their children to participate in business and send them to management or business school. All respondents knew what they required from their successor. CR revealed that passion is the essential requirement for their successor. While PR revealed that skill is the essential requirement for their successor. But IR did not state anything as the essential requirement for the family business successor. The contribution from this study is to provide an overview for consideration by the owner/managers of family business and to be references about family business in Indonesia which is very limited.

Given the number of sample findings may not be generalised to other parts of Indonesia.

References


