STRATEGIES FOR SUCCESSFUL FAMILY-OWNED BUSINESS

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Abstract: This study aimed at explaining the strategies of success in running family-owned enterprise to enable the next generation to develop the company which had been established by previous generations. This was a qualitative research with a case study approach conducted on military equipment business in Tulungagung Regency. The results of this study indicated that the strategies of success in family-owned companies were through the process of selection of candidates for the next generation of the company and handing over all power to the elected candidates. Conflicts emerged inside the process of selection or determination of business leaders but through meetings and liberation with all members of the second generation and produced an agreement that three of the six children of the family went into the organizational structure to manage the business. While the other three children set up their own business, however, the three children were still related to the development of family companies.

Keywords: Succession, Family Business

Family-run companies play a major role in creating jobs. The family-owned business is a healthy economic engine and holds an important position in world trade (Hnatek, 2015). Approximately 70% - 80% of the family business enterprises are able to employ about 40% -50% of the workforce across Europe. Then in North America, nearly 80% -90% of the family business enterprises is able to employ 64% of the U.S. workforce US (CBIA, 2012 in Hnatek, 2015). Ismail and Mahfodz (2009) in Laurence and Mustamu (2015), state that family companies in the United States absorb as many as 15% of the workforce. This shows that family companies play a big role in the absorption of labor. The growth of family business in Indonesia has a chance to grow. This can be shown by the Gross Domestic Product (GDP) which is equivalent to one of Turkey and the Netherlands, and the annual growth rate of Indonesia is in the range of 5.8-6.4%. Indonesia is predicted as the fourth largest economic power in the world by 2050 and with rapid industrialization, Indonesia is capable of attracting investors for more appealing investment (Telkom University, 2017). The development of family companies in Indonesia also has the potential to grow well. This is evidenced by the family companies included in the 500 largest family businesses in the world by global Family Index in 2015. Here is a list of the family firms in Indonesia registered on the Global Family Index.
Table 1. Shows that the Global Family Index gives ratings to the top family companies based on the revenue they earn. The family companies included in the top rankings were PT. Astra International, Tbk, followed by PT Gudang Garam and PT Bank Central Asia Tbk. The year column in Table 1.1 indicates the year of establishment of the family companies. PT Astra International, Tbk was established in 1957, then PT Gudang Garam was established in 1958, and PT Bank Central Asia Tbk was established in 1957. The role of the family business leaders is vital in managing their companies. The vision and mission are given to influence the whole aspects, both internal and external aspects. That is what caused the family business to go into the top 500 Global Family Index survey agencies and has been able to survive until recently. The family business leader has a big share to make his or her family enterprise survive. The naturally-yielded strong character of the leader enables him or her to face a variety of challenges, such as anticipating changes of consumer tastes. The existence of the family business is more vulnerable due to factors that caused by internal factors, especially conflicts between families. The causes of conflict are diverse, for example, misalignment of individual business goals with different thoughts (Jakarta Consulting Group, 2014).

A family business that survives and thrives is a family business preparing for succession in the next generation. On the other hand, a family business has many difficult problems in finding solutions, such as the existence of distrust in among family members, conflicts in leadership succession, internal conflict decision making, the issue of the successor to the company throne, the difference of mindset between the first generations and next generation. As a result, it is not uncommon for family businesses to experience a decline, even forced to close due to a prolonged conflict in the internal family environment. This is contrary to research conducted by Bizri (2016), in the field of the transportation business, which is the study stated that to make a succession within the family business requires deep commitment to co-manage the decisions of the successor for the next generation so that it will be easy to find and select. According to the Jakarta Consulting Group (2014), it is generally a family business succession be prepared by the earlier generations by involving family members in the management of the company. Succession planning that has been thought and well-prepared by the generation will provide mental readiness for the company family. Making preparations in planning succession is the thing to be affecting the outcome of succession within which the family moves depending on the quality of its preparation. When the succession planning has been done, it will enter in a phase called the process of succession.

Succession is done through a long process. This is because choosing a person for a successor greatly determines the success and future of the company. The proper selection of successors will keep the company on hold even though the owner is not meddling in the business that he has built over the years. Founder of the company must be able to choose the best successor and who can be the successor to the company. As a research conducted by Remiasa and Wijaya (2014), located at PT. Puterasean, a company engaged in the successful rubber industry to succeed to the second generation. Furthermore, the research of Septiani and Mustamu (2014), which takes the location of the researcher PT. Gading Murni, the company known as the oldest family

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**Table 1** List of World’s Largest Indonesian Family Companies in 2015

<table>
<thead>
<tr>
<th>Rank</th>
<th>Companies</th>
<th>Year</th>
<th>Revenue</th>
<th>Employees</th>
<th>Country</th>
<th>Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>PT Astra International Tbk</td>
<td>1957</td>
<td>18.7</td>
<td>132570</td>
<td>Indonesia</td>
<td>Keswick</td>
</tr>
<tr>
<td>279</td>
<td>Gudang Garam PT</td>
<td>1958</td>
<td>5.4</td>
<td>43317</td>
<td>Indonesia</td>
<td>Wonowidjojo</td>
</tr>
<tr>
<td>360</td>
<td>Central Asia Tbk PT</td>
<td>1957</td>
<td>4</td>
<td>21281</td>
<td>Indonesia</td>
<td>Hartono</td>
</tr>
</tbody>
</table>

Source: Global Family Index, EY’s Global Family Business Center of Excellence
company and largest as the sole distributor of stationery and office equipment in Indonesia. The company successfully succeeded to the second generation and would do a succession to the third generation. While the last example is CV. Tumiran which is used as a research subject engaged in military equipment which has entered the second generation. The problem of succession is more than just a transition from the founding generation to the next generation. But succession also deals with various sides planning, such as ownership succession planning, management succession, strategic planning, time planning of successful implementation, and emergency plan in succession process. Succession planning is a weakness for many family firms including family companies in the world. Succession is a major source of conflict, as it is considered complex and threatening for the survival of family companies. Companies are supposed to grow and earn a good income, otherwise, it declines and hampers as well. The potential for conflict within the family business can outweigh its other potentials. This is due to the conflicts within the family’s internal environment which occurs in the process of succession. Different thoughts are possessed by each family member who wants a position within the company. This is what a research gap in this study and still not proven in detail about success or success of the succession of the family business.

The family company owns the statement that the first generation builds, the second generation enjoys, and the third generation is destructive (Jakarta Consulting Group, 2014). There is the fact that only a handful of family companies are capable of lasting for several generations. It should not be an excuse for stop fighting for the family company’s glory. The main focus of concern issues inherent in family business, namely succession, internal conflict, and alignment between business goals and family goals. Formulation of the problem is “How to implement successful strategies in a family business?” This research aims to explain the strategies for success of a family enterprise well so that the generator can develop a company which has been established by previous generations.

LITERATURE REVIEW

Family Business

The family business is the traditional way of doing business in the private and active sector in all economic sectors (Mandll, 2008 in Hnatek, 2015). Lambing and Kuehl (2003), define the family business as the majority of ownership controlled by a family, two or more family members directly involved. Family business is business organized and organized with the intention to form and pursues a businessman which is controlled by the same family members or a small number of families by the way which has the potential to continue throughout the generations of families (Chua, Chirsman, and Sharma, 1999 in Dewi and Dewanto, 2012). According to Sukamdani (2013), the family business is a reflection of the system which consists of three intersecting circles. The three circles in questionnaire business circles, family circles, and circles of ownership. Longenecker (2001), states that the business is a family entrepreneur of his family directly involved in ownership and position or function. Business is done on a regular basis together in the family. Participation from families can strengthen the business, this is due to family members being loyal and dedicated to family companies (Helmiatin and Mulyana, 2009).

Family Business Roles and Principles

Family firms are the elements that have an important contribution to the economy of a country, including in Indonesia itself. Moez Miaoui stated that economy in the Asia Pacific much depends on small and medium enterprise sector (known as UMKM) as the backbone of the country’s economy with the majority of business owners in the family. He further cited that many family businesses are hit by serious problems that can threaten its existence because most family businesses are held by the first generations. When the family business will be transferred in the second and third generation, then it appears complicated problems. The strength of the family in the family business includes influence over ownership, supervision, and management. Principles are the basic values that everyone believes to be
absolute truth and can be universally applicable, such as honesty, transparency, and fairness. The principles of honesty, transparency, and fairness are principles which are adopted by family business. The following explains the principles found in the family business.

Factors of Success and Failure of Family Business

The success of a company cannot be separated from the role of internal and external parties. This also applies to family-based firms. The family business which succeeds cannot be separated from the supporting roles either internally or externally. Factors that determine success in family business (Sukamdani, 2013), amongst the best infrastructure owners, possessing professional and deft professional employers, having employees who have a good education and competent in performance, fair treatment of all family members, analyzing inner cycles the life of the company to be run, affecting with Q-Strategic Leadership, wealth, pensions, and planning in the owner’s assets, has a paradigm, strategy, structure, and new systems, replacement from the perspective of ownership and management.

Success and Failure of Family Business

A company establishing business, or things to do always faces a challenge and obstacles. This applies equally to family business where there are various challenges and obstacles inside achieve success. Here are some challenges that can be embraced in terms of achieving success in family business (Susanto in Sukamdani, 2011). Family businesses generally face the challenge of professionalism. That needs to understand environmental changes ideologically, politically, economically, social and cultural rights, as well as the ability to translate it into thinking creatively with innovation. Strengthening professionals on human resources (HR) from family companies. This is considering the number of human resources with a variety of qualities, the quality development, therefore, needs to be addressed and laid out in more depth in accordance with the professionalism of the company. In managing family business required leaders who can unite family members in togetherness and should be able to maintain business harmony family well and conducive.

Challenges in the face of professionalism, strengthening human resources, to the necessity leaders who can unite family members are a frequent challenge faced by family business enterprises in general. But not just a challenge, there are also factors that cause failure in family business management. Factors as the causes of failure in managing the family business in Indonesia (Susanto in Sukamdani, 2011), among others, are conducting business in the company family is not professional, the absence of separation between corporate finance and personal finance, the system implemented that does not describe the management system in a healthy manner, only prioritizing important positions in relatives, no inclination attaching importance to performance but more close relationships with owners, presence of judgment which assumes that family business will end in the hands of second generations, Human resources is often not seen as an important and unmanaged corporate asset professionally.

Actions in Succession

According to Hisrich, et al. (2008), to bequeath the business to a family member seems quite difficult. Experts estimate that half of all attempts failed in making the transition from the founding generation or first generation to second generation only about 14% who can reach the third generation. Zimerrer, et al. (2009), declares whether or not a receipt will be considered successor generation, the entrepreneur must explain to each related family member that it is not required family members to join the company. Purpose, ambition, and the talent of family members should be the most important in decision making. The assumption that the testator must come from within the family is not everything justified, which is simply because being born as a family member is not a guarantee that someone will be a good corporate leader. Provide opportunities for family members to first work outside company to learn how other people run a company. Working with others allows development of
knowledge, self-trust, and credibility before entering the family company. The founders will transfer their knowledge to the successors gradually all the time. Conducting discussions to prepare for a leadership transition takes a long time and should be based on openness from both sides. Actually, preparing for a replacement is a responsibility of teaching and the greatest development of a company founder. Besides taking time and the hard effort of the founders, it then creates the ability and trusts the self within the successor. Zimerrer, et al. (2009), state that the following constitutes what the founder must do in transferring his knowledge to the successors. Patience, recognizing that transfer of power is a gradual process that the successor must have responsibility and authority one by one until the whole process of power transfer is complete. Be willing to accept the fact that the replacement will make a mistake. Be capable of using a quarantine error as a teaching material. Be able to be an effective communicator and most importantly a listener full of tolerance. Be able to form reasonable expectations for replacement performance. The last is be able to express the key to the success of the company. Preparing for a replacement can be started early by involving children into the family business and observing which child has the highest ability and interests in the company’s business field (in this case if it has more children from one).

Stages of Business Succession

Isabelle Le Bretton, Danny Miller, and Liod Steier in Susilo (2006), stated that in the Toward Integrative Model of Effective Family Own Business Succession provides four models of stages in business succession. The first stage, creating a foundation that contains the direction of business that will occur in future, the role of key players in the succession and guidance process. The training follows the process of selecting a successor or successors. The second stage, developing potential candidates (sort of mentoring) through training, education and work experience. While the process is constantly monitored periodically. The third stage, the selection process of candidates as the successor of the company. The fourth stage, then the last process is to give up all power to the elected candidate. In the study theory Susilo (2006), agree with Zimerrer, et al. (2009), where the most effective succession plan in a family enterprise is to plan succession as early as possible by involving family members. There should be an option for the next generation to join or not within the company. Susilo (2006), states that in general there are three succession steps that is Transfer knowledge and networking and develop the correct nature, Transferring charisma and start using the network you have, and Developing skills, charisma, and reputation. Paying attention to future generations with formal education, business experience, and nonformal education accompanied by emotional maturation as well attitudes that will make dynamic against the way of thinking and shape the soul the wisdom of taking every decision.

RESEARCH METHODS

Research Approach

The present study used qualitative research with case study approach. The reason the researchers used this type of qualitative research with case study approach is that the researchers intended to study, explain, or interpret a case in its natural context without outside intervention. In addition, the researchers also play a role as the key instruments, data collectors, collection techniques with triangulation (combined), data analysis is inductive/qualitative, and more qualitative research results emphasizing the meaning of generalization.

Data Source

Lofland and Lofland in Moleong (2004), suggest that the source is primarily in qualitative research are words and actions, the rest is additional data like so many others. This research employed primary data source, where data obtained directly from the research subjects. The subject of this research was CV Tumiranas a whole and the informants in the research were family members of Mr. Tumiranand some company employees.
Sample

In qualitative research, the sample of the data source is chosen purposively and snowball sampling. Ferdinand (2014), puts forward that early researchers contact some of the potential correspondents and ask whether the researcher has identified people with the same characteristics sought in this study. Determination of sample data source, at the proposal, is still temporary and will develop later after the researcher at the field. Samples in the early stages of entering the field are selected people who have power and have authority on the social situation or object under study, so as to be able to be the beginning for researchers in collecting data. CV. Tumiran is a family company manufacturing that has been proven to implement succession from the first generation and the second generation. This can be seen with the company’s survival that has been until now countless first-generation switches to the second generation for 20 years. Other reason researchers using CV. Tumiran as the location of this research is the limited previous research manufacturing companies in the family business mainly in Indonesia.

Method of Collecting Data

In qualitative research generally, the process of collecting data is often done through interviews, observation, and documentation. Data collection is done for the researcher to get the data needed for an action or analysis. There are some data collection techniques used by researchers, namely as follows.

Interview

Interview used by a researcher to collect data is technique of Semi-structured interview, i.e., researchers in the implementation which more free if compared to structured interviews. The purpose of this kind of interview was to find the problem more openly, where the interviewee is asked for opinions and ideas. Then the researcher had prepared written questions with using interview guidelines as an instrument that could be developed. The researcher used interview data leverage techniques to know which process of succession done the first generation to the second generation and the next generation.

Observation

Observational methods used by researchers as a means of collecting data on the process. The succession conducted by CV Tumiran was passive participation. Passive participation in the event this is a study of some of the activities of people who are observed, but not involved in activities. The researcher collects the data and then used the observation sheet which will be filled/observed directly by the observer. The results of this observation are written on the observation sheets made by observers.

Documentation

In qualitative research, the document is a supporter of research activities in the form of observation and at the time of interview. A document is a form of note events that have been captured through images, videos, and writings. Sugiyono (2014), reveals that “the document is a record of events already passed. Researchers use documentation techniques to find out the current activities of the research take place. Documents may be writings, drawings, or monumental works of someone. Documents can be in the form of images, such as photos, live pictures, sketches, and others. Documents used by the researchers in the form of photo documents. This documentation activity is carried out to strengthen the results of research disclosed researchers.

Data Collection

Data collection techniques are done by preparing the tools that will be used to obtain information that will be needed. Tools used a mobile phone as a means of recording conversations between researchers with informants, cameras as a tool of research documentation, and the latter is a software application that is used the researcher to transfer the recording into writing making it easier for the researchers in writing interview results.
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Data Reduction

Raba (2006), cites that the process of selecting and concentrating research attention through selection which is tight against more advanced focus, sharpening focus, making results collecting data, organs are organized for further analysis selection performs a collection of data across the whole. In order to understand all data that has been collected and data that has not been vetted.

Data Display

Presentation of data is done with a brief description of the research results. With the presentation of data, it can easily observe the phenomenon that occurs when designing the next action in the inference stage.

Conclusion

The conclusion that is expected is a new meeting. Findings can be clarity of objects before the study is still abstract, the relationship of the new theory. The conclusion in the study is not fully able to answer the problem formulation, because the formulation of problems in qualitative research is dynamic from beginning to end research.

Data Validity

The validity of the research is ensured, the study used triangulation performed to check the use of methods collecting data on the suitability/similarity of information obtained by the method interviews and observation methods, or matches/similarities of observational results with information provided by an interviewer (Bungin, 2009). The interview method will use the instrument which is the interview guide, for the observation method will be using instruments in the form of observation guidelines, while the observation method will be using the recorder, camera and voice recorder.

DISCUSSION

Success Strategies

The success strategy in this company is an application of a succession pattern in a process of transformation from the first generation to the second generation, namely the process of succession. In the process of succession, constraints often occur mainly from the family. The family still had doubts about the responsibilities of the new leadership (second generation/next generation). The process of succession occurs when the first generation experiences problems health to death. Furthermore, the company is led by the first child as a second generation. The basis of this first child appointment is because he has traveled to earn an education in Malang and had worked in a company. Thus he has a better experience than other family members and has experience and a good track record in performance and responsibility. The leadership of this first child was in doubt due to concerns about the family system. But with the assertiveness of this first child, there was no doubt again. The leadership of this first child is also confirmed by the statement of subordinates or employees who judged their superiors. According to the employee the current leadership indeed firmly is intended for the progress of his business. Although this is a family business the management remains professional.

Next Generation Selection Process

During this running business, the family does not remain silent, but all the family members participate in and help this business. When the owner, as well as the leader of this company, passes away suddenly then a new figure for his leadership is needed. Therefore, the next generation has a process of voting in a democratic way. For the election process to become a candidate for the successor of CV. Tumiran, there are stages one based on the research by Isabelle Le Bretton, Danny Miller, and Liod Steier in Susilo (2006). Isabelle Le Bretton, Danny Miller, and Liod Steier in Susilo (2006) states that in the Toward Integrative Model of Effective Family OwnBusiness Succession provides four models of stages in business succession. The first stage, creating a foundation that contains the direction of business that will occur in the future, the role of key players in the succession process and the following training guides the selection process of prospective successors or successors. The second stage, the development of potential candidates (sort
of mentoring) throughways of training, education and work experience. The whole process continues monitored periodically. The third stage, the selection process of candidates as the successor of the company. The fourth stage, then the last process is to surrender all power to elected candidates. These stages have been done and implemented with emphasis on the second stage, a potential candidate development process. In the second stage, the potential candidates are required to have predictable traits in time that will come or improve the quality from day to day and must have a lead moral to its employees. The moral burden intended is not just thinking self, but must think about the welfare of its employees. When the leader is capable of prospering its employees, then the employee will indirectly local to the leader and loyal to CV Tumiran.

Lambing and Kuehl (2003), defines the family business as the majority ownership controlled by a family, two or more families directly involved. CV Tumiran is a family company whose ownership controlled by a family, two or more family members. This effort is led by the first child who is considered able to commit so that the management is done well between other family members. This is supported by the Bizri research (2016), whose research results show that the next generation will be easily selected if they have a good commitment to joint management among family members.

Succession Stages performed

Stages of succession process are very long, so for the election of the generation then it is not as easy as imagined. It takes a little time to obtaining or appointing the second generation or the next generation. The stages used in business succession (Isabelle Le Bretton, Danny Miller, and Liod Steier in Susilo, 2006), say the first is a response, the second stage performs the process of developing potential candidates, the third stage is the process of candidate selection for successor, and the fourth stage is to give up all the powers of the chosen candidate.

Based on the results of interviews conducted by the researchers to the informants it obtained exposure. The first stage, make the foundation. The foundation is done by educating from regeneration as a whole. After that it chooses the candidate generation to be corporate leaders. The foundation in question is not only regeneration survive for the short term, but regeneration is able to look ahead on long term and should have a clear prospect. The second stage, the development of potential candidates. Potential candidates must have a higher quality so as to be able to face that competition the future is increasingly unpredictable. The third stage, the selection process of candidates as the successor of the company. Process selection is done democratically in which all family members are involved in order not to cause conflict. The fourth stage, then the last process is to surrender all power to one selected candidates. After the election of the first child as the next generation company, then the whole family hopes that the new leader can afford and run the company well and trust.

CONCLUSION

This company is a family business established by parents. Management of the company is subsequently handed over to the first child by the election of the family member in a democratic way. Strategies for success are conducted in managing this company charged its responsibility to corporate leaders. The first stage is done by creating a firm foundation by educating the whole family to have vision for the future of building and managing the business, the second stage choosing the candidate leader which is potential because the future conditions cannot be predicted, the third stage provides education and understanding that in conducting the election of a leader to be able to implement family business should be done democratically and involve all family members to avoid family conflicts, the fourth or last stage, i.e. Handed the baton of leadership to one of the family members selected.

REFERENCES


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