EXPLORATION OF OBSTACLES FACED BY SUCCESSORS IN THE INTERGENERATIONAL TRANSITION PROCESS OF FAMILY BUSINESS

Muhammad Fuad  
Faculty of Economics, Universitas Samudra

Made Sudarma  
Gugus Irianto  
Faculty of Economics and Business, Universitas Brawijaya

Abstract: One crucial step that must be faced by a family company in maintaining the sustainability of its business is the intergenerational transition process from a predecessor to successors. This study aims to explore the obstacles faced by successors in undergoing the intergenerational transition process of their family business. The study was conducted on small and medium-sized family businesses in the Kota Batu region undergoing the process. Nine successors were chosen purposively as the key informants using a snowball sampling technique. Data collected through in-depth interviews, then the researcher reflects it through narrative analysis approach. Based on the results of interpretation identified that three major obstacles faced by successors while undergoing the intergenerational transition process of their family business. To overcome these obstacles, it takes intense communication between the successors and predecessor, as well as among the successors themselves, while undergoing the process.

Keywords: Successor, intergenerational transition process, family business.


The intergenerational transition process is a crucial stage that must be faced by a family business in efforts to maintain the sustainability of its business. Although not the only factor that influences business sustainability, a number of researchers state that in the context of family business is related to the problem of the process (Laspin et al., 2012 and Molly et al., 2010). Because it is considered to influence strategic choices, the intergenerational transition process gives a direct or indirect influence on the success or failure of the family business sustainability (Carney, 2005 and Lansberg, 2010). The main expectation that arises is that the process can be carried out smoothly and peacefully, as well as making a positive contribution to the sustainability of the family business. To fulfil the expectation, good communication is needed among the actors of the intergenerational transition process in overcoming complex problems that may occur during the process.
A successor is one of the important actors in the intergenerational transition process of family business. The main burden that must be borne is that after the process is carried out, they must be able to at least maintain the continuity of family business in conditions such as when transferred by their parents as the preceding generation, if they are not able to increase the scale of their business (Daily & Thompson, 1994 and He, et al., 2010). However, the successors also have a second burden, namely that they should be able to maintain the sustainability of the family business by passing it on to the next generation who are their biological children (Perez-Gonzalez, 2006 and McConaughy & Phillips, 1999). His failure to carry out one or both of these burdens can lead to feelings of guilt from himself because he is unable to meet the expectations of his parents.

In order to meet these two burdens, the successors must be able to overcome the obstacles that may be faced throughout the intergenerational transition process.

The observation by Kets de Vries (1993) shows that only about one third of the total family companies are able to transfer management to the second generation, but only 10% to 15% of the second generation has survived when transferred to the third generation. The survey results by Family Business Review (2003 in Wulandari, 2009) reported that 71% of family companies in Australia are owned by the first generation, 20% is owned by the second generation, and only 9% are managed by the third generation. Monash University (1997 in Susanto, et al., 2007) emphasized this phenomenon based on the results of its survey which showed that the average wealth of first-generation family-owned companies amounted to 690 million US dollars, which then decreased to 293 million US dollars in family companies managed by the second generation, and that wealth to only amount to 170 million US dollars when family companies have been managed by the third generation.

This study aims to explore the obstacles faced by successor generations in the intergenerational transition process of family business. The comprehension is carried out using an interpretive paradigm by interpreting the thoughts and actions raised by the successors as key informants during the process, which is explored through an in-depth interview technique to explore the personal and social aspects included in the phenomenon (Moleong, 2011 and Tafsir, 2010). This research is useful for understanding the meanings in the context of a phenomenon by being open to the theories but not bound to them so that a new theory can develop based on the facts observed in the field (Myers, 2009 and Eriksson & Kovalainen, 2011). The implementation of this research provides theoretical benefits for expanding understanding of the intergenerational transition process and the development of family business management theories. In practical terms, this research provides additional insights for the perpetrators of the process, especially the next generation, in designing the design of the intergenerational transition process so that it can run smoothly and contribute positively to the long-term sustainability of the family business.

**METHOD**

The research site is a family business that conducts business activities in the Batu City area. In particular, subjects are small and medium-sized family business that carry out economic activities in the agricultural sector. To obtain the proper information, informants were chosen purposively related to the level of involvement of those concerned on the topic to be studied (Emzir, 2010 and Eriksson & Kovalainen, 2011). Thus, the selected information is the successors of the family business that undergo the process of intergenerational transition. Because the exact number is unknown, the selection of informants uses snowball sampling method, where the determination of informants is rolling like a snowball from one informant to the next informant (Fatchan, 2011, Eriksson & Kovalainen, 2011 and Moleong, 2011). The total key informants in this research were nine successors of family companies, ranging in age from 37 to 51 years. All key informants were second generation and biological children from predecessors of family companies used in the study.

The semi-structured in-depth interviews were used to collect data, and are mainly conducted in an
informal setting. The method was helpful so that things that are hidden in the minds of informants and cannot be revealed if quantified can be obtained for data development (Kvale & Brinkmann, 2009 and Creswell, 2009). Interviews are carried out until the data obtained is assessed as redundant, namely the condition if the informant gives the same answer or information repeatedly (Silverman, 2011). When such conditions occur, the process of extracting information through interviews is stopped. Thus, this research more directed at the representation of cases and the quality of information obtained than determining the quantity of information used.

The procedure of data analysis includes the stages of transcription of data collected, data reduction, data coding, and conclusion of themes. In qualitative research, the process of data collection and data analysis is often carried out simultaneously in an effort to understand the patterns or themes identified by the phenomenon from the perspective of the informant (Strauss & Corbin, 2009). In the first stage, the main data in the form of a recording of interviews with key informants are immediately transcribed by the researcher and summaries the results of a review of the phenomenon. Transcription is useful for the check-and-recheck process and ensures compliance with data confirmability criteria (Silverman, 2011 and Creswell, 2009). Transcription helps researchers identify the possibility of important answers that have not been obtained, confirm if there are conflicting answers, and find interesting themes that can be developed in the next session with key informants.

The important stage for the accuracy of the data analysis process is data reduction, which includes tracing, organizing, directing and sharpening the themes obtained so that the final conclusions can be verified and useful for the development of significant theories (Sugiyono, 2007 and Prastowo, 2011). The data reduction stage takes place continuously during the process of collecting and analyzing data and requires a sensitive thought process. To carry out the reduction process well and obtain valid themes, researchers conducted intensive discussions with academic experts and seniors who were competent in qualitative research.

The next stage of analysis is coding or the development of a category system, where all data in the form of transcription summaries are carefully reviewed again with the aim of identifying specific themes that emerge according to research problems. To guarantee the fulfillment of credibility criteria for data, a triangulation method is carried out. The method combines the results of interviews, field photography and observations in the form of field notes (Moleong, 2011 and Eriksson and Kovalainen, 2011). Through this stage, it is expected to obtain the results of a specific theme analysis comprehensively, so as to help build a coherent justification or logically related relationship to the focus of research.

The final procedure is to conclude each of the identified themes in creating exhaustive textual and structural descriptions, and organize it into the core theme and essence of experience for each informant. This stage is carried out following Siswanto’s procedures (2013), which is first done for each informant individually and then cross-site theme analysis is carried out to identify the same units for all informants/participants (or, composite textual and structural description). Through the efforts of individual and cross-site description, the essence of meaning related to research problems will be found, namely the obstacles experienced by successors in the process of transferring generations of family companies.

The analysis results of data interpretation are presented using the narrative technique. This technique is considered appropriate to explore life experiences which means referring to significant aspects or specific events experienced in the life history of the informants or participants interviewed (Larty & Hamilton, 2011 and Hjorth, 2007). Through the use of this analytical approach, researchers reconstruct the forms of thought and experience of informants by narrating them in languages that reflect the context of the emergence of themes.

**RESULTS AND DISCUSSION**

A successor is the one who will inherit the family business, and he has a burden to at least be able to maintain the sustainability of the business (Daily & Thompson, 1994 and He, et al., 2010). His failure to
carry out the burden can bring the consequences of feeling guilty for not being able to meet the expectations of his parents, the predecessor, to create sustainability for family business and pass them on to the next generation (Perez-Gonzalez, 2006 and McConaughy & Phillips, 1999). In an effort to make this happen, based on the results of the interview deepening, this research identified three main obstacles to the intergenerational transition process faced by successors.

First Obstacle: Founder Trap

The first obstacle faced by the successors in managing a family company is how he can prove that he is able to do this. On this research site, the desire of the successors experienced obstacles in the form of the attitude of parents who ‘refused to retire’ from the management of a family business or called the “Founder Trap” barrier. The informants expressed:

“There was one time when we told them (Mom and Dad) to stop, they got sick and were taken to the doctor. They got stressed because we told them to rest. In the end, we let them (work). … As long as Mom and Dad can manage their business, they won’t hand over their ‘staff of power’. We will wait until they said, ‘I want to rest’. They are already happy that way, enjoying their world, we can only watch them from afar.” (MN)

“Not yet, ‘coz later the selling money will be directly handed over to Mom and Dad from here. After they got it, it will be up to Mom for what it (money) will be used. For the matter of (money) records, Mom and Dad personally handle it.” (HS)

“Yeah, if in the future Dad doesn’t go to rice field again, it will be divided. Dad still goes to the rice field, and it will be a pity for him.” (SY)

“So, for now, Dad still works together with my siblings, our agreement is that to just let Dad “accompany”. Well, for people who are used to work hard, they won’t stop at that … Dad still (works) on the front (serving guests and organizing employees). So we still consider Dad as General Manager, but the operational management is handled by his children.” (EP)

“If the parents are still healthy, we won’t talk about it like that, you know. In Javanese, maybe the term is saru or pamali (taboo or bad omen). It’s like hoping for something bad to happen unto your parents. It is not supposed to be said for now … it’s taboo.” (SR)

“Founder Trap” is a trap situation that arises because the preceding generation cannot trust anyone’s abilities, especially the successors, in managing the family business (Kodrat, 2008, Kaye & Hamilton, 2004 and Aronoff, 1998). These obstacles can also occur because of the desire to bequeath a healthy and strong family business so that the predecessor still binds itself to manage family-owned businesses and can trap itself into irrational decision-making processes (De Massis, et al., 2008). As a result of the predecessors being ‘half-hearted’ in transferring power over family business, so they often intervene or are a form of excessive monitoring of every policy taken by successors (Davis & Harveston, 1999, Kelly, et al., 2000 and Athanassiou, et al., 2002). If these conditions are not immediately realized and anticipated by the predecessor, the family business will not have formal and systematic planning in managing the intergenerational transition process. As a consequence, when the predecessor generation dies, there will be a ‘vacuum’ on the leadership of the family business and competition between family members or external parties can take place to fight for an ‘empty’ power position. If the intergenerational transition process can be accomplished, the consequence of this obstacle is that it can make family business difficult to change or to transform, where successors are con-
sidered taboo to make changes to the legacy of the predecessors.

The “Founder Trap” make the successors in a position of ‘less relieved’ when given the responsibility of managing a family business. On the one hand, the successors want to gain independence in managing it, on the other hand, the successors have an uneasy feeling to ask for independence from the predecessors. From the statements they stated, the successors actually realized that the predecessor was not entirely possible to withdraw from the family business because it had become a part of him, so the next generation still asked the preceding generation to only act as supervisors of business operations. In addition, the successors also understand that the predecessor will always carry out its role as a parent who is obliged to direct and guide the child’s way of life, while the position of the next generation as children will be ‘sinful’ if they refute the words of their parents. Especially in the values, they inherited, such as the SR statement, the attitude of the next generation to ask for business management that had been managed by the predecessor was taboo because it was like “expecting death for his parents”. The successors also stated based on the values they learned that parents had longer and more life experiences so that parents’ thoughts were seen as more mature and more precise than those of the next generations.

Awareness and comprehension of successors of the position of predecessors (parents) are based on a culture of respect for parents who are still strongly adhered to in Indonesia, where children must relatively obey the words of their parents, can make children not free to express their thoughts (Ward, 2011). That culture can cause the next generation to experience anxiety when they start to get involved in family business or when they are given certain responsibilities from the management of the business because they are afraid of experiencing errors or failures in completing their tasks (Eddleston & Kellermans, 2007 and Amran & Ahmad, 2010). Furthermore, these conditions can cause the successors to withdraw from the management of the family business and prefer to concentrate on their personal business. Consequently, the sustainability of family business can be threatened because of the failure of proper generation planning (Lansberg, 1988). This situation must, therefore, be immediately anticipated through good communication between the two generations, among others through the determination of clear job descriptions between the two generations. Through good communication, there will be a harmonization of family business management.

Second Obstacle: Sibling Rivalry

The second obstacle faced by the successors in undergoing the intergenerational transition process of family business arises when there is more than one biological child in the family concerned. This condition raises the dilemma of whether a family business is handed over to the management of one of them or managed jointly by the next generation who are siblings. If left to one of the biological children, the problem faced by the next generation in managing a family business is the possibility of conflict between themselves and other siblings, or called “sibling rivalry”. Regarding the possibility of this problem, the informants expressed:

“If it’s about the prospect … especially what I fear later: “It’s easy for you. You were just continuing it.”… We also see from the experiences that are already there. Usually, they are jealous of each other... Just be careful with your mouth. Well, that’s what I’m afraid of.” (EP)

“For me, I’ll keep this (business). And then, if it’s my own, I’ll keep it going, using my own (resources). And if I need a manager, it would be better to have someone else, so to make it fair. If not like that, it would be awkward later, he he. So if there’s someone else manages the family business, I will let it go.” (K)

“If you’re going to take care of family business, there’s a possibility of jealousy between siblings. There’s a possibility of a
clash between siblings. My husband said: ‘If you gather with your family, it might be fine in one year. After that, everyone will focus on each other ugly side’. In reality, there is no parent that discriminates their children. Javanese says it’s just the children’s mindset that kurang nrimo (lacks contentment).” (GW)

“Sibling rivalry” faced by the next generation in managing family business due to the possibility of conflict between themselves and other siblings. The conflict arises because of the jealousy between one of the children towards another, especially to gain affection from parents (Avloniti, et al., 2014 and Friedman, 1991). As stated by GW, conflicts between siblings can arise if the next generation does not have a sense of ‘nrimo’ and always feels the different attention given by parents between themselves and their siblings. They are not grateful that parents have tried fairly by giving equal opportunities to each child to obtain the highest academic education, or provide land and houses in the same relative value range when each child has a family. They do not understand that family business should be joint property, and there should be no parts that are sold by their own decisions except on the basis of the agreement of all biological children as the successors.

Based on the results of the interview deepening, the informants stated that the lack of transparency in the management of the family business by the predecessors or lack of good communication between the previous generation and the next generation, especially in relation to the intergenerational transition process, could bring bad thoughts among future generations. These unfavourable thoughts can then raise suspicion among the next generations about the possibility of ‘favouritism’ of attention by the parents as preceding generation. This condition can not only bring up the problem of hostility between siblings but also threaten the outcome of the process, namely the creation of the sustainability of the family business (Kaye, 1996 and Block, 2010). The solution to sibling rivalry can be identified by tracing in several aspects, namely how the behavior of education and the attitudes of parents when the successor is still small, the self-characteristics of the next generation, as well as the perceptions of future generations regarding the attitudes of parents (Avloniti, et al., 2014). Another solution is through the implementation of family meetings, which is a means to clarify the thoughts of successors and from the predecessors (Lansberg, 1988 and Kodrat, 2008). In one of Lansberg’s (1988) studies, an informant on interviews stated that family meetings are very helpful because each generation will appreciate the aspirations and professional abilities of other siblings.

**Third Obstacle: Passion of Next Generation**

The third obstacle felt by the successors in carrying out the intergenerational transition process of the family business are the consideration of the prospects of passion or enthusiasm from the next generation after successors as the current generation to continue managing the family business. Regarding the possibility of this obstacle, the informants expressed:

“There is wishful thinking, and we’re going to nurture it, we’ll advance (family business) for the sake of the children. But when we invited them, they rarely want to do it. Not like in their dad’s era back then, when (parents) asked for them to come along, they will follow anywhere.” (US)

“Kids today, they don’t want to tend the field, dirty they said. They want to work in the office. It’s different in the past. Kids back then will follow everything that their parents do, because we pitied our parents. It looks like kids today don’t seem to have an interest in owning a business. They consider it’s better to work in a bank, for example.”(SP)

“Our kids donot want to be involved in family business. But sometimes when I buy and sell the plants, the kids just invest their
money but do not want to involved in sales. They only like the money, hehe. Children don’t want to be dirty. Maybe later my child will continue to do business, but I don’t know how the conditions will come in the future.” (GW)

The third obstacle of the intergenerational transition process that is also felt by the next generation is the concern that their children, who are the next generation of family companies, are reluctant to come into contact with agricultural businesses that connote dirty work. As stated in the research method, the subjects of this study were small and medium-sized family companies engaged in the agricultural sector. They prefer to work in a place that is clean and protected from the scorching sun, for example as an employee who works in an office, bank or hotel, rather than on open agricultural land and directly exposed to sunlight. Whereas according to the next generation, based on the results of the in-depth interview, the income that can be obtained in a period of one month by running an agricultural business can still be greater than those obtained by those who work as employees or work for others.

This concern can be attributed to a sense of emotional attachment, that if the intergenerational transition process of family business is broken because there is no next generation who wants to continue, then the successors as current generation becomes unable to realize the expectations of their predecessors or parents to achieve the sustainability of the family business. That inability can lead to the feeling of the successors that they cannot serve their parents and have ‘tarnished’ the family name (Perez-Gonzalez, 2006, McConaughy & Phillips, 1999 and Dyer & Whetten, 2006).

However, the successors also realize that the world of the next generation is very different from the world from itself as stated by US and SP, that the world of today’s generation with the rapid development of technology has made their children more spoiled and less willing to work hard and want instant work. The time dimension has created a difference between “world of predecessor” (the world of previous generations) and “world of a successor” (the world of the current generation) (Schutz, 1967). Both worlds cannot, however, be equated, but can be harmonized. Differences that appear different time dimensions provide a different experience (lived experience) and these conditions create a different understanding when interpreting an event. To achieve harmonization between the two worlds of generation, each generation needs to try to see the event through the perspective of other generations (Aronoff, 1998 and Wattimena, 2014). Thus, each generation will be able to accept differences in understanding between them.

One of the solutions stated by the next generation to overcome the third obstacle of this intergenerational transition process is by employing professional managers who come from external families. In this way, their children can create welfare for themselves and their families in other business sectors, while family business is additional supporting sources that function to maintain welfare when the main businesses of their children experience receding conditions (Hall & DeVaney, 2009 and Miller, et al., 2008). A family business can, therefore, become ‘reserve funds’ which can be used at any time when family members experience distress in their own businesses.

**CONCLUSIONS AND RECOMMENDATIONS**

**Conclusions**

The intergenerational transition process is a crucial step that must be faced by a family company in an effort to maintain the sustainability of its business. Because it is considered to influence strategic choices, the process gives direct or indirect influence on the success or failure of the sustainability of the family company. This study aims to comprehend the main obstacles experienced by future generations or successors in undergoing the intergenerational transition process of their family business. The effort is conducted using the interpretive paradigm by interpreting the thoughts and actions raised by the successors in response to the obstacles in the process, which includes both per-
Exploration of Obstacles Faced by Successors in the Intergenerational Transition Process

The results identify three primary obstacles in the intergenerational transition process from the perspective of successors. The first obstacle was “founder trap”, namely the reluctance of the previous generation or predecessors to give full business management to the next generation and act more as an advisor in managing the family business. The second obstacle is “sibling rivalry”, namely the reluctance of the successors to be actively involved and prefer passivity in the management of family business due to the fear of conflicts with other siblings. The third obstacle is “passion of next generation”, namely the concern of the successors that their children as the next generation have no passion or enthusiasm to continue the management of the family business. The successors must recognize these obstacles to be anticipated so that the intergenerational transition process can be carried out smoothly and peacefully, as well as provide a positive contribution to the sustainability of family business that has better and more reliable performance, and are better able to adapt to changes in the business environment.

Recommendations

In order to fulfil the expectations of the intergenerational transition process, that is to contribute positively to the creation of a sustainable and competitive family business. Good communication is needed between predecessor and successor (-s) as the main actors in overcoming complex problems that might occur during the process. In addition, it is also necessary to consider assistance from external parties such as consultants who become mediators in the process. This is often considered necessary because of the behaviour of Indonesian people, especially in Javanese culture. It is said that children should not argue with their parents or that the younger arguing with their older siblings or they will be considered to be ‘ungodly’. The situations considered not to create a healthy discussion situation.

The main effort suggested to overcome the problems faced by successors in the process of transferring generations is the creation of an atmosphere of communication and open-minded discussion between the founders and successors. The effort was considered very important given the existence of a different era of thought from both and for the achievement of a number of consensuses that provides comfort and eliminates conflicts due to negative thoughts from one party on the other. The open discussion is recommended informally and is more prevalent on the dining table because it is the most relaxed family space. The more the generation transfer process has been planned for a long time, so the pattern of ‘discussion at the dining table’ is considered to be more beneficial for the implementation of the process of transferring generations that are good and support the continuity of family business.

If there is still a clash of communication between predecessor who is generally the father, and the successors, the role of the mother as a mediator is very important. The mother’s gentle and loving nature can create a sense of security and comfort for the father as a forerunner and successor to pour out his heart and equalize the frequency of their thoughts for the creation of a generation process that contributes positively to the sustainability of their family company.

The last recommended method is to involve external parties or consultants who mediate the process of discussion between predecessors and successors. The positive side of this method is the inclusion of other perspectives outside the traditions or habits of thinking of family members who have been patterned since childhood, so that insights from the actors have proven to be broader in completing the generation process in their family companies. On the negative side, the ‘secret’ of family management that was previously stored neatly, will be known by parties outside the company and can ‘leak’ to the community, especially business competitors.

To minimize the obstacles that have the potential to occur in the intergenerational transition process, it is also important to explore them from the perspective of the preceding generation or predecessors. Therefore the next researchers can make these efforts so that they are expected to get ‘richer’
interpretation results in understanding the phenomenon of intergenerational transition process of family business. Subsequent researchers can also develop the comprehension by replicating it in research sites in other regions so that the interpretation of the results obtained is more representative of the phenomenon on a wider scale.

REFERENCES


Exploration of Obstacles Faced by Successors in the Intergenerational Transition Process


