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Study of Succession and Role of Family Members in Family Business

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Abstract

The growth of the family business cannot be separated from the problems that occur among fellow family members, such as the crisis of trust of fellow family members, conflicts in decision making, conflicts in leadership succession (successor to the throne), differences in managerial mindset between the first generation (founder) and the second generation (successor). Socio-Emotional Wealth (SEW) is one of the non-financial factors that can affect the sustainability of the family business, both during the transition process and the sustainability of the business. In addition, strong leadership, familial values, organizational transformation, succession, culture and attractive talents are needed to build longevity from generation to generation and the development of the family business. This research focuses more on family business succession, SEW, and family business diversification. The purpose of this study is to test the success of the succession process in business continuity in family companies, as well as to test the role and commitment of family members in business diversification in family companies. This research uses qualitative methods with a case study approach. Techniques in collecting data are observation and in-depth interviews. The results of the study obtained show that the commune and good relationships between family members, as well as the values and family culture maintained by the company will form a good and healthy Socio-Emotional Wealth. Where a healthy SEW will greatly affect the company's decision making during the succession process, diversification, and continuity of the family business.

Keywords
family business; SEW; succession; diversification

I. Introduction

Family businesses make up about 80% of all businesses globally. Family business provides an important role in society, namely as a job and as a contribution of innovation to gdp (gross domestic product) in the country. More than 50 percent of publicly traded mid-sized companies in the Asia-Pacific region are controlled by family business management. In Indonesia, more than 95% of organizations are organizations claimed or controlled by families. This family-run company has proven capable of getting through during the monetary emergencies occurred in Indonesia in 1997 and 2008. The family business is heavily influenced by the vision and mission of the family that controls the company. The

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family business also does not escape the problems that occur among fellow family members, such as the crisis of trust of fellow family members, conflicts in decision making, conflicts in leadership succession (successor to the throne), differences in managerial mindset between the first generation (founder) and the second generation (successor).

The relationship between the family business and business diversification becomes interesting and complex when the second generation enters the family business. Second-generation involvement in the family business (which is trained directly by the owner) is an important step to ensure a smooth transfer of the business (Santora, 2004). Therefore, an interesting aspect to learn in a family business is whether the family business is diversifying with second-generation involvement. Few studies have analyzed how SEW will be associated with strategic choices by family companies facing succession and diversification issues within the family business.

II. Review of Literature

2.1 Family Business

A family company is a business run by a society of people who have similar descendants, tending to blood relations or marriage. The main purpose of the family business is to transfer wealth to the next generation. Wealth is understood in a broad sense, not only wealth in the material sense but also culture, values, and so on (Rivo-López et al., 2020). According to Anggadwita et al., (2019) a family-run company is a business that includes at least two family members who oversee the company's finances and influence company policies. A company is considered a family company when there has been a transfer of authority starting from the first generation to the next generation.

2.2 Comparison of Family Business with Non-Family Business

Based on its understanding and uniqueness, the biggest difference between family companies and non-family companies is the addition of family units. Participation, influence and involvement of family members are both advantages and disadvantages, as it can not only lead to a tremendous competitive advantage but can also be a cause of serious dysfunction and complications. In this case, non-family companies do not have to deal with many of the complex issues facing family companies, such as familiar and interpersonal conflicts, succession, inheritance, and family members who do not work with power and decision-making authority. Working family business members must face the fact that the work and wealth of family members' lives mingle with the extended family (Alderson, 2011).

2.3 Wealth Management

Family businesses not only attach importance to the risks associated with finances but also attach more importance to family relationships, namely SEW (Socio-Emotional Wealth) (Schulze, 2016). SEW is a non-financial wealth and addresses issues of family identity, control, influence, the binding of social ties and the continuation of family dynasties. SEW is a key theory in the family business. (Hernández-Perlines et al., 2019) proposes five dimensions of SEW which is shortened to FIBER, namely family control and influence (family control and influence), identification of family members with the firm (identification of family members with the company), binding social ties (binding social ties),emotional attachment of family members (emotional attachment between family members) and r Geneval of family bonds through dynastic succession (family relations after succession) (Rivo-López et al., 2020).

2.4 Research and Development

R&D is essential for the survival and success of the company (Li & Daspit, 2016). R&D investment facilitates development and renewal thus enabling companies to support and absorb the knowledge necessary for successful innovation (Lawless & Anderson, 1996). R&D investments can affect the introduction of new products and long-term financial performance. But because family company decisions are related to socio-emotional wealth factors, more family companies are unwilling to make R&D investments than non-family companies (Duran, 2016). Because family companies are considered assets or inheritances passed down to offspring, not as consumption for the time being (J.-L. Arregle et al., 2007).

Family CEOs tend to avoid R&D investments because they often require family company owners to obtain external funding. External funding can weaken the owner's control over the family company (Duran, 2016). Thus, family companies with family CEOs invest less in R&D than companies without family CEOs.

2.5 Family Company Strategy

The level of family involvement in ownership and management differs in each family business, resulting in different attitudes towards family and business (Sharma & Nordqvist, 2008). Ownership and management play a role in connecting family and business systems to explain family business behavior. So the level of interaction between family and business systems affects the way a business runs (Pieper & Klein, 2007). There are two management decision orientations: business-oriented decisions that focus on business and family-oriented decisions, namely more cooperative choices that focus on families (Basco & Pérez Rodríguez, 2009).

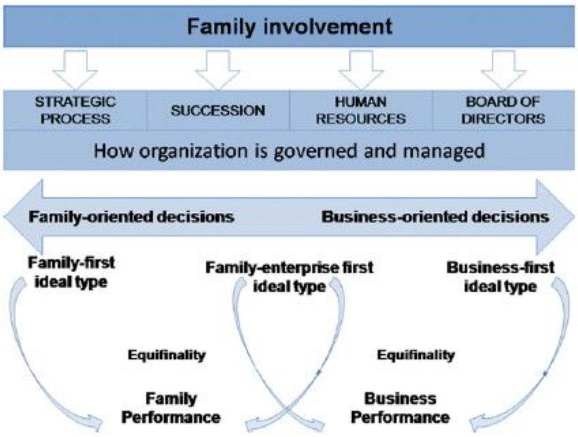

Figure 1. *Family Involvement*

2.6 Diversification

Diversification is an integral part of a company's strategy because it offers opportunities for growth, risk reduction, synergy exploitation, and performance improvement (Bowen & Wiersema, 2008). The increase in the value of the company's shares, the higher the company value, the higher it will be (Katharina, 2021). In the current economic development, manufacturing companies are required to be able to compete in the industrial world (Afiezan, 2020). The existence of the company can grow and be sustainable and the company gets a positive image from the wider community (Saleh, 2019). Diversification as an essential element for long-term development, success, and survival. Many family companies feel increasingly compelled to explore product choices and diversify due to intensifying global competition (Gomez-Mejia et al., 2010).

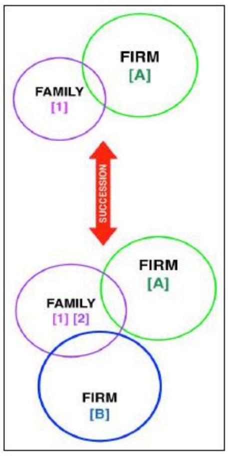

Figure 2. *Diversification*

2.7 Succession and Sustainability of the Family Business

Succession is one of the most important issues related to a family business because it is a turning point in the life cycle of a business. Because the CEO plays a key role in determining a company's prospects through its strategic decision-making behavior (Bennedsen et al., 2007). The process of selecting a suitable and competent successor is essential for the survival of the family enterprise (Dyck et al., 2002).

III. Research Methods

3.1 Research Methods

To conduct research on succession and the role of the family in the family business, researchers decided to use qualitative research methods. Researchers use qualitative research methods because the opinions of each family member and company members must be different. And also because of the nature of the qualitative approach that says that realistic is double, complicated, dynamic, and realistic truth is dynamic (Mulyana, 2013).

In addition, qualitative research is a process of research and understanding based on methodology that investigates a social phenomenon and human problem within a family company. In this approach, researchers create a complex picture, examine the words, detailed reports and views of respondents or informants and conduct studies on natural situations (Creswell, 1998). Then for the population and the sample of this research is the manager of the company, be it the owner, directors, person in charge who is also a family member. For the data collection instrument, it uses interviews with semi-structured interview models.

3.2 Data Analysis

The method of data analysis while in the field uses the Miles and Huberman model, where the model suggests that activities in qualitative data analysis are carried out interactively and take place continuously until complete, so that the data is saturated. Activities in data analysis, namely data collection, data reduction, data display and conclusion drawing/verification.

IV. Discussion

4.1 Informant Profile

Based on interviews that have been conducted on family company managers, each manager has a diverse background, including:

Table 1. Manager's Diverse Background

Name	Position	Company
Mr. Dedi	Entering the Company Management, playing a role to process the management of the company	Beautiful Design Indonesia, Ltd.
Mr. Peter	Entering the Company Management, People who understand the world of furniture business	Beautiful Design Indonesia, Ltd.
Mr. Henry	Son of one of the owners of the company, plays a role in the marketing of the product	Beautiful Design Indonesia, Ltd.
Mr. Imam	Head of Gas Station Unit in S. Parman and confidant at the Company	Bina Hidup Group, Ltd.
Mr. Harmawan	Son of the owner of the company, playing a role in managing business lines in the company group	Bina Hidup Group, Ltd.
Mrs. Ida	Store Employees	TB. Pantes
Mrs. Yuli	Store Employees	TB. Pantes
Mr. Antoni	Store business successor, store manager	TB. Pantes

4.2 Succession Process at Family Company

Most of the informants at the site of this study have relatives or close relatives who took part in the company. There are problems that occur when the succession process takes place where there is jealousy between family members when a family member is appointed or elected as the successor of the family business.

Table 2. Succession Process at Family Company

Company Name	Types of Succession	Succession Preparation	Highest Decision	Succession Time
Beautiful Design Indonesia, Ltd.	Unplanned	Directly involved in business processes	Owner with Managerial	Starting from setting up a business
Bina Hidup Group, Ltd.	Planned	Directly involved in business processes	Owner without managerial	Starting when continuing the business
TB. Pantes	Planned	Directly involved in business processes	Owner with Managerial	Starting when continuing the business

The succession process can be a very emotional and controversial issue that can lead to divisions in the family business (Harveston et al., 1997). If that relate with the process in each company in this study, the relationship between prospective successors is very good because the succession process is not given to one successor but all successors by means of each member is given a new business.

Researchers have found that family companies in carrying out the succession process are more oriented towards family relationships or Socio-Emotional Wealth (SEW). Where SEW is wealth in a non-financial company. SEW is also a method of preserving family wealth and creating a legacy for future generations. In the succession process discussion, researchers also presented a summary of the type of succession process that occurred at three research sites. In this case, the description in question is a summary of the succession process and the differences between the four research locations in this study, which are as follows:

4.3 Succession Process at Family Company

Based on the results of the interview there are several important factors that can affect the succession process in a family company, namely:

a. Transfer of knowledge and abilities
b. Building good relations between generations
c. Open to ideas and experiences

Based on the results of the study found that there are similarities and differences between these companies. The three companies both conduct R&D and maintain SEW values within the family company. There are also some differences, namely, IDI, Ltd. does not plan in the succession process, while the other two companies do the planning in advance. Similarly, with the relationship with outsiders, TB. Pantes does not involve many outsiders in running the family company. Unlike the other two-family companies, which involve outsiders in management.

4.4 Diversification in Family Companies

Diversification occurs in a variety of formats such as penetrating an existing market with an updated product or service, discovering new markets or ways of using new and innovative products and finally diversifying in a new product way into an existing or new market. Researchers found that there is a purpose and purpose for diversification such as to utilize product sources, increase sales volume, maintain stability and increase the credibility of the company and win competition, and for external companies that satisfy the wants and needs of consumers. In addition, the study found that compared to non-family companies, family companies face an extra level of complexity in diversification decision making. Family companies face a dilemma where they have to consider losses and

Anticipated gains from diversification strategies, not only in finance, but also in familial relationships or Socio-Emotional Wealth. All companies interviewed in this study agreed that the need for research before diversifying is an important step because for the company, this will be a new experience, both in terms of the market (new market), and in terms of products (new products) so that all incoming information or insights are an important data as the company considers in the next step. Basically, the decision to diversify will contain high business risks, therefore the company must conduct a feasibility study or research first.

V. Conclusion

A company is considered a family company when there has been power starting from the next generation that has family relations. Family members can influence the family business in making strategic decisions and principles by working in the business, managing the business and being part of the family business management mechanism. In the family business family members not only pursue financial targets, but also aim to maintain socio-emotional wealth.

The succession process in family companies is more oriented towards family relationships or Socio-Emotional Wealth (SEW). An important factor in the succession process is the transfer of knowledge and abilities, building good relationships between generations, being open to ideas and experiences.

Conflicts that often occur in family companies due to disagreements about the duties and functions of each family member. The number of family members working in the family business and the level of interaction of the family members involved have a positive effect on the frequency of conflicts among family members regarding the family business.

The need for research before diversifying is an important step because for companies this is a new experience, both in terms of the market, and in terms of its products. R&D is intended so that the decision-making process in diversification is more focused and directed optimally, so that the company will more quickly determine the steps in diversification and in the future.

In corporate diversification, family members must prioritize socio-emotional wealth or other non-financial aspects before deciding to diversify. The diversification carried out by the company is closely related in the future to the company's reputation so that the right steps are needed in diversifying.

The sustainability of the right and optimal family business will affect decision making, especially in the diversification of the company. The presence of a new leader is an impact for family companies, especially in making decisions and when developing a company or diversifying.

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