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# REVEALING THE THIRD GENERATION MYTH IN FAMILY BUSINESSES

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**Abstract**: A family Business is a company or business which is run and managed by a family. Hence, the purpose of this study is to find out the truth of the Third Generation myth in family businesses. This study uses a data collection method using a semi-structured interview. This research uses source triangulation method which aims to test the credibility of the data which is carried out by checking the data that has been obtained from several sources. In this study, samples will be taken from several sources. The resource person himself will be taken from the senior generation as the owner of the family businesses and the next generation. The results of this study states that the decline of family businesses did not occur solely because of the mistakes of the third generation. Therefore, the third generation myth is not true.

**Keywords**: family business, trust, knowledge transfer, delegation, third generation

## INTRODUCTION

Family businesses are unique as it has different characteristics from companies in general. Family businesses generally have a solid vision and commitment as they are expected to last in the long run. As of their uniqueness, the management of these businesses have a unique way too. Price Waterhouse Cooper (PwC) conducted a survey of family businesses in Indonesia. From the survey, it was found that more than 95% of companies in Indonesia are family businesses. While based on various studies, it is known that in various countries in the world, 50% -80% of businesses are family businesses with large contribution to the economy. *Up close and professional: the family factor* is the 7th global survey for PwC, and to the report, it was attached that 83% of family businesses generated financial growth. The research shows that family businesses are one of the factors that play important role in the economy of a country and the world. The data shows that the development of family businesses is very fast, and companies in Indonesia are dominated by family businesses. The Family Firm Institute's research for the Family Business Review journal in Chitania, Business, Management, Petra, & Siwalankerto, (2014), revealed that only 30% of family businesses could survive into the second generation. Only 12% are able to survive in the third generation and only 3% are able to develop until the fourth generation. It is not surprising that the myth arises that first generation established, second generation developed, and third generation destroyed (Chitania et al., 2014). One of the factors that cause failure in family businesses is the failure in the delegation system. Delegation is the key in family businesses. Delegation is the process of management transfer from one generation to the next. The success of the delegation is very much

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needed in family businesses. Therefore, delegation is a very important and decisive step for the continuation of the family businesses. On the other hand, delegation is a sensitive theme in anticipating conflicts in family businesses. The delegation process is also considered to be very important because some studies and researches that have been done previously stated that in reality there are many phenomenon concerning the delegation process and family businesses, even to the point that there are myths about family business regeneration. Ward in (Santosa & Praptiningsih, 2014), said that only 20 percent of family businesses in the United States could survive more than 60 years in the same family. This phenomenon often actually occurs for three reasons, they are: the next generation is less prepared, the fragmentation of family when it becomes greater, and the emotional environment created by the leading generation.

The delegation in business is a process which will take a long time as the process requires careful and thoroughgoing planning. It takes mental readiness from both generations in continuing the business to be better. The failure of this intergenerational delegation will lead to the bankruptcy of the business caused by the inability of the successor to continue the business.

**Table 1 Percentage of Ability to Maintain Family Businesses in America**

| Initial Generation | Percentage |
|---|---|
| Generation 1 – Generation 2 | 30% |
| Generation 2 – Generation 3 | 12% |
| Generation 3 – Generation 4 | 3% |

Source: Family Firm Institute, Family Business Review

Table 1 shows the survival ability of a family business decreases when there is a delegation system from senior to junior generation. Seen in the table that 30% of family businesses in the transition period between first generation to second generation, while only 12% of businesses can survive in the third generation, and only 3% of companies can grow up to the fourth generation. This led to the myth that in family businesses “the first generation established, the second generation developed, and the third generation destroyed”.

In family business delegation process, leaders must have the knowledge and ability to carry out the process from senior to junior generation. This involves several steps and starts when the founder encourages his children to become part of the business (Wibowo, 2018).

## LITERATURE REVIEW

### Family Business

According to (Wibowo, 2018) family businesses are companies which have at least two generations involved in production activities and second generation could influence company policy. Family business is a business which will be passed on to the next generation in the family where the family manage and control the business. Family business is actually not much different from non-family business. The significant difference between family and non-family businesses is the involvement of family ties in the business.

According to Harms in Santoso & Kristanti (2018) a business can be considered as a family business when it reaches at least the second generation of close relatives and when the second generation has entered the company. There are three criterions for family businesses, 50% or more of company ownership is held by one family, family members effectively control the business, and there is a significant proportion of families in key management positions. If one of the three criterions applies, the business can be considered as a family business.

**Delegation**

According to (Limadjaja et al., 2015) the planning is divided into 3 stages: the first is the stage before the transition period or before the transfer, the second is the transition phase and the third is the phase after the transition. In the stage before the transition, the company will prepare prospective future generations in person (personality system). The preparation is in the form of a training program with the aim of observing how the desires and passion of next generation to continue the business and develop a better direction. Additionally, the most important element is that there is a need to unify the vision and culture that is embedded in the business, therefore misunderstandings between generations do not occur. It is intended that the vision and culture can be used as a foundation and basic reference for the business to develop.

Delegation according to Campbell in Wibowo (2018) is a process where someone asks for help or gives a responsibility to others. In addition, according to Hunt in Wibowo (2018), stated that effective delegations within the family company include the following:

1. The first stage: the provision of education by the senior generation to the successor generation where the education is in accordance with the field of family business.
2. Second stage: the senior generation involves prospective successors after taking education. This involvement should start from the smallest or lowest field, not directly providing key positions.
3. Third stage: the senior generation entrusts several things to the prospective successor so that the prospective successor can practice and be more responsible.

According to Stoner in Wibowo (2018), with the delegation from the senior to junior generation, junior generation will gain confidence as they are given responsibility within the business. The senior generation will also benefit, where they will feel helped by the division of responsibilities so that the results will be more accurate from the junior generation.

## RESEARCH METHODS

This research was conducted in several family businesses in Surabaya and Bali. The type of data that would be used in this research is qualitative data type. The data is obtained from interviews with senior and junior generations, using data validity checking techniques through the source triangulation method. The subjects of this research are the second and third generation of NMS companies, third generation of GM companies and first and second generation of PPW companies. In selecting informants the authors choose their own informants in accordance with the objectives of the study. The authors will conduct interviews with leaders who certainly meet certain criterions. In selecting informants, the authors have criterions in accordance with 5W1H which are described as follows. This research uses qualitative data analysis techniques with the stages of data collection, data reduction, data display and drawing conclusions and data verification.

## RESULT AND DISCUSSION

The third generation stigma in family businesses has been extensive for a long time. The stigma that reads "first generation builds, second generation enjoys, third generation destroys" makes the mentality of some families doubtful to the third generation when they wish to continue their business relay baton. According to Sandika (2018) the succession effort of the owner or founder can be done by giving up control of the business to the children and for the success of this succession is to introduce and prepare the candidate for succession, therefore the successor from the family will have preparation, competence and talent in the level which is required so the authors draw conclusions about education role in influencing succession planning in family businesses. This has similarities with the results of interviews that I got on 3 companies which are family-owned companies, 2 of which have made it past the third generation. There are some similarities in the pattern of delegations carried out in these 3 companies, which are as follows:

### 1. Transfer of Knowledge to the Junior Generation

At this stage, the senior generation seeks to introduce the principles, culture, vision and mission of the company to junior generation. The aim is for the junior generation to understand how senior generation establishes the family business, so that junior generation can continue the company relay baton with the same spirit as senior generation. Knowing the company's vision and mission is the right first step and good for the next generation as by knowing the vision and mission, the successor becomes better prepared to run and develop the business. In addition to understanding the company's vision and mission, senior generation is also required to transfer knowledge to junior generation. This is one form of initial preparation made by business owners to prospective successors with the aim that when the junior generation joins the business, the junior generation does not feel foreign or do not understand things related to business.

Therefore, the transfer of knowledge is the earliest stage that must be done before diving into the business, junior generation must be ready in accepting corporate tasks that will be entrusted to junior generation. Almost all of senior generation in this study revealed the same thing: junior generation must get knowledge transfer and must understand company's vision and mission so that junior generation has a sense of responsibility towards the business, not easily giving up, willing to get criticism from both family and employees, must be patient to deal with various personal characters, and can be professional to the family when it comes to making decisions regarding family businesses.

### 2. Involving and Start Trusting the Junior Generation

At this stage the senior generation must begin to involve and trust junior generation in family business. There are several senior generations in several companies that do not want to directly involve their junior generation. This resulted in the death of the business, due to lack of involvement of junior generation. This must be avoided in a family business if you want to be sustainable at the business. At this stage, junior generation will find a mismatch in some of the things created by senior generation and they will come up with ideas as innovations for the business. In this case, senior and junior generations must be willing to listen to each other and accept criticism from each other, in order to create solutions to existing problems.

According to Setiawan & Susanto, (2018), the involvement given by senior generation can make junior generation feel the ownership of their family business. In addition, involvement must also be made so that younger generation begins to get to know how the family business work system is not easy. The involvement or delegation system made by senior generation to the junior generation is certainly different in each business. PPW companies involve junior generation by educating from the lowest level of the organization. It aims to make the younger generation know how the system works from the lowest organization to top management. Unlike PPW, GM family business involve their junior generation by firstly providing the same education, then the junior generation is given the trust to be the leader of several company projects. It is intended that the senior generation can easily select prospective successors.

## CONCLUSIONS

Based on the discussion above, it can be concluded that the stigma of "third generation is the generation that destroys" is a myth. This stigma can occur not only in third generation, might be even in second generation or generations after third generation. The death of family business is not determined by the stigma of 'third generation' but caused by how delegation system is built and implemented by senior to junior generation. If only senior generation were slow in delegating, it might be possible that family business would die when there was a shift in decision making from senior to junior generation. This is because junior generation has never been given a maximum transfer of knowledge by senior generation, but it can also be caused by junior generation not knowing the vision, mission and culture of the family business.

Therefore it can be concluded that delegation is a very important determining factor for the continuity of family businesses. In some family companies there is often friction between senior and junior generations. The senior generation has a lot of experience in running the business while the younger generation is more updated on new technologies and sciences that can be applied as new innovations in the business. Therefore, it takes good collaboration and mutual support between the senior and junior generations, so as to minimize the stigma of "Third Generation is the generation that destroys".

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