

# Parameter of Succession Planning in Family Company in Machine Industry

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**Abstract**— Family Company is a company that hereditary from generation to next generation. The process of transferring the company from the older generation to the next generation are the key point for the regeneration. Family company that are doing the regeneration must make sure the succession process goes on well for the family company to survive in the next generation. Succession process need to be planned accordingly and have a clear parameter on what is needed for the successor to be qualified as a good successor on the family business. This research will discuss regarding the parameter of the succession planning matters that are currently still ongoing in Company in machine industry while using the dimension of succession planning. This research will be done in qualitative method with the primary data collection using interview with family member that are currently working in the company in the successor side and from the incumbent side.

**Keywords** — Succession, Family Company, Regeneration

## 1. Introduction

Family company is a company that keep growing in everywhere. Babson College (2020) in their 2019/2020 Global Entrepreneurship Monitor (GEM) Family Entrepreneurship Report stated that Seventy-five percent of entrepreneurs and 81% of established business owners co-own and/or co-manage their businesses with family members. Additionally, 62% of established business owners state that the majority of their current employees are members of their family. According to Poza (2007) that family company is a unique mixture of a few factor as such control owned (15% or more) by 2 or more family member company strategy are influenced by family member that are involved in the management actively in order to be able to continue forming family culture in the company, serving as company consultant or acting as an active shareholder, really care for the family bond, and have dream to continuing the business to next generation.

Donnelly, Mroczkowski dan Tanewski (2006) defined a family company as a venture that are owned by a few individual and has involvement for at least 2 generation, directly or not directly (Susanto, et al, 2007). This definition has stated that a family company must have a relation with 2 or more generation even or before succession. From both definition that were stated above it can be concluded that a family company is a venture that needs to be run with more than 2 people and those people must be one making decision in it.

Family company is made with the goals for the venture to be developed for upcoming next generations. The submission process from the older generation to the next generation is usually called succession. Even if there are a lot of family company in the world, according to data from The Jakarta Consulting Group (2014) it is founded that more than 67,8% family company in Indonesia has not prepared the successor for the succession in leading the company. This problem has then created far more problem especially the successor are not ready at all to lead the company. Not only because the lack of preparation, other thing as such brotherly or sisterly rival between each other will create more problem in fighting to leading the company. With so many problem that can occur, which is why succession hold a very important position in deciding the company can last in the next generation or not.

The family company in machine industry is a family company that has been established in the 98, this company has been lead by Mr. A. In the process of leading until now, Mr. A as the first generation has 3 kids and the process of succession are ongoing. Which is why this research why cover the succession that are ongoing in

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the machine industry family company. The company are currently still searching for the successor between the 3 kids. This research will help conclude what parameter that are actually needed for the successor in order to successfully take over the company.

## **2. Literature Review**

### **2.1. Previous Research**

Research related to successor topics was researched by (Francisca Lily&Maria Praptiningsih, 2014). The purpose of this research is to describe how the succession that has been done and creating an effective succession model can be applied in family company PT.ABC. PT. ABC step by step has done their succession planning in their successor. Pre-succession can be seen in the successor readiness, their planning has gone well. Successor has fulfill the criteria needed to lead the family company. For the succession plan still has a lot of deficiency in the training sector for successor

Second research related to successor topics was researched by (Muhammad Fikri Ramadhan, 2020). The purpose of this research know what factor are needed in the successor in CV. Bachman. A few successor factor can be concluded in two dimension, pre succession dimension and the family relation dimension. By only excelling in both dimension, can a successor really accomplish the succession process. In the research CV. Bachman successor excel in both dimension, which create a successful succession in the business of wedding organizer.

Third research related to successor topics was researched by (Finney Sejahtera Hadi dan Ronny H. Mustamu, 2016). This research are regarding a snack family company in Surabaya, in which the succession are ongoing. This research also devide the succession into two dimension as such preparation dimension and family relation dimension. But in this research the successor didnot fully fullfill both dimension only in the family relation dimension. Which is causing the succession to done a little by little in hope that the successor excell in the first dimension.

### **2.2 Theoretical Basis**

#### **2.2.1 Family Business**

According to Susanto et al., (2007) in business terminology, there are two type of family company such as family owned enterprise (FOE) this type of company is owned by the family but are managed by professionals that are outside of family scope. In this type, the family only act as the owner and are not included on daily operational process. The family member will only act as supervision on the process. Second type is family business enterprise (FBE) this type of company is owned by the family and are also managed by them. Not only do they own it, but they also managed the daily operational process in it.

#### **2.2.2 Succession Plan**

According to (Lipman,2010), succession is the process of the founding father of the company to transfer their knowledge and the intellectual model to the next generation in their family in which will take time to be developed and need to be managed well to succeed. Sharma, Chrisman, Pablo, & Chua (2001) stated that succession is defined as those actions and events that lead to the transition of leadership from one family member to another. The succession planning is done in family business because of two reason as such :

1. It is defined as a event that will ties with succession planning as part of the succession.
2. It will be counted as a ways to increase the transition of the owner

While Davis (Wang, 2004) argued that succession plan only has 3 primary goals as such:

1. To efficiently and fairly distribute assets from older to younger generations
2. To pass control of the business in the way that will ensure effective business leadership
3. To maintain and promote family harmony

From this, we can conclude that a good succession plan will result in fairly distribute asset in the next generation family aslo while giving the control in their business hoping that they can maintain their leadership going effectively while maintaining their relationship with other family member.

According to Lumpkin and Brightman (2011) succession plan are the proses of well planning on how to include a lot of component in the family company and try to achieve a level of awakeness and high level preserverance to make sure the company can sustain on the long go (on Filser et al, 2013). From all of the definition stated, it can be summarize that the succession plan hold an important position on the regeneration of the family company.

### 2.2.3. Dimention of Succession Plan

Succession plan are divided into 2 dimensions as such

#### 1. Successor preparation

##### a. Education level

The education level become one of requirement that usually being considered in choosing the successor. The Jakarta Consulting Group (2014) stated that mostly incumbent will prepare the successor by schooling them until they have gained their bachelor or master degree. By having higher education level will make the successor have more basic knowledge regarding the major of the education and also might add more pipeline in their business opportunity.

##### b. Work experience

Work experience that were gained by the successor while working in their own company or other company will also be considered. Usually the successor that will be chosen are the one who has a deep understanding on how a company should be run, and how they can help grow their own company, with these experience can only gained while the successor have working experience.

##### c. Training that has been done

This is a process of training a new worker or existing worker in doing their work (Dessler, 2009). A lot of training that has been done by successor that were done by professionals will give the successor insight on how to run the company accordingly. Training can also be done directly from the incumbent for the successor since incumbent has been in the family company far longer than the successor and have much more experience.

##### d. Motivation development

Motivation development is a proses on explaining the intensity, direction and preserverance in the venture to achieve one goal (Robbins dan Judge, 2007). Motivation will include the reasons on why someone will divert their energy into ones work. Motivation that are given by incumbent to successor will be the factor to motivate the successor on joing the company. Even though successor might have different goals or vision regarding their company, the value or motivation must still be the value or motivation from the incumbent.

#### 2. Family relation

##### a. The way of communication

Pace dan Faules (2000) stated that communication are creating a message orinterpretation. Communication that happens on both important side between incumbent and successor are something that need to be wary of. Communication with family member, other professionals that are not family member also need to be done in order for the successor to gain the support from the family and professionals non-family in which will create a cooperation that will goes well so that the company can run smoothly. The way of communication also cover on how to de-escalate conflict that might occur during working in family business.

##### b. Giving trust

Trust according to Sheth and Mittal (in Tjiptono, 2002) are a crucial factor in every realtion, while also effect the commitment. Trust can be means as a willingness to rely on other side ability, integrity and other motivation to act on the way to fullfill their need and someone interest as how that are agreed upon implicitly or explicitly. Successor need to have and gain the trust from incumbent as well as core family in leading the company, also to gain the trust of professionals from the company while ongoing the succession process. In hope that someday when they have

become leader there will be no resistant from professionals or other family member and gaining others trust, commitment and can do the job well.

**c. Conflict in family**

Lacey (2003) has stated that conflict is a fight, a collision, a wrestle between interest, opinion and goals; mental wrestle, and mental pain. The conflict that can happen also in the family, usually there will a fight for position and power or sibling rivalry. Incumbent has to make sure there are no conflict and successor will be supported by other family as well. Other conflict that also can happens are conflict between family and worker. Usually this conflict rest on professionalism and trust. Since conflict can happens a lot, successor must have a right mindset on how to solve the conflict. Poor handling of family conflict can makes the conflict much bigger.

**3. Research Methods**

The research method that will be used or qualitative descriptive method, in hope to describe ongoing succession in the company that are being researched. The data will be gained by both source, primary data source and secondary data source. Primary data source will be gained using interview with 3 person that are on the family company. Subject number 1 are Mr. A as the incumbent and current owner of the company. Subject number 2 are Mrs. B as the incumbent wife and the co-owner of the company. Subject number 3 are Mr. C as the one of the successor candidate and currently working on the company. The interview will be done by phone and directly on person with the subject. Secondary data source will be gained using literature, journal and internet that has corelation with the subject of the research. The validity test will use the test of triangulation test in hope that will gain a clear parameter data and information that can be trusted by the source. A parameter will be valid if three source has stated something that support each other statement

**4. Result and Discussion**

Below are the result that are obtained by interviewing the three subject source regarding the dimension of succession plan needed for the succession plan to went accordingly

Table 1. Interview Result

	<b>Education level needed</b>	<b>How many years of working experience needed</b>	<b>What training that are needed in the successor</b>	<b>What kind of motivation are needed</b>	<b>Ways of communication with other family member and other worker</b>	<b>How much of trust are needed on the successor</b>	<b>How they solve family conflict</b>
Mr.A	At least bachelor degree	2 years	Product knowledge	The motivation to grow the company	Strict but fairly with other member	Need to be trusted completely by other family	Dealt together with other family

Mr.B	Bachelor degree in management	2 years	Management training	On how to work together with other family member while making the company larger	Openness and need to always consider other family member	Need to be trusted completely by other family	Need to have family gathering to solve conflict
Mr.C	At least bachelor degree	2 or more	Management training	To grow and develop the company	Need to know how to talk to other family member because other family member will always have different perspective	Need to be trusted completely by other family	No need for family gathering, just talk to family directly regarding the conflict

Interview with Mr.A are concluded in June 14, 2022 by using phone call

Interview with Mr.B are concluded in June 14, 2022 by using phone call

Interview with Mr.C are concluded in June 12, 2022 by directly talking with the source

With the result of interview we can concluded the following regarding the dimention of succession plan

### **1. Education level needed**

Three of the subject stated that successor must at least have bachelor degree in hope to support for the company, while Mrs. B stated bachelor degree in management will help the successor to deal with management system accordingly. While one of the subject stated that the need of management bachelor degree to help them in their mangamenet process. Since three of the subject stated the same conclusion, the parameter of requirement for education level atleast bachelor degree can be considered valid

### **2. How many years of working experience needed**

Three of the subject stated that atleast of 3 years are needed in order for the successor to understand the basic and fundamental works on company. The 3 years can be obtain working the family company or other company, while it is preffered that the successor works in family company for 3 years. Since three of the subject stated the same conclusion, the parameter of requirement for 3 years of working experience needed can be considered valid

### **3. What training are needed in the successor**

First subject stated that product knowledge training are needed the most because successor as the leader need to know well on what their company are working on well. The first subject also stated that management training can be done while on the job, so it not necesarry to have a training especially in management. While two other subject stated that management training are far more needed in order for the successor to be able to lead the company. With management training the successor can plan well what to be done and how to do it. Since there are two different answer, no fixed parameter are yet to be established.

#### **4. What kind of motivation are needed**

Three of the subject has stated the same conclusion on the motivation needed are on how to grow the company. Because if the successor doesn't have the mindset to grow the company, it will only lead to the company going stagnant and not growing. Since three of the subject stated the same conclusion, the parameter of the right motivation that are needed are the motivation to grow the company well can be considered valid.

#### **5. Ways of communication with other family member and other worker**

While both three of the subject stated the different answer, all three of the answer consist the same conclusion as such the need to communicate well with other member are the most important thing to be considered in becoming the successor. The need to communicate well with other family member are considered important because family member need to be working together well in order for the company to grow accordingly. Since three answer have the same conclusion, the parameter of ways of communication with other family member and other worker can be considered valid

#### **6. How much of trust are needed on the successor**

Three of the subject has stated the same conclusion how much of trust needed on the successor. All of the subject agreed that the successor must be trusted completely by other family member. While all of the answer doesn't regard the trust of other worker, because in their opinion family member are the core player in the family business. The parameter on how much of trust are needed on the successor can be considered valid

#### **7. How they solve family conflict**

All three of the subject has different answer on how the matter need to be resolved, this happen because different people have different perspective on how things need to be dealt with. While both first and second subject are leaning on meeting altogether to solve the problem. Third subject believed that solving family conflict should be done privately not in open discussion as it might create more problem. Since there are two different answer, no fixed parameter are yet to be established.

### **5. Conclusions and Practical Implication**

Succession plan are something that needed to be planned accordingly. Succession also need to be done transparently while considering the dimension of succession plan so that the successor that are appointed will be more suitable and more accepted by other family member in leading the family company. With the result of interview shared above, it can be concluded that a few of the point from parameter of the dimension as such education level needed are atleast bachelor degree, 3years of working experience are needed, motivation to grow the company are needed, ways of communication must be well with other family and must be fully trusted by other family member are the fixed parameter that are needed from the successor to successfully appointed. While other parameter as such how to solve family conflict and what training are needed have different answer regarding to the subject. This two parameter might need to be fixed and straighten up so that all dimension have the fixed parameter outcome that are needed for the successor. If the parameter are not fixed and successor appointed using only one subject parameter it will create the other family member to not fully accept the successor as they will see that the successor are still lacking according to their point of view. Incumbent might play a bigger role in establishing the fixed parameter since they have more understanding and more experience in the business. And if all of the parameter being established well and fixed, the incumbent can have a clear understanding on what to be expected from the successor.

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