Too Big to Fall: Succession Challenge in Large Family Business

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Too Big to Fail: Succession Challenge in Large Family Businesses*

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Abstract

This study investigated the main concerns and strategies in Indonesian large family businesses to undertake intergenerational succession effectively. The research data was obtained to shed light on the incumbents' mindsets, key preferences, and experiences during the succession process. Access to incumbents of large family businesses that are conglomerates is scant. The preceding survey research was conducted to sensitize with the intricacy of the intergenerational succession process in large family businesses before entailing interpretative phenomenology analysis of qualitative data from interviews, observations, and field notes by approaching family members in five conglomerate groups that have major impacts on the economy. The findings explicate the incumbents' preferred criteria in choosing their successors as well as their perceived concerns revolving around the appointment. Additionally, the incumbents' succession approaches such as apprentice learning by successors, adaptability to external forces by successors, nurturing the entrepreneurial spirit in successors, governance establishment in the firms, business interest stimulation in successors, role modeling by incumbents, and collaboration between family and key non-family members are elicited during the intergenerational succession process. This study concluded with noteworthy implications for incumbents and successors in large family businesses, especially providing explicit criteria and strategies to appoint suitable successors, and suggesting potential avenues for future research.

Keywords: Large Family Businesses, Intergenerational Succession, Phenomenological, Indonesia

JEL Classification Code: L26, L21, L29, M19

1. Introduction

Family businesses worldwide are crucial to modern economies. McKinsey, in the Quarterly Report by Björnberg et al. (2014) provides a bold projection that by 2025, an impressive 40% of the emerging markets' largest enterprises (revenues more than US$1 billion) will be family or founder-controlled businesses. Wahjono et al. (2014) stated that family businesses in Indonesia play a significant role in contributing 80% of the nation's Gross Domestic Product (GDP), and 72% of all enterprises in Indonesia's private sector are family businesses. A large family business (LFB) generates more than US$5 million in annual revenue and employs more than 250 employees (OECD, 2019). Thus, LFBs must maintain their existence, but the pivotal issue is their longevity: Succession. The process of passing the torch to the second or third generation is a challenge faced by large-family Indonesian firms.

Approximately 81 percent of Indonesian LFBs had planned to transfer their leadership to the next generation, but merely around 30 percent of them include their successors in the planning process. Moreover, only 13 percent of LFBs have developed a "robust, formalized, and communicated"

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succession planning (PwC, 2018, p. 26). Compared to other LFBs in Southeast Asia, the top management teams in Indonesia's LFBs are also facing the most tension from disputes between family members, mainly due to corporate strategies (The Economist Intelligence Unit, 2014). Thus, the incumbents' approaches to succession planning have to be explored especially in Indonesia's context.

In Indonesia, from 2013 through 2017, public-listed family corporations' total revenue dominated the Indonesian Stock Exchange, contributing to 56.8% of the listed companies' revenues. As compiled by the researchers from Bloomberg Terminal, the average revenues of family businesses (FAM), state-owned-enterprise (SOE), and multi-national company (MNC) are IDR 1,651,504,607 million (approx. US$110 billion), IDR 656,792,154 million (approx. US$43.8 billion), and IDR 598,042,507 million (approx. US$39.9 billion) respectively. The researchers also discovered that corporations in Indonesia contributed 25.55 percent to Indonesia's GDP between 2013 and 2017: Family business (FAM) with 14.55 percent, followed by the state-owned enterprise (SOE) and multi-national corporation (MNC) with 5.72 percent and 5.25 percent, respectively. Exclusive of the non-public-listed family enterprises, these LFBs are already playing a crucial role in the nation's economic growth.

However, due to the high probability of failure during succession, succession planning and nurturing are crucial to the longevity of a family business (Jaskiewicz et al., 2015; Le Breton-Miller., 2003; Tatoglu et al., 2008). Hence, the following research question is inquired: How do large family businesses (LFBs) in Indonesia strategize their successions? This study's findings illuminated how incumbents experience and perceive intergenerational succession, consisting of succession planning, successors' criteria, and risk mitigation, to survive the next generation and contribute to the Indonesian economy in the long term.

2. Literature Review

2.1. The Roles of Large Family Businesses

Across the world, LFBs play a significant role and give a country's economy a good shape. Family businesses make up more than 80% of US private-sector enterprises, hiring 57% of the US workforce and contributing 63% of GDP (Björnberg et al., 2014; De Massis et al., 2015). Among the 500 largest family firms, 23.4% are in North America and account for 11.4% of North America's GDP; 46.4% are in Europe and account for 14.8% of the continent's GDP; the rest are distributed across the Asia-Pacific and Latin America (Ernst & Young, 2016). Across Southeast-Asia, family businesses account for approximately 60% of all the listed companies (Credit Suisse, 2011). In Forbes Asia, Park et al. (2015) stated that family businesses that play a critical role in these economies' rapid growth are leading companies in East Asia, including Korea, Japan, Taiwan, China, Indonesia, and Thailand.

The Rothschilds is an example of the great impact that a family business could procure. The Rothschilds, a prominent family originating from Germany, established banking and finance houses in Europe beginning in the 18th century. They accumulated the greatest private wealth the Western world has ever seen and credited with transforming the face of history by funding monarchs and kings. One of their most famous bets was to support Wellington's unit, which eventually contributed to Napoleon's defeat at Waterloo. This move subsequently led to a French journalist reportedly stating in 1841: "There is but one power in Europe, and that is Rothschild" (Ferguson, 1998).

2.2. Succession in Family Business

Succession is one of the most-studied topics in the family business field (Allouche et al., 2008; Benavides-Velasco et al., 2013; Nordqvist et al., 2013; Sharma et al., 1997; Xi et al., 2015). For instance, in a bibliometric study using co-citation analysis, Xi et al. (2015) analyzed and identified succession as one of the five most essential topic clusters in family business research. Succession, defined as the actions and organizational mechanisms through which firm leadership and ownership are transferred (Le Breton–Miller et al., 2004), is an extremely challenging process (Bocatto et al., 2010; Calabrò et al., 2019; Cater III & Justis, 2009; Hatak & Roessl, 2015; Le Breton–Miller et al., 2004). Inherent ownership and management discontinuity can disrupt work routines, generate employee insecurity, and hinder organizational performance (DeTienne, 2010; Haveman & Khaire, 2004; Wasserman, 2003). Hence, it is notable that family background is crucial in nurturing successors to attain entrepreneurial efficacy (Klyver, 2007; Nguyen, 2020) for the longevity of the family firms.

Ward's (1987) prominent intergenerational succession rate showed that 30 percent of family businesses survive in the second generation, 13 percent survive in the third generation, and only 3 percent thrive in the fourth generation. The issue of succession in family businesses is so significant that the Chinese even have a saying to express the phenomena: "*fu bu guo san dai*" (meaning: wealth does not pass beyond three generations). The renowned succession rate highlights family business research value among scholars (Casillas & Acedo, 2007; Howorth et al., 2010; Nordqvist et al., 2013; Sharma, 2004).

2.3. Continuous Challenges Ahead

The anticipated success in family business succession, based on De Massis et al. (2008), comprises of the successor's ability to take over and the harmonious relationship between the incumbent and the successor. De Massis et al. (2008) also explained that the transition would be advocated by the dominant coalition, such as siblings or relatives. However, family businesses still have a long and complicated period of succession involving owner-managers' personal goals, family structure, future successors' skills and expectations, as well as legal and financial concerns (Le Breton–Miller et al., 2004; Miller et al., 2003). LFBs are particularly mindful of the transition failure that they usually set long-term strategic planning (Oudah et al., 2018). Handler (1994) denoted that succession is a multi-staged process over an extended period, even before the successors enter the business. This involves the interdependence among family members while embracing the emotional tolerance part of the process (Susanto et al., 2007).

3. Methodology

The family business is generally formed by three kinds of combinations of business ownership and governance, namely: (i) the family-owned and family-managed; (ii) family-owned but not family-managed; (iii) family managed but not family-owned. The third situation generally exists in western family businesses that have already been listed on the stock exchange. The majority (80%) of our survey respondents and all the subsequent interviewed participants fell under the "family-owned and family-managed" firms.

The researchers commenced with survey data collection in October 2017 to sensitize with the succession process in LFBs and followed them up by employing Interpretative Phenomenological Analysis (IPA). First, the preliminary survey data was collected during a family business seminar in 2017 to capture the succession approach in Indonesia. The researcher sent questionnaires to 200 respondents by email consisting of closed-ended multiple-choice questions. Most of these LFBs are public listed companies, and all of the respondents are incumbents. In total, 60 surveys were returned, representing a 30% response rate. The questions were made up of 18 essential questions to capture the perceptions and attitudes towards intergenerational problems. Subsequently, through purposive sampling, the researchers approached 5 Large Family Businesses (LFBs) that are conglomerate groups and interviewed 12 participants that consist of founders, 2nd generations, 3rd generations, and non-family members executives. For method triangulation, the researchers also applied observations and field notes. These interviews were conducted from December 2019 to June 2020. The researchers engaged in Interpretative Phenomenological Analysis (IPA) to explore how they experience their succession initiatives. The primary goal of IPA is to investigate how individuals make sense of their experiences. It is assumed that people are 'self-interpreting beings' (Taylor & Charles, 1985), which means that they actively interpret the events, objects, and people in their lives.

4. Findings and Discussions

In each research finding, the preliminary results from surveys are exhibited and discussed beforehand, then followed by in-depth investigation outcomes.

4.1. Succession Preparation

Most incumbents prefer their successors, after finishing their schooling, to seek careers outside the family business as professionals beforehand. Based on the researchers' survey, the projected external working period is two to five years, thereby reflecting their intention for the successors to have sufficient relevant skills and expertise before taking key roles and accepting more significant corporate responsibilities. Experiences outside the family business would underpin successors' abilities to establish relationships and appreciate a company's culture and dynamics (Barnes, 1988; Lansberg & Astrachan, 1994).

Question (Q): Can you tell me any preparation needed to nurture your successors, especially your grandchildren?

On the matter of nurturing, I always advise my children to allow their children to learn outside. Let them work with someone else, to gain apprentice outside, and then give them a chance to build their ventures starting from zero. I suggest them to not give them a position in the family business right after graduation. […] when they eventually become successful, the business could be acquired into the family business group. Once again, do not let the fresh graduates join the family business. – Mr. PLMROA, Incumbent, 1st Gen, Age 93, Chairman.

"Well, everybody in the family must have a "sense of crisis," especially in good time. My grandfather teaches us to stay vigilant, to have a sense of crisis. […] When you are facing adversity, you must have a sense of "opportunity". […] We cannot fall asleep."- Mr. PLJROA, Successor, 3rd Gen, Age 35, CEO.

Most of the LFBs have their policies to not carelessly allocate structural positions to the family members who join the family business. They are required to apprentice outside. In the absence of apprenticeship, family members need to gain experience from entry-level and gain respect and recognition within the organization. There are LFB incumbents like Mr. PLMROA that have the policy of encouraging the second and third generation to create their ventures. Overall, LFB incumbents intend for their potential successors to procure apprentice learning, acquire entrepreneurial spirit, and adapt to external forces.

4.2. Professionalism is Key

According to Fig. 1, incumbents perceived professionalism, succession, collaboration, vision alignment, and emotional commitment, as one of the main obstacles in family enterprises. The incumbents conclude that in the long term, the lack of professionalism will damage the family-owned firm. They also acknowledge that it is much more challenging to manage professionalism than succession. However, one of the primary strategies for professionalism is to entrust the predecessor's growth ambitions to the successor (Khan & Gupta, 2008). This study found that the incumbents have greater confidence in their family members than the professionals.

Q: How important is professionalism for succession preparation?

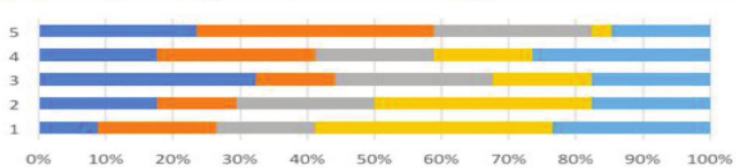
"Well, you know, there are 5 of my grandchildren who have worked for me. I requested them to form a Senior Board consisting of 8 persons…. They give me recommendations: Where will my grandchildren be allocated? What are their positions? Furthermore, what are their remunerations? If their remunerations are insufficient for them, I will use my own pockets. However, don't ruin the system of the company. We adopt merit-based professionalism. All non-family executives work for life here because we also give them room to perform." - Mr. PCCPTOC, Incumbent. 1st Gen, Age 88, Chairman.

The interview above confirms how the incumbent believes that professionalism is considered essential in succession planning. Moreover, the incumbent is glad that the G3s have joined the family business and started from entry-level, receiving training and mentoring from all the seniors to learn professionalism. The incumbent believes that professionalism allows room for everyone to perform based on merit-based professionalism.

Hostilities among siblings could occur when they cannot accept the incumbent's final appointment, leading to the family's breakup and the business (Finch, 2005). Nevertheless, professionalism can minimize conflicts. LFBs believe that for a family constitution to avoid and resolve conflicts is by regulating family members' rights and obligations and family member's involvement. Tan et al. (2019) and Suess (2014) denoted that stipulating family governance and firm governance can mitigate these family and business complexities so that successors can collaborate with key non-family employees to drive the business forward:

"If you do not have a family constitution, misunderstandings will come up anytime. Misunderstandings can arise due to many different perspectives. It is hard in the family because we do business; however, we also have a blood relationship. […] It is easy to create jealousy and conflict since blood and work can never get along. Therefore, to avoid conflict, the family constitution is utterly the most important. Once we have a family constitution, everybody knows their boundaries. Not only do they have their limits, but they are also aware of their obligations and rights. Before that, there were too many endless arguments. Now, with the existence of the family constitution, there it is! We know, everyone knows." - Mr. PCHHOC, Incumbent, 2nd Gen, Age 60, Managing Director.

Q: Below are the common problems faced by family companies. Please sort the choices below with the numbers 1 (most important) to 5 (least important).



	1	2	3	4	5
Emotional Attachment	8.82%	17.65%	32.35%	17.65%	23.53%
Communication Problem	17.65%	11.76%	11.76%	23.53%	35.30%
Different Vision	14.71%	20.59%	23.53%	17.65%	23.52%
Professionalism	35.29%	32.35%	14.71%	14.71%	2.94%
Succession	23.53%	17.65%	17.65%	26.47%	14.70%

Figure 1: Problems Encountered (Source: Data compilation by researchers)

4.3. Successor's Attributes and Criteria

An effective succession means "the subsequent positive performance of the firm and ultimately the viability of the business" (Le Breton-Miller et al, 2004). It is necessary, for the successor selection process, to entail an objective evaluation of all possible candidates and their ability to lead the LFBs, given the significant effect of succession on the future of both the family and the business.

Criteria of the successor will determine if the succession plan is effective. The survey result displays the criteria of consideration for the large businesses in selecting their successors as follows: the successor's seniority, the successor's character, the successor's interest, the successor's experience, and the successor's know-how. In the survey, the primary three concerns of majority incumbents towards LFB candidates are ranked as follows: (i) the genuine interest of the successors in the business; (ii) the character of the successors; (iii) the successor's know-how.

Q: Do you have any problems imparting business interest to your successors?

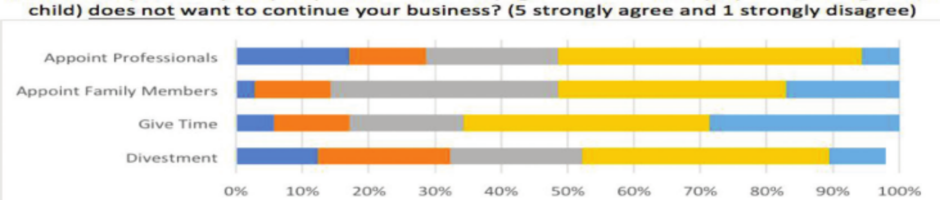
"Well, what I can feel, my founder, he has a paramount interest in the business that I can't find in other people. [...] His mind is focused on jobs. The G3 successor also has an extraordinary passion for business. Perhaps, he is close to his grandfather. Since early life, all grandchildren have been nurtured to love the business. Eventually, they embrace our founder's compelling purpose to create employment and work with integrity, professionalism, and entrepreneurship. The grandfather leads by example. He is a role model. The G3 are diligent; they come to the office in the morning. And, they work till late. The passion for business is equal to be "hungry for business". – Mr. PCHHOC, Incumbent, 2nd Gen, Age 60, Managing Director.

The interview reveals that most LFBs prepare the successor's business interest from childhood. Passion for the business and "hungry for business" have been nurtured and implanted since childhood by bringing them to business meetings and ceremonials. This is crucial to maintain the entrepreneurial spirit of the successors and the competitive advantage of the firms (Buchholz & Rosenthal, 2005). Second, integrity through role modeling is emanated from the successor as exemplified in the interview below. The nurturing process of the successor from childhood through family cultures or traditions is key to character development. Furthermore, the nurturing of passion, underpinned by the family's acceptance, establishes the successor's genuine interest in the family business:

Q: Can you tell me what is the most critical attribute that a successor must have?

"We need integrity. Integrity means faith in God. What is the meaning of "faith"? It is "big heart", that he (successor) can be accepted by everybody, by every stakeholder. Especially in the family, the big heart successors can be accepted by all stakeholders in the organization. He does not try to look for people's mistakes only. How about the opposite of the big heart? Small heart! It means a person with self-centeredness." - Mr. PLSROA, Incumbent, 2nd Gen, Age 60, Chairman.

Q: What will you do if your prospective successor (e.g. immediate family, spouse, sibling and /or child) does not want to continue your business? (5 strongly agree and 1 strongly disagree)



	Divestment	Give Time	Appoint Family Members	Appoint Professionals
1	12.29%	5.71%	2.86%	17.14%
2	20.00%	11.43%	11.43%	11.43%
3	20.00%	17.14%	34.29%	20.00%
4	37.14%	37.14%	34.29%	45.71%
5	8.57%	28.58%	17.13%	5.72%

Figure 2: Incumbent's Alternative Strategic Plan (Source: Data Compilation by Researchers)

4.4. Exit Strategy

The researcher then continued to explore when the prospective successors should be appointed. According to Fig. 2, incumbents in LFBs would first prefer to be patient towards their prospective successors; the next step is to appoint other family members or appoint professionals to continue the family firms. The last resort is to divest. When considering a successor, the LFB respondents dismiss key non-family candidates. This research reveals that the incumbents have strongly considered nominating family members for succession.

In the absence of a capable family member, incumbents must continue to motivate and attract key non-family employees to collaborate with their successors. If the time comes and LFBs are still unable to appoint any family member, the third choice is appointing professionals:

Q: What is the option for the family if nobody willing to join the family business?

"You may see the heavy involvement of non-family professionals compared to family members in our company. It is due to our founder's guts that we involve outsiders as professionals. I was the first CEO of a family member. And perhaps the only family member's CEO so far. Now the position is back to non-family members. Currently, I have become a chairman, not an executive lever. [...] This company entrusts non-family members a lot." Ms. BKBRUISOD, Successor, 2nd Gen, Age 58, Female/Chairman.

According to Rizan et al. (2020), transactional and transformational leadership are required to retain and motivate employees. The LFBs realize that entrustment to the professionals is essential. The collaboration of the family members and key non-family members is crucial, as the members of the family realize they cannot work by themselves. They need their non-family executives to work hand-in-hand to build their businesses. Although key non-family members are not considered as successors, LFBs believe they are the vanguards of professionalism in the companies. Interestingly, in a company with non-family professional culture, the owner is willing to step back as Chief Executive Officer (CEO) and becomes the supervisory board member (commissioner), while the key non-family professionals obtain the highest role as CEO. The LFBs understand that to thrive, the families cannot merely rely on the family members but also trust the key non-family members.

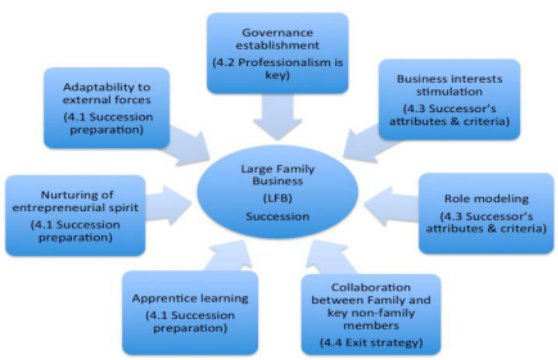


Figure 3: A Learning Framework for Large Family Business (LFB) Succession

4.5. A Learning Framework for Large Family Business (LFB) Succession

This research shed light on the incumbents' perspectives and comprehensive strategies during the succession process in LFBs as exhibited in Fig. 3. These specific perspectives and strategies have been developed from experiences as the incumbents prepare their successors for intergenerational succession. These learning sets of actions that consist of apprentice learning, nurturing of entrepreneurial spirit, adaptability to external forces, governance establishment, business interests stimulation, role modeling, and collaboration between family and key non-family members can be used as a dashboard for practicing incumbents to monitor their succession processes. Additionally, well-planned approaches are recommended to rejuvenate the strategies in the particular era of the successors (Merchant et al., 2017), and this study has corroborated the responses of renowned family members in each perspective and strategy. As for academicians, they can further analyze the efficacy of each perspective and strategy using a quantitative approach.

5. Conclusion

The interweaving succession dynamic such as succession preparation, attitude toward professionalism, the involvement of key non-family members, preference of successors, successors attribute, conflict management, and the possible exit strategy are explicated thoroughly in this study. Since the research is conducted in an Indonesian setting, the generalizability is limited. Nevertheless, the protocol of this study could be replicated to extend discoveries of LFB succession approaches in other emerging economies.

The scant access to the incumbents in this study fosters invaluable and enriching data to be collected. Further inclusion of successors' perspectives in future studies could demonstrate the socioemotional aspects that might be embraced by the incumbents, especially in the scenarios when no successor is willing to step in. Furthermore, the investigation of key non-family professionals' motivations and stewardships can enhance the longevity of LFBs. Future research can also address the roles of governance and control systems for the perpetuation of the dynasties especially when resolving multi-layered communication complexities. Perhaps, the presence of trust between the inner-circle of family members, extending to the key non-family professionals, has to exist in the core foundation of the succession process.

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