THE EFFECT OF SUCCESSOR CHARACTERISTICS ON SUCCESSION PLANNING OF FAMILY COMPANIES

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Abstract: The main objective of this study was to determine the effect of successor characteristics on the succession planning of family companies in Bali. This research was conducted at family companies on the textile and weaving industries in Bali, both small, medium and large scale, with the condition that it has done minimal succession in the second generation. Successor characteristics and succession planning were measured by a qualitative approach using a Likert scale. Then the data were analyzed using Partial Least Square Path Modeling (PLS-PM). The results of the study found that the characteristics of successors had a positive and significant effect on succession planning. It meant that the better the successor’s characteristics, the better succession planning would be. Willingness to take over the management of the family business will strengthen the commitment of all family members.

Keywords: Succession, successor, family company, succession planning

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Family companies are usually established, led and managed by family members, although some of the family businesses today are managed by professionals who come from outside the family. When viewed in terms of the meaning of the word, “family” and “business” are actually two different things, because each is a system that has its own elements. The family as a system is more emotional in nature because it is united by the deep ties that influence in doing business, including the family upholding the loyalty and nurturing (maintenance) of its business. In addition, families also tend to be conservative, minimizing change to keep them intact. In other words, family orientation is more inward looking. Meanwhile, business-based work is market-oriented and takes advantage of every slightest change.

Many researchers agree that family involvement in companies makes family businesses different from non-family companies (Miller & Le Breton-Miller, 2006). An almost similar opinion was also
expressed by Bernard (1995) who said that family businesses are controlled by single family members, especially in important business decision-making processes.

Some researchers interpret family involvement in terms of ownership and management (Handler, 1990). Meanwhile, Churchill & Hatten (2007) are more likely to add to the family presence factor at the time of the succession that comes from within family members. Furthermore, Carsrud (2004) explained that the family company is a business that is truly owned by the family and the decision making and taking of the company is dominated by family members.

According to Handoyo (2010), a family company or family business is a business that is owned and/or managed by a number of people who have a family relationship, both husband and wife and their descendants, including kinship. This definition is further complemented by the definition of Dictionary of Law (2000) which states that a family company is a company whose shares are mostly owned by the same family members.

Based on the Civil Law Code or Burgerlijk Wetboek (BW), there are four groups of brothers in the family. The first group is the family in a straight-down line (children and their descendants and their spouses). The second group consists of families in a straight-up line (parents and siblings, both male and female, and their descendants). The third group consists of a grandfather, grandmother, and subsequent ancestors upward. The fourth group consists of family members in a sideways line and other relatives up to the sixth degree. This classification is usually related to the order of priority in inheritance.

Chua, et al. (1999) further explain the definition of family business based on empirical studies, by examining more than 250 scientific papers and articles in the family company literature group and conducting several interviews with family company management, they concluded that only businesses owned by full families can be called a family company. Included in the understanding of the family company is when some siblings and brother-in-law share in owning and managing the business, but they do not manage other companies outside the company and some decisions are often influenced by spouses (husband/wife) and children. Therefore, the definition of a family business is often based on the components that influence it not on things that are of its essence, including the vision carried by the family or a small portion of family members. The definition of a family business should be built based on the goals of the dominant conditions that shape and how to achieve a vision beyond several generations.

Succession is very crucial in maintaining the continuity or sustainability of the family company. Succession is often interpreted as transitioning to the top leadership because the leadership will reach various managerial layers. The pattern of succession of top management includes Planned Succession, namely succession planning that focuses on candidates who have been prepared to occupy key positions. Meanwhile, Informal Planned Succession is a succession planning that is more directed at providing experience by giving a position under the “number one” and directly taking orders and instructions from that person, and Unplanned Succession, namely the transition of top leaders to their successors based on decisions the owner by giving priority to personal considerations.

Hollinger (2013) states the important thing of succession planning is the sustainability of leadership development. Saan (2013) presents a model of the conceptual framework of succession planning and the continuity of the family company (conceptual framework of succession planning and FOB continuity) that links the founder (owner) with the successor and the environment, which influences the succession process and succession of the family company succession.

Conceptual framework of various relationships for achieving succession success that leads to company sustainability. The willingness of the founder/owner to step down and give options for a replacement, both inside and outside the family is an indication of the need for succession. The successor’s personal interests and competence and experience will be able to facilitate his willingness to take over succession as soon as possible. An environment
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consisting of internal and external, together with the founder and successor through a succession process will produce a successful succession that leads to continuity.

Susanto et al. (2007) stated that succession planning is important because of the various processes of company policy involved, including the process of company development, career planning policies, promotion systems, and mutations. Succession does not only mean “Over Generation” at the top leadership, but it is also not only based on age criteria or from leader to descendant or professional. The view of succession planning and implementation with broader objectives can also be interpreted as succession not always talking about business goals, but broader than that is family harmony which is the main reason why family businesses are built.

The implementation of succession planning can run well if the successor selection process and successor preparation are also running smoothly. The successor selection process talks about the value of communication in the selection process and the value of objectivity in the successor selection process. While the successor preparation process talks about the Successor Development Program (the program that contains the stages of successor development) and the allowance from previous Family Business Leadership (FBL) or blessing given by the previous FBL (Fishman, 2009).

Miller & Le Breton-Miller (2005) state that good business succession planning is a valid indicator of business performance. In the transition period, leadership in the family business will run smoothly if the successor (successor) has been better prepared. These preparations include preparing the successor in an affable manner and are included in the succession planning process, including the process of transferring wealth and ownership rights as well as matters that have the potential to bring wealth (wealth-transfer).

Succession and characteristics of the successor are also determined by the level of relationship that occurs in the family system and family values that are adopted (Lee, 2003). In family businesses, there is an interdependence between family and company. As is the nature of family businesses, family systems have very close and deep interdependencies between family systems and company systems (Kepner, 2013). The family business is the integration of two systems that intersect (Beckard & Dyer, 1983; Lansberg, 1988). Between the two systems, there are differences in interests, differences in norms, values, and structural differences. The pressure between the differences between the two systems will affect individual behavior both at work and outside the work environment.

Successor characteristics play a role in the succession process, especially in the willingness of the successor to continue the company and the relationship between the successor and the owner of the company. Marpa (2010) uses several benchmarks to see the characteristics of successors, namely: (1) age; (2) level of education (3) length of time joining the company; and (4) experience working outside the family business.

Method

This type of research is an explanatory quantitative research that explains the relationship between the variables studied. This research was conducted at family companies engaged in the textile and weaving industries in Bali, both small, medium and
Characteristics of successor based on age, it appeared that the dominance of people who were 30 people (30%) of 40-49 years old, 26 people (26%) of 30-39 years old, 21 people (21%) of <30 years old, (17%) of 50 - 59 years old and the lowest percentage was 6 people (6%) of ≥59 years old of people. This showed the success of succession in family companies at a productive age, which was quite mature (age 40-49 years), not too young and not too old, because at the age of maturity had the ability to lead and manage the company better, and easier in accepting innovation when compared to being too young and old. At a younger age, it was easier to accept innovation but did not yet have a good ability to lead and manage a company. On the contrary, too old, the ability to lead and manage a company had declined and it was difficult to accept innovation.

Based on the length of leadership of the company, it showed that the most were 62 people (62%) of > 5-10 years, followed by those who have led >10-15 years as many as 22 people (22%), less than 5 years were 5 people (5 %) and over 15 years were 6 people (6%). This was consistent with the inheritance of the dominant family company in the second generation, so the experience of leading a company was only 5 to 10 years.

Meanwhile, the education background owned by entrepreneurs reflected the ability and skills in carrying out business activities. The education level of the majority of entrepreneurs with a Bachelor’s Degree (S1) was 25 people (25%), followed by a high school / equivalent education of 23 people (23%), a Diploma education of 19 people (19%), a Junior High School education of 12 people (12%), had 19 elementary school graduates (19%) and had 2 (S2) undergraduate degrees (2%). This information provided an illustration of employers who were of a relatively high education level, but overall had an adequate level of education. It could also be concluded that entrepreneurs who had a higher level of education tend to be more fluent in technology so that they had a higher level of adoption in managing and leading companies for the advancement and sustainability of family businesses.
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The characteristics of a Successor in this study were reflected by 3 indicators, namely business experience, the time of involvement, and the willingness to take over. The respondent’s description of the Successor Characteristics can be presented in Table 1 below.

**Table 1** Variable Description of Successor Characteristics (Y1)

| Indicators                  | Response (%) | Mean | Description |
|-----------------------------|--------------|------|-------------|
| Y1.1 Business experience    | 05.0 11.0 06.0 55.0 23.0 | 3.80 | Good        |
| Y1.2 Time of involvement    | 04.0 07.0 15.0 63.0 11.0 | 3.70 | Good        |
| Y1.3 Willingness to take over | 05.0 02.0 12.0 58.0 23.0 | 3.92 | Good        |

**Successor Characteristics (Y1)**

| Mean | Description |
|------|-------------|
| 3.81 | Good        |

Resource: Primary Data Analysis

Based on Table 1 showed that the characteristics variable owned by the successor were included in the good criteria, this was indicated by the mean value obtained at 3.81. Furthermore, it could be said that the indicator of willingness to take over was included in the criteria of good, with the highest mean value of 3.92, followed by indicators of business experience also included in the criteria of good with a mean value of 3.80. While the indicator of the time of involvement has the lowest mean value, which was 3.70 but was still included in the good criteria. These results gave an indication that the stronger the willingness to take over the company, the stronger the successor characteristics would be. The successor characteristics profile (Y1) is presented in Table 2.

The information obtained in Table 2 was the similarity between what was considered the most important and the expectations or reality that was believed, namely the indicator of willingness to take over. The results indicated the willingness to take over was an indicator of the characteristics of successors considered the most important role for a successor, as well as according to outer loading that the willingness to take over was an indicator of the characteristics of a successor. Thus, the characteristic of successors in a family company engaged in the textile and weaving industries in the Province of Bali lies in the willingness to take over.

**Succession Planning**

Succession planning was reflected by 5 indicators, namely: attitudes, willingness, commitments, trust, and leadership. The description of respondents on the characteristics of successors can be presented in Table 3.

In accordance with the presentation in Table 3, succession planning was included in both criteria, this was indicated by the mean value of 3.98. It could further be explained that the trust indicator had the highest average value with a mean value of 4.10 and was included in the good criteria, followed by leadership indicators included in the good criteria with a mean value of 3.98 and indicators of attitude and commitment were included in the good criteria with the mean values were 3.96 and 3.95 respectively, while the indicators that had the lowest mean values were willingness, amounting to 3.93 but still included in the good criteria. There-
fore, it could be said that the greater the trust, the better succession planning could lead. The profile of succession planning in Table 4 is as follows:

Table 3 Variable Description of Succession Planning (Y2)

| Indicators     | Response (%) | Mean | Description |
|----------------|--------------|------|-------------|
| Y2.1 Attitude  | 04,0 01,0 17,0 51,0 27,0 | 3.96 | Good        |
| Y2.2 Willingness | 01,0 07,0 12,0 58,0 22,0 | 3.93 | Good        |
| Y2.3 Commitments | 01,0 03,0 18,0 53,0 25,0 | 3.95 | Good        |
| Y2.4 Trust     | 02,0 04,0 04,0 62,0 28,0 | 4.10 | Good        |
| Y2.5 Leadership | 04,0 05,0 06,0 59,0 26,0 | 3.98 | Good        |

Resource: Primary Data Analysis

Other information from Table 4 above showed the trust indicator had the highest factor weight, which was equal to 4.10, while the desired indicator obtains the lowest factor weight (3.93). These results gave the sense that the confidence to go into business was a major indication in the succession planning of a family company engaged in the textile and weaving industries in Bali Province. In other words, the stronger the confidence to enter the business world, the more succession planning would be carried out properly. However, commitment indicators were believed to reflect succession planning with the highest weighting (outer loading value 0.867). That means that indicators of commitment for all family members were needed in succession planning, or the more committed, the better succession planning.

DISCUSSION
The effect of successor characteristics on succession planning

Successor characteristics (Y1) were proven to have a positive and significant effect on succession planning (Y2). Thus it could be stated that the better the characteristics of successors, the better succession planning. For the successor characteristic variable, the willingness to take over indicator had the strongest outer loading weight, while the succession planning variable produced the commitment indicator that had the highest score. This meant that the willingness to take over the management of the family business would strengthen the commitment of all family members to the sustainability of the company.

The results of this study were in line with what was said by Barach & Ganitsky (1995) which stated that the predecessor and successor might have a good relationship. Successor might be people who already understood the ins and outs of the business that would be managed, so it became important that there was a shared character between the predecessor with the successor. The successor character could be adjusted to the leadership change plan. Successors played a role in the succession process, especially in the willingness to take over from successors to continue the company and the relationship between successors and their predecessors. Barach & Ganitsky (1995) further said that the individual factors that were characteristic of a successor had a positive correlation with the effective-
ness of succession planning, although the indicators used were slightly different i.e. by using motivation, ability, level of education, experience outside the company and the length of time the intern worked at the company.

The results of this study are in line with the results of research conducted by Meijaard et al. (2005) which stated that succession occurred for two reasons, namely based on the readiness of the next generation as has been done by the predecessor in a series of succession planning (trigger event), or because of factors forced by nature (forced of natural) because the predecessor dies or was unable to remain, regardless of whether or not you had made preparations for succession. Furthermore, Meijaard et al. (2005) stated that education and experience, goals after the transfer, trust in substitute abilities and willingness to quit from predecessors had an influence on succession planning.

The results of this study were also in line with what was said by Chrisman et al. (1998) but in slightly different dimensions. Said by Chrisman et al. (1998), successors were individuals who were prepared in lieu of company ownership and management. In planning succession, successor selection was based on the characteristics or attributes possessed by each successor. In a large family company, a successor could be more than one person, then through the assessment process, the best was chosen to become a manager. In their research, Chrisman et al. (1998) group the willingness characteristics or attributes of a successor into 6 groups. First was the personal relationship between potential successors and managers. Family succession emphasized the importance of the quality of the relationship between potential successors and their predecessors in determining the process, schedule and effectiveness of succession. Seamless succession required collaboration between the current manager and the successor. The second was the personal relationship between potential successors and other family members in the family. A potential successor should get the trust of all family members, both those who were actively involved in managing the business and those who are not. The third was family integrity. In addition to being trusted, successors should be accepted by all family members based on values that were applicable or agreed upon in the family. Fourth is competence. Potential successors should have the competencies they should have as a potential successor to their predecessors, namely expertise in finance, marketing, technical, decision-making abilities, and interpersonal skills. Fifth, personality traits. The personality traits required by a successor are aggressiveness, creativity, independence, integrity, intelligence, confidence and courage to take risks. Sixth was the successor’s involvement in the family company. Involvement in a family business could be in the form of ownership of company shares or active participation in management.

The findings of this study were in line with the theory put forward by Bliss (in Bliss & Collingridge, 1993) who said that a good succession plan should begin at least 10 to 15 years before the owner left the company. A long succession plan would be able to finalize the succession process itself by preparing the person who would replace the desired successor character. The successor candidate’s experience would be more numerous and varied, so that in the future if problems arose after a change of ownership, the successor candidate would be able to handle the problem more easily. Likewise, the study of Sharma et al. (2003) which was in line with the findings of this study. Sharma et al. (2003) said succession preparation depended also on the selection of the characters of successor candidates, while for the succession process, Sharma et al. (2003) divided their activities into four categories, namely successor selection and training, post-succession business strategies, the role of old post-succession predecessors, and dissemination of succession information to stakeholders. Successor selection and training activities include: (1) developing a list of potential successors; (2) making clear criteria to determine the best successor; (3) training of potential successors; (4) influencing potential successors on businesses before succession; and (5) familiarizing potential successors with workers before succession. The same thing was also said by Morris (2007) which stated that succession planning must be pre-
pared from the outset with the right process in pre-
paring leaders in accordance with the desired char-
acteristics in order to be able to lead the company
as best as possible, including with family relation-
ships based on trust, and when the succession is
carried out.

To confirm the findings of this study, in-depth
interviews were conducted with 4 (four) informants
who were successors of the family business that
was previously managed by parents. The four people
were Ni Ketut Muliati, SE (51 years old), Desak
Nyoman Parwati (35 years old), Gede Suastika Joka
Wijaya (30 years old) and Ni Nengah Nuriati (35
years old).

Almost all of them claimed that at the time of
the transition the management had the willingness
to take over the family business and had a commit-
tment to manage the business. Ni Ketut Muliati, SE
(51 years old) said that when telling her mother, the
willingness to take over the management of the fam-
ily business. Muliati believed that at that time she
had a commitment to do business. This was proven
when her mother said that she had sincerely given
the business that she now managed because she
had been involved for a long time so that Muliati
was considered capable enough.

Insist Nyoman Parwati (35 years old) ordered
by her parents, so that the commitment was main-
tained. His father emphasized not to waste the trust
given to him. Parwati’s willingness to take over was
valued by her father, who then emphasized that she
should not be careless and that she should be care-
ful and prudent because this business was the only
hope for the family to support the family economy.
If it went bankrupt, it was said to be able to embar-
rass the family.

Gede Suastika Joka Wijaya (30 years old) who
has a family business in Nusa Dua said the commit-
ment was the main capital when taking over a fam-
ily-owned business. Initially, he was still doubtful,
but with outside experience, and as a child he was
often invited to look after the shop, the parents did
not hesitate to give Joka Wijaya the right to manage
the business and that trust would be taken care of.

Ni Nengah Nuriati (35 years old) was given to
manage UD Nuri Collection - Denpasar by her par-
ents because she was trusted after her parents be-
came a priest (sulinggih) and she was considered
to have a great willingness to continue the relay as
a company manager.

CONCLUSIONS AND RECOMMENDA-
TIONS

Conclusions

Successor characteristics had a positive and
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sor characteristics, an indicator of willingness to take
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It meant that it could be interpreted that the willing-
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ness would strengthen the commitment of all family
members.

Recommendations

Suggestions for further researchers, this fam-
ily business research is limited to those engaged in
the textile and weaving industry, so it needs to be
expanded again for family businesses engaged in
other business sectors. The existence of cultural
differences between the Balinese who are Hindu
and the non-Hindu Balinese, it is necessary to do
further research.

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