Management Succession A Case Study of a Chemical Industry in Indonesia

by Kazia Laturette
MANAGEMENT SUCCESSION: A CASE STUDY OF A CHEMICAL INDUSTRY IN INDONESIA

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Abstract—This study aims to determine whether conducting a succession management is crucial in improving the performance of family businesses. The type of research used in this study is a qualitative descriptive research. The method used by reviewing a case study. The data are collected via interviews, observations, and literature reviews. The participants of the study include the director and a second-generation successor from a chemical company in Indonesia. The selection of objects is based on a purposive sampling method with related selection based on accessibility between researchers and the research participants. The result of this study shows that managing succession with professional behavior will promote the performance of the company.

Keywords—management, succession, performance, family company.

I. INTRODUCTION

The family is, no doubt, the oldest and longest running social unit in the society. Together with small communities, families were formed long before commerce began. In fact, families supported by the local communities are able to sustain themselves by self-sufficient means (Ponzetti, 2003). Although the business enterprise is definitely integral to the long-run sustainability of a family business, the condition of the family is as equally important to the continuity of a family business. The family unit brings together and creates the forces to enable the emerging and to sustain entrepreneurial behavior. The conceptualization of a family business must encompass a multidisciplinary and comprehensive perspective of the complex and dynamic phenomenon of business that is owned and operated by family members.

Throughout history, families have been critical to the creation and operation of businesses. Families are the most important sources of human, social, financial, and physical capital. Throughout the world, from ancient to modern times, and from agricultural and cottage industries to multinational corporations, family ownership is pervasive (IFERA, 2003).

Some researchers reflect family involvement in terms of ownership and management (Handler, 1989). Meanwhile Churchill and Hatten (1987) added that family businesses must have a successor originating from the family members. Carsrud (1994: 40) further explained that family business is an organization that are truly owned by the family and the company policies are dominated by members of the "emotional kinship group". This means that within a family business, each family members must hold a strong emotional relationship that is visible to the naked eye.

It seems that previous researches are focusing more on a succession process that did not go well. Hence, this research aims to understand the family business’s condition when the succession process managed to go well and to see whether this aspect will affect the performance of the family business. In addition, most family business owners realize that their business may eventually die or be taken over by a new management team from a non-family members, unless they can overcome the obstacles by passing the baton of management succession.

The focus of the current study is to gain more insight into long-lived family businesses by studying a case study of a family business in Indonesia. This study aims to determine whether managing succession process is crucial in improving the performance of family business.

II. LITERATURE REVIEW

In reality, some characteristics of a family business may directly affect the process of transferring the business ownership from one generation to the other (Barach et al., 1998). From the perspective of a business owner, Wanda, she suggested that future successors should be well educated and gained some working experiences before they can earn a position within the family business.

Although most second-generation SME owners are more educated, and some of them studied overseas, it
does not prepare them to deal with real business situations. Education allows them to understand the general knowledge, such as managing changes brought about by a host of factors, dealing with competition, new technology, new market and new customers with changing expectations. However, it does not prepare them to deal with the dynamic of the marketplace. Most common knowledge are worker-oriented, while running a business requires a deep understanding from few perspectives. Hence, although success may think they have enough understanding about running a business, they may not have understood their role in running and growing an organization (Walter and Kaipo, 2003).

Intra-family succession is critical for family businesses' longevity. Boyd et al. (2014) develop a conceptual model of incumbent decisions on succession in family business by drawing upon the theory of planned behavior and socioemotional wealth (SEW). The authors suggest that family, firm, industry, and cultural contexts can shape concerns about family and business in turn affecting attitudes toward the type of succession, norms, and perceived behavioral control. These can consequently determine the intention towards a particular type of succession.

III. METHODS

To explore this issue, this study conducted a case study research, which aims to describe the state of the problem. According to Yin (2004: 18), in Yin (2017), case study is an appropriate strategy to be implemented in a study when the research wants to answer the "How" or "Why" of a problem and the research problem is directed to a series of contemporary processes or events (the focus of the research lies on a contemporary phenomena). The research participants are a director and a second generation successor from a family business that works in the chemical industry in Indonesia.

The type of data used in this study is qualitative data. According to Kuncoro (2010: 145), qualitative data is a set of data that cannot be measured with a numerical scale. The data was obtained from primary and secondary sources. According to Itohland (1984: 47) in Moleong (2014: 157), the primary data includes the words and actions from the real-life condition, while the rest acts as supporting data, such as documents and others. This research uses a Purposive Sampling method (purposely), where the data is only provided by the members of the chosen population in accordance with certain considerations (Sugiyono, 2014: 122).

According to Miles and Huberman in Sugiyono (2014: 494), analyzing a qualitative data needs to be done in an interactive manners and lasted continuously; in result, the data is saturated. The data that will be analyzed includes:

1. Reduction of data, which summarize, choose the main points, focus on the important thing, and sought the theme and pattern;
2. Presentation of data, in the form of brief descriptions, charts, relationships between categories, flowcharts, and the like; and,
3. Conclusion or verification of conclusions based on the results.

IV. RESULTS AND DISCUSSION

The analysis was conducted based on the result of interview evaluation with the resource person, which then compared the result of the interview from the resource person. Then, the interview between the participants will be further compared with the observation result and the literature study.

**TABLE 1. INTERVIEW WITH THE MAIN SUBJECT, DISCUSSING ABOUT WAYS TO MANAGE SUCCESSION IN THE FAMILY BUSINESS.**

| Interviewer | Interview with the main subject, discussing about ways to manage succession in the family business | Analysis |
|-------------|-------------------------------------------------------------------------------------------------|----------|
| 1. "If I start in 2011, graduate from college." | - Highly interested in doing professional or managerial succession management. |
| 2. "Yes, and the younger siblings don't want to join in. My sister lives in Australia, in Melbourne." | |
| 3. "... In the system still a closed system or more open? Open." | |
| 4. "... The highest decision is still in my hands, but the mechanism is still tight." | |
| 5. "... Yes, it should be, now it can work. Because the younger brother can also take things from anywhere, his brother can also sell things everywhere. So if his brother can't fulfill his orders, he can find other terms. Oh yes, so it must be more professional, huh." | |
| 6. "... Yes, so the responsibility must be separate, the point is, because if I look at my friends, there are many who suddenly have too much responsibility, the conflict is right there. So everything is the same, especially if the other one is produced, the one in marketing is not the problem, because first I worked with people, that's what his brother produced, his younger brother was marketing, it was like hell every day, nothing. |
| 7. "... Er, I have now started to hold East Java textiles, so it still remains if for example there is a meeting for textiles, I will still be included, yes, to find out the problem, what is the problem in Central Java. Then also some of my friends are also customers. I have more relationships to the customer, so if for example daddy goes to Central Java, it has something to do with the owner, yes, I come along. So it's more in the direction of textiles. But if the skin has been released because of daddy's own, it doesn't understand at all about the skin. I was told to learn from the start, study at ATK too." | |

(Source: Interview transcript with resource persons were processed.)
Three proposition in this research as follows:

P1: Professionalism behaviour is important in developing the family business. This findings is in line with a research by Boyd, et al. (2014).

P2: Succession management is important in keeping the business running. This is consistent with the findings of Chung and Yuen (2003).

P3: Open systems are important in improving the business’s performance. This is in accordance with the Boyd, et al. (2014) study.

In a family business, some problems occurs due to the lack of professionalism; hence, problems within the company started to emerge. Non-separate systems may create disputes. It is suggested that the family members must separate responsibilities so that there is lower chance for conflicts to emerge. This condition has often resulted a situation where the family businesses have difficulty, or even failed, in expanding the business, but at the same time the company still exists and the company division keeps increasing. The participant of this study have proven that with a professional behavior and an open business systems, family-owned companies can sustain their existence and gain trust from other companies. This study focuses on a family business that runs in the textiles industry, hence the members involved within the business should have understand information related to textiles. According to a research by Chang and Yuen (2003), the family members should manage its succession process to keep the family business running.

V. CONCLUSION

The most important findings of the research are:

The first proposition shows that professionalism behavior is an important aspect in developing a family business. The second proposition shows that managing a succession process is an important aspect to sustain the business. The last proposition shows that open systems are important in improving business’s performance.

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