ABSTRACT

Currently the majority of private companies in Indonesia is controlled by the family. However, Succession is the most difficult challenge in family business. A bit of a family company that is able to survive up to the fourth generation. Statistics show that the success of leadership succession from first generation to second generation just only around 30%, while the rest (70%) experienced a failure, while the success rate of the second generation to third generation dropped significantly to only 7% only (Mangalandum, 2013). Thus, the problem of succession becomes an issue that must be reviewed in greater depth in relation to the existence of a family company.

This paper analyses the formulation of succession in the family company of PT. XYZ, a construction company. From 2005 until 2016, the company management has been doing the succession program into the hands of the second generation. Formulation succession in PT. XYZ is done by analyzing the succession process and the challenges faced by company using succession planning roadmap developed by Clifford and succession planning in the context of human capital planning by Booz Allen. Through an understanding going on in the elements of the succession process, the main issues that could potentially be an obstacle in the process of succession can be known.

Key Word: Family Business, Succession Planning, Succession Process

1. INTRODUCTION

Construction services have an important role and strategic considering construction services produce the final product in the form of buildings or other physical form, either in the form of infrastructure and facilities that support the growth and development of various fields. Especially in economic, social, and cultural. In addition to a role supporting the various areas of development. Construction services also play a role to support the growth and development of various industrial goods and services required in the implementation of construction work.

In developing countries, in particular Indonesia, most of construction companies are conducted by government and private sectors. Development in Indonesia, especially in Jakarta done to meet the needs of society. Most of The development focus on building, infrastructure and transportation sectors (Hartono, 2015).

Theresa Yuiska & Mustamu (2015) said that in 2013 the number of construction companies in Indonesia as many as 131 080 companies spread across 33 provinces based on Central Statistics Agency (BPS). Looking at the phenomenon that is on the rise of the construction industry in line with the changing times, many businessmen enter this industry. It is proven that total company in construction industry slightly increase with an average growth rate 17 % per year (Budimantara, 2015).

In addition Jokowi as president committed to focus on this sector considering total Gross Domestic Product (GDP) for this sector continuously increase from 3.9 % in 1973 to 8 % in 1997 (Budimantara, 2015). With the number of
total companies, competition in the construction industry now is very tight. In order to survive, the construction company need to do succession plan for sustainability. The succession process needs to be planned carefully. However, to plan the succession process is not easy. Errors occur in planning can certainly make the succession process was not effective and can bring harm to the company (Lienardo & Mustamu, 2014). For example a family company experienced many obstacles in the process of succession. Family business difficult to survive when switching generations. And if we look at most of the big companies came from a family business.

In Indonesia there are many big companies started as family business such PT. Mustika Ratu, PT. Gobel Dharma Nusantara and many more. In many countries, the family business also famous such Phillips 66, SoftBank, Nike, Walmart and others (Stern, 2015). Family company is able to become a trigger economy in many countries. Survey conducted by PWC in 2014 stated that more than 95 percent of companies in Indonesia is a family business. Simanjuntak (2010, p. 113) cites the data and Institute for Corporate Directorship (IICD) explained that more than 95% of companies in Indonesia is a family business. See the dominance of family firms in the economic order in Indonesia, it is understood that the family company is also an important aspect for the sustainability of the economy in Indonesia.

Jaffe (2006, p. 3) explains that there are two dimensions of a family enterprise, namely: family owned enterprise (FOE) and family business enterprises (FBE). Susanto et al. (2007, p. 14) explains that the family owned enterprise (FOE) is a family company owned by the family, but managed by professional executives who come from a party outside the family owners of the company, while the family business enterprises (FBE) is a family owned company and managed by the family of the founder or owner of the company.

Lily & Praptiningsih (2014, p. 2) from both FBE and FOE the most difficult to survive is a family owned and managed by the family or owner of the company (FBE). The Jakarta Consulting Group in 2014 explains that the family business that managed by family or owner of the company attached to the myths of the negatives, one of which is a myth that the first generation in a family company is the building, the second generation is the beneficial owner, and the third generation is the crush. The significance of the existence of these myths is an emerging understanding that family companies are often faced challenge to maintain existence when switching generations.

Fajar, Ario (2011) states that Succession is the most difficult challenge in family business. The success of the succession is very important because it determines the long-term survival for company from one generation to the next generation (Walsh, 2011). The successfully succession will enable for company to survive. As expressed by Mustamu & Lumintan (2015, p. 97) that succession is one of the most difficult decisions must be made in the family business and is also one of the most important decisions. A well-structured succession process can retain the business for the next generations. Lumintan & Mustamu (2015, p. 98) stated that failure in the process of succession is a phenomenon that is often in the spotlight. It affects to the failure of achieving success in the next generation furthermore because the transition between generations or process succession does not go smoothly or not in accordance with the expected. Walsh (2011) cities the data from Family Firm Institute states that the majority of family business owners would like to see their business transferred to the next generation, it is estimated that 70% will not survive into the 2nd generation and 90% will not make it to the 3rd generation.

Statistics show that the success of leadership succession from first generation to second generation just only around 30%, while the rest (70%) experienced a failure, while the success rate of the second generation to third generation dropped significantly to only 7% only (Mangalandum, 2013). Thus, the problem
of succession becomes an issue that must be reviewed in greater depth in relation to the existence of a family company.

Kets de Vries (1988) in Chaimahawong and Sakulsriprasert (2013, p. 2) explains that one of the causes of failure is the lack of Understanding succession of thoughts between the first generation and the next generation that will carry on the business of the managerial mindset. Disagreement happened in the end can lead to a form of hatred and distrust. Therefore, in order to avoid such things, it is among the leaders in the company needs to have control of optimal management.

Succession planning requires a long process and preparations, which will then bring the company in the implementation of a smooth transition. It is important for owners to prepare and develop candidate’s potential successor and provide opportunities for them to demonstrate their ability. Aronoff, McClure and Ward (2003) states that in general, the activities of preparation for the transition of authority and control can be reached within five to fifteen years. Within a period of fifteen years also gives the opportunity to make best usability in each of the available resources, such as using non-family executives capable to guide a potential successor candidates, making a list that can help evaluate candidates, or create a task force to assist in planning succession.

Within the period five to fifteen years of succession process the company will experience many challenges (Fajar, Ario, 2011) as happen in one of the family businesses in Jakarta called PT. XYZ that founded in 1986 experience many challenges on succession planning. The founder and also the first generation serve the company for almost 30 years. The company ultimately faced with the problems of leadership succession. The succession going from first generation to second generation, which is now the second generation is still trying to adjust fresh ideas possessed by the old cultures that exist in the company. Pressure on the succession process occurs greater when PT. XYZ faced with the level of competition in the field of construction are relatively tight, both in Indonesia generally and in Jakarta in particular. Thus, it is pivotal to analyze the succession process in PT.XYZ.

2. METHODOLOGY

The research is qualitative research using explanatory case study. In this paper the data will be collected through interview and observation. There were three informants in interview which are the first, and the second generation, and the employee. Observation is done by the author in the company for one month. In addition, the authors find additional data from secondary data such as from previous studies or company profiles.

3. LITERATURE REVIEW

Tracey (2001, p. 3-4) states that "A business is a family business if its owners think it is and want it to be". This statement looks very simple but it contains a very deep sense. It is said that a company is classified as a family business when the owner thinks and wants his company as a family business. This can be seen in the business culture in some countries. In Australia most of the companies owned by the family, but only a few are actually managed by the primary family.

In recent years, many definitions of family business submitted, most of the proposed definition that focuses on several factors surrounding the family business such as ownership, control, management and the desire to preserve the succession between generations or cultural issues (Walsh, 2011). Carsud and Brannback in their book “Understanding Family Business” (2012) states that, a variety of definitions of “family business” exist which pull from anthropological and sociological (Rogers et al. 1995). For many researchers and those providing service to family business, a traditional definition would include a for profit organization in which “two or more extended family member influence the direction of the business through the exercise of kindship ties, management role,
or ownership right” (Davis and Tagiuri 1989). This particular definition clearly reflected the traditional three circle system model of family, management, and ownership (Walsh, 2011).

The crucial thing in the family business is succession. Companies are not prepared for the change of leadership so that the company stop in the first generation only, as in the case of Surabaya Post, a leading newspaper published in Surabaya with coverage East Java (Wahjono, 2012, p. 7). On contrast, Thayeb Mohammad Gobel, founder of PT Gobel Dharma Nusantara, prepared the fifth and eldest son Rachmat Gobel. The parents have set up Rachmat since the age of 8 years by involved in office and factory in Cawang, Jakarta. In addition, Rachmat also has good education background and undergo internships at the company of his own family. After from college in Japan, Rachmat must undergo a period of 6 years with works from the bottom and eventually assumed the reins of Directors in 1990. Decision to sent Rachmat Gobel to Japan is a brilliant vision of Gobel. Later came many new companies joint venture with the Japanese electronics giant, Matsushita (tabloid bisnis Kontan, 42/XI edition, July 16, 2007).

Succession Process. According to Alan Carsrud, families firm consulting in American of Brännback, et al (2006) suggest several things for a successful succession plan (golden rules for succession planning) are:

1. Arrange the expectations of the tasks and roles clearly.
2. Salary based on actual performance, not based on personal needs.
3. Arrange for supervision, monitoring, and advice for non-family mentor.
4. Provide real responsibility for the actual performance.
5. Play a meaningful assignments for the period.
6. Provide written procedures for family members who wish to leave the family firm.

Meanwhile, Moores and Barrett (2002: 6) states that “the sustainability of Family Business depends on success of succession”. So it cannot be denied that the family company's future success depends on the succession. So it is not wrong when Moores and Barrett (2002) defines the transition of ownership succession is a family business to the successor of the previous owner. Family enterprises often have problems in the manage of succession when the founder of the business or the current generation of managers has taken so long to manage his family's company and approached retirement.

Succession planning model. Based on Moitoza on his article “Family Business Succession: A Strategic Planning Model” states that Succession of a family business really includes the strategic transition of five distinct areas for business succession; business succession, CEO/owner succession, management succession, Ownership succession; estate succession.

The succession planning process The goal is to design a plan that will meet the expectations and hopes of the business owner. Often the most important goals are to keep the business and family together (Ward, 1988). Although succession is inevitable, the process of planning for succession is often thought of as a "taboo topic" in family businesses (Applegate, 1994).

Clifford (2008) define that the succession planning process has three stages; identify the goals, determine how best to meet the goals, and implementing the plan.

A common mistake made in succession planning is for the business owner to research or implement succession planning tools prior to identifying his or her personal goals. Often the chosen tools are inefficient or, worse, inappropriate. Identifying the goals first frequently makes the choice of tools much easier and the tools chosen are more appropriate and effective. Unfortunately, the complexity of relationships in many family businesses can make it difficult to set goals. Therefore, it is worth a careful exploration of goals at this

Other researches like the one done by the Management Consultant Booz Allen, came up a systematic approach to Succession Planning in the Context of Human Capital Planning as shown in the figure 2 below.

Those two type of successions planning are relate to the situation of PT. XYZ. The research finding told that the first generation Mr. ABC wanted to transfer the ownership to second generation Jimmy to manage and continue the family business.

The process of succession planning run very slowly. The succession process does not run proper and structure. Currently PT. XYZ face the crucial phase in succession planning and transformation leadership for the first time. The owner realized that this phase can be the starting point for the advancement of the company or the company would be a setback early in the next few years. The company's management will conduct succession into the hands of the second generation.

It is found that the retardation succession in PT. XYZ due to there is no formal written succession plan as the first generation feels that succession planning was not important and was not a topic to discuss. The fear of retirement and death were the next factors to contribute as loss of identity and spouse or family resistance to change were both less influential.

This researcher used theory of Succession planning roadmap by Clifford and Succession Planning in the Context of Human Capital Planning by Booz Allen to analyzed succession planning process in PT. XYZ. Succession planning roadmap by Clifford theory was divided into sections of identify the goals of business owner, identify the need and goals of the other stakeholders, management succession, develop best case scenario, explore all option, and design and implement the succession plan.

1. Identify the goals of business owner

As many other companies PT. XYZ also aim to maximize profit and create wealth for the owner as well as the other stakeholder. The owner has short-term and long-term goals. Short-term goals are to sustainability of profit, efficiency, increase quality service and become a market leader. While for long-term goal the owner wants this family...
business continue develop to the next generation.

2. Identify the need and goals of the other stakeholders

The researcher also has identify the goals of the other family member in this company. The other family member also play an important rules in developing the business. The goal of the family member was to continue developing and surviving family business for the next generation. The family member want the transition of power fall in to family member as a family legacy. The family believes that the successor should come from the family because he/ she knows about the company from the beginning.

3. Management succession

After identify the goals of both owner and other family members. The owner and other family members agreed to figure out the succession planning and find out who is the capable to take responsibility to be a successor for the company. The owner started to have selecting candidate of successor by analyzing people in the family. The selecting candidate was one of the hardest part. The results from studies explain that selecting candidate was running slow. The family member propose the second son Jimmy to be a candidate for successor. Mr. ABC as owner has two sons and does not have other siblings. The first son is Tony and he has own company in United States clearly not interested in being candidate of succession. The second son Jimmy who just join the business. Although Jimmy just started join the business the family member believe that Jimmy has potential to be a successor.

4. Develop best case scenario

Based on the interview the researcher didn’t get any information related this section. The researcher can conclude that the owner and family member skip this section in the proses of succession. The owner and other family members believe that Jimmy has potential to be a candidate of successor.

5. Explore all option

This section is aim to explore all option available to meet the goals. This is when the abstract goals of the succession plan meet what is legal and financially feasible. Based on the analysis the business owner skip this section and jump to other section.

6. Design and implement the succession plan.

To analyze the implementation of succession plan in the company the researcher used another theory from Booz Allen. The implementation of succession plan in PT. Insem Sunly Engineering as follow:

a. Recruitment and Selecting

The candidate was selected previously by the owner and family member. The candidate of successor is the second son Jimmy. The owner and family member believe that Jimmy has potential to be a successor of the company.

b. Retention

In this section refers to the owner to keep the candidate successor to become potential successor for the future of the company. In the case of PT. XYZ the owner asked the candidate to commit to follow all the steps of the succession process. Besides that the owner also have provided:

Communicate the business’s mission. Feeling connected to the organization’s goals is one way to keep the successor mentally and emotionally tied to the company. Get owner involved require the owner spend time coaching the successor, helping good performers move to new positions and minimizing poor performance. And give a successor a clear path of advancement

c. Development

Nearly Successor had not gained technical experience, the successor only working in his company. However, the owner has prepared the training and mentoring activities to help the successor in understanding the business, this preparation included learning how the business operated and establishing the key relations needed to operate the company. Such as business or leadership classes or seminars, meeting with external leadership coaches, assigning new projects or areas of responsibilities, attended public speaking courses, read the contract and other documents, introduced to many clients.
The candidate also required to take an English and Bahasa Indonesia course. The father was a Taiwan citizen and converted to be Indonesian citizen since the company registered in Indonesia. The successor candidate graduated from University of Washington, United States in chemistry. Because the successor candidate didn’t have background and experience in construction the successor candidate schooled to Singapore and learnt Management contractor.

d. Assessment and Performance

In this step refer to performance management, the process of planning, managing and appraising worker performance over time. This step is important in a good succession planning program because individuals must be held accountable for the work they do, the responsibilities they shoulder, and the competencies they demonstrate. The end of this stage is to measure the potential of the successor to become the owner of the company. However, in the case of PT. XYZ the process has not achieve this stage. The process of succession planning stuck in the third stage in development. The process of this succession planning has going on since 2005 up now.

Challenge occurred during the proses of succession. The succession process in PT. XYZ run very slowly, the succession began in 2005 and up to 2016 the succession process has not completed yet. The implementation succession generally done within 5 to 6 years. PT. Mustika Ratu done the Succession in 5 years and PT. Gobel in 6 years. The researcher tried to analyze what are the obstacles that can make this process longer than the usual. The researcher has analyzed the obstacles occurred in the process of succession planning in PT. XYZ. The researcher can conclude that PT. XYZ did not research and take the succession planning seriously. Therefore PT. XYZ face the crucial problem in this succession process. The researcher indicate that the major obstacles experienced by family business in PT. XYZ include:

• The company doesn’t have formal written succession planning

The company did not have formal and fix written succession planning. Which the formal written can be the guidance and direction. This factor is the big obstacle in process of the succession planning in PT. XYZ.

• The company doesn’t have target for completing succession planning (how many year the succession planning will be done?)

The company did not think about how many year the process will take. The company did not have estimation about it. In 2016 the process of succession planning enter the 11th years. This fact is indicate that there are problem in the process of succession planning in PT. XYZ.

• Fear to change

In one of the interview questions the researcher has asked Jimmy “what are the major challenge that he face in the process? And the candidate successor said: My father always keep his old style and never heard my opinion”. He feels that he can stay in company for long period. The owner Mr.ABC led the company for almost 30 years. The owner used to have authority to manage the company and shape the company’s culture based on his own style. The owner afraid that the young generation cannot handle and maintain the old style of company. So, by the time the owner has fear of retirement, because of the young generation has different idea and style for the future of the company.

• Different style of leadership

Based on the employee and the candidate successor they stated that style of leadership also one of the big obstacles in process of succession planning in PT. XYZ. In the process of succession planning the family often face the problem, and argued about different opinion from the old generation and young generation. The father wants to maintain the old style while the son aspire with fresh ideas.

5. CONCLUSION

Based on Clifford (2008) models, it is found out that the owner has short-term and long-term goals. However, it is recommended to discuss about the goals of
owner with the other family member transparency in to avoid unclear instruction. In identifying the need and goals of the other stakeholders, it is known that the goal of the family member was to continue developing and surviving family business for the next generation. The family member want the transition of power fall in to family member as a family legacy. The family believes that the successor should come from the family because he/ she knows about the company from the beginning. In management succession, the owner and other family members agreed to figure out the succession planning and find out who is capable to take responsibility to be a successor for the company. The owner started to select the candidate of successor by analyzing people in the family. The family members propose the second son to be a candidate of the successor. The second son Jimmy who just join the business. Although Jimmy just started join the business the family member believe that Jimmy has potential to be a successor. It also found out that the succession process in PT. XYZ miss the step of developing best case scenario and exploring all option.

In regard with the Booz Allen’s model. It is found out that in recruitment and selecting, at the year 2005 the owner straightly carry out the selecting candidate. The selecting candidate was one of the hardest part. The results from studies explain that selecting candidate was running slow due to difficulties in finding candidates for forwarding company. The successor was not interested in joining construction industry. Although he was not interested the family decided to choose him to be the successor. However, the recruitment and selecting should be done earlier. In the retention, the owners has communicate the business’ mission, providing coaching and a explain the successor path. In development, some methods are provided to the successor such as business or leadership classes or seminars, meet with external leadership coaches or assigned new projects or areas of responsibilities. However, the owner should coach him to ensure every proses done correctly. In assessment and performance, this step has not been achieved by PT.XYZ as the succession is still on process, however, it is necessary to keep evaluate the successor performance based on his work.

In general, there are some major challenges in succession planning at PT.XYZ. First, lack of a formally of written succession plan, due to the owner reluctant to let go of control and power to their successor. This was followed up by the fear of job insecurity and fear of unexpected change. Family business owner felt succession planning was a waste of time and resources and was also a taboo family topic hence forth did no formally take part in it. In addition, the company doesn’t have target for completing succession planning as it has been done since 2005. Furthermore, there are different style of leadership. The father wants to maintain the old style while the son aspires a fresh idea. For that reason, in order for the succession plan to be successful, all parties involved must communicate rationally and objectively.

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