

# SUCCESSION PLANNING MANAGEMENT PRACTICES ON FAMILY BUSINESSES IN WEST SUMATERA

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**Abstract-** This study aims to see the Management Practices in the Succession Planning on Family Businesses in West Sumatera. The Variables that be examined Non-Family Member on Top Management, Decision-making authority, the Influencing of Founder, and how are they difference from one generation to generation in managing Succession Planning. The populations of this research were the Chief Executif Officers or the Manager of the Companies who has taken as second or third generation in the company. And the samples was taken as randomly by using accedental sampling technique which amount about 55 samples. Data was analized by using SPSS. And the methodology used Multiple regresion and descriptive analysis to describe collections of data or observations that have been made. The activities include data collection, grouping data, the determination of value and statistical functions. The result was not obtain a significant differences and that the entire family companies's respondents have in common in the Management practices of succession planning that can be effect by the company's founder, making authorities and the involvement of non - family members.

**Index Term-** Non-Family Business, Succession Planning, decision making authority, Founders Influences.

## I. INTRODUCTION

The Succession Planning on Family Businesses in West Sumatera provide a substantial contribution to the economy in region in West Sumatera. However, the last few years most family business had started to decline and even many were bankrupt and could not survive which was caused mostly that there were no succession planning by the first founders. The result of the observation found that after family firms in the hands next generation, the company was difficult to survive. One might cause of low survival rate was due to the lack of succession planning or proses transition from one generation to the next generation.

Family companies have an important role in the country's economy as a driving force for the growth of national industry. [1] stated that 2/3 of the companies in the world are companies owned or managed by the family. Research conducted in the United States found that a family company dominates about 90 % to 98 % of the entire company [2]. The family company also contributes by 40 % to 60 % of gross domestic product (GDP) and absorbs up to 50 % of its workforce [3]. The same condition also applies to other countries such as England, Australia, Taiwan, Hong Kong, Singapore and China [4], [5], [6]

According to data from Forbes Asia in 2010 found that there were 40 richest people in Indonesia, it turns out 95 percent of which comes from a family company with a total wealth of US \$ 41.675 billion, or equivalent to Rp 383.410 trillion. In fact, many found a family company that has been built up over decades by the first generation should eventually disappear because of the inability of the next generation / suksesor in running and controlling the

company. The fact that almost the same cases also be found in West Sumatra. As a province where the industry is not so dominant in contributes to the economies, the economic activity of the society is dominated by trades and services sectors.

However, without succession planning, long-term strategy until an adequate knowledge in planning managerial almost certainly the cause of the failure of the transfer between generations. The Jakarta Consulting Group survey in 2014 found that family companies in Indonesia apparently not all of them prepare a successor through succession planning to lead the company. Respondents who had been preparing a successor through succession planning as much as 67.8 % while the others ( 32.2 % ) have not yet been prepared earlier study also reveals that succession planning was prepared as early as possible can provide a positive impact on the performance of the company [9]. However, the sustainability of a company is highly dependent on the succession process that is run from the initial generation (founder) to the next generation.

This study raised several issues relating to the existence of family firms in West Sumatra. The research will see how does succession planning in the family companies lasted more than a generation? Is there a difference between one generations to the next generation in family firm? For this reason will raise some problems such as:

1. How was the involvement of non-family members in top management of the family company which has lasted more than a generation? based on generation company, Is there a difference in the level of involvement of non-family members among the generation companies?

2. How does the business decision-making authority in a family company which has lasted more than a generation? Is there a difference in the decision making authority based generation companies?
3. How does the company's founder on Integration family that has lasted more than a generation? Are there differences in the influencing of the founder of the company based generation companies?

Research purposes are to know how the involvement of non - family members in top management, decision making authority, the involvement of founders to succession planning in family company which has lasted more than one generation in West Sumatra. And then we do the test whether there are significant differences in the involvement of non - family members in top management, decision making authority, and the involvement of founders to the succession planning based on generation in the family company in West Sumatra.

## II. LITERATURE REVIEWS

The family enterprise or business as a unique combination of several factors such as control of the ownership ( 15 % or more ) by two or more members of the family that found about more than 15 percent. The company's strategy is influenced by family members who are involved in the management actively to continue the establishment of family culture within the company and serving as adviser to the company or act as an active shareholder. Then, There is very concerned with family relationships and have a desired to continue the business to the next generation [7].

In the terminology of business, the family firm can be divided into two types which are Family Owned Enterprise ( FOE ) and Family Business Enterprise (FBE ) . FOE is a company owned and managed by members of the founding family. Both ownership and management is held by the same party is namely the family . This type of family company characterized by holding key positions in the company by members of the family . While FBE is a company owned by the family but managed by professional executives who come from outside the family circle . In this case , the family acts as owner and does not engage in operations in the field to run a professional management company . With this division of roles , family members can optimize themselves in the oversight function [8].

### 2.1. Succession Planning on Family business

Succession planning is essential for the sustainability of the company because in addition to aim maintaining the existence as well as to develop the company into a better direction [9]. James also said

that to turn the helm / succession is crucial in companies. Many companies are not prepared with a change of leadership that the company had stopped in the first generation only. For the founder of a family company, the success of the succession is the ultimate test of its glory [10]. Rothwell [11] describes succession planning as well as the systematic efforts made deliberately by an organization to ensure continuity of leadership within the company, with the aim that the company can survive and thrive in the future. Result of the research did by Dyck [16] found that family business who has develop succession planning and communicate with the top management intently, would get high profit compare to the company who not did it.

### 2.2. The involvement of non - family members.

Commitment successor is one of the important factors to support successful succession planning. Therefore the next generation must have the readiness, compatibility, commitment, kinship, closeness, and communication capabilities to the company for the creation of an ideal relationship in any measures taken by the prospective successor and prepared to replace the incumbent. Successor must also ensure that the interest and participation of all parties such as family, company, managers and stakeholders are key to the success of the company. Without this, the successor should be aware that it will be very difficult to run a family company which might result in difficult to develop.

The successor has a different commitment from the imperative commitment to affective commitment [12]. found that firms controlled by descendants of the family run more professional than a company directly controlled by its founder. It also found that managers who come from first-generation families are business people who have special skills in managing the business [13]. However, the manager will face a challenge to continue the businesses. Therefore, the company should use professional personnel who are not family members.

### 2.3. Decision Making Authority

The authority in the decision making in family companies tend to be decentralized . This is because the decision will involve a team of parents , children and close family , and each member has the same rights and participation in making important decisions [14]. Basically, the differences that exist in the family company with ordinary profit organization located on the involvement of family members in the organization. On profit organizations that we often encounter, there is usually no family roles that dominate the ranks of management in the organization . People who fill these positions are usually people who have a vision or a mission similar to the background is different. Profit organization is generally much more rational and focus on business issues to face it [14]

On the other hand, is clearly not a family company run purely by professional executives. The influence of family members as the owner and founder of the company will influence the decision-making process, policy or rules, and organizational culture that will be applied. The involvement of the family members who had made the family company to be different from other profit organizations in general.

#### 2.4. The Influence of the Founder

In general, the shadow of the founder is an issue of interest in the family business for future generations. Most of the multi-generation family firm, the founder still give shadow in making decisions. Founders often lack trust the next generation to continue the family business. In this case, the shadow of the founders could have a positive impact by preparing a clear direction and standards for managers [15]

After review of the existing literature above, the involvement of Non-family member in management, Decision Making Authority, and Influence of the Founders were considered important variables affecting the Succession Planning of Family Business in West Sumatera. Based on the rationale described in this study, the following hypotheses were assumed:

H1: The Involvement of Non-Family Members in management positively affect and no significantly differences in the succession planning on family business.

H2: The decision making authority positively affect and no significantly differences in the succession planning on family business

H3: The influence of the founder positively affect and no significantly differences in the succession planning on family business

### III. METHODOLOGY

Data were collected using primary data source with survey techniques. Given the survey respondents are top leaders of the company, to improve the accuracy of the response to the questionnaires, researchers used a structured interview. The questionnaires directly were asked to the respondents then be recorded on the questionnaires form.

The research objects were taken in 3 districts in West Sumatra Province with the following criteria: a minimum is in the second generation and is already incorporated.

The whole item questions used to measure the variables of research conducted by asking respondents to express their approval of the five remarks at a 5 point Likert scale from strongly disagree (1) to strongly agree (5).

Succession planning is defined by how explicit planning successor prepared to get the ideal role as leader of the family company. This variable was measured by using the items adopted from the questions of Dyck et al., [16] which consists of 5 items statement. The involvement of family members in the business is not defined as the attitude of the family perceived by the successor. This study using items derived from Sharma and Irving [12] with 6 question items. Decision-making authority is defined by how centralized decision-making authority in the hands of corporate leaders. Measurement of this variable based on the dimensions found by Cadieux [14] using a 5 question items. How strong is the shadow of the founders of family firms to influence the course of the business succession planning process, measured using indicators adopted from Kelly et al., [32]

The instrument were used in this study that were validity and reliability test by previous researchers. However, the validity and reliability test remained to be done, considering the time difference and the conditions experienced by current research and previous research.

Validity test is a measure that indicates the level of validity / valid or not an instruments. Validity test is also related to how well a concept can be defined by a measurement [17]. An instrument is said to be valid if it is capable on measuring what we desired.

This study uses convergent validity. Valid question whether an item is tested by calculating the coefficient of correlation of each item with the total score of all items of questions. An item is said to be a valid question if the item has a correlation coefficient of at least 0.3 [18]

Reliability testing aims to determine the consistency of the results of the measurement of the variables. Reliability testing is to measure the instrument, means the instruments produce a consistent measurement of each measurement and trustworthy. The study used a technique internal consistency reliability which is reliable or not the instrument if viewed through the extent to which items the questions were homogeneous and reflect the same underlying construct.

Herman [20] states that Cronbach's Alpha is a reliability test technique that is widely used. Hair et al., [17] stated that the reliability of the minimum acceptable Cronbach Alpha ranged from 0.6 to 0.7. Sekaran [19] provide more specific criteria concerning the reliability coefficient Alpha Cronbach. The more the coefficient closed to point 1.0, it's better. In general also stated that less than 0.6 are considered poor. It round 0.7 the range of acceptable

and more than point 0.8 is considered good. Implicitly criteria established by Hair ETL al. [17].

This research using descriptive analysis to depict or describe a collection of data or observations that have been made. Such activities include data collection, grouping data, the determination of value and statistical functions. In other words, this is a descriptive analysis phase that addresses the delineation and description, including the presentation of data.

Statistical measures are used such as the size of the central symptoms (mean, median), size distribution, and the size of the location of the distribution / distribution data with SPSS (Statistical Package for the Social Sciences). Description of the overall use of the technique comparing the median values with the theoretical average value empirically. The theoretical median value is obtained by dividing the sum of the value of two minimum (number of items that are valid at time 1) with a maximum value (the number of items that are valid at the time 5). The theoretical value of the median would be the value of the test / test value when performing different test one sample / one test sample to the average value of the variables studied.

To see if there is a real differences on variables observed by the group, this study using two different test average / independent sample t-test.

#### IV. RESULTS AND ANALYSIS

This research managed 55 family companies scattered in three City / districts of Agam , the city of Padang , and the city of Payakumbuh. Most of the companies are the second generation ( 85 % ) and third generation ( 15 % ) with an average age of 35 years overall company. The majority of the companies incorporated private company ( 73 % ) . Based on the business field, the respondents are dominated by the trading companies that is 71 %.

Before exposing the description of each study, first the variables will be test the validity and reliability of instruments used to measure each of the variables. This testing is done to ensure that the measuring instrument used really measure what should be measured and has a level of reliability that can be statistically acceptable.

The involvement of family members is measured by six items of questions. The validity of the test results found one item that is not valid because it has corected item-total correlation of 0.041. This value is far below the implied value is 0.3. Thus the number of items a valid question only five with koefisien reliability Cronbach Alpha .842

Decision-making authority as measured by five items of questions, get two items that are not valid. The

second item that question has a value corrected item-total correlation below 0,3 ie (.218 and .187). Instrument for this variable has a Cronbach alpha reliability coefficient of 0.584. Results of testing the validity of the items succession planning questions not find a single item with a value corrected item-total correlation of less than 0.3. The fifth item are valid questions with a Cronbach alpha reliability coefficient of 0,817.

The influence of the company's founder, as measured by 5 items a question, get an item with a value question corected item-total correlation of less than 0.3. Thus only 4 items are valid questions to measure these variables. The Test of reliability coefficient Cronbach scored 0.682.

Highlights of the results of testing the validity and reliability throughout the study variables are shown in Table 1 below :

**Tabel 1**  
**Validity and Reliability test results**

No	Variable	Total	Total Items Not Valid	Total Items Valid	Coefficient Cornbach Alpha
1	<i>Non-Family Member</i>	6	1 (0,041)	5	0,842
2	Decision Making Authority	5	2 (0,218 & 5( 0,187)	3	0,584
3	Succession Planning	5	-	5	0,817
4	The Influencing of Founders	5	1 (0,105)	4	0,652

The result of this research shows that the involvement of non-family has an average value of empirical point 14.18 which is substantially smaller than the median value of the theoretical point 15 (sig value of 0.01 <0.05). The average value shows that the attitude towards "outsider" or non-family member is not so good. The results of interviews with 55 respondents get 30 of them (54.54%) gave a negative preference "disagree" and "strongly disagree" to the statement "the existence of an outsider is needed to avoid internal conflicts and can increase the efficiency of the company". While giving a positive preference (agree and strongly agree) only 18 respondents (32.72%). The statement of the outsider's presence in top management positions will be a positive influence on the process of succession to get a positive preference only as many as 18 respondents (34.55%). This fact is reinforced by the high preference positively by 66% of the beliefs / attitudes that the success and sustainability of the company succession is only obtained through the dominance of the company's founding family members in top management.

Decision-making authority found more leads to centralization. The average value of this variable empirical 11.45 which is greater than the median value of the theoretical 9 (sig. Value 0.00 <0.05). Results of the interview to get 80% of respondents gave a positive preference for the statement "the

decision-making should be centered on one person." Positive preference for 83.6 percent of the respondents were also found on the belief that the centralized decision-making system that will bring a positive impact on business continuity and succession. In addition, 80 percent of respondents gave a positive preference that centralized decision making will be able to avoid conflicts between family members.

Shadow founders of a family companies found sufficient to influence in the course of the process of succession to the next generation. This variable has an average value of empirical 15.92 which is significantly larger than the median value of the theoretical 15 (sig.value 0.00 <0.05). Found 48 of 55 respondents (87.27%) gave a positive preferences on the statement "the company's founder has a big share in succession planning. The strength of the company's founder highly visible shadow on the magnitude of the positive preference (89.09%) above statements relating to the figures and normative capabilities possessed by the founder. Besides having a strong personality, the founder also expected to have good management skills.

As providing support for the importance of succession planning, the research findings acquire empirical average value greater than expected. Empirical average of 17.84 significantly greater than the median value of the theoretical 13 (Sig.value 0.00 <0.05). 31 respondents (56.36 %) gave a positive preference for the existence of a clear succession plan in the company. Respondents also gave the same preference over the ability of the system implemented succession able to guarantee the success of the process of succession (61.82 %), which runs over the years. More description of the variables can be seen in Table 2 below:

**Tabel 2**  
**Description of the Variables**

No	Variables	Validity Items Total	Theoretical Value				Empirical Value		Sig Value
			Min	Med	Max	min	Mean	Max	
1	Non-Family Member	5	5	15	25	5	14,18	21	0,01
2	Decision Making Authority	3	3	9	15	6	11,45	15	0,00
3	The Influence of Founder	5	5	15	25	7	15,92	20	0,00
4	Succession Planning	4	4	12	20	5	17,84	25	0,00

Further analysis is to distinguish each of variable based on each company generation. The result did not obtain a significant differences. None of the variables that have significant value smaller than 0.05. Thus, it can be said that the entire family companies's respondents have in common in the practices of succession planning that be effect of the company's founder, making authorities and the involvement of non - family members. The test results can be seen in Table 3 below:

**Tabel 3**  
**Differences of Testing 2 Mean Free Sample**  
**Variable Generation Research Based Company**

No	Variables	Companies Generation						Sig Value
		Second			Third			
		Mean	N	Std. Dev	Mean	N	Std. Dev	
1	Non-Family Member	13,6	47	5,03	11,3	8	3,41	0,212
2	Decision Making Authority	11,32	47	1,97	12,25	8	1,6	0,204
3	The Influence of Founders	12,45	47	1,89	11,1	8	2,47	0,087
4	Succession Planning	18	47	3,86	16,9	8	3,91	0,451

## CONCLUSION

The statement of the outsider's presence in top management positions will be a positive influence on the process of succession. It showed that only as many as 18 respondents (34.55%) refuse that need in the involvement of the outsider in top management. This fact is reinforced by the high preference positively by 65,45 percent believe that the success and sustainability of the company succession might be the involvement of non-member of the family. Also, the results of the interview to get 80% of the respondents gave a positive preferences for the statement that "the decision-making authority should be centered on one person." Positive preference for 83.63 percent of the respondents were also found on the belief that the centralized decision-making system that will bring a positive impact on business continuity and succession. In addition, 80% of respondents gave a positive preference that centralized decision making will be able to avoid conflicts between family members. Furthermore, the shadow of founder of a family company found sufficient to influence in the course of the process of succession to the next generation. Found 48 of 55 respondents (87.27%) gave a positive preferences on the statement that the company's founder has a big share in succession planning. The strength of the company's founder highly visible shadow on the magnitude of the positive preference (89.09%) above statements relating to the figures and normative capabilities possessed by the founder. Besides having a strong personality, the founder also expected to have good management skills in running the company in the future.

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