

Leadership Succession in a Family Owned Business (A Case Study of CV. Faresti Prima in Bandung)

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Abstract. Family companies play important roles in the economy of Indonesia. In Indonesia, 96% or 159,000 out of 165,000 existing companies are family owned companies. Based on Central Bureau data Statistics family owned companies in Indonesia are private companies that have great contribution as much as 82.44% to Gross Domestic Product. In another study, a survey shows that 88% of private companies in Indonesia are family owned businesses and from those companies the ones who can survive until fourth generation are only 5%. The author wants to research on how to prepare and conduct a succession of leadership between the second generation and the third in CV Faresti Prima. The author performs data collection by method of interviews with the current corporate leaders. Testing validity of data is done by using triangulation test source. From the research the results show that the transfer of values and leadership knowledge was satisfying. Leaders transfer the values of leadership by being a tangible example for a potential successor within the family or the company. While the transfer of leadership knowledge is done by communicating any knowledge related to company to the potential successors.

Keywords: family owned business, succession process, leadership succession, successor, values, knowledge.

1 Introduction

According to data from the Indonesian Institute for Corporate and Directorship (IICD, 2010), more than 95 percent of businesses in Indonesia are family owned or family controlled companies. That means that family business activities have long contributed greatly to national economic development.

As a business owned and controlled by the family, the management and performance of the company, both small and large scale, are much influenced by the vision and mission of the family. The definition of family business can be traced from the understanding of family and the kinship relations or blood relation according to the law. A family business or

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family business is a business owned and or managed by a number of people who have a familial relationship, both husband and wife and their descendants, including the relationship of the brotherhood. In general, the first group is the family in a line straight down (children and their descendants and their spouses) The second category consists of families in a straight line (parents and siblings, both male and female, and their descendants). The third group consists of grandparents, grandparents and upwards. The fourth group consists of family members in a line to the side and other relatives up to the sixth degree, but the family business is certainly not spared from a variety of problems that are sometimes difficult to solve. For example, the existence of distrust among family members, conflicts in leadership succession, conflicts in decision making, successor to the throne in the company issue, differences of managerial mindset between the first generation and the next generation, etc. As a result, families suffered from declining, even forced to closing, due to prolonged internal conflict in the family.

The three main issues that often arise in the family business are leadership, ownership, and management principles, both in the first generation and in the next generation. These issues are actually not much of a different from the business issues in general within companies with no family relationship (non family businesses).

Based on that, it is essential to know about the implementation of leadership values to CV Faresti Prima and how leaders of CV Faresti Prima transfer leadership in conducting leadership successions.

2 Literature Review

2.1 The basic concepts of leadership

Richard L. Daf in Kahar (2008) defines leadership is a related influence between leaders and followers. Gibson in Kahar (2008) states that leadership is an attempt to use influence to motivate people to achieve a goal [1]. As explained above, a leadership can influence the relationship between the leader and his subordinates, in order to have good relationships and to motivate the performance of subordinates. This will impact the company's performance whether it will be good or not.

2.2 Family business

Family business is a type of business which is most developed and dominant in the era of globalization. Family business becomes one of the factors that affect the economy of a country (Poza, 2010), as the existence of family business that should be maintained [2]. In business terminology, there are two types of family companies (Susanto, 2005), the first is Family Owned Enterprise (FOE), and the second is Family Business Enterprise (FBE) [3]. A company owned by the family but the company is managed by an outsider who is not a family member where the family only acts as the owner and does not actively engage in business but handed over to a professional outside the family as a person who runs a family business called Family Owned Enterprise (FOE), while Family Business Enterprise (FBE) is a company owned and managed by the founding family. The characteristics of this company is the holding of important positions in the company by the founding family members of the company. Family companies like these are dominantly found in Indonesia.

2.3 Leadership values

Leadership values in general according to Dubrin as quoted by Irawanto (2008) [4] are:

2.3.1 Confidence

In reality a leader must have high self-esteem, because the subordinates will look up to their leader. This is the primary key in a person's leadership process, it is important for one's leadership to be successful and effective.

2.3.2 Humble

Being humble in certain situations is very necessary. This includes revealing that we can not do everything alone and need others, and not necessarily highlight the possessions to others.

2.3.3 Can be trusted

Honesty is the primary key of a leader. Leaders must always be consistent with what is spoken and implemented.

2.3.4 Open

To be an effective leader requires openness, also willing and easy to get along with anyone.

2.3.5 Firmness

Firmware is one of the key to effective leadership. A determined wish to achieve the desired goal will be an example for his subordinates. Keep in mind that being firm is not aggressive and passive.

2.3.6 Stable emotion

An effective leader must have stable emotions, because subordinates need consistency from their leaders.

2.3.7 Enthusiasm

Effective leaders should be enthusiastic, because subordinates will assess the leader's persistence from this trait.

2.3.8 Sense of humor

This is more towards the approach of individuals, where in certain situations subordinates need entertainment, and it would be nice if the entertainment come from their leaders.

2.3.9 Warmth

Being warm to subordinates will improve the subordinate's perspective to their leaders, or it may enhance the leader's image.

2.3.10 Resistant to frustration

Leaders are always faced with uncertainties. Being ready with all the consequences is the thing to be highlighted, so that the desired goals can be achieved.

In planning, leaders need to have some knowledge of some managerial areas within the company. According to Schermerhorn (2003) [5], the knowledge that leaders must have:

- Operational knowledge

The knowledge related to the methods and technology needed by the people in their work.

- Financial knowledge

The knowledge related to the funds needed to support various activities within the company.

- Marketing knowledge

The knowledge related to the need of selling and distributing goods and services.

- Knowledge of human resources

The knowledge related to the recruitment, selection, and placement of people in various jobs.

2.4 Leadership succession

The definition of succession is a prolonged process and planning aimed at ensuring business continuity across generations. (Aronoff, 2003) [6]. From this definition, the process of succession takes a long time so that the successor can be prepared with more mature. Good leadership will be able to adjust the existing situation related to the changes that occur in the process of preparing a successor. Succession process is as follows:

- Preparing for Succession

First of all, the company must begin preparation of succession with the strategy. The strategy is important because leaders must identify what things can make the company stay successful in the future and what changes need to be made when conducting leadership succession. In addition, leaders also need to adjust the company's strategy with talent and ability of potential successors.

- Successor Candidate Involvement

At this stage, the company must begin to involve its potential successors in conducting their business activities. The involvement of the successor candidate must be prepared from an early age so that he / she is able to gain much experience from his involvement in activities within the company. Because experience is one of the important things in continuing the company

- Succession Implementation

The succession process is not complete until the transition from leader to next leader is done. Before implementing a succession, decisions to be made must be communicated within the family and company.

Davis & Harveston (1989) presented a process model for succession planning of family businesses. This succession planning process model has four major levels are individual level, group level, organizational level, and resource level.

3 Methods

This research uses descriptive qualitative method. In this study, the primary data were obtained through individual in-depth interviews or individual depth interviews (IDI) with

triangulation techniques of data sources. Data validity test [7] includes credibility test, transferability, dependability, and confirmability or objectivity.

4 Result and Discussion

4.1 The implementation of leadership style

As a leader in a business Priyanto has to provide a good example for his employees because a leader has to be a role model for the employees. This has what Priyanto tried doing as the owner of CV Faresti Prima. In his leadership, Priyanto has tried to be open to his employees about what happened in his business, such as financial problems, one of them was when the salaries for the employees had not fulfill the standard of employees rate (UMR) that has been set by the government, he explained it well so the employees felt comfortable and they have been keep on working. On the other hand, he was also harsh and he would reprimand his employees when something did not work out as it should be, such as the arrival of goods was delayed, or the late production process, etc.

4.2 The leadership knowledge

4.2.1 Operational knowledge

Priyanto has sufficient operational knowledge to run the company, due to his decades of experiences in the field of lathes. He can estimate for producing, prepare raw materials just in case there are additional orders from the customers. Also, he has the understanding of the condition of the machine, how to maintain it, and the knowledge of what machines can help the production effectively and efficiently in order to boost the revenue.

4.2.2 Financial knowledge

In the financial activities Priyanto is assisting his two children, Nofa Anggraini as the first child, and Resa Ardiyanto as his second child. He commissioned both recording expenditures and revenues at the end of each month, and checking repeatedly to ensure the cashflow in the company for operations to run properly

4.2.3 Marketing knowledge

In terms of marketing Priyanto were good with some acquaintances from the office where he works today, many of them trusted him to work on the goods as the consumer's wish. This happens because CV Faresti Prima is engaged in Machine Tool which can produce small parts that are important for a motor vehicle.

4.2.4 Human resources knowledge

In running the company, Priyanto dealt with various people from various backgrounds including employees of the company. Therefore, his knowledge of human resources was needed when leading. Priyanto controled the human resources within the company in accordance with their respective fields.

4.3 The leadership values

4.3.1 Confidence

At CV Faresti Prima, confidence has always been radiated from Priyanto as the leader of the company. The target planned by Priyanto for CV Faresti Prima in the future required high trust especially in facing obstacles that will be faced when reaching the target. The example of this case was in September, Priyanto tried to participate in producing parts, this step was taken to gain new experiences in production activities, and also to increase income from other product areas.

4.3.2 Humble

A leader should also have a humble attitude, because in every person's achievements there are always roles of others. With his humble attitude, Priyanto did not hesitate to accept the opinions and input from the people who have long been involved in the business.

4.3.3 Honesty

The value of honesty for a leader is very important, so a leader can be trusted, and can be an example for his subordinates. Priyanto always deliver customized production items based on the clients' requests, without reducing to the quality of the goods.

4.3.4 Openness

The value of openness was also applied in CV Faresti Prima. The openness was implemented by the director and the operational manager because the positions are members of the family. Openness with lower employees was also applied but there were certain restrictions, although there was also a family member of his nephew from Priyanto's wife's family.

4.3.5 Firmness

Assertiveness is important in leading. Firmness can form a good habit and can effect his subordinates, starting from coming on time to the workplace every day, and also firmness in matters relating to employees' work.

4.3.6 Stable emotions

When Priyanto led, his emotions were sometimes unstable. This was due to the problems arisen and there was no proper solution. In addition, before he retired from the company problems of office work were also his responsibility. Priyanto sometimes communicated his problems to his wife often to stabilize his emotions.

4.3.7 Enthusiasm

Priyanto has enthusiasm to develop the CV to be better and advanced. It was seen from his work when he was looking for other machines to support production activities. Also, he was looking for new types of production from the clients in order to have various

production activities. He constantly recruited employees and family members in managerial positions.

4.3.8 Sense of humor

There are times when a leader is serious and needs a relaxing time, as this can also have an effect on problem solving. Priyanto began to familiarize sense of humor in office to create atmosphere which is not too tense and relaxed.

4.3.9 Warmth

The implementation is not much different from the value of openness. Warmth to subordinates should also be limited by certain things.

4.3.10 Resistant to frustration

This value is in common with the value of stable emotions, leaders must be able to control their emotions in facing the problems faced that may provoke the frustration. Priyanto always focused on the goals he has set.

4.4 The succession process

CV Faresti prima leadership succession was involving Priyanto's son Nofa. He introduced his son to the company which deals with ongoing corporate activities, this is done for the regeneration of companies especially for companies that involve family members within the company.

4.4.1. Succession pattern

The application of Informal Planned Succession as a succession pattern within the company, Nofa was given the position as the director of when entering the company. This position is the top post of CV Faresti Prima, and he directly received orders from Priyanto to overcome financial affairs and bookkeeping.

4.4.2 Impact of successor candidate involvement

Nofa was involved in all affairs of the company starting in 2014 on a part-time basis because Nofa was still working elsewhere. However, the structure of the organization has increased to be more organized. He also has dealt with the bookkeeping problems and was assigned to help Priyanto in other works. The prospective successor also evaluate the performance of employees which was not done by Priyanto. In addition, he gave advice or reprimand to employees.

4.4.3 Substitution of leader and the successor role

The role of replacement in CV Faresti Prima has been done gradually from time to time, starting from small things such as product knowledge, the machines used, and the management. After that he started to meet the clients and still accompanied by Priyanto. He also conducted the final check of the production amount stated on the PO (purchase order).

4.4.4. Transfer of leadership value

In a family company there should be a transfer of values and leadership knowledge to potential successors in order to run the company with extensive knowledge and maintained values. Values of honesty, firmness, and enthusiasm were given to Nofa both in work and in the family environment. Nofa, as a potential successor, was always reminded to have openness with the team within the company even though not everyone should know about it. On the other hand, Stefanus should only have openness with directors, finance managers, and administrative managers within certain limits.

5 Conclusion

Based on the results of research and data analysis that has been done previously, several conclusions can be drawn that are expected to answer the problems in the research. Here are the conclusions of this study:

1. CV Faresti Prima is a Family Business Enterprise (FBE) where the ownership of the company is family ownership and the key positions in the company are held by family members ranging from commissioners, directors and managers.
2. The application of leadership style in CV Faresti Prima is democratic and autocratic depending on the situation. Sometimes, Priyanto implemented a democratic style and at other times Priyanto's tended to be autocratic.
3. The knowledge he has in running his company is sufficient, but he still has little misunderstanding in financial matters. Thus, he asked for help from his two children.
4. The preparation process of CV Faresti Prima leadership succession starts from equipping the successor candidate with management education, then inviting the successor candidate to observe the work in the company. After that, the prospective successor practices in terms of processing and checking raw materials, machinery, and production. Up until now, he has become the operational manager in charge of managing the company's operations.
5. In the process of leadership succession, the CV Faresti Prima leader transfers leadership knowledge by clearly communicating to potential successors any knowledge related to a company such as operational, financial, marketing, and human resources knowledge.
6. In the process of leadership succession, CV Faresti Prima leaders transfer the values of leadership by being role models and a real example for potential successors so that they understand the values of leadership that must be applied.

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