

# Critical Success Factors in Business Succession: The Indonesian Family Business

Nyayu Lathifah Tirdasari\*  
School of Business  
IPB University  
Bogor, Indonesia  
nyayu.lathifah@apps.ipb.ac.id

Wawan Dhewanto  
School of Business and Management  
ITB  
Bandung, Indonesia  
w\_dhewanto@sbm-itb.ac.id

**Abstract**—Despite the consequence of business succession in the family business, neglectation of the study with regards to its crucial success factors is often. The critical success factors in succession with regards to the family business in Indonesia was explored to provide lessons that ease the succession process to be more valuable. This study employed a qualitative study approach with a structured interview to three family businesses involved in the food industry in Bogor, Indonesia. The results of this study clustered critical success of business succession into three factors, namely organization, successor, and predecessor. Each key success factor of business succession was associated with different attributes. The attributes of the organization were existence, development, family unity, and sustainability. The characteristics of the successor were the commitment, leadership, communication skills, and persistence manner as well. The attributes of the predecessor were the commitment, mentoring, persistence, and communication skill. This study found that the essential qualities of critical success factors were the commitment, leadership and mentoring process. This study conduct an in-depth review to explore the technology relation based on the results found.

**Keywords:** *family business, succession, critical success factor, business continuance*

## I. INTRODUCTION

Family business, whether its size is small, medium, even big, are invited to compete and long last within new customers, new market, new technology, and a changing economic environment. It reflects a need for a succession plan in a family business to ensure the sustainability of the family business. None scholars in this subject disagree that succession is essential and critical. Several theorists also agree that the transfer of business from a predecessor to successor or succession hugely depends on succession planning [1,2,3,4]. In Indonesia, family business leads the business and expand in many kinds of sectors, as well as oil and gas company, food industry, textile industry, electronic company, and property [5]. Moreover, the family business played a significant and vital role in Indonesian economy since years ago [6]. A survey in respect of family business in Indonesia clarified that family business which established in 1932-1943, 3% still exist

until now; family business which established in 1944-1955, 2% still exist until now; family business which established in 1956-1967, 10% still exist until now; family business which established in 1968-1991, 24% still exist until now; and family business which established in 1992-2003, 37% still exist until now [7].

However, despite its importance, succession emerges several problems and predicaments. An old-fashioned but exciting statement about a family business that is known not only in Indonesia mentioned that the first generation initiates the company, while the second also enjoys it, while the third finishes it. This statement illustrates that one of the problems faced by family business is sustainability from generation to generation [8]. It is not an easy thing to be put to an end. The statistics strengthen that succession is usually a challenging issue [9]. In fact, [10] ensured that only one-third of all family business successfully did the succession. So that, to define critical success factors to ease the succession process becomes this paper objective.

This paper identifies the critical success factors used by the family business in Indonesia in the succession process. In consequence, understanding from this paper will present extra perceptions into fruitful succession. Withdrawal on the review of several kinds of literature related to the aims, this study was devised to answer the following research questions:

1. What are the things that are important to do during the process of succession?
2. How do we measure success and whether or not the process of succession?
3. What are the things that can make the process of succession can be successful?

## II. MATERIAL AND METHODS

### A. Family Business Succession

Effective succession will produce some outcomes, for example, proper succession outcome, the reputation of family business, performance of financial, and turnover [11]. Good family business start-up an early preparing successors, and a proper succession is when it can handle conflict, not avoid it [12]. Factors of successful succession,

as follows: “preparation level of heirs; relationships among family and business members; and planning and control activities” [13]. Influence factors to a good succession outcome, as follows: “the incumbent’s propensity to step aside; the successor’s willingness to take over; positive family relations and communication; succession planning; and the successor’s appropriateness and preparation” [14].

Succession is not a simple single step of returning hand. It is a process with multi-stages that exists over time, beginning before offsprings even join the business. Company’s conditions, life quality, and family passions are essential and critical to the achievement of the succession process [9]. There are some indicators of effective succession process. The essential part of succession planning is selection and grooming the successor [4]. Successors need to fulfill their career interests, need to be themselves, need to explore advanced and seek balance related to the family business. Successor skills and abilities are essential. To help to develop the successor skills and skills, training or mentoring by predecessor or trusted people in the family business can be held for the successor. Moreover the successor is recommended to gain outside experience [15]. Learn from outside family business can provide different and new point of view for the successor. This perspective can help the successor to develop and sustain the family business.

The successor-predecessor dyad is essential and critical to an effective succession. The predecessor can inspire a sense of respect, understanding, and complementary behavior to the successor. Mutual respects and agreement between founder and inheritor is a significant factor of worthy succession. Others characteristics of effective succession are predecessor active involvement in succession process, general family harmony [16], self-confidence, and management autonomy [17].

#### *B. Family Business Successor*

Some family businesses expect their successor come from their family members because electing nonfamily successor might emerge risk [18]. They revealed a family business would elect a family successor if the company is highly exceptional. Besides that a family business will elect nonfamily successor if the company is low unique. Selecting close family successor is common happen in Chinese, Korean, and Japanese family business [19], even though those close family member may be less capable.

Family businesses have natures that directly helped out to the complicated succession process [20]. There is a suggestion that the successor could only deserve a position through education and experience. Another idea stated that the successor should have intellectual capability, knowledge, and expertise to make an appropriate decision in the family business. Laboring in another company outside their family business may offer a full point of view and provide the successor a feel of value when he or she entered the family business [21]. Even though superficial school was one of the right methods to nurture the offspring, but occasionally it is not suitable with the family business [22].

In choosing and developing a family business successor, communication is critical [23]. Before allowing the successor to enter the company, parents (predecessor) should discuss their thoughts with the potential successor and find out both their hopes and dreams, especially related to leadership. Potential successor demands feedback on skills, knowledge, guidelines, and steps take to self-improve and prepare him or her tomorrow. Finally, successor is allowed to join the family business. A living cycle oncoming to describe succession process, as follows: “a stage of owner-management; a training and development stage; a partnership stage between predecessor and successor; and a power transfer stage” [24].

#### *C. Family Business Predecessor*

Parents, predecessor, founder, or owner of a family business should have the intention to keep the family business long last. Accordingly, predecessor considered in succession and retirement planning is essential. However, unfortunately, not all predecessors believe this planning. This point of view can intimidate family business sustainability. Less than thirty percentages transfer family business to second generation and less than fifteen percentages transfer it to the third [25]. It is because of the reluctance of owner to relinquish the family business and a lack of succession planning.

If predecessor plans to carry out a smooth succession, there are things to be fully equipped, as follow: “successful transfer of the company to the next generation; stabilization of asset values; and determination of managerial control.” Like the predecessors, they should not assume that their offsprings have intentions to continue the family business. They should be asked first [26]. Most predecessors set aside confronting death [27].

#### *D. Research Design*

This research used a qualitative case study approach. It is because this approach can explain the issue in profound and specific [28]. Data collection technique used in this qualitative research is a semi-structured interview. The semi-structured interview is also typical in other succession papers [29–31]. Since the perceptions of succession are likely to be different each other [32]. It will be critical to gather data from more than one respondents inside the family business. It will allow the data triangulation so that the data validity is guaranteed. Based on it, this study did some interviews not only with the family business CEO but with several main persons carefully jointed in succession, both successor and predecessor. This way is to enable the triangulation of proof. Qualitative evidence of three family businesses was gathered in over eight months using semi-structured interview and informal conversations. In the end, the cross-case methods will analyze the cases.

The first language of the interviewer was Bahasa Indonesia, and each interview was tape-recorded and completely transcribed in Bahasa Indonesia. All of the meetings were conducted in the founder’s workplace, lasting from one to two hours. Making conversations used the respondents’ native language enhances the validity of

responses. However, after the translation process, the analysis is written in English language.

Since critical success factors are the primary focus of this study, a set of questions link to what success factors are made to deal with succession. Authors assembled the series of questions based on a review of the scientific research on CEO succession process [6] and an observation of comparative family business succession literature around the world to dig up viewpoint in a way to implement a successful family business succession.

Application in selecting the respondents in following the criteria as follows:

1. Run by the family member(s); and
2. Evidence to pass the business to the next generation, minimum second-generation.

In the next part, the three cases offer an attractive point of view according to critical success factors of succession in the family business.

### III. RESULTS

The semi-structured interview collected shreds of evidence of these case studies. Table 1 offers general information about the three companies.

Table I. COMPANY PROFILE

	Company 1	Company 2	Company 3
Variety of business	Bakery and restaurant	Tofu productions	Noodle restaurant
	(BR)	(TP)	(NR)
Year established	1963	1940	1950
Location	Bogor	Bogor	Bogor
Family ownership	100%	100%	100%
Generation	Third	Second	Third
Respondents	Predecessor and successor		

#### A. Company 1 - BR

BR established at 1963 in Bogor, Indonesia, as bakery and restaurant. It is one of the most visited culinary destinations, either by local or foreign tourist. It opens from 06:00 until 21:00, providing traditional kinds of pieces of bread. There are also a variety of traditional snacks with the best quality and taste. All products of BR bakery does not use preservatives. They use the best quality of ingredients to take care of the originality of flavors and textures.

BR restaurant provides a variety of food, from oriental, European, to traditional Indonesian cuisines. The special dish from BR restaurant is fried chicken. The restaurant also serves over 30 types of ready to eat meals, so the customers can choose to eat in or take home the meals directly.

#### B. Company 2 – TP

TP founded since 1940 in Bandung, Indonesia, but the production facilities nowadays have spread to other cities in Indonesia, for example, Bekasi and Bogor. As well the distribution of TP has covered many cities in Indonesia like

Jakarta, Bogor, Depok, Tangerang, and Bekasi. The name of TP itself means useful or lucky from Chinese language. Philosophy of its name is taking care of the hygiene and cleanliness of its production facilities to produce tofu with high quality. It also avoids the use of any coloring essence, formalin, and preservative.

Presently the products of TP has gained trust and loyalty from customers. It also supported by many restaurants that use TP for their cooking ingredients. For example, TP has nine restaurant clients in Bogor. TP products of tofu are white tofu, yellow tofu, Kim's tofu, natural tofu, tofu nugget, and tofu spring roll. Besides tofu, TP also produces soymilk, one of healthy drink from the essence of soybean that is processed hygienically.

#### C. Company 3 – NR

The restaurant which has the motto “The Most Favorite Noodle House in Town!” forwards noodles as its leading menu. It is located in Bogor, Indonesia, and established in 1950. In the early days, this restaurant sold fried rice, fried noodles, mixed vegetables with peanut sauce, chicken satay, and sauteed mixed vegetables. However, in the period of 1985-s, they were no longer selling mixed vegetables with peanut sauce and satay. In 1998, this restaurant had renovation. This renovation was also an essential milestone of the second generation as an effort to develop this restaurant. Quality and hygiene are fully optimized to give satisfaction to the customers. In restaurants competition, this restaurant still exists and struggles to consolidate its presence in the culinary business. Supported by three new branches in the same town, many loyal customers visited. This restaurant receives delivery service for Bogor city area as well large scale orders for banquets, meetings or other events. Even this restaurant also often offers exceptional discounts for the customers.

As one of the oldest restaurant in Bogor, this restaurant has been an icon in the world of Bogor tourism. The quality of the served food is one of the critical factors in the success of this restaurant in maintaining the customers. Nearly 95% of the menu that was served purely self-made by this restaurant (including the sauce). Food processing in NR that called ‘a one day shoot’ guarantee the food will always be fresh and crisp.

### IV. DISCUSSION

#### A. The Important Things To Do During the Process of Succession

BR answered commitment both from successor and predecessor is essential to have during the process of succession. BR is the holding company in their family business. So as the third generation, they felt it is their responsibilities to keep it somehow. Commitment is ethical enough to keep the family business does not destroy and keep sustains because BR is the source of life.

While TP answered the essential things to do during the process of succession is instill leadership to the successor.

Because a company always need the right direction by the successor, including vision, mission, and work values. Moreover, all of that could exist if the successor has excellent leadership capability.

According to NR, the mentoring process is essential to do during the process of succession. Running a family business is not just a theory, but practical as well is required. Through the mentoring process, successor can learn from the expert which it can be her or his parents or other family members. The successor can learn the family business secrets and goodwill through the mentoring process. Besides, it is the successor's privilege to learn all the things from a to z that included in the restaurant and successor also have the learning opportunity from the expert at any time to explore the family business while other non-family employees cannot do the same.

So we can conclude, the essential things to do during the succession process are instilled sense of commitment and leadership to the successor, as well as mentoring process. We can see from the respondents' answers that most of the essential things to do during succession process is predecessor responsibility, like mentoring and instilling. Although it could emerge as the successor initiative, predecessor still plays a critical role in this process.

#### *B. The Measurement of Succession Process*

BR answered the process of succession can be a measured success or not by the existence and the way the family business could still develop its company. While TP explained as a family business which has several branches, it was difficult to succeed in the process of succession. Unless the family has a shared vision that formed a unity and togetherness. So its coalition can succeed the process of succession.

Moreover, family business can expand its market. According to NR, the process of succession can measured by its revenue or its sustainability, but NR prefers continuance to income. NR think if a family business that long-lasting was quite successful.

Based on the respondents' answer, we can conclude that sustainability and development of family business can use as a measure of the success of succession process. Although the family business revenue can be used to measure the achievement of succession process, none of the respondents admitted that. Besides, family unity is critically relevant to market expansion as well as development of family business (interview with Respondent 1, TP).

#### *C. The Things That can Make Successful Succession Process*

On this topic, BR does not know the answer for sure. While TP with a sure answer, the process of succession can be successful because of family unity. According to NR, the things that can make successful succession process divided into three factors. First, successor must become familiar with the business that she or he will lead. Second, compared with office work, running a family business is very dynamic, so that persistence is essential to require for the successor.

Endurance is also necessary for the predecessor to teach and mentor the successor. Third, communication skill both successor and predecessor. Family business deals with a lot of outsiders, such as tax officers, Department of Labour, and local government, so that predecessor as well successor must be flexible enough to communicate with them. Those three things are predecessor responsibilities to make the process of succession can be successful. So that, mentoring process is critically related to succession process. Thus, we can conclude the things to succeed the process of succession are family unity, successor familiarity with the business, pose of persistence, and communication ability. In this topic, mentoring process by predecessor to successor is essential.

According to the research objectives, authors withdraw some key success factors of succession, that is commitment, leadership, mentoring, existence, development, family unity, sustainability, persistence, and communication. Commitment and communication also identified as factors of successful succession [13]. These two factors included in relationships among family and business members category with other factors like trust and loyalty. Communication, again, is another influence factors to a great outcome of the succession process [14]. Communication is critical [23]. Family passions are significant to the achievement of succession process [9]. This statement is related to this paper finding which is family unity as a critical success factor of succession. General family harmony as characteristic of effective succession [16]. Mentoring is essential for successor, and it is a predecessor one of responsibilities.

#### V. CONCLUSION

Based on this result, authors divide the critical success factors into three that is family business, successor, and predecessor. The critical success factors of succession related to the family business are existence, development, family unity, and sustainability. While the critical success factors of succession related to the successor are the commitment, leadership and communication capability, and persistence manner as well. This finding supports [4] statement that the critical part of succession planning is selection and grooming the successor. Moreover, the critical success factors of succession related to the predecessor are commitment, mentoring, persistence, and communication.

The main contribution of this study is to complete very scarce research regarding family businesses succession in Indonesia. Most studies in family business succession have only carried out overseas. This research shows that family business in Indonesia has been good progress in development, and it also shows how difficult it is to sustain family business. Implicitly, it shows us the importance of succession.

The main objective of this research is to understand the factors that define the critical success factors in succession. Completing the previous succession research, authors tried to contribute to the critical success factors of succession planning in an Indonesian situation.

The results expressed by this study, was based on the case study method and undertaken with three Indonesian family businesses, allow us to highlight the critical success factors to explain the Indonesian family business and has been executed to pursue succession and its planning. Thus, this study explored that commitment, communication, family unity, mentoring, successor skills and ability, and some others are the factors of the Indonesian family business confidence and has been executed to pursue succession in a family business.

Overall, on the theoretical level, we contributed under this work to enrich the Indonesian family business literature, which suffers from a lack of theories. Most studies in family business succession have only been carried out in overseas, for example in China [33,34], Malaysia [35], Pakistan [36], Portugal [30], Slovenia [37], and Tunisia [38]. However, this study also outlines certain limitations. First is the number of samples; the results do not allow to generalize family businesses from other countries. Second is this research based on respondents' perceptions. It would be good to do the same study but in a broader cross-section and also use quantitative method to generalize the results.

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