



SUCCESSION PLANNING AS AN ECONOMIC EDUCATION TO IMPROVE FAMILY BUSINESS PERFORMANCE IN EAST JAVA PROVINCE OF INDONESIA

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ABSTRACT

The aim of this paper is to determine the role of succession planning as part of economic education in improving family business performance. Research carried out by using qualitative approach with in-depth interview and outside observation as a technique. The data source is owner of 3 family businesses (6 peoples) as key informants and 6 experts as expertise informants. The data were processed using content analysis. The finding of this research is business start-up from own money and saving and from human capital on entrepreneurship that learn from family; succession planning are necessary but not easy; succession planning conduct after family business growth bigger; succession planning can improve family business performance; economic education in family can make succession planning in family business smoothly. The implication of these finding is need for economic education implemented in the family business, besides the necessary expansion of economic education in society, school and formal level with more focus to the family business.

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Keywords: Succession planning, Family business, Economic education, succession planning, content analysis, East Java province of Indonesia.

Contribution/ Originality

This study is one of very few studies which have investigated the need for economic education in family business from starting a business, succession planning, and implementation of succession to support the family business performance in Indonesia. This study also, contributes in the existing

literature that economic education in family can make succession planning in family business smoothly.

1. INTRODUCTION

Many studies have recorded a very significant role of family business on a country's economic growth and become the backbone [1, 2]. In Indonesia, the family business contributes 80% of the Gross National Product (GDP) [3]. Family business can solve social problem such as unemployment, poverty and criminalities [4-6].

The study of family business in Indonesia shows that approximate 78% owned and controlled by families [7, 8] passed down from their own offspring [9, 10] and some are continuing from sibling [11, 12]. Grant Thornton Indonesia studied 250 family business in Indonesia found most of them involved in trade and retail (36%) and have less than Rp 500 million of annual sales [8]. Some of those who joined the family business has worked in other places (57%) but poorly supported by education, that university graduates only 12% and that have professional training only 1% [9].

Key issues in family business in many countries is the succession [13]. This is because sustainability of Family Business depends on success of succession [14]. And maintain the sustainability of the FB is not easy. Referring to the results of research conducted by the Family Firm Institute for the Family Business Review [15], found that only 30% of the companies owned by the family to survive the transition between generations in the second generation, while only 12 % able to survive the third generation and only 3% are able to develop to the fourth generation and beyond. Moreover, Connecticut Business & Industry Association [16], stated that only 1% from generation four still involved in family business and 12% from generation three still involved.

Influence of Succession Planning toward sustainability Family Business is a wide range [17], there is a strong influence [18, 19] and there is no impact [20]. Sikomwe, et al. [6] reported that business failure in the transport sector are caused by failure to adequately plan for succession. It also established that some family members may not be willing to take the same business model, also failure to identify a potential successor prior to the death of the founder result in the discontinuance of the business. Not so many research that are looking for relation the Succession Planning toward Economic moreover research which are seek relation Succession Planning with Economic Education. There is research in UK trying to find relationship between entrepreneurship education given to family business successor can give positive contribution while ownership transfer at family business [21].

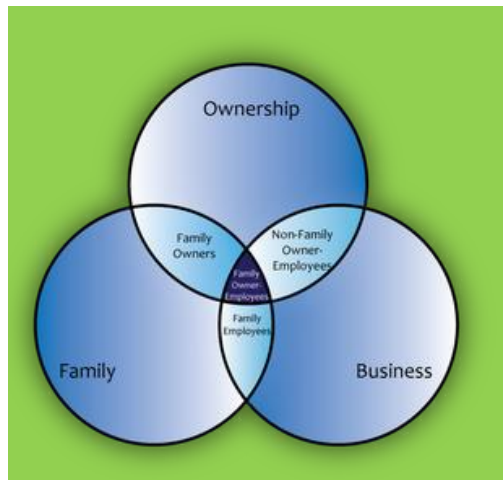
2. LITERATURE REVIEW

2.1. Family Business

One of the most frequently referenced in this case is a model Tagiuri and Davis [22] where there is overlap between the Family, Business and Ownership as in figure 1. The third circle shows unique characteristics in the family business as a result of the interaction among the three sub-systems, each of which is a source of benefits and disadvantages at the same time for owners, family and employee.

In-term Family Business Model by Tagiuri and Davis, intersection between family and Ownership demonstrate ownership of the family business, this amount can be large or small. The larger the portion of the family who owned the greater the potential for family intervention. Intersection between the family and business shows how crowded with family members involved as an employee of the family business. Medium intersection between business with ownership indicate the number of non-families who become employees.

Figure-1. Family Business model Tagiuri and Davis



Source: Tagiuri and Davis [22].

Intersection of the three most in the intersection show Family Owner Employee, which is the number of family members who act as the owner and the employees of the company family. Intersection is most often found in the company's early generations.

2.2. Succession Planning

The discussion on succession in family enterprise has become a hot topic in the organizational literature. One reason is this succession and all the processes that follow involve emotion [23] and potentially create conflicts. One is the rise of rivalry between the incumbent involve internal or external successor's [24]. Thus succession is also seen as a burden to be avoided or deferred, that is there a son for the family firm leaders often late in making preparations and planning [25]. However there is also a family business that sees the succession is important for the survival of the family business so far in preparing succession and even the preparation starts from the beginning of the establishment of family business [26].

Longenecker and Schoen [27] were among the first to create a theoretical model of intergenerational transitions. It involves the following stages: pre-business, introductory, introductory-functional, functional, advanced functional, early succession, and mature succession. This model clearly treats succession as a process; it omits any reference to the non process aspects. Cale [28] also developed a multiple stages model for succession, which has similarities with the

Longenecker and Schoen model. This model distinguish the following stages: watching for interest, reducing the pool of eligibles, assessing commitment, compensating the others and placing the successor. Again these models provide a prescription and do not consider the value of adjustments to specific contexts which may not be planned. That is why intergenerational transitions model could simplifies into three levels of involvement of offspring: part-time employment, full-time employment, and leadership role. On his part, [Handler \[29\]](#) uses three phases of succession that next-generation family members experience: personal development phase, business involvement phase and the succession phase.

Pay attention to these considerations it can be understood that many companies do not succeed in doing family succession to the next generation in family members [\[30\]](#). Several survey reports indicate that there are only 33% of companies are successfully continuing the family business after the succession of the first generation to the second generation, and 10-15% are successful to the third generation [\[12, 31, 32\]](#). This situation strengthened by reports Connecticut Business & Industry Association [\[16\]](#) in 2012 that were successfully continued the business until the second generation as much as 40%, being a family company which continues until the third generation as much as 21% and remained in existence until the last generation for the next four and as many as 11%.

2.3. Succession and Performance of Family Business

Definition extensively on organizational performance is efficiencies and effectiveness in usage of resources to achieve the goal. In this matter [Kaplan and David \[33\]](#) has introduce Balance Scorecard which incorporate the customer perspective and the internal business process perspective, and learning and growth perspective in addition to the financial perspective.

Traditionally financial perspective summarized in the form of figures such as profitability like operating income, return of capital employed (rate of return on capital goods), economic value added, sales growth, and cash flow generated. In the modern business environment, the challenges of measuring the performance of the organization are simple, so that it is developing the next measurement [\[34\]](#).

2.4. Economic Education

In the context of education, we recognize three kinds of education that is formal, informal and non-formal. Definition of formal education is the hierarchically structured, chronologically graded education system, running from primary school through the university. Definition of informal education is the truly lifelong process whereby every individual acquires attitudes, values, skills and knowledge from daily experience and the educative influences and resources in his or her environment. While the definition of non-formal education is any organized educational activity outside the established formal system that is intended to serve identifiable learning clienteles and learning objectives [\[35\]](#). In the context of this research, economic education dealing with family business succession is informal education in economics.

Specifically, not much research linking education with economic succession in family business. Chang, et al. [36] carrying out studies on the processes that occurs in the family business in China and found evidence of entrepreneurial traits and social learning in addition to social network tool used to identify opportunities. This means that the process of entrepreneurial learning that happens in the family to grow and develop the business by learning opportunities. Research involving 200,000 Europe young people every year found evidence that entrepreneurship education is given to high school students have a positive correlation in participation in company programmed and start-up activity [37].

Economic education here refers to organizational learning. The European Commission contends that there are two types of learning SMEs may adopt which can be grouped into formal and informal. Formal learning employ training that is structured and entails a defined community with specific training goals set and evaluative criteria established. In formal terms, covers economic education non-family business and corporate business. While the non-formal education includes learning, training that are outside the formal education [38].

3. METHODS

East Java of Indonesia was chosen as the research site for this study for a number of reasons. The first is that East Java is one of the most populous province in Indonesia (37.5 million people or 18.11%, BPS [39]). Secondly, East Java is a province with a multi-ethnic, there are any Javanese (65%), Madurese 10%), Pentalungan (15%), Chinese (5%), and Others (5%). Each ethnic bring different cultures and characters. Ethnic Pentalungan is the ethnic mix between Java and Madura, most in East Java. The third is, East Java is a province that has a growth rate above the Indonesian average (7.5% compare with 6%; BPS [39]).

This study is not meant to generalize but to determine the general question is whether the family business succession planning improves performance after the succession in the family business with the ethnic background of Java, Pentalungan, and China in East Java, Indonesia. Therefore, the study carried out by the approach qualitative exploratory using in-depth personal interviews – was deemed suitable [40]. Qualitative research stress the socially constructed nature of reality, the intimate relationship between the researcher and the researched and the situational constraints that shape reality [41]. While interviews enable the researcher to obtain the respondent's own views, they provide the respondent and researcher with equal status in the dialogue [42]. The use of in-depth interviews enables a researcher to gain insights and understanding of complex, sensitive issues or very personal topics. Becoming an entrepreneur is a complex decision; therefore, interviews were considered to be the most suitable method to uncover the hidden issues that could go beyond ethnic issues are crucial and sensitive.

Data collection instrument in the form of an interview schedule was used to collect data. The interview guide was piloted and subsequently amended, with questions altered to account for potential contextual issues such as religion and the role of founder and successor in family business. The research captured data from 12 in-depth interviews, which were conducted between July 2009 and September 2010. In-depth interview also performed with expert informant consisting of expert family business, it is because he is having experience in the field of family business.

Although the sample size was relatively small, it is considered acceptable for an exploratory study [41, 42].

Interviews took place at the respondents' business premises. Given the prevalence of the informant interviews conducted with a tight schedule and with a long period. Each interview lasted between one and two hours, was tape recorded and pencam with the approval of the interviewees and then transcribed [43]. All interview scripts were analysed manually.

4. RESULTS

4.1. Characteristic of Informant

The profile of the informant is summarized in table 2. According to the literature, family business is more likely to be found in the retail and service sectors.

Base on table 2 below, there are 10 people (83%) among informant is old citizen aged over 50 years, and 2 remaining is young entrepreneur. Only 2 people (17%) that has have high school and the others is university graduate even 1 informant is PhD graduate.

Table-2. Characteristic of Informant

Informant N=10	Age (years)	Educational background	Position	Years of services
I1	64	University	4 th son	48
I2	42	University	2 nd daughter from 1 st son	18
I3	66	University	Nephew	40
I4	71	High school	Founder	50
I5	35	University	2 nd son	20
I6	58	High school	Founder	20
I7	60	University	FB journalist	30
I8	58	University	FB journalist	27
I9	53	University	Businessman have own FB	23
I10	52	University	Businessman have own FB	22
I11	52	University	Businessman have own FB	20
I12	51	University	FB researcher	21

4.2. Business Start-Up

The entire business founder in this study established their business with their own funds or with their families. 66.6% used their own money and savings, 33.3% were sponsored by their families. When asked why they did not apply for a business start-up loan from banks or any micro-finance institutions, some of them replied:

- To start up a business it's not easy to access banking or finance institution. It's difficult. Too much paperwork and bureaucratic process takes the decision for approval much longer than expected. By then, we will feel foolish.
- I don't have time to visit banks. I need to entertain my customers and some of them need my services instead of my staff. I always need to be in my office.
- We are told that a lot of financing is available, but I do not seem to know how to access it. It took me two years to finally get financing. Even now that I have a loan, the interest rates are prohibitive.

- I think I started this business of business opportunities that I can see and I learned entrepreneurship family. I do not rely on big money as initial capital, but of the human capital that I have.

4.3. Succession Planning Are Necessary but Not Easy

Opinions about the necessity of succession planning purposes and interests actually departing from informants experience in organizing succession as seen in table 3 below.

Table-3. The necessity of succession

The necessity of succession	Percentage of informant
Necessary and important	25.00
Necessary and not important	16.67
Necessary and not easy	50.00
Not necessary and not important	0.00
Not necessary and not easy	8.33

Founder and owner of the family business are generally considered that a planned succession was necessary but not easy. They generally have a strong desire to shift the leadership of the family business to his successor even though they are less confident in their offspring's willingness to be involved in the family business.

When asked why the necessity of succession is necessary but not easy, some of them replied:

- I think succession planning is necessary and important, because it affects the sustainability of the family business. If we failed to prepare an adequate succession planning, we will face a bleak future at a later.
- Succession planning is necessary, but not so important, because the kids already have their own wishes in welcoming his future. Some of them already have their own business which he coached in college since their overs, and some of them started the business with his friends.
- I feel that succession planning is necessary but not easy. Required a lot of effort to it. We do not have sufficient expertise to make succession planning. We know that we can ask for help consultants to prepare a succession plan but we are not confident of success.
- Succession Planning is not necessary because it is not easy. Why should we engage in activities that difficult but the results are not adequate.

4.4. Succession Planning Conduct after Family Business Growth Bigger

When should run succession plan? This question is answered in table 4 below:

Table-4. The time to conduct succession planning

When conduct succession planning	Percentage of informant
Since beginning, establishing FB	25.00
After the FB big and bigger	25.00

Continue

After the founder is death	8.33
After the founder feel old	16.67
Never done	25.00

When asked why the necessity of succession is necessary but not easy, some of them replied:

- I am grateful to be able to involve my children in my business since childhood so that now they have chosen to pursue the areas that they enjoy. My first child like the production or operations, the second one being my son liked the field of marketing; my son was the third pick in accounting and administration.
- This succession planning needs to be done since the company has grown into a large family that required the participation and involvement of family members more.
- I heard from my friends that inevitably we must prepare a successor before we are no longer able to manage the family business effectively or before we die.
- It's not easy. Because we are not already aware of the importance of this succession at the start of our business. Now our kids already have their own views about their future lives and some of them are not in line with our desire to bring up again and continue our business. But even so we should do when we find a succession of old and felt no longer able to run the family business.
- I'm not sure with the willingness of children to want to get involved with a sincere in this family business. Therefore I am not convinced of the necessity to implement succession planning for family businesses. I would choose the successor of the least understood and most involved in the family business, I do not care whether it comes from my offspring or not.

4.5. Succession Planning Can Improve Performance of FB

Does Succession Planning have an impact on improving the performance of Family Business? There are resume of answered the informant as seen in table 5 below.

Table-5. Succession Planning can improve performance of FB

SP can improve performance of FB?	Percentage of informant
Yes	66.66
No	0.00
Not sure	33.33

When asked what the succession planning can improve performance of family business?, some of them replied:

- Yes, well I'm sure. My experience suggests that succession planning will be able to improve the performance of the family business. The family members who have passed the point of succession will learn to accept with sincere decisions about succession including about who his successor. After that the children and other family members will adjust their respective roles in improving the

performance of this family business because they know that their life is very dependent on the success of the family business.

- In some ways I am not sure of the performance of this family business with succession planning. We must be careful with the approach and the way that we use when doing succession. Some sensitive things should we treat with extreme caution in the succession process, such as self-esteem, a sense of ego and want to stand out from each child and family members, the mother's role as an adhesive inner children and family members, the position of founding (if) married again to bring the kids, etc.

4.6. Economic Education in Family Can Make SP in FB Smoothly

Does Economic Education in family can make Succession Planning in Family Business smoothly? There are resume of answered the informants as seen in table 6 below.

Table-6. Economic Education can make Succession Planning in FB smoothly

EE can make SP in FB smoothly	Percentage of informant
Yes	66.66
No	8.33
Not sure	25.00

When asked what the economic education in family can make succession planning smoothly, some of them replied:

- Economic education in the family can smooth succession planning in our family business. We believe that we applied economics education in the family such as the importance of the contribution of each member of the family to receive a reply in kind, to earned the trust of hard work, frugality lifestyle to meet the needs and desires we can generate income for the family business, and others.
- I feel that the economics of education in the family is not going to make my family business succession planning will be smooth and seamless, precisely because it makes economic education of family members such as economic animals who are hungry for profit for the benefit of himself and his own immediate family.
- I'm not sure that education will pave the economy stats succession in the business of my family. Some thoughts on economic education did not make a smooth succession planning. Economic education in my family about the match between the contributions in return has been defeated by the principle of harmony. Supposedly a big salary will be given to children or family members who can provide a substantial contribution to the family business, but in practice it is not always the case. Sometimes salaries are not commensurate with the donations given, but based on the needs of his family. This is because it upholds family harmony.

5. DISCUSSION

Business Start-up. This research found evidence that it is not easy to start a family business as well as the founder of the very limited capital, access the ability of banks and financial institutions are also very difficult. The study's findings are in line with [Perry \[44\]](#) which states that Chinese family businesses are not built with large capital but instead of a strong relationship between family members help each other. This finding is in line with [Andrew \[45\]](#) that the required pre-start phase in the form of entrepreneurship and not the availability of capital. This finding is also in line with [Jayawarna, et al. \[46\]](#) that human capital direct predictor of entrepreneurship at the time of startup business.

Succession Planning are Necessary but Not Easy. This is in line with research findings [Susanto, et al. \[47\]](#) which refers to the fact that only 28% of companies in the USA that have a family succession planning. This finding is in line with [Fahed-Sreih and Dan Djoundourian \[48\]](#) who found that only 40% of family firms in Lebanon who has done succession. Similarly, the reported [Westhead \[49\]](#) who found that only 41% of business leaders think about the need for family business succession planning. This opinion is in line with [Terdpaopong and Omar Al \[50\]](#) who found evidence that the majority of respondents felt need and therefore they have a succession plan (45.8%), but they are not easy, therefore they do not have a succession plan in writing or running the succession informally (78%). This finding is also in line with [Perry \[44\]](#) and [Harianto \[51\]](#) that the succession planning for family business required though China is not easy. This finding is also in line with [Obadan and Ohiorenoya \[52\]](#) that most of SME in Nigeria have no succession plan even they know that was necessary.

Succession Planning Conduct after Family Business Growth Bigger. This finding is in line with [Lambrecht \[26\]](#) tells the current succession process in a family where his predecessor Lombardi, Senior Lombardi, felt that the successor poorly prepared, so that the process of succession runs naturally when senior Lombardi suddenly and seriously ill for a long time cannot lead and control of the family company. The conditions that encourage the eldest, Lombardi Jr., intervened to take over control of the company. The findings of this study are also in line with [Terdpaopong and Omar Al \[50\]](#) who found evidence that the majority of respondents felt the need to hold back and delay until there is deemed capable successor to continue his business no matter whether the family business has outgrown or greater. This finding is also in line with research [Soedibyo \[8\]](#) which states that the need for succession planning that emerged after the family business grew into a large.

Succession Planning Can Improve Performance of FB. This is in line with the findings of [Morris, et al. \[53\]](#) stated that the activities of planning and control consisting of: succession planning, tax planning in connection with the succession, planning boards and control the use of outside companies (outside the board), the use of consultants and advisors corporate family, as well as the creation of a family council (family council) has a positive effect on the performance of family firms. The findings of this study are also consistent with [Miller and Isabelle Le Breton-Miller \[54\]](#) stated that the performance can be maintained by looking at the long-term-oriented management to maintain the company's leadership succession of the family. Furthermore [Molly, et al. \[55\]](#) revealed a succession of impacts on the family firm's financial structure and performance is

significant. [Soedibyo \[8\]](#) in his dissertation research found evidence that successful succession will improve the performance of individuals who later in turn will improve the performance of the organization. The findings of this study are also in line with [Ward \[56\]](#) in his study of the 169 SMEs that are controlled by a family company in the United Kingdom (UK) found evidence that succession planning has a positive effect on the performance of family firms are characterized by profitability ratios and growth ratios.

The research findings are inconsistent with the [Buang, et al. \[1\]](#) who found evidence that SME succession planning in Kuala Terengganu, Malaysia has no significant influence on the post-transition performance. The findings of this study are also not in line with [Tuhardjo \[10\]](#) that the SME succession planning in Tulungagung, Indonesia has no significant influence on performance after succession process.

Contradictory findings may be due to in general pedigrees companies using service providers in various forms such as supporting agencies, Counsellors and consultants. In particular, the service provider of education and training to prepare tailor made, tailored to the characteristics of the family firm and adapted to the characteristics of the predecessor and successor candidates.

Economic Education in Family can make SP in FB smoothly. This finding is in line with the opinions [Tagiuri and Davis \[22\]](#) that the success of education in the family is measured in the form of harmony, unity, and development of individuals who are happy with a solid self-esteem and positive. This finding is also in line with the [Ip and Gabriel \[17\]](#) which says that economic education in the family will make succession planning will only increase the chances for successful succession but no guarantee. The study's findings are in line with [Huang \[57\]](#) in Taiwan who fails to implement the succession plan because it does not have a Succession Planning Department can become a locomotive for economic education within the founding family. Founder and owner of the family business may be refused succession planning because for fear of losing control, loss of identity or lose power while they have not prepared a successor who has sufficient economic education in the family [\[58\]](#). This study is also in line with the findings of [Javed G. Hussain, et al. \[21\]](#) which state that entrepreneurship education is something that is crucial to the survival of family firms and contributes positively to ownership succession transfer smoothly. This finding is also in line with [Jayawarna, et al. \[46\]](#) that a solid basic education in family background that has contributes to a better understanding of human capital acquisition during the unfolding entrepreneurial life-course. This finding is in line to the study of [Morris, et al. \[53\]](#) which shows the dimensions of experience working with family businesses and self-perception of the preparation have a positive effect on the smooth transition. This finding also in line with the [Buang, et al. \[1\]](#) who found evidence that transition process in Kuala Terengganu is a smooth and well coordination.

6. CONCLUSION

This paper reflects the challenges for young generation of Malay / Indonesian economic in education perspective. The young generation of Malay / Indonesian should be ready to accept the challenge as a successor to continue the successful of the family business from the previous generation. Therefore, the young generation of Malay / Indonesian has much to learn about: entrepreneurship, leadership in the family business, growing and developing family business and

improving family business performance through Economic Education in the family, if necessary, from an early age.

7. ACKNOWLEDGEMENTS

The authors would like to thank the National Education Minister Republic of Indonesia for the fellowship award, without which this study would not have been successful. Special thanks go to the Post Graduate Program State University of Malang Indonesia for the provision of facilities and enabling environment for the study. The authors express their gratitude to the Dissertation Grant – Higher Education Directorate (Dikti), for the provision of financial support. Finally we would like to acknowledge for their intellectual and technical support, my supervisor: Prof. Wahjoedi, Prof. Syafei Idrus, Prof. JG Nirbito and all the other PhD students in the Economic Education class, State University of Malang, Indonesia. This paper was part of the PhD work for the first author.

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