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THE NEXT STEP: INNOVATE OR BUST, THE CHINESE- INDONESIAN SUCCESSION CHALLENGE IN FAMILY BUSINESS

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Abstract

This paper explores and explains how the ethnic Chinese in Indonesia (Chinese Indonesians) undertake innovativeness in their family-owned small-and-medium enterprises (SMEs) during intra-family succession from a socioemotional wealth (SEW) perspective. SMEs play a major role in the Indonesian economy as they provide about 97% of the country's employment and make up around 57.8% of the GDP. According to the World Economic Forum (2016), Indonesia is home to the largest number of Chinese (7.67 million) outside of the People's Republic of China, where they make up 3.5% of the Indonesian population and are also known to contribute 70% to the country's economy. Hence the transgenerational entrepreneurship of this ethnic group is essential for the growth of the nation's economy. Based on source triangulation, we employed in-depth interviews and observations of the incumbents and successors in each case of family business. Findings indicate how incumbents and successors can undertake their distinctive roles- based on non-economic/affective endowments- to acquire innovativeness as they secure family business succession.

INTRODUCTION

Indonesia's real GDP growth has shown an increase from 4.8 (2015) to 5.1 percent (2016) (World Bank, 2017). Family firms have contributed to 80% of Indonesia's GDP and are able to curb social and economic issues (Wahjono, Idrus, & Nirbito, 2014). The authors also find that the SME category is a major contributor to Indonesia's economy, accounting for about 57.8% of the country's GDP (Florentin, 2016; Yoshino & Wignaraja, 2015). The existence of the ethnic Chinese community – called Chinese Indonesians – also provides a distinctive notion as they have been known to “constitute only 3.5% of the population but control 70 percent of Indonesia's economy” (Chua, 2004, p. 474). This statement can be further verified by the fact that 60% of the top 20 conglomerate groups based on revenues, are owned by Chinese-Indonesian families (Globe Asia, August 2016).

Therefore, it is crucial to study the continuity of family businesses through the development of innovation. The phenomenon that occurs involves innovativeness that coincides with transgenerational entrepreneurship (Loo, 2018). Transgenerational entrepreneurship is defined as the succession process in which a family business develops the entrepreneurial mind-sets, resources and capabilities to establish entrepreneurial legacy and longevity in the marketplace (Habbershon, Nordqvist, & Zellweger, 2010; Nordqvist, & Zellweger, 2010); this concept can also be used as a guideline for this research and exacerbates the competitive advantage of family businesses. Hauck and Prügl (2015) recommends that the study of innovational activities during intra-family leadership succession of family firms should be expanded to different industries and regions. This research is focused on the Indonesian context specifically on the Chinese-Indonesian community whose scope has remained scant, and especially when associating business to this ethnic group might seem inextricable. The aim is to explore and explain how innovativeness has driven and/or hindered Chinese-Indonesian family SMEs from the social psychological approaches of the socioemotional wealth (SEW) perspective.

Jiang, Kellermanns, Munyon, and Morris (2017) recommends further research to connect social psychological theoretical tenets with SEW to provide a resilient outcome of the study in knowing how family members think, feel, and behave. For this reason, the authors have approached this exploratory and explanatory study from the individual/interpersonal level through the following research inquiry: How to nurture socioemotional wealth (SEW) in order to pursue innovativeness in ethnic Chinese family SMEs during intra-family succession?

LITERATURE REVIEW

Family Business and its Socioemotional Wealth (SEW)

Kepner (1983) acknowledges the significant role of the family's culture on the business' culture. Chua, Chrisman and Sharma (1999), Corbetta & Montemerlo (1999), and Habbershon, Williams, and MacMillan (2003) claims that the "familiness" of the family business is based on the interactions among the family and business subsystems; these values of influence are based on the Confucian principles of the vertical and horizontal social order (Suryadinata, 1978). The vertical relationship order between parents and children espouses filial piety (*hsiao*) as the most salient, whereby children must substantiate *hsiao* by respecting and obeying their parents. In this study, however, the main focus of discussion is on the vertical relationship between parents (Incumbents) and their children (Successors). Filial piety is commonly practiced in Chinese communities, and for the Chinese, parent-child relationships are held in higher regards compared to husband-wife relationships (Park & Chesla, 2007; Susanto & Susanto, 2013).

For succession to materialize, Hauck and Prügl (2015, p. 3) points out the importance of the multi-year collaboration between the senior and junior generation that "involves the transfer of managerial control in which power is gradually shifted from one generation to the other." Lee (2006) claims that it was the family's ability to adapt to new environments, situations, or status positions within the family unit that was of greater importance during transition.

Socioemotional wealth (SEW) is pivotal in family business (Hauck, Suess-Reyes, Beck, Prügl, & Frank, 2016) as it involves the non-economic aspects of the family's affective needs. Even though SEW can be measured indirectly by family ownership as mentioned by Berrone, Cruz, and Gomez-Mejia, (2012), it is argued that the heterogeneity of family firms cannot be limited to merely the dimensional measurement of family ownership and management (Hauck and Prügl, 2015; Miller & Breton-Miller, 2014). The foundation of SEW derives from the behavioral agency model that denotes that non-economic values are the focal consideration of trade-offs in the family firms' decision-making process (Berrone et al., 2012; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). For instance, they could be more willing to “accept significant economic risks...to preserve affective, non-economic value.” (Hauck et al., 2016, p. 134)

Innovativeness

Innovation is stipulated in the business management process (Schumpeter, 1934). According to Porter (1990), innovation is the key to the competitive advantage of a firm. In the current environment, the more a firm is able to execute different types of innovations - configuration, offering, and experience – the more competitive it becomes (Keeley, Walters, Pikkell, & Quinn, 2013). Notwithstanding the notability, family firms are still known to make less investment on innovation compared to non-family firms (Bertrand & Schoar, 2006; Block, Miller, Jaskiewicz, & Spiegel, 2013; Bloom & Van Reenen, 2007).

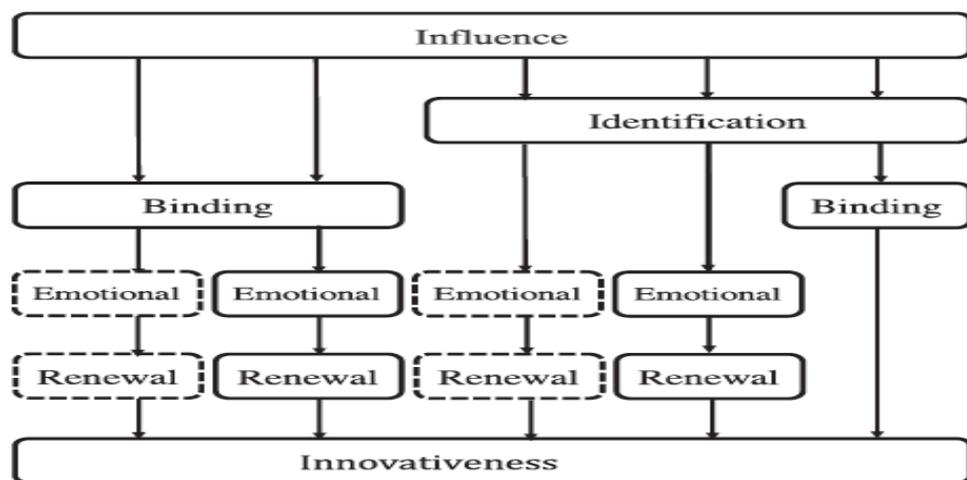


Figure 1: Causal Paths Leading to Innovativeness for Family Firms (Gast et al., 2018)

The authors suspect that this phenomenon occurs due to improper family business succession. In Figure 1, it is evident that family “influence”, one of the five SEW dimensions, is instrumental to innovativeness (Gast et al., 2018) which will subsequently lead to family firm performance (Kellermanns, Eddleston, Sarathy, & Murphy, 2012). This research assimilates family “influence”, “identification” of family members with the firm, “emotional” attachment of family members, “renewal” of family bonds to the firm through succession, and “binding” social ties mainly with

employees involved in the individual/interpersonal relationship between the incumbent and successor. To a large extent, the authors intend to obtain further insight by focusing on the individual/interpersonal (parent/child) intergenerational succession process towards innovativeness.

MATERIALS AND METHODS

This study takes an interpretative approach and purposive sampling is applied to provide comprehensive insights from the different levels of entrepreneurial legacy and family cohesion of each family business, as well as the pursuit of genuine feedback from the respondents. Based on this stance, 6 distinctive cases (after data reductions from 10 cases) were selected. As recommended by Creswell (2007) and Yin (2014), data collection was drawn on multiple methods such as in-depth interviews, observations, and field notes (Table 2 in Results and Discussions). Simultaneously, iterative data processing involving thematic analysis and pattern coding also took place as more information was gathered.

Interviews have been identified by Schmitt, Klimoski, Ferris, and Rowland (1991) and Tull and Hawkins (1984) as the best method to accurately and instantaneously investigate an individual's behavior or attitudes. Marshall, Cardon, Poddar, and Fontenot (2013) and Yin (1994) found that an open-ended conversation facilitating trust was the most effective way to generate robust data and create an environment that optimized the responses of the incumbents and successors. In this study, the provincial regions that represent approximately 60% of the Chinese Indonesians in the country are: DKI Jakarta, Banten (Tangerang), West Java (Depok), East Java (Surabaya), and West Kalimantan (Pontianak). The main source of information (Table 1) was extracted from in-depth interviewing:

Incumbents: 6 persons

Successors: 6 persons

In each case, the authors visited the site to “sensitize” with the situation of the firm and inquire the incumbent and/or successor on the spot based on observations. During interviews, the incumbent and successor were intentionally arranged to have separate interviewing sessions for source triangulation purposes. After the visitation, further observations and informal interviews with family members were conducted to enhance the robustness and reliability of the research findings.

Table 1:

Case	Entrepreneurial Legacy	Family Cohesion	Family Size	Successor Involvement in Family Firm	Life Span of the Business
A (ANG)	Medium	Medium	Core Family	Permanent	Since 1982
B (BM)	High	High	Extended Family	Permanent	Since 1986
C (MTP)	High	High	Core Family	Permanent	Since 1982

D (MT)	High	High	Core Family	Permanent	Since 1997
E (YTA)	Low	High	Core Family	Permanent	Since 1978
F (SP)	Low	Medium	Core Family	Permanent	Since 1994

List of Chinese-Indonesian SMEs

RESULTS AND DISCUSSIONS

Proposition 1 (Incumbent's Role): The Incumbent must establish trust by encouraging the Successor to take initiative, and if his/her innovation plan falls through, restrain from condemning.

Trust is one of the key attributes that incumbents must assert in the family business firm, especially to the successors. In the event of secrecy, partiality, and inconsistencies, trust will be shaken which will subsequently lead to a collapse in the “emotional systems” of family interdependency (Lumpkin, Martin, & Vaughn, 2008, p. 133). Trust enhances autonomous power given to the successor to make decisions for innovation. Case B exhibits the most evident scenario of conveying trust:

That's what I really appreciate about 'Father'. [...] he has a mind-set that is more realistic and modern, and he trusts his children's individual strengths and weaknesses (Successor, Case B).

The incumbent shared that he somehow knew earlier on that the successor was going to fail; nevertheless, he still assents to the successor's proposals to make him experience failures and learn from them.

Paternalistic incumbents disregard successor's ideas for innovativeness and elevate family inertia (Dyer, 1986). In the current fast-paced technological environment, the paternalistic leadership in Chinese businesses can hardly be sustained even though it promotes efficiency and stability (Susanto & Susanto, 2013). This study reveals that establishing trust by allowing successors to make mistakes is vital. Incumbents ought to provide room for successors to blunder and forego the fear of embarrassment “to save face”.

Proposition 2 (Incumbent's Role): The Incumbent has to be a role model for the Successor to succeed.

Imprinting is a characteristic process and continual persistence in attributes despite changes in the environment (Marquis & Tilcsik, 2013). In this study, successors share how they are able to be innovative through the incumbents' role modeling, and this is also how intangible values are being transferred. In this study, Case C and E were noteworthy in illuminating the positive and negative phenomena respectively. In Case C, the successor looks up to the incumbent as she observed him in admiration, while an indecisive exemplary model occurred in Case E.

[...] the key from Papa is patience as we can't force people to understand us, Papa always said that. [...] Papa is usually quiet, so when Papa is talkative, I observe him (Successor, Case C).

I said (to my parents) I need more (operational) space. Dad always directs me to ask Mom. When I ask Mom, she says, "Ask Dad." (Successor, Case E)

Table 2
The Analytical Results of In-Depth Interviews, Observations, and Field Notes (Case A (ANG) Illustration)

Research Question: How is innovativeness driven and constrained in	Summary of Evidence of Incumbent's Perspective	Exemplary quotes from Incumbents and Observations (Q: Question; A: Answer)	Summary of Evidence of Successor's Perspective	Exemplary quotes from Observations (Q: Question; A: Answer)
Case A – ANG	(+) Strong initiative of Successor (Self-Motivation)	“Although he has a strong initiative, he still needs to make big changes and be more diligent.”	(+) Successor is setting up a new tax invoice system (Self-Motivation)	“[...] personally I want an automatic system so I don't have to be in the office.”
Incumbent is Father	Successor's hard work and perseverance (Self-Motivation)	“...his willingness to work. He already has the experience, thus it will depend on his decision to expand the business or develop it. I honestly do not want to interfere anymore.”	Successor has set up an inventory system that synchronizes with the database; it is maintained and randomly controlled by the Successor himself. No scanner used. (Focus on Main Business)	“I just do it everyday, do what needs to be done.”
Successor is Son	(-) Incumbent thinks that Successor has too many “wants” in his mind and lacks focus (Not Focused on Main Business)	Based on observation, the Incumbent still feels that the Successor has too many ambitions in his mind.	(-) The Successor wants to systemize the company's operations so he can focus on other ventures (Not Focused on Main Business)	“Now I have started adopting a system because people are paying taxes online/there is tax invoice.”
			Based on informal lunch conversation with the Successor, he shared that the Incumbent's over-protective attitude towards the current employees, especially the seniors, have been an obstacle for the Successor to implement innovative transition (Biased Mediation)	Q: What about your father's mindset A: It's the way it is (resistant to change), except if it is already urgent.
			The Incumbent still actually holds the key to decision-making	“[...] cannot let go 100%, there is always intervention [...] yes true, but the autonomy of a Chinese business is still restricted by the big boss (owner).”

**(No Allowances for
Blunders)**

Proposition 3 (Incumbent's Role): Mentoring by the Incumbent is an intrinsic process that requires a good relationship between the Incumbent and Successor.

In nurturing relationships, Cabrera-Suárez, De Saá-Pérez, and García-Almeida (2001) emphasizes the importance of a trusting relationship as a means for the incumbent in his/her mentoring role to significantly support the development and growth of the successor into a leadership role. Bjuggren and Sund (2002, p. 125) notes that in family business, “idiosyncratic knowledge is acquired in learning by watching and doing [...]”. Allen, Day, and Lentz (2005) identifies the importance of shared experiences and increased positive interpersonal relationship as a prerequisite for knowledge transfer. The Incumbent in Case B, for example, was able to spot the successor's talent in communication at an early age and began taking him around to meet with stakeholders. The incumbent believes in “the law of nature” where a child must be nurtured since childhood.

I took him along to my meetings with the directors of banks. This is so he can communicate with friends, business partners, youngsters, etc. (Incumbent, Case B)

Proposition 4 (Successor's Role): Self-motivation conceived within the Successor is key to the initiation of innovativeness.

In order for the successors to fulfill the role of good stewards, they must be motivated to serve the family business interests even at the expense of their own (Corbetta & Salvato, 2004; Davis, Allen, & Hayes, 2010). In each case, each successor recognizes the responsibility of continuing the family business because he/she is the prominent figure among the other siblings who is willing and able to sustain the legacy of the business.

I just do it everyday, do what needs to be done (Successor, Case A).

The Successor in Case C will travel daily from the early morning from her home in West Jakarta to the shop in Depok. The round-trip duration of her drive is approximately three hours each day, from Mondays to Saturdays. Based on observations through interviewing her and social media, the love for her deceased father (the Incumbent) motivates her to succeed in the business and continue her father's legacy. Likewise, the successors in Case D, E, and F are also motivated to advance their family businesses:

[...]. I emphasize to not get too comfortable to this (routine) situation and then forget about innovation and growth [...]. (Successor Case D)

Proposition 5 (Successor's Role): Successors must be able to focus on the main business to incorporate innovativeness

The role of a steward is to establish a strong foundation that will ensure the long-term growth of the family business, benefiting all stakeholders (Miller, & Breton-Miller, 2006). Proposition 5 highlights Case B in which the successor was remorseful and subsequently returned to focus on his

family business. For Case D, however, there is pressure to perform well in order to keep his position in the company and make his father proud.

When I first started working, I had lots of excuses, justifications, etc. [...] experienced my share of failures [...] but now I focus 100% on this family business to continue my father's legacy (Successor, Case B).

So if my father sees that I am incapable, he won't place me in this position. If my requirements are "this much" and I only fulfill half of it, then he would probably replace me with someone else (Successor, Case D).

Proposition 6 (Incumbent's Role): Biased mediation between the Successors and employees impedes innovativeness.

Through negative case analysis, the authors have identified Case A and F to denote a similar interesting phenomenon. The Successor in Case A felt most discouraged when the incumbent prioritized the employees' opinions more than his. He criticized the incumbent for over-protecting and assigning less jobs to the slack employees, while delegating more to the hardworking ones. Dunemann and Barrett (2004) identifies that leadership style is directly related to succession; they found that an open leadership approach with an honest and transparent communication with just and equitable procedures creates a positive environment to facilitate succession. In Case F, the successor is confused with the incumbent's perception in regards to innovative planning and implementation. The "they" in the dialogue refers to the parents of the successor.

[...] their support is kind of in the grey area. They say they support my innovativeness, but when changes are initiated, they don't complain to me directly. Instead they complain to the management and of course, the management supports them (Successor, Case F).

In this scenario, the incumbent had actually put the successor in a "tricky" situation where he did not have the respect and support of the employees, who would rather listen to the incumbent than the successor who was in a leadership transition. These types of incidents deter successors in being innovative in family firms.

Proposition 7 (Incumbent's Role): Over-protection towards financial wealth dampens innovativeness.

Likewise, through negative case analysis, the authors find Case E and F to denote a similar interesting phenomenon. Based on the interview and observations in Case F, the successor felt a sense of obscurity in terms of the decision-making for the family business. His sister also shared that their father seems to care more about his wealth than his children.

Yeah, he (Incumbent) tells me not to ever make a mistake. Hence, this instills fear to make decisions sometimes. [...]. And so when I make decisions, I still need to ask my father directly (Successor, Case F)

Different savings motives derive from the varying amount of wealth that had been accumulated by families (Browning & Lusardi, 1996; Xiao & Noring, 1994). However, to an extreme measure, this motive could be misinterpreted by the younger generation entailing to the debacle of the family succession plan as illustrated in Case E:

I had already told Mom and Dad that if it's really impossible to improve YTA, like it or not, I want to quit from YTA (Successor, Case E).

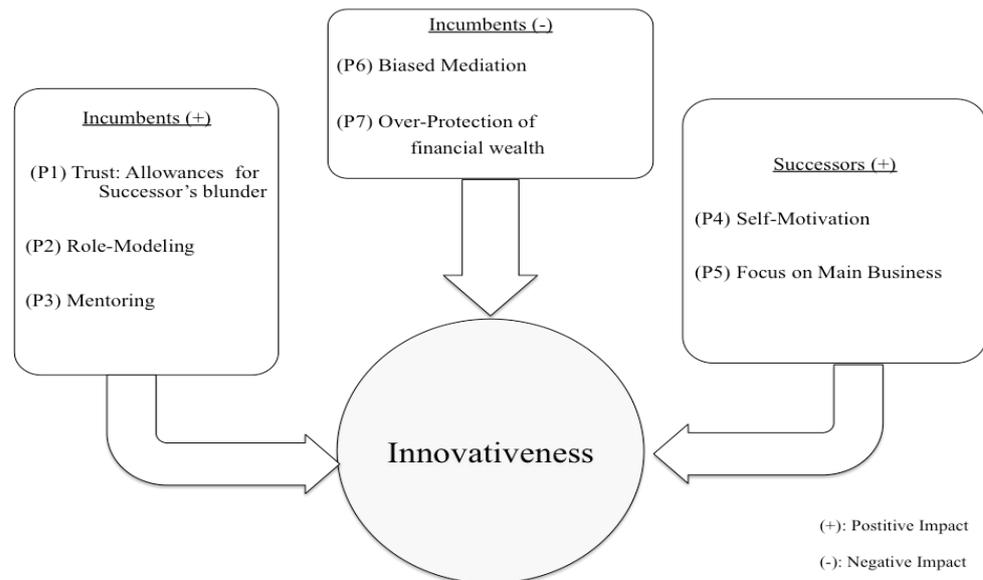


Figure 2: Nurturing SEW to Manage Innovativeness Research Framework

CONCLUSIONS

Despite the limited scope of study on the Chinese-Indonesian family business setting, the proposed conceptual framework offers important implications for scholars and practitioners to comprehend how to be discreet in espousing emotional perspectives of the incumbents and successors. Comparative studies on the management process towards innovativeness during the intra-family leadership succession period - based on gender and different ethnic groups - would also provide interesting insight for future research. To conclude, when the reciprocal trust and affective needs within the family have been well managed, then as recommended by Van Dut and Le Hoang (2017), the business could look to external network partners to utilize its innovation capabilities for the longevity of the firm.

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