

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Family business is generally known as a business that is owned, managed, and governed by family members. As family business is governed by family members, decision making of the corporate level is mostly dominated by family members themselves. The members of family business, especially in the shareholders section is not only held by family members, but can also consist of non-family members. Some of the stigma held is that family business will always be passed on from one generation of ownership to the other exclusively for family members. On the contrary, the succession of family business can also be passed down to non-family members in several cases.

Succession is an important stepping stone in a family business and many other forms of organizations alike as it determines the next leader of the organization. For the case of family business, a priority persists where succession of the next generation must come from the family members itself. However, it has often become more difficult for family members to execute the succession planning due to several factors related to the concept of proper parenting, the failure to build interest of younger generations, and the unwillingness to let go of the ownership. The lack of succession planning often ends up in the winding up of the company, or risk of having the family business led by non-family members. Eventually, the lack of family members as the leaders in the business will cause the power of family governance to fall significantly.

The quality of the leaders that are sought can be from either family members or non-family members. One of the important and

influential problems caused by the failure in carrying out succession planning is choosing the wrong leader to run the next generation of the family business. There was also a proverb saying that a family business cannot go over three generations. The first generation will construct it, the second generation will enjoy the result, and the third generation will destroy it. This is a very well-known family business proverb that originated from China. Akpan & Ukpai (2017) mentioned that ensuring a smooth transition of a business from one generation to the next generation (through effective manpower training) requires succession planning as a proactive attempt, which will guarantee the long term sustainability of the business.

In order for family businesses to sustain in the long run, a clear depiction of the person in charge needs to be constructed. Succession planning of the next leader of the family business might be one of the factors that determines the success and sustainability of family business. This includes the decision making ability of choosing the right person with the set of skills, knowledge, and abilities.

CV. Harco Nancy is a family business operating in the industry of printing offset and has been operating since 2007. This organization is categorized as a family business because it has more than one active family member as owner, operational, and part of the management. CV. Harco Nancy is currently the first generation of family business, since it is still owner-managed. Although there is interference from other family members, the business is still solely owned by the founder.

Family businesses are important as they are capable of producing large revenues and increase the GDP yield of a nation (Collins, et al., 2012, p. 4). Family business is a complicated form of business, to which there is a very volatile change of personality between family members and their roles. Sometimes these family members will be regarded as regular employees, but also can be

viewed as solely close relatives at times. The boundary between these two characters may cause bias in the daily activities of family business. It may also affect the sustainability of the business in the long run. A succession planning might be able to transcend these issues and thus the title of the research is: **“Succession Planning: The Solution for Family Business Sustainability at CV. Harco Nancy”**. The company is chosen as research object because it has a great number of employees, with most of the family members holding position in the management. The research is expected to show a significant amount of important information regarding succession planning in hopes of decreasing the unprofessionalism that may occur in the family business so that the company may reach sustainability and be passed on to the next generation.

1.2 PROBLEM LIMITATION

This research will be limited to only one organization, namely CV. Harco Nancy, which is a family business that operates in the printing industry. Hence, the research will also be limited to only a certain place, particularly in Medan city, Indonesia. Some other limitation includes the validity of the data that is received from the respondents as some of the data might be filled unwillingly as a result of the limited time that they have.

1.3 PROBLEM FORMULATION

Based on the knowledge of the writer, some of the identified problems faced by CV. Harco Nancy are:

1. Does the succession planning have an impact on the sustainability of family business at CV. Harco Nancy?
2. Can proper succession planning help CV. Harco Nancy with the election of family member as the next leader?

1.4 OBJECTIVE OF THE RESEARCH

The objectives of the research study are as follows:

1. To know the importance of having succession planning inside family business as means of maintaining sustainability at CV. Harco Nancy
2. To understand the role of succession planning in helping with the election of family members as successors at CV. Harco Nancy

1.5 BENEFIT OF THE RESEARCH

The benefit of this research is to answer the problem formulation as well as reaching the objective of the research, so that the research object may gain the benefit from the extracted knowledge that comes out as a result of this research. The benefit of this research will be further explained into two kinds of benefit, which are as follows:

1.5.1 THEORETICAL BENEFIT

The author will gain knowledge and experience that is necessary to prepare for real-life practices in the future should the author be involved in family business or act as a consultant for one. Moreover, the next author/ researcher will gain the benefit of having a better understanding on the similar research or field of study.

1.5.2 PRACTICAL BENEFIT

CV. Harco Nancy will gain the benefit of having knowledge about the importance of having a succession planning to ensure the sustainability of the company for more generations to come. The sustainability of the company can be measured through the customer's satisfaction as well as employee's job satisfaction. In the long run,

with good customer satisfaction, the company will continue to grow as its profitability will also increase.

1.6 SYSTEMS OF WRITING

CHAPTER I- INTRODUCTION

This chapter includes the in-depth explanation of the background of study as well as the problem limitation that comes along with the research regarding a family business, CV. Harco Nancy. Additionally, problem formulation as well as objective of the research will be discussed to mark the important goal of this whole research. And finally, the theoretical benefit and practical benefit of this research will be further elaborated to spark up readers' interest.

CHAPTER II- LITERATURE REVIEW

Literature review chapter will discuss about the theories of family business management, succession planning, and the impacts on sustainability from the succession planning as well as previous research references. Furthermore, hypothesis development, research model and framework of thinking will also be displayed in this chapter.

CHAPTER III- RESEARCH METHODOLOGY

This chapter will mostly cover the research design, population and sample, as well as the data collection method along with the operational variable definition & variable measurement. Finally, data analysis method will be discussed to determine the type of tests that are going to be used to process the data so that it can be analyzed in the next chapter

CHAPTER IV- DATA ANALYSIS AND DISCUSSION

As the name suggests, this chapter will mainly discuss the data analysis and show how the data is processed. This data analysis will also be discussing the overall findings of the research result based on IBM SPSS 25 application's calculation.

CHAPTER V- CONCLUSION

This is the last chapter and will cover the conclusion, implication, and recommendation. This chapter will allow the readers to understand the result of the research and the effect it has theoretically and practically.

