

## The Ethnography on Leadership Style in Family Owned Business Succession

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— *Review of* —  
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### ABSTRACT

**Purpose:** This paper aims to look the leadership style in FOB that is practiced in a succession of Family Owned Business.

**Methodology:** This research was done by using qualitative methodology with ethnography approach.

**Findings:** There is pseudo-transitional leadership style within a Family Owned Business.

**Originality/Value:** The originality of this research is that leadership style in Family Owned Business is unique, the preliminary findings of this research will give a specific perspective case study on how leadership style has been practiced in FOB especially in a small medium enterprise. Potential contribution to the literature is to give a specific leadership style of FOB that can be classified as small medium enterprise.

**Keywords:** Ethnography, Leadership, Style, Family Owned Business

**Research Type:** Research paper

### Introduction

Family owned business (FOB), stated in Family Business Governance<sup>1</sup> Handbook as the most dominant business organization and the oldest type of business

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<sup>1</sup> The Family Business Network, [www.fbn-i.org/fbn/main.nsf/doclu/facts](http://www.fbn-i.org/fbn/main.nsf/doclu/facts).

organization around this world. Whereas on 2008, in Spain there was a fact that FOB contribute to 65 percent of the country's Gross National Product or GNP (on average), while on the other hand there was a fact that about 60 percent of the aggregate GNP in Latin America was made by FOB<sup>2</sup>. Therefore, using that example, there is a need to see the contribution of FOB for the development of a country, since it contribute more than 50 percent of aggregate GNP.

From other recent study done by Price Waterhouse Coopers (PWC), found that this type of business organization see challenges about their future in a positive way and majority of respondent mentioned that they are looking to grow the business in the next 5 years<sup>3</sup>, PWC conduct this research by having a discussion with leaders of FOB. Therefore, what will happen to FOB derive from the leader, since this study result shows how leaders of FOB react on challenges. However, there is one big issue that surrounds FOB especially when it comes to the theme of succession. The theme of succession for a FOB related not just with transfer of organization from older generation to younger generation, moreover it transfer the whole process including leadership style.

Sharma (2004) found that the eligibility of succession in a family owned business (FOB) rely on how successors are given trust by the founder to control leaderships in the firm. Moreover, this statement is become crucial when DeNoble, Ehrlich and Singh (2007) found that loss would occur in FOB when there is a family member that unqualified for handling leadership. Therefore, leadership in FOB is important, and become crucial when reaching to the theme of succession in FOB. This research objective is to look the leadership style in FOB that is practiced in order to retain the organization.

The leadership aspect in FOB, according to Sharma (2004) was based on two issues, they are "succession of leadership" and "succession of ownership". According to Sharma (2004), succession of leadership relates with the eligibility of successor to handle the FOB according to skills, experience, and so on. While succession of ownership relates with on how ownership within FOB will separate between family, business and managerial function or on contrary it will never get separated. Both issue related with how FOB decide on who will take charge on leadership, therefore it may conclude that besides of ownership, leadership would give an impact on a success story of FOB succession.

Succession will bring dynamic capabilities of the new leaders to use existing

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<sup>2</sup> The Family Business Network, [www.fbn-i.org/fbn/main.nsf/doclu/facts](http://www.fbn-i.org/fbn/main.nsf/doclu/facts).

<sup>3</sup> On October 2012, PWC done a research, by using survey method, PWC make a contact to more that 1,952 FOB's owner and managers in 35 countries. Published online and downloadable on [www.pwc.com/fambizsurvey](http://www.pwc.com/fambizsurvey)

resources and the relationship within FOB and between FOB with other parties outside and inside FOB. However, this will affect the performance and the system in FOB. Leadership succession will affect FOB, and need trust from the family members, also faith to the next generation to run FOB in order to achieve the goals that has been set by the previous generation.

According to Steier (2001), there are some of leadership succession's parameters, following; the ability of the younger generations to establish effective business relationships both internally and externally with current management and employees, maintain relationships with customers, vendors and other key stakeholders, which will provide leadership legitimacy in the new FOB era. This argument, however focused on individual ability that needs to be aware by the successor, and according to this argument, therefore successor need to have those parameter, in order to achieve success on leadership succession from older generation to younger generation.

Regardless of the parameters of leadership succession mentioned above, there are important things that need to be understood in relation to leadership in FOB. The important thing is that the existence of two types of leadership that is common, as written in Lussier and Achua (2010), they are transformational and transactional leadership. Differences between this two types of leadership style, as follow; transactional leadership encourages transactions between leaders and followers and supports stability in the organization. Meanwhile, transformational leadership more led to significant changes between leaders and followers in the organization. However, we need to look what kind of leadership style in FOB, since it is a unique organization that established by family that passionate in building business with family members.

### **The Aim of the Study**

The aim of this study is to explore the style of leadership in FOB succession

### **Theoretical Review**

#### **Family Owned Business**

Defining FOB, according to Chua, Chrisman and Sharma (1999), it may be understood as business owned and managed by a nuclear family and has a particular combination of ownership pattern and management involvement. Therefore, FOB is a unique organization because it may involve emotional bonding toward family that has be involved to each other to established a business, with family value that transfered from family to business, then it should made FOB different that any other business.

#### **Classic Theory of Leadership**

Classic theories of leadership are as follows (Robbins, 1999): trait theory, Copyright © 2013 Society of Interdisciplinary Business Research ([www.sibresearch.org](http://www.sibresearch.org))

situational theory, personal situation theory, field-dynamic theory, leader-role theory. Classical theories above is general in the organization, while its application in the FOB, according to Sorenson (2000) leadership in FOB adopt the five styles of leadership, among others: participative leadership, autocratic leadership, laissez-faire leadership, leadership type that is more because of the individual ability and referent leadership. The five leadership styles also had closeness with the personality and attitudes held by individuals in the FOB.

FOB leadership style, according to Sharma (2004) depends on how the founder set performance goals for the long run, that will affect the outlook and attitude also the direction of FOB. Thus, leadership in the FOB does not only have a major influence on the direction FOB, also in terms of preparing the next generation leadership to the next generation or the next generation, which is considered capable of performing the same or close to the style of founding generation.

### **The Critical Leader as Other Leadership Theory**

According to Birley in Fiegener, Brown, Prince and File (1994), a leader in the FOB has an authoritarian management style. Authoritarian management style is the style of decision-making by leaders without considering their sub-ordinate's thought, so having excess speed of decision-making but does not necessarily guarantee the success of determination decision.

Furthermore, in addition to authoritarian management style, Dyer in Fiegener et al (1994) a leader in the FOB also implement paternalistic culture. Paternalistic culture is a culture that has a metaphorical "father" in which there are those who protect and those who are protected, thereby creating a sense of dependency among the sub-ordinate to the leaders.

Moreover Handler (in Fiegener et al., 1994) FOB owners who act as owners and managers have a preference to conduct direct control, which reflected the supporting management systems (Dyer in Fiegener et al, 1994).

Critical leader (CL), according to Nicholson et al (2004) talk about the concept of leadership in the FOB, and the established relationship between individuals in FOB who are then known as the critical leader relationships. Critical leader relationships (CLR) can be defined as the relationship with business leaders, which can serve as an adviser or its support in decisions relating to the business to be done. CLR, has several models that describe the differences in the role and power distance in the LGA. CLR's model, such as autonomy, assistant, reciprocal, balanced, equitable, transitional. Autonomy, in example when there is only one leader who took their own decisions without the help of others. Assistant, when the leader depends on one person to make decisions and anticipate the eligibility decision. Reciprocal is namely the existence of

a clear separation between the authority and the hierarchical division of labor. Balanced, in example, the party appointed as deputy leader, but of power and responsibility is no different. Equivalent, the leadership is divided between the two parties and the authorities even more equal. Finally, the transitional, for example, is the distribution of power and authority by the founder to the next generation. Thus, leadership in the FOB is expected to have transitional models.

### **Research Method**

This research was done by using qualitative methodology with ethnography approach. Ethnography is the study of social interactions, behaviours, and perceptions that occur within groups, teams, organisations, and communities (Reeves, Kuper, Hodges, 2008). According to Cassel and Symon (2004) the methods used must therefore permit access to people's social meanings and activities and involve close association and familiarity with the social setting. This does not necessarily mean actual participation in the setting, so ethnography's repertoire of techniques, one of the technique is in-depth interviews. Since this research is meant to look the leadership style in FOB, therefore there is a need to explore information from an establish FOB.

However, source of information using for this research is one FOB, established since 1974, having successor that works together with founder, and this FOB can be classified as small medium enterprise that works in a distribution of rice in Jakarta (Indonesia). Why small medium enterprise? It is because of the fact that small medium and medium enterprise account for over 99 percent of all firms in Indonesia, and it employs over 99 million people, and also account for approximately 57 percent of the Indonesian GDP (Bellefleur, Murad and Tangkau, 2012).

This research done in one Small Medium Enterprise (SME) in Center of Rice Market (CoRM) in East Jakarta - Indonesia, the reason why this research chooses SME is because majority of business run in CoRM might be classified as SME<sup>4</sup> and the name of business is PT. Fajar Utama (Fajar Utama). Fajar Utama considered appropriate because they are doing transition from generation to generation, and nowadays in their process of transferring the business to the third generation. Data, collected through in depth interview to CEO of Fajar Utama on May 21<sup>st</sup>, 2011, however the observation was done since January 1<sup>st</sup> 2011. The key informant is male, and his age more or less 57 years. The CEO is the second generation of FOB that established on 1974. The CEO, is married to a dentist and have two children (one daughter and one son). The CEO is indo-Chinese, and has live in Indonesia since he

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<sup>4</sup> This information was gathered from unstructured interview to one of CRoM management on January 13<sup>th</sup> 2011

was a child (he has 8 brothers, and he is the youngest).

## Results and Discussion

Type of relationship experienced by Fajar Utama refers to several determinants (Box 1), the other is the proximity factor. Closeness relationships factor seen in succession generations, from parent to child, and from uncle to nephew. Related to the study of the role of leadership, a leadership role in the succession of the best in family-owned businesses, according to Conger (2005) is transitional. Moreover, according to Conger (2005) this role is considered to be the best because it can affect the succession in FOB, and requires leader to distribute power and authority from the founders to the next generation since early.

Fajar Utama show that there is an effort in the distribution of power and authority, but it is unique that is was done evenly distributed, not only to future generations but on the whole subordinate. Authority and power are distributed relating to the role (or responsibility) of each individual in the Fajar Utama.

I tried to let my employees (including second generation) to do the job without my orders, I appreciate their initiative. So, I could easily leave the business for a while for a holiday or for other purposes. Well ... maybe sometimes they are confused, I do not stand in their way to contact me even though I was out of town.

Thus, in this study Fajar Utama apply distribution of power and authority to the employees, not only to future generations in the business but also to business processes. According to findings, the informant stated that cause of transfer of power and authority's event is because of founders background. The son of recent owner (Box 1), is not necessarily ready to plunge into the rice business at this time, while couples could not have expected to be able to jump into the business.

My wife, ever since the first known so far remained loyal to the profession in dentistry. She never wanted to know about my business, we respect their respective professions. My wife also never impose the future of our children. My first child is in college, the pharmaceutical field, while the second child was still in junior high school

The difficulty of the second generation to transfer the business to the next generation triggered practices of transitional leadership role done by the second generation, which is due to the availability of the next generation for the moment that can not be derived from a direct offspring.

### **Box 1. Offspring Does Matter in Fajar Utama**

Heredity is one factor that is very important in explaining dynamics in Fajar Utama. It is said to be important in FOB, because it usually will only pass into the family business, starting from the nuclear family and then the big family. However, the difficulty of determining the phenomenon of Fajar Utama's offspring who is able to pass on the second generation, due to factors delay the decision to have a family by the second generation. Then, the value adopted by Fajar Utama since the first generation to not to force their offspring to engage in FOB, but rather on self-awareness. The second generation of Fajar Utama finally decided to invite nephew directly into the business process, while on the other side prepare for professionals (for example the establishment of accountant's office, and law firm for support).

Transitional leadership role is the dominant role in Fajar Utama, ever since the first generation. These findings are certainly interesting, because the transitional role, according to Nicholson et al. (2004) shows also originated the role of the support and influence of the leader to FOB. However, the process must begin and started from the top leadership to his followers and proceed in a sustainable manner over time. Although, in a way, the process is transformed from a strong influence of the leader, then the effect is gradually reduced, being the transfer of leadership from the previous generation to the ext generation that would control the FOB.

When the first generation began taking second generation (me) to involve in the business, existing roles ... for responsibility, held between my older brother and parents ... and then, when me and my brother as the second generation take control of our business, we practice this by giving credence to the employees to take the initiative ... do work without our command ... Furthermore, as of today, the third generation also experienced the same thing ... i trust my nephew ... the same as other employees, that they must show and have initiative

Thus, it can be summarized that the attempt to exercise transitional leadership role is an ongoing process in Fajar Utama. The interesting thing is, that the practice of transitional leadership occurs not only between generations forerunner to the next generation, which is part of the direct lineage. When the next generation does not exist, the practice persists transitional leadership, from the business owners to a subordinate who is not a family member.

Fajar Utama was built and developed by the first generation for ten years, until the first generation decided to give their sucesor to run the business. Over time, the first generation involving second generation so that it can be said that the succession began to take place, is due to the inclusion of the following things.

1. Lack of interest shown by the second generation to follow the footsteps of the first generation in the rice business.
2. The ability shown by the second generation to manage competencies, business competencies developed by the first generation, because of the division of tasks from the first generation to the second generation since the beginning of involvement at Fajar Utama. Duties include the division of labor as the purchasing and warehousing.

When the first generation has an intuitive feeling that their second generation is ready, the first generation (both husband and wife) began to transfer the whole process of its business to the second generation. The second generation of Fajar Utama itself consists of two brothers, who had worked together and thereby creating intra-generational relationships. Intra-generational relation in itself took some time until one of the second generation decided to secede. It is not known whether the separation is approved first generation or vice versa.

Engelstad and Teigen (2012) conducted a study, and stated that, separation between siblings in FOB may be caused by the position in the family (brother and sister), and those who do not get or get approval of position after the separation in FOB, will cause conflicts. The conflict may occur, especially if the name of the previous FOB and its assets were owned by one or more person from second generation, while others set up a similar business generation but uses a different name and assets. Moreover, according Engelstad and Teigen (2012), FOB was established on the basis of solidarity in the family (solidarity of the nuclear family), so the property and offspring in the family who own FOB will hard enough to survive until the third generation, especially if there is a conflict due to the separation of the company. On the other hand, in practice the separation of these companies have advantages for Fajar Utama, as follows.

1. An agreement between brothers, where one of them establish a similar business, with a different name, even in a nearby location.
2. Products that are sell have nothing in common, so one of the brother may refer to customers about their products to another brother.
3. Networks are evolving as a result of the wide separation of business and used for business purposes, which were built by the two brothers.

Based on these advantages, what happen with business after the second generation after the separated is that the “old” name still exist and run by older brother, while the other brother establish “new” FOB, however with the new management, and using the name Fajar Utama. The new FOB, somehow looks like trying to develop a new network with a new name and new management, but in fact it is the brother idea to get



more specialize on their product and broadening their business.

During the second generation, in order to manage Fajar Utama, the second generation involves human resources recruited from outside the family, and the difficulty in its development is when there is a necessity to pass the business to the third generation. This constraint is due because inability to find copreneurial or intra-generation, that are considered to have an interest and be able to continue doing business. However, Fajar Utama then recruited their intra-generation offspring derived from a sibling, when the second generation tried to recruit his nephew, the relationship is intra-generational.

The purpose of generation succession in FOB, besides of maintaining a sustainable competitive advantage, also in order to drive FOB able to survive on having a place in their business environment, therefore it is a matter on how to find and plan preparation for the next generation or successor of the business. As mentioned by Moncrief-Stuart, Paul and Craig (2006), they stated that succession planning is an important part of planning, and succession planning is important to ensure the survival of the family business. If the succession is not planned, it could lead to the failure of survival and will be deprived of the business. Fear arises when there is a possibility that FOB cannot be continued by family members.

In Fajar Utama, however men have an important role and the interesting thing is, the variation in leadership roles between the first and second generation is autonomous and transitional. In the initial period up to the second generation involved in the FOB, the first generation practiced an autonomous leadership role, but this role turned into a transitional role in the period of engagement of the second generation in the FOB. Pseudo-type of transitional leadership role in Fajar Utama is practice by male, because men in Fajar Utama seemed to indicate a transition of leadership responsibilities to all his sub-ordinate, but in fact the leader put a limitation on the final strategic decision making, only will conduct by person who became the leader, so also with the establishment of the business divisions of work in order to help from the side of operational, however this is a manifestation of the dilemma concerns by the leader of that business management, that cannot be easily handed down to generations of offspring.

In Fajar Utama, the man who lead the FOB from the second generation is in control of strategic decisions. Decisions of non-strategic is evenly distributed among the sub-ordinate (including successors). This leadership model at a glance looks like a transitional leadership, but there is an important phenomenon that shows that in fact the transitional leadership in Fajar Utama is not truly transitional. It seems apparent, as the leader in Fajar Utama still have fears of losing control and decision-making errors caused by his subordinates. Later, the leader in Fajar Utama established several

divisions, which at first glance looks like an attempt to make a professional FOB, but implied that the leader has a concern as lack of successor is going through. Concerns on FOB condition after the death of the leader become the main consideration is the establishment of divisions. The concern surrounding the transitional leadership in making the type of leadership in Fajar Utama is pseudo transitional. Pseudo transitional leadership style support succession of Fajar Utama.

### **Implication**

The purpose of this research is to explore leadership style in FOB, by using one SME that has an appropriate prerequisite to become the object of study. This research's findings gives a specific perspective case study on practice of leadership style in a FOB. Therefore this research believes that potential contribution to the literature is to give a specific leadership style of FOB that can be classified as small medium enterprise and that is pseudo-transitional leadership style.

### **APPENDIX**

The appendix should immediately follow the body of the paper and precede the references.

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