

# Succession in Family Restaurant Business: An Intergenerational Perspective

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# Succession in Family Restaurant Business: An Intergenerational Perspective

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## ABSTRACT

This study aims at examining the succession process of family restaurants in Surabaya from the perspective of its former owners and successors. It was conducted to determine the succession planning of the former owners and successors to maintain their family business and to investigate the obstacles faced during the process. This study employs a qualitative method by studying two family restaurants in Surabaya where three informants from each restaurant were interviewed. It was found that in a Family Business Enterprise (FBE) type, formal succession planning was not necessary because the businesses were fully managed by the successors' family members. In addition, family values, hobbies, and passion were found to be fundamental aspects to be considered in the succession of family business planning.

**Keywords:** Family Business, Succession, Successor, Former Owner, Restaurant Business

## 1. INTRODUCTION

Around 80-98% of the businesses in the world were family businesses. Similarly, in Southeast Asia, 60% of publicly listed companies were family business [1]. More specifically, [2] states that more than 95% of businesses in Indonesia were family businesses with total assets of US \$ 134 billion, contributing to 25% of the nation's GDP and harbouring more than 40,000 of the nation's richest people. The aforementioned data indicate that family businesses are crucial in supporting the nation's economy.

However, managing a family business is not a simple matter. Differences in motivation between the successors in managing the business could complicate the process [3], found that on average, a family business could only last 24 years. The relatively short period is caused by a difficult transition between generations. In Family Firm Institute, [4] reveals that approximately 70% of family businesses were failed when it is managed by the second generation. Moreover, it was also found that 30% of family businesses survived into the second generation, 12% survived into the third generation, and 3% survived into the fourth generation and beyond [5].

A family business is a complicated subject. From the previous findings, family business succession is proven to be one of the main causes of its failure [6]. In addition, due to the failure in the managerial succession process, there are only a small number of family businesses that could survive

[7]. Similarly, succession is defined a business transfer process between generations. By taking the previous definition into account, business succession can be summarized as a process of business planning and transferring from a generation to the next to ensure its sustainability [8].

In this case, a restaurant is one of the business types that is usually managed by a family. Based on East Java Statistics, the number of restaurants that open for business in cities and regencies has been increasing annually. In 2013, there were 1,682 restaurants, 1,706 in 2014, 2,930 in 2015, and 3,007 in 2016. From this data, it can be inferred that Surabaya had the most restaurants in 2016 with 790. It may be caused by the relatively low barrier to entry and exit of the restaurant business. Therefore, due to low barriers to entry and exit, many business people can easily open or closed their restaurant.

In terms of ownership, many restaurants in Surabaya are owned by families. It can be argued the existing family restaurants have experienced a succession process. In addition to a succession process, usually, the culinary business can survive for a long time because of the inter-generations bond that is manifested through recipes that have been handed down through generations. In this case, the former owner or manager who had a successful restaurant will hand over the secret recipes to the potential successor to preserve the food taste that will keep long-time, loyal customers.

From the previous studies, the focus of the study can be categorized into three. The first focus is the family business successor. In this matter, [9] and [10] found that the former owners of a family business will decide the successors from their family. The second focus is based on [11] and [12] who studied the strength of the relationship between family members. They also revealed that family values would influence the succession process. On the other hand, the third focus is based on [13] who revealed that a successful succession is not always a result of good preparation, but also due to great family values as an equally important guideline.

This study investigates the succession planning of several restaurants in Surabaya. A successful, long-established family restaurant indicates a careful planning process during its succession. After analysing the aforementioned previous related studies, this study investigated family restaurants that have been survived for generations and still be able to attract many customers. In this study, the succession planning process of two restaurants in Surabaya was investigated. The chosen restaurants have a different scale of operations.

Based on the background, the following study problems were formulated:

1. What is the consideration of the former owner in performing the succession process to the next generation in a restaurant business?
2. What are the preparations or the plans that are developed by the former owner and the successor for the succession process?
3. What are the obstacles faced by the business during succession planning?

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## 2. LITERATURE REVIEW

### 2.1. Family Business

Family business is a company owned by a family where its policy establishment is dominated by the emotional kinship of group member. A family business is a succession with emotionally strong family ties and visible to the naked eyes [14]. Likewise, [3] describe that a family business can be categorized in two. First, Family-Owned Enterprise (FOE), a firm owned by a family, but managed by non-family professional executives. Second is Family Business Enterprise (FBE), a firm owned and managed by a family member of the founder. In FOE, the family is the former owner and they are uninvolved in its operations so that the business can be managed professionally. With this division of roles, family members, as the former owners, can optimize their supervisory function. Oftentimes, this family-owned enterprise is an extension of a business that was primarily managed by the founding family. On the other hand, family business enterprise ownership and management are conducted by a family.

### 2.2. Succession

Family business succession is a managerial and ownership transition process to the next family generation. In addition, family assets are also part of the transition process [15]. A succession process has several stages that can be adopted as guidelines to produce a great potential successor [16], namely: 1) pre-business stage; 2) introduction stage; 3) function introduction stage; 4) functions implementation stage; 5) function development stage; 6) initial substitution stage; and 7) substitute maturity stage.

There are seven factors need to be taken into account when planning for the succession.

1. Evaluating the ownership structure. Each family business has different share ownership. Therefore, it is important to evaluate the ownership structure before making succession planning to determine the share ownership of the next generation. It is an aspect worthy of consideration because a share that is owned by more than one holder will cause disagreement between shareholders where they reserve the right of making a decision or policy. This conflict will complicate shareholders in monitoring the business.
2. Developing the expected structure after succession. This is necessary to determine whether the former owner is still required to supervise the business. The former owners have to consider the positioning of their family members within the firm's organizational structure.
3. Evaluating family desires and contingency plans. A contingency plan is conducted to determine alternative actions if a plan is unexpectedly disrupted or considered unsuitable. It will be beneficial in assisting the manager to deal with uncertainty and change.
4. Developing potential successor selection, training, and mentoring process. Mentoring activity can encourage initiative development for better business strategies, improve professional development, and provide employees with expanded knowledge and information.
5. By conducting family team building, the relationship between family members will be strengthened and it also encourages work enthusiasm. It also prevents conflict and offers an opportunity to find the proper solution together.
6. Establishing an effective board of directors responsible for supervising the business and activities, overseeing the operations, and ensuring that the applicable laws are obeyed. It is necessary because top managers sometimes can be enticed to make decisions that benefit themselves and not for the good of the firm.
7. Conducting a succession in the most suitable time, which is when the former owners are around 50 years old and the successors are in their 30s. Determining potential successors earlier will be effective to maintain the continuity and the activity of a business company. In addition, it will be beneficial for maintaining family harmony. It should be noted that the former owners have to be ready and willing to hand down the company to

their successors so the baton can be passed to the next generation without disturbing the business' stability.

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### 3. RESEARCH METHOD

This study employs a qualitative approach it fits with the purpose of the study, that is, to dig deeper into subjective experiences and how such experiences was perceived and interpreted by each parties involving in the examined phenomenon [17]. Purposive sampling was used to obtain relevant data from the participants who were interviewed about the succession process in their family restaurants. After approaching the potential family restaurant businesses to invite them to participate in the study, two restaurants have agreed to be support. Restaurant A serves Japanese food in Surabaya and was founded in 1997. Restaurant B opened for business in 2014 and serves Sundanese food. Three informants were selected from each restaurant:

Restaurant	Informant 1	Informant 2	Informant 3
A	Successor (26 y.o)	Former Owner (56 y.o)	Family Member Work as <i>Finance</i> <i>Director</i> (29 y.o.)
B	Successor (20 y.o)	Former Owner (56 y.o)	Family Member (23 y.o)

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Semi-structured, face-to-face interviews were conducted with the informants. A total of twelve questions were given to participants where 8 questions were asked to the former owner, and 12 questions were asked to the successor.

### 4. RESULTS

From the transcribed interviews, the similarities and differences of the informants' answers were investigated. Fifty-one codes of the two restaurants were found. Then, the combined codes were categorized into eleven categories. After the analysis process, these eleven categories were divided into six major themes, as follows:

1. The basis for succession planning
2. Succession planning of the former owners and successors
3. Succession obstacles
4. Family business activities
5. Employees' capabilities
6. Successor appreciation

#### Theme 1: Reasons for Succession

On this theme, it was obtained that both of the former owners wish for business sustainability. Therefore, they performed regeneration by appointing successors. This reason was shown in the following statement:

"... Thinking about the struggle in the past of establishing this business from a scratch and develop it, of course, I want my business to be able to perform well by handing it down to the next generation, which is my daughter. It is time for Echa. We are old. Her father is handling the cashier until now and her mother is preparing the food until now. It is the mechanism" (I3, RB).

The former owners of both of the restaurants determine the successor of their family, which are their children. Their considerations are relevant to [3] who believe that a family business is established to continue their business from the first generation to the next. In addition, the results are in line with [9-12] who found that the former owners are most likely giving the baton to their family member.

#### Theme 2: Succession Planning of both the Former Owners and the Successors

Based on the interviews, it was found that the former owners have been preparing the succession process by providing formal education related to their business to the successors, as indicated by one answer below:

"... she is in the hospitality program. We told her to join the hospitality program so she could continue the business" (I2, RA).

Furthermore, the two informants explained that they have been directly involved with the family business since they a young. For example, it was revealed that the informant has been working as a waitperson since high school. The situation is similar to [9-10] who found that the former owners would provide potential successors with relevant education and skills and the former owners would also invite the successors to be involved in their family business since an early age. The former owner of restaurant A stated as follows:

"Involving children. They are slowly getting involved, first, we asked them to be waitpersons. They are no longer waitpersons. They are also learning about restaurant management. In a time, they will manage the restaurant. We entrust them with a difficult responsibility. They need to be responsible for developing their characters" (I2, RA).

In addition, the successors admitted that the former owners, their parents, still supervise them by managing the business when the successors are unavailable. In this case, the former owners also act as their mentors. This finding is related to [4] who asserts that one of the family business advantages is values. In this instance, the former owner of the business

teaches and fosters their personal values to the next generation.

“...the mentoring is conducted through direct practices and the parents support them, so they give me advice about what to be done, we are being told about the action that has to be taken for the previous restaurant, so we are not obligated to learn, but to grow the restaurant in the future” (I1, RA),

From the interview, an interesting finding was found about the successors who are managing their business that was handed down from their parents. It was found the two informants were willing to accept the baton because it is their hobby and passion.

“It was apparent that among our children, he has the most interest in culinary” (I2, RB),

By contrast, [3] have a different view on this. The study suggests for a family business to survive for a long time, a coherent organizational structure is required and it can be manifested by forming a board of directors. Unfortunately, the two informants felt that a board of directors is unnecessary because the owners and the successors did not find any urgency for it.

Concerning the age of the successors, the finding also has a discrepancy with [3] who believe that the optimal age for the successors is in their early 30s. Despite the theory, the two restaurant successors have managed the family business since they were 18 and 23 years old. Seeing from this evidence, it seems that age is not a major factor that determines a family business succession where each business has different planning.

### **Theme 3: Succession Obstacles**

The interview results indicate that most of the succession obstacles are related to opinions between the owners and the recipients with a modern way of thinking. It is not a simple task to solve it as persistence is required to convince the former owners. One of the informants revealed:

“The generation has changed and some of the aspects need to be modernized. It is difficult to receive the approval of the owners. Maybe, because they were afraid of many things and have no confidence” (I1, RA).

Similarly, the former owner of restaurant B also voiced the similar thought as follows:

“Sometimes, we try to engage in a process of deliberation. If there is an idea, they should tell us first. We cannot make an abrupt change. And so it goes with the uncle and the aunt. If we have an idea, we have to tell them first” (I2, RB).

Discussions between family members are required before making any change. It would be not easy to solve opinion differences because each human has dissimilar characters. These differences obstruct the discussion process from running smoothly.

“...the thing that often hinders it is the characteristics of each human being or individual, for example, the type of person. My mother believes that she has to do everything by herself. So even if we tell mom to refrain from doing a particular task, she would have ended up doing it anyway because she didn't believe in other people's work. On the other hand, my father is a stern man with many ideas. So, we sometimes tired from listening to his ideas...” (I1, RB).

### **Theme 4: Family Business Activities**

In a family business, certain activities will happen. Based on the interview, the activities were divided into two categories: team building and family discussion. Contrasting results were found from the two restaurants. The three informants from Restaurant A stated that they never conducted any team-building activity.

“We are not doing team building in this family” (I1, RA).

On the other hand, Restaurant B organizes annual team-building activities between family members and their employees. Based on Restaurant B informants, the team building activities are meant to strengthen and maintain solidarity between them in managing the restaurant, which is depicted by the following statement:

“There is an outing activity. Yes, annually. It is important. The essence is solidarity” (I2, RB).

In managing a family business, discussions between family members are normal. Without it, the business may fail due to opinion differences. Discussions are necessary to unify family members' thoughts, especially the former owners and the successors who are coming from different generations.

“Yes, of course. But from most of the opinions, it depends on us. Aunt and Uncle have given a proper education to respect each other, to understand each other, and to support each other” (I2, RB).

Openness is also the key to communicating between family members. Without being open to different opinions, unkind words uttered by another family member may cause division. In addition, it also supports good communication between family members.

### Theme 5: Employees' Capabilities

The capability of employees to operate a family business is a fundamental aspect of management. In a business, employees are essential and each business will require an employee. Without employees, a business will not run smoothly due to inadequate human resources. The importance of employees in day-to-day operations is shown by the following statement:

"...we have long-term employees who understand the SOP. They are doing the job while we supervise them..." (I1, RA).

People make mistakes, whether the mistake is caused by employees or the policies that are unable to satisfy employees' expectations. A statement of the former owner of restaurant B reflects such an understanding:

"We are still making many mistakes in managing employees, such as in salaries and procedures. We do not have HRD. If employees are accepted, they will work right away. After a long period, during Eid al-Fitr, we give them a bonus, but we do not know how much, so we are confused. If we give them too little, the employees know the regulations and they could file a complaint and dispute it..." (I2, RB)

### Theme 6: Appreciation for the Successor

Appreciation from the former owners can be conveyed verbally and materially. According to the former owners, appreciation can also be expressed in a form of trust that is placed on the successors to manage a business. In this instance, the successors could give their opinions in developing their family business, which was explained by the informant as follows:

"Yes, we have been appreciated...in some ways. For example, now we handle the operational aspect of the kitchen, such as the type of sauces, my brother handles." (I1, RA)

"...for me, trust is a form of appreciation..." (I1, RB)

"Of course. Compliment or reward. There have to be rewards and punishments. If the work is done properly, a reward will be given. The first form of reward is a compliment. It is important. When you have done something outstanding for your family" (I2, RB).

The aforementioned statements present the various forms of appreciation given by the former owners to their successors. In addition, successors also believe that trust and motivation are also forms of appreciation.

## 5. CONCLUSION AND RECOMMENDATIONS

The findings indicate similarities between the former owners and the successors as follows:

1. According to the former owners, the succession planning of the two restaurants is based on the goal to keep the family business running where it will be handed down to the next generation.
2. Formal preparation is not necessary for the succession planning of the restaurants because they are family business enterprises (FBE).
3. Formal education in the field of culinary and hospitality is fundamental to be received by the successors to improve their knowledge about their family business.
4. The two successors are directly involved in the family restaurant business. Direct involvement allows successors to learn how to properly manage their restaurant from a little aspect to more complicated operational and managerial roles.
5. The two former owners are still supervising their family business even though the businesses have been handed down to their successors. It can be seen that the former owners are acting as the successors' mentors where they can keep learning when the restaurants have problems.
6. The successors were selected by the former owners by considering their hobby, passion, and ability in managing the business.
7. The problems that have been occurred were not too complicated. These problems are usually related to opinion differences between family members in developing their restaurants. Fortunately, these differences of opinion could be solved properly without disputes that could threaten the unity of the family.

There were several obstacles encountered during the primary data collection process. It was found that the topic of the study might be too sensitive to be discussed with the informants, especially the former owners of the business. One of the possibilities because the topic divulges into something that has been made from scratch and the fact that it is a family business. Therefore, during the investigation, several former owners were refused to participate in the study.

Despite the challenges faced in relation to data collection process, the results of this study offer appealing implications for managing family business succession. family restaurant succession is a broad topic to be studied and discussed. It is suggested that future studies should be conducted outside of Surabaya. The number of restaurants and informants can also be increased, hence, more accurate data can be obtained. Unfortunately, due to various impediments that were experienced, this study could only

be able to employ two restaurants, in which three restaurants were planned to be examined. In addition, it is also suggested that future studies will examine restaurants with different seat capacities considering that different interview results can be obtained. Seen from the perspective of operational management, they have a wider or smaller scope. In addition, these restaurants can have a non-family professional successor. Such circumstances will be interesting to be investigated because different information can be collected. For example, the study can investigate the communication management between the family and the non-family professional successor or the obstacles that have to be faced by a family business that employs a non-family professional to handle their business.

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