

THE DYNAMICS OF FAMILY-OWNED SME SUSTAINABILITY IN RURAL AREAS

Muhammad Setiawan Kusmulyono¹⁾

¹⁾Universitas Prasetya Mulya, Jakarta
setiawan@pmbms.ac.id

ABSTRACT

SMEs in rural areas have characteristics that are closely related to the character of a family business. This can be seen in the management of the SME business which is fully controlled by the family. This situation shows that SMEs in rural areas are more dominated by family-owned SMEs. As a family-owned SME, this village entrepreneur has a big challenge to be able to regenerate the business for the next generation. This study seeks to identify the things that affect the dynamics in realizing the sustainability of family-owned SMEs in the village. This study uses a qualitative approach by conducting interviews through purposive sampling to culinary informants who run their businesses in rural areas and have the next generation. The results of the study show that in addition to all SMEs in the village being dominated by family businesses, these SMEs have hopes that their families will continue their business, but on the other hand it was also found that there are SMEs who do not care who will continue their business. This study produces interesting findings that can be developed to help improve the sustainability of SME development in Indonesia.

Keywords: Family business, family-owned SME, rural, SME, succession

ABSTRAK

UKM di pedesaan memiliki karakteristik yang erat kaitannya dengan karakter usaha keluarga. Hal ini terlihat dari pengelolaan usaha UKM yang sepenuhnya dikendalikan oleh keluarga. Keadaan ini menunjukkan bahwa UKM di pedesaan lebih didominasi oleh UKM milik keluarga. Sebagai UKM milik keluarga, pengusaha desa ini memiliki tantangan besar untuk bisa meregenerasi bisnisnya untuk generasi selanjutnya. Kajian ini berupaya mengidentifikasi hal-hal yang mempengaruhi dinamika dalam mewujudkan keberlanjutan UKM milik keluarga di desa. Penelitian ini menggunakan pendekatan kualitatif dengan melakukan wawancara melalui purposive sampling kepada informan kuliner yang menjalankan usahanya di pedesaan dan memiliki generasi penerus. Hasil kajian menunjukkan bahwa selain seluruh UKM yang ada di desa didominasi oleh usaha keluarga, UKM ini memiliki harapan agar keluarganya tetap melanjutkan usahanya, namun disisi lain juga ditemukan adanya UKM yang tidak peduli yang akan melanjutkan usahanya. Kajian ini menghasilkan temuan menarik yang dapat dikembangkan untuk membantu meningkatkan keberlanjutan pengembangan UKM di Indonesia.

Kata Kunci: Bisnis keluarga, UKM Bisnis Keluarga, pedesaan, UKM, suksesi

1. INTRODUCTION

Small and medium-sized businesses are the cornerstone of Indonesia's economic growth. Since they depend on local resources, SMEs are able to independently drive the economy in their respective regions, which allows them to make a substantial contribution (Elisa & Santoso, 2017). Unfortunately, although making a substantial contribution, SMEs face difficulties with regard to business regeneration. Regeneration is a step in the succession process, which involves handing over management and leadership responsibilities to the younger generation (Bertschi-Michel *et al.*, 2019).

In Indonesia, the majority of SMEs generally correspond to a family business (Purba & Tan, 2018). According to PWC Survey (PWC, 2014; Supriadi, 2014), 95 percent of business entities in Indonesia is dominated by family business. This family business sector contributed 25 percent of PDB in Indonesia in 2014 (PWC, 2014). The atmosphere of family business in the company is reflected in the business's management, which is still managed in the old-fashioned way with the family still carrying out most of the strategic and operational responsibilities. If you are unable to come up with the ideal business structure for your business, this

management posture, like a family business, can have both advantages and disadvantages (Wardhana, 2018). Data gathered in research shows that just 30% of family firms are able to survive the transition between generations in the second generation (Hall & Nordqvist, 2008). The issue of succession is quite complex; in fact, there is an idiom that says that the first generation is the generation that builds businesses, the second is the generation of connoisseurs, and the third is the destroyer generation (Gandhatama & Efferin, 2016).

According to research on the subject of family businesses and regeneration, SMEs understand the value of effective corporate governance in operating their businesses (Wardhana, 2018). Unfortunately, these governance practices are typically not effective due to the knowledge and skill imbalance among the first generation of enterprises (Wardhana, 2018). Because they wish to prevent confrontation with their families and the firm is conducted in a conventional manner, then this becomes one of the reasons why the following generation does not want to carry on the family business (Hans S.R *et al.*, 2018).

On the other hand, the process of corporate governance appears to play a significant role in determining the success of a family-business company that listed in stock exchange (Itan & Lestari, 2015). This understanding indicated that SMEs are aware that they must operate their businesses appropriately (Wardhana, 2018). These SME have also made endeavors to modify and adapt the fundamental concepts of corporate governance to their business practices (Wardhana, 2018). However, business owners' shortage of knowledge and skill frequently restricts this process (Rahayu & Akbari, 2018; Wardhana, 2018). This situation is exacerbated by SME's lack of professionalism and inadequate

administrative records (Rahayu & Akbari, 2018). This condition indicates that SME, including those with a family business background, experiencing management challenges.

The purpose of this study is to determine what factors could potentially impede a SME's succession plan. An understanding of these barriers is a good lesson for the current generation of family businesses to be able to better prepare their successors. The results of this study will help stakeholders, including the government and SME advisers, develop appropriate programs or activities to ensure the sustainability of these SME in the future, which greatly increases the study's significance. This research will look into the difficulties experienced by SMEs in transferring their business sustainability to the following generation.

This study will concentrate on SMEs in rural regions in order to delve deeper into the traditional elements of SMEs as a family business and what causes current SMEs owners to tend not to pass this firm on to their descendants. Additionally, rural areas were chosen for the SMEs since they are currently major growth hubs for the national economy.

2. LITERATURE REVIEW

Family businesses have a vital strategic role in the economy (Wahjono *et al.*, 2015). Family businesses that could embrace an entrepreneurial mindset might give SMEs a major increase for long-term success (Nugroho, 2016). In order to ensure the longevity of a family firm, family business governance is undoubtedly an excellent combination with an entrepreneurial spirit (Itan & Lestari, 2015).

Even though it has an essential strategic role in the economy, the argument about what constitutes a family business is still fiercely contested (Nugroho, 2016). Family businesses have

been the subject of extensive investigation, yet there is still no universally agreed-upon definition (Nugroho, 2016). This is possible because a family business has a distinct organizational structure and characteristics from other business entities. It caused general consensus on family business difficult to be achieved.

A family business that has gotten involved can be identified if the founder or the founder's family owns more than 5% of the shares (Nugroho, 2016). Farrington (2014) defines a family business as family engagement predominates in top management roles and equity ownership reaches at least 51 percent. A new family firm can be referred to as a family business, in addition to the equity aspect, if the earlier success has been passed down to the second generation (Nugroho, 2016; Wardhana, 2018).

According to a different idea, a family business is one that is run and controlled by numerous family members and permits generational collaboration (Hans S.R *et al.*, 2018; Nugroho, 2016; Ward, 2004; Wardhana, 2018). As summary, a family business is one whose primary capital is owned by the family, senior management positions are under the family's control, and emphasize the family's vision in accomplishing sustainable business goals, according to a number of expert viewpoints on the subject.

A family business's primary hurdle in attaining its company's goals is succession (Hall & Nordqvist, 2008; Nugroho, 2016; Saleh *et al.*, 2021). A transformation process called succession uses a present-day strategy to foresee future managerial management requirements (Hans S.R *et al.*, 2018). The term "success" can also refer to the process of transferring authority from the generation running the company to the

following generation (Bertschi-Michel *et al.*, 2019). According to studies, most family-owned Firms close their doors between the first and third generations as a result of an inadequate succession process, making succession management for SMEs essential and important (Bertschi-Michel *et al.*, 2019). As a result, success for SMEs is crucial to take into account because it affects both the family and corporate futures. Furthermore, some family business also difficult to transfer the culture (Subagio, 2017), such as service quality and giving satisfaction to their consumers (Zulganef & Nilasari, 2022).

A problematic succession process will be harmful to the family side of the business as well as the organization and institutions of the company (Bertschi-Michel *et al.*, 2019). A poor succession plan will also make non-family company employees less satisfied, which will make it harder to stay motivated at work (Bertschi-Michel *et al.*, 2019). One of the company's strengths in continuing to do business in the future will be effective succession management (Agustiono & Wijaya, 2018; Giménez & Novo, 2020; Merchant *et al.*, 2018).

Several factors have a significant impact on whether a company's succession plan is successful or unsuccessful. Lack of succession planning, unresolved interest conflicts, a lack of family members who could take over the reigns of power, the first generation's desire to hold onto power until the end of their lives, the inability of parents to be fair to their children in both business and outside of it, as well as other factors contribute to this issue (Heryjanto, 2018; Nawrocki, 2005; Saputra, 2017). Technically, a successful process can also get trapped in the administrative and operational spheres due to things like a lack of management support, ineffective communication, inadequate

documentation, low participation, poor accountability and governance, and businesses that fail to separate their interests (Medisa & Syahputra, 2019; Nawrocki, 2005; Saputra, 2017).

On the other side, early preparation of successors, good activity and control in family interactions with the business, mentorship initiatives from the family that manages the business, and the possible successor's own initiative can all serve as positive catalysts for good succession (Hans S.R *et al.*, 2018; Saputra, 2017). The primary determinants of the success of the succession process in businesses include at least a few factors, such as successor competency, work and family values, first generation motivation, and success planning (Medisa & Syahputra, 2019).

The literature research demonstrates that there are several influencing elements that affect how succession is implemented inside a company. Because they have never gone through this process before and still rely on traditional business skills, SME enterprises find this succession process to be particularly difficult. As a result, there is still a significant problem with SME level comprehension of the significance of succession planning.

3. RESEARCH METHODS

This research uses a qualitative approach in order to be aligned with the purpose of this study, which is to explore the challenges faced by SMEs in preparing for the succession process in their business. A qualitative approach was chosen because this study wants to dig deeper into what matters are considered by SMEs, especially in the rural sector, which are relatively still operate in a traditional mode.

The sampling technique used in this study was purposive sampling where the target informants were SMEs in rural areas engaged in the culinary field who

are members of a business community or an empowerment program that already have children. The argument for selecting the target informants is because SMEs in rural areas are more dominated by the culinary sector, and have business knowledge at a certain level because they have participated in an empowerment program.

Data collection techniques were carried out by conducting in-depth interviews with prospective informants at their respective business locations. In accordance with the sampling technique used, all informants are SME partners from the Prasetiya Mulya University Community Development Program located in Kuningan Regency, West Java Province. The names of the SMEs interviewed (names arranged in pseudonyms as a form of research ethics) are as follows:

- a. Mrs A – Selling wet cucur (traditional cake)
- b. Mrs B – Selling fashion cake
- c. Mrs C – Selling ground coffee
- d. Mr D – Selling ground coffee

The data collection period was carried out from January to February 2023 during the Community Development Program. The results of the interviews were then used as transcripts and analyzed using thematic analysis. Existing transcripts will go through a manual coding process with the axial coding model to then identify the themes that appear in the answers submitted by the informants.

4. RESULT AND DISCUSSION

4.1 Informant Profile

Mrs. A is a seller of wet cucur cake and has started her business since 2008. Apart from her business, Mrs. A also often receives orders for candied papaya. Mrs. A has a sales turnover of 5-10 million rupiah per month. She has 3

children which the youngest was just graduated from high school.

The profile of the second informant is Mrs. B. Mrs. B has been selling fashion cakes and several other types of cakes since 10 years ago. Mrs. B has a sales turnover of 5-10 million rupiah per month. Mrs. B has two children with the youngest being 10 years old.

The profile of the third informant is Mrs. C. Mrs. C has had a ground coffee drink business since 2017. Mrs. C has started this ground coffee business because she felt sad to see the prices being played by middlemen. The oldest child is 11 years old but has started to invite his younger sibling to help run the business.

The profile of the fourth informant is Mr D. Mr D has had a ground coffee drink business since 2019. Mr D was previously a coffee farmer but then ventured downstream to sell coffee drinks. Currently, he has encouraged his children to join the business but has not provided full opportunities in all business operations.

4.2 Discussion

The results of the thematic analysis are presented in discussion points related to the dynamics of family-owned SME management in rural areas.

Finding 1: All of the enterprises operated by the informants in this study are family businesses.

All the informants included in this study's sample share several features with family businesses. The fact that all business money comes from personal sources and is 100 percent of it is the first thing that strengthens the feature. This data demonstrates consistency with other expert judgments that at least 5% of the equity in the business being conducted must be owned by the family or by the

public if the company is publicly owned (Farrington, 2014; Nugroho, 2016).

Then, the second thing is that a family business is characterized by control by family members and allows cross-generations (Hans S.R *et al.*, 2018; Nugroho, 2016; Ward, 2004; Wardhana, 2018). In all informants, management is fully managed by the family but nothing has happened across generations. However, there was one source who invited his younger sibling to participate in managing the business.

Mrs. C interview's:

"I asked my sister to help my business because my child is still at school".

(Saya mengajak adik saya untuk membantu bisnis saya karena anak saya masih sekolah.)

This finding also indicates that there are many other businesses in rural areas, especially SMEs that are based on family businesses. This indicates that most SMEs in the village can be classified as a family business.

Finding 2: All entrepreneurs wish that their families can continue their business in the future but do not want to force their will.

Preliminary findings from the thematic analysis of the four informants obtained data that all informants had the desire and hope that one day their children or their families could continue the business that had been started by the first generation.

Mrs. A interview's:

"I have never forced my child to continue my business. But suddenly the third child who graduated from high school decided to go to college in this city. The reason is that he wants to help his mother's business."

(Saya tidak pernah memaksa untuk anak melanjutkan usaha saya. Namun tiba-tiba

anak ketiga yang lulus SMA memutuskan untuk kuliah disini saja. Alasannya ingin sambil membantu usaha ibunya.)

These findings indicate that SME actors have realized the importance of the business that is currently running to be able to pass it on to their next generation. This reinforces the fact that in this study the incumbent generation has made a succession plan even though it is not clear and written. This is aligned to strengthen the better succession process because there is positive encouragement from the incumbent generation (Hans S.R *et al.*, 2018; Saputra, 2017).

Finding 3: The incumbent generation of SMEs does not care and determine which children will continue their business

The study's second result is that the incumbent generation does not exert any pressure on their offspring to carry on their parents' firm.

Mrs. B interview's:

"I don't force children. If the child doesn't want to, that's okay, I won't force it. So it's up to him."

(Saya tidak memaksa anak. Kalau anaknya tidak mau tidak apa-apa saya tidak memaksa. Jadi terserah anaknya.)

This finding shows that there are actually some incumbent generations who do not care which children continue or even none at all. This can happen because they are already busy with business matters and their business is still in the process of developing so they have not thought about succession. This finding also shows that ignorance about the succession process plays a role in efforts to channel information from parents to their potential successors (Bertschi-Michel *et al.*, 2019).

Finding 4: The incumbent generation of SMEs believes that someday in the future their children will continue their business.

The fourth finding in this study indicates that there is optimism in SMEs who have the belief that one day the child will definitely continue the business of his parents. This is based on the current experience of SMEs which experience the same situation when they continue the business of their previous parents.

Mr. D interview's

"This business will certainly be continued in the future. You'll see, if you're stuck, you'll definitely continue."

(Usaha ini pasti nanti akan dilanjutkan. Lihat saja nanti kalau kepepet pasti akan melanjutkan).

These findings indicate that there is optimism among SMEs that run businesses in rural areas. They have no worries that later their business will not be continued. According to them, if later it is "injury time", the child will definitely continue. This finding is actually contrary to several theories that encourage a succession process that has been prepared early on. This theory generally comes from the initiative of the successor or the mentoring of the incumbent (Hans S.R *et al.*, 2018; Saputra, 2017). However, this pent-up science does not become an anomaly, but if further research can be one of the interesting things in the succession process.

Finding 5: Some of the prospective next generation (children of the incumbent generation) have not seen the SME business run by their parents as promising for the future.

The fifth finding in this study is that there is information which conveys that children from the incumbent

generation make judgments about future career choices by looking at the businesses run by their parents. This indicates that the child actually included the succession process as a career choice.

Mr D interview's

"Because his parents weren't rich yet, so they couldn't see it, so they had to prove it. We have to bring new Pajero (car type) to make him believe this business is promising."

(Karena orang tuanya belum kaya jadi belum keliatan, jadi harus buktikan. Petani harus punya Pajero baru dulu baru percaya.)

Mr D's statement confirms that the child needs to see proof that the business run by his parents is truly productive and can be relied upon as a way of life in the future. The simple indicator is if the parents are able to buy a luxury car or in the context of the informant's statement they are able to buy a Pajero car. This provides evidence that succession must also be sought by parents where the business that is run and inherited must be a profitable business, not just a makeshift business. A profitable business will provide greater opportunities for the child to be willing to continue in the future.

5. CONCLUSION

The results of this research indicate that the dynamics of succession in the rural SME sector have not developed into a significant and well-thought-out issue. All SMEs believe that they are still in the best position to carry on with their operations while their children concentrate on learning and schoolwork. The intriguing aspect of this study is that all currently operating SMEs are categorized as family businesses because they meet the majority of the parameters for this type of organization. The results of this study also demonstrate how

strategically important and influential parents are as the current generation. This responsibility includes not only planning for the succession but also successfully managing the company so that the inheritor's child may see how promising it is.

In a family business setting, parents should spend more time with their children as well as less time working on their company. Parents ought to be tender and loving. This is necessary to demonstrate that the business does not lessen a parent's love for their children and to give the children the impression that they still feel the business's affection for them. To make the business more believable to the child, the business must also start incorporating components that are modern and technological. Even while there may be opportunities to run a firm out of necessity, this strategy should only be used as a last resort.

5.1 Suggestion

The advice that can be given based on the results of this study is that every UMKM that has a family business orientation must start preparing solutions to the problems that arise in the research results above. This is important if MSMEs want their business to last for generations. MSME owners are starting to need to allocate more dominant time to start thinking strategically about who the next successor will be. This consideration has the same strategic role as efforts to grow a business.

5.2 Managerial Implication

The managerial implications that can be realized referring to the results of this research are how simple family-owned SMEs must start thinking more advanced regarding succession preparation. This can be done by making a succession development roadmap, discussing with consultants, and having

serious discussions with the family regarding who will continue this business in the future. Family-owned SMEs must also start considering serious budget

allocations to be able to prepare the succession process so that it runs well and the business can be run more effectively in the future.

REFERENCES

- Agustiono, A., & Wijaya, C. (2018). Building Trust in Family Business. *Jurnal Entrepreneur Dan Entrepreneurship*, 7(2), 49–54. <https://doi.org/10.37715/jee.v7i2.1103>
- Bertschi-Michel, A., Sieger, P., & Kammerlander, N. (2019). Succession in family-owned SMEs: the impact of advisors. *Small Business Economics*. <https://doi.org/10.1007/s11187-019-00266-2>
- Elisa, A. F., & Santoso, E. B. (2017). Arahan Pengembangan Sentra Industri Alas Kaki di Kelurahan Kemasan Kecamatan Krian Kabupaten Sidoarjo Melalui Pendekatan Pengembangan Ekonomi Lokal. *Jurnal Teknik ITS*, 6(2). <https://doi.org/10.12962/j23373539.v6i2.24911>
- Farrington, S. M. (2014). A comparative study of the entrepreneurial orientation of small family and small non-family businesses. *Management Dynamics : Journal of the Southern African Institute for Management Scientists*, 23(2).
- Gandhatama, L., & Efferin, S. (2016). Rancangan Bentuk Kepemilikan Bisnis Keluarga Pt X Untuk Menjaga Keberlangsungan Di Masa Depan. *Calyptra*, 5(1), 1–21. <https://journal.ubaya.ac.id/index.php/jimus/article/view/2735>
- Giménez, E. L., & Novo, J. A. (2020). A Theory of Succession in Family Firms. *Journal of Family and Economic Issues*, 41(1), 96–120. <https://doi.org/10.1007/s10834-019-09646-y>
- Hall, A., & Nordqvist, M. (2008). Professional management in family businesses: Toward an extended understanding. *Family Business Review*, 21(1), 51–69. <https://doi.org/10.1111/j.1741-6248.2007.00109.x>
- Hans S.R, E., Ilmawan, M. D., & Wardhana, A. N. (2018). Motivation of Fresh Graduate Students Who Leave a Family Business. *Jurnal Manajerial*, 5(2), 12–26.
- Heryjanto, A. (2018). Bisnis Keluarga Tanpa “Putera Mahkota.” *Journal of Business & Applied Management*, 11(1), 68–80. <https://doi.org/10.30813/jbam.v11i1.1075>
- Itan, I., & Lestari, W. D. (2015). Implikasi Corporate Governance Terhadap Kinerja Family Business di Indonesia. *Jurnal Ipteks Terapan*, 1, 76–87.
- Medisa, R., & Syahputra. (2019). Faktor Perencanaan Suksesi Generasi Pertama Berbasis Family Business Enterprise (Studi Kasus pada Toko Emas di Kota Bandung). *Jurnal Sekretaris & Administrasi Bisnis (JSAB)*, 3(2), 113. <https://doi.org/10.31104/jsab.v3i2.117>
- Merchant, P., Kumar, A., & Mallik, D. (2018). Factors Influencing Family Business Continuity in Indian Small and Medium Enterprises (SMEs). *Journal of Family and*

Economic Issues, 39(2), 177–190. <https://doi.org/10.1007/s10834-017-9562-3>

- Nawrocki, T. (2005). Family affair: The emotional issues of succession planning. *Journal of Financial Planning*, 18(7), 34–39.
- Nugroho, R. L. (2016). Family Business: An Entrepreneurial Longer-Term Perspective. *Binus Business Review*, 7(1), 9. <https://doi.org/10.21512/bbr.v7i1.1428>
- Purba, J. T., & Tan, J. D. (2018). Owners ' integrity , customers ' relation , and focused attitude as strategies as family business sustainability and growth : an empirical study. *Journal of Economics, Business, and Accountancy Ventura*, 21(2). <https://doi.org/10.14414/jebav.v21i2.1433>
- PWC. (2014). *Survey Bisnis Keluarga 2014*.
- Rahayu, D. P., & Akbari, D. A. (2018). Coaching Marketing Online dan Pencatatan Keuangan Terpadu Usaha Mikro dan Kecil Menengah (UMKM) pada Yayasan Tugas Ibu Tangerang Selatan. *Syukur: Jurnal Inovasi Sosial Dan Pengabdian Kepada Masyarakat*, 01(1), 77–80. <https://doi.org/10.22236/syukur>
- Saleh, R., Oktafiani, I., & Sitohang, M. Y. (2021). Sulitnya Regenerasi Petani pada Kelompok Generasi Muda. *Jurnal Studi Pemuda*, 10(1), 1. <https://doi.org/10.22146/studipemudaugm.62533>
- Saputra, N. (2017). Development of Leadership Based on Value on Family Company To Sustain the Business Success From Generation To Generation. *Jurnal Aplikasi Manajemen*, 15(3), 380–388. <https://doi.org/10.21776/ub.jam.2017.015.03.03>
- Subagio, D. K. (2017). Analisis Risiko Bisnis Dan Risiko Keuangan Perusahaan Keluarga Sektor Industri Barang Konsumsi. *David*, 53(9), 1689–1699.
- Supriadi, A. (2014). *PWC: 95 Persen Perusahaan Indonesia adalah Bisnis Keluarga*. CNN Indonesia. <https://www.cnnindonesia.com/ekonomi/20141202100356-92-15176/pwc-95-persen-perusahaan-indonesia-adalah-bisnis-keluarga>
- Wahjono, S. I., Hanim, H., Saleh, H., & Marina, A. (2015). Factors That Influence Performance of Family Business in Melaka, Malaysia. *Balance*, XII(2), 1–7.
- Ward, J. L. (2004). Perpetuating the Family Business: 50 Lessons Learned from Long-Lasting, Successful Families in Business. In *International Small Business Journal* (Vol. 22, Issue 6). Palgrave Macmillan. <https://doi.org/10.1177/026624260402200609>
- Wardhana, D. Y. (2018). Good Corporate Governance Practices in Family Business: A Case Study in Indonesia. *Petra International Journal of Business Studies*, 1(1), 35–44. <https://doi.org/10.9744/ijbs.1.1.35-44>
- Zulganef, Z., & Nilasari, I. (2022). Building Service Experience to Attain Customer Repurchase Intention: A Moderated-Mediation Model in the Context of Student Consumer in Indonesia. *DeReMa (Development Research of Management): Jurnal Manajemen*, 17(2), 147. <https://doi.org/10.19166/derema.v17i2.5867>