

CONFLICT RESOLUTION AND SUCCESSION PLANNING IN THE FAMILY BUSINESS PT. SOKA ABADI

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Abstract: This study aims to explore conflict resolution and succession planning in the family business PT. Soka Abadi, a family-owned company in the property sector specializing in residential developments and commercial complexes. The main issues faced by PT. Soka Abadi include family conflicts that negatively impact the company and the preparation of potential successors to lead the family business. Utilizing a qualitative research method, the study employs semi-structured interviews for data collection. To ensure the validity and reliability of the findings, the author applies source triangulation. The collected data is then reduced and analyzed to inform conflict resolution and succession planning. The results indicate several strategies for resolving conflicts in family businesses, including pruning the family tree, revolving office roles, participative decision-making, and organizational restructuring. Furthermore, the findings reveal that the succession preparation process at PT. Soka Abadi is effectively progressing through the implementation of necessary functions. Overall, the study highlights the importance of addressing family conflicts and establishing a clear succession plan to ensure the longevity and success of the family business.

Keywords: *Conflict, Conflict Resolution, Succession, Generation, Family Business.*

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1. Introduction

A company is considered a family business when it is closely identified with at least two generations of a family, with the second generation having influence over company policies for the family's interests (Harms, 2014). Family businesses play a significant role in supporting economies worldwide. Countries such as Japan, Germany, France, Italy, the United Kingdom, and the United States are largely supported by robust family business structures passed down through generations. Approximately 200 of these companies generate gross profits of \$2 billion monthly, employing nearly half of the global workforce and contributing over half of the world's Gross Domestic Product (GDP).

In Indonesia, Price Waterhouse Coopers reported in 2014 that there are over 40,000 wealthy individuals, or about 0.2% of the population, running family businesses, collectively worth Rp 134 trillion and controlling around 25% of Indonesia's GDP. This highlights the significance of family businesses in driving national economic welfare. Family businesses constitute 95% of businesses in Indonesia, with the remaining being non-family enterprises. However, managing and developing family businesses is challenging. Many do not survive

due to poorly structured management systems, with only 30% successfully transitioning from the first to the second generation and merely 7% from the second to the third (Kusuma, 2015). PT. Soka Abadi, established in 1996 by two families, operates in property development in East Java. Conflicts from 1998 to 2008 were resolved through various means, but a 2010 family divorce negatively impacted both family relations and business operations, leading to a halt due to unclear shareholder status.

Conflicts in family businesses are prevalent, often leading to decreased performance and damaging relationships (McKee et al., 2014). The unique bond between family and business is essential, and when disrupted, the essence of the family business is lost. The booming property market in Indonesia, with average inflation of 20-30%, has intensified competition. In early 2017, a family sought to revive PT. Soka Abadi independently, motivated by potential growth and a desire to honor the previous generation.

Recognizing the difficulties in reviving a dormant business, the second generation prioritized conflict resolution to prevent recurrence. Effective succession planning is crucial for long-term sustainability, as generational perspectives can lead to conflicts. Studies indicate that many Indonesian family businesses lack formal succession planning; only 67.8% have prepared successors (Jakarta Consulting Group, 2014). This underscores the need for further research on "Conflict Resolution and Succession Planning in the Family Business PT. Soka Abadi" to address existing challenges and foster the company's growth.

2. Literature Review

Family is a crucial factor in business, acting as social capital through support and information networks. Many family-owned businesses, especially small ones, often employ non-family members in lower positions, while top management is typically filled by family members. This is largely due to the higher work commitment exhibited by family members compared to others (Gozali & Harjanti, 2014). A business qualifies as a family business if at least two generations are involved in its operations and can influence its policies (Nurwantoro & Sobirin, 2013). Family members hold vital roles that shape company decisions, and they often transfer family values to non-family employees, creating a shared guideline for achieving organizational goals (Efferin & Hartono, 2015).

Characteristics of family businesses include having more than 50% of shares owned by a single family group, with management largely comprised of family members (Bizri, 2016). To be an owner or leader in a family business, one must meet specific criteria and possess significant experience (Aronoff & Ward, 2011a). Family businesses consist of three interrelated elements: family, business, and ownership, all of which influence performance. While these elements often overlap, their interaction can also drive business growth (Wahjono et al., 2014). A family business can thrive when its members collaborate effectively, fostering a strong sense of responsibility and affection for the family venture, though differing opinions can lead to conflicts that require resolution through open communication.

Conflict is a common social phenomenon and an inevitable reality for involved communities (Puspitawati, 2019). It is viewed as a social process that signifies a shift from an old social order to a new one, adapting to the needs and conditions of society. In family businesses, conflicts are common and grow exponentially with the age and growth of the business (Alderson, 2015). The Jakarta Consultant Group (2008) states that managing a company is closely related to managing internal conflicts. Conflict in a family business can be defined as a workplace situation where two or more family members have opposing ideas,

views, arguments, perceptions, and opinions, leading to blame and potential harm to the business. Conflicts can have both positive and negative impacts; they can enhance performance, serve as warnings, modify systems, provide new management perspectives, and prevent larger conflicts. However, they can also lead to long-term negative consequences, including organizational costs, mental and physical fatigue, divided attention, and loss of synergy. Therefore, it is crucial to minimize and resolve conflicts as they arise (Jakarta Consultant Group, 2008).

Conflicts within families can be summarized into four main categories: goal conflicts, lifestyle and work conflicts, issues regarding control of the company, and "leaving the nest." Differences in goals between the business, close family members, and individual aspirations can lead to conflict. Lifestyle and work preferences evolve over time and can vary significantly among individuals, which may create tension within the family. Additionally, reluctance to transfer control of the company to the next generation often results in conflicts both within the family and the business (Jakarta Consultant Group, 2008).

Alderson (2015) outlines six strategies for managing these conflicts: First, "pruning the family tree" involves encouraging family members unhappy with management to exit the company with their investments. Second, the "role of spouse" highlights the importance of partners in mediating family disputes, often taking on the role of Chief Emotional Officer. Third, implementing "co-CEOs or revolving offices" can reduce conflicts, as evidenced by research showing that a significant percentage of family businesses are adopting this structure. Fourth, "participative decision-making" allows for democratic involvement in decisions but can sometimes delay processes and increase conflicts. Fifth, the "use of consultants" becomes essential when conflicts escalate, with professional mediators assisting in resolution. Lastly, "restructuring the organization" can help separate conflicting family members into different divisions. A KPMG survey of Australian family businesses found that conflicts are common, yet most family businesses lack effective tools to mitigate them, with 25% of those facing succession planning within five years having no succession plan in place.

Succession, as defined by Aronoff (2011), is the transition of leadership and ownership of a family business from one generation to the next. It is a lengthy process that involves careful planning and management aimed at ensuring the continuity of the business through succeeding generations (Aronoff & Ward, 2011b). Halim (2013) further emphasizes that succession is an ongoing process designed to secure business sustainability across generations. This process requires significant time to adequately prepare successors, highlighting the necessity for thorough succession planning and effective management (Halim, 2013). Succession planning involves placing the right people in the right positions at the right time, which includes identifying potential leaders within the organization and developing their capabilities to fulfill their roles effectively (Pisianto, 2014).

3. Research Method

This study employs a qualitative approach to achieve the desired research outcomes. According to Sugiyono (2014), qualitative research involves the exploration and understanding of the meanings behind individual and group behaviors, as well as the description of social or humanitarian issues. Using a qualitative approach, this research will be conducted descriptively through interviews. The study is carried out at the PT. Soka Abadi office, located at Jalan Jokotole No. 79, Socah-Bangkalan, and at the project site of PT. Soka Abadi in Bangkalan Regency, starting from February 2017. The location was chosen based

on the potential for comprehensive data collection. The object of this research is the scientific target used to gather data that is objective, valid, and reliable (Sugiyono, 2012), which in this case is the Biru Daun company.

The subjects of this research are the informants. The selection of subjects was conducted using purposive sampling, a technique for sampling data sources based on specific considerations (Sugiyono, 2014). Given the research focus on corporate conflict and the succession planning process, the subjects include one member from the first generation, one member from the second generation of the PT. Soka Abadi family, and one expert in family business.

4. Results and Discussion

Conflicts in family businesses can be defined as a situation in the workplace where two or more family members have opposing or contradictory ideas, views, arguments, perceptions, and opinions, leading to blame that affects the company. Conflict is seen as a social process, a transformation from an old social order to a new one that aligns with the needs and conditions of the company. The type of conflict occurring in the family business PT. Soka Abadi is "leaving the nest," which arises due to divorces among shareholders, causing some to be reluctant to continue the family business.

Conflicts can have both positive and negative impacts on the company. Positive impacts occur when conflicts enhance achievements, serve as warnings, help modify systems, introduce new management perspectives, and prevent larger conflicts. However, conflicts can also negatively affect the business in the long term, leading to organizational costs, mental and physical fatigue, divided attention, and loss of synergy within the company. The key is to minimize conflicts and resolve them when they arise (Jakarta Consultant Group, 2008).

According to Alderson (2015), differing goals within a large family business can lead to increased conflict. One way to minimize escalating conflicts is by "pruning the family tree" of the company's owners. Family members unhappy with management or the company's direction can accept an exit offer and withdraw their investments. Based on interviews conducted for this research, it was found that the family business PT. Soka Abadi accepts the conflict management strategy of pruning the family tree as a solution for conflicts occurring within the company, provided this is done fairly and does not create divisions in professional or familial relationships. This is also supported by family business experts, who state that pruning must be conducted professionally, considering the impacts on relationships and the company's performance, given that this is a family business. A professional review of relationships and performance is crucial; failure in either could lead to larger conflicts in the future.

A spouse plays a significant role in family businesses. Generally, family businesses are male-dominated, but the role of women has gradually increased, often referred to as the Chief Emotional Officer. Spouses mediate conflicts among family members and act as unifiers of both sides of family disputes to keep the family intact (Alderson, 2015). Based on interview results, PT. Soka Abadi acknowledges the role of spouses in managing conflicts within the family business. However, there should be limitations on their involvement, serving primarily to calm shareholders when emotions run high. Interview results from PT. Soka Abadi indicate disagreement with family business experts who believe that the spouse's involvement in conflict management is often ineffective and could exacerbate negative outcomes. Many spouses may not fully understand the family values established by the first generation.

According to Alderson (2015), research by the Raymond Institute (2002) shows that 12.5% of family businesses have Co-CEOs, with 35% expected to have them in the next generation. Co-CEOs alternate leadership roles every two years to avoid conflicts. Based on interviews, the first generation of PT. Soka Abadi accepts the revolving office strategy as it can minimize major conflicts. However, the second generation disagrees with this strategy, feeling it does not resolve current conflicts effectively. Family business experts also argue that the revolving office strategy could undermine professionalism in the company, even if familial relationships remain intact. Therefore, a balance between relationships and performance must be maintained in this family business.

In family businesses, the first generation typically makes most decisions, while the second generation tends to adopt a participative consultative approach. The third generation often engages in democratic participation, with decisions based on majority votes. This participative decision-making can increase conflicts within family businesses over generations. Conflicts can delay decision-making processes, while conflict resolution is associated with swift decision-making (Alderson, 2015). Based on interview findings, PT. Soka Abadi accepts the participative decision-making strategy, which must also be grounded in fairness. This fairness relies heavily on the rights and skills of family members. The decision-making process should benefit all parties involved, ensuring no one feels disadvantaged. According to family business experts, various decision-making styles exist, and the decision-making pattern must be based on relationships and performance. One effective example of decision-making in family businesses is holding family meetings once a month in a family boardroom.

The involvement of professional consultants is essential when conflicts are severe and difficult for the family business to resolve independently. In cases of dysfunctional interpersonal conflict, family business consultants may utilize psychologists to help resolve these conflicts (Alderson, 2015). Based on interview results, PT. Soka Abadi does not accept the strategy of involving consultants in conflict management. This is due to the belief that a consultant may not fully understand the conditions and conflicts occurring within the family business. This view is supported by family business experts who state that consultant involvement in resolving family business conflicts has often proven ineffective.

According to Alderson (2015), another solution for resolving conflicts is restructuring the organization so that family members can avoid those who cause conflicts. Family members may be assigned to different divisions or even moved to other organizations within the family business. A survey conducted by KPMG and Australian family businesses shows that conflicts are common in family businesses. The majority of family businesses do not utilize effective tools to limit conflicts. Among family businesses anticipating succession within five years, 25% lack succession planning. Based on interviews, PT. Soka Abadi accepts the strategy of organizational restructuring as a means of conflict management. This process must be conducted professionally, considering the competencies of family members. Family business experts also emphasize that selecting the right people for the right positions is essential, and this should align with the company's relationships and performance.

Based on explanations by Lily et al. (2014), succession preparation is the process of identifying and planning between the owner and the successor, with the ultimate goal of ensuring long-term ownership for the continuity of the business. The succession preparation undertaken by the first generation at PT. Soka Abadi focuses on potential candidates for key positions who are prepared and subsequently enrolled in an Accelerated Development Program to gain exposure to critical aspects and enhance their experience and strategic

thinking. This preparation has proven effective for the family business's growth, as it has been established early on. Candidates for succession are currently in the functional execution phase, where those with potential have become permanent employees in the family business. At this stage, successors begin to assist with routine and non-managerial tasks to help them adapt to the company's operational activities and the realities of the working world (Haryanto, 2014).

The succession process currently underway by the first generation at PT. Soka Abadi has fostered a strong commitment from the second generation to continue and develop the business sincerely, ensuring they do not disappoint the first generation. However, one important note is that boundaries must exist between parents and children in family businesses. Professionalism among parents and children is crucial for maintaining relationships and performance within PT. Soka Abadi.

The findings can serve as a basis for determining conflict resolution strategies and succession preparation that align with PT. Soka Abadi's family business. Based on the analysis, suitable conflict management strategies applicable for resolving conflicts within PT. Soka Abadi are pruning the family tree, revolving office, participative decision-making, and restructuring the organization.

5. Conclusion

The conflict resolution and succession planning in the family business PT. Soka Abadi, based on interviews with the first generation of PT. Soka Abadi, the second generation, and family business experts, lead to the following conclusions:

1. The type of conflict faced by the family business PT. Soka Abadi is "leaving the nest," which can be resolved using several conflict management strategies. These include "pruning the family tree," which involves offering family members who are unhappy with management or the company's direction the opportunity to exit the business and receive their investment back. The second strategy is the "revolving office," which involves rotating office heads within a predetermined timeframe. The third strategy is "participative decision-making," which should be executed quickly without unnecessary delays. Lastly, "restructuring the organization" involves separating family members into different divisions within the company.
2. The succession planning currently underway at PT. Soka Abadi is still in the functional execution phase, where candidates are beginning to assist with non-managerial tasks to enhance their experience and strategic thinking. So far, the preparation process for the company's successors at PT. Soka Abadi has been very effective.

The family business PT. Soka Abadi should be able to act maturely when facing conflicts. Conflicts must be resolved promptly before additional issues arise. It is crucial to avoid allowing conflicts to damage shareholder relationships, as this can make resolution difficult. Moreover, PT. Soka Abadi should not only focus on enhancing the competencies of potential successors but also on continuously motivating them. This motivation is essential to ensure that potential successors remain enthusiastic and confident about continuing the family business PT. Soka Abadi.

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