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Family Business and Risk Management: Perspectives of SMEs Entrepreneurs in Indonesia*

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Abstract

This study aims to explore the specific risks in family small-medium enterprises (SMEs) and explain how they manage these risks to sustain and expand. In Indonesia, family business composes around 95 percent of all businesses and contributes about 80 percent to the country's economy. SMEs contribute approximately 57.8 percent to the nation's gross domestic product. Risk management poses challenges to the family business's survival, as family members do not take actions on risk. The assessment of risk is difficult and family businesses lack the ability to determine risk management priorities, including risk management review processes to evaluate risk, thus leading to family business failures. Applying the case study approach, in-depth semi-structured interviews were conducted in seven family SMEs comprising fifteen informants. Additionally, a focus group discussion consisting of three experts is conducted to reaffirm the findings from the interviews, observations, and field notes. The research identified the specific risks and how the family owners strategize to safeguard against these risks such as cash flow deficiency, operations dysfunction, cultural frailty, disharmony, transgenerational entrepreneurship failure, political uncertainty, and unprofessionalism. Comprehending these risks and their strategic decisions elucidated in this research could enable the family owners and key non-family professionals to work hand-in-hand to thrive over the family business risks together. Further avenues of research regarding family business risk management are also suggested in this study.

Keywords: Family Business, Small-Medium Enterprises, Risk Management, Case Study, Indonesia

JEL Classification Code: L20, L26, L29, M19

1. Introduction

Receiving increasing attention over the past decade by scholars worldwide, family business research has developed in diverse directions. Due to the numerous challenges family businesses face in their development and continuation, research has generated a wide-ranging spectrum of the subjects explored within it and a large body of knowledge as a result (Evert et al., 2016; Xi et al., 2015). However, the topic of risk management in family firms is still scant (Visser & Van Scheers, 2018). Risk management poses challenges to the family business's survival, as family members do not take actions on risk. Family members find managing risk difficult; therefore, they prefer to avoid taking action (Poza & Daugherty, 2020). The assessment of risk is difficult and family businesses lack the ability to determine risk management priorities, including risk management review processes to evaluate risk. (Coulson-Thomas, 2018; Visser & Van Scheers, 2018). Family businesses are managed differently because they experience fewer external restrictions regarding controls on business activities of the family business. Failing to take actions on risk is an area where many family businesses fail, resulting in great family fortune losses that are all due to the lack of risk management. (Aronoff & Ward, 2011). Besides, Fang et al. (2019) explored

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"family business bias," a cognitive tendency where the family nature of a firm can often reduce investors' perceived risk in investments. They introduced four cognitive factors (anchoring, representativeness, stereotype heuristic, and information availability) that can explain the underlying mechanisms behind the prevalence of "family business bias" and other cognitive misperceptions surrounding family businesses when it comes to investment decisions. It is also recommended to look at the business family factors such as family systems and family development, rather than merely the family business factors that mainly focus on the business aspects (Combs et al., 2020). Risk priorities should be refocused to be in line with the strategic direction of the family business. Family business owners should also seek agreement on the risk goals of the business. Managing risk effectively will assist the family business to perform well and to maintain sustainable growth.

In Indonesia, family business composes around 95 percent of all the businesses (Razook, 2016) and contributes about 80% to the country's economy (Wahjono et al., 2014). In terms of firm size, SMEs contribute approximately 57.8% to the nation's GDP (Florentin, 2016). While family owners should have the capability in anticipating and managing the risks they are encountering to underpin their firms' longevity and trustworthiness, they often lack risk assessment and risk management experiences that they plan to bring in external professionals to assist in running their businesses (PwC, 2018). During our study, we also bear in mind the distinctive risk behaviors in an emerging economy like Indonesia that consists of inefficient legal and financial systems (Carney, 2007), thus resulting in the constant trade-offs between entrepreneurial behaviors and defensive behaviors. Moreover, as aforementioned by Fang et al. (2019) regarding the evolving mindsets, family businesses' risk behaviors could vary over time in their different growth stages. Therefore, we recognized that further investigation on the phases of risks encountered during growth transitions is required. Indeed, family owners must be able to sensitize with their ecosystems for detecting and anticipating the impending risks. Family firms are widely recognized as a major source of technological innovation and economic progress. Yet, over time, some family firms become conservative and unwilling to take the risks associated with entrepreneurial activities (Zahra, 2005).

According to Kempers et al. (2019, p. 461), studies on family firms' risk behaviors have been "inconsistent and fragmented". In one of their proposed research gaps, they denoted a lack of inquiries into the heterogeneity of family firms probing individual-level characteristics in risk management behaviors. Empirical evidence shows that cultural values or traditions of an individual family owner can be disseminated to his or her family governance, and subsequently to firm governance (Davis & Harveston, 2001; Ensley & Pearson, 2005; Smith et al., 1994; Stewart, 2003). Hence, just as Lude and Prügl (2019) stated that family firm bias shifts nonprofessional investors' preferences toward the high-risk alternative in a choice situation. Accordingly, processing the family firm information seems to moderate risk aversion as risk avoidance is decreased in the gain domain, while risk-seeking is reinforced in the loss domain due to trust and longevity associations tied to the family firm signal.

Behavioral agency research has made progress in understanding CEO risk behavior in response to equity-based incentives and family firm risk behavior driven by concentrated socioemotional and financial firm-specific risk-bearing. However, both literatures have evolved independently, which have limited understanding of how the risk-bearing of agent and principal influences the predictions of the behavioral agency model (BAM). Combining this literature enhances BAM's predictive validity with regard to firm risk-taking as a function of both agent and principal risk preferences. Family principals are more likely than nonfamily principals to constrain CEO risk behavior that is perceived as immoderate (excessively risk-averse or excessively risk-seeking). CEO ties to the family influence the CEO's response to equity-based incentives (Berrone et al., 2012; Gómez-Mejía et al., 2019).

Therefore, the following research questions are formulated: (i) What are the risks encountered by the family owners in their family small-medium enterprises (SMEs), (ii) how do they strategize to alleviate the risks, and (iii) why such decisions are undertaken? The family owners' decision-making strategies to curb the particular risks are elucidated in this study, and the idiosyncrasies are probed in the individual-level perspectives.

2. Literature Review

According to Fischhoff et al. (1984), risk is the focal topic in the management of many activities and technologies. For that management to be successful, an explicit and accepted definition of the term "risk" is essential. The creation of that definition is a political act, expressing the definers' values regarding the relative importance of different possible adverse consequences for a particular decision. Those values, and with them the definition of risk, can change with changes in the decisionmaker, the technologies considered, or the decision problem (Kempers et al., 2019). The existing literature on risk management in the family business is still scant (Visser & Van Scheers, 2018). Risk is the situation under which the decision outcomes and their probabilities of occurrences are known to the decision-maker, and uncertainty is the situation under which such information is not available to the decision-maker (Hsu et al., 2017; Park & Shapira, 2017).

Nonetheless, risk management is still required art to balance risk and rewards, processes and people (Lam, 2014).

Thus, this study attempts to elucidate these risk behavior aspects from the minds of the family owners so that they are aware of the forthcoming risks as their family enterprises grow to the next level.

2.1. Family Economic Risks

There are different risk types such as variability and vulnerability risks that focus mainly on economic wealth, but there are also non-economic wealth issues encountered by family firms (Kempers et al., 2019). Variability risk is the deviation between a shareholder's actual return on investment and expected return (McConaughy et al., 2001), while vulnerability risk refers to the risk of firm performance or share price that draws most of the stakeholders' focus (Marchisio et al., 2010). Although the interest in family business research is growing rapidly, the area of financial decision-making is underestimated. Family firms have a preference for debt financing, non-control-diluting security, and are more reluctant than non-family firms to raise capital through equity offerings. Credit markets are prone to provide long-term debt to family firms, indicating that they view their investment decisions as less risky. Family firms invest less than non-family firms in high-risk, research and development (R&D) projects, but not in low-risk, fixed-asset capital expenditure (CAPEX) projects, suggesting that fear of control loss in family firms deters risk-taking. The external financing (and investment) decisions of family firms are in greater (lesser) conflict with the interests of minority shareholders (bondholders) (Croci et al., 2011).

Despite the fact that the vast majority of the studies into financial decisions in family firms is are focused on the capital structure, they do not give clear answers to the question of how the family businesses behave in this scope and what their true financial logic is. Additionally, the area of the investment decisions and dividend policy is rather not better left uncovered (Gottardo & Moisello, 2016). However, some studies state that family-controlled firms employ higher dividend payout ratios, higher debt levels, and lower levels of board independence compared to non-family firms. This suggests family-controlled firms use either dividends or debts as a substitute for independent directors. Dividends and debts are more effective governance mechanisms in mitigating the families' expropriation of minority shareholders' wealth. Independent directors are, in contrast, more effective in controlling owner-manager conflict in non-family firms (King & Santor, 2008; Setia-Atmaja et al., 2009). Overall, family owner-managers are averse to entrepreneurial risks to preserve the control and the non-financial returns derived from their main businesses, as discussed in the next section of family non-economic risks.

2.2. Family Non-Economic Risks

For family firms, the primary reference point is the loss of their socioemotional wealth (SEW), and to avoid those losses, family firms are willing to accept a significant risk to their performance; yet at the same time, they avoid risky business decisions that might aggravate that risk (Gómez-Mejía et al., 2007). According to Berrone et al. (2012) and Gómez-Mejía et al. (2007), that SEW is the most important differentiator of the family firm as a unique entity and, as such, helps explain why family firms behave distinctively. Family members are willing to accept economic risks to preserve the non-economic aspects of the family's affective needs. The heterogeneity of family firms extends beyond merely the quantitative measurement of family ownership and management. SEW is a key concept in family business research (Hauck et al., 2016). Moreover, during succession, families encounter challenges to sustain their businesses for more than three generations. Based on Boston Consulting Group, family SMEs succession rate of passing the baton to the second and third generation is only 30% and 7% respectively, quite likewise to John Ward's 30/13/3 survival statistics (Zellweger et al., 2012), which means 30% of the family firms, in general, will survive to the second generations, 13% to the third, and barely 3% beyond the third.

3. Methodology

Researchers use purposive sampling when they want to access a particular subset of people, as all participants of a study are selected because they fit a particular profile. We conducted the data collection before and during the COVID-19 pandemic, with purposive sampling of 7 family SMEs comprising 15 informants who were approached to explore the mindsets of the family owners in regards to their risk concerns and steps they were planning to undertake. Family owners consist of the incumbents and their spouses, the successors, and their siblings. They are interviewed for source triangulation. In-depth semi-structured interviews were conducted to comprehend the family owners' awareness and concerns about the types of risks they encountered and the strategies they might have implemented to counter or even anticipate the forthcoming risks. Additionally, focus group discussions (FGD) consisting of 3 expert informants with family business backgrounds –a banker, a news editor, and an educator- were held twice during the pandemic to confirm the findings. They were also chosen for their extensive network with family business owners in society.

4. Findings and Discussion

Family SMEs encounter the risks of (i) cash flow deficiency, (ii) operations dysfunction, (iii) cultural frailty,

(iv) disharmony, (v) transgenerational entrepreneurship failure, (vi) political uncertainty, and (vii) unprofessionalism. The perspectives and experiences of family owners to manage the risks are illuminated, as well as the rationalization in their strategic decision-making. Subsequently, the constructed theoretical framework of the family business risk management approach is shown in Figure 1. Family owners in this study consist of the incumbents, their spouses, successors, and successors' siblings.

4.1. Cash Flow Deficiency

Given the particular strengths, weaknesses, and peculiarities of family firms as well as the importance of liquidity in today's marketplace, family firms tend to accumulate cash for strategic reasons. Family SMEs face financial risk as they venture to sustain the business. They generally aim for high liquidity and reserved profits as the main highlights of their financial risk management. They tend to increase their cash holdings and lessen debt levels with financial institutions. Notwithstanding, family owners utilize payables from suppliers to circulate their cash flows.

So my capital comes from the hard cash from the buyers. In that period of time, when I earned my capital, say IDR 10 million for the business, I need to circulate the money by any means to earn more profits. (Case EKA, Incumbent, JY)

It is better if the working capital flows quicker because then we can pay our debt (to suppliers). Even if we take some more products (to sell), we can pay our debt. (Case EKA, Successor, YS)

We generally start ordering from our suppliers in the 2nd month of the year, as we will be invoiced in the 5th month where our sales are normally increasing. If we ordered in the 1st month of the year, we would not be able to pay our debts off due to poor sales within that month. (Case MTR, Incumbent, VN)

According to Broccardo (2014), the cash flow budget is one of the top three managerial tools being applied to monitor financial management in SMEs. This budget control compares the forecasted cash inflows and cash outflows from various sources to the actual inflows and outflows of cash. This provides an important control in the organization since it ensures that the organization has enough cash to meet its requirements and obligation.

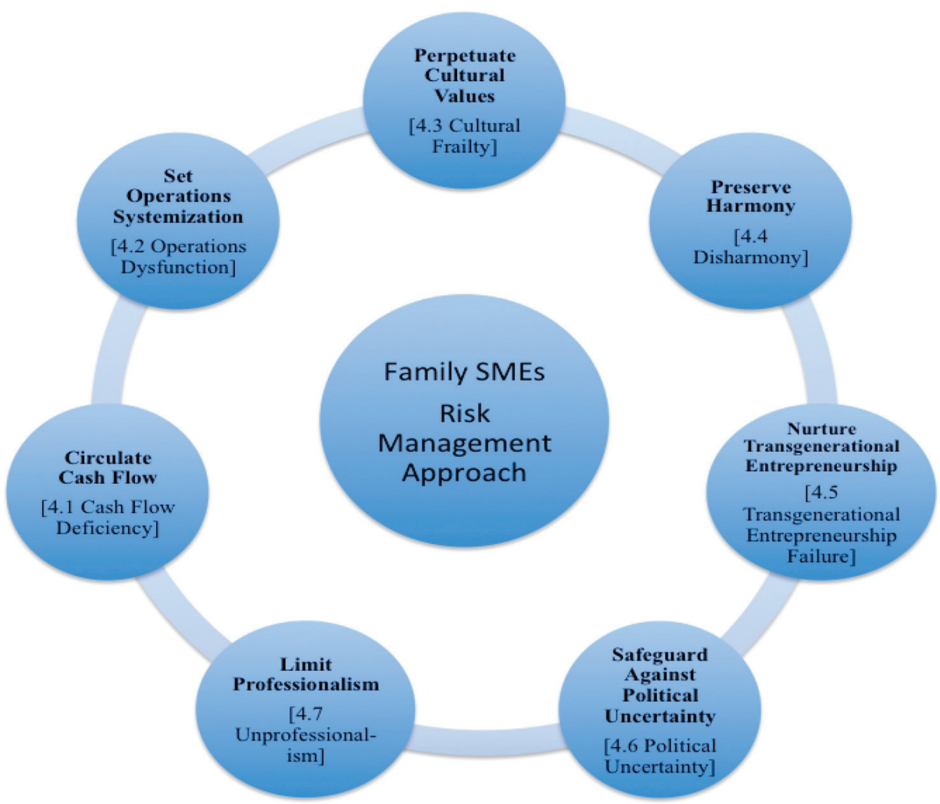

Figure 1: Family SMEs Risk Management Approach

The cash flow budgetary control system has to be communicated effectively throughout the key family members involved in the business to avoid conflicts as shown in Case YTA. The incumbent was concerned with the successor's overspending without understanding the overall cash flow situations, and she acknowledged the need for the successor to see the whole cash-flow picture of the business:

[…], but the one who pays for the bills is still his father using clearing accounts, right?" So he thinks that there's a lot of cash inflow, he doesn't know how much the cash outflow is. Probably if he entirely takes over, he will understand. (Case YTA, Incumbent, JK)

4.2. Operations Dysfunction

Many of the challenges facing family businesses also concern SMEs, but because family businesses involve three overlapping elements (the family, the business, and the ownership) they are different from other types of businesses. Family SMEs are concerned that their business operations are dysfunctional. Operations systemization involves business process governance that provides guidelines for the business processes (Markus & Jacobson, 2015). Standardization in delivering quality products to customers or clients is the outcome of systemization. For instance, Case EKA is attempting to standardize the retail shop. Case MTR follows the set schedules of ordering new inventory to ensure the shop is prepared to serve the influx of customers before the Hari Raya Muslim holidays. Case YTA's successor ensures that the duration of serving the customer is efficient so that he can serve more customers in his limited workshop space area.

[…], personally, I want an automatic system, so I don't have to be in the office (all the time). (Case EKA, Successor, YS)

In terms of speed, two years ago, we already tested that one car, if it doesn't have any problem, the spooring will take about 10 minutes. For tire changing…, it will take 15–20 minutes. I have already tested that. (Case YTA, Successor, HN)

Everything was done manually before and as our children introduce technology to our system, things did indeed become easier. I was also able to keep up and know what's going on, and I have no problem with that. (SCH, Incumbent's Spouse)

When a business is small, there is no need to invest much in infrastructures because a small team is sufficient to run the business, but as they grow, they need a system as they reach a critical point: invest in technology or establish a department to enable the business to cater a bigger volume of business. (FGD, AT)

It is dilemmatic to decide whether an automated system is preferred over labor that has been effective for so long for the family SMEs. For instance, in Case EKA, the successor was explaining the opportunity cost of operations systemization is to close the business for a week or more to set barcodes to each inventory item and synchronize them into the computer system. This means losing customers and revenues during the period, and the incumbent does not consent to it.

4.3. Cultural Frailty

Family businesses are known for their strong, distinctive cultures — cultures that are often heavily influenced by the vision, style, and values of the founder and carefully maintained through the generations. Cultural values and traditions of incumbents influence the family governance and then to the firm governance (Davis & Harveston, 2001; Tan et al., 2019). Incumbents are leaders in family firms; they inspire and mobilize their family and non-family employees to achieve performance (Paais & Pattiruhu, 2020). The incumbents in this study are concerned that their family values or traditions such as integrity, diligence, patience, resilience, frugality, humility, loyalty, and consistency might not be carried over by their children, especially their successors. They strategize to ensure their cultural values are essential components of the family legacies for generations to come.

Yes, we taught (Successor) to be honest and diligent. Furthermore, we also need to be able to keep our promises about the payment. (Case EKA, Incumbent, JY)

Papa's key is patience, so we can't force people to understand us, Papa always said that. (Case MTR, Incumbent, VN)

Do not give up easily. Then, for instance, we already had something, but we weren't lavish. So, if we already… already had the money, for instance…it should be saved. (Case YTA, Incumbent, JK)

Then I told (Daughter) we have to be consistent. The key is you mentioned that the young learn from the elders and the elders from the young. (Case MUB, Incumbent, TG)

So it is back to family values and try to navigate from there. When having to make difficult decisions, our conscience influences our thinking, core processes, and values. (Case CLS, Successor, KRS)

4.4. Disharmony

The two greatest threats to the successful continuity of family businesses are conflict and succession. Conflicts could occur in the family, especially between the incumbent and the successor. The communication gap between the incumbent and the successor is the leading cause of conflicts in their dyadic relationship, causing a risk of succession failure (Merchant et al., 2017). Cesaroni and Sentuti (2017) referred to communication as a "soft" issue that is easily overlooked but the key to effective succession. The generational gap is one of the attributes of the communication gap. The strategy is positioning a generational mediator –a trusted individual by family- to connect the incumbent with the children in harmony. For instance, Case MUB had two extended family members, an aunt, and an uncle, to bridge the relationship between the incumbent and his children. In Case MTR with a female successor, her communication skills can minimize conflicts as denoted by Aldamiz-Echevarría et al. (2017).

When an entrepreneur owns and runs a family business, there tends to be a number of family members involved in the ownership and control of the business. He or she needs to consider how this impact the way the business manages risk. There are many different risk factors to consider, including financial, performance, reputation, safety, and relationship. Relationship risk tends to need more of a consideration in a family business. It will include the potential for solidifying or weakening trust between non-family employees, customers, suppliers, and other stakeholders, as well as strengthening and weakening trust within the family – and the impact of that trust on the legacy. To a large extent, preserving harmony by family SMEs require strategies. One example in Case MTR, the late incumbent set up another smaller store for his spouse to have daily activities and not disturbing the main store's business. This strategy minimizes conflict among the family members:

So we have different principles from Mama. Mama has a small (retail) shop. […]. Papa explained to me: This shop was for Mom just because mothers cannot just do nothing. It's dangerous. So before Papa passed away, Mama was given that shop. If she wants to close it down, just close it down, it's ok. So it's only for Mama's daily activities, Mama's fad. That shop also doesn't focus on anything, just for Mama's daily activity. (Case MTR, Incumbent, VN)

It may also require socioemotional wisdom (SEW) by the incumbent's spouse to advise the successor in strategizing to preserve harmony:

I told (Successor) that his dad has shown what he has done until today with the company. So when there's a difference in opinion, hold it back and give it a thought. Ponder on it before voicing it out. Acknowledge the experience that his dad has and avoid direct and spontaneous confrontation. As his dad has more experiences, ponder on it first and process what he says. His dad may not be entirely wrong but (Successor) may also not be entirely wrong. So a common ground is needed. (Case SCH, Incumbent's Spouse, DT)

Field Notes (Case CLS, Successor, KRS, July 10, 2020):

He shared that exerting innovation is challenging because his younger brother is relatively passive; he does not want to cause conflicts like his father and uncle.

It is widely acknowledged that family firms are structured differently than publicly-owned businesses. The opportunity is great for conflict to emerge from a variety of sources, including (1) carry-over relationships between family members and family employees, (2) the competing interests of family members (especially as the business is held in the family for a number of generations), and (3) strife over how to employ scarce resources.

Disharmony in the family could occur among siblings too. Disharmony could be due to inheritance or unfair asset allocations from the parents to the children. It could also be affiliated with cultural frailty where the family has not experienced harmony for a long time, which could critically be prolonged through generations. Incumbent in Case MUB shared his conflicts with his brothers that have now been resolved through a commitment to make peace commencing from his generation:

Before my marriage, I was messed up because my dad was hardheaded, cannot educate the children because he used ego and emotions to teach his children. At the age of 19–23, I had conflicts, especially with my brothers (1st and 3rd) about family and business. When my big brothers quarrel about trivial matters, I get mad at them. I asked if they would repeat the same thing in the past 10–20 years, where there was no family peace. (Case MUB, Incumbent, TG)

In FGD, the panel emphasized the role of spouses, especially wives, to maintain harmony among the siblings. If the wives compare the wealth and capabilities of their husbands quite so often, there is a high tendency of jealousy and conflicts to transpire among the siblings:

Usually, their wives easily influence husbands. e.g. "Why not do it your own since you are the one who makes (the family business) profitable?" or comparing the luxuries of their lifestyles. That is why husbands must be principled. So there is no jealousy. (FGD, PR)

4.5. Transgenerational Entrepreneurship Failure

Incumbents plan to pass on the family enterprises to their successors. Transgenerational entrepreneurship involves both the economic and non-economic aspects of nurturing the successors to attain entrepreneurial competency, stewardship, and legacy (Zellweger & Nason, 2008; Zellweger et al., 2012). Economic transgenerational usually involves the transfer of ownership and control to be referred to as ordinary succession (Breton-Miller et al., 2004; Handler, 1990). The concept of transgenerational entrepreneurship postulates that the success of family firms across generations relies on three main dimensions—firm entrepreneurial orientation, familiness, and cultural contexts—which affect their financial, market, and social performance (Jaskiewicz et al., 2015). Many family business owners want their offspring to continue the family business after they have retired. However, they may lack willing successors (Gómez-Mejía et al., 2007; Hauck et al., 2016; Tan et al., 2019). Thus the incumbents are concerned that transgenerational entrepreneurship might not come to the realization, leading to succession failure.

Incumbents generally ensure that successors return home from overseas studies to help in the family businesses:

Because when he graduates and works for someone else, he might not want to come back home (from the overseas study). He feels comfortable there with his earnings…. In general, those who study there show a comfortable lifestyle. The environment there (in the US) is also comfortable. I don't want that to happen to my children. He needs to continue the family business. Until today, my husband and I have been working hard for our children. Therefore, it is also within our children's responsibility to carry on our legacy. (SCH, Incumbent's Spouse, DT)

My parents' education level is only until high school. So they want us to help out (in the family business). When we were younger, we asked why our parents did not buy a house (in Singapore where the successor studied). Their response was astonishing to me. They said if we were to buy a house, we wouldn't come back (laughter). In a way, like we were destined (to help in the family business). (Case CLS, Successor, KRS)

Then incumbents engage in mentoring the successors and becoming their role models:

I am still supervising his work. As he starts to stand on his own feet, then the experience and knowledge will be earned. (Case EKA, Incumbent, JY)

Yes, we should be examples. Then when we work we shouldn't reckon, we must.... it's work so we should work hard in everything. (Case LOG, Incumbent, BBA)

This is my challenge. If you were to give your child a bicycle, can the child immediately ride the bicycle? Cannot. The child needs to learn beforehand. At times they will fall. And that's okay. You need to tell them which roads are clear and which roads are dangerous – there's a cliff on the edge. The child most probably wouldn't believe you. If there really is a cliff on the edge, you'd better accompany the child. The child can fall, as long as he/she doesn't break a bone. A little scratch is okay; just don't let him/her break a bone. (Case MUB, Incumbent, TG)

So, once there's a car or a consumer came angrily because his car was this…this…this… Papa always taught me how to handle (such) consumer, how to tackle (such) consumer. (Case MTR, Successor, VN)

4.6. Political Uncertainty

Incumbents who had experienced the 1998 political turmoil are still traumatic about the tragedy, and they tend to have the mindset to diversify their wealth into fixed asset investments, or opening overseas bank deposits, or relocating their main businesses away from riot-prone locations. With the infamous political riot and economic meltdown in 1998, the "shock-proof" strategies have to be in place (Dieleman 2010). In emerging economies like Indonesia, family businesses, especially those belonging to the minority groups, prefer conserving their financial resources rather than engaging in entrepreneurial activities to generate new wealth (Carney, 2007). Successors in their younger generations may not be as cautious as their incumbents who had encountered trauma, and this requires understanding from the successors who are more entrepreneurial with their ideas and dreams.

Q: How do you overcome that? Do you just keep doing business as is or be more careful?

A: If there is riot/unrest, then I will be careful.

Q: Do you have a backup plan?

A: Yes, of course. I don't stock many items, so there are minimum liabilities (owing money); if I owe too much money, later I cannot pay.

(Case EKA, Successor, YS)

Maybe it's because I'm in Depok. In Depok, there are locals, Chinese, and Koreans. There are quite a lot of Koreans. But for business, Papa always taught that it was better at the side of the town, not in the central. (Case MTR, Incumbent, VN)

AK: I am more into her principle. I am putting some eggs in some places.

JK: Do not put it all in one place.

Q: Oh, don't put all these eggs in one basket, yah?

AK: Yes, children also need to know, don't put in one place. If there were a political riot, it would be damaged. And one more thing is to have skills, so even at our worst, our economy doesn't have a job, but we have skills that we can sell.

(Case YTA, Incumbent (JK) & Spouse (AK))

Field Notes (July 25, 2020):

In Indonesia, it is a concern, and most big business people put their money overseas.

(Case MUB, Incumbent, TG)

4.7. Unprofessionalism

Family businesses have been known to play an important role in most major economies all across the world. The majority of family businesses fail to survive beyond three generations, one of the major reasons being lack of professionalization. Family firms face a number of impediments to professionalize and have been repeatedly advised in extant literature to professionalize their businesses. In this study, the risk of unprofessionalism does not necessarily mean that incumbents have to elevate professionalism to the fullest. Family SMEs tend to strategize towards semi-professionalism even as they plan for growth. This is due to the nature of professionalism in Indonesia that is different from developed countries. Furthermore, families are known to be more secretive than non-families (Iyer, 1999; Lester & Cannella Jr, 2006).

The founder of every thriving family business faces an inevitable question: How should our ways of working evolve to meet the challenges of managing a growing company? Experts typically tell founders that the answer is to professionalize, meaning that they should emulate the structures, governance, systems, and processes of a modern corporation. Yet in many cases, that approach to professionalization destroys what made the family business specializing in the first place. Many founders also fear, justifiably, that they will lose control of a business that is an integral part of their identity. There are notions of fears that the professionals gain sufficient knowledge and skills from the family businesses, and then subsequently opening their own firms to compete as rivals to the family firms. Family SMEs also are not keen to lose the sense of "familiness" due to professionalism.

Our systems are all semi-professional. In Indonesia, it is more suitable for semi- professionalism because the natures here and overseas are different. Overseas, professionals are real professionals. For example, Chefs have certificates and historical records, and they could be blacklisted for bad behaviors. Also in Indonesia, the people with whom you share the (business) secrets, went out to become our competitors. Thus, it is more suitable for us to run with semi-professionalism. (Case MUB, Incumbent, TG)

We cannot be fully professional due to the field conditions…because if we get too professional, it means (company's) rules and regulations must strictly comply without conditions. It will become too difficult for me in the long term. A few (family businesses) that I observe are not sustainable when they were too professional. (Case MTR, Incumbent, VN)

In my opinion, it will always be semi (professional). Professionalism, yes, but surely still maintaining the "familiness" within the siblings working with one another. If really want to go full (professionalism), there should not be any family relations, to avoid any conflict of interest ideally. (Case LOG, Successor's Sibling, GIO)

In fact, using professionals doesn't guarantee certain success too because some professionals work in family biz that doesn't grow them before… my family will be semi (professional) because I understand my family mindset unless we grow so fast that unable to cope by ourselves. This mindset grows out of the vocation paradigm. The business is part of their vocation from the start so there are heavy attachments to the biz. (Case CLS, Incumbent, KRS)

The owner sometimes also conceals some parts of the company's main information, so the professionals do not know everything. (FGD, PR)

As much as family and key non-family professionals have to work hand-in-hand, there is a glass ceiling where full professionalism might never be attained with the idiosyncratic nature of family SMEs in Indonesia. Nevertheless, as recommended by Hindasah and Nuryakin (2020), family SMEs have to continue enhancing their organizational capabilities and organizational learning to achieve financial performance for longevity.

5. Conclusion

The results of this investigation provide explicit perceptions of risk management in family SMEs, insinuated from internal concerns of the family members, especially the incumbents and successors. Indeed, the occurrence of the COVID-19 pandemic puts health as the primary risk concern. Nonetheless, family and business management's fundamental rationales are still prevalent when considering the rewards and risks in the survival decision-making process (Crick & Crick, 2020). Risk Management (RM) is an essential part of any organization. Family enterprise advisors need to be aware that the risk appetite of family decision-makers can make or break a family business. When talking about 'risk' we tend to think of danger, but risk also offers opportunity and it is important to really understand the difference. Talking about risk in a family business, including the different levels of risk each family member is prepared to take, can be an emotional subject. That is why it is important to have proper procedures in place to ensure risk is managed effectively.

This research has some limitations. First, it covers only the scope of family SMEs. Further research on large and public listed family firms can provide a wider range of knowledge. Second, the industries in which the family SMEs are operating are wholesale and retail, logistics, and manufacturing. Thus, research on family firms in other industries can be examined to validate this study. Third, during the pandemic, we were constrained to travel and meet face to face with some of the informants. Nonetheless, data saturation has been achieved and further research after the pandemics can provide longitudinal outcomes. Finally, other methodologies such as the quantitative approach could be used in further studies to validate the constructed framework in Figure 1. We are also reminded that Indonesia consists of around 1,300 racial groups (OECD, 2019); thus, comparative studies could be undertaken to provide additional acumens on each racial group's uniqueness and each of their specific risk concerns.

This study contributes to the successors' knowledge of preparing themselves to encounter risks as they take their family firms' helms in the respective growth phases. Furthermore, effective bridging between incumbents and successors can be nurtured when the latter are capable of empathy towards the incumbents' risk concerns. According to PwC (2018), although 81% of Indonesian large family enterprises and family corporations have planned to pass on their leadership to the next generation, 30% of them have not involved the successors in their planning, and only 13% have robust succession plans in writings. All businesses face risk, but the consequences of something going wrong in a family business can be personal as well as commercial. It is important to ensure you the family owners have processes in place to manage risk. The most important thing is to ensure risk management is part of the overall business plan, and that there is a framework for identifying and discussing risk within the business. There should also be a formula for measuring risks so they can be identified and addressed if things change.

Sometimes families think keeping the business in the family is less risky. Bringing a non-family member onto the board or as a shareholder could be a positive move. Key non-family professionals also must be aware of the family's risk concerns, to comprehend the underlying reasons behind the decisions made by the owners. As such, they can also be vigilant and discerning when managing the risks. From the perspective of families with operating companies, the strategic aspects of risk management are important. Risk management infrastructure, policies, and processes may be in place, but it is the family firm's ability to identify and assess both current and future risks and to map these risks on to its own risk appetite—and, more importantly, on to the family business's capacity to bear the consequences of the risks taken—that will influence its long-term survival and success.

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