

GENERATION GAP AT PT. DHARMA SAMUDERA FISHING INDUSTRIES TBK

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ABSTRACT

Family businesses make up more than 60% of all listed companies in South-east Asia and its succession is considered as one of the company priorities. In Indonesia, about 30% of family-owned businesses survive into the second generation, 10% make it to the third generation, and only 2% make it to the fourth generation. The decline of family business continuity is affected by several factors and the main factor is succession management. Family business succession can be done by preparing and equipping the successors for a business transition and in this case, Dharma Samudera Fishing Industries Ltd has planned the succession. The purpose of this paper is to examine the differences between first and second generation mindset and decision making style in Dharma Samudera Fishing Industries Ltd. The paper sets out generation gap in Dharma Samudera Fishing Industries Ltd that can be a useful information for other family business enterprises.

Keywords: family business, generation gap, succession

INTRODUCTION

According to data from the Price Waterhouse Cooper (PwC), family-run firms account for more than 60% of all listed companies in South-east Asia and its succession is considered as one of the company priorities. On www.suarasurabaya.net, The chairman of public consultant office at Drs J Tanzil & Associates, Josef Tanzil, states ‘about 30% of family-owned businesses make it into the second generation, 10% make it to the third generation, and only 2% make it to the fourth generation.’

The main issue in family-owned businesses is how the company maintains continuity from generation to generation (Saputra, 2014). The key factor influencing the success of family business succession between generations is that heirs are reasonably well-prepared to take on a leadership role (Ward, 2011).

Dharma Samudera Fishing Industries Ltd (DSFI) is part of the small number of family businesses that can last for more than 50 years and succeed in transitioning from the first generation of leaders to the second. Founded by two brothers, Irwan Sudjiamidjaja (76) and

Ridwan Sudjiamidjaja (80), DSFI was established in 1968 and has grown to become one of Indonesian listed fisheries companies.

This paper will focus on challenges faced by DSFI in preparing successors for the passing of leadership baton and how they planned the succession when facing generation gap in maintaining their continuity that eventually took the company listed on Indonesia Stock Exchange (IDX). This paper will review the differences between first and second generation mindset and decision making style in DSFI.

LITERATURE REVIEW

Family business

There are many literatures and studies that attempt to define family business. Brockhaus (2004) tries to define family business from various aspects, such as ownership level, number of family members involved in the business, and number of generations of family members involved in the management.

“The level of ownership and family involvement varies widely in the different definitions. For example, some scholars use the criteria of a minimum of 51% or a majority ownership by one family. In terms of management involvement, some researchers use criteria stipulating that more than one family member influences the decisions of the company; others state that at least two family members should be actively involved in management, while others believe that a family business is a company in which different generations are actively involved in corporate management.”

Some other family business definitions stated in the literatures are as follows:

A family business is defined as a company where ownership, control, and key management positions are concentrated in a group of people who have familial relationships (Bertrand & Schoar, 2006).

Susanto (2005) states that in business terms, there are two types of family business: Family Owned Enterprise (FOE) dan Family Business Enterprise (FBE):

- a. Family Owned Enterprise is a company owned by a family but managed by professional executives outside of the inner family circle. The family acts as owner and they do not step into daily operational activities so that the business can be professionally managed. Family members who own the business can optimize themselves as a supervisor.
- b. Family Business Enterprise is a company owned and managed by family members. Both ownership and management are under family members.

According to Simanjuntak (2010), listed family firms type can be viewed in two sides; shareholder and decision maker. Family who owns a majority of stocks in a company is definitely can be active in controlling the company (decision maker). For example, Bakrie Group, Maspion, Indofood, Wings Group, etc.

In business reality, a minority shareholder is also can be categorized as a family business when the family gives significant influence over management controls. HM Sampoerna is one of the examples. Even though they sold majority of their stocks to buyer outside the family (Phillip Morris) and only holds 5% of shares, Sampoerna still dominates company management.

Generation Gap

The Phrase Generation Gap implies a deep chasm which opens up between parents and children, between old and the young, and which is somehow insurmountable (Perveen et al., 2013).

Today's workforce can be divided into three distinct generational groups of people. There are the Baby Boomers, X Generation (Xers) and Y Generation (Dot com generation). Baby Boomers are people born between the years of 1945-1964, a cohort that has been the source of many important cultural and economic changes. The Xers are people who were born between 1965 and 1980. Some researchers refer to them as "baby busters", due to the drop-off or "bust" in births following the Baby Boomer generation after World War II (Yu, HC & Miller, 2003). The Y Generation or the 'dot com' generations are people who were born after 1980 (Solomon, 1992).

"A difference in values and attitudes between one generation and another, especially between young people and their parents" (English Language Dictionary of American Heritage). "The years separating one generation from the generation that precedes or follows it, especially, when regarded as representing the difference in outlook and the lack of understanding between them"(Collin"s Dictionary). "When older and younger people do not understand each other because of their different experiences, opinions, habits and behaviour" (Cambridge Advanced Learner's Dictionary & Thesaurus).

"A lack of communication between one generation and another, especially between young people and their parents, brought about by differences of tastes, values, outlook, etc" (English Dictionary).

Credibility gap

According to PwC research, "bearing the family name is not enough on its own to impart credibility, with many of the next generation thinking it can even work against them. A significant percentage (88%) say they have to work even harder than others in the firm to 'prove themselves' Just over half (59%) consider gaining the respect of their co-workers is the single biggest challenge they face. Promotion to CEO is also no longer automatic for the next generation, with a growing number of family businesses being prepared to make tough family succession decisions. The survey disclosed that 73% said they were looking forward to running the business one day, but only 35% thought that was definite, and as many as 29% thought it at best only fairly likely". The PwC survey also shows that "it is increasingly common to seek work experience outside the family firm. Only 7% of the next generation had gone into the family business straight from school, as their parents and grandparents typically did. Furthermore, 31% went to university first and 46% had worked for another company before taking a role in the family firm."

Communications gap

There is a tendency for some in the older generation to overestimate how well they have run the business, while underestimating their children's capacity to do this as competently as they did(PwC, 2014).Phillippe Vyncke, Partner, PwC Belgium, concludes that"this sort of impasse can slow down decision-making, and lead to the phenomenon of the 'sticky baton', where the older generation hands over management of the firm in theory, but in practice retains complete controls over everything that really matters."The PwC survey also shows that 87% of the next generation thinks their parents have confidence in them and 91% would value their continued input. But as many as 64% think the current generation will find it tough to let go.

According to Susanto (2005), succession is usually connected to intergenerational or multigenerational transfer. One of the problems arise due to multigenerational issues is lack of willingness to share power with the successors. The incumbent generation does not admit successors' maturity and expertise (see figure 1).

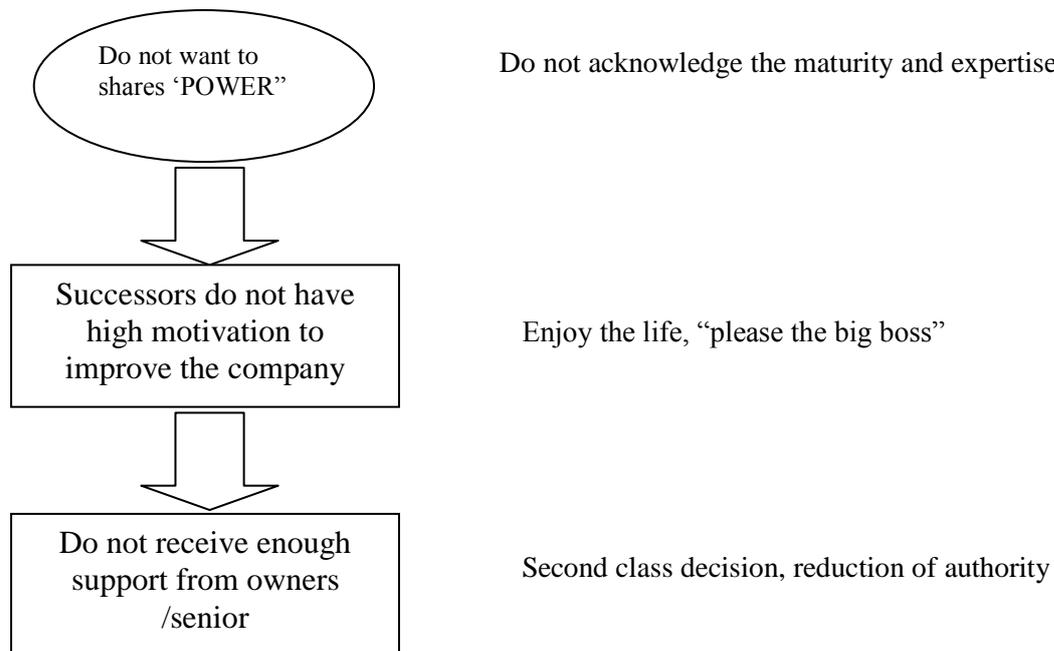


Figure 1. Multigenerational Issues

Sources: Susanto, 2005

Another problem related to multigenerational issues is that successors have low motivation to improve the company, but they enjoy life and work only to please the "big boss". Successors do not receive enough support from the owner or senior and therefore they only make second class decision and have insignificant control.

RESEARCH METHODS

A qualitative descriptive approach is used by conducting in-depth interviews with *first and second generation of DSFI, followed by Miles and Huberman's analysis model that contains data display, reduction, and drawing conclusion. Sources for this research are:*

1. *The first-generation founder, RidwanSudjiamidjaja, Commissioner of DSFI.*
2. *The first-generation founder, IrwanSudjiamidjaja, President Director of DSFI.*
3. *The second-generation successor, Herman Sudjiamidjaja, Marketing Director of DSFI.*
4. *The second-generation successor, Ronnie Sudjiamidjaja, Operational Director of DSFI.*

RESULTS

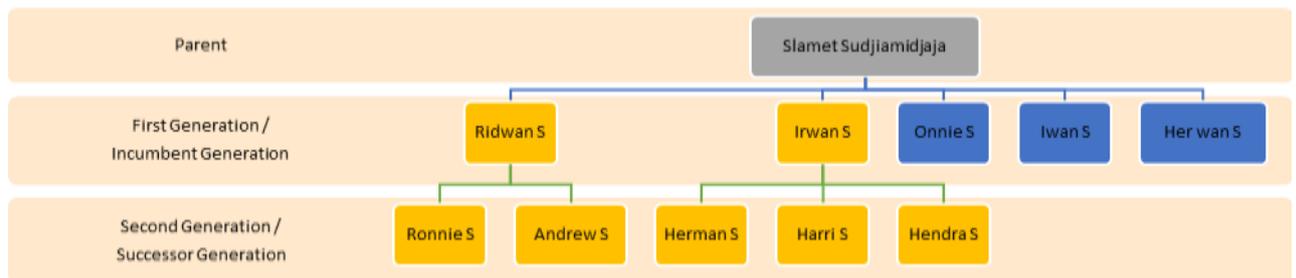
DSFI was established in 1968 by two brothers; Irwan Sudjiamidjaja (76) and Ridwan Sudjiamidjaja (80). It has grown to become one of Indonesian listed fisheries companies.

In 1960-1970, politics in Indonesia had turned into chaos and economic became unstable. During that period until 1968, there was a political transition from President Soekarno to General Soeharto and eventually, by the end of 1968, General Soeharto was appointed as second president in Indonesia. As a president, Soeharto's main priorities wereto improve and recover Indonesia's economic condition. In 1968-1970, Indonesian government had successfully attracted foreigners to invest in Indonesia. Therefore, this situation had become an opportunity for Indonesian exporters to increase sales.

Ridwan and Irwan also saw the opportunity. After Ridwan finished his study at Universitas Indonesia, they bought a cattle bone exporter company: Dharma Bentala. The company collected cattle bone, cleaned it and then shipped it to the Japanese buyers. In 1972, Dharma Bentala met Mitsubishi, one of Japanese biggest trading companies. Mitsubishi inquired on prawns and both Ridwan and Irwan saw this as a better opportunity. From these roots, the company has evolved into prawn exporter and changed its name toDharmaSamudera Fishing Industries Ltd.

In 1980, Ridwan and Irwan added new products: seafish fillet. They sold this product not only to Japan but also to United States and Europe. DFSI had finally become Indonesia's biggest processor and exporter companies.

Ridwan has two sons: Andrew Sudjiamidjaja (52) and Ronnie Sudjiamidjaja (50). Irwan also has sons, they are Herman Sudjiamidjaja (52), HarriSudjiamidjaja (50), and HendraSudjiamidjaja (47). All of the second generations had the opportunity to study in the United States, even Ronnie and Andrew attained their master's degree at University of Portland, America. After thesecond generations had finished their study, they joined the business and strengthened DFSI. Picture 2 below describes Sudjiamidjaja's family tree as a founder:



* Yellow box indicates Sudjiamidjaja's family members that are involved in the company.

Figure 2. Sudjiamidjaja's Family Tree

Sources: Processed data

Family Business, Dharma Samudera Fishing Industries Ltd

The organizational structure of managementwas altered after the successor generations joined the company. Ridwan became the President Commissioner, Irwan held the position of President Director, Herman was appointed as Marketing Director, Harri became Financial Director, Hendra held the position of Production Director, Ronnie became Operational Director, and Andrew became Administration Director.

Organizational structure was implemented to accommodate two different generations that were in the same company. Family business has many advantages but without proper management

and planning, relationship conflict between professionalism and personal can be a threat to its sustainability.

Generation gap in DFSI is commonly seen in its management. Irwan's role is not only as a leader of the company but also a father to Harri and Herman. However, Irwan is not an easy person to work with. He is self-righteous, rigid, and narrow-minded even though he really cares about his children. His attitude is the cause of frustration among successor generations.

Based on interview with Ronnie as the second generation, he often felt that his ideas were rejected during the meeting with the first generation who acted as decision maker. This made him confused as at one side his position as operational director gives him the rights and responsibilities to grow his unit, but as a son and nephew, Ronnie could not debate further more when their decision was not suitable for his ideas.

As a solution to overcome the conflict, Ronnie made his own decisions without coordinating with other units. This had caused inefficiency in the organization and potentially can damage the company from inside.

Harri, a visionary finance director, is also an Irwan's son. When he and his father disagreed upon significant issues, Harri would become angry and gave up the ideas to create breakthrough innovations. However, the first generation was not entirely rejected Harri's innovative ideas and at some events, Harri's idea became company's innovation that led the company to be listed on the Indonesian Stock Exchange and grew bigger.

DISCUSSION AND RECOMMENDATION

This research focuses on Sudjiamidjaja family's conflicts that occur during working together in DFSI. Irwan takes on a leadership role and needs a team to run the business. He expects that every member of the team will follow his vision for the company. When his son Harri joined the company, his education background gave him confidence to raise the company performance.

Irwan and Harri have different entrepreneurial background. Irwan started his entrepreneurial journey with working hard while Harri relied on his degree knowledge. They bring different perspective that give new point-of-view in the process of decision-making.

Irwan is a baby boomer, whom according to Beekman (2011), is an individual whom was born post World-War II when economic prosperity started to grow. Baby Boomers have been characterized as individuals who believe that hard work and sacrifice are the price to pay for success (Glass, 2007; The National Oceanographic and Atmospheric Association Office of Diversity, 2006), they also dislike conflicts, sensitive to feedback, and judgmental (Zemke et al., 1999).

On the other hand, the successor generations are generation X who grew up in a period of financial, familial and societal insecurity (Karp et al., 2002). They aspire more than previous generations to achieve a balance between work and life (Jenkins, 2007; Karp et al, 2002; www.valueoptions.com) and they like to receive feedback (The National Oceanographic and Atmospheric Association Office of Diversity, 2006), they are also entrepreneurial (The National Oceanographic and Atmospheric Association Office of Diversity, 2006). Although they are individualistic, they may also like teamwork, more so than boomers (Karp et al., 2002).

The variety of backgrounds gave two different perspectives in strategic decision-making. In the interview, Ronnie, as a generation X, says that a company can be successful by fostering employee's growth. Ronnie had an idea to provide employee training and development but Irwan as a president director refused Ronnie's idea because in his opinion, employees should work hard and to be motivated and training is not a solution to motivation.

If generation gap issues are left unsolved, it will affect the succession process and its delay will give a negative impact to the company. In this case, although Irwan's stubbornness can be comprehended, it would make the company cannot compete well with its competitors who can adapt to changes.

DSFI was one of Indonesia's biggest fishing companies. However, nowadays they are not the one of the biggest anymore because as Ronnie mentioned earlier, Indonesian government has given easy access to do fish exports and therefore, company's supplier becomes direct competitors. Raw material price gradually increased as competitors increased because suppliers need to calculate profit margin as they were also investing to be a fish processing company like DSFI. This situation gets worse when Indonesia people have the technology to access information about starting a fish processing company.

Another thing that can be observed is that DSFI does not adopt the latest technology to manage their business to compete with others. For instance, in the field of financial control in which the company employs many employees to record operational transactions including operating overhead expenses, which actually can be replaced by a computerized accounting software.

In fact, many managers who have been with Irwan from the very beginning are not updated with skills when technology changes.

In conclusion, generation gap in DSFI is not a problem for family relationship but it affects company's performance because the successor generations choose to remain silent and follow incumbent generations' direction as stated by Ronnie. At the time this paper is being written Ronnie and Harri has decided to leave the company and start a new business.

The executives at DSFI are all Sudjiamidjaja's family member. They are aware that there is a generation gap in their family business. Generation gap is actually a common issue in family businesses because of the existence of generational differences.

In DSFI case, the second generations try to solve problems for both company and family relationship by following first generation's decisions and not trying to communicating their feelings.

The result of the interview shows that the successor generations; Ronnie, Harri, and Herman, are more open in conveying issues related to their status in the company which lead to Ronnie's and Harri's resignation. Nevertheless, even though both Ronnie and Harri finally quit from the job, the incumbent generations have no plan to solve generation gap issues.

There are many family businesses that cannot survive into the third generation. Most family businesses are involved in long-term conflicts. The key factors to overcome the generation gap that occurs are communication, cooperation and commitment between the incumbent generations and successor generations. If family businesses have the determination to improve intergenerational relationship in achieving goals, it will give competitive advantage to outperform non-family-owned companies.

Below are the specific suggestions for each generations:

1. First generation/ incumbent generation:
 - a. To give confidence and trust to the successor generation
 - b. To be open-minded in family business management
2. Second generation / successor generation:
 - a. To have more confidence and improve skills to carry out the task from the incumbent generation.
 - b. To make a decision based on comprehensive data and facts.

Gaining an understanding about generation gap requires an understanding about mindset and decision-making patterns between generations. These differences should be appreciated and become the core planning to do the next steps.

In understanding mindset and decision-making patterns, it requires a third party who acts as an advisor to probe both generations' deepest thought. By acquiring it, many things could be revealed and could be used as a solution.

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