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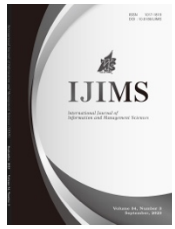

Real-Life Applications of Trust and Governance in Southeast Asian Family Businesses: Chinese-Indonesian

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Family Business, Trust, Family Governance, Firm Governance, Case Studies

Abstract

This paper elucidates the family business concepts into real-life applications derived from cases of Chinese-Indonesian family businesses in Southeast Asia. The sampled cases are family businesses that were struggling in their intergenerational succession journeys through trust and governance, and yet thriving. There are still family-owner-employee involvements in their organizations, causing complexities and continuous generative trust relationships and amendments to their family governance and firm governance. The investigation of each case study involved interviews and observations. The narrative exposition of each case reflects upon the family business concepts being discussed, revolving around trust and governance. Longevity of family businesses can be achieved if family members generate trust and are committed to respecting their family values, and they attain stewardship attitudes by committing to family governance and firm governance.

1. Introduction

Trust is the lifeblood of the family company system, flowing through its owners, families, and management teams. The interplay of these three family business characteristics presents obstacles and issues in the succession process, ownership structuring, dispute resolution mechanisms, family and firm governance techniques, family asset preservation, and retirement and estate planning. Without the core of trust, theoretical frameworks and written tactics would not be realized. However, research into the components and mechanisms of interpersonal trust, as well as their application to trust repair, remains limited (Kähkönen et al., 2021).

When a survey was distributed to 198 family business owners during a conference, 82 of them responded. In Fig. 1, longevity or business continuity is ranked first for these family owners (38%), while business profit comes in second (31%). This makes sense as they are planning for

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succession to the next generation. The question is whether they should expect to witness a decline in their company's earnings during and after the transition phase (e.g., Bertrand et al., 2008; Fan et al., 2012). Incorporating trust and family governance into the family business might help the incumbent transition and inspire dedication in the successor.

Another main question in Fig. 2 is to discover what the incumbents' main concerns are during the succession period. Most of their anxiety revolves around family jealousy (37%) and different long-term visions among family members (21%), which is why trust and family governance must come into play. Company performance (26%) is aligned with the Fig. 1 survey findings, where business profits come second in priority. Internal management jealousy (16%) is a concern but not the primary one, as firm/corporate governance instigates the fair treatment between family and non-family employees in the business.

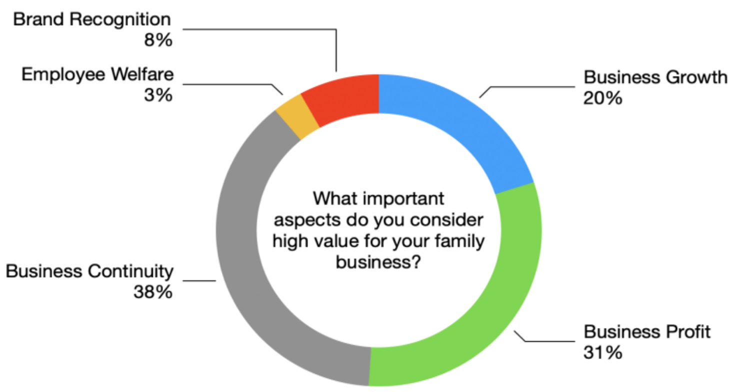

Fig. 1 *Survey of Family Business Owners on Priorities (Source: Authors)*

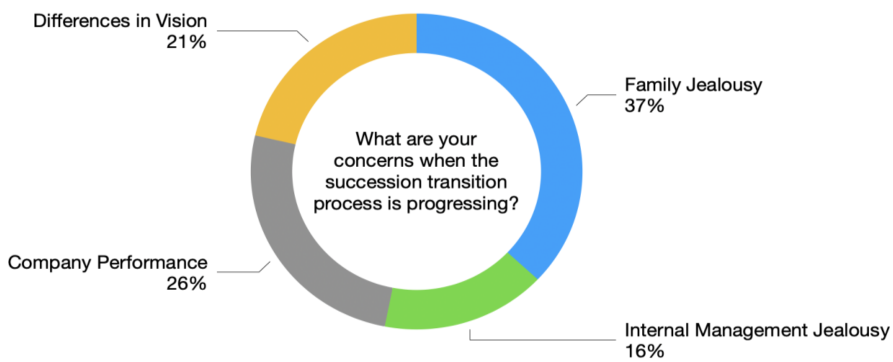

Fig. 2 *Survey of Family Business Owners on Succession Concerns (Source: Authors)*

This paper begins by explaining the nature of family businesses, their emerging issues, and strategies to mitigate them. The major issues of trust and governance that refer to the preceding notions are then addressed in order to shed light on the components and mechanisms of trust that emerge from family governance and firm/corporate governance. To shed light on the discussions, mini cases and remarks on the cases are inserted within the expositions.

2. Literature Reviews

The Chinese Indonesians

The Chinese Indonesians have been known to constitute only 7% of the population but contribute to 70 percent of Indonesia's economy (Backman, 2001; Chua, 2004; Rachbini, 1999). This contribution is made possible through their entrepreneurial spirit and skills (Robison, 1987). The history of Chinese Indonesians can be traced back as early as 1500 to 1800, when a massive wave of migration occurred during the Dutch colonial era to find trade opportunities. Most of them became businessmen or traders (Mackie, 1976) and were subsequently stereotyped as wealthy Chinese businessmen.

Confucian teaching principles of virtue and ethics are deeply established in the lives of Chinese society, and the central core of the principles is humanism, which means that "human beings are teachable, improvable, and perfectible through personal and communal endeavor, especially self-cultivation and self-creation" (Susanto & Susanto, 2013, p. 23). Susanto and Susanto (2013) also stated that family is the center of Chinese ethics and traditions, and parents are expected to educate the family essence in their children to be righteous and to follow the rules when dealing with family members, society, and the state. This reinforcement process is called "familism," and the hope is for the family to follow through on these values in generations to come for the benefit of the family as a whole. Hofstede and Bond (1988, p. 7) indicated that cultural inheritances could be transferred to any person "at the right place at the right time" and not due to genetic transfer. Besides cultures, the existence of markets and political contexts are necessary conditions to stimulate economic growth.

On the other hand, for the children or younger generations, it is essential to note that Confucian values revolve around "filial piety," and hence decision-making is made based on this consideration. Lee and Morrish (2012) mentioned three types of filial piety: (1) deference to parents, (2) education pursuit, and (3) supports for parents; these are the root factors of the Chinese in their decision-making process that can affect every aspect of their families and the societies around them. In deference to parents, the child should be forbearing the attitudes of the parents and their decision-making (Yeh & Bedford, 2004). Education pursuit is a role that a child in a Chinese family must perform to bring honor to his or her family and community, thus showing that he or she is filial (Jiang, 2006). Support for one's parents as a sign of being filial—*Xiao*—is that the child is committed to the emotional and financial support, as he or she is actively involved in taking good care of his or her parents for the rest of their lives (Zhan et al., 2008).

In the Chinese-Indonesian community, interpersonal relationships are called *Guanxi*, and they are crucial in associating with one another in "almost every realm of life, from politics to business and from officialdom to street life" (Gold et al., 2002, p. 1). *Guanxi* is utilized in close business ties (Barnes et al., 2015; Phillips et al., 2018; Yang, 1994), and it can reduce conflicts, self-opportunism, and switching intentions (Abosag et al., 2021). Trust that exists in G*uanxi* is key to the extension of collaborations and partnerships; this requires a regenerative process of personal openness, transparent policies, and open communication that runs through interpersonal trust, competence trust, and systems trust (Sundaramurthy, 2008).

The Nature of Family Business

A firm can be considered a family business when two or more family members are involved in it and they are interdependent toward one another to sustain the business (Astrachan & Shanker, 2003; Susanto et al., 2007; Ward & Aronoff, 1990). Commonly, families with high percentage ownership would actively participate in the family business by holding key positions (Porta et al., 1999). The complexity of family business systems are described by Tagiuri and Davis (Tagiuri & Davis, 1996) in a diagram composed of three interconnected and complementary dimensions, namely family, business, and ownership. This is frequently referred to as the family business's "Three-Circle Model" or "Systems Theory." The notion of a family business is illustrated in the diagram in Fig. 3, whereby the governing family exercises significant influence over the business's direction and policies through ownership rights, managerial positions, or familial roles.

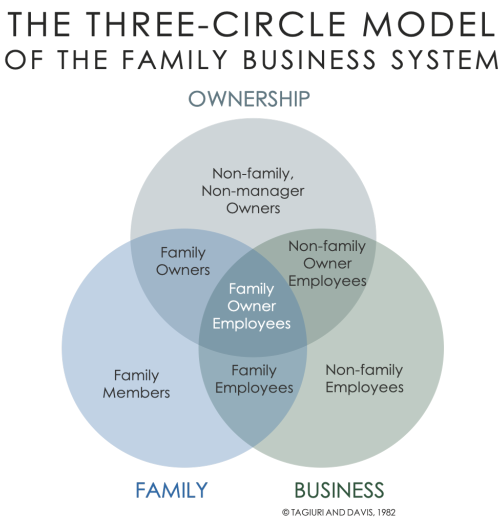

Fig. 3 *The Three-Circle Model (Tagiuri & Davis, 1996)*

The three primary dimensions of the family business system are shown to overlap in Fig. 3. It is divided into seven sections that describe each member's function in the family business's operationalization. If a person only has one role, as aforementioned in the previous paragraph, it may not be too complicated for the individual’s role. But if the individual has two overlapping roles, then he or she will have to balance the roles according to time and venues. Much more, if he or she is undertaking three roles such as family-owner-employee, the complexity will be elevated. Each of the seven groups of stakeholders has its own interests, perspectives, goals, concerns, and dynamics.

Emerging Challenges and Strategies to Mitigate them

As a family business grows bigger and generates more income, there are emerging issues and challenges that inhibit the family dynamic and business functions. Without proper communication within the family and business, there will be no trust and no entrustment. The following are emerging challenges related to family wealth and family issues: Loss of family identity and values (e.g., Sorenson & Milbrandt, 2023; Suddaby & Jaskiewicz, 2020; Yew & Tan, 2022), family conflicts (Finch, 2005; Tan et al., 2019), current leader's inability to let go (e.g., Anderson & Reeb, 2004), culture of entitlement, an oversight and lack of communications (Tan 2021; Tanan et al., 2023).

Family conflicts must also be resolved as soon as they emerge. Therefore, commitment and discipline are important in accordance with family governance (Chrisman et al., 2018; De Massis et al., 2016) and firm governance (Bennedsen & Fan, 2014; Chen et al., 2006) to achieve the long-term prosperity of the family and business. The family's harmony and its social capital are vital to the competitive advantage of the company.

3. Discussion

Trust in Family Business

Trust can be defined as "the willingness of different people to become vulnerable to each other for the sake of getting engaged in relationships of mutual interest" (Diez & Den Hartog, 2006; Hadjielias & Poutziouris, 2015). Trust must be earned, and it is regenerative to sustain the family business (Sundaramurthy, 2008; Zellweger & Ohle, 2023). Trust among stakeholders—family and non-family members—contributes to the competitive advantage of family businesses (Allen et al., 2018; Habbershon & Williams, 1999; Kudlats et al., 2019; Stanley & McDowell, 2014; Zellweger & Nason, 2008)

The main focus in a family business is the roles and responsibilities of each family member by knowing what is done and accomplished for the proper functioning of the whole family and business. Trust in the family mobilizes the strategic management of succession, ownership structure, conflict resolution mechanism, retirement and estate planning, recruitment, family wealth preservation planning, and governance strategy (Tan, 2021). It is a unique resource that triggers and drives the financial and non-financial aspects of family businesses. The financial aspect is known as the economic and transactional perspectives from which family businesses make decisions. On the contrary, the non-financial or non-economic perspectives includes the Socioemotional wealth (SEW) dimensions such as family influence (F), identification of family members with the family firms (I), binding social ties (B), emotional attachment of family members (E), and renewal of family bonds through intrafamily succession (R) (Gómez-Mejía & Herrero, 2022; Gómez-Mejía et al., 2007) in which they make decisions, and cultural values or traditions may play a key role in SEW (Berrone et al., 2020).

For example, in succession planning, incumbents would not only consider the capabilities and intelligence of the potential successor but also the question, "Do the family members and non-families trust and accept this individual? Will they support this potential successor wholeheartedly?" For retirement and estate planning, this may depend on the country location where the family business is located and whether common law or civil law is applied. Parents may even allocate some of the family wealth to the children before passing away, entrusting them to see how well they can communicate afterwards and whether the children are able to preserve the inheritance. Thus, trust alludes to retirement and estate planning as well as family wealth preservation.

“For example, a message conveyed to a 59-year-old woman, whose parents created an estate trust that bypassed her and instead directly bequeathed to her children, was: ‘‘It was a bit of a slap in the face....it wasn’t a matter of the money. It was a matter of lack of trust.’’ A 65-year-old man perceived the hurtful meaning of wishes in his parents’ will: ‘‘I think back, how I felt when I heard that my [sibling] was going to get my parents’ estate....it was necessary, [sibling] needed it...[but] we were thinking back how hurt[ful] it was.’’

(de Witt et al., 2013, p. 187).

In terms of ownership structure, family leadership would often provide trustworthy family members a bigger percentage of the company's shares to enact their ability to vote and control corporate organizations. In this case, it is critical to feel confident that the company is in capable hands. When it comes to recruitment, family businesses can rely on the family governance mechanism (which is governed by the family constitution) and the firm/corporate governance mechanism (which is governed by the standard operating procedures, or SOP) that have been established and approved by bringing in the right family and non-family members.

Formal or informal family governance and firm/corporate governance, with the foundation of trust, can reduce the difficulties associated with resolving conflicts. Trust is the lifeblood of a family business, fostering improved communication between family members and other stakeholders. Both spoken and nonverbal cues suggest the essentials of trust in the communication flow, but most importantly, it is crucial to know who is communicating.

“Practitioners’ experiences inform us that family conflicts are often avoided or resolved through informal arbitration by family priests, family patriarchs, family matriarchs, or a relative <u>mutually trusted</u> or respected by all members. Other family governance issues, such as succession and division of businesses, are often mediated through informal mechanisms and the involvement of family friends, <u>trusted</u> relatives, spiritual gurus, and senior members of the family.”

(Thakur & Sinha, 2023, p. 22)

1.1 Mini Case Study of Chinese-Indonesian Family Food Processing Business: Nurturing Trust

A trusting relationship occurred in a family business where the son, Allan, proposed a diversified investment—acquiring a franchise for an ice cream shop—hoping to prove to his dad that he made the right investment decision. His dad, Teddy, cautioned Allan about the risk of the high initial investment and the fixed cost incurred in the financial projections. Notwithstanding, Teddy gave Allan the autonomy to go ahead with the investment through a calculated risk. The ice cream business boomed for a while but plummeted and closed down within 12 months, losing a total of around US$1 million. Teddy foresaw and monitored the progress of Allan’s failure but did not bring up the topic to his son. He understood his son was hurt by the business failure and decided to let him heal from his wound. It took quite some time before Allan approached Teddy and apologized for his ignorance, yet at the same time, he had so much respect for Teddy for his “wisdom of silence." Consequently, the bond of trust between Father and Son was developed, and now Allan considered Teddy’s opinions and even boasted about his father’s big heart of forgiveness and understanding.

Remark: A healthy balance between the management and family “hats” is necessary to foster trust. Family business management is an art, which is why it is named that. Younger generations need to demonstrate their character, intelligence, and skills in order to gain trust. However, older generations must cultivate trust by modeling patience, understanding, and forgiveness. (e.g., Fulmer & Gelfand, 2012; Lewicki et al., 2006; Lewicki & Bunker, 1996; Sheppard & Sherman, 1998; Tan & Lim, 2009; Tanan et al., 2023). Without trust, nothing can be achieved in the family business.

2. Governance: Entrusting Within Family and Firm

The governance mechanism in family business is a strategic tool to enforce trust among the stakeholders (Beck & Prügl, 2018; Davis et al., 2010; Orth & Green, 2009; Steier, 2001), and this governance mechanism consists of family governance and firm governance. Family governance mechanism refers to the structure that manages family issues alluding to harmony, stewardship, and ownership. On the other hand, firm governance manages business execution (strategic and operational) issues of the family business. These two governance mechanisms are derived from the incumbent or founder's values and traditions (Davis & Harveston, 2001; Ensley & Pearson, 2005; Smith et al., 1994; Stewart, 2003). They are also correlated, as decision-making is made based on the traditional values of incumbents, and it is natural for family governance to influence firm governance, as described below:

Fig. 4 *The Emanation of Incumbent's Values to Firm Governance (Tan, 2021)*

Incumbent's Cultural Values/Traditions

Incumbent's cultural values and traditions can be derived from their family background, parenting, and childhood upbringing. There is even a phrase, "it takes a village to raise a child" that denotes the importance of the environment to nurture positive cultural values or traditions. Positive values such as filial piety, integrity, diligence, self-discipline, resilience, frugality, etc. contribute to the foundation of building a great family dynasty (Palthe, 2014; Susanto & Susanto, 2013). Lao Zi in Dao De Jing Chapter 12 stated that a wise person always acts upon what is seen by the heart, not what is seen by the eyes. Lao Zi is basically trying to remind us that excessive wants bring greed and dismal, or even loss of self. On the other hand, a moral individual will orient himself or herself towards modesty and peace. This is one example of a cultural value or tradition that builds up a family dynasty. There is also a saying by Kong Zi (Confucius) that signifies the chronological priority of being able to manage Self, before Family, before Nation, in order to bring peace to this world: 修身.齐家.治国.平天下 (*xiū shēn. qí jiā. zhì guó. píng tiān xià).*

2.1 Family Governance

The goal of establishing family governance through a family constitution is to ensure that family members are communicating with one another in a way that promotes harmony and stewardship (Botero et al., 2015; Brenes et al., 2011; Davis, 2007; de Groote & Bertschi-Michel, 2021; Montemerlo & Ward, 2011). The family constitution is generally nonlegal and agreed upon by the core family members in consensus in order to imprint the family values and regulate the relationship between family wealth and the company. This consensus that brings about the establishment of the family constitution requires trust among the family members to agree on the terms and conditions written to regulate themselves. Without the intrafamily trust, the agreement would not transpire (e.g., Arteaga & Menendez-Requejo, 2017). Non-family workers are also more inclined to work for a family when they learn that the family has developed the family constitution or family protocol since there is a lesser chance of nepotism and a greater possibility of professionalism.

2.1.1 Mini Case Study of Chinese-Indonesian Family Logistics Business: Establishing Family Governance

John, the second child of David and Amy, was not happy with his elder sister and brother-in-law. The reason was because his brother-in-law, Nick, was jobless, and his elder sister, Tam, only worked part-time in the family business, and yet they were able to send their children to private schools. Quite recently, they were also able to purchase a new family car. "Where does the money come from?" asked John to himself. Not long after, John and his wife began to approach David and Amy to inquire whether they had been supporting Nick and Tam behind the scenes. David and Amy felt uncomfortable with this confrontation but realized the issue at hand. In order to assert fairness among their children, David and Amy hired a consultant to create a family constitution where family harmony had to be prioritized with the vision and mission of the family and business aligned and clarified. Subsequently, the family endowments were established, so there would be transparency on how much each family should receive for home down payments, scholarships for the children, annual travel budgets, insurance coverage, etc.

Remark: Family governance provides navigation to uphold the harmony of the family through a structure as the members "interact efficiently, equitably, and cordially" in balancing the "dynamic interests" of the blended family and its businesses so that the wealth of the family is preserved rather than being risked by miscommunication and ineffective decision-making (Morrone & Armstrong, 2013, p. 1-2). When family members are involved, formal and informal family governance mechanisms can enhance the efficiency of the family business as they communicate and make decisions together (Bennedsen et al., 2015). Thus, family governance is structured through a family constitution where the rule of play is clear for all members of the family.

2.2 Firm/Corporate Governance

Firm/Corporate governance ("firm governance" will be applied) refers to how companies are led through a formalized structure and the setting of firm/corporate goals (Abouzaid, 2008; Carlock & Ward, 2001). According to Sharma and Joseph (2003), corporate governance is related to business ethics and professionalism. Firm governance identifies who plays a role and is responsible for power and accountability in the company, and also who makes the final decisions for the company facing challenges. Hence, this firm governance enables the board of directors and management teams to make the right decision-making processes and controls in place to meet the interests of stakeholders such as customers, shareholders, suppliers, and communities around the company, etc. As such, stakeholders can have the confidence that the family firm can achieve its objective of win-win situations. Governance reflects the cooperation and trust between family owners and employees (Arregle et al., 2007; Hoffman et al., 2006; Sorenson & Bierman, 2009). Norms can create dynamics among stakeholders that are favorable for generations (Duh et al., 2010; Sharma & Sharma, 2011; Sorenson & Milbrandt, 2023).

2.2.1 Mini Case Study of Chinese-Indonesian Family Construction Business: The Need For Clear Firm/Corporate Governance

Winda was the director of marketing in a construction family business. She had the autonomy to decide on the promotion of her subordinates based on their key performance indicators. The CEO and majority shareholder, David Sr., told Winda to be strict with her team and to promote or demote anyone based on his or her performance. One day, Winda decided to demote two of her team members, as they were not performing. Surprisingly, these two employees, who were close to David Sr. way back when the company was established, went behind Winda and approached him to appeal Winda's assessments of them. David Sr. listened to the two employees and then told Winda not to be harsh and to overturn their demotion. Consequently, Winda was extremely furious and began to question the chain of command in the family business. A year later, Winda—one of the trustworthy key nonfamily employees—resigned, as she no longer had respect for David Sr. overturning some of her critical decisions.

Remark: Firm governance is the rulebook for the business affairs of a family business. Similar to Winda's situation, there will be misunderstandings in delegations and communications without it. Even favoritism is possible, and the best employees will eventually quit the organization. Based on the firm governance, the family proprietors must comprehend their tasks and responsibilities. One must put on the "hat" of management. Even in the chat group, while delegating and addressing difficulties, the chain of command must be evident because each department or area has a leader who reports to them. This is consistent with Herzberg's Two Factor Theory (1966), which holds that an organization's rules and regulations are crucial in ensuring equity among its workforce and giving them security and confidence in their ability to perform. As a result, depending on merits and demerits, those who perform well will be promoted, and those who do not, will be demoted. According to Fig. 4, family governance is required to determine who has a final call in family business that subsequently will affect firm/corporate governance as well, to minimize differences in the company's strategic orientation for effective execution and decision-making.

4.Conclusions

In family, it is vital to nurture trust between the incumbent-successor or father-child relationship. A successful succession depends on this mutual trust. This requires sacrificial trust, which is in contrast with the Invisible Hand concept by Adam Smith that when all parties act on their self-interests, unintended benefits are generated (Smith, 2010). On one hand, the notion of family trust means yielding or sacrificing one's self-interest to align oneself towards the betterment of the whole family. On the other hand, the concept of Smith's Invisible Hand motivates pursuing one's self-interest to benefit the whole society. Hence, further scrutiny on family sacrificial trust should be juxtaposed with the concept of Smith's self-interest. Perhaps a balanced calibration between sacrificing and pursuing self-interests could be attained in family business. Finally, family leaders must manage their family and firm/corporate governance mechanisms—whether formal or informal at the time—to ensure the treatment of fairness among family and non-family stakeholders is communicated and enacted as much as possible to boost their morale for the longevity of the family business.

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