

## **THE INFLUENCE OF SUCCESSION PLAN OF THE MICROFINANCE PERFORMANCE: THE CASE OF LPD IN BALI PROVINCE OF INDONESIA**

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### **Abstract**

*The main goal of this research is to know the impact of the succession (turn of the Chairman) on performance of the microfinance institutions that known as LPD in Bali. This research is conducted on microfinance LPD that ownership by villages and operates credit unions to the members of the villages. Our focused study is to evaluate whether microfinance LPD will be successfully transferred the chairman replacement process from one generation to another generation with bring-ups the next performance quality of the firms to be sustainable. This research is collected the data using the Likert scale, to find out the factors that influence successor characteristics on performance analysis done with the LPD, and developed linear multiple regression methods using SPSS program. Results of this study found, that the impact of the succession of financial performance against 63.33%, LPD have net income and have LPD 70% of total loans increased. While the influence of the succession of non financial performance against 88.33%, LPD has the granting of guarantees of service increase, 76.66% LPD had total production increases, and also with 51.63% market share performed. The experience of successor in accepting the transfer of business that came from the old successor.*

*Keywords: Microfinance, leadership succession, successor, performance*

## INTRODUCTION

The village banking institution called LPD is a community financial institution located in Bali Indonesia which take function as informal small financial service that organized and to be ownership by the membership of a villages. The LPD is organized financial resources and take function as credit unions, and developed financial service to the society as the membership of LPD. In term of financial service, LPD is nearly operates in the form of microfinance as knws in some countries as the second tier of banking model ( see ADB, 2015). The different forms of LPD and microfinance can be seen in position of ownership. Microfinance that operates in some countries almost initiated by private enterprises motivated with profit orientation.

LPD is become unique and combined some targets achieves together such as profitability target, social target and better communities wellbeing and spirituality. Those of complex aims and targets will be difficult to evaluate the successful of LPD is not measures just only for business goals, but also considering the other criteria such as social target (Kipasha, 2013), and in the context of spitul wellbeing ( Kim et al, 2013).

Based on data reported by local media ( Bali Post, August, 2016), more than 500 units of LPD have been built in rural and urban sectors in Bali, take function as credit union that have limited access only limited to members of the village community only, and do participates in regional financial market with total assets more than 15 billion.

LPD as business organization can't separately closed to financial market competition and in global mobilization of financial capital to days. As the consequences, theoretically some firms would be out from market competition if those of the firms have lack of leadership capability and its strategy to survive. Our research focus tend to believe that the crucial problems to days in many firms depends not only by the lack of capital sources, but also for the professional managers that will be guarantee for developing the sustainable firms.

Currently survey in the context of leadership as the central critical problems commonly found in many of the LPD is the issue of succession of managerial replacement that still difficult to guarantee that under the new manager the system will be running as well. In some LPD we found that the community does not want to replace its Chairman because his successor feared not being able to continue the efforts of LPD. Empirically, there are at least 32 LPD can be categorized have red cross as failure, as the consequences of the succession processed, even though many are also experiencing success. A succession of failures in some of the LPD, estimated for not doing a good succession (Bali Business, December 4, 2014).

Some research suggests that the success of the company as seen from its performance turned out to be affected by the succession of good planning. Researchers have long discussed the topics of succession planning for supporting the growth of a business

(Brockhouse, 2004). The number of firm successors mostly in large business firms (Gorden and Rosan, 1981), because of those of large companies themselves produce large number of successors. To be extended, small or medium sized firms characterized by limited to the number of family members jointly, have little opportunity as the potential successors. Some research studies reported (Maynad, 1999) indicated that the replacement position of managers because of retire, less possible of the small businesses are continued to the second generation, and less than a half of second generation firms to be running well to the third generation (Braham-Miller et al, 2004).

As revealed by Garg et al. (2012) and Miller (2005) argues that a good succession is a valid indicator of the effect on the performance of a company. During the transfer of leadership will take place smoothly while surrogates have been prepared better. These include preparation by preparing successor firm with the succession planning process, including the process of the transfer of wealth and property rights as well as things that could potentially bring in wealth-transfer (Atwood, 2007).

The majority owner of the company is aware that the succession is very important in the survival of the company, so it needs to be planned to ensure the continuity and success of the company in the future. But unfortunately, not a lot of management companies that guarantee doing succession planning at the company. Research conducted by Bowman-Upton (1988) found that against 178 companies, only 34% who have written about his company's succession plan, while research conducted by Fieldman in 1989 in King County, Washington showed that 57% of companies have no plans, either for a succession of ownership or to the helm (Marpa, 2010; Aronoff and Ward, 1995).

Indonesia as the group of emerging countries have found many companies fail to achieve the way lead on the second generation of leadership, but many are successful even after being managed by generations due to the success in next step generation as the process of succession, such as the company of Mountain Djarum Sewu, Dexa Medica Group and some other groups. As we can note, that some companies have managed to survive to day until more than 100 years, such as the Savoy Homan founded in 1888, Jamu Iboe that was built in 1910, and Sampoerna Herbs and Mrs Meneer was build in 1919 (Pambudi, 2007).

Having regard to the fact that many companies could not survive on the second generation, and yet the existence of adequate succession planning at most companies in Bali, then there is the concern of most managers LPD in Bali that the leadership succession process on some LPD did not go well, so that will have an impact on the economy of Bali, caused LPD-LPD in Bali that currently exist, have a significant role in propping up the economy and provide many jobs for its people

Based on the above, a phenomenon that over generations in the form of succession (turn of the Chairman) LPD is an important factor in the success of the management of the LPD. Therefore, it is very interesting to researched how the impact of the succession of LPD on performance in Bali.

## RESEARCH METHODOLOGY

Research is conducted in Bali region. The data sources are organized using instrument research development. The primary data collection is design using probability sampling ( see Khotari, 2002), and across Districts in Bali based on the selection procedure that the most numerous LPD were selected come from the nomination of LPT type that were done as the minimal succession until the second generation since its establishment. The number of samples specified as much as 60 respondents and use proportional random sampling to determine sample representativeness. Data collected is conducted using survey technique based on a questionnaire. Before the data is collected, the research instrument were test for the accuracy, reliability and validity of the research instruments.

### Firm Performance of LPD

The company's performance measure on this research is developed from theoretical concept of Dempsey et al. (1997), that elaborate the company's performance integrated with measurement systems and used qualitative approach based on the Likert scale with 5 scale, range from 1 (strongly disagree), 2 (disagree), 3 (enough), 4 (agree) and 5 (strongly agree). The company's performance are analyzed: (1) from the side of finance in the form of an increase in net income and an increase in the channel of loans, (2) from the side of the non financial guarantee in the form of granting of services, increasing the number of products that produced by firms, and an increasing number of market share.

### The Successor Characteristics and LPD Performance

Successor characteristics of some factors that affect the performance of the LPD

Are developed in formulation of structural equation modeling as below,

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \quad \dots\dots\dots (1)$$

$$Y_2 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \quad \dots\dots\dots (2)$$

Where,  $Y_1$  is the financial performance, namely the the net income of the company,  $Y_2$  is the performance of non financial, namely as the measurement of an increase in the granting of a guarantee in service, the  $X_1$  is a successor experience in receiving the transfer business,  $X_2$  is

long successor worked at the company before taking the helm as Chairman of LPD; and  $X_3$  is the willingness of successor to take over the leadership as Chairman of the LPD;  $\beta_0$  is intercept (constant);  $e$  is errors term (disturbance term); LPD performance coefficient of  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  estimates due to changes of factors characteristic of successor). Data processing using SPSS and have done with the testing procedure and the precision steps for finding the goodness fits of the model.

## ANALYSIS AND DISCUSSION OF FINDINGS

The company's performance and measurement system can be defined as a formal procedures and routines based on information used to evaluate leadership position LPD as a chairman changing patterns in activity of LPD. The methods and measurement used on LPD performance was adopted from Dempsey et al. (1997), the performance of the financial side, and measured start from the increased in net income supported by an increased in the credit channel expansion, as well as potentially encourage by the side of non-financial performance, as well as from the giving of the continuing guarantee in service, the increasing number of product diversifications, and an increasing number of market share. Table 1 presented the LPD's performance.

Based on table 1, it can be noted that the responses of the respondents against the revelation, as a matter of facts, there is a significant increase in net income after the company did a succession of leadership' is as much as the 15.00% stated strongly disagree, 21.67% stated does not agree, stating quite agree 28.33%, 15% and 200% agree strongly agree, declare or 63.33% declared LPD had net income rises after succession. Based on the average score 3.03, we can note that quite agree LPD net income rises after succession, which means that the Chairman of the new LPD has been able to determine the specific targets in each area to work according the capacity of each, so that the the goal of LPD to increase net income can be reached.

Table 1 also presented the responses of the respondents against the revelation of an increase in credit after LPD did a succession of leadership' is as much 16.67% stated strongly disagree, 13.33% stated did not agree, stating quite agree 28.33%, 21% and 20% agree strongly agree stated, or 70% of LPD has the credit rises after succession. Based on the average score 3.15, we can note that some respondents agreed that mostly the LPD Chairman have successfully increased credit expansion after a succession. It is means that the LPD leadership connected with appropriate credit capacity, so that the target is an increase in the credit channel can be reached.

Table 1. LPD Performance After Successfully Action in Bali 2010-2015

No	Firm Performance	Frequency					Total	Average item
		Fully disagree (score 1)	disagree (Score 2)	Neutral (Score 3)	Agree (score 4)	Strong agree (score 5)		
1	Income reasoning	9 (15,00)	13 (21,67)	17 (28,33)	9 (15,00)	12 (20,00)	60 (100,00)	3,03
2	Credit volume allocation	10 (16,67)	8 (13,33)	17 (28,33)	13 (21,67)	12 (20,00)	60 (100,00)	3,15
3	Service to Customer	2 (3,33)	5 (8,33)	0 (0,00)	24 (40,00)	29 (48,33)	60 (100,00)	4,22
4	Quality product and expansion	6 (10,00)	8 (13,33)	20 (33,33)	17 (28,33)	9 (15,00)	60 (100,00)	3,25
5	Market segment And shared	7 (11,67)	22 (36,67)	5 (8,33)	12 (20,00)	14 (23,33)	60 (100,00)	3,07

Note: Number in bracket is percent

Average = (score x freq)/number of respondent

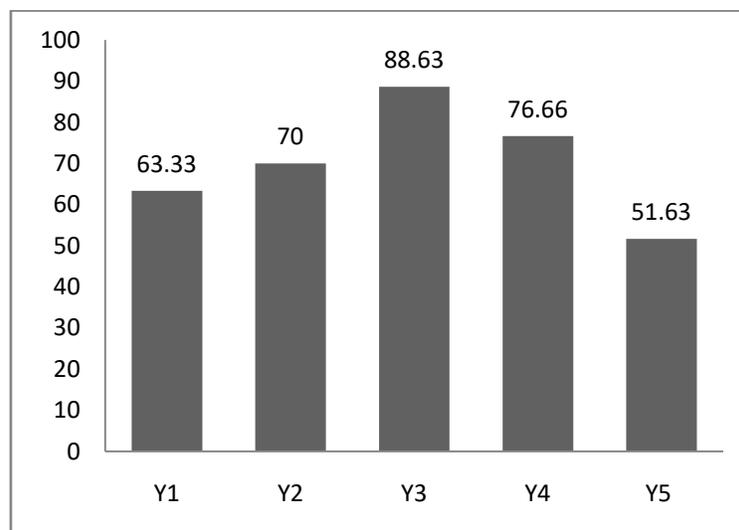
Table 1 shows that the response of the respondent against the revelation. An increase in the granting of the guarantee service after LPD do turn of the Chairman' is 2.33%, stated as strongly disagree, 8.33% declared 0.00% disagreed, stating quite agree, is 40.00% agree and 48.33% stated strongly agree, or 88.33% LPD has the assurance of services that increase after he did the succession. Based on the average score 4.22, its can note that LPD service granting bail had agreed that riding after he did the succession. It means that the new leadership of LPD has been able to determine the specific targets in their respective areas in accordance with its capacity. To be expanded, that is the way all of the work in each field can be running optimally, so the purpose of granting guarantees to enhance the LPD service to society can be achieved.

Based on Table 1, it can be noted that the willingness of the respondents against the revelation of the increasing number of service production made, after the LPD has a succession of leadership' is 10.00% stated strongly disagree, 13.33% declared 33.33% disagreed, stating quite agree, 28.33% agree, and 15.00% stated strongly agree, or 76.66% LPD agree has an increasing number of production rise after he did the succession. Based on the average score 3.25, its can be note that the family company agreed the number of resulting production rose after he did the succession. It means the leadership of its new LPD has been able to explain

and coordinate destination LPD to each field about the purpose of the establishment of the target, so that LPD probably has capability to increase the amount of production can be reached Table 1 shows that the willingness of the respondent against the revelation, can be investigate that an increasing number of market share after the company did turn Chairman LPD' is stated very 11.67% disagree, 36.67% stated the 8.33% disagreed, stating quite agree, 20.00% agree and 23.33% were either strongly agree or 51.63% (plus agree quite agree and strongly agree) LPD agree had a total market share increase after he did the turn of Chairman. Based on the average score 3.07, we can note that LPD quite agree having the amount of market share rise after a succession of leadership, which means new LPD has been able to communicate and coordinate the destination LPD to each field, so that each field is able to work according the specified target and more specifically to the field of marketing, so that the goal of establishment of LPD to increase the amount of market share can be achieved.

Figure 1 presented the performance of LPD after a succession of leadership in turn of the Chairman, as the view point of financial performance. Figure 1 captured mostly 63.33% of LPD had net income of ( $Y_1$ ) up, and 70% of LPD experience channeling in credits expansion ( $Y_2$ ) is increased. From the view point of the non financial Performance, it can be note that 88.33% LPD has the granting of the guarantee service ( $X_1$ ) are up, and 76.66% family company has production in the form of services ( $X_2$ ) are rising, and as much as 51.63% of LPD has the market share ( $X_3$ ) are successfully increased.

Figure 1. LPD Performance After Successes (%)



Successor characteristics of some the factors that affect the performance of the LPD were known as the influence of factors that perform LPD successor characteristics. This research is

developed a combination of factor analysis and regression methods as design in equation (1) and equation (2), where  $Y_1$  increased net income of the company as a bound variable. The equation (2) is design for the non financial performance model, and the granting of guarantees in the improvement of  $Y_2$  as bound variables, whereas the variable is not bound, i.e.  $x_1$ , successor experience in receiving the transfer business,  $X_2$  long successor work at LPD before taking over the leadership of the LPD and  $X_3$  is measures the willingness to take over the leadership of the successor of LPD.

Table 2. Regression Analysis Report  
The Impact of Successor Characteristics to LPD financing Performance  
(based on the income netto approached)

Latent Variable	Regression estimation	Statistics t-	Prob.	Description
$X_1$ (Successor experience )	0,771	8,222	0,000	Support
$X_2$ (long working as successor )	0,231	2,757	0,008	Support
$X_3$ (the willingness of successor)	0,110	0,129	0,898	Not Support
Constant	-0,038			
$R^2$	0,737			
F-test	52,395			

Based on Table 2, that the successor experience ( $X_1$ ) have successfully transferred business experienced to the next leadership is supported. This means the longer experience of LPD successor receiving the transfer business experienced, than the higher performance of LPD to increase net income of LPD in the future. Successor experience closely related with the quality of the successor. This supports the theory expressed by King et al. (2001) that emphasizes the quality of leadership successor. The latent variable  $X_2$ , i.e. long successor work at LPD before taking over the leadership of the influential significant at a 5% confidence level, as well as having a positive influence on performance of finance LPD. This means the longer successor working, then the higher performance of LPD to increase net income in the future.

While the latent variable  $X_3$ , successor is willingness to take over the leadership of the LPD is not influential financial performance significantly to LPD. However, statistical F-value indicates 52, 395 means that all estimation significant by 5%. Adjusted R Square ( $R_2$ ) is found 0.737, it is means that the variation characteristics of successor will give a contribution of 73.70% against variations in the financial performance of the LPD.

Table 3. Regression analysis estimation  
The influence of successor characteristics on LPD performance

Variable	Regression coefficient	t- test	p-values	Discription
$X_1$ (Successor experience )	0,298	2,505	0,015	Support
$X_2$ (long working as successor )	0,175	1,641	0,106	Not Support
$X_3$ (the willingness of successor)	0,658	6,286	0,000	Support
Constant	0,217			
$R^2$	0,704			
F-test	44,491			

Based on Table 3, we found that successor experience ( $X_1$ ), and the willingness of successor were support with 5% level, but fail to have with the same significant position for latent variable of long working as successor as the determinant key in affecting the LPD performance. As we have look in Table 3, successor experience has impact to significant relation to business with the levels of 10%, as well as having a positive influence on performance of non-finance, but still questionable and not a stable relationship to be recommended. This means that we have not any information of long working experience as the variation enough to influence successor receiving the transfer business, then the higher the performance of non financial LPD to improve the granting of the guarantee service in the future should be difficult to predict by this empirical statistical report.

The latent variable  $X_3$ , as the dimension of willingness of successor to take over the leadership is support by this research with 1% level of significantly, and therefore, as well as having a positive influence on performance non financial LPD. This means the higher the power of successor to take over the leadership of the LPD, then the higher the performance of non financial LPD to improve the granting of the guarantee service in the future. This supports the theory of Lansberg Astrachan, (1994) the commitment of the villagers against the LPD successor ability to manage business LPD. The statistical F-value is 44, 49 that still larger than the F statistical table, so that all of the parameter can be used as regression coefficient prediction in general. However, as we have discussed before, the latent variable  $X_2$  (long working as successor) is not stand alone as for prediction, because of the statistic t is less then the value of standard t-test score, or p-value of statistic t is greater than 5%, and we have concluded that the relation between long working as successor does not inform us the valuable for future research, and still important to investigate in advanced why long experienced successor fail to trickling down to the next leadership generation.

More sampling size and extension to another small business firms would be taken as a consideration for looking better statistical sign estimation, that might be brings-up some research improvement in connection with the topic of the successor characteristics for guarantee that more beautiful history of the success of family business will be expected more stable and stand for long run sustainability around Indonesia.

## CONCLUSIONS

The increasing importance of successor characteristic of family business will be design for strategic alliances in the global business environment to be more survival and continue perform to have market segmentation shared. As Mathews and Zander (2007) affirm that the competitive advantage of a firm is not due to owned assets that are exploited in international markets so much as it is due to the firm's ability to manage the market. Some Conclusions that the possibility for family business such as LPD will be survive under the condition of market competition globally, based on the results and discussion can be drawn the conclusion,

- (1) Impact succession as well as turn of the Chairman against the financial performance of LPD was produced 63.33% of LPD net income.
- (2) Impact succession in credit expansion that 70% of LPD have developed credit channel expansion, while the impact of the succession of non financial performance against LPD is 88.33%, and LPD has the giving of the guarantee to 76.66% services increase of LPD, and have perform LPD with 51.63% market shared.
- (3) Successor experience in accepting the transfer of business and the old successor work at LPD influential positive financial performance against LPD. The experience of successor in accepting the transfer of a business and a willingness to take over the leadership of the successor at LPD level, have empirically positive effect on performance of non financial aspect.

## LIMITATIONS AND FUTURE RESEARCH

This study's results are subject to certain limitations that must be considered. First, this study is only focus on leadership successor as the key for firms performance, while the complexity of management of one firm more than managerial aspects, so that inserting more other latent variables to make this research model become more realistic. Future research should be directed towards developing a sound empirical base to extend the results and include other firm type and with different object and environment condition.

This study is conduct for a period of time, shortly and only one type of the firms, Therefore this research limitation become aware as more focus on the case rather than to be

capture the case in general. However, further research is need to make the study focus become more realistic with longitudinal research plan and extended with more firm type to have more understanding the role of successor leadership for the next generation especially for small scale firms in Indonesia.

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