International Journal of Engineering, Management and Humanities (IJEMH)
Volume 2, Issue 5, pp: 10-19 www.ijemh.com

Impact of Talent Management Practices on Financial Performance among Indonesian Family Business

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Date of Submission: 15-08-2021 Date of Acceptance: 28-08-2021

ABSTRACT: The main objective of this study is to examine relationship between talent management practices and financial performance of family business. This was a one-shot or cross-sectional study to gather the data from owner or CEO of family business one point in time to finding the answers the questions of this study. The survey sample for this study is 385 family business recorded on Ministry of Industry (Kementrian Perindustrian) of Indonesia directory. Based on the results of the analysis, it is known that the talent management practices affected the financial performance. **KEYWORDS:** Talent Management Practices, Financial Performance, Indonesian Family Business

I. INTRODUCTION

Family business have an important role in the economy of a country. In Indonesia, 96% of existing companies are family business (Kausari, 2014) and most of the companies are owned by family or individual (Singapurwoko, 2013). Latest data shows that family businesses, or businesses whose majority shares are owned by a family, make up 95% of the total companies in Indonesia. Based on data from the Central Bureau of Statistics, a family business in Indonesia has a large contribution to the Gross Domestic Product (GDP) of 82.44%. According to Ghee, Ibrahim, & Abdul-halim (2015), in Indonesia, family businesses that provide high number of contribution to the GDP, an indication that the businesses have the ability to offer solutions to social issues such as unemployment, poverty, and levels of crime.

A study conducted by Lukviarman (2004) showed that between 1992 and 2002, most of the family businesses in Indonesia were struck by great financial crisis on 1998 and managed to survived. The Sun Life survey on 2020 entitled “Future of Family Businesses in Asia” also found that the presence of the COVID-19 pandemic has raised the competitiveness of young entrepreneurs. Warta Ekonomi (2020) reported more than 60% of business owners agree the family business model has many advantages, including management's commitment to the company (65%), and the ability to see business opportunities in the long term (63%).

In Indonesia, Micro and small company established based on pure family business platform (Pricewaterhouse Coopers, 2014). Most micro and small firms are informal, use rudimentary technologies, and employ only one or two workers, often poor and unpaid family members whose subsistence livelihoods depend on their firm’s profits. The number of micro, small and large company in Indonesia during period of 2015-2018 is growing, in contrary medium company facing the declining during year of 2016 and one of the cause is their inability to perform.

Based on Yonnedi (2010) more than 90% of companies in Indonesia are handled by one family and a quite number of go public companies whose shares are even held by the family. From those companies which are listed between 2000 until 2009, 67 % of them are listed as family owned business. Family businesses form the largest number of enterprises in Indonesia dominating many industries and sectors of the country (Pricewaterhouse Coopers, 2014). Family owned business is the cornerstone of most businesses worldwide. Despite its popularity, the primary challenge is talent management practices, which has in most times hindered the businesses' performances. The term talent management has been recognised as a remarkable step in the concentration of academics and practitioners since its inception in the 1990s and has also gradually become public in the field of human resource management (Mensah et al., 2016).

Johara et al. (2020) described talent management as a means of improving employee performance in most of the previous studies, with the overarching objective of maximising organisational performance, for example in terms of efficiency, quality, and profitability. However, talent management indicated that employees are now turning them into the most important and critical assets for each organisation, providing for the efficient use of fewer resources by current organisations (Johara et al., 2020). Moreover, talent management not only traces differently the multiple elements of the performance of the workforce, but also the overall performance of the workforce, but then the thought-provoking inquiry is what it informs the many components of the performance of the workforce (Mensah et al., 2016).

The belief that employee performance has significant impact on business goals has been taught and accepted by academics and implemented by business over the course of time. recently, employees of a company often provide special competitive advantage, however, have an interest in this has increased In other words, according to Barney's (1991) resource-based theory, firms should rely on human resources (HR) to have a source of long-term competitive advantage when four critical conditions are met. Production values must be improved: Performance levels must be made more important first. The second factor is that the firm wants in new graduates is rare skills. Because human performance is typically distributed, human resources satisfy both these criteria. The third requirement is that other human capital investments a company's employees cannot be copied.

Though human resources are not subject to the same degree of imitation as other resource costs, investment in employee skills can significantly reduce a firm's competition with other organizations. advantage and preserve long-term competitive advantages derived from employees must not be replaced by technical advancements or replacements (Huselid, 1995). This is going to be bad for labor-saving innovations because the movement to a service economy, together with high levels of automation in many industries, has already increased the need for human capital.

A number of researchers have studied the connections between HRM and corporate performance. Similarly, work done in the field of human resources has found that a dollar (41% of the salary) SD increase in performance is equivalent to an SD (one standard deviation) increase in employee performance, and that work-based management practices like this have important effects on organisational results (Gallardo et al, 2013). Similarly, found a significant and profitable, and Gama (2012) found a positive relationship between the extent of employee recruitment and testing validation of increased performance profitability, as well as an increased use of pay-for-for-performance incentives.

Lewis (2006) two findings are methodological, and one includes both conceptual and measurement problems. The first issue concerns the potential simultaneity of High-Performance Work Practices and corporate financial performance, a problem exacerbated by the prevalence of cross-sectional data in this line of research. For example, if higher-performing firms are systematically more likely to adopt High-Performance Work Practices, then contemporaneous estimates of the effect of these practices on firm performance will be overstated. Alternatively, it is possible that otherwise low-performing companies would turn to High-Performance Work Practices as a solution. If this is the case, such cross-sectional estimates would understate the true impacts of HRM practices on company performance. This type of simultaneous relationship is less likely in the case of turnover and efficiency because these factors are unlikely to have a large impact on the selection of High-Performance Work Practices. Given the direct relationship between firm profits and the availability of slack resources for such investments, it is easy to imagine a firm's financial performance having such an impact. That is why this research is still rare and difficult to find.

Therefore, based on this discussion, the study proposed that there is a positive relationship between Talent Management Practice and Financial Performance of Family Business

II. LITERATURE REVIEW

Family businesses, according to Chua, Chrisman, & Sharma (1999) are defined as businesses whose purpose is to shape and pursue the family's long-held vision that are potentially sustainable over time for generations of families. Accordingly, Baek, Cho, & Fazio (2016) stated family business refers to an enterprise, where members of the same kinship group own the

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business and do policy formulation processes. Ahrens, Landmann, & Woywode (2015), define family businesses as those governed and managed with family members to attain the vision of ensuring potential sustainability across generations.

All above definitions have highlights of family involvement, control, and the intent to pass it to the next generation (Boyd et al., 2014). However, these definitions vary with others showing generations in the business and others showing ownership by one or more members of the family. According to Lam & Lee (2012), family business is described based on management, ownership and intention to transfer. These are the level of family involvement, extent of family ownership and administration, possibility of transfer to the next generation and multiple criteria. All these classes have helped to expound on the definition of family though they have not been applied to empirical data.

The definition of family business by Brockhaus, (2004) is a business owned by and managed by one family member or more. The concept of family defined as people related by blood, adoption or marriage, was used by these researchers when defining a family business where they share common residence and running of a business. To meet the requirements of the research standards of the NFBP, an intense one-year work schedule was required. indefinitely, the owner had to have worked full-time, round-the-the-clock, or continuously in the company for at least 312 months (one year and two weeks).

A business may be referred to as an a family enterprise if there are at least two generations within the corporation, and their influence greatly affects corporate policies. A firm is categorized as a family-owned business under a condition that the controlling person can gain sufficient shares to ensure at least 20% of the voting rights, or it is even better to reach the highest percentage of the voting rights, compared to other stakeholders. Additionally, in terms of shareholding, Gubitta & Gianecchini(2002) point out that leastways 20% of the shares are hold by the family although the business might be managed by family members of even outsiders. In regard to its ownership Brockhaus (2004) emphasizes that a family's ownership toward the firm should be at least 50% of the shares as most of family business owners intend to pass the business on to their descendants. Brockhaus (2004) even state that the family needs at least 51% of the shares. Besides, family take a dominant role in the firm management and control.

In Indonesia, company that described as Family Business should consist either of this option. The majority of 'votes' are in the hands of the founder or person who acquires the company (or spouse, parent, child or heir); there is at least one family representative involved in the management or administration of the company; for a public company, the founder or person acquiring the company (or family) owns 25% of the rights to the company through investment and there is at least one family member in management (board of director) (Pricewaterhouse Coopers, 2014)

For almost two decades now, this type of businesses has received academic recognition through its aspects such as family involvement though there is no conclusive explanation on how they thrive due to inconclusive findings (Michel & Kammerlander, 2015). Inconclusiveness of the findings is due to pure consideration of family involvement as per "components-of-involvement approach" as it is not capable of capturing the exact influence of personal issues on family firms. Considering the capabilities of the dynamics, (Gama & Rodrigues, 2013; M. Lee & Rogoff, 2016) family members that are involved in the business bring more to the table such as "static resource".

Businesses operated by family have a distinctive feature especially when the members are involved in operation (Lukviarman, 2004) which gives it an upper hand therefore performing better than other entities. The presence of family in a business can be used to show the dynamics of the family itself. A study conducted by Detienne (2013) and Murphy and Lambrechts (2015) showed that only 30% of firms owned by family members survive the transition process between the first and second generation, with only 12% surviving the third generation and number of family business that still remain until fourth generation only 1% and 12% from the third generation.

Lines of the firm's tripartite model is usually seen as the norm for family companies, with the family, company, and the ownership regarded as three interconnected (Gersick et al, 2014). It is a notable achievement to realize that the company has three distinct circles. Circles often become tangled, this leads to poor communication, frustration, alienation, and no intention to persist.

In the three circle model of family business, there are seven job roles that intersecting and overlaping. Managers and owners should expect to be groomed from these positions. People change jobs throughout their lives, moving into and out of business. Nevertheless, their family identity remains constant as they progress from childhood to adulthood. Individuals, companies, or families may be at different stages of growth. Therefore, consulting to family-owned companies is intricate and calls for the determination of each member's stages of development on both the business and personal side.

Talent Management (TM) focuses on the three key resources: Attracting, selecting, and developing, in order to be successful in market position (Collings and Mellahi, 2009). In general, the notion of Talent Management as defined in the current literature can be broken down into three sequential activities: sourcing talent, managing, and retaining talent (Scullion et al., 2010). Practices that are associated with performance and overall business strategy may well be one of the distinguishing features between a TM and HR practice. According to Lewis and Heckman (2006), talent management presents a transformation process of input, HR practices, and output. Firstly, as a representation of traditional human resources activities such as recruiting, selection, growth, career management, and succession. Secondly, throughout the organization more explicitly focused on forecasting the flow of human resources due to supply and demand, of workforce skills and growth. Lastly, to create a noteworthy influence on the current and future performance of the company talent is distinct as the ability that individuals have. Talent management has an indirect relationship to performance which can be influenced by well-being practice conducted. Thus, the focus is on employee performance to enhance attachment, engagemtn, motivation, commitment, and extra role behavior.

Bolander at al. (2017) interpreted that the position of talents within an organization determines talent dimensions which have an impact on talent management practice. His argued talent is not absolute, it is relative and subjective. The key position of talent management is an ever-evolving and difficult issue in determining the performance of the organization. Schweyer (2004) has recognized that the two key players in TM, such as the organization and the talented workforce, both have a distinct picture of the future and the real value of talent management. Schweyer (2004) added that every talent management ensures cooperation between top management, HR staff, talent, and other stakeholders to ensure the best match for the internal organization. As a result, Ross (2013) argued that organizations would struggle to recognize and discover potential talent in the future unless they struggle to define, develop, or engage their talents today. In general, Lawler (2008) pointed out that talent is a key factor in the success of the organization for the workforce working in critical jobs and can make a significant difference in organizational performance. Moreover, the industry is well-considered as an essential business process that requires input to produce output (Agrawal, 2010). In most cases, the concentration of TM is to recognize the talent according to the criteria where even the expertise is the input. Further to identify their underlying strengths and capabilities to create an environment that effectively enables them to influence these talents in their personal and career success (Ross, 2013).

Additionally, talent management is an exclusive support tool that assimilates all responsibilities and activities related to running the talent's lifecycle regardless of geography from appealing, acquiring, emerging, and recollecting talent. Mathew (2015) pointed out that talent management would offer the appearance of being diligent and proactive in meeting current and future organizational needs which would mean attracting, developing, and retaining people with the anticipated services.

On the other hand, Swailes (2013) suggested that talent management is ethical if it correctly recognizes the ability of staff and encourages employees to fulfill their fullest potential (not just for the benefit of the organization), and other staff incentives are not refused. Apart from this, the TM practices have therefore been critically analyzed by Painter-Morland et al. (2019) which will concentrate on the possibility of undermining the capacity of the individual to recognize standards and values and their impact. It is a well-used concept in contemporary organizations, where talent management is practiced, that requires more contenders to specify the impact of talent management practices and the accuracy of these practices. Essentially, Tarique & Schuler (2010) identified a full set of practices that talent management encompasses, such as talent acquisition, talent development, and talent retention, intending to identify, hire and managing people to implement the company's strategy to be successful. Furthermore, talent management has been identified as a key element of organizational success and should be at the forefront of organizational policy and culture through talent acquisition, development, and retention.

Talent management practices are therefore considered to take into account the responsibilities of employers and the main ethical theories used to analyze business situations (Swailes, 2013). Previous studies have shown that talent management influences the attitude of employees to perform, engage, motivate, satisfy and make a turnover intention. Further, a wide range of studies mentioned that outcomes such as engagement and employee performance can be achieved through investment in talent management practices.

Based on findings by Valverde et al., this study found several features of TM in the companies in Spain. It was found that while managers were unaware of TM terminology, most of these companies had TM in place. These results suggest that TM practices may have been targeted on organizations that use them as part of the sampling process. For many smaller companies, particularly in the hospitality and tourism, however, creating a balance is difficult to accomplish. It is according to the existing literature, many small businesses tend to be less formal, systematic, and lacking in hierarchy.

Although this is generally the case, small businesses are unlikely to utilize informal practices. The real reasons are diverse, including industrial or sector idiosyncrasies, organizational culture, and resource paucity among owners and managers, and lack of understanding of what are considered strategic management practices in the context of performance within the owners and managers' and business management sector. This does highlight the complications associated with studying small and medium-sized businesses, as there are problems associated with their homogenization. Furthermore, SMEs tend to be under the direct supervision of the owner (Brush et al., 2002).

Testers carried out a poll with 700 CEOs and founders of small businesses in Germany to assess their thoughts on TM. Based on the survey results, it was determined that 40% of the participating businesses had CEOs or owners as recruiters, with the most power in decisions. This emphasizes the significance of the owner-managers play in implementing a long-term strategy. It is thus important to examine the levels of formality which owners and managers believe are crucial to a company's long-term success.

However, as noted by Firth et al. (2006), smaller, business, service, and retail-oriented SMEs are more likely to invest in TM activities that include early identification of young talent, employee training and growth, and planning, including developing new employees and laying out a workforce plan. This may be evidence that liability has made formal HR or TP policies rare. It is necessary to place a high value on HR departments that have a high supply of limited resources. Talent assessment and management may be suppressed in favor of sales or finance (Suess, 2014).

Some conclusions may be drawn from the current literature on small businesses's use of TMs. Formal practice appears to be lacking among small-and-sized firms. Despite the great prevalence of terminology in academic circles, management, there seems to be a lack of awareness of the notion of TM among owner-managers. Moreover, there is often a lack of clarity regarding whom managers are addressing. But on the other hand, strategic access to high-potential and high-performing individuals is provided by the exclusive selection strategy. At the same time, the "inclusive" or "whole workforce" concept" workforce is based on the idea that a large majority or all workers will affect the overall success of the organization.

There are two indicators in measuring business performance, they are financial performance and non-financial performance. The difference between them is financial performance is a quantitative approach that reflects financial health of a business and focusing on short-term success while non-financial performance measures the qualitative aspects of the business and focusing on long-term success. In order to evaluate financial performance, businesses do numbers analysis from financial statements such as return-on-asset (ROA), return-on-investment (ROI), turnover ratio, etc. On the other hand, goodwill and morale are examples for measuring non-financial performance.

The financial performance of a company has to do with its performance. Qualitative or quantitative assessments may be made based on the topic of study. The core parameters include earnings, growth, sales, and other measures. McConaughy et al. (2001) mentions that family-controlled companies have an incentive to maximize company value and higher market-to-to-book equity ratios than those without families. Anderson and Reeb (2003) agrees that families with roots in the market show considerably better accounting and market performance.

Various studies show that family-owned businesses outperform non-family businesses. However, this finding has been questioned by other researchers. Schulze et al. (2003a) identify different inefficiencies associated with the family system. A sample of 187 Brazilian companies was studied, of which 120 were classified as family owned by the family and the involvement of the board members in the board (Beuren, Politelo, and Martins, 2016). Simultaneous equations were used to analyze the relationship between family participation and corporate performance, while other businesses underwent testing, and a visual analysis demonstrated the degree to which family involvement contributes to improved results. in the result, non-family-owned businesses tend to have fewer results they demonstrate a positive relationship between family involvement (ownership) and business performance The performance of family-owned businesses is optimized when participation in the management and ownership approaches 60% and 70% respectively.

Results obtained using either a profitability indicator (ROA) or a market value indicator (Tobin's Q) indicate that family ownership is beneficial to a business' The profitability of a business (ROA) starts out higher and declines. This simply means that when families control firms with more than 30% of the total capital, we have a higher risk of entrenchment and poor performance. The data showed that family-run businesses outperform non-family companies. Additionally, family-owned firms have better results than nonfamily firms. when a family company is associated with exceptional performance only if the CEO or chairman acts as a member of the next generation However, families have poorer outcomes when they are linked with CEOs or chairmen, heirs/heirs serve as CEOs or chairmen for companies.as CEOs or chairmen family firms are associated with poorer firm performance.

The literature review showed that founder family control and professional (outside) management increase performance, whereas excess control via control enhancing mechanisms (such as dual class shares and pyramidal structures) and descendent management produce both lower valuation and performance. This evidence suggests that families have the incentives and the power to systematically expropriate wealth from minority shareholders.

III. RESEARCH METHODOLOGY

This research uses a quantitative method through survey. A quantitative approach is used to examine the factors contributing to the financial performance of family business. Since the present study is carried out on a specific phenomenon at an exact time, the researcher, therefore, there is a time constraint. Data are collected by means of questionnaire survey from the targeted respondents. This study will measure both tangible and intangible organizational resources which are predicted to have an impact on the financial performance in terms of financial performance of family businesses. The variables in this study are talent management as independent variable and financial performance as dependent variable.

This was a one-shot or cross-sectional study to gather the data from owner or CEO of family business one point in time was sufficient pertinent to finding the answers the questions of this study. The unit analysis for this study is family business in Indonesia.

Factors that determine the sample size for this research (Sekaran & Bougie, 2010) are population size, margin of error or confidence interval (how much higher or lower than the population mean our research willing to let the sample mean fall), confidence level (how confident that the actual mean falls within confidence interval? the most common confidence intervals are 90% confident, 95% confident, and 99% confident), and standard of deviation (how much variance that are expected in the responses? if the survey has not been administered, the safe decision is to use 0.5 as this is the most forgiving number and ensures that your sample will be large enough).

Based on these four factors, here is the calculation for our research needed sample size. The confidence level corresponds to a Z-score. This is a constant value needed for this equation. Here are the z-scores for the most common confidence levels:

- 90% – Z Score = 1.645
- 95% – Z Score = 1.96
- 99% – Z Score = 2.576

Necessary Sample Size = (Z-score)2 * StdDev*(1-StdDev) / (margin of error)2

With the assumption of 95% confidence level, 0.5 standard deviation, and a margin of error (confidence interval) of +/- 5%.

Sample size = ((1.96)2 x .5(.5)) / (.05)2
(3.8416 x .25) / .0025
.9604 / .0025
384.16
385 respondents are needed

Estimated response rate based on previous research in Indonesia is 20%, meaning number of required sample size is 1.925 sample in total.

Industry classification among Indonesian family businesses is classified as wholesale and retail, manufacturing and distribution, and professional services. Other industries include agriculture and fishery, finance, real estate, construction, hotel, transportation, entertainment and the service sector. Family business values develop from the typical values of the family, including the ability to handle numerous opportunities and challenges.

The data collected from the survey use to create information in order to analyse and summarise it to answer the research questions. This study used Statistic Package for Social Science (SPSS) to support statistical analysis of data. In the interest of executing PLS-SEM proposed in this study, the analyses carried out by using the SmartPLS software package

IV. DATA ANALYSIS AND RESULT

The total distribution of questionnaires was 500 people, but only 385 people can fill out the questionnaire or 77% of the total respondents who fill out. To find out the respondents used in this study can be seen in Table 4.1

Table 4.1 Frequency Dsitribution Number of Employees

Employees	Frequency	
	Current	relative
1-4 people	38	9.87%
5-19 people	69	17.92%
20-99 people	201	52.21%
100 < people	77	20.00%
Total	385	100.00%

Source : data processed (2020)

Based on table 4.1 above, the sample of the number of workers is dominated by 20-99 people by 52.21% while as much as 9.87% is the number of workers by 1-4 people. In addition to the number of workers the average age of the company in the sample of respondents used in the study are as follows:

Table 4. 2 Age of the company

Old company	Frequency	
	Current	relative
100 < years	0	0.00%
80-99 years	0	0.00%
60-79 years	0	0.00%
40-59 years	52	13.51%
20-39 years	88	22.86%
1-19 years	245	63.64%
Total	385	100.00%

Source : data processed (2020)

In the data, the average age of sample companies used in the research was dominated by 1-19 year olds with a percentage of 63.64% compared to the company age of 40-59 years of age of 13.51%. the age of the company determines the establishment of the company, the relatively longer age of the company will increase the confidence of investors for investments in the company. Here is the majority share of respondent companies used in the study.

Table 4.3 Majority share of the company

Majority share	Frequency	
	Current	relative
yes	300	77.92%
No	85	22.08%
Total	385	100.00%

Source : data processed (2020)

In the value of majority share the company is dominated by 77.92% of companies have a majority share so that only 22.08% of companies do not have a majority share. In the INDICATOR OF CEO family number, as many as 69.35% of CEOs are from the family number, the difference is only about 30.65% of CEOs who are not from family numbers.

Table 4.4 CEO Family number

CEO Family number	Frequency	
	Current	relative
yes	267	69.35%
No	118	30.65%
Total	385	100.00%

Source : data processed (2020)

From the industry type aspect of the respondents used in the study dominated by miscellaneous industry by 33.51% and Mining industry only 2.34%. Miscellaneous industry dominance compared to other industries in respondents used because of the large number of currently growing industries.

This research no signifficant effect between management talent to financial performance ($p > 0.05$). This shows that in this study talent management does not have a direct impact on financial performance. Ismail et al. (2012) defines that talent management is a concept starting from how to plan, acquire, develop, and maintain talent. In other words, talent management is not just a single process or how a development program works, but includes a series of processes. Oladapo (2014) suggests that talent management is a process of identifying a series of initiatives. In addition, how are the company's efforts to develop and retain talented employees. To create business excellence and achieve the company's vision, it requires an employee alignment according to strategic qualifications and optimizing employee performance. Based on the analysis, there was no positive relationship between talent management and financial performance. This shows that talent management is not a major factor in influencing financial performance.

Collings and Mellahi (2009) mentioned in their research that an effective talent management practices such as work motivation and organizational commitment will have an indirect positive relationship with organizational performance. Talent management is considered a beneficial investment since it will help the company increasing their performance. Organization that conduct an effective talent management strategy will show significantly higher financial performance compared to the others since talent management will increase profitability, sales revenue, productivity, net profit margin, Return on Assets (ROA), Return on Equity, and market value (ROE). When the organization is successful in managing the talented employee by implementing best talent management practices, it will enhance the profitability of the company and it will benefit in the long term for the company (Oladapo, 2014). In accordance with the other researchers, Ibiduni (2015) also mentioned that talent management has a positive impact on the overall performance of the organization including financial performance and non-financial performance.

V. CONCLUSION

From the results obtained, in detail, the influence of talent on the performance variable is more influenced by other variable. From several examples of the results of the succession process in several family business in Indonesia, it can be seen that the success of family business in the talent management practices depends on several things, such as good planning by the founders as the older generation, as well as the competence of the successor to implement the plans that have been made previously. From some direct examples, it can also be seen that there are several examples of success over succession. Among them are the associations of family business in the world that have at least 300 years of age, such as the Association of Henokians and Tercentenarians. One of the members of the association is the private bank C Hoare & Co owned by the Hoare family which was founded in England by Richard Hoare in 1672, which until now has passed through a succession process of up to 11 generations. Or several family business in Indonesia such as Gudang Garam Tbk with an age of more than half a century that has been able to overcome the challenges of succession

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