

Family Business Succession: Owners and Successors Perspectives

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Abstract

Background: Family businesses are considered as the cornerstone of the world economic systems. However, according to PwC Indonesia Family Business Survey in 2018, 63% of family businesses did not survive the first generation, 65% did not survive the second generation, 85% did not survive the third generation and only 4% would continue to the fourth generation. This number shows an alarming succession failure rate for family firms.

Objectives: This research is conducted to analyse the effect of leadership, successor commitment and organizational family culture to family business succession.

Methods: The research method used is a survey using Likert scale. In order to collect the data, the researcher distributed online questionnaires to 97 respondents who are family business owners or potential successors, using purposive sampling method. This research uses multiple linear regression analysis to analyse the factors that affect family business succession. The data analysis uses IBM SPSS

Results: The factors used for this research are leadership, successor commitment and organizational family culture. The multiple regression analysis result shows that leadership (sig. value=0.026), successor commitment (sig. value=0.000) and organizational family culture (sig. value=0.008) all have significant relationship to family business succession

Conclusions: In this study, it can be explained that there are significant influence between leadership, successor commitment and organizational family culture to family business succession.

Keywords: Leadership, successor commitment, organizational family culture, family business succession

I. Introduction

Family businesses are considered as the cornerstone of the world economic systems [1]. Internationally, the overwhelming majority of family businesses are small or medium-sized. It is estimated that the proportion of all worldwide business enterprises owned or managed by families at between 65% and 90% [2]. In developing countries, they play a crucial role in stimulating economic growth and wealth creation [3]. Family businesses help to promote the economic and social development and also provide for the creation of wealth around the world [4], [5].

However, according to PwC Indonesia Family Business Survey 2018 [6], 63% of family businesses did not survive the first generation, 65% did not survive the second generation, 85% did not survive the third generation and only 4% would continue to the fourth generation. This number shows an alarming succession failure rate for family firms. Reasons for an unsuccessful succession include a wide range of factors, such as lack of sufficient succession preparation and planning, lack of viable successors, business owners' unwillingness to pass down control of the company, and the nature and viability of the company itself [7].

Family business succession has always been a prevailing problem in a family business, but it is often overlooked compared to other family business problems, such as the need for innovation, international expansion and rising competition [6]. Family business owners put off their succession planning because they don't want to think about their own mortality or retirement from the business [8]. A proper business succession seeks to minimize that issue by setting up a smooth transition between the family owner business owner and the future owners of the business. Death or disability are unpredictable events that can cause major harm to the business, which makes an established succession plan more vital for family businesses.

To have a proper succession process, family businesses have to address several things that can help them for the process. Basically, there are several factors that may have some effects to a proper succession plan. One possible factor affecting succession is leadership. The result of Bozer's research [8] stated that a weak leadership network can complicate the succession process. Leadership is a characteristic needed by every business owners. It is important to emphasize that leadership succession in family businesses is best handled through long-term strategy, not tactically at the time when the successor is needed [6]. The successor have to be an effective leader, not only managing the resources they have, but also has to communicate, inspire and supervise to be successful.

Successor commitment is also an important factor that influences succession. A research by Wang [9] found that the successor's willingness and readiness, as well as the relationship between the successor and the predecessor have significant positive impact on the performance in the business succession process. Successors are an important part in the continuity of family businesses but are usually excluded from the business practice due to the difference in generation. This in turn causes them to develop a lack of interest in continuing the family business which can impact how committed they are going to be to the business.

Another important factor to succession is organizational family culture. The result of Marin's research [10] stated that in a family businesses, organizational culture is of great importance in the sphere of the family firm, where a set of values, beliefs and interests highly influenced by the family relations may produce significant differences from other non-family organizations. Organizational culture in family businesses differs slightly in that they are affected by family values unique to the owners of the family businesses.

According to Lim & Daft [11], leadership is a relationship between leaders and followers where they influence each other in order to achieve real changes and their shared purpose. In business, leadership is related to the business performance and an effective leader is one who can increase their company's profit margin. Commitment can be defined as a frame of mind that drives an individual to a course of action [8]. He stated that for an effective intergeneration family business succession, the next generation successor's commitment to join the family business and take control is essential. Organizational family culture is the values, norms, mindset, shared beliefs and attitude involving a group of people in an organization seeing and relating to one another as a family. This is possible due to members in an organization having shared norms, behaviours, beliefs and mindset [12].

II. Objectives

Leadership

Leadership is a relationship between leaders and followers where they influence each other in order to achieve real changes and their shared purpose [11]. In business, leadership is related to the business performance and an effective leader is one who can increase their company's profit margin. Leadership skill requires characteristics beyond the owner's management duties. The successor has to be an effective leader, not only managing the resources they have, but also has to communicate, inspire and supervise to be successful. Strategic leadership is required in family businesses to anticipate the turbulence that firms are going to experience in the future [13].

Leadership succession is a significant challenge to a lot of family businesses. A weak leadership network can complicate the succession process. Bozer et al. [8] found out that high performing, sustainable family businesses share some common succession characteristics, such as: a good relationship between predecessor and successor, the successor's experience in a subordinate role outside the business, the successor assuming leadership responsibilities gradually, a learning and development organizational culture, and the successor's commitment to the business. Tan et al. [13] describes the six components of strategic leadership, that is: determining the firm's purpose and mission, exploiting and maintaining core competencies, developing human capital, sustaining an effective organizational culture, emphasizing ethical practices, and establishing balanced organizational controls.

Successor Commitment

Commitment can be defined as a frame of mind that drives an individual to a course of action [8]. For an effective intergeneration family business succession, the next generation successor's commitment to join the family business and take control is essential. Commitment in family business lasts a life time and is based on identity with the family [1]. A successor's commitment as a form of responsibility for developing the family business after the succession process becomes an important value for the company [8]. Integrity, risk taking, willingness to take responsibility and commitment to the business are the most desirable traits required to make succession successful. The two strongest forms of commitment required of successors are affective (characterized by the successor's genuine desire to be in the family firm) and normative (occurs when family members join the firm out of obligation) commitments [14].

Organizational Family Culture

The authors want to use the concept of organizational culture in a family firm to see how much it affects the succession process in the family firms. Organizational family culture is the values, norms, mindset, shared beliefs and attitude involving a group of people in an organization seeing and relating to one another as a family [12]. This is possible due to members in an organization having shared norms, behaviours, beliefs and mindset. The successor should respect and understand family's cultural values inherited by older generations when they will succeed the business. Family culture characterized by cohesion, closeness, emotional bonding and cultural adaptability is considered a positive contributor to the family business [8].

The culture of family business is constructed based on family value, which not only bind but also limit the organizational culture slowly and structurally [15]. The acknowledged significant

impact of the family's culture on the business culture, where the organizational identity dimension of familiness is based on the interactions among the family and business subsystems [8]. Culture gives employees a sense of organizational identity and helps them to know how to work together effectively [11]. The successor can use this to their advantage by showing to the employees that he fully embraces the organizational family culture and winning their support to smoothen his succession process in the firm.

Family Business Succession

Family business studies interpret succession as the actions, events and organizational mechanisms by which leadership at the top of the firm, and often ownership, are transferred [16]. Succession planning and advancing the business to the next generations are some of the most significant missions for family businesses [4]. There are a wide range of factors for an unsuccessful succession in a family business which include things such as lack of sufficient succession preparation and planning, lack of viable successors, business owners' unwillingness to pass down control of the company, and the nature and viability of the company itself [7].

Most of the literature on succession focuses on intra-family succession (where family members affected are both owners and managers) identified ownership, governance, management and succession as central components of family involvement in family businesses [17]. Family business succession takes some time to develop and have to be planned and managed to be effective and successful. Family succession involves a change in the family, business and ownership profile and need time to develop and adjust to the family firm. Succession planning is very important in minimizing the risks inherent in transfer and continuity of the family business and also increasing the level of satisfaction of the stakeholders as well as the financial performance [14].

III. Methods

This study used quantitative approach. The research data was taken through primary data sources. The researcher used purposive sampling to find the sample of 97 family business owners and successors in Indonesia, especially in Surabaya, East Java and Makassar, South Sulawesi that is used for this research. The independent variables are leadership, successor commitment and organizational family culture. The dependent variable is family business succession. The instrument used in this study was a questionnaire in the form of Likert scale distributed online that has been tested for validity and reliability. Data were analysed using multiple linear regression analysis with the IBM SPSS Statistics 25 tool.

IV. Results and Discussion

This study used multiple regression analysis to analyzed the data. Based on the result, the regression model equation can be written as follows:

$$Y = 0.760 + 0.204 X_1 + 0.365 X_2 + 0.268 X_3$$

Explanation:

Y = Family Business Succession

X₁ = Leadership

X2 = Successor Commitment

X3 = Organizational Family Culture

Table 1. Multiple Linear Regression Analysis

Coefficients				
Model		Unstandardized Coefficients		Sig.
		B	Std. Error	
1	(Constant)	.760	.475	.113
	X₁	.204	.090	.026
	X₂	.365	.084	.000
	X₃	.268	.098	.008

Source: Processed Data, 2022

Based on the regression model equation above, it can be seen that Leadership (X1), Successor Commitment (X2) and Organizational Family Culture (X3) positively affect Family Business Succession (Y). The researcher can also see that Successor Commitment (X2) has a greater influence towards Family business Succession (Y) than the other 2 independent variables (X1 and X3).

Table 2. F Statistics Test

ANOVA				
Model		df	F	Sig
1	Regression	3	21.799	.000
	Residual	93		
	Total	96		

Source: Processed Data, 2022

From Table 2, it can be seen that the significant value is lower than 0.05. It can also be seen that F calculated (21.799) is greater than F table (2.700), which can be obtained from the value of $df_1 = 3$ and $df_2 = 93$ ($21.799 > 2.700$). Therefore, it can be concluded that leadership, successor commitment and organizational family culture simultaneously influence family business succession as independent variables.

Table 3. T Statistics Test

Model		t	Sig.
1	(Constant)	1.602	.113
	X₁	2.269	.026

X2	4.331	.000
X3	2.724	.008

Source: Processed Data, 2022

Table 3 shows that the p-value of X1 (0.026), X2 (0.000) and X3 (0.008) are all less than 0.05. It can also be seen the t calculation for X1 (2.269), X2 (4.331) and X3 (2.724) is greater than t table (1.984). This means leadership, successor commitment and organizational family culture each affect the dependent variable family business succession as independent variables.

Table 4. Coefficient of Correlation (R) and Coefficient of Determination (R²) Test

Model	R	R Squared	Adjusted Squared	R Std. Error of The Estimate
1	.643	.413	.394	.517

Source: Processed Data, 2022

From Table 4, it can be seen that the R is 0.643, which means that the independent variables are positively related to family business succession. The adjusted R squared is 0.394 or 39.4%. This means that the contribution of the influence of leadership, successor commitment and organizational family culture to family business succession is 39.4%, whereas the remaining 60.6% is influenced by other unknown variables not included in this research.

Relation between Leadership (X1) and Family Business Succession (Y)

In this research, it is shown that there is a significant effect between leadership and family business succession. The p-value of leadership is 0.026 which is lower than the 0.05, meaning that it is significant as an independent variable. Thus, the hypothesis H1 can be accepted, that leadership significantly affects family business succession. The majority of the respondents answered agree for leadership indicators with an average of 4.55. This means that they think that optimism, self-confidence, integrity, honesty and drive strongly affect leadership.

If leadership quality in the family business is improved, it can increase the chance of a successful family business succession. The business leaders and successors can do so by showing optimism, self-confidence, honesty and integrity as the defining traits of their leadership style. This significance is further reinforced by a previous research [8], whose research studies the effect of factors such as leadership towards the transition of leadership succession in family businesses. He confirmed that the value of leadership does have a significant impact to ensure a smooth family business succession.

Relation between Successor Commitment (X2) and Family Business Succession (Y)

In this research, it is shown that successor commitment has a significant impact to family business succession. It has a p-value of 0.000 which is lower than 0.05, meaning that it is statistically significant as an independent variable. This means that the hypothesis H2 can be accepted, that successor commitment significantly affects family business succession. The multiple linear regression model also shows that successor commitment is the variable that

affects business succession the most compared to leadership and organizational family culture. Thus, it is important to pay attention to building the successor commitment from an early stage in order to be able to cultivate it later in the future. In order to ensure a successful family business succession, family businesses should make their successors committed to the task of succeeding and leading the company.

The average value of respondents' answers for successor commitment is 3.80, meaning respondents agree with this variable. This value is not very strong, but still acceptable, meaning that desire, obligation, opportunity cost and need still affect successor commitment to an acceptable degree. This variable's significance is further improved by a previous research [9] who studies the impact of successor knowledge and willingness/ commitment to a successful family business succession. They found both factors have significant positive impact on the successor's willingness to be more involved when they have a stronger sense of belonging. It is confirmed that successor commitment to the family business will affect the process of succession.

Relation between Organizational Family Culture (X3) and Family Business Succession (Y)

In this research, it is shown that organizational family culture has a significant impact to family business succession. It has a p-value of 0.008 which is lower than 0.05, meaning that it is statistically significant as an independent variable. This means that the hypothesis H3 can be accepted that organizational family culture significantly affects family business succession. The average value of respondents' responses for organizational family culture is 4.57, meaning they strongly agree that interdependency, cooperation, trust, support and openness strongly affect this variable.

In order to make a successful family business succession, the business should develop and nurture an organizational culture based on family value such as having interdependency between the business members, trusting and supporting each other and encouraging openness inside the family business. Family values motivate members of the family business to commit their effort because they are seen as important family-like member. The significance of organizational family culture is further reinforced by a previous research [10], whose research studies about organizational family culture and how they affect family businesses. His study stated that organizational family culture is significant to family business succession. It means that family business owners and successors will be affected by organizational family culture and work to make a successful succession

V. Conclusion

The researcher accepts all the research hypotheses that these variables are significant to family business succession. In conclusion, for family businesses to have a successful and proper succession process, they need to ensure that the leading figure is a capable leader and display core leadership values that can help the business prosper. They also need to have commitment as a successor to continue the family legacy to the future and fully committing their time and resources. They also need to make their family business a place that has a sense of familiness and belonging for all members in the family business, including the workers who can help the

succession process by showing their support to the successor who have shown their worth in managing the business.

Research Implication

The result of the variable tested is that leadership significantly affects family business succession. The researcher suggests family business owners to evaluate leadership as a core value in managing the business and develop a good style that fit their operation. Successors can also implement a leadership style that favors the workers to increase favor and make a smooth leadership transition.

The result of the variable tested is that successor commitment significantly affects family business succession. The researcher suggests family business owners to start thinking of preparing their successors beforehand by getting their interest aligned with the family business' to make them more willing and committed.

The result of the variable tested is that organizational family culture significantly affects family business succession. The researcher suggests family business owners to incorporate family values more than before by making a closely-tied community between members of family business, using trust and care for each other to improve productivity.

Research Limitations

There may be some possible limitations in this study. One of them is the difficulty in finding the correct respondents that perfectly met the criteria required for the research. There are also some respondents who don't quite understand the questions in the questionnaires and require the researcher to guide them on the filling of the online form. It is also possible that the data may not truly represent the respondent's opinion because they might hesitate in picking the extreme answers, such as very disagree or very agree choices.

Suggestions for Future Studies

For future researches, it is recommended to conduct their research with other variables that have not been studied in this research in order to also study the many possible factors that affect succession in a family business. Other than that, the future researchers may also add more variables to the research analysis that can help to better measure family business succession.

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