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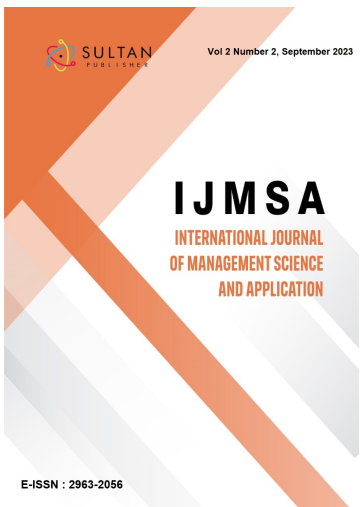


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# The Determinants of a Successful Family Business Succession

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Christina Eka Prillia

Department of Management, Universitas Tarumanagara,  
Jakarta, Indonesia

Sarwo Edy Handoyo

Department of Management, Universitas Tarumanagara,  
Jakarta, Indonesia

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**Abstract:** Majority of business in Indonesia is family business firm. In fact, according to Daya Qarsa Research Firm in 2022, family businesses have contributed about 80% to Indonesia's GDP as well as 40% to Indonesia's market capitalization. However, most of the family businesses start to falter during the second generation and doesn't last until the third generation. This article aims to determine 1) the influence of succession planning on family business succession, 2) the influence of family relationship on family business succession, 3) the influence of entrepreneurial spirit on family business succession, 4) the influence of intergeneration managerial mindset on family business succession. The method used to collect data in this study is online question form with google-form questionnaire with a total sample of 37 respondents. The data analysis technique used is Structural Equation Modeling (SEM) with SmartPLS as the data processing tool. The samples in this study are family business successors in Gorontalo. The result of this study is 1) succession planning has an influence on family business succession, 2) family relationship has an influence on family business succession, 3) entrepreneurial spirit has an influence on family business succession, 4) intergeneration managerial mindset has no influence on family business succession.

**Keywords:** Succession planning, entrepreneurial spirit, family business succession, intergeneration managerial mindset

## Introduction

A family business is a business that is initiated and whose ownership is dominated by one family, then it will become an inheritance for the next generation ([Ciputra.com, n.d.](#)) The forms of family businesses also vary, ranging from small, medium, large to national scale. However, still based on the concept of ownership is still within the scope of one family and their descendants. Some examples of family businesses that have successfully developed and become a trend in Indonesia, such as PT Djarum which is engaged in cigarette production, PT Indofood Sukses Makmur which is engaged in packaged food and beverage, and Ciputra Group which is engaged in property ([Ahmad, Chaudhry, Iqbal, & Khan, 2002](#)).

Family companies must try to maintain their perpetuity or survival by succession. Succession is a process of forming and planning a successor in a family company that is seen from the needs of the owner and the family itself ([White, Krinke and Geller, 2004](#)). However, the succession process is not as easy as one might think, considering that there are many parties involved in the transition process. According to [Safitri \(2022\)](#), only about 30% of family businesses or companies can survive to the third generation. Even 70% of family companies do not manage to survive until the second generation ([Safitri, 2022](#)).

One of the reasons family businesses fail to survive to the next generation is because the succession planning was not carried out properly. The impact of the unpreparedness of the next generation is business stagnation, increased conflict, and even affects the process of revitalizing company management. One example is the Sinar Mas Group case, where Eka Tjipta Widjaja's son sued his five half-siblings over the matter of inheritance rights. The amount of assets demanded is also very large, up to a value of 672 trillion rupiah. This can be avoided if succession planning, which includes asset planning, has been prepared properly and inheritance rights for each child have been distributed clearly and fairly ([Georgiou, Papasolomou, Vrontis, & Thrassou, 2023](#)).

Another reason for the failure of the family business succession is the conflict in family relationships, as happened in the well-known jamu company, Nyonya Meneer. After the founder, Mrs. Meneer, died, the company was immediately continued by the third generation, namely the 5 grandchildren of Mrs. Meneer. However, during the transfer of ownership, there was an internal conflict between them. The dispute that occurred for quite a long time between the 5 grandchildren of Nyonya Meneer finally had an impact on the lack of focus on her successors in developing the business and resulted in the company's operations not being managed which led to the bankruptcy of Mrs. Meneer's business ([Somboonvechakarn, Taiphapoon, Anuntavoranich, & Sinthupinyo, 2022](#)).

In several cases of family businesses that went out of business during succession, there were also those that were affected by the decline in the entrepreneurial spirit of the next generation. Based on a study by [Allen et. al. \(2022\)](#) conducted during a pandemic to better understand how family businesses use entrepreneurship to deal with changes at that time. [Allen et. al. \(2022\)](#) asked family business leaders what percentage of their company's profits they got from innovations made since the pandemic. Apparently, the results of the study by [Allen et. al. \(2022\)](#) the income earned from innovations carried out by the first generation of family businesses is 38%. Meanwhile, the income earned from new innovations carried out by the second generation of family businesses fell to 34%. Furthermore, the income derived from new innovations carried out by the third generation of family businesses fell again to 18%. This shows that the ability to innovate in the new generation is getting weaker. The decline in entrepreneurial spirit has resulted in a decrease in innovation which has resulted in a decrease in the potential for family business continuity. More than that, the phenomenon that we encounter a lot these days is the trend of 'corporate slaves' or office workers who are now being followed by many millennials and Gen Z around the world, especially in Indonesia. In fact, there is nothing wrong with office work and it still has a positive stigma among the community, such as work that does not have too much pressure, is not too tiring, and has a salary that can be said to be certain ([Binus Student Column, 2022](#)).

In addition to the cases mentioned above, there are other factors that are often taken into consideration and must be considered in the family business succession process, namely, differences in managerial mindsets between generations. According to research from [Sheng \(2021\)](#), there is a generation that he refers to as the 'monarch' (generally the founding generation) who feel they are the only people who can do their jobs well. Thus, they are reluctant to carry out succession and family business succession is delayed. Problems resulting from differences in managerial mindsets between generations were also found in a study from [Afandi and Hartono \(2018\)](#) on the Mahkota Elektronik family company. They stated that differences in managerial mindsets between generations caused employee performance to decline because they could not adjust to the leadership style of the Successor of the Mahkota Elektronik family business. In addition, consumers from the family business must also adjust if there are other changes. The focus of this study is to analyze the influence of succession planning, family relationships, entrepreneurial spirit and differences in managerial mindsets between generations on the success of family business succession in Gorontalo.

## Research Method

The population in this study are family businesspeople in Gorontalo and use a causal research design commonly known as explanatory research. This means that research is formed to examine the possibility of a cause-and-effect relationship between variables ([Fauzi, Dencik and Asiati, 2021](#)). The research method used is a quantitative method with non-probability sampling and purposive sampling as a sample selection technique because there are criteria that are required in this study, namely the sample is a family business successor in Gorontalo. The data analysis technique used is Structural Equation Modelling (SEM) with the SmartPLS application as a data processing tool. Data collection in this study used an electronic questionnaire by utilizing Google Form technology. Questionnaires were then distributed via social media such as Instagram DM, Line or WhatsApp directly to 37 family business successors who were willing to contribute to this research ([Indaryani & Wulandari, 2023](#); [Porfirio, Felício, & Carrilho, 2020](#)).

## Result and Discussion

### Outer model

The SEM method consists of two parts of the analysis, namely the outer model and the inner model. Outer model analysis is the testing phase to prove validity and reliability. The following are the results of the outer model assessment in this study:

**Table 1 Outer Loadings Test Result**

<b>Indicator</b>	<b><i>Succession Planning</i></b>	<b><i>Family Business</i></b>	<b><i>Entrepreneurial Spirit</i></b>	<b><i>Intergeneration Managerial Mindset</i></b>	<b><i>Family Business Succession</i></b>
SP1	0,926				
SP2	0,910				
SP3	0,913				
SP4	0,936				
SP5	0,935				
FR1		0,821			
FR2		0,873			
FR3		0,928			

FR4		0,903			
FR5		0,950			
FR6		0,949			
FR7		0,910			
FR8		0,885			
ES1			0,819		
ES10			0,837		
ES2			0,890		
ES3			0,893		
ES4			0,927		
ES5			0,963		
ES6			0,910		
ES7			0,904		
ES8			0,936		
ES9			0,899		
MS1				0,910	
MS2				0,836	
MS3				0,756	
MS4				0,830	
MS5				0,751	
BS1					0,941
BS2					0,959
BS3					0,949
BS4					0,936

Based on the results of the validity test by looking at the results of the outer loadings for each indicator, all indicators in this study were declared valid because they had a value of  $> 0.708$ .



## Validity and Reliability Test

To test the validity and reliability of this study, it was done by looking at the results of the Average Variance Extracted (AVE), Cronbach's alpha, and composite reliability tests.

**Table 2 Validity and Reliability Test Result**

<b>Variable</b>	<b>Average Variance Extracted (AVE)</b>	<b>Cronbach's Alpha</b>	<b>Composite Reliability</b>
Succession Planning	0,854	0,957	0,967
Family Relationship	0,816	0,967	0,973
Entrepreneurial Spirit	0,808	0,973	0,977
Intergeneration Managerial Mindset	0,671	0,886	0,914
Family Business Succession	0,895	0,961	0,972

Looking at the data above, Cronbach's Alpha and composite reliability values have met the reliability test criteria because they have a value of  $> 0.708$ , which means that all indicators are declared reliable for measuring existing variables. In addition, based on the data above, the AVE value for each variable exceeds the criteria, namely  $> 0.50$ , so it can be said that all variables in this study are reliable.

## Inner Model Test

The next step is the inner model analysis using the PLS Algorithm. Analysis of the inner model (structural) is by looking at the value of the test results for the coefficient of determination ( $R^2$ ) which gives an idea of the level of accuracy of a test model, as well as testing the hypothesis by looking at the results of the path coefficient test.

## R-square test

The R-square test is to see the level of accuracy of the prediction model. Following are the results of the R-square test of this study:

**Table 3 Results of the Coefficient of Determination Test**

<b>Variable</b>	<b>R-Square</b>	<b>Adjusted R-Square</b>
Family Business Succession	0,895	0,882

Seeing the value of the R-square test above is 0.895 which is close to +1, indicating that this research can be categorized as research with a strong level of accuracy.

### Hypothesis Test (Path Coefficient)

Hypothesis testing was carried out by looking at the p-value using the bootstrapping method to get hypothetical answers and determine the significance of the influence of the independent variables of succession planning, family relationships, entrepreneurial spirit, and intergenerational managerial mindsets on the dependent variable of family business succession. The following are the results of testing the hypotheses in this study:

**Table 4 Path Coefficient Test Result**

<b>Variable</b>	<b><i>P-values</i></b>	<b><i>Original Sample</i></b>
Succession Planning → Family Business Succession	0,001	0,445
Family relationship → Family Business Succession	0,040	0,266
Entrepreneurial Spirit → Family Business Succession	0,045	0,290
Intergenerational Managerial Mindset → Family Business Succession	0,073	0,139

1. Based on the results of the path coefficient test above, the original sample value of the succession planning variable is 0.445, which means that the direction of the relationship is positive, and the P-value is 0.001, so Ha1 is accepted because the P-value is <0.05.
2. Based on the results of the path coefficient test above, the original sample value of the family relationship variable is 0.266, which means that the direction of the relationship is positive, and the P-value is 0.040, so Ha2 is accepted because the P-value is <0.05.
3. Based on the results of the path coefficient test above, the original sample value of the entrepreneurial spirit variable is 0.290, which means that the direction of the relationship is positive, and the P-value is 0.045, so Ha3 is accepted because the P-value is <0.05.
4. Based on the results of the path coefficient test above, the original sample value of the intergenerational managerial mindset variable is 0.139, which means that the direction of the relationship is a positive relationship, and the P-value is 0.073, so Ha3 is rejected because the P-value is <0.05.

## Conclusions

After testing, it can be concluded that succession planning has a positive and significant influence on the success of family business succession. Family relationships have a positive and significant influence on the success of family business succession. Entrepreneurial spirit has a positive and significant influence on the success of family business succession. The intergenerational managerial mindset has a positive but not significant effect on the success of family business succession. Despite the advantages, all research certainly has its own drawbacks. The deficiencies in question could originate from the limitations in the study. The limitations of this research are there are only 4 independent variables used for measurement in this study, namely succession planning, family relationships, entrepreneurial spirit, and intergenerational managerial mindset. While there are still many other variables that can be used to measure the success of family business succession in Gorontalo. Another limitation is the number of respondents in this study. The number of respondents in this study were 37 respondents due to limited relationships. Suggestions for future research to fill the gaps in this study, based on the research results that have been obtained are future research is expected to use independent variables that are different from the variables that have been used in this study, namely succession planning, family relationships, entrepreneurial spirit, and intergenerational managerial mindset, which can have an influence on the success of family business succession. Future research is expected to have a wider population coverage to be used as a sample so that the results obtained are more accurate. It is recommended for Tarumanagara University students to conduct research related to family business to increase the university's literary achievements.

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