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Succession Planning in a Family Company: What are the Key Predictors?

Michael,
Fakultas Psikologi
Universitass Tarumanagara
michael.707162002@stu.untar.ac.id

Fransisca I. R. Dewi,
Fakultas Psikologi
Universitass Tarumanagara
fransiscar@fpsi.untar.ac.id

Tommy Y.S. Suyasa
Fakultas Psikologi
Universitass Tarumanagara
tommys@fpsi.untar.ac.id

Abstract— This study aims to explain the role of family welfare needs and the quality of the relationship between CEOs and successors as predictors of succession planning in family companies. Family welfare needs are the perception that the purpose of establishing a family company is primarily for the continuity of the family. Participants were 45 owners of companies in Makassar and in Jakarta. The results of the study indicate that the role of family welfare needs is more significant in predicting succession planning, compared to the quality of the relationship between the CEO and the successor.

Keywords: *succession planning, family company, socioemotional wealth, high quality relationship CEO and the successor*

I. Introduction

Family companies are companies that have a lot of influence on the economy in this world. Family companies run from one generation to the next. Can also be said to be the next generation of the previous generation. Family companies consist of two or more generations. There are so many family companies that have an influence on an environment or even a country. In Indonesia, the Central Bureau of Statistics noted that family companies in Indonesia are private companies that have a large contribution to GDP, reaching 82.44 percent. Companies are considered family owned if one or two family members have 15 percent or more of equity and more than one family member works in the company [1]

Based on the records of the PWC (Price Waterhouse Cooper) there are more than 40 thousand

rich people in Indonesia or around 0.2 percent of the total population that runs a family company. Their total wealth reaches Rp 134 trillion or controls around 25 percent of Indonesia's gross domestic product (GDP) and the average field of family companies in Indonesia is manufacturing. Therefore it is known that family companies open up a lot of jobs, exports that generate dividends for the country so it is said that family companies are very contributing to the country.

2014 family company survey says that GDP is equal, with Turkey and the Netherlands, and Indonesia's annual growth rate in the range of 5.8 - 6.4%, Indonesia is predicted as the 4th largest economic power in the world by 2050. The rapid development of industrialization in Indonesia is also increasingly attractive for foreign investment to enter. In addition, the 2014 family company survey said that more than 95% of companies in Indonesia are family owned, and also in Southeast Asia, 60% of open companies are family companies, and succession inheritance is considered one of the company's priorities.

The Family Business Institute states that only about 30% of family companies are able to maintain the second generation and only 12% will remain after the company's transition to the third generation [2]. This family-owned company only sees a 3% survival rate when transitioning to the fourth generation and so on. Statistics show that around 70% of family companies are in collapse SMEs are caused by a lack of succession planning [3].

Succession planning is a plan of a company that thinks of the company's future by choosing a successor from a family member who is committed to their company to continue the family company. Succession planning is a plan that will see the

development of competent managers and, in particular, successors as important to ensure the company's future and the growth of company profits and assets [4].

The family company is inherited from generation to generation to the next so that the continuation of the family company goes on. Based on the results of interviews with a CEO, namely Mr. Iswanto who has a company in the Market. The results of the interview (Iswanto, Personal Communication, April 03-2019) were said to be that there was a plan for the inheritance of family business that was carried out well and there were those that were not well planned. The characteristics of good succession planning are to include family members by making family members run operations and family company policies, family members also carry out important decisions for the company, introduce family members with business partners, and family members as well can also benefit from the company. Characteristics of succession that are not well prepared as the generation of various emerging issues changes, one of which is the old generation who have no desire to share power with the next generation, the old generation does not recognize the maturity and expertise of the next generation.

The phenomenon says that only 30% of family companies can maintain the company up to the second generation [3]. Therefore, for companies to continue from generation to generation companies must make succession planning so that the company can experience growth and so that the company can survive in the future by producing quality successors along with technological developments and high levels of competence in this era.

Previous research on the relationship between intention to inherit with Succession Planning was carried out on 125 family companies in Belgium [5]. The results of the study said that the intention to be moderated by a quality relationship would make Succession Planning better and positive, furthermore, the results of the second study from the study also said that the relationship between CEO and Successor had positive results that could reinforce the influence of intention to pass on the succession planning. The third result in the study said that the quality of relationships between families did not have positive results that could strengthen the influence of intentions of bequeathing succession planning. Meanwhile, the

results of the fourth study say that the positive effects of intentions that are being moderated by the quality of the successor relationship and non-family managers have positive results that can reinforce the influence of intention to pass on the succession planning.

Previous research has written research well. However, researchers see that there are still many shortcomings from the previous study, that the quality of the relationship between CEO and Successor cannot be used as an excuse as a moderator because there was no previous research that said the quality of the relationship could be the moderator of the study only uses one dimension measuring instrument of Socio-emotional wealth, namely the intention to inherit the company. Researchers assume that the other four dimensions in SEW also play an important role in the level of succession planning. The researcher adapted the journal which said that Socio-emotional Wealth dimensions have 5 dimensions, of which the other four dimensions have not been discussed in previous studies, namely [6];

Family Control. Family control has an important role because the ability to exercise authority is given to family members, and in every problem of control and family influence is very influential for company decisions. Examples of families meeting family members to determine the company's future planning with company policies [6].

Identification of Family Members With the Firm. Family identification is important because the identity of the owner of the family company is closely tied to the company that carries the surname. This causes the company to be seen by the involvement of family members. example: each family sees the performance of family members whether family members are involved with the company in decision making [6].

Binding Social Ties has an important role because social ties will build networks of trust, feelings of closeness, and solidarity. social bonds do not only cover the family, nor that social ties also include employees (non-family), suppliers, distributors and the surrounding community [6] example: families conduct meetings with family members in a way attend family events like playing together, eating together.

Emotional Attachment has an important role because emotional attachment influences the types of social relations that are owned by family members inside and outside the company, besides that the company becomes a place where the need to have, influence and feel intimate is fulfilled. In other words, emotional attachment to the company can foster a sense of ownership of family inheritance, because losing a company is emotional for most business owners. [6] example: families inherit share ownership in each family member so that family members have a sense of ownership in the company, as well as a sense of loss if family members sell their shares.

The research plan is to determine the role of relationship quality and SEW dimensions of Succession Planning

II. LITERATURE AND HYPOTHESIS

A. *Socioemotional wealth to succession planning*

Succession planning, that is, the transfer of leadership from one generation to the next, is an important process in a family company. In this study, focus on family succession, namely from the CEO (company owner) to family members and the next generation. The succession process is said to be successful, companies need to plan this succession. Although it is clear that succession brings benefits, families still often delay leadership succession planning, and this delay is not good for the company's future [7].

The latest developments in the field of family business give rise to the idea that the preservation of SEW can be a driver of succession planning activities in family companies. Commitment and motivation to preserve SEW are characteristic of many family companies [6]

The main principle of SEW is that family companies often have many goals, not just financial goals (income). That is, they also prioritize values related to non-economic problems such as the continuity of family heritage. loss or acquisition of SEW is assumed to function as the main reference point for family company decision making [6]. SEW is

more likely to make long-term strategic decisions that benefit future generations rather than decisions that only serve their own short-term interests [8]

Previous research has argued that SEW is a fundamental driver in explaining the company's attitude towards successor selection and design of succession processes [9]. Therefore, in addition to economic rationality, the focus is on business transfer between family members encourage decisions about who will be their successors. In addition, family CEOs consider their family heritage, family dynamics, resources, and potential conflicts important to remember when succession decisions are made [10]. Therefore, to maintain family and business well- being, it would be prudent to plan for transfer of leadership first By delaying leadership succession planning, the potential for losing SEW and, more specifically, the potential for losing family control in the most important management position of a family company is a problem realistic, in this case, we argue that the intention is per family friends to transfer family business management to the next generation will stimulate the level of succession planning in the family company.

This leads to the basic hypothesis of this study: H1: Socioemotional wealth has a positive influence on the level of succession planning in a family company.

B. *Relationship Quality between CEO and successor to Succession Planning*

In this study, researchers will discuss high- quality relationships that can influence the level of succession planning. researchers consider the quality of the relationship between the CEO and the successor. The important relationship in the succession process is the relationship between the two main players in this process, namely the quality of the relationship between the CEO and his successor [11][12]. Previous research shows that the quality of the relationship between the CEO, family and successor is one of the most important factors that influence the satisfaction and success of the succession process [13] Thus, for the succession process to run smoothly, the relationship between the family CEO and his successor must be of high quality. High-quality relationships between the two individuals are characterized by a high level of mutual support, open and honest communication, and cooperation rather than

competition [4]

A mature and harmonious relationship where both parties are willing to resolve conflicts and acknowledge the achievements of others. This illustrates greater cohesion and, therefore, increases loyalty to the family [12] Thus, the CEO will be more willing to discuss the company's future with its successors. In the end, this research encourages successors to participate in family enterprise decision making processes, increasing successor commitment to family companies [4]. we argue that the positive effect of the relationship between family CEOs and successors on succession planning is stronger when quality is higher, leading to the second hypothesis

H2: The quality of the relationship between CEO and successor has a positive effect on the level of succession planning in a family company

III. RESEARCH METHOD

A. Participant

The participants needed in this study are the owners of small and medium enterprises. The participants of this study are as follows. Can be either male or female, domicile, place of birth, date of birth (standard age of participants 40 and above), recent education, number of children, income, and number of employees. Samples used for the study were 45 people who had companies

The sampling technique used in this study is Convenience sampling because sampling is based on the availability of elements and the ease of obtaining them. Samples were taken / selected because the samples were at the right place and time. Based on time, ease of accessibility, researchers chose

Makassar as the place for sampling. Research focuses more on the owners of companies in Makassar.

This type of research is non-experimental research with quantitative methods. Data is obtained through the data retrieval process carried out through questionnaires distributed to participants. Then, this study uses a correlational research method, because it wants to see the relationship between research variables.

B. Measure

i. Dependent Variable

In this study the measuring instruments used in succession planning variables are from Sharma, Chrisman, & Chua [13]. Measurement of this variable was adapted. Succession planning questionnaire consists of 12 items consisting of 4 dimensions.

Dimension of Successor Selection and Training, Post-Succession business Strategy, Post- Succession role of incumbent, Dissemination of the Succession Decision, Examples of items from the Successor Selection and Training dimension are "A list of potential successors was developed"; Post- Succession business "I had an understanding of what the business strategy would be after leadership was transferred to the successor"; Post- Succession role of incumbent " I had a formal plan regarding my roles and responsibilities in the business, once the leadership role was passed on to the successor"; Dissemination of the Succession Decision "I have told my family members who will be my successor". The internal consistency reliability coefficient score is 0.870.

ii. Independent Variable

In this study 2 measuring instruments used were the Socioemotional Wealth variable, the Quality of the CEO and Successor Relationship. The first variable is Socioemotional wealth from Berrone, Cruz, and Gomez-Mejia [6]. Measurement of this variable was adapted. The SEW questionnaire consists of 26 items consisting of 5 dimensions.

The dimensions to be measured are Family Control and Influence, Identification of Family. Members With the Firm, Binding Social Ties, Emotional Attachment of Family Members, Renewal of Family Bonds Through Dynastic Succession. Examples of items used as a measure of Family Control and Influence are "In my family business, most of the leaders' positions are occupied by family members", Identification of Family Members With the Firm "Family members have curiosity and a strong sense of belonging to the family

business ; Binding Social Ties "My family business actively promotes social / community activities"; Emotional Attachment of Family Members "Decision making in my family's business, much is based on consideration of feelings; Family Bonds Through Dynastic Succession "Continuation of family heritage and traditions is an important goal in my family business". Internal consistency reliability coefficient score of 0.924.

The second variable is the Relationship Quality of CEO and Successor from Venter, Boshoff, and Maas [12]. Measurement of this variable was adapted. The questionnaire of the quality of the relationship between the CEO and the successor consists of 5 items.

Examples of items from this measuring instrument are, "Successor candidates and I have a mutually supportive relationship". Internal consistency reliability coefficient value is 0.787

IV. RESULT

A. Description of Research Dependent variable, independent variable

Tabel 4.1 Descriptive statistics Dependent variabel, independen variabel

Variabel	Min	Max	Mean	SD
Succession planning	1	5	3.9	0.8
Socioemotional Wealth	1.6	5	3.6	0.7
Relationship Quality between CEO and Successors	3	5	4.5	0.5

Based on the results of the three variables, the highest variable is the relationship between the CEO and the successor of the company in Makassar has a mean of 4.5 which means that the owner of the company has a good relationship with the successor. While the lowest is socioemotional wealth, which means that the owner of the company is still having difficulty controlling family members, the need for family social ties for the company.

B. Regression Result

i Regression test Socioemotional Wealth and relationship quality between CEO and successor

Tabel 4.2.2 Regression SEW, HAPP, to SP

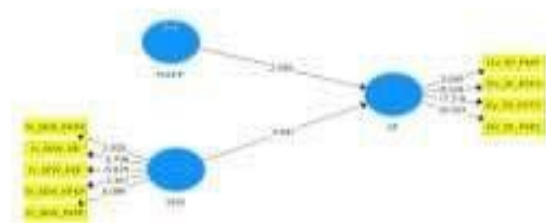
Variabel	β	SD	T
SEW-SP	0,495	0,164	3,031
HAPP-SP	0,371	0,156	2,456

Adjusted R²= 0,395

SEW= Socioemotional Wealth, HAPP= Relationship Quality between CEO and Successor, SP= Succession Planning

Based on the results of the regression test with bootstrapping as much as 1000 times using Smart PLS 3, the results show that succession planning can be predicted significantly by socioemotional wealth ($\beta = 0,495; t = 3.031 > 2,57$).

Based on the results of the regression test with bootstrapping as much as 1000 times using Smart PLS 3, the results show that succession planning can be predicted significantly by the relationship quality of the CEO and successor ($\beta = 0,371; t = 2.456 > 1,96$).



Picture 4.3 Regression test Socioemotional Wealth and relationship quality between CEO and successor

Based on the data above, the higher the socioemotional wealth (the owner perceives that the family needs to control the company, the sense of ownership of the company, the company is established for family purposes.); the succession planning will be better. Similarly, the better the quality of the relationship between the CEO and the Successor (the owner trusts the successor, works together and supports each other); then succession planning will be better (selection and training of successors, post-succession heirs strategic planning, planning to determine successors)

The results of the regression test with bootstrapping were 1000 times using PLS, namely that the Role of the Relationship between CEO and Successor to Succession Planning was positively influential because the value of $t = 2,456 > 1,960$ of the results means H2 was accepted

V. DISCUSSION AND CONCLUSION

A. Discussion

This study was adapted from research [5]. The researchers felt that the independent variables from previous studies had not yet explained the other Socio-emotional Wealth dimensions. Therefore, researchers wanted to complete the dimensions of independent variables that were not used by previous researchers by explaining using more comprehensive research using measurements from (Berrone, Cruz & Gomez-Mejia [6]. In addition, researchers also assumption that if the independent variable is replaced, the moderator from previous research, namely the quality of relationships will not be able to strengthen family welfare needs. the results of the study are not in line with previous research. Previous research) examined the intention of leaving the company as an independent variable and had a moderator, namely the quality of the relationship between the CEO and successor, the quality of relationships relationship between successor and non manager, and dependent variable level of succession planning [5]. After the researcher replaces the independent variable with Socioemotional Wealth variable, the result is that the relationship quality of the CEO and successor cannot be a moderator. In accordance with the estimation of the researcher that the moderator will not strengthen

but increasingly makes the variable have no influence. After the researcher replaced the moderator variables of the relationship between CEO and successor quality into independent variables, the results were different, namely that it turned out that Socioemotional Wealth and the quality of the relationship between the CEO and successor had a significant influence on the level of succession planning.

The disadvantage of this study is that researchers still have relatively very narrow participants in the city of Makassar and in Jakarta, besides that the research sample is still relatively small, namely 45 people owning the company. In addition, the weakness of this study is that the result of the response to this data collection is only one person, the family CEO, so that it can cause bias.

B. Conclusion

Two things that can be concluded from this study, namely, the level of succession planning, socioemotional wealth and the quality of the relationship between CEOs and successors in family companies in Makassar where researchers take data are that the planning of family company CEOs is high.

Based on the results of the research conducted, it turns out that socioemotional wealth and the quality of the relationship between the CEO and successor can predict the level of succession planning. Socioemotional wealth has a higher role compared to the quality of the relationship of the CEO and the successor means that socioemotional wealth has a more important role than the quality of the relationship between the CEO and successor for succession planning.

C. Suggestion

i. Theory Suggestion

For further research on the level of succession planning is to have more samples, with the large number of research samples, research on succession planning will be increasingly tested and increasingly important for the future of the company. Further research can also reach a wider range of places by

researching in the region and in other cities and countries, because it could be in other countries that have different cultures that will produce different results too, if research carried out in other countries and cities will also expand reach of research so that succession planning from a company can be a study that is always developing and can be applied. Suggestions for further research involving factors that have not been taken into account in this study. In addition, further research can also focus on qualitative research so that this research can be completed so that there is no bias. Subsequent research can also complement or add deficiencies and limitations in this study.

ii. Practical suggesstion

The researcher also has suggestions for family companies in Makassar. The first suggestion is that succession planning is still not widely applied, besides that the selection of successors must be done so that the company can survive. The second suggestion is that a family company in Makassar must have awareness of training and development for future successors and family members working in the company. The third suggestion is that the family company must balance the company's financial benefits, with the need to prosper the family, so that the company can continue to increase not only in terms of profits but also in maintaining family welfare. The fourth suggestion is that the company owner must always maintain a relationship with the successor and family members so that family members are willing to accept work as the successor of the family company, besides that the company can continue in the future by having competent successors.

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Author : Michael Joskar, P. Tommy Y.S Suyasa & Fransisca I. Roesmala Dewi

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