

PERFORMANCE ACHIEVEMENTS OF FAMILY BUSINESS THROUGH SUCCESSOR READINESS AND THE RELATIONSHIP BETWEEN FAMILY AND BUSINESS MEMBERS

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ABSTRACT

Family businesses are one of the biggest contributors to Indonesia's gross domestic product (GDP). Universitas Ciputra facilitate their students with family business guild. Succession plan and communication are important aspects for family businesses. Family businesses must educate potential successors in order to implement the succession plan well. The purpose of this study was to examine the effect of preparation level of successors towards family business performance; examine the effect of relationships among family and business members towards family business performance. A quantitative approach was used with a population of Universitas Ciputra's Family Business Community. Purposive random sampling technique was used, yielding a total sample of 93 people. The data analysis method used is Partial Least Square (PLS). The results showed that preparation level of heirs variable has a positive and significant effect on family business performance; the relationship among family and business members variable has a positive and significant effect on family business performance.

Keywords: family business performance, successor readiness, family and business members relationship.

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INTRODUCTION

Businesses in Indonesia, whether they are small-medium enterprises (SMEs) or corporations, they make a significant contribution to the development of the country's economy. Family businesses have significant contribution to the economic growth of many countries (De Massis, Frattini, Majocchi, and Piscitello, 2018; Siebels and zu Knyphausen-Aufseß, 2012). According to a report by PwC (2019), which stands for Price Waterhouse Cooper, Indonesian family businesses' turnover ranges from 10 million to more than one billion US Dollars. In addition, Deloitte Indonesia stated that more than 95% of businesses in Indonesia are family-owned businesses, thus, family businesses play a vital role in boosting Indonesia's economy as well as opening millions of job opportunities for Indonesian citizens (Bry, 2019). Some examples of well-known family businesses in Indonesia are Astra Group, Bakrie Group, Blue Bird Group, and Ciputra Group. Ciputra Group has a business in the education sector, namely, Universitas Ciputra.

Universitas Ciputra is well-known for its vision to "Become a university that creates world-class entrepreneurs who are characterized by Integrity – Professionalism – Entrepreneurship (IPE), have sense of nationalism, and able to have a positive contribution to Indonesian". In line with its vision, Universitas Ciputra encourages every business formed by its students to be sustainable and timeless. Universitas Ciputra offers a learning program for future family business successors in the the Family Business Guild, as one of the Entrepreneurship Course Guilds. Learning about family business is taught to students who are members of their own family business. Students who have joined the Family Business Guild will immediately join the Universitas Ciputra's Family Business Community, which until now it has 8 batches and a total of more than 340 members. The majority of Universitas Ciputra students who are members of this guild are the second generation in their respective family businesses in different industries, company backgrounds, as well as regions of origin.

Previous literatures have discussed the definitions and characteristics of family business, and various definitions have been put forward by previous researchers. According to Diéguez-Soto, López-Delgado, and Rojo-Ramírez (2014), the definition of family business cannot be defined precisely, because the definition of family business can be distinguished from several criteria such as ownership, control, board of directors, management, recognition of the company itself, succession across generations, multiple generations, and family as well as business values. One of the things that distinguishes a family business from a non-family business is a familial relationship and perspective on the next generation (Aronoff and Ward, 1995).

Walsh (2011) stated that about 70% of family businesses cannot last into the second generation, and 90% will not last until the third generation. In a several recent studies, the survival challenge of passing down the family business to the next generation still remains (Bozer, Levin, and Santora, 2017; Kumar and Prameswari, 2018; Samei and Feyzbakhsh, 2015). Motwani, Levenburg, Schwarz, and Blankson (2006) stated that the succession plan, communication, and training are important in the family business, regardless of the size of the family business. Several studies points out that family members as successor can lead to decline in performance (Liu, Eubanks, and Chater, 2015), due to the perseverance of socio-emotional welfare of familial relationship over business performance (Dodd and Dyck, 2015; Miller, Breton-Miller, and Lester, 2013).

Family businesses are faced with the challenge of finding and managing the next competent leaders (Miller, Le Breton-Miller, Minichilli, Corbetta, and Pittino, 2014). According to survey report by PwC (2019), within the next two years, the key challenge that will be faced by Indonesian family business is to have the right skills and capabilities in order to

innovate and keep being ahead of the competition. Furthermore, the “next gen(generations) working in the business are largely expected to gain internal and external experience, but only a third are expected to be just as suitable for the role as non-family members (vs. 65% globally)” (PwC, 2019). In addition, a recent study found that the high level of family involvement in a family business management and governance result in a better performance (Chirico and Bau’, 2014; De Massis, Kotlar, Campopiano, and Cassia, 2013a, 2013b; González-Cruz and Cruz-Ros, 2016; Mazzola, Sciascia, and Kellermanns, 2013), which puts more pressure towards the next generation to face this challenge successfully.

To address this challenge, family business must ensure that the successors must be ready and must have the right skills and capabilities to continue its family legacy through succession planning. The succession process that is not going well does not only have a serious impact on family and business relations, but also has a serious impact on the country's economic development. Whereas, within the family company there will also be internal conflicts that can interfere with the continuity of the succession process (Buang, Ganefri, and Sidek, 2013) in (Mokhber et al., 2017).

Based on the information and previous literatures, family business is important to the economic growth of Indonesia, which family business model may not survive for the next generation if the right skills and capabilities are not met. Thus, this calls for a deeper research on the factors that contribute to improve family business performance in order to survive for the next generations. Furthermore, a recent qualitative study by Putra and Melinda (2019) found that successor readiness contributes to helping the successor’s ability to develop the family business and family relationship contributes to resolving conflicts as well as building trust towards the successor. Thus, this calls for confirming and generalizing the findings as well as extending to examine the relationship between family members and business members on the family business performance. Therefore, this study aims to determine the effect of the level of successor readiness and relationships between family and business members on the family business performance. Overall, the results of the study will contribute to expanding the knowledge on family business as well as useful to be implemented in family business.

LITERATURE REVIEW

Family Business

Family businesses are companies that have at least two generations involved in production activities and the second generation can influence the company’s policy (Setiawan and Sutanto, 2018). The characteristics of a family business are the number of shares owned by a single family member is more than 50% and the company is managed by the majority of the family members as well as family members are the majority shareholders (Bizri, 2016). In

addition to the definitions written above, the definition of a family business can also be distinguished from several criteria such as ownership, control, board of directors, management, recognition of the company itself, succession across generations, multiple generations, and family and business values (Diéguez-Soto et al., 2014).

Succession Planning

The process of internal succession in a family business becomes a very important and complex problem (Kamei & Dana, 2012). According to Bozer et al. (2017), there are four protagonists in a family business that are seen to have a direct influence on the succession process, namely the predecessor, the next generation, the family, and non-family members. The predecessor generation (incumbent) consists of the founders and family members who hold senior management positions in the business and have relinquished or wish to give up their position to new family members. The next generation (successor) consists of family members who have taken or will take over leadership positions from the incumbent. The family includes family members involved in the family business must carry the nature, culture and values uphold by the family, especially when determining the daily management activities and strategic objectives of the business. Non-family members include employees working in the family business. Successful succession is critical to meeting the goals of family business performance (Daspit, Holt, Chrisman, and Long, 2015).

Family Business Performance

Business performance is certainly one of the main measures in management and business. The performance of the family business still has a definition that cannot be agreed upon by researchers (Venkatraman and Ramanujam, 1986). Generally, companies with smaller size tend to have better and closer relationships among the employee in which a study by Chu (2011) stated that a smaller-scale family business has better business performance due to a closer family-member relationships, which facilitates communication between family members. However, in this study, we do not use control variable for the size of the company, instead the focus of this research is on the two variables' contribution towards increasing family business performance. The broad definition of business performance can be seen through financial and non-financial performance (Mokhber et al., 2017). The indicators of business performance include return on investment (ROI), sales growth, market share, product/service quality, dan operational efficiency (Kim and Gao, 2013).

Relationship between Successor Readiness Level and Family Business Performance

The perspective of dynamic managerial capabilities (Adner and Helfat, 2003) posits that the heterogeneity of managerial decisions is driven by each individual's capabilities to respond to changes and the dynamic environment. Bringing this perspective within the context of a

family business, successors have fewer capabilities and experiences compared to the predecessor, which the older the owner, the more work experience one has and this certainly contributes to the successful performance of the family business. In order to pass on the family business to the next generation, the predecessor must transfer knowledge to the successor, which can be through knowledge sharing (Woodfield, Shepherd, and Woods, 2017). The predecessor must help the successor to face the challenge of educational and operational challenges, while the successor must learn to take advantage of the family values and special competencies in order to develop their own dynamic managerial capabilities (Barach and Ganitsky, 1995).

Mokhber et al. (2017) found that family businesses need to allocate a family budget to ensure successors are truly prepared for the succession process. In addition to succession process, the experience of successors in an outside company prior to entering the family business becomes an important asset for the successor (Barach and Ganitsky, 1995). Thus, succession process and successor's outside experiences help to build successor readiness, which the successor readiness will help to increase the family business performance as the successor have been equipped with knowledge and enriched through various experiences. Based on the literature review above, the first hypothesis of this study is that the level of successor readiness has a positive and significant effect on the performance of the family company.

H₁: Successor readiness level has a positive effect on family business performance.

Relationship between Family and Business Members

Building on the perspective of dynamic managerial capabilities by Adner and Helfat (2003) implemented in the context of family business succession, successor must be able to develop his or her own dynamic managerial capabilities to ensure the sustainability of the family business once it is passed down. In the transfer knowledge phase, predecessor must encourage, trust, and empower the successor. However, this kind of support should not only come from the predecessor, but also from other family members as well as other business members. In order to do so, relationships between family and business members in a good family company are very important, which also ensures the sustainability of the family business (Backhaniwala, Wright, and Ram, 2001). Trust among each family member as well as having a good communication can foster better relationship among family and business members, thus help the family business to be successful (Mokhber et al., 2017). In addition, good communication between family and business members (Bozer et al., 2017) and opportunities to learn provided (Le Breton-Miller and Miller, 2015) can increase the effectiveness of succession in the family business, thus in turn will increase the family business performance (Pyromalis and Vozikis, 2009). Ghee, Ibrahim, and Abdul-Halim (2015) also

stated that a high level of trust as well as close relations among family members can help to improve the succession process and the performance of the family business. Based on the literature review above, the second hypothesis of this study is the relationship between family and business members has a positive and significant effect on the performance of family companies:

H₂: Relationships between family and business members have a positive effect on the performance of family business.

RESEARCH METHODS

This research is conducted using quantitative method.

Population and Sampling

The population in this study is all members of the Family Business Community of Universitas Ciputra in Surabaya, consisted approximately 340 people. The sampling technique used is purposive random sampling. The sampling criteria for this research respondent are successors of family businesses that are listed in the Universitas Ciputra's Family Business Community and at least have two generations in the family business. The minimum sample size for using PLS-SEM "should be determined by means of power analyses based on the part of the model with the largest number of predictors" (Hair, Hult, Ringle, and Sarstedt, 2017). Data collection in this study used an online questionnaire, yielding a number of usable questionnaire obtained of 93 responses.

Variable and Operational Definition

The variable used in this study is the successor readiness level (X_1), relationships between family and business members (X_2), and family business performance (Y). Morris, Williams, and Nel (1996) states that the level of successor readiness can be seen from the preparation level of the successor, which is one of the determinants of successful generation transitions. Successful generation transition to handle the family business should contribute to better family business performance. The indicators can be seen in Table 1, which are measured using ordinal and interval scales.

Relationships among family members in family businesses are also one of the determinants of successful transition, which includes communication, trust, commitment, loyalty, family disorder, rivalry among siblings, jealousy, conflict, and shared values and traditions within the family (Mokhber et al., 2017). The indicators are shown in Table 2, which are measured using five-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5= strongly agree).

Table 1.

Operational Definition and Indicators of Successor Readiness Level

Indicator	Operational Definition
Education	Successor's highest education level
Work experience outside family firm	Experience working outside the family business
Motivation to join family firm	Motivation or encouragement to join the family business
Self-perception of preparation	Successor individual's perception of self-readiness

Table 2.

Operational Definition and Indicators of Relationships between Family and Business Members

Indicator	Operational Definition
Communication	Communication that occurs between family and business members
Trust	Trust between family and business members
Commitment	Commitment to work in a family business
Loyalty	Relationships loyalty between family and business members
Family turmoil	Chaos in the family
Sibling rivalry	Rivalry or competition among siblings
Jealousy	Jealousy, hatred, or resentment
Conflict	Conflicts between family and business members
Shared values and tradition	Values and traditions shared among family members

The broad definition of business performance can be represented in two categories: financial and non-financial performance (Mokhber et al., 2017). The indicators are shown in Table 3, which are measured using five-point scale (1= very low, 2 = low, 3 = moderate, 4 = high, and 5 = very high).

Table 3.

Operational Definition and Indicators of Family Business Performance

Indicator	Operational Definition
Return on investment (ROI)	The business' ratio of income to investment
Sales growth	Sales growth of the business
Market share	The market share of the business
Product/service quality	The quality of the product or service offered
Operational efficiency	Efficiency of operational activities carried out by the business

Data Analysis and Hypothesis Testing Methods

The analytical method used in this research is Structural Equation Modeling (SEM) based on Partial Least Square (PLS) variance. SEM-PLS is a variance-based structural equations (SEM) analysis, which it can simultaneously conduct measurement models while testing the structural models (Hair et al., 2017).

RESULTS AND DISCUSSION

Descriptive Statistics

The results of data collection from this study is 93 respondents. The data shows that respondents of this study are 19 to 27 years old, while the age of the respondent's family business is 2 to 54 years old. The majority of the respondent's age is 21 years old, which makes up to 32 people (34.4%), followed by 31.2% of the respondents are 20 years old. The majority of the family business age is more than 20 years old with 33 companies (35.5%). 76 people or 81.7% of respondents are the second generation of the respondent's family business. Most of the respondent's family business domiciles come from the city of Surabaya, which are 22 companies, followed by 4 family businesses from Lamongan, while the other respondents come from outside of the two cities. The business entities owned by respondents are diverse, in addition there are also several businesses that have not registered their business legalities

Validity and Reliability

Validity test shows the loading factor of several indicators of Relationship between Family and Business Members variable did not meet the validation test requirements, this means that the indicators are not suitable for the object of this study. If the loading score does not meet the requirements, the indicator can be removed from the construct because the indicator loaded does not represent the construct (Hair et al., 2017).

Table 3.
Validity and Reliability

Indicators	Outer Loading	Cronbach Alpha	AVE	R ²
X1 Self-perception of readiness	1.000	1.000	1.000	0.386
X2.1 Communication	0.712	0.690	0.519	
X2.2 Trust	0.623			
X2.3 Commitment	0.708			
X2.9 Shared Values and tradition	0.824			
Y1.1 Return on Investment (ROI)	0.778	0.783	0.536	
Y1.2 Sales growth	0.755			
Y1.3 Market share	0.751			
Y1.4 Product/service quality	0.696			
Y1.5 Operational efficiency	0.677			

Source: processed data

Loading Factor of $>0,5$ can be accepted when the Average Variance Extracted (AVE) reached $>0,5$ (Hair et al., 2017). Therefore, indicators removed are X_{2.4} (loyalty), X_{2.5} (family turmoil), X_{2.6} (sibling rivalry), X_{2.7} (jealousy/resentment), dan X_{2.8} (conflict). After adjustments made, the loading factor and AVE values of all indicators meet the validity test requirements. Cronbach's alpha value and composite reliability also met the requirements.

Hypothesis Testing

Table 4 shows the mean and standard deviation of the variables' indicators. The result shows that the majority of the respondents agree that self-perception of readiness is an important indicator of successor readiness, with a mean of 3.484. For variable X2, the majority of the respondents agree that good communication, trust, commitment and having shared value are important for having better relationship between family and business members, with mean values of 4.323, 4.398, 4.376, and 4.387 respectively. For variable Y, the majority of the respondents agree that return on investment, sales growth, market share, product/service quality, and operational efficiency are important indicators for family business performance, with mean values of 3.774, 3.806, 3.753, 4.172, and 3.924 respectively.

The smaller the standard deviation, the better. However, the variables' standard deviation results show that the range is from 0.619 to 0.951, which are relatively high. Thus, this means that the data is not optimal. This is due to the data collected is using Google form, which might cause difficulties in the controlling process. Although the standard deviation results are relatively high, the data has fulfill the reliability and validity tests, and therefore eligible to be used.

Table 4.
 Mean and Standard Deviation

Indicators	Mean	Standard Deviation
X1 Self-perception of readiness	3.484	0.951
X2.1 Communication	4.323	0.645
X2.2 Trust	4.398	0.645
X2.3 Commitment	4.376	0.606
X2.9 Shared Values and tradition	4.387	0.692
Y1.1 Return on Investment (ROI)	3.774	0.724
Y1.2 Sales growth	3.806	0.630
Y1.3 Market share	3.753	0.761
Y1.4 Product/service quality	4.172	0.619
Y1.5 Operational efficiency	3.924	0.726

Source: Processed data

Structural model test (inner model) is done to calculate t-statistics and R² using bootstrapping. T-statistics score must be above 1.64 for one-tailed hypothesis testing with alpha of 5 percent (Hair et al., 2017). The result is shown in table 5. Successor Readiness Level has a positive and significant effect on family business performance with a t-statistics value of 1.688. This shows that the first hypothesis of this study, which states "Successor Readiness Level has a positive and significant effect on Family Business Performance", can be accepted.

The Relationship Between Family and Business Members has a positive and significant effect on Family Business Performance with a t-statistics value of 8.169, which exceeded the t-calculated of 1.64. This shows that the second hypothesis of this study, which states "The

Relationship Between Family and Business Members has a positive and significant effect on Family Company Performance", can be accepted. R^2 test result is 0.386, which shows that the variance of changes in the Family Business Performance can be explained as much as 38.6% by the Successor Readiness Level and the Relationship Between Family and Business Members.

Table 5.
Hypothesis Testing

Path	Original Sample	T-Statistics	Supported/Not Supported
Successor Readiness Level → Family Business Performance	0.128	1.688	Supported
Relationships between Family and Business Members → Family Business Performance	0.570	8.169	Supported

Source: processed data

Reporting Research Results

Hypothesis test results indicate that the Successor Readiness Level has a positive and significant effect on Family Business Performance. This finding shows that the higher the level of successor readiness in a family business, the higher the performance of the family business. This result is in line with a study by Mokhber et al. (2017), which found that the Successor Readiness Level is one of the determinants to successful transitions, which has a positive influence on the Performance of the Family Business.

The Successor Readiness Level can affect the Performance of Family Business due to the contribution made by the successors to their respective family businesses. The higher the successor's education level and the more work experience outside the family business, the readier the successor to handle the family business (Nuthall and Old, 2016). Both higher education level and outside work experience have exposed the successor to more knowledge as well as helped the successor to obtain both hard skills and soft skills. Ramadani, Hisrich, Anggadwita, and Alamanda (2017) mentioned that various methods were carried out by founders in order to facilitate successors, one of which was to provide access to education, to equip successors with knowledge and experience prior to directly managing the family business. Whereas, outside work experience would enrich the successor with knowledge and experience that can be brought back and implemented in the family business. Moreover, the motivation to join the family business and the successor's perception of one's readiness contribute to mentally prepare oneself. Therefore, education level and outside work experience act as external preparation, whereas motivation and self-perception act as internal preparation for better successor readiness level, and thus contribute to better family business performance.

Relationships between Family and Business Members have a positive and significant effect on the performance of the family business. Thus, in the context of a family business, the better the relationship in the family, the better the family business performance. The results of this study have similarities with the findings of a study by Mokhber et al. (2017) and support the findings of a study by Kumar and Prameswari (2018).

Problems that arise in an organization can be solved by good communication through sharing information or knowledge, which is one of the aspect that contribute to good relationship among family members and business members (Frank, Kessler, Rusch, Suess-Reyes, and Weismeier-Sammer, 2017; Suess-Reyes, 2016). With a good relationship between family and business members, problems that arise in the family business can be minimized. A good relationship will also strengthen the level of trust. Predecessor's willingness to approve and delegate power to successor are crucial to succession process (Dou and Li, 2012; Wang, Lo, and Weng, 2019). These in turn enable the successor to gain better cooperation with the predecessor and other business members in the family business. As a result, all these aspects can increase the family business performance. In addition, predecessor that provide values and traditions and business members that also contribute to knowledge transfer to prospective successors can help the successor to better understand the family business as well as strengthen their existing familial relationships. This confirms a study by (Boyd, Royer, Pei, and Zhang, 2015) and answers one of research propositions by Suess (2014).

Furthermore, the fewer conflicts or jealousy and competition or rivalry among family members help to build harmony and a trusting relationship among the family members. A good relationship in the family must be maintained by the family business in order to improve the performance of the family business. This finding is in line with a study by Woodfield et al. (2017), which good interactions between generations can help sustain family business. In addition to the incumbent's relationship with the successor, relationships with other family members are also important in a family business. Maciel, Ramos, Aguilar, and Reyna (2015) stated that family relationship is vital for the success of a family business.

The findings of this research emphasize that every family business must pay attention to the level of readiness of each potential successor and the existing relationships in the family in order to maintain the family business performance. This can be done by increasing the awareness of the previous generation (incumbent) of the prospective generation (successor), so that the next generation is ready for the succession process that will be carried out and to be able to maintain the family business performance. Successors must be prepared in earnest to channel their potential and to contribute to the family business effectively. In addition, the family must also pay attention to communication among family

members, which a good relationship will minimize conflicts and disputes in the family. This enables open and collaborative information exchanges and knowledge transfer, which are important (Boyd et al., 2015; Mussolino and Calabrò, 2014).

Successors need to prepare themselves to continue their respective family businesses. A good self-perception is a result of successor preparation. Individual perceptions of every successor must consider themselves ready so that self-confidence can emerge and keep the Family Business Performance stable or improved. Parents of successors must be able to ensure the successor's readiness in terms of education as well as knowledge and knowledge about the family company. Work experience before joining a family company can also be given if needed.

Good family relationships need to be considered in a family business. Family and business are a unity in which one of them cannot be forgotten. Existing communication between family and business members must be improved. Family member must be able to open up to each other, increase mutual trust, as well as share values and traditions, which unique family business culture and best practices can be transferred to the next generation to ensure better business performance (Brenes, Madrigal, and Requena, 2011). A good relationship is one important aspect in the success of a family business (Maciel et al., 2015). Family company performance is inseparable from good relationships within the family as well as business members (Chung and Luo, 2013). Problems that exist in the company or family will be resolved if family members have good relationship and relationship roots. Family members must be able to trust each other, have a shared commitment to develop the family business.

CONCLUSION

The purpose of this study is to determine the effect of the level of successor readiness and relationships between family and business members on the family business performance. A quantitative method was used and purposive random sampling was used, yielding 93 respondents from Universitas Ciputra's Family Business Community. The data was analyzed using PLS-SEM. Based on the dynamic managerial capabilities (Adner & Helfat, 2003) and research results, successor readiness level has a positive and significant effect on the family business performance. The result also shows that the relationship between family and business members have a positive and significant effect on the family business performance. Family businesses must be able to prepare potential successors for the business so that business sustainability is well-maintained. Aside from this, another challenge that exists in a family business is family relationships that intersect with business matters. Family members must be able to maintain a good relationship in order to achieve a stable family business performance.

Several managerial recommendations resulted from this research. First, family businesses should consider more preparation for a more mature successor. Second, the family business must also maintain a close relationship between family and their respective business members, so that the business performance continues to improve and be optimal.

Despite a rigid quantitative research method used, there are some limitations of this research. First, the sample used in this study did not cover the majority of the population, hence family business successors within the Universitas Ciputra Family Business Community. Thus, there is an opportunity to confirm and generalize this research findings to other family business community in Indonesia. There is also an opportunity to confirm the findings in family business in other countries, whether is there any cultural factors that might contribute to family business performance. Second, this research did not include company size as control variable. Thus, future research should explore company size as control variable and other control variables that can contribute to broaden the family business body of knowledge.

Finally, the contribution of successors varies within each family business, thus the calculation of the influence of the successor readiness level towards family business performance needs to be further developed. Therefore, there is an opportunity for future research to examine the role of different levels of successor readiness towards the family business performance.

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