The Effect of Succession Planning and Product Quality Innovation on Business Performance in Family Businesses

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ABSTRACT

Family businesses play an important role in the local economy. The role of succession planning and product quality innovation are key factors that can affect family business performance. This study aims to determine the effect of succession planning and product quality innovation on family business performance. This study uses a quantitative method with a survey as a data collection tool. Data were collected through questionnaires distributed to family business owners. The conjecture of this study is that succession planning has a significant and positive influence on family business performance. This result suggests that companies with a mature succession planning strategy tend to have better performance. In addition, innovation in product quality also contributes positively to business efficiency. Family businesses that actively develop innovative products tend to achieve competitive advantage and better growth. Based on these results, it can be concluded that succession planning and product quality innovation play an important role in improving family business performance. Family businesses that invest in careful succession planning and prioritise product quality innovation are likely to continue to succeed and grow. Therefore, business owners need to pay attention to these important aspects to improve their business performance.

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1. INTRODUCTION

Family businesses are an interesting part of entrepreneurship, and many companies in the world and in Indonesia are family businesses. Family businesses play a very important role in the Indonesian economy. It contributes significantly to employment and economic growth and reduces unemployment. According to the International Finance Corporation (IFC) (2018), around 95% of businesses in Indonesia are family-owned, according to cited data. Family businesses play a central role in the global corporate structure as economic entities whose personal and professional aspects are closely linked. From small businesses to large corporations, family businesses have a significant impact on the global economy. According to Pouziouris (2001), family businesses are the driving force of the global economy, creating new jobs, encouraging entrepreneurial activity and contributing to the economic development of society (Pyromalis & Vozikis, 2009).
Family businesses need to survive and remain competitive to absorb employees and grow the business. Entrepreneurs must also pay attention to performance, as poor performance leads to reduced resources. If this situation persists, the company may downsize and be unable to continue its operations, leading to job losses. Data shows that employee performance is the measure of success in keeping the company afloat, and the ownership of the company is currently held by the family and extended family of Levi Strauss' four managed nephews (Downey, 2014). Therefore, a thorough understanding of these issues is an important first step to developing appropriate strategies and solutions and enhancing the positive impact of succession planning and product quality innovation on family performance.

The dynamics of family businesses are fraught with issues that can impact succession planning, product quality innovation and ultimately overall firm performance. One of the fundamental problems is that family business owners are unable to prepare the next generation with adequate skills and knowledge to run the business effectively, so succession planning has received less attention and has not been carried out. Based on the data, Wilson (2013) found that the destruction or failure of family businesses occurs when the second and third generations catch up. Giarmarco (2012) also states that about 70% of family businesses do not survive the transition from the founder to the second generation. There is evidence that business continuity always decreases with generational changes.

Succession is a very important and critical stage for the future survival of the family business. Succession is inevitable in family businesses (Poza, Permatasari, 2015). Succession planning is a long-term strategy that aims to pass on the leadership and ownership of a business from one generation to the next in a family environment. Lack of succession planning is the most common cause of family business failure during the transition to the second or third generation (Karofsky, 2001: 1). Over time, issues such as leadership transition and incorporating family values into decision-making have become important aspects of business continuity planning. Soeparto (2019) found in his research that the level of successor preparation has a positive and significant influence on family business performance. Marpa in Marini (2018) stated that succession planning and implementation in family businesses are influenced by three important factors, namely intrafamily factors, successor character factors, and Masu company factors. According to Miller and Isabelle, Marini (2018), proper succession planning will determine the success of a company.

In addition, product quality innovation demonstrates the company's ability to continuously adapt and respond to changes in market demand. Family businesses that successfully integrate innovation into their production processes and improve the quality of their products can create added value that differentiates them from competitors in the market and increases customer satisfaction. Challenges in introducing product quality innovations can arise from resistance to change within the family or the inability to adapt to technological developments or market trends. Purwati (2020) states that innovation has a significant impact on companies in achieving new breakthroughs so as to improve business performance. Gianna et al. (2019) found that product innovation has a positive and significant effect on business performance.

Limited financial and human resources can also be a problem that hinders succession planning efforts and product innovation. According to Prasetyo (2020: 37). Product innovation is a new inspiration that is interesting and can be developed. Innovation is used to create exciting developments and strategic goals. To compete, we must continue to innovate and develop further.

The relationship between succession planning, product innovation and firm performance forms a complex dynamic that needs to be understood holistically. This research investigates how the interaction between these variables contributes to the development and sustainability of family businesses.

The purpose of this study is to show the results that succession planning and product quality innovation affect business performance when tested partially, and to determine which variables have the greatest impact or dominance on business performance.

Based on the description of these problems, researchers are interested in digging deeper into solutions and strategies that can alleviate these problems in the context of family businesses. The research focus can be directed at designing an effective succession planning program, identifying succession issues and innovations that are constantly changing, so as to produce sustainable solutions to improve family business performance, which are expected to be developed.

This research provides valuable information to family business managers, practitioners, and stakeholders on optimizing succession planning, enhancing product quality innovation, and overcoming everyday problems that family businesses may face. Therefore, this research can serve as a basis for developing sustainable corporate policies and practices tailored to the dynamics of family businesses.

Family businesses, as economic entities that have closely related personal and professional dimensions, play a central role in the global business structure. The characteristics of family businesses characterized by ownership and management involving family members can give them their own uniqueness. From small businesses to large corporations, family businesses have a significant impact on the global economy. The success of family businesses is often colored by family values and heritage, which become the foundation of corporate
culture and identity. The dynamics of personal relationships between family members and decisions made based on long-term considerations can shape the sustainability of family businesses.

Within the dynamics of family businesses, there are a number of issues that can affect the influence of succession planning, product quality innovation and ultimately, overall business performance. One fundamental issue is the lack of attention to succession planning, where family business owners may not be preparing the next generation with sufficient skills and knowledge to manage the business effectively.

Succession is a very important and decisive stage for the sustainability of a family business. Succession is inevitable in a family business (Poza, in Permatasari, 2015). Succession planning refers to a long-term strategy designed to transfer leadership and ownership of a business from one generation to the next in a family environment. The absence of succession planning is the number one cause of failure of family businesses to move into the second or third generation (Karofsky, 2001:1). Over time, challenges such as leadership turnover and the integration of family values in decision-making become important aspects of planning for business continuity. Soeparto (2019) in his research states that the level of successor readiness has a positive and significant effect on the performance of family companies. Marpa in Marini (2018) found that the planning and implementation of family company succession is influenced by three important factors, namely factors from within the family, factors of potential successors (successor characteristics) and factors from the company. According to Miller and Isabelle in Marini (2018) found that good succession planning is the performance of company success.

In addition, product quality innovation illustrates the ability of businesses to continuously adapt and meet changing market demands. Family businesses that successfully integrate innovation in the production process and improve the quality of their products can create added value that differentiates them from competitors in the market and increases customer satisfaction. Challenges in adopting product quality innovations can arise from resistance to change within the family or the inability to adjust to technological developments and market trends. Purwati (2020) states that innovation has an important influence on companies in making new breakthroughs to improve their business performance. Jannah et al, (2019) state that product innovation has a positive and significant effect on business performance.

Limited resources, both in terms of financial and human resources, can also be a problem that hinders succession planning efforts and product innovation. According to Prasetyo (2020: 37), Product innovation is an interesting new inspiration so that it can be developed. Innovation is used deliberately for development purposes and interesting strategies. In order to be able to compete with other companies, innovation must continue to be carried out and developed.

The impact of these problems can be detrimental to the overall performance of the family business, such as decreased competitiveness, growth stagnation, or even potential business sustainability risks. Therefore, an in-depth understanding of these problems is a crucial first step to formulate appropriate strategies and solutions to enhance the positive influence of succession planning and product quality innovation on family business performance.

The relationship between succession planning, product innovation and business performance forms a complex dynamic that needs to be understood holistically. In the context of this research, we will explore how the interaction between these variables can contribute to the development and sustainability of family businesses. Business performance is a measure of the success of a business in achieving its goals. Business performance can be measured from various aspects, such as profitability, growth, and customer satisfaction. Successor readiness can be linked to the performance of family firms. The older the age of the owner, the more work experience he has and this certainly contributes to the successful performance of the family company (Soeparto, 2019).

The purpose of this study is expected to show the results that succession planning and product quality innovation if tested partially affect business performance and know the variables that have the most influence or dominance on business performance.

With a deeper understanding of these dynamics, it is expected to provide significant insight to support the success of family businesses in the midst of increasingly fierce market competition. Knowing the success of family businesses as unique and complex business entities. Thus, it is expected that this research will provide valuable insights related to the role and contribution of family businesses in the overall business landscape. Predicting the results that will be obtained when succession and product quality innovation are carried out in family businesses.

The success of family businesses as business entities is unique and complex. Thus, it is expected that this research will provide valuable insights related to the role and contribution of family businesses in the overall business landscape.

Based on the description of these problems, researchers are interested in digging deeper into solutions and strategies that can mitigate these problems in the context of family businesses. The research focus can be directed to designing an effective succession planning program, identifying barriers to adopting product innovation, and developing sustainable solutions to improve family business performance.
This research can provide valuable insights for family business owners, practitioners, and related parties to optimize succession planning, improve product quality innovation, and deal with daily problems that may be faced by family businesses. Thus, this research can serve as a foundation for the development of policies and business practices that are sustainable and adaptive to the dynamics of family businesses. Based on this description, the research paradigm is as follows:

Based on this rationale, the research hypothesis can be formulated as follows:

**H1:** Succession planning has a positive effect on business performance in family businesses.

**H2:** Product quality innovation has a positive effect on business performance in family businesses.

**H3:** The effect of succession planning and product quality innovation on family business performance.

2. **RESEARCH METHOD**

In this study, a quantitative research method with a descriptive verification approach was used. This method combines data collection and analysis to gain a deeper understanding of how succession planning and product quality innovation affect family businesses.

The population in this study were students who had a family business. The sample used was 21 respondents using purposive sampling technique with the criteria of family members who manage family businesses. The data collection technique was carried out by distributing research instruments in the form of a questionnaire in the form of a Google Form consisting of questions structured on a Likert scale to measure the perceptions of entrepreneurs who own a family business. The Likert scale assumes that the strength or intensity of an attitude is linear, meaning that it is on a continuum from strongly agree to strongly disagree. Furthermore, for data analysis using descriptive analysis techniques. This descriptive analysis technique is used to analyze data from the Likert scale. To facilitate assessment and measurement in research, the authors also provide value weights. Respondents were informed about the purpose of the study and gave consent before filling out the questionnaire, the privacy and confidentiality of the respondent's information was maintained.

The data analysis technique used is the classical assumption test and multiple linear regression test using the SPSS (Statistical Program for Social Science) program tool. The classical assumption test is used to ensure that the regression equation has constant, unbiased, and precise results in conducting research. After all classical assumption tests are met, multiple linear regression analysis is performed to test the effect of two independent variables (X) on the dependent variable (Y). The research results will be presented in tabular form and descriptive analysis so that there will be conclusions and recommendations taken based on the research findings.

The variables used in this study are two independent variables (X1), namely succession planning and (X2), namely product quality innovation, then one dependent variable (Y), namely business performance. These two variables were chosen because succession planning and product quality innovation are very important in the success of a business performance so that the family business can continue to survive from generation to generation.

3. **RESULT AND DISCUSSIONS**

3.1 **Data Analysis Technique**

Instrument tests were carried out to carry out validity tests and reliability tests with the help of the SPSS program. In the validity test, it is declared valid if the rcount> rtable value. Based on the results of a significant test of 0.05 in the study, all variable items have a coefficient value of more than 0.4329 so that the validation test is declared valid. Reliability test is considered satisfactory if > 0.60. Based on the reliability test, the questionnaire items are declared reliable or consistent if Cronbach's alpha> significant level. The results of this research reliability test on X1 are 0.942> 0.60, X2 0.915> 0.60, and Y 0.944> 0.60 so that all questionnaire items are declared reliable or consistent. So it can be concluded that all data with 21 respondents is valid and reliable.

This descriptive statistical measurement needs to be done to see a general description of the data such as the average value (Mean), highest (Max), lowest (Min), and standard deviation of each variable,
namely succession planning (X1), product quality innovation (X2), and business performance (Y).
Regarding the results of the descriptive statistical test, it can be seen in the table as follows:

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Succession planning</td>
<td>21</td>
<td>3</td>
<td>15</td>
<td>13.05</td>
<td>2.837</td>
</tr>
<tr>
<td>Product quality innovation</td>
<td>21</td>
<td>3</td>
<td>15</td>
<td>12.95</td>
<td>2.801</td>
</tr>
<tr>
<td>Business performance</td>
<td>21</td>
<td>3</td>
<td>15</td>
<td>13.14</td>
<td>2.816</td>
</tr>
</tbody>
</table>

Based on the descriptive test results above, we can describe the distribution of data from respondents obtained by researchers:
- The succession planning variable (X1) from the data can be descriptive that the minimum value is 3 while the maximum value is 15, and the average value of succession planning each month is 13.05, and the standard deviation of succession planning data is 2.837.
- The product quality innovation variable (X2) from the data can be descriptive that the minimum value is 3 while the maximum value is 15, from the average value of product quality innovation every month of 12.95. And the standard deviation of succession planning data is 2.801.
- The business performance variable (Y) from the data can be descriptive that the minimum value is 3 while the maximum value is 15, from the average monthly business performance value of 13.14. And the standard deviation of business performance data is 2.816.

Table 2. Multiple Linear Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized coefficients</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std.Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(constant)</td>
<td>1.271</td>
<td>1.395</td>
<td>0.911</td>
</tr>
<tr>
<td>Succession planning</td>
<td>0.668</td>
<td>0.250</td>
<td>0.673</td>
</tr>
<tr>
<td>Product quality innovation</td>
<td>0.244</td>
<td>0.253</td>
<td>0.243</td>
</tr>
</tbody>
</table>

\[ Y = a + b1 \times X1 + b2 \times X2 \]

\[ Y = 1.271 + 0.668 + 0.244 \]

The multiple linear regression equation model can be formulated as follows:
1. The constant value (a) of 1.271 is a constant or state when the business performance variable (Y) has not been influenced by other variables, namely the succession planning variable (X1) and the product quality innovation variable (X2). If the independent variable does not exist, the dependent variable, namely business performance (Y), does not change.
2. The regression coefficient value (X1) is 0.668, indicating that the succession planning variable has an influence on business performance, which means that every 1 unit increase in the succession planning variable will affect business performance by 0.668, assuming that other variables are not examined in this study.
3. The regression coefficient value (X2) is 0.244, indicating that the product quality innovation variable has an influence on business performance, which means that every 1 unit increase in the product quality innovation variable will affect business performance by 0.244, assuming that other variables are not examined in this study.

\[ t_{table} = t \left( \frac{a}{2}; n-k-1 \right) \]
\[ a = 5\% = t \left( 0.05/2; 21-2-1 \right) \]
\[ = 0.025; 18 \]
\[ = 2.10092 \]
Table 3. Partial Test Results X1 to Y

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>(constant)</td>
<td>1.990</td>
<td>1.360</td>
<td>1.149</td>
<td>0.265</td>
<td></td>
</tr>
<tr>
<td>Succession planning</td>
<td>0.888</td>
<td>0.102</td>
<td>0.894</td>
<td>8.707</td>
<td>&lt;0.001</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Business Performance

In accordance with table three, the results of the t test (partial) show that the effect of succession planning (X1) on business performance (Y) with a significant value of 0.001 <0.05 and a t count value of 8.707 > 2.10092. Then Ho1 is rejected and Ha1 is accepted. This means that there is a significant effect of succession planning on business performance.

Table 4. Partial Test Results of Variable X2 on Y

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>(constant)</td>
<td>1.990</td>
<td>1.575</td>
<td>1.264</td>
<td>0.222</td>
<td></td>
</tr>
<tr>
<td>Product quality innovation</td>
<td>0.861</td>
<td>0.119</td>
<td>0.857</td>
<td>7.238</td>
<td>&lt;0.001</td>
</tr>
</tbody>
</table>

b. Dependent Variable: Business Performance

In accordance with table three, the results of the t test (partial) show that the effect of succession planning (X1) on business performance (Y) with a significant value of 0.001 <0.05 and a t count value of 8.707 > 2.10092. Then Ho1 is rejected and Ha1 is accepted. This means that there is a significant effect of succession planning on business performance.

Table 5. Variable X1 and X2 to Y

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>128,359</td>
<td>2</td>
<td>64,179</td>
<td>38.236</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Residual</td>
<td>30,213</td>
<td>18</td>
<td>1,678</td>
<td></td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Total</td>
<td>158,571</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From table five, it can be seen the effect of succession planning (X1) and product quality innovation (X2) on business performance with a significant value of 0.001 <0.05 and fhitung 38.236 > ftabel 3.52. This proves that Ho3 is accepted and Ha3 is accepted. This means that there is a significant effect of succession planning (X1) and product quality innovation (X2) on business performance (Y).

Table 6. R2 Test

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.900</td>
<td>0.809</td>
<td>0.788</td>
<td>1.296</td>
</tr>
</tbody>
</table>

a. Dependent Variable: business performance

b. Predictors (Constant), product quality innovation, succession planning
The test result of the coefficient of determination (Adjusted R square) is 0.788, which means that the effect of succession planning (X1) and product quality innovation (X2) is 78.8%, the remaining 22.2% is caused by other variables not included in the study, and this study is in the strong category because it is more than 0.67.

3.2 Discussion

Based on the calculation results in the study, the succession planning variable (X1) and the product quality innovation variable (X2) affect the business performance variable (Y). This is based on the calculation of the multiple linear regression coefficient that the independent variable has a positive influence on the dependent variable.

Based on the results of the analysis of the effect of succession planning variables (X1) on business performance variables (Y) obtained a tcount value of 8.707 > 2.10092. Then Ho1 is rejected and Ha1 is accepted, which means that there is a significant influence between succession planning on business performance. The results of this analysis are also reinforced by the results of research analysis from Soeparto (2019) which states that the level of successor readiness has a positive and significant effect on the performance of family companies. Analysis of the effect of product quality innovation variables (X2) on business performance variables (Y) obtained a tcount value of 7.238 > 2.10092. Then Ho2 is rejected and Ha2 is accepted, which means that there is a significant effect of succession planning on business performance. This is reinforced by the results of research conducted (Farisi, 2013) and (Anggraini, et.al, 2014) showing that innovation variables affect business performance. Analysis was also carried out on variables X1 and X2 on Variable Y, with a tcount value of 38.236 ttable 3.52. This proves that Ho3 is accepted and Ha3 is accepted. This means that there is a significant influence of succession planning and product quality innovation on business performance.

Succession planning that is mature by considering many factors that support the success of succession certainly has a positive and significant effect because prospective successors can learn and get to know in advance about the business to be run before the prospective successor goes directly and becomes a potential successor to the family business. With the new prospective successor, there will definitely be new thoughts about the products being produced. There will be many new ideas emerging so that it can have a positive and significant influence because it can keep the business afloat and competitive so that it develops its business further. Without succession planning and quality innovation in family business products, the supporting factors for business performance will be very lacking and may be hampered and may even stop without a successor, therefore these two variables are very important for family business performance.

4. CONCLUSION AND RECOMMENDATION

Conclusion

Based on data analysis and discussion based on theoretical studies and problem formulation that has been discussed, the results of hypothesis testing show that succession planning and product quality innovation when tested partially affect the performance of family businesses in Tasikmalaya. This can be seen from the tcount value of X1 on Y, namely 8.707 > 2.10092 and X2 on Y, namely 7.238 > 2.10092. This means that if succession planning is planned from before the specified time, the prospective successor can better prepare himself in accepting the responsibility of continuing the family business, of course, with various ideas and innovations in the quality of new products as well in order to adapt to the market according to the times. From the test results the dominant variable is succession planning because it has the highest beta of 0.673. So it is proven that the succession planning variable has a very large effect on business performance in family businesses because it takes a long time to prepare prospective successors to a business.

Recommendation

Further research can be carried out that can complement the shortcomings of this study as explained in the coefficient of determination test that 22.2% of the variables that complement this research are not in the research conducted. In this study, the more dominant variable is the succession planning variable, it would be nice if it will conduct research with the dependent variable of business performance, it must be able to determine a balanced variable. Family companies that have not prepared successors and product quality innovations should be prepared from now on considering the success rate of this research is very large, so it would be good to consider.

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