
The Effect of Successor Readiness on Family Business Sustainability

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ABSTRACT

Leadership succession in a family business is the process of transferring leadership from predecessor to business successor, this process involves preparing a successor who will take over leadership and be responsible for the family business. Ineffective succession planning will not be able to make a successor in accordance with company goals that will cause the company to fall. This study aims to determine the effect of successor readiness on the sustainability of family business. With the object of research of students of the Indonesian University of Education, Tasikmalaya Campus. This study used quantitative methods, with a descriptive approach and journal analysis related to sustainability factors in family businesses. Based on the results of the study, there are allegations that successor readiness has a positive effect on the sustainability of family businesses and provides useful insights on how families can improve family business sustainability through successor readiness.

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1. INTRODUCTION

Family enterprises have exerted great influence on economic activity. In contrast to other non-companies that experience ups and downs in growth, family companies show stable performance and tend to increase. As a result, family companies can contribute between 45% and 70% of Gross Domestic Product (GDP) and much of their workforce from many countries (Glassop & Waddell, 2005). In Indonesia, family companies play an important role in the economy, contributing up to 82.44% of the country's GDP. Data from Forbes Asia shows that around 95% of the 40 richest people in Indonesia come from family companies, with total wealth reaching around Rp 383.410 trillion. The contribution of family companies to Indonesia's GDP also reaches around 25%. The success of succession from the first generation to the next has been the key to their success.

Most family companies in Indonesia experience leadership challenges in the second generation, but there are also those that manage to become successful and grow rapidly after being managed by that generation. Examples include Djarum Group, Gunung Sewu Group, and Dexa Medica Group, which managed to maintain and enlarge their business through successful succession. There are also several family companies that have survived for more than 100 years, such as Hotel Savoy Homann (founded 1888), Jamu Iboe (founded 1910), Sampoerna (founded 1913), and Jamu Nyonya Meneer (founded 1919). (Pambudi, 2007). In Indonesia, a survey from the Indonesia Brand Forum (2016) shows that family business succession is experiencing major challenges. Only about 30% are successful in transferring success from the first generation to the second generation, with the success rate decreasing to about 10-15% from the second generation to the third generation, and only 3-5%

successfully transferring success from the third generation to the fourth generation. Because of this pattern, an idiom emerged that was popular in family companies: "the first generation founded, the second generation built, and the third generation destructive." This shows that maintaining the continuity of the family business is a big challenge.

According to Leach (2011), about 70% of family businesses fail when switching to the second generation, while almost 90% of those businesses cannot survive on the 3rd generation. Ghee et al. (2013) found that only one-third of family businesses successfully pass on the journey from the first generation to the second generation. Other studies have also confirmed that only one-third of family businesses survive to the third generation (Ibrahim et al., 2001; Wang et al., 2000). One of the main factors is errors in succession planning, as described by Ward (2011). The successful success of family-owned businesses has been revealed to be a multistage phenomenon (Pardo-Del-Val, 2007). This fact documents the importance of a family business and the great investment that a family business has. For both economic and family interests, it is important to determine predictors of the sustainability of the family business. So this study will examine the factors that influence the involvement of the next generation in the sustainability of the family business.

Some researchers acknowledge that founders exert a great influence on corporate culture, values and sustainability, during and after tenure and the peculiarities of family businesses in terms of values are also influenced by the role of founders (Sharma, 2004). Founders have a very important role in shaping the culture, values, and performance of the company. His influence can be felt not only during his tenure, but also long-term thereafter. Founding families also often carry forward the values on which their businesses differ. This creates a strong foundation for corporate culture and influences the direction and survival of the company as a whole. Successor readiness is sometimes a difficult choice for business owners, especially when there is only one potential successor that makes the owner need to do more careful consideration to prepare his potential successor to be truly ready to take over the company and the owner really feels comfortable leaving the company. As stated by Stavrou (1998) who states the complexity in values, traditions and family relationships will influence the successor will effectively be able to develop his role in the family company.

The distinctiveness of a family business in terms of values generally comes from the values shared by the founder. Researchers recognize that founders exert a profound influence on culture, values and performance during and after tenure (Sharma, 2004). On the other hand, the individual characteristics of the successor are a reflection of the successor's ability to the successor's readiness to continue the company. Marpa (2010) in his research found that successor characteristics affect the success of family companies. The similarity of the vision of the prospective successor with the company's values makes the readiness of the successor very important for a company. By preparing successors appropriately, the company will be continued by the right hands so that the company can continue to run in the direction it wants. Identification of successor readiness is a calculated process related to the distribution of assets or assets from the older generation to the older generation to provide control to the business (Hadi & Mustamu, 2016). Successor readiness is the process of identifying successor capabilities by comparing the criteria of potential successors in a work process in the company with the ideal criteria of the company that causes the owner to determine whether it is time for leadership to be handed over to successors in a timely manner (Poza, 2010). Related to this phenomenon, that leadership changes in family companies are an important factor in corporate sustainability. Therefore, this study aims to explain and analyze the relationship between successor readiness on family business sustainability. The study also examined the extent to which the influence of successor readiness affects the sustainability of family businesses. Does the readiness of the successor have a positive effect on the sustainability of the family business, or the influence of the successor does not affect the sustainability of the family business.

2. RESEARCH METHOD

This research method uses quantitative methods with a descriptive approach. This research process uses numbers. The source of the data used is secondary data, which is selected and important for researchers, obtained from various books, journals or other references. Such as Indonesian government policies and corporate actions or authorities taken in carrying out daily operational activities. In this analysis process, the author analyzes, collects data, and performs calculations that will later draw conclusions. The documents collected will be used as supporting data in this study and will then be used as a reference to evaluate the readiness of successors in the continuity of the company's family business. The object of this research is the readiness of successors, and the continuity of family businesses in leading the next generation of companies. Instrument testing starts from validity tests and reliability tests then the data analysis techniques carried out are classical assumption tests and regression tests, which aim to describe and test hypotheses that have been determined through questionnaire data. Population collection technique This study sample is a student of the Indonesian University of Education, Tasikmalaya campus who has a family business and meets the inclusion criteria. The theoretical framework process starts from data collection carried out by researching and checking the website that the author finds, so that the author ensures that the data contained in this study is genuine and reliable data from the source. The next process is to examine

the data that the author has collected, the data that has been collected will be published into the journal in the form of tables or writing. In this study, the frequency distribution to be analyzed is the influence of readiness of potential successors between family business sustainability relationships which include communication, trust, commitment, loyalty, family motivation, competition between siblings, and traditions in the family (Mokhber et al., 2017).

3. RESULT AND DISCUSSIONS

Validity test and Reliability test are two important concepts in the development and evaluation of measurement instruments, such as questionnaires or tests. Both of these tests help ensure that the instrument is reliable and provides accurate results. The results of this test study using questionnaires were carried out by conveying validity and reliability. Validity tests are used to assess the accuracy of instrument validity. Calculation Validity tests and reliability tests are performed using the SPSS program version 25.

Based on the results of the validity test, the successor readiness variable (X) indicates that all items used are declared valid. and also the family business continuity variable (Y) shows a statement that is declared valid because by interpreting it using the R table with N = 30 (number of respondents) the table R = 0.113 or can equal the significance (sig) that must be met <0.05 then if less than 0.05 is declared valid, so it can be concluded that both variables are valid. While the purpose of the reliability test is to see whether the questionnaire has consistency if the measurement is carried out with the questionnaire repeatedly using the basis of taking the Cronbach alpha reliability test according to Wiratna Sujerwemi (2014). The questionnaire is said to be reliable if the Cronbach alpha value > 0.6 The results obtained through the reliability test are 0.533 so that it is more than 0.6 so that it can be concluded that the reliability test of this data is reliability or valid.

Based on the results of the Classical Assumption Test showing the statement of the Normality Test, that the test results show a Kolmogorov-Smirnov value of 0.244 with an Asymp Sig (2-tailed) value of 0.601 > a probability value of 0.05 then the research data is normally distributed. In addition, the Multicollinearity Test shows the result of the VIF value in the multicollinearity calculation results shows that the variable VIF value must be smaller than <10,000 with a result of 1,000 indicating the absence of multicollinearity. And the last Heteroscedasticity Test with the results in this study using scatter plots, it appears that there is no clear pattern, and the points are scattered above and below the zero axis of family business sustainability (Y). Therefore, it can be concluded that in this model heterosdasticity does not occur. Regarding Regression data can be seen and discussed in the table below:

a.) Descriptive Statistical Test Results

Descriptive Statistical Measurement This variable needs to be done to see a general picture of data such as the average value (mean), highest (max), lowest (min) and the standard of division of each variable, namely successor readiness (X) and Family Business Sustainability (Y). Regarding the results of the Descriptive Statistical Test can be seen in table 1.1 as follows:

Table 1. Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Successor Readiness	30	32.00	45.00	40.2000	3.14478
Family Business Sustainability	30	35.00	50.00	43.3000	3.49532
Valid N (listwise)	30				

Source : SPSS 29 output, Secondary Data has been processed

From the table above explains that the successor readiness variable (X), from these data it can be described that the minimum value is 32 while the maximum value is 45, and the average successor readiness is 40.2000 with the standard deviation of successor readiness data is 3.14478 while the Family Business Sustainability Variable (Y), from the data can be described that the minimum value is 35 while the maximum value is 50, and the average successor readiness is 43.3000 with the standard deviation of successor readiness data is 3.49532

b.) Simple Linear Analysis Results

The results of simple linear regression analysis are regression equation models that can be used to predict the magnitude of dependent variables using independent variable data that already know the magnitude and to test the correctness of the hypothesis. Regarding the results of the Simple Linear Analysis Test can be seen in table 1.2 as follows:

Table 2. Simple Linear Analysis Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.734	5.994		1.958	.060
	Successor Readiness	.785	.149	.706	5.282	<.001

Source : SPSS 29 output, Data has been processed

Dependent Variable: Family Business Sustainability

It is known that the Constant value (a) is 11.734, while the readiness value (b / regression coefficient) is 0.785 so that the regression equation can be written:

$$Y = a + bX$$

$$Y = 11.734 + 0.785$$

The equation can be translated:

1. A value of 11,734 means that the consistent value of the sustainability variable is 11,734
2. The X regression coefficient of 0.785 states that for every 1% increase in the readiness value, the sustainability value increases by 0.785. The regression coefficient is positive, so it can be said that the direction of influence of variables X and Y is positive.

Decision making in a simple regression test is:

1. Based on the significance value from the coefficients table, a significance value of $0.001 < 0.05$ is obtained so that it can be concluded that the readiness variable (x) affects the sustainability variable (Y)
2. Based on the value of t: it is known that the $t_{\text{calculated}}$ value is $5,282 > t_{\text{table}} 2.042$, so it can be concluded that the readiness variable (X) affects the sustainability variable (Y)

Table 3. Test R

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.706a	.499	.481	2.51758

Source : SPSS 29 output, Secondary Data has been processed

Predictors: (Constant), Successor Readiness

The table above explains the magnitude of the correlation value / relationship (R) which is 0.706. From the output, a coefficient of determination (R Square) of 0.481 is obtained, which contains the determination that the independent variable (readiness) of the dependent variable (sustainability) is 4.81%

Table 4. Test F

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	176.831	1	176.831	27.899	<.001b
	Residual	177.469	28	6.338		
	Total	354.300	29			

Source : SPSS 29 output, Data has been processed

a. Dependent Variable: Family Business Sustainability

b. Predictors: (Constant), Successor Readiness

The table above is known that the value of F count = 27.899 with a level of significance of $0.001 < 0.05$ then the regression model can be used to predict sustainability variables or in other words there is an influence of readiness variables (X) on sustainability variables (Y)

4. CONCLUSION AND RECOMMENDATION

The conclusion of the journal regarding successor readiness for family business sustainability is that good successor preparation is very important to ensure the continuity of the family business. In the journal, it is concluded that a well-prepared successor has the knowledge, skills, and attitudes needed to manage a family business successfully. In addition, successor readiness also involves the process of transferring knowledge and family values that have been formed over the years. Successors who are able to understand and apply these values will be able to maintain the sustainability of the company's culture and good relationships with employees, customers, and suppliers. Good successor readiness is a key factor in maintaining the sustainability of a family business. Successor preparation involving education, experience, knowledge transfer, and strong family values will help in dealing with change and ensure the continuity of the family business in the future. Thus, it can be concluded that investment in the development of successor readiness, especially through early education and continuous training, becomes a very important strategy for business families who want to ensure the sustainability of their business for generations.

In the journal it is also suggested that successor readiness not only involves the successor itself, but also involves current business leaders. Business leaders must be able to gradually relinquish control and give successors the opportunity to learn and take on greater responsibility. In this case, successor readiness becomes a shared responsibility between current business leaders and potential successors. In addition, it is important for family business owners to identify and train potential successors. This process must begin early, by providing relevant education and experience to potential successors. This training may include an introduction to various aspects of business, management, leadership, and the family values underlying the business. Then, a structured succession plan to ensure the sustainability of the family business. This plan should include the steps necessary to smoothly transfer leadership and ownership of the business to a successor. This includes assessing successor skills and readiness, business ownership arrangements, and long-term development to ensure the business continues to run well. And the latter respects family values to maintain and respect these values in all aspects of the business, including in the succession process. Having a clear understanding of family values and how they can be translated into business decisions will help ensure the long-term sustainability of the family business.

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