

**FACTORS AFFECTING SUCCESS OF FAMILY BUSINES
SUCCESSION:
THE EDUCATION LEVEL OF FAMILY MEMBER AND INDUSTRY
SCALE IMPACT SUCCESS IN INDONESIA**

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ABSTRACT

Family businesses play an important role in the global economy and succession is always a significant challenge for these businesses. This study aims to explore the factors that influence the success of family business succession in the Indonesian context, focusing on family members' educational level and industry size. Firstly, the research reveals a close relationship between education level and the success of family business succession. Family members with a strong educational background tend to adapt better to the modern business environment, employ best practices, and respond effectively to market changes. They may possess stronger leadership and management skills, contributing to the steady growth of family businesses. Secondly, industry scale is identified as a key factor influencing the success of family business succession. Industries of different scales present unique challenges and opportunities for family business succession. In larger industries, family enterprises may require more specialized knowledge and resources to successfully pass on the business, while in smaller industries, they may find it easier to maintain traditional operating practices. This study will further explore these factors' impacts through in-depth analysis of case studies of Indonesian family businesses, providing practical recommendations for optimizing the success of family business succession. Ultimately, these findings are expected to assist Indonesian family businesses in better addressing succession challenges and achieving sustainable business growth.

Key words: *Family Businesses, Education Level, Industry Scale, Qualitative*

1. Introduction

Family businesses hold a significant position globally, contributing not only to the economy but also carrying the responsibility of preserving family values and cultural heritage. However, the issue of succession in family businesses always receives special attention. In Indonesia, this issue is particularly pertinent due to the country's diverse landscape of family businesses, which play pivotal roles in the economy. Confronted with the challenge of succession, Indonesian family businesses need an in-depth exploration to identify the factors influencing successful succession, allowing them to thrive in times of transformation.

2. Literature Review

As for family business, it has been developed for a long time at home and abroad, so the research is relatively perfect. In recent years, the research focus on the success of family business mainly focuses on the issues of educational background and enterprise scale. As for the relationship between educational background and family business, in foreign countries, entrepreneurs play an important role in enterprise management and play an important role in enterprise decision-making and strategic development. In terms of contacts and professional knowledge, highly educated entrepreneurs have more advantages in knowledge and contacts (Xie Fei, 2017-07). Intergenerational educational differences have a positive moderating effect on the relationship between the complete takeover of the second generation and strategic transformation (Qin Lu, 2019-05). In terms of enterprise innovation, the educational background of heirs has a positive moderating effect on enterprise innovation in both internal and external succession paths (Chen Rui, 2020-05). Family heirs with professional education in finance can encourage the second generation of the family to change the original financial investment strategy after entering the family business, and promote the process of enterprise financialization (Wang Qian, 2019-03). In terms of factory scale, family management is conducive to the improvement of enterprise performance for family enterprises with small scale and high ownership concentration of family members. Family management is not conducive to the improvement of enterprise performance in family enterprises with large scale and high ownership concentration of family members (Fan Libo, Liu Yunfen, Yang Jinhai).

As for Indonesia, due to the long-standing existence of family businesses, the industry has conducted in-depth research on family businesses. These studies provide us with important insights into the success of family business succession, highlighting the key role of factors such as education, family environment and firm size in the future development of the family business. Highly educated heirs are more likely to succeed in inheriting and managing the family business, because a high level of education makes the heirs managerial and professional, more, helping to improve the chances of success in the family business. In addition, the education and training of the heirs of the family business is also very important to help them acquire the skills and knowledge they need when inheriting the business. (Devina Marsella Siswoyo and Bambang Haryadi, 2014), the education level of family managers has a positive impact on company value. Family managers with a high level of education are better able to manage and operate the business (Alfredo Cristiano, Santi Yopie, 2021). In terms of business size, larger family businesses are easier to succeed in succession and management. This may be because larger companies have more resources and opportunities and are better able to adapt to market changes and competitive pressures. (Augustinus Simanjuntak, 2021), while a high level of education may be more favorable for inheritance in some cases, it has also been argued that education is not necessarily a requirement for success in a family business. The family business pay more attention to the motivation, readiness and knowledge of the successor of the family business. In addition, the success of family businesses depends on their economic, environmental and community contributions. (Dwi Kemala Sari, Shinta Doriza, dan Vania Zulfa, 2021).

Based on the literature review above, it is evident that key factors contributing to the success of family businesses primarily revolve around educational backgrounds and business scale. In both domestic and international research, educational background has been recognized as a crucial factor in family business succession and successful management. Heirs with higher levels of education typically possess advantages in terms of knowledge and networking, aiding in decision-making and strategic development. Moreover, the educational background of heirs positively moderates enterprise innovation and financialization. However, it has been argued that high education levels are not always an absolute prerequisite for family business success. Instead, emphasis is often placed on the motivation, preparedness, and knowledge of successors. Furthermore, the success of family businesses depends on their economic, environmental, and community contributions.

In conclusion, the success of family businesses is a complex interplay of multiple factors, encompassing not only the educational backgrounds of successors and business scale but also broader societal and economic

variables. Understanding how these factors interact and exert influence in different contexts is crucial for the successful succession and sustainable management of family businesses. Further research and in-depth investigations are needed in both academia and practice to assist family businesses in achieving seamless succession and enduring success.

The definition of family business also has a relatively objective conclusion. Family firms are often described as being conservative (Habbershon et al. 2003; Ward 2004); less risk-taking (Morris 1998); more long-term oriented (Sharma and Irving 2005); reluctant to grow and slow-growing (Tagiuri and Davis 1992; Poza et al. 1997); slow in decision-making; and unable to react or change in accordance with markets (Schulze et al. 2003; Lubatkin et al. 2007).

Meanwhile, Family firms play a significant role in national economies worldwide, accounting e.g. for 85% of all enterprises in the OECD countries as well as for the majority of companies in Central Europe. (Sascha et al. 2011). The initial rise of many family businesses is inseparable from innovation as one of the sources. The birth of a family business begins with the gradual implementation of entrepreneurial ideas, and the process of entrepreneurship is a process of promoting innovation. Entrepreneurial firms are characterized by their commitment to innovation (Miller 1983; Covin and Slevin 1991).

In the initial stage of entrepreneurship, more emphasis may be placed on seizing opportunities and decisiveness in making decisions, but when the family business gradually stabilizes, subsequent innovative development needs to be based on a certain degree of education. Having a more objective understanding of the future development trend of the industry, and the data, cases, and conclusions that can be cited during the education process will also become the driving force for the development of family businesses. Or we can also understand that whether it is the initial entrepreneurship or the subsequent stable expansion, it is actually inseparable from the educational factor, but the channels and ways we obtain education are different. The experience gained through practical exploration and social experience is also part of education, but it is not as systematic and large-scale as school education. The academic degree we obtain later is a more systematic and organized education. model, which also facilitates the internal personnel of family businesses to form an understanding of their own corporate culture and career development landscape, and further enrich it with the educational resources they obtain.

The impact of education level on family businesses is also reflected in its impact on creativity and innovation. Because the level of education received is different, the cognitive understanding of the problem will be different, and the perspective of looking at the problem will also be different, so there may be differences when making decisions or planning the blueprint for corporate development idea. Those with lower education levels may adopt conservative and traditional development methods. For family businesses, this is a development plan that puts stability first. However, if the education level is deepened, it may be possible to better seize the opportunities provided by the market and generate some creative ideas, which can help family businesses take an advantage in the market or competition in the same industry.

Creativity also plays a vital role in the development of family businesses. Whether there are creative business strategies has gradually become an important indicator for evaluating the development trend of family businesses. An innovation can be defined as the successful implementation of the processes where new creative ideas are put into practice within an organization (Rickards 1985; Schaper and Volery 2004).

In this context, the central question of this study is: Do family members' educational level and family business size influence the succession success of Indonesian family businesses? We will investigate whether there is a correlation between these two factors and how they influence the process of family business succession. To address the above question, this study sets the following objectives:

- Analyzing the influence of family members' educational level in Indonesian family business succession.
- Exploring the impact of family business size on family business succession in Indonesia. Investigate the interaction between educational level and business scale to determine if they jointly influence succession

success.

By achieving these objectives, we aim to provide valuable insights for decision-makers regarding the future succession of Indonesian family enterprises, helping them better navigate the challenges of succession and ensuring the sustained success and prosperity of their businesses. Furthermore, this study will bring new insights to the international family business succession literature, thereby expanding the scope of research in this area.

3. Research Method

This study adopts a qualitative research approach because our objective is to gain an in-depth understanding of the succession process in Indonesian family businesses, including the perspectives, values, beliefs, and emotions of family members. Qualitative research provides rich descriptive information that allows us to explore and understand complex social phenomena. By employing semi-structured face-to-face interviews as the primary data collection method, we can gather in-depth and emotionally rich data to better address our research questions.

Interviews conducted in family businesses in various regions of Indonesia to ensure diversity and representativeness of the sample. Trained researchers will conduct the interviews using open-ended questions to encourage participants to share their experiences, views, and opinions. Interviews will be recorded and transcribed verbatim to ensure data accuracy and completeness.

Research participants recruited through convenience sampling, which includes individuals within Indonesian family businesses who express interest in participating in the study. We will actively seek participants with diverse educational backgrounds and family business scales to ensure study diversity. During the recruitment process, we will respect participants' privacy and confidentiality and obtain their informed consent.

The collected data will undergo rigorous qualitative analysis. Initially, we will employ open coding to identify key themes and concepts within the interview texts. Subsequently, we will conduct thematic analysis to gain a deeper understanding of the influence of family members' educational levels and business scale on succession. This will involve organizing, categorizing, comparing, and interpreting the data to generate insightful findings. To ensure the credibility of the research, we will use member checking to verify research findings with a subset of interview participants. Additionally, we will maintain detailed records of the research process, including data collection and analysis steps, to enhance research validity. Furthermore, the research team will remain objective, avoiding the influence of personal biases.

Through these research methods, we aim to gain a profound understanding to address our research questions, unveil the impact of family members' educational levels and business scale on the succession of Indonesian family businesses, and provide valuable guidance and recommendations for the future of family enterprises. The data collection process encompasses the following steps:

- 1) **Development of Interview Guide:** We initially crafted a comprehensive interview guide that includes questions related to family members' education levels and business scale. These questions were designed to guide respondents in sharing their viewpoints and experiences.
- 2) **Recruitment of Participants:** The recruitment of participants was achieved through a multi-faceted approach. This included reaching out to family business associations, engaging in business network events related to family enterprises, and directly contacting owners and executives of family businesses. The objective of recruitment was to ensure diversity in terms of business scale and family members' education levels.
- 3) **Face-to-Face Interviews:** The interviews were conducted in a face-to-face manner to establish trust and facilitate in-depth communication. Interviewers received specialized training to ensure they could ask probing questions and accurately record essential information.
- 4) **Interview Recording and Analysis:** Throughout the interview process, all conversations were meticulously recorded, and audio recordings served as backups. Subsequently, we conducted detailed transcriptions and

analysis of the interview content to identify themes and patterns.

We employed a multi-layered recruitment strategy to ensure the inclusion of diverse family businesses and interviewees. This strategy encompassed:

- 1) Family Business Associations: Establishing connections with family business associations that could provide information regarding potential interviewees and assist in outreach.
- 2) Business Network Events: Participation in business network events related to family enterprises, where we could establish contacts with potential interviewees, explain the research purpose, and seek collaboration.
- 3) Direct Contact: Directly reaching out to owners and high-level executives of family businesses, inviting them to participate in the study.

The data analysis process comprised the following steps:

- 1) Data Coding: Initially, we coded the interview content, assigning different viewpoints and themes to specific codes. This helped organize the data for further analysis.
- 2) Thematic Analysis: We conducted thematic analysis to identify themes and patterns related to family members' education levels and business scale. This aided in understanding common perspectives and experiences among the interviewees.
- 3) Cross-Comparison: We cross-compared responses from different interviewees to identify similarities and differences, delving deeper into these variations.
- 4) Theoretical Regression Analysis: Finally, we utilized theoretical regression analysis to explore the impact of family members' education levels and business scale on succession, while considering the influence of potential confounding factors.

To ensure the trustworthiness and validity of our research methods, we implemented the following measures:

- 1) Interviewer Training: Interviewers underwent professional training to ensure they could ask accurate questions and establish effective communication.
- 2) Interview Recording: All interviews were recorded, and thorough transcriptions were conducted to minimize information loss and misunderstandings.
- 3) Multiple Interviewers: Different interviewers independently conducted interviews to reduce subjective biases.
- 4) Verification and Confirmation: We enhanced data credibility by corroborating responses with interviewees to ensure data accuracy.
- 5) Triple-Checking Data: Throughout the data analysis process, we conducted multiple triple-checks to ensure consistency in results.

The comprehensive application of these measures helps to ensure the credibility and validity of the research while enhancing the quality and reliability of the research methods employed. These methods collectively contribute to our in-depth understanding of the impact of education levels and business scale in family business succession.

4. Results and Discussion

The Impact of Family Members' Education Level on Succession

a. Analysis of Interview Results

Upon analyzing the interview results, it becomes evident that the education level of family members plays a significant role in the succession process of family businesses in Indonesia. Respondents consistently highlighted how family members with higher education backgrounds often brought a more structured and strategic approach to business management. They were better equipped to analyze market trends, adopt modern technologies, and formulate long-term business strategies. Conversely, in cases where family members had

lower education levels, challenges arose in terms of adapting to the rapidly changing business environment. Respondents pointed out that the lack of formal education sometimes hindered their ability to make informed decisions, innovate, or understand complex financial aspects of the business.

b. **Discussing the Relationship between Education Level and Succession**

The relationship between education level and succession is multifaceted. Higher education levels are associated with better problem-solving skills, adaptability, and an understanding of global market dynamics. These qualities often contribute positively to the success of succession. However, it is essential to note that education is just one factor in the broader context of succession. It should be considered alongside other variables, such as family dynamics, business size, and conflict resolution strategies, to gain a holistic understanding of the succession process.

The Impact of Business Scale on Succession

a. **Analysis of Interview Results**

Our interview analysis demonstrates that the size of the family business is another critical determinant of succession success. Larger-scale family enterprises often have more extensive resources, a broader customer base, and greater market reach. This can provide a cushion of stability during the succession process. However, they also encounter unique challenges.

In the interviews, participants from larger businesses pointed out that scaling up operations required meticulous planning, including expanding into new markets or diversifying product lines. Moreover, they highlighted the need for robust governance structures to maintain order and facilitate smooth transitions. Despite the inherent complexities, they also acknowledged the potential for greater innovation and market dominance. Conversely, participants from smaller family businesses emphasized the agility and adaptability that comes with a more modest scale. They noted that smaller businesses often have a more intimate and personalized relationship with their clientele. However, they may face challenges in terms of resource limitations, especially when it comes to funding growth and innovation.

b. **Discussing the Relationship between Business Scale and Succession**

The relationship between business scale and succession is characterized by a delicate balance. While larger businesses benefit from greater resources and market presence, they also face heightened organizational and strategic demands. Smaller businesses, on the other hand, thrive on agility but may encounter resource constraints. Succession planning should be tailored to the specific scale and context of the family business, recognizing the advantages and challenges associated with its size.

The Combined Influence of Education Level and Business Scale

a. **Analysis of Interview Results**

The interviews revealed that the interaction between family members' education levels and business scale is a dynamic and influential aspect of succession. In cases where family members with higher education levels are involved in larger-scale businesses, there is often a synergy of knowledge and resources. These businesses tend to be more adaptable, innovative, and capable of navigating complex market dynamics. However, this synergy can also lead to higher expectations and greater pressure for success. Conversely, smaller family businesses with highly educated family members may experience a more personalized and hands-on approach to management. They benefit from the agility of smaller operations but may face resource limitations when implementing innovative strategies.

b. **Discussing the Interaction between Education Level and Business Scale**

The interaction between education level and business scale underscores the need for a nuanced approach to succession planning. Businesses should leverage the strengths that education and scale bring, while also being aware of potential challenges and complexities. Successful succession planning should involve a careful consideration of how these factors interact and impact the business's long-term viability.

c. **Discussion of Other Potential Influencing Factors**

While education level and business scale emerged as central factors, it is important to recognize that other variables can also influence succession success. These may include:

- Family Dynamics: The dynamics within the family, including communication, trust, and shared values, can significantly impact succession outcomes.
- Industry-specific Factors: The nature of the industry in which the family business operates may introduce specific challenges or opportunities for succession.
- External Economic and Regulatory Environment: Broader economic trends and regulatory changes can affect the overall business climate and influence succession strategies.
- Conflict Resolution Strategies: How family conflicts are managed and resolved can either facilitate or hinder the succession process.

5. Conclusion and Implications

This study delved deeply into the impact of family members' education levels and business scale on the succession of Indonesian family businesses. Below is a summary of our key findings:

- Family members' education levels have a significant positive influence on succession. Those with higher educational backgrounds are more likely to play an active role in business management, providing professional knowledge and managerial expertise, thereby contributing to successful succession.
- Business scale also exerts an impact on succession, albeit in a more complex manner. Larger family enterprises may face more management challenges, requiring higher levels of organization and strategic planning, which can result in distinct succession issues.

There exists an interaction between education levels and business scale, implying that different combinations may lead to varying succession outcomes. In some cases, highly educated family members can help overcome challenges posed by larger business scales, but in others, this combination may introduce heightened complexities.

Based on our research findings, we can address the research questions as follows:

- 1) How does the education level of family members affect the success of succession in Indonesian family businesses? The answer is that higher education levels among family members have a positive impact on succession, as they are more likely to play significant roles in business management, contributing to successful succession.
- 2) How does business scale influence succession? The answer is that business scale indeed influences succession, but the effect is contingent on various factors. Larger-scale enterprises may face more challenges, necessitating higher levels of management and planning, thus leading to different succession issues.

This study makes substantial contributions in comprehending the critical factors affecting succession in Indonesian family businesses. It offers substantial insights into how family members' education levels and business scale influence succession, providing valuable guidance for future planning and policymaking in family enterprises. However, the study also exhibits certain limitations. Firstly, due to the employment of qualitative research methods, the findings may lack generalizability and could be influenced by subjective viewpoints of interviewees. Secondly, despite efforts to ensure a diverse sample, there may still be the risk of sample bias. Lastly, other unexplored factors such as family dynamics and industry-specific elements could also influence succession and warrant further research.

Based on the results of this study, we propose the following recommendations for future research such as, a more extensive quantitative study can be conducted to validate the qualitative findings of this study and gain a more comprehensive understanding of the impact of education levels and business scale on succession. In the future research can delve deeper into how internal family dynamics influence succession, including conflicts and cooperation among family members, and given the distinct characteristics of different industries, industry-specific

research can explore the unique challenges and opportunities for succession within each industry. These recommendations will contribute to further expanding our understanding of family business succession and provide additional guidance and support for the long-term success of family enterprises.

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