



SJEBM 4(12)

SJEBM: Volume-4: Issue-12 (Dec, 2017)

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The Role of Personality System Succession Pattern in Family Business in Indonesia

Christina Whidya Utami*

Universitas Ciputra Surabaya, Indonesia

***Corresponding author**

Christina Whidya Utami

Article History

Received: 01.12.2017

Accepted: 07.12.2017

Published: 30.12.2017

DOI:

10.21276/sjebm.2017.4.12.1



Abstract: The fact shows that 30 percent of family business can survive in second generation of family ownership, and only 15 percent survive in third generation. This indicates that it is important to study important factors that are the key of successful transition in family business. The aim of this study is to analyze the existence of personality system succession pattern that includes successor qualification, entrepreneurial orientation, willingness to take over responsibility and personality traits, management and leadership is influential in the effort to sustain success in family business in Indonesia. There are 52 second generation family businesses used as sample in this study, using Partial Least Square analysis it was discovered that personality system succession pattern includes: successor qualification, entrepreneurial orientation, willingness to take over responsibility and personality traits, management and leadership skills has a positive and significant impact, in the effort to sustain success in family business (Study on Medium Scale Second Generation Family Business in Indonesia).

Keywords: Family business, personality system, successor qualification, entrepreneurial orientation, willingness to take over responsibility, personality traits, management and leadership skill, success in family business.

INTRODUCTION

According to family business survey conducted PWC (Price Waterhouse Coper) in 2014 the results indicate that more than 95% businesses in Indonesia is family owned, and in Southeast Asia 60% of public companies are family business. The data obtained from Family Firm Institute [1] indicates that the number of family business in the world is 2/3 of the total number of firms or businesses in the world. Taking into consideration the labor absorption rate, around 50%-80% of the labor force in majority of the countries in the world works for family business [2].

Therefore, the existence of family business is very important in supporting the overall business of a country. Problem that often resulted in the bankruptcy of a family business is failure in succession.

The planning of succession is a very complicated matter and often makes the founder or the predecessor reluctant to do so. This reluctance can be a result of worries that the firm will default, reluctance to handover control on company, fear of losing self-identity, or even jealousy or rivalry towards their successor. Another reason for not preparing succession is that the founder thinks that the younger generation is not interested in participating in the firm, or difficulty in deciding which offspring is the most competent to take

over the business. What also happens often is that even though the predecessor has officially retired from the business, in practice the senior generation is still very much involved in the company's business activities.

In the implementation of the succession of family business there are two elements that must be considered which are: succession planning and succession pattern. Management succession pattern of a family business can be analyzed through personality system, family system, ownership system and management system. Therefore, this study will focus on the exploration of the right personality system succession pattern to sustain the success of a family business, particularly for medium scale second generation family business in Indonesia.

According to Utami *et al.* [3] based on related studies on the impact of management succession pattern includes the right personality system, family system, opportunity system and management system, on the effort of sustaining the success of family business, where the study results shows that only family system variable has a significant impact on the effort to sustain the success of family business. This happens considering that matters related to upholding and understanding family values, ability to manage family dynamics by the successor, ability to manage conflict,

family beliefs and actions that gets family appreciations are matters that are important in the succession of family business.

According to the background of the research topic, we can propose the following research question: does the personality system succession pattern involving successor qualification, entrepreneurial orientation, willingness to take over responsibility and personality traits, management and leadership has an impact on the effort to sustain success in family business in Indonesia.

LITERATURE REVIEW

Family Business and Succession Plan

Poza [4] stated that the definition of a family business is a firm that is controlled by the same family member, or a small number of family in such way that creates the potential to be sustained across generations in that family. The distinctive points of a family business are as follow: 1) it has 2 or more family members that has controlling ownership of 15% or more, 2). The strategy is influenced by the family member in the company's management including as active management, as someone who transferred and sustained the business' culture, as a consultant or board member, or simply as a stakeholder. 3). Focus on family relationship. 4). Intended for the next generation.

According to Rothwell [5], the important factor in a family business is the matter of succession plan. Succession plan is a medium to identify the key management positions, starting from project manager and supervisor level and up until the highest position in the organization. Succession plan also describes the management position to provide maximum flexibility in the branches of management movement and ensure that employees as individuals achieve better seniority, broader management skills and become more integrated to the relations in organization as a whole rather than in just one department. Cadieux, Lorrain, Hugron [6] in Utami *et al.* [3] defined succession plan as a dynamic process where the role and task of the two main

individual groups involved (the predecessor and successor) develop dependently and overlap with the end goal and become the transfer of the two management and business ownership for the next generation from Hnátek [7]. According to Lumpkin and Brighman [8] in Lily and Maria, [9] succession plan is a comprehensive planning process that involves several components in the family business and achieved with high level of consciousness and diligence to ensure the sustainability of the business in the long run from Filser, Kraus and Ma`rk, [10]. Handler [11] in Moris *et al.* [12] has proposed that family members fill specific roles during the succession process, and that these roles change over the stages of the transition. Further, those successful transitions require a process of mutual role adjustment. Therefore, the succession plan is an important factor in a family business.

Succession Model

An effective succession model consists of 4 components, namely as follows: personality system, Family System, Ownership System and Management System. Where personality system includes some of the following aspects: 1. Successor Qualification: An effective successor has a comprehensive educational background, is relevant to the business and continuously invests in personal development. Successful successors carry out intensive training outside and inside the company 2. Entrepreneurial Orientation: An effective successor has a high orientation in entrepreneurship. Having unyielding nature, taking risks, speed, and flexibility. Take the initiative to create something new by adding value. 3. Willingness to Take over Responsibility: An effective successor shows that he is sure to take over responsibility based on deep-rooted motivation and early engagement in the family business. 4. Personality Traits, Management and Leadership Skills: An effective successor possesses modesty and self-confidence. And also an effective successor must foster a good relationship with the older generation of him. Using management knowledge and leadership skills from older generations [13].

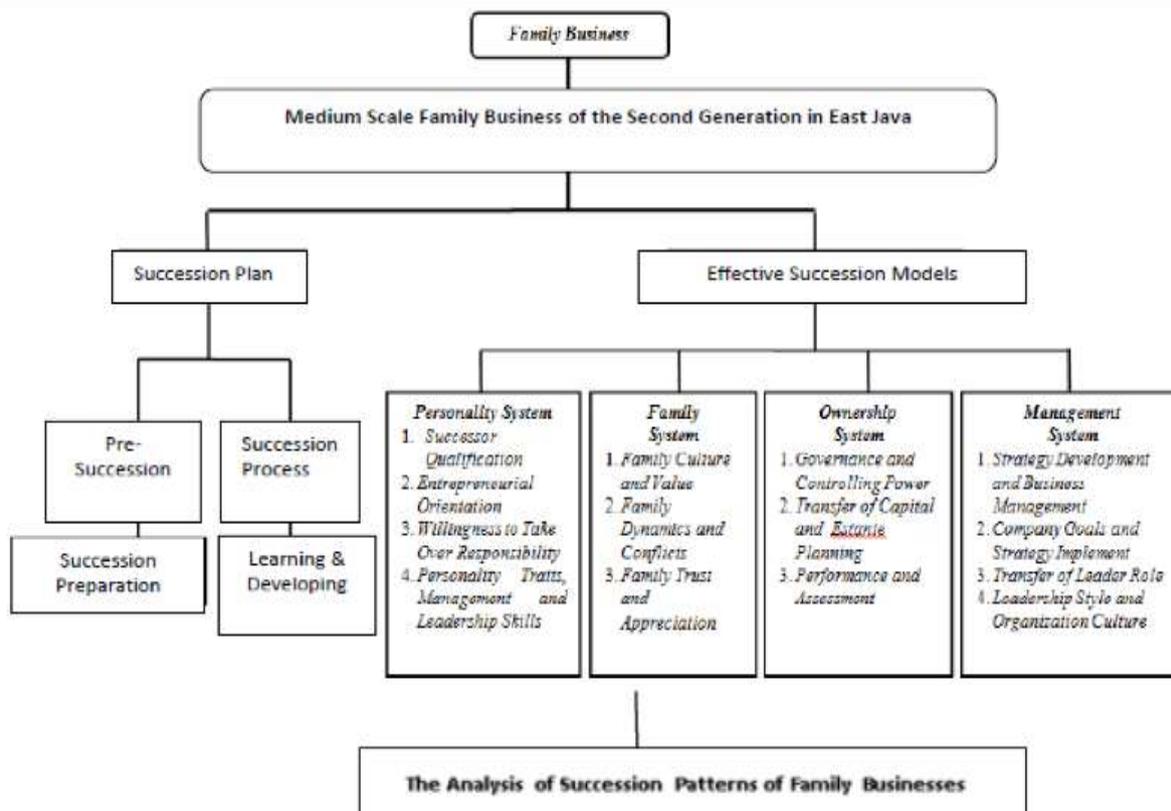


Fig-1: Framework of Succession Patterns of Family Businesses

Source: Utami *et al*, [3]

According to Baur [13], an effective succession model involving personality system consists of 4 components as follow: 1. Successor qualifications: an effective successor has a comprehensive educational background, relevant the business and continuously investing on self-development. An effective successor undergoes intensive and comprehensive training outside and within the company. 2. Entrepreneurial orientation: an effective successor has a great orientation towards the business. Persistent, willing to take risks, timely and flexible. Takes the initiative to create new things and innovate by adding value. 3. Willingness to take over responsibility: an effective successor shows that he/she is certain with the decision to take over the responsibility based on deep rooted motivation and early involvement in the family business. 4. Personality traits, management and leadership skills: an effective successor has a great relationship with the preceding generation, utilizing the management and leadership skills and knowledge from the preceding generation. According to Rothwell [5], succession plan is a medium to identify key management positions, starting from project manager and supervisor level up until the highest position in organizations. In addition, Lumpkin and Brigham [8] states that succession plan is a well-thought planning process that involves a number of components in family business and can only be reached through a high level of consciousness and effort to ensure the sustainability of the company in the long run

via Filser, Kraus & Mark [10]. Susanto [14] stated that succession planning is a complicated matter that made the founders reluctant to do so. This reluctance can be a result of worries that the firm will default, reluctance to handover control on company, fear of losing self-identity, or even jealousy or rivalry towards their successor. Another reason for not preparing succession is that the founder thinks that the younger generation is not interested in participating in the firm, or difficulty in deciding which offspring is the most competent to take over the business.

According to Morris *et al*. [12] These three categories would appear to capture the key variables affecting transitions and over which the family firm has some direct control. The first category, and perhaps the one receiving the greatest amount of attention, concerns planning and control activities. Succession planning, in particular, receives extensive emphasis in the family business literature [15-19]. Topics covered include the structure and review of such plans, who should participate in their preparation, when they should be prepared and contingency issues in planning. Other issues in this general category include ways to avoid taxation liability, the structuring of wills, the use and constitution of boards of directors, the potential roles of family business consultants, and the establishment of a family council [20-23].

A second category is concerned with personal relationships within the family and between family and non-family employees of the firm. The principal issue here concerns trust and communication among family members [24-26, 16, 27, 18, 19]. The potentially dysfunctional outcomes of sibling rivalries and/or failure to accommodate one another has also been highlighted [24, 21, 28, 26, 16, 29]. Refusal of the head of the family business to let go, or to share power in incrementally increasing degrees, as well as his/her resentments of heirs are related topics receiving focus [21, 30, 26]. The importance of shared values, agreement regarding what is equitable, and common traditions across family generations has been emphasized as well [11, 31].

The final category of issues involves the preparation level of heirs. Work in this area addresses the extent to which heirs have the requisite business skills, 72 managerial capabilities, knowledge of company operations, and attitudinal predisposition to handle the running of the business [32-35]. Specific variables receiving attention include the heir's formal level of education and training, years of work experience in the firm and in other firms (within and outside the same industry as the family firm), entry-level position, number of different positions held (e.g. at different levels and in different functional areas

within the firm), years employed by the firm, motivation for joining the firm, and self-perceptions of his/her preparation level at the time of actual succession. This aspect is closer to the personality system.

METHODOLOGY

The methodology used in this study is Partial Least Square (PLS). The medium used to collect data in this study is questionnaires. Respondents were asked to choose alternative answers for each statement using the Likert Scale, from a scale of 1 to 5, 1 being strongly disagree and 5 being strongly agree. Questionnaire was distributed to 200 family business owners and 82 responses were obtained from family business owners in Indonesia. Analysis methodology using Partial Least Square (PLS) will go through the following steps:

Reflective Outer Model test that includes convergent validity

Convergent Validity

Includes loading factor, Average Variance Extracted (AVE) and communality Explanation as follow:

Loading Factor

Loading factor test is conducted on four reflective variables below:

Table-1: Validity of Personality System Outer Model

Measurement Model	Result		Critical value	Model Evaluation
Convergent validity	Item	Loading Factor	≥ 0.7	GOOD
	PS1	0.810391		
	PS2	0.779522		
	PS3	0.813567		
	PS4	0.813382		

Source: Author's study appendix, 2017

The fourth outer model validity test was conducted on Personality System (PS) variable. Test results indicate that the loading factor for indicators PS1, PS2, PS3 and PS4 has the value ≥ 0.7 and fulfills the criteria.

Average Variance Extracted (AVE)

Aimed to measure the number of variants that can be captured in the construct compared to the variance resulted from measurement errors.

Table-2: Average Variance Extracted (AVE)

Variabel	AVE	Critical value	Model Evaluation
Personality System (PS)	0.643407	≥ 0.5	GOOD
Business Development	0.738335		

Source: Author's study appendix, 2017

AVE value for the two variables above has fulfilled the criteria with value ≥ 0.5. The result indicates that the data can be deemed as valid.

Communality

Below is the communality value based on the data analysis that was conducted?

Table-3: Communality

Variabel	Communality	Critical Value	Conclusion
Personality System (PS)	0.643407	≥ 0.5	GOOD
Business Development	0.738035		

Source: Appendix C-3

Communality value for both variables above has fulfilled the criteria with value ≥ 0.5 . The result indicates that the data is valid.

Discriminant Validity

The following is the discussion for discriminant validity that includes the cross loading value:

Table-4: Cross Loading

	Business Development Efforts (BD)	Personality System (PS)
PS1	0.779522	0.491870
PS2	0.813567	0.484905
PS3	0.813382	0.552345
PS4	0.829416	0.489478
PB1	0.398796	0.620864
PB2	0.471334	0.752556
PS3	0.418219	0.779029
PS4	0.536662	0.767698

Source: Author’s study appendix, 2017

Table 4 shows the correlation indicator of each construct has a value higher than the correlation indicator to other constructs. Therefore, it can be concluded that the construct has high discriminant validity.

Reliability

The following are the values obtained from the reliability test that includes the Cronbach’s alpha and composite reliability.

Table 5 indicates that the cronbach’s alpha has fulfilled the criteria of ≥ 0.6 . This suggests that the data used is reliable.

Table-5: Cronbach’s Alpha Reliability

Variable	Cronbach’s Alpha	Critical Value	Conclusion
Personality System	0.721790	≥ 0.6	GOOD
Business Development	0.822117		

Source: Author’s study appendix, 2017

Table-6: Composite Reliability

Variable	Composite Reliability	Critical Value	Conclusion
Personality System	0.843686	≥ 0.7	GOOD
Business Development	0.894137		

Source: Author’s study appendix, 2017

Table 6 indicates that the composite reliability value fulfilled the criteria of ≥ 0.7 , so it can be concluded that the data used is reliable. The higher the composite reliability the higher the consistency value of each indicator in measuring the latent variables

Outer Loading

Below is the outer loading test that was used in this study:

Table-7: Reflective Outer Loading

	ORIGINAL SAMPLE	MEAN	STDEV	STERR	T STATISTICS
PS1	0.810391	0.809420	0.029178	0.029178	27.774159
PS2	0.779522	0.777315	0.032285	0.032285	24.145224
PS3	0.813567	0.810731	0.028533	0.028533	28.513154
PS4	0.813382	0.811252	0.028203	0.028203	28.840645
BD1	0.620864	0.616388	0.067492	0.067492	9.199132
BD2	0.752556	0.749093	0.048470	0.048470	15.526212
BD3	0.779029	0.777723	0.044065	0.044065	17.679221
BD4	0.767698	0.762980	0.045263	0.045263	16.960890

Source: Author’s study appendix, 2017

The test on the validity of outer model on reflective variables, which are personality system (PS) and business development efforts (BD). In table 7 it

shows outer loading with t-statistic of more than 1.65 so that the data used can be concluded as good and has fulfilled the criteria.

Structural model (Inner Model) Evaluation

R – Square

Below is the structural model or inner model evaluation result that includes R-square and effect size f2 in this study.

The business development effort r-square value is 0.6432 or 64% and is a value that can be explained by personality system (Table-8).

Table-8: R-square Value

Variable	R-square
Business Development efforts (BD)	0,6432

Source: Author’s study appendix, 2017

Table-9: Effect size f² on PS

Variabel	R-square Inc.	R-square Exc.	F2
Personality System	0,6432	0,5723	0,1987

Source: Author’s study appendix, 2017

Effect size f² in this study shows a value 0,15 so it can be concluded Personality System variable has an effect on business development effort (BD).

Q – Square Predictive Relevance

The data above shows Q² value above 0. This suggests that there predictive relevance on each of the variables (Table-10).

Table-10: Q – square Predictive Relevance

TOTAL	SSO	SSE	1-SSE/SSO
Personality system (PS)	429,0000	304,1642	0,2910
Business Development Efforts (BD)	858,0000	508,8353	0,4070

Source: Author’s study appendix, 2017

Goodness of Fit (GoF)

To validate the model as a whole, we can refer to the absolute Goodness of Fit (GoF) using the formula below:

Lined Communality value above is the average value of communality and the lined R² was obtained from the average of the R² values. Based on the calculation, we can obtain the average communality value 0,6414038 and the average for R² is 0,52951 so that we can obtain the value below:

$$GoF = \sqrt{communality \times \bar{R}^2}$$

$$GoF = \sqrt{0,6414038 \times 0,52951}$$

$$GoF = 0,5827776$$

According to the calculation above, it indicates that the GoF >0,36 and it can be concluded that the model has a high predicting ability.

Hypothesis Testing

The t-value at 5% significance level is > 1,96. The test was done using t-test, where if we obtain p-value ≤0,05 (alpha 5%), then the result if significant,

and the opposite applies if not. If the result of hypothesis testing on the outer model is significant, this indicates that the indicator can be used as an instrument to measure the latent variable. In addition if the result of the testing on the inner model is significant, then we can conclude that the latent variable has an impact on the other latent variables [36].

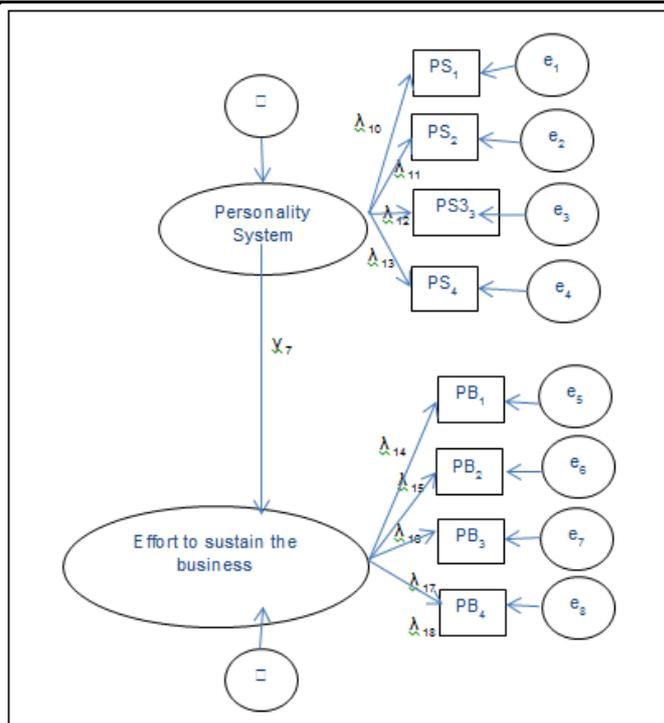


Fig-2:Medium Scale Second Generation Family Business Personality System Bisnis Keluarga
Source : Author’s work, 2017

Table-11: Average and Standard Deviation of Respondent’s Answer

Indicator	Question	Average	Standard Deviation
PS1.1	Do you think education qualification of the successor is an important factor?	3.744	0.872218338
PS1.2	Do you think seniority qualification of the successor is important?	3.341	0.996531171
PS1.3	Do you think personality qualification of the successor is important?	4.341	0.670719389
PS1.4	Do you think it’s important and beneficial for the family business if the successor have experience outside of the family business?	3.939	0.775354335
PB1	Is succession pattern that pays attention to the personal aspect important for the sustainability of the success of the family business?	4.488	0.571847827
PB2	Is succession pattern that pays attention to the entrepreneurial orientation aspect important for the sustainability of the success of the family business?	4.366	0.555826492
PB3	Is succession pattern that pays attention to the ability to take responsibilities aspect important for the sustainability of the success of the family business?	4.415	0.607590252
PB4	Is succession pattern that pays attention to the leadership aspect of the successor important for the sustainability of the success of the family business?	4.378	0.764008983

Source; Author’s work, 2017

Table 11 shows the average and standard deviation of respondent’s answer to each indicator. By observing the standard deviation of respondent’s answers, the lowest standard deviation in respondent’s answer is for the following question: “Is succession pattern that pays attention to the entrepreneurial orientation aspect important for the sustainability of the success of the family business?” with standard deviation of 0.555826492. This indicates that respondents mostly homogenously agree (with the

average value of 4.366 for the answer). In addition, respondent’s answer with the highest standard deviation is “Do you think seniority qualification of the successor is important?” with standard deviation of 0.996531171 which indicate the non homogenous trend of respondent’s answer (the average answer is that buyer agree with the value of 3.341)

Below is the result of hypothesis testing judging by the path coefficient table?

Table-12: Path Coefficients (Mean, STDEV, T-Value)

	Original Sample	Mean	STDEV	STERR	T-Statistics
Personality System → Business development effort	0.329787	0.330471	0.077557	0.077557	4.252211

Source: Appendix of author’s work, 2017

Table-13: p - values

	T- Statistics	P - Values
Personality System → Business development effort	4.252211	0.0000765

Source: Appendix of author’s work, 2017

From table 12 and 13 we can conclude that the hypothesis: H₁: Personality System is significant on business development effort because the t-statistic obtained > 1.96 and p – values ≤ 0.05.

DISCUSSION

The personality system succession pattern includes successor qualification, entrepreneurial orientation, willingness to take over responsibility and personality traits, management and leadership has a positive and significant impact on the effort to sustain the success of a family business (Study on Medium Scale Second Generation Family Business in Indonesia)

The result of statistical data processing using Smart PLS 2.0 M3 shows that the t-statistic value between the variables personality system (PS) on Business Development Effort (PB) yields the result of 4,252211 (t-statistic >1,96) and p-value of 0,0000765 (p-value ≤0,05) with the positive loading factor of 0.329787. Therefore, it can be concluded that personality system has a positive and significant impact on business development efforts.

This test result is supported by previous study conducted by Gupta and Choudhary [37] titled “An Empirical Study Assess The Impact of Various Relationship Dimensions On Supplier Relationship in Indian Scenario” and they obtained the result of positive correlation between personality system and family business performance. Furthermore, Beckhard and Dyer [41], Dyer and Handler, [11], stated that if a family business is approached through a “total” perspective or approach then it can be said that the family business is a number of subsystems, where the family business has a number of entities such as: the first entity as a business, second entity as a family and the founder as a separate entity. Therefore, every subsystem has a unique identity and unique cultures and moves through their own life cycles, each consisting of highly interdependent subsystems. Therefore, there’s a high potential of competition and conflict among subsystems or disagreement against one another, but on the other hand there’s also opportunity or alternative for cooperation and synergy. The study

result is also in accordance with results from Utami *et al.* [3] that shows that only family system variable out of the four systems that were studied: personality system, family system, opportunity system and management system has a significant impact on the effort to sustain the success of the family business. This happens considering that actions related to upholding and understanding the family culture, upholding and understanding family values, the successor’s ability to manage family dynamic, ability to manage conflict, family beliefs and actions that gains family appreciation are the things that are viewed as important in the succession of family business.

In the context of factors that influence the effort to sustain the family business, personality system variable which consists of willingness to take over responsibility and personality traits has the highest loading factor which is 0.813567, management and leadership has the second highest loading factor of 0.811252, Successor Qualification is the third highest loading factor at 0.809420 and entrepreneurial orientation has the lowest loading factor of 0.779522, all factors contribute positively on the effort to sustain the family business. Therefore, all indicators contribute positively to the effort of sustaining the family business.

The high loading factor for willingness to take over responsibility and personality traits shows that those criteria are considered very important from personality system to sustain the family business. Majority of the respondent’s condition are managers of family business that has been operating for more than 20 years and 95% are family business enterprise (FBE) which are business owned and managed by the members of the founding family. Both the ownership and management are handled by the same party, which is the family. This type of family business is characterized by family members holding key positions in the business.

This is also the base as to why willingness to take over responsibility and personality traits became important factors. This is also in accordance with Ichak Adizes [38] opinion that introduced the 10 life cycle of a business which is: courtship, infant, go-go,

adolescence, prime, stable, aristocracy, early bureaucracy, bureaucracy, death. For businesses that are more than 20 years of age are generally on the adolescence face where the business is slowly moving from traditional ownership character to a more professional management because the focus will be on system arrangements and procedures. In this phase, the founder's vision and mission need to be passed on but the management will be handed over to professional executives. The characteristic is the need to make more rules as a part of the system, starting from leaders delegating his powers to the subordinates. In this phase the founders need to decide on the right moment for professional management to enter and to have a board of commissioners. This condition is what became the reason as to why willingness to take over responsibility and personality traits became important factors in personality system and its effect on the sustainability of the family business.

According to Baur [13] the characteristic of personality system related to willingness to take over responsibility is a successor that effectively shows that he/she is confident to take over the responsibility based on deep rooted motivation and early involvement in the family business. Therefore, it can be understood why this is the most important factor in personality system in the effort to sustain the business. In addition, Donneley, Robert G. [39] stated that due to family needs being the main focus in a family business, oftentimes the next generations' commitment to continue managing the business depends highly on each successor's individual agenda and the level of conflict among the successor individuals. This further supports the finding that personality system that includes successor qualification, entrepreneurial orientation, and willingness to take over responsibility and personality traits, management and leadership, highly affects the effort to sustain the success of a family business. Taking into consideration that the key to a successful family business highly depends on the personality of the family business's successor [40]

CONCLUSION

According to the analysis and discussion we can conclude that: personality system succession pattern includes: successor qualification, entrepreneurial orientation, willingness to take over responsibility and personality traits, management and leadership has a positive and significant impact on the effort to sustain the success of family business (Study on Medium Scale Second Generation Family Business in Indonesia)

Suggestions for Academician

- willingness to take over responsibility and personality traits factors have the highest loading factor so for the development of organizational behavior field further research need to be done

related to the impact of personality traits and leadership on family business.

- entrepreneurial orientation factor has the lowest loading factor and further study need to be done on what kind of entrepreneurial orientation is suited for family business and for the success of family business.
- Unsur Budaya Indonesia juga perlu di telaah untuk meneliti lebih dalam tentang pola suksesi bisnis keluarga di Indonesia.

Suggestions for Practitioners

- Management and leadership factors has the second highest loading factor. Therefore, further study need to be done on the implementations of the two factors and its application so that the impact on the improvement of family business success can be increased.
- Successor qualification factor has the second highest loading factor. Therefore, further study need to be done on the implementations of the two factors and its application so that the impact on the improvement of family business success can be increased.

ACKNOWLEDGEMENTS

This research was supported by the Universitas Ciputra, Indonesia and the Research and Technology Minister, Indonesia. The researchers would like to acknowledge Family Business Community Ciputra University, Indonesia. The researchers acknowledge the responsibility for any errors present in this paper and should not cause damage to the reputation of the aforementioned revered individuals

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