

INTERRELATIONSHIPS BETWEEN NON-FAMILY BUSINESS MEMBERS, NEPOTISM AND PRIDE IN FAMILY BUSINESS SUCCESSION

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ABSTRACT

The purpose of this study is to raise issues related to the succession of family-owned businesses, influenced by the involvement of members outside the family business and have something to do with nepotism and self-esteem. Conceptually, there is a relationship between members outside the family business, nepotism, and self-esteem in the family business. When there is professional involvement, the effect is positive on the family business's succession. When there is a practice of nepotism, this will harm the family business. And finally, regarding self-esteem, which will have a positive influence on the family business. This research's approach is quantitative, by looking at how much impact the independent variable has on the dependent where the sample of this study is 128 respondents. The results of this study indicate that professional existence does not affect the success of the family business. Simultaneously, nepotism will harm the family business, and then self-esteem will affect the family business's succession.

Keyword: *Business, Family, Nepotism, Non-Family, Pride, Succession*

1. Introduction

The family business is one segment that drives the world economy. The number of family businesses in the world is very high, and even dominates almost all businesses. In Peterson-Withorn (2015), it is stated that 80-90% of companies in the world are family businesses, and 500 companies that enter among them are companies that generate profits of \$ 6.5 trillion per year. This phenomenon is certainly an interesting subject for research, where the family business is a business that has a recognized presence in the world.

A family business can generally be defined as a company which is, to some extent, owned and managed by at least two members of the same family. But furthermore, opinions regarding family businesses are actually diverse, some state that a family business is a business that is more than 50 percent controlled or controlled by the family (Dumas, 1992; Rosenblatt, 1985; Alonso et al, 2018). Then, the characteristic of a family business is the presence of family members who influence decision making about leadership succession and influence key planning in terms of business operations (Handler, 1989; and Alonso et al, 2018).

The succession process is one of the important factors in the family business to survive for a long time, where most fail in maintaining the family business when passing to the second generation. Among those who are successful, the key is how company personnel outside of family members will accept potential successors. Baron (2016) states that the quality that is often associated with a family business is the ability of a family business to adapt to all forms of business competition it faces.

Memili & Welsh (2012) state that non-family personnel constitute a large proportion of employees in family companies so that they play an important role in the process of succession between generations. Savolainen & Kansikas (2013)

in their research showed that the spirit of having the company of non-family personnel in a small family business has a strong influence on the success rate of the succession process. Meanwhile, Sonfield & Lussier (2009) in their study examined family businesses in several countries, the results of their study showed an increase in the percentage of non-family managers, an increase in the use of experts from outside the family business, family businesses began to use more complex management, and some have even started to consider entering the stock market. In other words, the percentage of contributions from personnel outside the family members is getting bigger so it is very important to involve them in the process of selecting a prospective successor.

Perceptions of nepotism in the selection of succession candidates can reduce the commitment and sense of belonging of non-family personnel to the company. This is often a problem in family businesses because the ability to choose potential successors and provide employment opportunities for family members has always been the main goal of the family business. The practice of nepotism in the family often occurs with the aim of ensuring family control of the company and the transfer of family inheritance across generations of families (Firfiray, Cruz, Neacsu, & Gomez-Mejia, 2018). In addition, the desire of the founder or owner to maintain or maintain the dignity, trust, and reputation of the founder has an important influence in the succession selection process (Limios, Utami, Ramata, & Maharani, 2020). Pride in owning a business is one of the factors that makes a business last, family business is often the identity of the family (Astrachan & Botero, 2017). Walsh (2011) says that almost 70% of family businesses cannot survive to the second generation and only 10% can survive to the third generation and beyond. This shows that founders and leaders of family business businesses need to understand how important the succession

process is and need to know what factors need to be considered.

Succession planning is an essential part of running a family business; however, only one in three family businesses has succession planning, and only one in four family businesses is well-planned and well-documented (PricewaterhouseCoopers, 2018). The appointment of non-family members to management roles in the family business is commonplace in a family business, as is the board of directors. When a family business grows to the point where day-to-day tasks, management and strategy cannot be handled optimally by the owner, and the current owner is seeking succession for the next generation, this will be useful in the stability and sustainability of the company in the future. In his research, (Barnett & Kellermanns, 2006) obtained findings that family businesses with high involvement of the family were deemed unfair to employees outside the family members; while family companies with a moderate level of family involvement received positive perceptions of fairness by non-family employees. The finding of the study (Guidice, Mero, & Greene, 2013) is that non-family executives in the family business feel that they have greater responsibility and accountability than executives who are part of the family. From some of these studies, researchers assessed that the role of non-family members is important in a family business, but no research has examined how non-family members influence the succession planning process. Chua, Chrisman & Sharma (2003) concluded that issues regarding non-family managers (in the family business) have not received sufficient attention from researchers.

Nepotism is the practice of favoritism towards family members or someone, in this context in work, which can have an impact in business, among other things, it can erode the support of other employees, reduce management quality and creativity, and reduce the importance of high-level

competence and performance. In some of the smaller family businesses, nepotism is seen as a positive thing, often because it is a cheap source of labor, which can also be considered a synonym for "succession". In his research, (Keleş, Özkan, & Bezirci, 2011) found that nepotism has a significant negative effect on organizational trust in the family business. However, (Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013) distinguishes nepotism into positive (reciprocal) and negative (entitlement), and suggests that reciprocal nepotism can add value to a firm in certain contexts, but is moderated by the size of the company and the also the sector of the company. From these literatures, it is not clear how nepotism can influence the process of planning success in the family business.

Based on the above description from previous literatures, there is sufficient evidence that this topic is still unresolved, where there are still unresolved arguments related to the topic in question. Therefore, we would like to conduct research on the influence of the involvement of non-family personnel, perceptions of nepotism, and pride on the succession planning process in the family business. Does non-family professional involvement have a significant positive indirect effect on the process of succession planning in the family business through self-esteem? And does pride have a significant positive effect on the succession planning process in the family business?

2. Literature Review

Succession

Succession is one of the socio-emotional priorities of family firms. The succession process can be defined as the actions and events that lead to the transition of leadership from one family member to another in a family company (Sharma, Chrisman, Pablo, & Chua, 2001). For succession in the family enterprise to occur, three components must be in place: a leader who transfers his leadership role, a successor who takes over the leadership

role, and a mechanism by which this transition occurs (Barry, 1975). The definition of succession (Aronoff, Ward, & McClure, 2011) is a continuous process of planning that aims to ensure business continuity between generations.

According to Donner, Gridley, Ulreich & Bluth (2017), succession planning is the process of identifying potential individuals to fill positions as leaders. To assess succession practices for a particular institution, current leadership must have a good understanding of succession planning and identify what is in the current policies (Ritchie, 2019). Such planning must respond to changes in leadership, tracing the process from the decision made by the leader to leave his current position to the steps the leader will take in leaving his position, the recruitment process, and ultimately, through the appointment of a new leader. The current leadership team must determine the various aspects of the proposed planning and who or which group will manage each part of the process. In research conducted by Saan, Enu-Kwesi, & Nyewie (2018), the results of this study indicate that education plays an important role in succession planning. Research results from Bathija & Priyadarshini (2018) show that succession planning is influenced by personal factors such as the expertise of the prospective successor, the ability of management, gender, knowledge, qualifications, religion and family beliefs, as well as strategic factors such as economic conditions, the type of industry and the size of the business.

Non-family members

Non family member (NFM) is defined as an executive or manager who does not have blood or family ties to a family who owns a family business (Klein 2007). The recruiting of nonfamily members is also a prerequisite for growth and expansion because families are restricted both in size and in capabilities (Chrisman et al., 2014) (Chrisman et al., 2014). Additionally,

certain family businesses may choose to employ non- family members because of the conflicts of interest that can occur when recruiting family (Lubatkin, Schulze, Ling, & Dino, 2005) (Lubatkin, Schulze, Ling, & Dino, 2005). Minichili et al. (2010) said that often conflicts arise between non-family members and family members, the basic reason is the differences in status, social background, education and experience between the two teams. Often the occurrence of injustice in promotion and empowerment between non-family and family members which ultimately leads to negative perceptions, jealousy, and tension which will ultimately have a negative effect on performance (Amason, 1996).

Non-family managers and executives in the family business play an important role in the decision-making process and in the process of determining succession, their professional opinion is required (Jess Chua 2004) using agency theory to explain that the level of dependence of family firms on non-family managers is very high. according to Paula et, al. (1997) prospective successors or leaders must have characteristics such as age, education, charisma that are able to regulate the behavior and results of an organization. Empirical evidence suggests that the position of the Chief Financial Officer (CFO) is always the first main management position to be employed by a non-family boss (Filbeck and Lee 2000). A potential reason is the financial expertise needed for this position and the absence of a family member with the requisite experience (Caselli and Di Giuli 2010; de Kok and Uhlaner 2001). The agency theory stresses possible problems that might occur from recruiting an external boss who is not the owner of the business because he is likely to have different interests than the owner of the family company (Chua et al. 2003; Gallo and Vilaseca 1998). Hiring a non-family CFO can also bring in useful additional human resources that the family cannot provide from within their ranks, according to the resource-based view

(Habbershon and William, 1999; Klein and Bell, 2007). In family businesses, strategic decision-making typically includes family managers, family members and non-family members (De Massis et al., 2015). It may be of an individual or collective nature (Harrington, 2005), and it is focused on the perceptions and future actions of key stakeholders.

H1: the involvement of non-family business members will positively affect family business succession

Perceptions of Nepotism

The ability of family company owners to maintain their socio-emotional capital is what separates family companies from other types of businesses (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). Bellow in Jaskiewicz, Uhlenbruck, Balkin & Reay (2013) defines nepotism as the preference of owners or managers to employ family members rather than job applicants who are not related. Nepotism is a common recruitment mechanism in family companies where families use their control or control to employ family members - where they involve the family over time, and from one generation to the next (Chua, Chrisman & Steier, 2003; Chrisman, Chua, , Pearson & Barnett, 2010). Thus, it is the practice of nepotism that facilitates the general goal of the family, namely to pass on corporate leadership to the next generation (Miller and Bretton, 2006). From existing studies, there are two camps of this perception of nepotism, where there are those who think that nepotism can harm companies (Bloom & Van Reenen, 2007), but there are also studies that show positive results. Examples include research (Anderson & Reeb, 2003) which investigated stewardship in family businesses, where they suggested that a sense of ownership in a sustainable family can improve company performance. Often family businesses run a process of nepotism, free rides and unprofessional

selection which in turn can result in a loss for performance where the company culture becomes unprofessional (Barnett & Kellermans 2006).

Employees do not work devotedly and enthusiastically in most companies because it is not their own business. The organisations are part of the family since members of the family work harder than other staff members (Iyışleroğlu, 2006: 47). This is in accordance with the results of research from (Maphisa, Zwane & Nyide, 2017), which proves that several internal factors influence the success in implementing succession planning in the company, where it is written that these factors are in accordance with the factors that hinder the success of the implementation process of the company succession planning, including unethical recruitment processes and promotional practices such as favouritism, nepotism, corruption and internal politics.

H2: there is negative effect of nepotism practices within family business toward family business succession

Pride

Tracy and Robins (2007) explain that pride is a human desire or desire to achieve, gain power and status, and gain or feel satisfaction both personally and from others. Self-esteem is also described as a feeling condition that arises as joy because of successful actions and positive thoughts and feelings, where an excessive pride or self-confidence often has a negative consequence or impact (Lewis, 2005). Meanwhile, Tracy and Robins (2017) argue that although pride and arrogance are two different things, they are similar phenomena, where each is mentioned as authentic pride and authentic arrogance. Authentic self-esteem is distinguished by self-confidence, self-esteem related to certain specific things and related to motivation, in particular a dedication to the goals and achievement of

success (Bodolica and Spraggon, 2011). Meanwhile, according to Tracy and Robins (2007), hubristic pride is related to external motivation such as prestige and dominance. Although there is some debate about the proper assessment and experiential characteristics of pride, most psychologists agree that pride is a positive emotional state and with self-awareness arising from achievements that can be attributed to one's capabilities and efforts (Tracy & Robins, 2004).

Webster et al. (2003) explained that the strongest pride arises in situations of public recognition / praise. In addition, Fredrickson and Branigan (2001) see pride as a model that extends and constructs a positive emotion. Family business is organized around a set of emotionally charged interpersonal relationships that can have positive or negative consequences. Family business owners are proud to be able to provide business career opportunities for family members. The family comes first in family business because it needs a sense of cohesion and a sense of pride that will make people want to get through the emotional family issues that are inevitable when they have a business together. They argue that positive and distinct circumstances in expanding cognitive planning will help build a variety of resources, such as "social currency" or intelligence / insight. Then, they also give the idea that pride might spur someone to be able to dream or expand even further achievements and even provide or build the necessary motivation for success in the future. It can be a matter of pride to hand over a family business from one generation to the next. Limios et al. (2020) found that pride has a significant and positive influence on the succession process in the family business.

H3: there is a significant and positive influence of pride toward family business succession

Therefore, research model may be visualized below

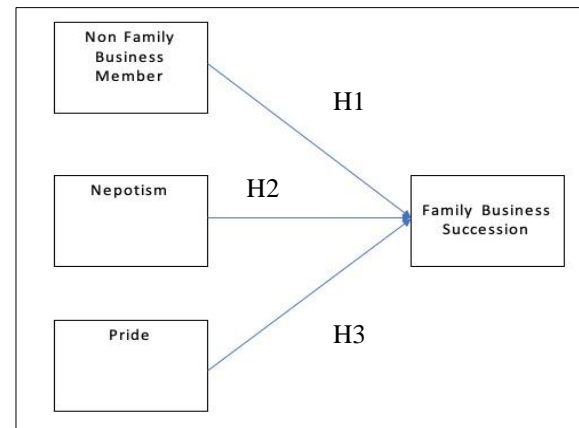


Figure 1. Research Model

3. Research Method

The research design used is survey research which is an investigation carried out in order to obtain all the facts from the various symptoms that exist to seek actual or factual information / information (Nazir, 2003), where the data studied is data from a sample of the population concerned. so that you will find events that are relative, distribution, and relationship between variables, both sociological and psychological (Sugiyono, 2002). This study uses a quantitative approach. A quantitative approach is used if the variables to be used and examined are clearly defined and have numerical data (Chao Chien Chen 2011). The level of intervention of the study researchers in this study was classified as minimal, where the researcher sent a random questionnaire to the owner or leader of a family company in Surabaya. The study setting in this research is Noncontrived Setting, which is research that can be carried out in a natural environment where nothing is manipulated / artificial (Sekaran & Bougie, 2016). The unit of analysis in this study is the organization (group), namely family companies. The time horizon in this study is a cross-sectional study, which is a study in which data is collected only once, in a period, to answer research questions. The choice of time horizon is because the process is easy to implement and relatively inexpensive (Pandis, 2014). According to Barnsbee, Barnett, Halton & Nghiem

(2018), the target population is a group or individual where the researcher intervenes with the population in order to conduct research and create conclusions. This study examines whether the variables of succession candidate readiness, family relationships and planning activities have a significant effect on the success of prospective succession in the family. This study will be successful if the individuals studied have sufficient knowledge and are able to answer questions related to these three variables. Therefore, the parameters used are that the individual under study must be a member of the board of directors or a business owner who has worked for at least 1 year. The sampling frame of this study is an entrepreneur from a family company around Jakarta and East Java, with business omzet ranging from 10m-100m rupiah per year. The data collection technique to be used is convenience sampling, in which the sample is selected because of its availability and convenience (Ackoff, 1953); (Speak, Escobedo, Russo & Zerbe, 2018). Due to the difficulty in obtaining data from the number of family business entrepreneurs in Surabaya, we therefore used the convenience sampling method. To reduce bias and error from the selected sample, the sample must be of sufficient size. Gill et al. (2010) stated that the smaller the sample size, the bigger the data will be biased and of course the determination of the sample size must be adjusted to the funds held by the researcher. To identify the sample size, the researcher uses the Slovin formula:

$$n = N / (1 + (N \times e^2))$$

$$e = 10\% = 0.1 \text{ (margin of error)}$$

The data collection method used in this research is through distributing questionnaires, for several reasons, namely that accurate data can be obtained, is a cost-effective and reliable method in collecting feedback both qualitatively and

quantitatively through detailed and tested formulation (Taherdoost, 2016).

To measure pride, we adopt Arredondo et al (2017), then three items to measure non family members involvement. To measure nepotism in family business we also adopt from Abdalla et al. (1998) and Asunakutlu and Avcı (2009). To measure family business succession, we adopt Coffman, (2014) and Perret (2016).

All items use a Likert scale, where according to Joshi, Kale, Chandel, & Pal (2015), the Likert scale can be used to measure 'attitude', in a way that has been scientifically accepted and validated. The questionnaire will be distributed online by providing a "link" or a link to be accessed by respondents via their respective gadgets. Online surveys are easy to prepare, so that the data obtained is reliable because respondents can easily change their responses. In addition, online surveys can also increase respondents' interest through stimuli from screens compared to using only physical paper (Sekaran & Bougie, 2016). The data will be analyzed using SMARTPLS, and we consider P-values to decide whether our hypothesis supported or not supported.

4. Result and Discussion

The data collection was carried out for two months (from December 2020 to February 2021), considering that the respondents expected to participate are employees of family business backgrounds and those who run family businesses. Of the respondents who participated, the following is an overview of the respondent's profile, amounting to 129 people.

Table 1. Profile

Gender		
	Male	63
	Female	66
Family business establishment (years)		
	< 5	10
	6 – 10	9
	11 – 15	11
	16 – 20	14
	>20	85

Based on the table above, this study's results will reflect the characteristics of respondents who have been in the family business for more than 20 years, and the gender differences are not too significant, and results will represent both men and women who are in the family business.

The researcher's first process was checking the items used as a measure for each variable. The step taken by the researcher is to check through the smartPLS statistical tool, which allows the researcher to see the outer loading of each variable. At the time of checking, we found that two items within Non-Family Business Involvement are not accepted, since their outer loadings are all less than 0,7. As follow.

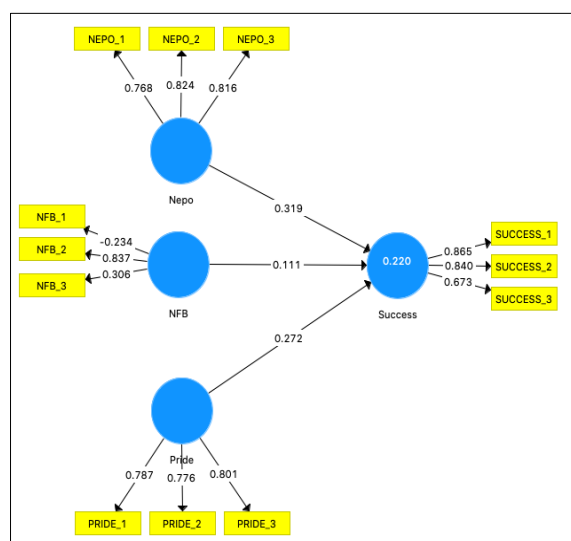


Figure 2. First Outer-Loading Checking

Further, shown through this table. As it is found that items to measure NFB are not reliable (appendix 1).

From that results, we decided to exclude NFB_1 and NFB_2. Then the results, shows as follow

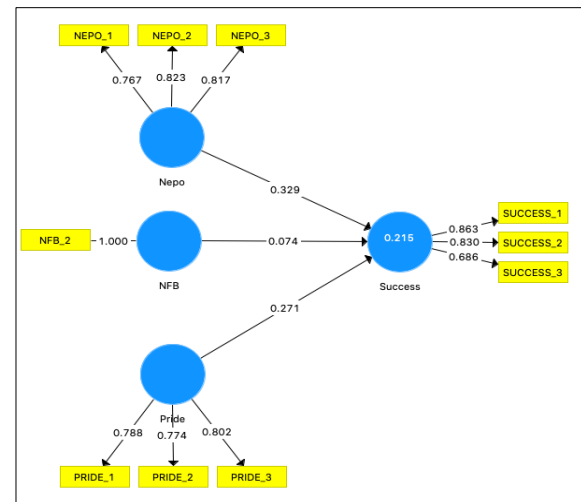


Figure 3. Final Outer-Loading Checking

The justification for using a single item is it has no issue when applied with SEM-PLS, however, consideration with regards to based of Cheah, Sarstedt, Ringle, Ramayah, Ting (2018) statement that a single item yields higher degrees of convergent validity than a reflective construct does. After we check items reliability (appendix 2), then we proceed to validity. Results from discriminant validity shows as attached in appendix 3.

We may conclude, all items are valid, and eligible to hypothesis testing. We use similar steps when conducting bootstrapping (n = 5000 samples). The results show that only hypothesis one not supported since P-Values is 0.394 (appendix 4).

From the results, we may relate this with our hypothesis as follow

Hypothesis : *H1: the involvement of non-family business members will positively affect family business succession*

Results : *Not supported*

Hypothesis : *H2: there is negative effect of nepotism practices within family business toward family business succession*

Results : *Supported*

Hypothesis : *H3: there is a significant and positive influence of pride toward family business succession*

Results : *Supported*

This study raises the influence of non-family business involvement, nepotism and pride on family-owned businesses' succession. The research model test shows that non-family business involvement positively affects the succession of family-owned businesses is not supported. Negative influence follows the practice of nepotism on the succession of the family business is proven and the positive influence caused by the presence of self-esteem on the succession of the family business.

Compared with the results obtained at this time, when Habberson and William (1999) and Klein and Bell (2007) found that the involvement of non-family business members in a family business can bring benefits because there are benefits that can be provided based on professional ability, current research suggests otherwise. Interestingly, the items used are listed in the attachment, leading to the respondent's view regarding the involvement of non-

family business members in the unique abilities possessed by non-family businesses in the family business. However, the results obtained show the opposite of the three items excludes. It relates to when non-family business involvement is not for decision-making needs and the urgency of involving non-family businesses into the family business. The participating family businesses as respondents to this study disagree when non-family business members are involved in the family business and are specific when it comes to family business succession. Logically, it is acceptable because the previous research settings may have proxies that cannot be generalized to all research significantly when raising non-family business members. For example, is there a viewpoint that it is impossible to involve non-family businesses because thoughts of the family business have not yet explored this study?

Next, two research allegations are currently proven, namely nepotism and self-esteem. Nepotism practices in the succession of family businesses in this study have had a negative effect, and this is certainly in line with previous research, as presented in the previous section of this manuscript. When linked with proven items, respondents saw this negative effect because the family business seemed only to accommodate people who had important positions in the business (NEPO1), then only family members involved in the business (NEPO2) and be part of the family (NEPO3). Previous studies that raise nepotism show the potential for harm to the business if nepotism practised (Miller and Bretton, 2006) and several other studies that attempt to show that nepotism is one thing that hinders the succession process in family businesses.

Self-esteem in this study has a positive influence on family business succession. Implies a sense of pride arising from involvement in the family business (PRIDE1), and there is the possibility of getting success due to the full support of the

family business (PRIDE2), and there is pride from people obtained from the opportunity to contribute in the family business (PRIDE3). Several past studies have shown that self-esteem is part of positive emotional feelings and attributed to achieving something, which is being able to be in the family business, as Tracy and Robins (2004) have found and Limios et al (2020).

5. Conclusion

This study concludes that nepotism hurts family business succession. Meanwhile, self-esteem has a positive impact on family business succession. Judging from the existence of non-family business members, the results of this study show that the existence of non-family businesses will not influence family business succession. Research conducted and distributed to respondents who come from and work in family businesses has been around for more than 20 years in Java (particular Jakarta and East Java).

Appendix 1. Reliability (1)

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
NFB	-0.639	-0.551	0.277	0.283
Nepo	0.724	0.725	0.844	0.644
Pride	0.709	0.713	0.831	0.621
Success	0.708	0.737	0.838	0.635

Appendix 2. Reliability (2)

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
NFB	1.000	1.000	1.000	1.000
Nepo	0.724	0.725	0.844	0.644
Pride	0.709	0.713	0.831	0.621
Success	0.708	0.734	0.838	0.634

Appendix 3. Discriminant Vailidity

	NFB	Nepo	Pride	Success
NFB	1.000			
Nepo	0.172	0.803		
Pride	0.056	0.098	0.788	
Success	0.146	0.368	0.307	0.797

Appendix 4. Bootstraping Procedure for Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
NFB -> Success	0.074	0.074	0.087	0.852	0.394
Nepo -> Success	0.329	0.334	0.098	3.347	0.001
Pride -> Success	0.271	0.290	0.075	3.603	0.000

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