The Effect of Entrepreneurial Orientation and Corporate Governance on Family Business Performances Through Leadership Succession as Mediating Variable

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ABSTRACT
The purpose of this study is to examine the effect of entrepreneurial orientation and corporate governance on family business performances in all tour and travel companies listed on the Association of the Indonesian Tours and Travel Agencies West Sumatera. In this study examines five key entrepreneurial orientation dimensions—risk taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy. Corporate governance focuses on assessing the accountability, fairness, transparency, responsibility, and independency. Leadership succession in family business for this research included measures of preparation of heirs, relationship between family and business members, and management advice and support. Family business performance variables are measured by profitability, market value, growth, employee satisfaction, customer satisfaction, and social performance. The research design total sampling include 144 leaders that had tour and travel with family members. The findings, entrepreneurial orientation had no significant effect on family business performances and corporate governance had significant effect on family business performances and then the leadership succession had no significant effect as a mediating variable in this study.

Keywords: entrepreneurial orientation, corporate governance, leadership succession, family business performances.

1. INTRODUCTION

Family business have an important role in the economy and are the backbone of economic growth. Referring to the Central Statistics Agency (BPS) data, the majority of companies in Indonesia are family businesses. In 2010 family businesses in Indonesia contributed 82.44% to Indonesia’s Gross Domestic Product (GDP). In West Sumatera more than 68 percent tour and travel company with family ownership and control by family members.

In this research the family business enterprise will be the object of research. Companies like this are developed and managed by the family founder. This company is characterized by family members holding key positions in the company’s structural. This business is widely available in Indonesia especially in West Sumatera. For this reason, it is necessary to know how the FBE’s performance and development is.

Family business performance is influenced by entrepreneurial orientation, corporate governance, and leadership succession. Entrepreneurial orientation is the company’s ability to find new business opportunities. Corporate governance is a series of processes, habits, policies, rules, management of a company that includes the relationship between stakeholders to achieve corporate management goals. And succession to family leadership is a business process that prepares the transfer of power and control from hereditary.
Research on the influence of family business performance also underlies various theories, dynamic capabilities and systems theory perspective. Dynamic capability is the ability of organizations to intentionally adjust an organization's resource base. This concept was defined by David Teece, Gary Pisano and Amy Shuen, in their 1997 paper on Dynamic Capability and Strategic Management, as the company's ability to integrate, build and reconfigure the competencies to cope with rapidly changing environments. This dynamic capability theory explains the relationship between variables of entrepreneurial orientation, leadership succession, and family business performance. The company will continue to compete or compete in rapidly changing market conditions and make adjustments to the dynamic changes that occur. A company that has an entrepreneurial orientation will always be able to create something new and different in terms of market innovation. In a family company, this ability will be transferred to the next generation so that the company's performance will be more competitive and sustainable. Leadership succession must be accompanied by strong leadership and adjust the existing situation related to the changes that occur.

Systems theory is the theoretical approach in scientific studies of family businesses. In the system theory approach, family firms are modeled as overlapping companies. Family businesses provide the next family business owner with the knowledge and skills needed for successful management and leadership of the family company. Systems Theory Perspective according to Poza (2010) there are 3 parts, namely ownership, family, management. Ernesto Poza, using texts and cases to explore various family companies, examines the interrelationships between owners, families and management teams. With an emphasis on leadership and position for the future, family businesses illustrate how family businesses can achieve sustainable growth and continuity from generation to generation. The complexity of these three interests then colors the atmosphere of company management. This theory explains the relationship between corporate governance variables and family business performance. The weaknesses of the family business are the lack of formality, the blurred separation between personal and business matters, and multiple leadership and weakening professionalism. The approach to the System Theory is to analyze the application of family corporate governance and its influence on company performance, because governance has an impact on the company to improve company performance.

This study aimed to determine the effect of entrepreneurial orientation and corporate governance on family business performances through succession. Astrachan (2010) in Warsini and Rossieta (2013) stated that family businesses do not merely fulfill financial goals but are more oriented to reputation and long-term sustainability, so that the business strategy of a family company is different from the business strategy of non-family companies. This research can also provide evidence to test the accuracy of financial theories in explaining the relationship between capital structure and firm performance. The lack of application of good corporate governance in the sense of good family governance has been identified in the literature as important for the success of a family business that is able to offset the growth of the tour and travel sector. The link between corporate governance and performance through succession is seen from the fact that succession often causes problems that are triggered by non-technical problems and emotional content in their implementation. This is because family businesses do not formally and systematically manage succession issues. The results of previous studies indicate that entrepreneurial orientation, corporate governance, and succession can have a significant positive effect on family business performance.

Entrepreneurial orientation can affect family business performance. Several previous studies have shown that companies that have an entrepreneurial orientation tend to be more
successful compared to companies that have no entrepreneurial orientation (Lee, 2006). Improved performance resulting from an entrepreneurial orientation is also stated as an advantage that must be maintained (Risnawati and Noermijati, 2008). Dess and Lumpkin (2005) state that companies that want to increase the success of corporate entrepreneurship must be entrepreneurial oriented.

Many companies have unclear and unprofessional standards. In addition there are many overlaps between family and business interests at the management and governance level. The process of succession in a family business is a difficult, time-consuming, and risky process. This difficult and long-term transfer process creates instability and uncertainty within the family company (Trevinyo-Rodriguez & Tapies, 2006). Whereas the performance of the family company must be maintained and improved in the long run, in order to strengthen the company’s efficiency.

Entrepreneurial orientation will be better if it is accompanied by a planned succession process so that the company’s performance improves. Whereas corporate governance accompanied by a planned succession process will affect company performance. Measurement of business performance is very important to broaden knowledge about how various strategies and behaviors affect organizational results. Based on the explanation above, the conceptual framework can be arranged as follows.

![Conceptual Framework](image)

**Figure 1. Research Model**

### 2. METHODS

This research uses a quantitative approach to answer the problem formulation in the study, where the researcher carries out measurement techniques on certain variables so as to produce conclusions that can be generalized (Arifin, 2012). This study analyzes three variables that affect family business performance, namely entrepreneurial orientation and corporate governance with leadership succession as mediating variables. The sampling is done by total sampling method. This study obtained a final sample of 144 leader of family business in companies registered in the DPD ASITA West Sumatra in 2020. This research uses Structural Equation Modeling (SEM) using AMOS.
The method of analysis in this study is the SEM method because it can analyze the independent variables, moderating partially and simultaneously. The SEM method is more valid and is used to provide complete information about relationships between constructs and indicators, as well as relationships between constructs that are hypothesized simultaneously. In this study, SEM analysis uses the AMOS application because this study uses constructs with reflective indicators or direction indicators derived from constructs towards indicators (Haryono, 2016).

Figure 2. SEM AMOS

Based on the research results show before, it can be concluded that the entrepreneurial orientation has a positive effect on family business performance. Because the leader make decisions in the company, they are not yet fully independent and dare to take risks. Though this method is theoretically a method, practice, manager decision making as a strategic orientation of the company to compete. The company loses many opportunities to get its target market. Good family governance has been identified in the literature as important for the success of a family business high the level of growth of the tour and travel sector. Basically, there is a substantial negative impact when corporate control is concentrated on the family. This implies that power will be controlled only by the family so that the management structure (management) will be limited, nepotism, and strict control often hamper growth.

The effect of leadership succession on family business performance can be seen in surveys conducted around the world showing a low "survival rate" of family businesses. Their data shows that only 30% of family companies throughout the world can survive until the second generation. That is, 70% of family businesses fail to achieve success in the hands of the second generation. One of the main factors in the low survival rate lies in the lack of succession planning.

This research measuring business performance in tour and travel sector. It’s related to entrepreneurial orientation and corporate governance by Poza measurement approach. Business performance measurement is vital and complex in business research, especially in the study of family business. The author hopes that result from this study will development of
family business performance and contribute to the expansion of family business knowledge.

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