



CEO Succession and Strategic Initiatives: The Key to Improving Family Company Performance

L. Meiliani Shara Suria and Sari Wahyuni^(✉)

Universitas Indonesia, Depok, Indonesia
meilianishara@yahoo.co.id, sari.wahyuni@ui.ac.id

Abstract. This study aims to examine the impact of CEO succession on strategic initiatives, socio-emotional wealth (SEW), and company performance in family companies. The survey method was employed, and data were collected from 98 company management respondents using a questionnaire. Partial Least Square (PLS) Structural Equation Modeling (SEM) was used to analyze the data. The results show that CEO succession has a significant influence on strategic initiatives and SEW. However, there was no direct effect of CEO succession on company performance. The mediation of strategic initiatives can mediate the relationship between CEO succession and company performance, whereas SEW cannot. This study contributes to the theoretical development of strategic management and managerial realization for companies in Indonesia.

Keywords: CEO succession · strategic initiatives · socioemotional wealth · resources · firm performance

1 Introduction

According to [1], the Chief Executive Officer (CEO) position is considered having a significant impact on the firm performance. Family business is the most common organizational business model in the global economy, where family business is also one of the contributors to a nation's economy. Family business contribution is considered have a major impact on a nation's economy, but some researches shows that only 30% of the family business manage to survive when transitioning from the first generation to the second generation, while only 15% of the family business manage to passed it down to the third generation, and only 3% of the family business manage to make it through the fourth generation. The most common problem that is likely to occur in a family business is the inability to survive for the next generations. CEO succession is one of the many solutions to solve this issue [2].

CEO succession is like an intersection for a family business to face, a new CEO is expected to use the resources the family business has and can make new strategic changes to make a positive impact to firm performance [3]. Choosing the right succession is a crucial decision for a family business to make, because the CEO responsible for the firm performance and all the strategic decisions among the company, as for the impact

of the CEO to the firm performance has grown rapidly in the last decade [1]. Strategic initiatives initiated by the new CEO may not directly affect short-term performance, but may affect long-term performance.

Empirical studies supporting succession as a disruptive event between the CEO and the manager of the sports team have been found in [3]. But there are also studies [4] that show positive results on firm performance. Thus, the main effect of CEO succession on performance is unclear. CEO succession is also connected with the company transformation, because CEO succession is generally preceded by the poor past performance or desire to improve prospects of growth from the company. To summarize, there is a hope that leadership transformation will bring new strategic changes where each of these changes will impact both short-term performance and long-term.

Aside from reaching financial goals, family businesses also plan to comply with their non- financial goal, including the needs for social and emotional [5]. Socioemotional Wealth (SEW) covers the non-financial aspect that meet the affective needs of the family, like family identity, emotional attachment and continuity the family dynasty [6]. Succession planning has been proven to be very helpful in ensuring the continuity of family businesses [7] and have strong impact to one of the SEW dimension which is renewal of family ties through dynastic succession [6]. This way the succession success will improve socioemotional value of the family business and to ensure the longevity for the business and benefiting the next generations rather than decisions that only benefits the short-term [8].

2 Literature Review

2.1 Strategic Management

Strategic management is a series of commitment, action, and decision making that is taken by an organization to obtain competitive advantage and above average return [9]. Competitive advantage is defined as a circumstance in which an organization is able to generate value for customers. Furthermore, In generating competitive advantage, an organization should have strategic competitiveness where values created by an organization, cannot be easily imitated by competitors. At the same time, competitors will learn to create values by themselves and even go the extra mile by innovating on new products or services.

2.2 Resource-Based View

According to [10] a company's objective is to achieve sustainable competitive advantage. To achieve sustainable competitive advantage, a company should possess resources that are considered as valuable, rare, imperfectly imitable, and non-substitutable. Valuable refers to resources which allow companies to implement their strategy in an effective and efficient manner. Rare indicates that resources are not easily accessible for competitors and not many competitors have the capability to utilize those resources. Imperfectly imitable refers to resources possessed by an organization that should not be imitated or replicated easily. Non- substitutable means resources possessed should not be easily replaced by other resources.

2.3 Succession in Family Business

The lack of succession planning has been identified as one of the most important reasons why many first-generation family firms do not survive their founders. In family firms, the problem of succession and continuity acquires an even greater significance. Consider the following findings: Available literature indicate that approximately 70 percent of all family firms are either sold or liquidated after the death or retirement of their founders [11]. The failure of these businesses to continue as family firms beyond the tenure of their founders has serious social and economic consequences.

2.4 Strategic Initiatives

Strategic initiatives are tangible results of entrepreneurial activity done by the company management, where the relationship between the two will be stronger if it is supported by formal strategy development both at the corporate level and at the business unit level [12]. According to [13] there are four strategic initiatives in regards of research that has been done, which is: 1) technology innovation or knowledge innovation, 2) actively producing ideas or business proposal, 3) innovation on processing products, and 4) initiatives on expanding the market. Strategic initiatives are important actions that need to be made to push the firm performance.

2.5 Socioemotional Wealth

For family business, profit and wealth are not the only major drivers of their behavior. Aside from profit, family businesses also want to fulfill their non-financial goal, including the needs for social and emotional [5]. Socioemotional Wealth (SEW) also includes non-financial aspects of the company that meet the affective needs of the family, like family identity, the family emotional attachment and the continuity of the family dynasty [6].

3 Methodology

3.1 Proposed Research Design

Development of a research model from previous research conducted by whose research the effect of CEO succession towards firm performance with the mediating from strategic changes and moderating by board independence [14]. Furthermore, this research also refers to research from [15] who compared new CEO succession from family and non-family. And lastly, this research refers to the research made by [16] regarding the importance of strategic initiatives to improve the firm performance. As can be seen in Fig. 1, researcher propose a research model is as follows:

3.2 Sample and Data Collection Method

In order to test the research hypothesis, researcher implemented a quantitative research method where measurement model analysis and structural model analysis are used to analyse the data. The unit analysis of this research is family companies in Indonesia

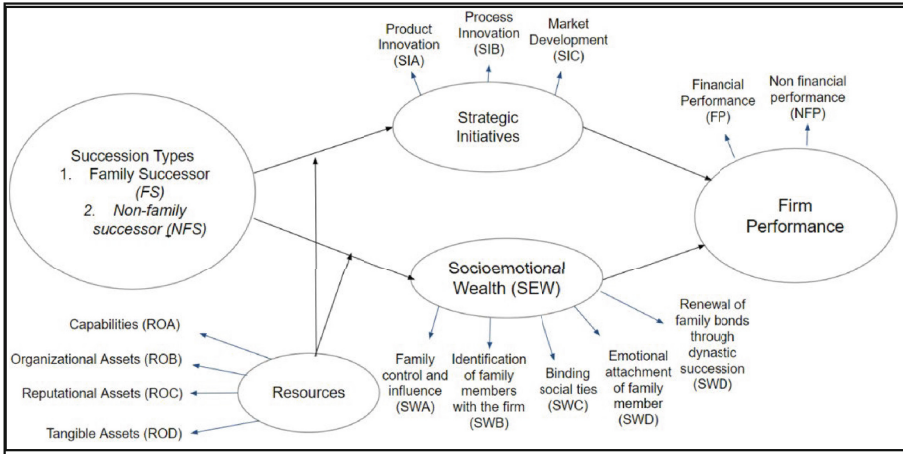


Fig. 1. Research Design

that have already carried out the CEO succession process, both CEO succession to the second, third, and so on, or CEO succession to professional or external parties. The questionnaire can be filled in by company owners, CEOs, or senior managers who understand the succession process in the company. The number of respondents in this study were 98 respondents.

3.3 Measurement

This research consists of five variables which are CEO succession, strategic initiatives, socioemotional wealth, resources, and firm performance. CEO succession is an antecedent variable with binary option, strategic initiatives consist of three dimensions and nine indicators, socioemotional wealth consist of five dimensions and twenty-five indicators, resources consist of four dimensions and ten indicators, and for firm performance consist of two dimensions and twelve indicators.

3.4 Method of Data Analysis

In this research, data analysis was conducted to analyze the previously collected data through questionnaires. The analysis will ultimately lead to hypothesis test which could prove whether the hypothesis can be supported or not. To analyze and test the conceptualization, a two-step statistical analysis technique was used. In the first step, measurement model is analyzed to examine the relationship between each indicator and latent variables. Second, a structural model analysis is performed to analyze the relationship among latent variables. Once both analysis had been completed, each hypothesis can be statistically proven. In this research, data is analyzed by using Structural Equation Modelling Partial Least Square (SEM-PLS) with smart PLS.

4 Results and Discussion

4.1 Structural Model Analysis

For the first test is convergent validity, analysis towards the convergent validity is done to see the correlation measuring with other measuring factors which came from the same construct. Based on validity test, there is no problem overall with the AVE score on each dimension, and the results of validity testing shows that all the research indicators have Average Variant Extracted (AVE) > 0,5. Thus there are no indicators eliminated from the research model.

Furthermore, internal consistency testing was carried out by looking at the value of Cronbach's alpha and composite reliability. Reliability assessment can be seen from the composite reliability in which its value has more than 0.7 and the Cronbach's Alpha value is more than 0.6. According to the result of reliability test, the value of composite reliability has a value more than 0.8 and Cronbach's Alpha value more than 0.7. Thus all the variables in this research are considered reliable Table 1.

4.2 Hypothesis Testing

Based on the statistical output in the previous section, the hypothesis testing results are as follows in Table 2.

Table 1. Statistical Measurement Output

Indicator	Validity Convergent (>0,7)	Average Variance Extracted (AVE) (>0.5)	Results	Cronbach's Alpha	Composite Reliability	Results
FP1	0.921	0.868	Valid	0.962	0.970	Reliable
FP2	0.929		Valid			
FP3	0.934		Valid			
FP4	0.943		Valid			
FP5	0.931		Valid			
NFP1	0.797	0.736	Valid	0.940	0.951	Reliable
NFP2	0.861		Valid			
NFP3	0.877		Valid			
NFP4	0.889		Valid			
NFP5	0.904		Valid			
NFP6	0.899		Valid			
NFP7	0.769		Valid			
ROA1	0.761	0.512	Valid	0.891	0.912	Reliable

(continued)

Table 1. (continued)

Indicator	Validity Convergent (>0,7)	Average Variance Extracted (AVE) (>0.5)	Results	Cronbach's Alpha	Composite Reliability	Results
ROA2	0.680		Valid			
ROA3	0.543		Valid			
ROB1	0.706		Valid			
ROB2	0.762		Valid			
ROC1	0.847		Valid			
ROC2	0.791		Valid			
ROC3	0.757		Valid			
ROD1	0.579		Valid			
ROD2	0.673		Valid			
SIA1	0.817	0.664	Valid	0.747	0.855	Reliable
SIA2	0.847		Valid			
SIA3	0.779		Valid			
SIB1	0.895	0.804	Valid	0.878	0.925	Reliable
SIB2	0.916		Valid			
SIB3	0.880		Valid			
SIC1	0.790	0.548	Valid	0.747	0.782	Reliable
SIC2	0.799		Valid			
SIC3	0.618		Valid			
SWA1	0.770	0.662	Valid	0.896	0.921	Reliable
SWA2	0.859		Valid			
SWA3	0.898		Valid			
SWA4	0.799		Valid			
SWA5	0.850		Valid			
SWA6	0.691		Valid			
SWB1	0.771	0.573	Valid	0.809	0.869	Reliable
SWB2	0.783		Valid			
SWB3	0.765		Valid			

(continued)

Table 1. (continued)

Indicator	Validity Convergent (>0,7)	Average Variance Extracted (AVE) (>0.5)	Results	Cronbach's Alpha	Composite Reliability	Results
SWB4	0.846		Valid			
SWB5	0.596		Valid			
SWC1	0.804	0.609	Valid	0.840	0.886	Reliable
SWC2	0.733		Valid			
SWC3	0.792		Valid			
SWC4	0.806		Valid			
SWC5	0.764		Valid			
SWD1	0.775	0.608	Valid	0.838	0.885	Reliable
SWD2	0.845		Valid			
SWD3	0.707		Valid			
SWD4	0.811		Valid			
SWD5	0.754		Valid			
SWE1	0.837	0.552	Valid	0.720	0.826	Reliable
SWE2	0.719		Valid			
SWE3	0.590		Valid			
SWE4	0.866		Valid			

From the research it can be concluded that CEO succession in family business does not directly have an influence on company performance. CEO succession is a process of major change in an organization which requires adaptability from the organization to respond to it. However, it is proven that the existence of strategic initiatives after CEO succession can mediate the relationship between CEO succession and company performance. So it can be concluded that even though succession is said to be a process of disruption due to major changes, changes that bring in new ideas, namely product innovation, process innovation, and market development, will positively affect company performance after the CEO change.

Table 2. Hypothesis Testing

Hypothesis Statement	Original Sample (O)	T Statistics (IO/STDEV)	P Values	Results
H1: CEO succession have influence towards Strategic Initiatives	-0.283	2.927	0.005	Significant
H2: CEO succession have influence towards Socioemotional Wealth (SEW)	0.364	3.690	0.001	Significant
H3: CEO succession have influence towards Firm Performance	0.201	1.610	0.114	Not Significant
H4: CEO succession with the moderating effect of Resources have influence towards the Firm Performance	0.256	1.686	0.098	Not Significant
H5: Strategic Initiatives have influence towards Firm Performance	0.313	2.618	0.012	Significant
H6: Socioemotional Wealth (SEW) have influence towards Firm Performance	0.161	1.444	0.155	Not Significant
H7: CEO succession with the mediating effect of Strategic Initiatives have influence towards Firm Performance	-0.057	1.922	0.060	Significant
H8: CEO Succession with the mediating effect of Socioemotional Wealth (SEW) have influence towards Firm Performance	0.044	1.624	0.111	Not Significant

5 Conclusion

The findings from this study contribute to the concept of succession in family firms. From this study it was found that with the post-CEO succession strategic initiatives, the company's performance would improve.

This research has managerial implications to compare family successor and non-family successor. Non-family successors will have more influence on strategic initiatives compared to family successor. Meanwhile, the influence on socioemotional wealth will be greater from family successor. However, to support the company's performance after succession, what is needed is a strategic initiative. Therefore, after the CEO succession, the new CEO must maximize the development of company strategic initiatives so that they can increase company performance. These strategic initiatives can have a positive effect on improving the company's performance financially and non-financially after succession.

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