

Is nepotism a good old-fashioned virtue? Examining its impact on family business succession and the role of familial pride: Evidence from Indonesia

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ABSTRACT

Objective: The objective of the article is to verify the role of familial pride in strengthening nepotism's influence on family business succession in Indonesia, as it relates to the communality value embedded in family business culture. Further, family businesses support the Indonesian economy, but according to several sources, their existence is threatened when the business passes to the next generation, and the second generation proves decisive.

Research Design & Methods: The research design was quantitative, and we collected data by distributing questionnaires via snowball sampling to second-generation members of family businesses in Indonesia. Because the population size was unknown, we adopted the ten-times rule. After ten months of data collection, we analysed the returned responses using partial least squares techniques.

Findings: Among the second generation of small and medium-sized family businesses in Indonesia, familial pride plays a significant role in family business succession. However, the expectation that familial pride amplifies nepotism's negative influence on succession finds no support because familial pride is inseparable from the dynamics between nepotism and family business succession.

Implications & Recommendations: The second generation in small and medium-sized family businesses sees family business succession as a complex process still shaped by nepotism and familial pride. Family business succession cannot be separated from familial pride, although nepotism is considered harmful. Familial pride will encourage family business succession and support business continuity and sustainability.

Contribution & Value Added: The study demonstrates the importance of familial pride and nepotism in delivering succession in family-owned businesses. The results merit examination at a larger scope, because Indonesia's cultural diversity and varied backgrounds can map the family business landscape, attract foreign business, and raise awareness.

Article type: research article

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INTRODUCTION

Family businesses are considered the backbone of the Indonesian and global economy. Family businesses cover most businesses in Indonesia (Purba & Tan, 2018; Utamaningsi, 2020) and range from micro-enterprises to conglomerates, thus contributing significantly to national GDP and employment and anchoring Indonesia's participation in the global economy (Mandiana & Suhartati, 2006).

The study of family businesses remains compelling, especially in countries where family businesses loom large amid economic dynamics. Families who establish businesses also demonstrate successful

entrepreneurial practice, and usually start from a small scale, becoming known as small and medium-sized enterprises. Ershova (2014) found a connection between the era of family business and the nation's economy. Existing research shows that family businesses contribute to the economy by creating jobs, introducing innovation, and stabilising the national economy (Paul, 2024), encouraging competitive advantage in the economy and ensuring business continuity from generation to generation (Czarnecka & Bednarz, 2023). Moreover, these businesses are crisis-resilient thanks to their stability, and they always strive to maintain business commitments (Gudzovata & Voronovska, 2023).

Existing family business studies often raise the importance of successor readiness. Previous studies assumed that effective succession planning can improve family member readiness, encourage strong relationships between family members, and maintain the established company culture (Rasyieda *et al.*, 2024). Meanwhile, our study focused on nepotism and familial pride, recognising that external pressures such as industry digitisation (Xie *et al.*, 2022; Baltazar *et al.*, 2023) and regulatory demands (*e.g.*, Indonesia's Omnibus Law) also shape succession outcomes. However, family business studies still stress improving family members' readiness, which then attracted the attention of researchers such as Li *et al.* (2023), and Sallay *et al.* (2024).

In Asia, family businesses economically strengthen several countries, for example, Indonesia, Malaysia, Singapore, and Thailand (Ding *et al.*, 2021). However, Sukamdani's study (2023) showed that Indonesia remains a compelling setting, because its succession dynamics are pronounced, especially given its diverse backgrounds, which can represent other Southeast Asian countries (Chen *et al.*, 2021). This background motivated us to conduct our research in Indonesia. Although the Indonesian economy is mostly fuelled from family business contributions (PWC, 2021), 70% of family businesses in Indonesia are unable to survive to the second generation (Dewi, 2022). Moreover, in Indonesia's collectivist culture (Gupta & Sukamto, 2020), factors like family loyalty and social ties heavily influence business decisions (Weimann *et al.*, 2021). From strong social ties, a tendency towards nepotism arises when leaders overestimate family members' qualifications (Burhan *et al.*, 2020), while familial pride drives the desire to maintain legacy since higher nepotism in family firms strengthens the relationship between organisational social capital and improved organisational performance (Schmid & Sender, 2021). Hence, family business succession in Indonesia remains an urgent matter.

This article aims to continue the study conducted in 2020 by Maharani *et al.* (2020) which tested the model in only one location, Surabaya, one of the largest cities in Indonesia and a city whose economy grows on family businesses ranging from small firms to large companies. Maharani *et al.* (2020) found that the role of non-family business members had no positive influence on succession in family businesses, and there was a negative influence of nepotism practices on succession in family businesses, as well as a positive and significant influence of familial pride on family business succession. Moreover, Maharani *et al.* (2020) note that Indonesia's unique succession dynamics make it an ideal setting to explore socioemotional factors (Sukamdani, 2023). Therefore, we retested the model and took data from various locations in Indonesia. By expanding the scope geographically, we sought to fully investigate the dynamics of family business succession in Indonesia's diverse business landscape.

Family business succession often involves nepotism, where leaders favour family members over external candidates, which leads to potential performance declines. Prioritising individuals from blood ties does not necessarily benefit the business. In other words, the business may not necessarily perform better if managed directly by family members. Scholars refer to this as a family business' lack of openness to outsiders who may have better qualifications. Familial pride can exacerbate this issue, as leaders may put family interests above selecting the most skilled successor. Consequently, the 'weakness of strong ties' phenomenon highlights the dangers of nepotism in decision-making within family businesses (Liu *et al.*, 2015).

The three-circle model of the family business system, revealed by Tagiuri and Davis (1996) anchors the understanding of family business management, where professionalism and blood ties intertwine. Moreover, the model emphasises the tension between family loyalty and professionalism. Although it was a fundamental study, Davis (2008) later stated that family businesses vary widely, and that the phenomenon remains dynamic and worth studying. Stanley *et al.* (2019) reinforce this

view by stating that the family's role remains very strong in two areas: ownership and business leadership. Hence, we cannot completely separate the important role of the family in business. It was one of the reasons for the study by Maharani *et al.* (2020), who found that the involvement of non-family members in the business can positively influence family business succession in a limited setting, namely among business owners in Surabaya, Indonesia.

Family business succession constitutes a critical challenge. Poor succession planning can lead to significant failures in family-owned businesses (FOBs). While nepotism may play a role in succession decisions, familial pride can also influence succession, as families often desire to maintain control and legacy (Collins, 2011). Nepotism arises from the belief that only close people are capable, and it is therefore considered to have a negative impact on the family business (Liu *et al.*, 2015), especially if nepotism appears because the family has a tendency towards arrogance (Stanley *et al.*, 2019). When a family business admits only certain individuals, it may overlook those with genuine skills, even though they may be well-suited for the business (Sugundan *et al.*, 2018). These findings led us to focus on nepotism, familial pride, and family business succession.

Most studies on family business succession focus on Western economies or developed Asian markets. Bachkaniwala *et al.* (2001) found that succession remains a problematic and neglected issue in South Asian family businesses, potentially affecting the future of Asian independent family businesses. However, Indonesia might present a unique case (Tirdasari & Dhewanto, 2020) due to its strong collectivist culture, high failure rate, which makes it an urgent setting to study succession barriers, and diverse business landscape, ranging from micro-enterprises to conglomerates, which offers broader insights than single-city studies. Although numerous studies examine family business succession, we found that few attempted to theoretically integrate the affective dimensions of family succession. Specifically, nepotism and pride each link to the behavioural and emotional components of socioemotional wealth theory.

Through this study, we sought to address a critical gap in family business succession research, one flagged by Gomez-Mejia *et al.* (2007), which identified the importance of examining socioemotional wealth in family businesses given culturally and non-economically rooted factors.

RQ1: Can nepotism still positively impact family business succession in Indonesia?

RQ2: Does familial pride have a role within the effect of nepotism on family business succession in Indonesia?

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Family Business Succession

We may define a family business as a business run by a family whose dominance in ownership and management is pronounced as expressed in a recent study by Kumar (2024). Family businesses care deeply about ensuring that the business founded by the first generation can continue over time. Although often considered an organisation facing extraordinary challenges in managing a business, family businesses are not without dynamics. As Donaldson (2024) states, family business is a complex yet adaptive organism because the relationships within the family directly influence business decision-making. Donaldson draws on Paul's view (2024) that a family business shows a unique bond between family members that influences who will manage and control the family business. There are many definitions of family business succession. However, in general, family business succession relates to the ownership and management of a business mostly handled by the family and lasts from generation to generation. We may look at family business succession also from Churchill and Hatten's perspective (1987). They state that the succession process is an anchor, where changes in management, strategy, and control are planned for and executed. Astrachan and Shanker (2003) and Ward (2011) support this view. Based on several previous studies and concepts, succession in family businesses is not simply a transfer of position from one person to another, but is closely tied to socioemotional processes conceptually linked to socioemotional wealth. The extended family's desire to maintain a family legacy, which has the potential to dominate the succession process, is closely linked to the issue of blood ties and the identity that will be maintained through family involvement.

Nepotism

Nepotism is quite common in family businesses and significantly influences the placement of those who are most suitable for the family business. Nepotism in family businesses more closely resembles favouritism, where only the most favoured family members are given the greatest opportunities for recruitment or promotion (Erdirençelebi & Çini, 2021). Even for strategic positions, family members may be appointed, as previous studies suggest, since involving family members in business relates to beliefs about socioemotional well-being (Jeong *et al.*, 2022). However, while nepotism may seem benign and common, studies have found that it can hinder organisational progress (Spahi *et al.*, 2022). Interestingly, from the socioemotional wealth perspective, nepotism is a natural mechanism families use to control and protect affective endowments. In turn, stewardship theory advises that trust is not favouritism: family members should act as stewards of the family legacy.

Familial Pride

Familial pride stems from the close relationship between family and business and a commitment to the future continuity and success of the family business (Robinson & Stubberud, 2012). Familial pride can hinder succession due to excessive dependence on family members, which ultimately affects long-term business performance (Heidrich *et al.*, 2016). Family influence on the company presumably encourages family members' commitment to maintaining the family business (Basly & Saunier, 2020). In the context of a family business, familial pride can foster positive impressions among next-generation members. However, negative impressions also arise if familial pride leads to arrogance and triggers injustice (Bernhard, 2022). One study found that culture and gender also influence familial pride (Bernhard, 2024). Interestingly, Brito (2022) found familial pride can also be considered the foundation for business continuity, bringing value not only to the family but also to the wider community indirectly involved in the business.

Familial Pride and Family Business Succession

The role of family dynamics in business succession remains interesting to study. Scholars argue that cohesive family culture and familiness are unique resources resulting from family involvement, and they are critical to successful transfer from generation to generation in family business (Bozer *et al.*, 2017), but family involvement needs attention: if the family is too deeply involved, adapting to new perspectives usually becomes tough; this might happen when later generations show resistance in accepting professionalisation in business practice (Davis & Harveston, 1998). For instance, while scholars often frame family harmony as a prerequisite for smooth succession (Rahmani *et al.*, 2023), excessive cohesion may lead to groupthink, which will hinder innovation and limit external involvement in the business (Carney, 2005). Successor's confidence and perceived incumbent support are widely recognised as the key predictors for long-term succession success (Gagné *et al.*, 2019). Over-relying on successors is risky, especially those appointed through familial ties rather than merit as research shows this leads to poor strategic decisions (Ahrens, 2013). These contradictions highlight a fundamental tension in family business succession: balancing emotional loyalty with organisational competence.

H1: There is a positive effect of familial pride on family business succession.

Nepotism and Family Business Succession

Evaluating business performance is important when involving family members to continue the business (Liu *et al.*, 2015). Families who prefer to employ family members may need to consider professional involvement (Ahrens, 2013). Professional involvement can affect the quality of decision-making (Barach *et al.*, 1988; Hamilton *et al.*, 2023). Fang *et al.* (2022) found that nepotism has a functional purpose: in collectivist societies, nepotism can increase organisational stability thanks to strong bonds of trust (Jaskiewicz & Dyer Jr., 2017) and Berrone *et al.* (2012). Furthermore, Zellweger *et al.* (2012) question the assumption that external employees inherently outperform family members, and the results of Kellermanns *et al.* (2012) show that family successors' superior commitment and company-specific knowledge actually protect family businesses from potential business problems.

H2: There is a positive effect of nepotism practices on family business succession.

Nepotism and Familial Pride

Tasdemir *et al.* (2017) state that nepotism is problematic favouritism. Schmid and Sender (2021) found nepotism may bring social capital benefits for family businesses as it facilitates tacit knowledge transfer through trusted familial networks (cf. Jaskiewicz *et al.*, 2013). Miller *et al.* (2020) found this positive side depends on context, later generations, and specific cultural settings (Vazquez, 2016). Davis's (2015) concept of 'nepotistic ideology' simultaneously creates in-group/outgroup dynamics that alienate non-family talent during cohesion.

H3: There is a positive effect of nepotism practices on familial pride.

Nepotism, Familial Pride, and Family Business Succession

Amore *et al.* (2021) found that family business successions bring cost efficiencies and additional financial value. If familial pride is coupled with emotional decision-making, business problems will arise (Liu *et al.*, 2015). Gilding's (2005) work highlights how non-economic factors such as legacy preservation and tax strategies often create a complex relationship between rational and emotional drivers during succession. This tension manifests in what Bozer *et al.* (2017) term the 'familiness paradox': while cohesive family culture and shared socialisation strengthen successor commitment, these same factors can also breed insularity and resistance to issues beyond the business. Recent meta-analyses suggest that this paradox may explain why family successions show such divergent outcomes across contexts (De Massis *et al.*, 2023).

H4: Familial pride acts as a moderator of the nepotism effect on family business succession.

H5: Familial pride mediates nepotism practices and family business succession.

RESEARCH METHODOLOGY

Population and Sample

Second-generation representatives of family businesses in Indonesia are not easy to find. It was difficult to obtain definite figures because most family businesses in Indonesia are still struggling to transition management from the first generation to the second generation, as noted in several studies of Indonesian family businesses (*e.g.*, Kumar & Prameswari, 2018). Given this constraint, we employed a targeted snowball sampling technique (Cantone & Tomaselli, 2022) moving from one second-generation member to the next one. We used snowball sampling because the family business constitutes a closed community whose members trust their own acquaintances. This came at a cost: the research required more time to gather the data. Overall, there were three key reasons: community accessibility, cultural appropriateness, and practical feasibility. We acknowledge the limitations of potential homogeneity; we verified business characteristics to ensure SME representation, and capped referrals at three per respondent to prevent network clustering.

When determining the research sample, we adopted the sample-size technique described in Barclay *et al.* (1995) and Hair *et al.* (2017). Namely, in multivariate research, sample size can refer to ten times the number of formative indicators used for the variables involved in the study. We understand that the limitation of this technique is oversimplification, but we expected to overcome this issue through common method variance. In this study, the total number of indicators was nine, so at least 90 respondents were involved. At first, the survey response rate was low, but by the end of October, we obtained 252 questionnaire responses. We distributed the survey form at a seminar for SMEs in Jakarta, Indonesia, and asked participants visiting our booth to fill in the survey. This sample suits model discovery and prediction, as it provides adequate statistical power.

To facilitate data collection, we limited surveyed family businesses to the small and medium-sized category, because communities supporting such businesses facilitated reaching respondents. We collected data for 10 months, from early January 2024 to the end of October 2024. This period

was longer than the initial plan, as we had scheduled only three months of data collection. The delay stemmed from stagnant field data collection.

We conducted the data analysis in three stages. The first stage involved cleaning the data of empty responses. In the second stage, we assessed the measurement model. In the third stage, we assessed the structural model. Throughout the analysis, we used SmartPLS 4.0 software.

Measures

The research approach was quantitative. We obtained data by distributing questionnaires online. We operationalised variables by adopting indicators developed in previous studies. To measure familial pride, we adopted items developed by Trapero *et al.* (2017). To measure nepotism, we adopted items developed by Abdalla *et al.* (1998) and Asunakutlu and Avci (2010). Finally, to measure family business succession, we adopted items from Coffman (2014) and Perret (2016). Table 1 presents the details.

Table 1. Variables' operationalisation

Variables	Indicators	Statements
Familial pride Trapero <i>et al.</i> (2017)	Involved with family business.	I feel like people would be proud to be involved with this family business.
	Full support.	I feel that people who are successful in the family business are those who have full support.
	Contribute to family business.	I feel that other people will be proud if they can contribute to this family business.
Nepotism Abdalla <i>et al.</i> (1998), Asunakutlu & Avci (2010)	Ties to the family that founded the business.	I feel like a person who has an important position in the business, because he has ties to the family that founded the business.
	Prioritising family members to be involved in the business.	I feel that in family businesses, there is a principle of prioritising family members to be involved in the business.
	Easier to get involved with a family business because it's part of the family.	I feel like people will find it easier to get involved with a family business, because it's part of the family.
Family business succession Coffman (2014), Perret (2016)	Prepare a successor to replace its predecessor.	I feel that a good family business is one that is able to prepare a successor to replace its predecessor.
	Well-thought-out plan for its successor.	I feel a good family business is one that has a well-thought-out plan for its successor.
	Gets the next generation involved from the start.	I feel a good family business is one that gets the next generation involved from the start.

Source: own study.

The questionnaire items used a Likert scale with value ratings from 1 to 5 (where 1 represents completely disagree and 5 – completely agree). This choice followed previous findings that the five-point Likert scale is ideal thanks to its minimal bias and high reliability (Babakus & Mangold, 1992). To ensure that the correct respondents took the survey, we applied a filter question: 'Are you actively involved in a family business as the second generation? (you may proceed if your answer is Yes).'

Common Method Variance

To ensure that all measurement items could represent the variables under study, we piloted the survey with 30 respondents. To ensure simplicity and consistency, we held the pilot test in the first week of January 2024. After data collection, we analysed the data using JAMOV and performed confirmatory factor analysis (CFA), from which we obtained factor loadings. From the factor loadings, we found that all factor loadings showed a strong relationship (Pride1 (0.793); Pride2 (0.46); Pride3 (0.811); Nepotism1 (0.666); Nepotism2 (0.793); Nepotism3 (0.645); FBS1 (0.687); FBS2 (0.693); FBS3 (0.559)), among these results, we retained FBS3 (0.559) in the measurement scale, following Hair *et al.* (2019). In addition to factor loadings, we also examined significance using P-values; results showed p-count < 0.001,

indicating that the relationship between each indicator and its factor was significant. The reference for decision-making came from (Benjamin & Berger, 2019). Then, the confidence intervals indicated the stability of the factor loadings, as one indication, for example, Pride1 (Lower = 0.605; Upper = 0.851) and so on, which had positive, narrow ranges, suggesting that larger samples would yield more stable results. Finally, the Z-score showed a calculated Z value > 1.96 (Doane & Seward, 2011) at a 95% confidence level, thus indicating strong significance.

Data Analysis

As Table 2 shows, among the 252 responses, most respondents were women and the largest group had been involved as the second generation for more than twenty years, thus the results represented this majority group.

Table 2. Respondent characteristics

Respondent characteristics	Frequency	Percentages
Gender		
Male	100	40.7
Female	152	59.3
How long have you been involved in this family business?		
< 5 years	39	15.5
6-10 years	52	20.6
11-15 years	24	9.5
16-20 years	26	10.3
>20 years	111	44
What business type?		
Culinary	142	56
Beauty	40	16
Fashion	70	28

Source: own study.

RESULTS AND DISCUSSION

Following the stages explained in the previous section, we began with data cleaning to ensure that the analysed responses were complete. Consequently, all data used were complete, and no revision of the final sample size was required. We then conducted the second stage of data analysis, with the following results.

Table 3. Construct reliability and validity

Variables	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Familial pride	0.716	0.726	0.842	0.642
Family business succession	0.677	0.676	0.823	0.608
Nepotism	0.737	0.743	0.850	0.655

Source: own study using SmartPLS.

Table 3 shows that almost all parameters required for construct reliability and validity were met. Although the Cronbach's alpha value for the family business succession variable was <0.7 (Chin, 1998), the composite reliability values of both rho_a and rho_c were acceptable, as suggested in Diamantopoulos *et al.* (2012). On AVE, all variables showed good convergent validity as suggested in Sarstedt *et al.* (2021). We next checked discriminant validity (Table 4).

The HTMT values fell below the 0.85 threshold suggested by Henseler *et al.* (2015). Thus, discriminant validity was strong and sufficient to proceed to the next stage.

Based on Table 5 and Chin (1998), the research model explains 21.8% of the variance in family business succession. Moreover, the variables considered to influence family business succession – namely

familial pride and nepotism – have limited predictive power (adjusted R-square = 21.1%). However, this research model can still help observe phenomena in the family business environment (Figure 1).

Table 4. Discriminant validity and heterotrait-monotrait ratio (HTMT)

Variables	Familial pride	Family business succession	Nepotism
Familial pride	–	–	–
Family business Succession	0.495	–	–
Nepotism	0.356	0.550	–

Source: own study using SmartPLS.

Table 5. Quality criteria: R-square

Variable	R-square	R-square adjusted
Family business succession	0.218	0.211

Source: own study using SmartPLS.

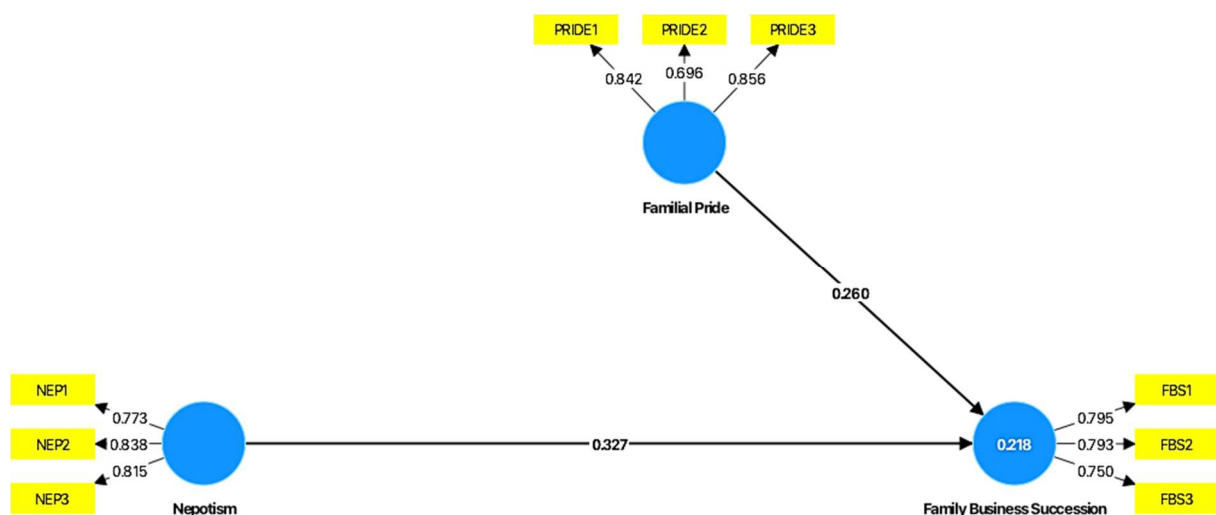


Figure 1. Measurement model assessment visualisation

Source: own elaboration using SmartPLS.

After we completed the measurement model assessment phase, we proceeded to the structural model assessment. Below, we present the results of this process (Table 6).

Table 6. Bootstrapping

Variable	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values	Decision
Familial pride -> Family business succession	0.257	0.263	0.066	3.904	0.000	Supported
Nepotism -> Familial pride	0.266	0.271	0.070	3.779	0.000	Supported
Nepotism -> Family business succession	0.320	0.326	0.073	4.399	0.000	Supported
Familial pride x nepotism -> Family business succession	0.040	0.038	0.072	0.565	0.286	Not supported
Nepotism -> familial pride -> family business succession	0.068	0.071	0.024	2.784	0.003	Supported

Note: Subsamples n = 5000, test type: one-tailed.

Source: own study using SmartPLS.

The results support four of the five proposed hypotheses. Nepotism has a direct and indirect positive impact on family business succession through familial pride. Familial pride positively influences

family business succession on its own. The interaction between nepotism and familial pride does not significantly affect family business succession (Figure 2).

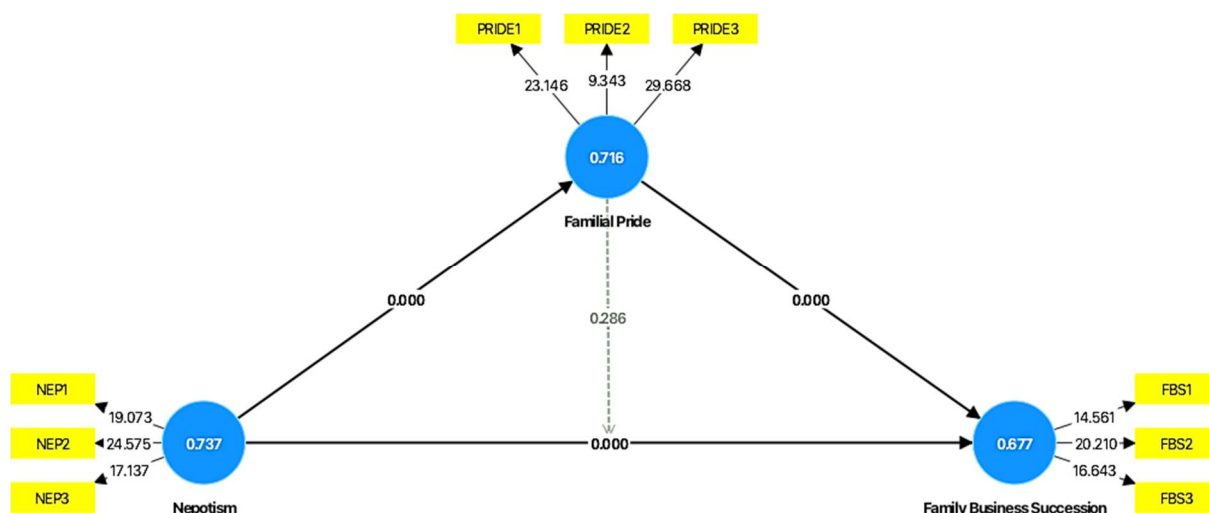


Figure 2. Structural model assessment visualisation

Source: own elaboration using SmartPLS.

The results demonstrate that familial pride positively influences family business succession (H1 supported). This suggests that when family members take pride in their business, they are more likely to maintain its continuity across generations. This finding aligns with Bozer *et al.* (2017), who argue that successful succession depends on preserving a cohesive, adaptable family culture. Similarly, Santiago's (2000) research on Philippine family businesses highlights how shared family values often prove more crucial than formal succession planning. In the Indonesian context, familial pride stems from traditional values that emphasise respect for ancestors and family ties (Lestari, 2018), fostering commitment to legacy preservation (Atmaja, 2018) and providing emotional resilience during transitions (Wulansari & Cahyani, 2024).

However, while familial pride and nepotism facilitate succession by reinforcing loyalty and continuity, they may also introduce risks such as resistance to change, managerial incompetence, or the exclusion of more qualified non-family professionals (Perez-Gonzalez *et al.*, 2006; Bennedsen *et al.*, 2007). Despite its role in sustaining familial commitment, nepotism can stifle innovation and lead to suboptimal decision-making if meritocracy is overlooked (Jones *et al.*, 2008). Future research should explore how family businesses balance these dynamics to ensure both legacy preservation and long-term competitiveness.

However, the benefits of familial pride must be balanced against its potential drawbacks. Excessive pride can lead to organisational rigidity, as successors may resist professionalisation to avoid compromising perceived family traditions (Heidrich *et al.*, 2016). For instance, Javanese family businesses often retain outdated operational methods out of reverence for founders' original practices (Lestari, 2018), potentially hindering growth. This phenomenon reflects Carney's (2005) 'groupthink paradox,' where family cohesion suppresses constructive dissent.

Our analysis confirms nepotism's positive role in Indonesian family business succession (H2 supported). This contrasts with Shah's (2022) argument that inexperienced family members threaten business continuity, highlighting how cultural context shapes nepotism's effects. In Indonesia's collectivist society, nepotism reflects familial duty and *gotong royong* (communal harmony), whereas Western individualistic cultures often perceive it as inefficient or unfair. While nepotism may enhance stability,

unregulated favouritism risks undermining performance. Succession requires next-generation members to explore opportunities to learn leadership before the succession (Sallay *et al.*, 2024), which presumably forms part of the mitigating mechanism. This approach aligns with Sentuti and Cesaroni's (2020) emphasis on the urgency for family businesses to involve younger generations.

Nevertheless, nepotism's risks warrant serious consideration. Beyond causing resentment (Bernhard, 2022), nepotism can perpetuate managerial incompetence; Dewi (2022) attributes 42% of Indonesian succession failures to unqualified heirs. Moreover, nepotism may stifle innovation by excluding external talent, particularly in industries that require rapid change. Even within collectivist cultures, overreliance on kinship ties can reduce competitiveness, as demonstrated by Malaysian Chinese family businesses (Tan & Fock, 2001).

The results support H3, confirming nepotism's positive relationship with familial pride. While pride enhances family business reputation (Bernhard, 2024), unchecked nepotism risks fostering resentment (Bernhard, 2022). Therefore, effective management must balance these dynamics (Schilpzand *et al.*, 2024), ensuring familial relationships improve rather than hinder team cohesion (Briggs, 2016).

We rejected H4 as familial pride does not moderate nepotism's effect on succession. This supports Bernhard's (2022) view that pride operates as an independent variable. Conversely, we accepted H5: familial pride mediates nepotism's impact on succession, thus reinforcing Bozer *et al.*'s (2017) 'familiness paradox.'

This mediation effect reveals familial pride's dual nature. Although it aligns nepotism with succession objectives (Briggs, 2016), familial pride may also obscure poor decision-making, such as retaining underperforming heirs. To counter this, businesses should complement pride-building activities (*e.g.*, legacy documentation) with independent performance audits (Schilpzand *et al.*, 2024), ensuring emotional attachments do not override competence.

Through this research, we improved on Maharani *et al.*'s (2020) results. That study previously found that non-family members' role in succession was not proven positive, and reported negative effects of nepotism practices on succession. Our study's results differed, albeit they validated the positive effect of familial pride on family business succession.

Our study needs further development, especially as it only involved respondents from limited backgrounds, as explained in respondent characteristics in Table 2. Adding the perspectives of other respondents from countries whose economic strength rests on family businesses would be very promising. The results of our study can trigger the exploration of phenomena related to the variables studied in family businesses in other situations like familial pride, which in this study supports the assumption that familial pride influences family business succession. Thus, a great future opportunity is exploring familial pride in concrete terms, whether rooted in business background, culture, or other factors. Hence, familial pride is part of the legacy that must be passed down from generation to generation in a family business, such as an identity recognised by the community that knows the family business.

CONCLUSIONS

Our study results answer the two research questions: they prove the role of nepotism in family business succession in Indonesia and the role of familial pride in the dynamics that stem from nepotism practised in family businesses. Furthermore, the results indicate that familial pride can play an important role in the succession of family businesses that practise nepotism.

Our study implies that familial pride is maintained by keeping the business sustainable. However, because nepotism was shown to have a positive influence on family businesses, it will be important to balance nepotism with strict selection of family members to ensure that successors involved in the family business are committed and competent. Implemented formally or informally, leader development through mentorship could maintain the credibility and performance of the business as built by the generation that pioneered it. To increase the role of nepotism in encouraging a sense of familial pride, family businesses need to ensure fairness and transparency to avoid potential conflicts among stakeholders.

Theoretically, our study highlights the dual role of nepotism as the driving factor for family business succession and an indirect driver mediated by familial pride, extending the familiness paradox by show-

ing that nepotism's dual role as the driver of succession and source of conflict depends on how familial pride is cultivated. Moreover, the study underscores the need for culturally grounded frameworks to assess family business succession in collectivist economies.

Future research should explore contextual variables that might shape nepotism and familial pride. Alternative methodologies – such as qualitative work with successors – might reveal issues left unexplored in this study. Contrasting countries would also exercise the research model and enhance generalisability.

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Use of Artificial Intelligence

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Conflict of Interest

This research has no potential conflict of interest, because it was funded independently and all respondents were volunteers.

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