

# ANALYSIS OF INNOVATION, PROACTIVE, AND RISK TAKING AS PRESENTATIONS OF ENTREPRENEURIAL ORIENTATION TOWARDS BUSINESS SUCCESS OF SECOND AND THIRD GENERATION FAMILY BUSINESS IN INDONESIA

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**Abstract:** This study is aimed to analyze the effect of entrepreneurial orientation towards the business success of second and third generation family businesses in Indonesia. The entrepreneurship orientation covers three indicators namely innovation, proactive, and risk-taking ability. This study used a cross-sectional design and conducted to 153 medium-scale family businesses that have run for 5 until 50 years and categorized as middle-scale business run by the second and/or third generation family. Hypothesis testing was done using a multiple regression. The findings show that innovation and proactive have a significant and positive effect, while risk-taking ability has a negative and insignificant effect on the success of family businesses in Indonesia. This study offers an analysis of a unique entrepreneurial orientation, given the personality, family, ownership, and management system in family businesses in Indonesia are different from other countries. Besides, there are influences of technological advances that may interfere family businesses, particularly the family system, in Indonesia.

**Keywords:** innovation, proactive, risk-taking, entrepreneurial orientation, business succession, family business

## Introduction

Data obtained by Family Firm Institute (2015) shows that two-thirds of the total number of companies in the world are classified as family businesses. European Family Business (2012) seeing from the number of labor absorption, 50–80% of employment in the majority of countries in the world comes from family business in Utami et al. (2017). Kalra and Gupta (2014) suggest that there are only 30% chance for family businesses to last until the second-generation, while the chance for the business to last until the third-generation decrease to around

12%. Kalra and Gupta (2014) further stated that only 3% of family businesses can survive the transition to the fourth generation and 70% of family business in the SME scale must eventually be destroyed due to the lack of succession planning. Thornhill and Amit (2003) support this fact by stating that discrepancies between resources and the capabilities and competitive demands from the environment are factors that cause failure to the family business (in Mokhber et al., 2017).

Developing the success of family business has serious implications, not only from the family members and business partners, but also

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from the development of country's economic condition (Buang et al., 2013). Kim and Gao (2013) identified that interactions between family, business, and family members forms a systemic and constituencies conditions that affect the performance of family business in the long run. According to Handler (1990) with an understanding of the importance of studies on family business, a number of literatures concentrate on family involvement in ownership, governance, and management of succession process (in Joo, 2016).

Family companies as entities that cannot avoid the increasingly complex decision-making practices also cannot avoid the innovative, proactive, and risk-taking approaches as well as companies that are orientated towards entrepreneurship. A meta-analysis study by Remedios Hernandes et al. (2018) has confirmed the positive effect of Entrepreneurial Orientation (EO) towards company's performance (Rauch, et al., 2009; Rosenbusch, et.al., 2013). Hernandes et al. (2018) stress the need for companies to promote EOs in order to face challenging and unstable condition, as well as to achieve succession (Wang, 2008). However, differences in organizational contexts can encourage different EO manifestations (Covin & Slevin, 1990; Wales et al., 2011). Some literature reviews, according to Hernandes et al. (2018), reveals that family business has a suitable context to study EO (Nordqvist & Melin, 2010) due to their unique characteristics (Habbershon & Williams, 1999). Family involvement influences ways to allocate and control resources and their utilization strategies (Arregle et al., 2007; Chrisman et al., 2009). On the other hand, there has not been much studies about the effect of implementing EOs on the success of family businesses (Boling et al., 2016).

According to Galdeano et al. (2018), the number of studies on entrepreneurship in family business is increasing (Carr & Sequeira, 2007; Naldi et al., 2007; Kraus et al., 2012a), while studies about family involvement in the entrepreneurial process is still low (Kellermanns & Eddleston, 2006), and there are two conflicting principles that are used to analyze EO in family business. The first principle describes family business as a context in which entrepreneurship develops as a result of kinship and the long-term nature of business (Ward, 1987; Zahra et al., 2004; Zahra, 2012). The second principle is more conservative and inflexible in taking risks associated with entrepreneurship and innovation (Autio & Mustakallio, 2003; Morris, 1998; Zahra, 2005; Chrisman & Patel, 2012). Thus, there is still no mature consensus whether the characteristics of family business help or hinder entrepreneurial activities (Short et al., 2009).

Furthermore, according to Galdeano et al. (2016) the reason for the absence of consensus of EO and family business is the lack of consideration of social-emotional wealth as a key factor of EO. Theories and hypothesis about entrepreneurship orientation merge as unavoidable choices for companies that with to prosper in a competitive business environment (Eggers et al., 2013). However, there is still a question whether EO will bring a positive impact towards the success of family businesses, even a research by Galdeano et al. (2016) found the opposite findings. Furthermore, it was also stated that only family companies that are on the verge of economic difficulties will force themselves to undertake an entrepreneurial orientation it its business management model.

EO was originally proposed by Miller (1983), by defining entrepreneurial companies as

“companies that are engaged in product market innovation, doing business that is rather risky, and first appearing with ‘proactive innovation, defeating competitors with blows’ (Miller, 1983). This underlies the researcher to examine the aspects of innovation, proactivity, and risk taking as representations of entrepreneurial orientation in family businesses in Indonesia.

The unique characteristics of family businesses in Indonesia, in terms of personality, family, ownership, and management system, will creates an interesting dynamics to the discussion of this research, especially with the increasing use of technology in the operational context of family business; it has been an interesting topic to analyze as it related to the social – emotional wealth of the business. Thus, the purpose of this study is: to analyze the influence of entrepreneurial orientation (EO) towards the business success of second and third-generation family business in Indonesia.

Poza and Daugherty (2014) suggest that the definition of family business used are different. Even, according to Chrisman et al. (2005), there are 21 definition of family businesses in 250 research articles about family business. A research by Andres in Susanto et al. (2007) classify family businesses as companies that owned, at least, 25% of shares by one of the family members, or if there is less than 25%, then the companies have family members who have positions on the board of directors or board of commissioners of the company.

Several studies stated that the family should own at least 5% of shares. In addition, there are additional criteria related to family business, by requiring a minimum of two family members to be positioned at the Board of Commissioners and/or the Board of Directors (Susanto et al., 2007). A research conducted by Barth et al.

(2005) classifies companies as a family business only if the family has at least 33% of the company’s shares. Whereas Faccio and Lang (2002) requires a minimum of 20% shares to be controlled by the family to classify a business as a family business.

Poza and Daugherty (2014) explain in more detail that family business is a synthesis of ownership control by family members or family consortium. There is a strategic influence from the family in the business’s management, family relationships, and the hope for cross-generation business continuity. However, challenges often occur in family businesses, none of which is only 12% family business can survive up to the third-generation leadership (Hall, 2012).

A business can be classified as a family business only if the company’s ownership is owned by family members, where there are two or more family members are directly or indirectly involved in the company. At least those family members are involved in finance and have a minimum of two generations family members who get involved within it. Therefore, values of the family business are identical with the value of the owner’s family (Susanto & Susanto, 2013).

The family business subsystem theory discussed by Poza and Daugherty (2018) shows the perspectives of family business as a business model that is overlapping, interacting, and interdependent to 3 different subsystems, namely family, management, and ownership (Figure 1). Each of these subsystems has unique characteristics and affects other subsystems. In order to sustain the family business, usually there is one subsystem in a family business that dominates other subsystems.

There is limited data related to the existence family business in Indonesia, but it is

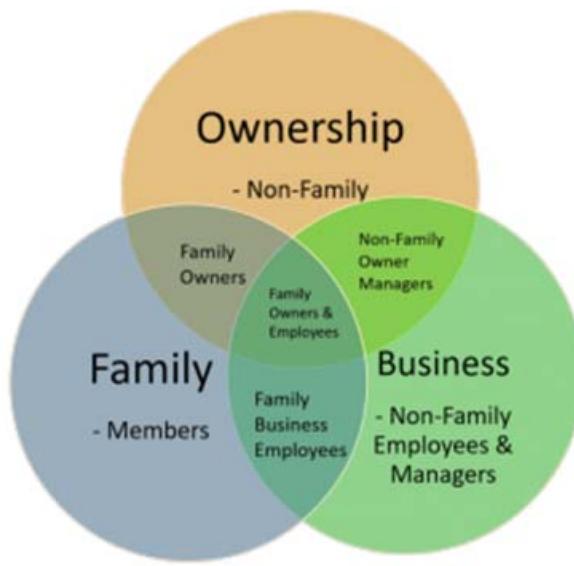


Figure 1 Family Business Subsystem Theory Model

Source: Poza and Daugherty (2018)

understandable that family business has long existed in Indonesia, as stated by Chu (2011), and small and medium scale family business are very common in developed and developing countries. In addition, Tambunan (2017) found that almost 90% of small and medium scale businesses in the province of East Java (the second largest province in Indonesia, economically, after Jakarta) were owned by families. The Department of Cooperatives and Small and Medium Enterprises (*Departemen Koperasi dan Usaha Kecil Menengah*) in East Java further describes the characteristics of small and medium enterprises in Indonesia as follow: (1) There is no separation between management and owner, where the owner often acts as the manager; (2) Capital is provided by one person or a small group of families; (3) The business operates in a limited local area (although a small number of businesses operate nationally and internationally), and; (4) The size is fairly small, looking at the ownership of total assets, the number of employees and facilities owned. Using this approach, it can be said that discussing small and

medium enterprises in Indonesia is similar to discussing about family businesses.

According to PWC report regarding survey of family business in Indonesia in 2014, it was found that most family businesses in Indonesia (53%) has run for 20–49 years, 30% has run for less than 20 years, and 17% has run for over 50 years. This shows that most family businesses in Indonesia are still relatively young. In addition. It is described that the largest sector where the family businesses run is the manufacturing sector (50%), followed by the transportation sector and business activities (13% each), construction (7%) and others (5less than 5%). The highest participation among generations in family business in Indonesia is the involvement of the second-generation (37%), followed by 3 generations (33%), and only 1 generation (23%). The result of the survey also shows that the role of family members within their business is 87% as owners and managers, and only 13% act as owners only. Furthermore, the finding shows that there is 87% chance to create a positive dynamics and relationship be-

tween family and business, hence understanding and finding a good and right pattern are becoming a challenge in managing the family business. The role of family members in the business is as a CEO or Managing Director (47%), a Finance Directors and other directors (23%), and an owner and partners (7%).

Furthermore, the result of the survey conducted in 2014 identified the challenges that family business in Indonesia may face in the next years, or in 2019, including: 73% chance to have a competition challenge; 67% challenge to keep innovating; 63% to attract HR with the right skills and talents, and 58% of price competition. In addition, another challenge that businesses may face includes the need to become professionals (53%); maintain the key staff (50%); the need for new technology (50%); succession planning (47%); adjustments to regulations (43%); increasing number of international competitors (40%); general economic situation (37%); costs (33%); supply chain (23%); and family conflict (20%). This fact shows that the problems faced by family businesses in Indonesia are due to their unpreparedness in facing competition problems, and not solely due to family conflicts. This condition also illustrates that family business are less likely to be able to face external condition than facing internal conditions.

A surprising fact is that family businesses in Indonesia are more likely to prioritize their business than their family. It is shown that 16% of family businesses prioritize the long-term sustainability of the business, 13,2% run their business professionally, followed by 11% prioritize to increase their profits; 10,7% more innovative; 9.4% attract HR with high quality skills. Then, the next priority is to ensure that all employees are valued fairly 98,7%), then contribute or cre-

ate a positive impact to the society (5%); grow as fast as possible (5%); diversification to create new products or to other sectors (4.8%); expand the market nationally (4.6%); enjoy the work and keep doing the favor (4.0%) and market it different export markets (3.7%). The last two thing they prioritize is to guarantee the business to remains owned by the family (1.7%) and to create jobs for the family members (1.4%).

Some other descriptions that need to be presented regarding the condition of family businesses in Indonesia are that all family companies in Indonesia (100%) have, at least one family member(s) to work as a senior executives; 53% of the businesses have family members who work in the business, but not as senior executives, 53% do not work in the business but own shares, and 17% do not work and do not have shares in the business but receive compensation in other forms. Another illustration is that 80% of family businesses have non-family members work in the board of directors and 50% of family businesses whose shares are owned by staff who are not a family member. Another fact relating to medium-scale family business in Indonesia is presented by Utami et al. (2017). One of the remarkable characteristics of family business is their strong desire to appoint family members to lead the company. Generally, this characteristic depends on the role of the family in the business: in overseeing available resources, determining the level of specialization and integrity, facilitation communication and coordination, and regulating authority and trust (including deciding the leader of the business).

Mintzberg (1973) theorize about modes of entrepreneurial strategy making as managerial dispositions characterized by active search for new opportunities in uncertain environments,

where dramatic growth can be realized. However, in general the EO concept was originally proposed by Miller (1983), where he defined entrepreneurial companies as “companies that are engaged in product market innovation, doing business that is rather risky, and first appearing with ‘proactive innovation, defeating competitors with a blow’” (Miller, 1983). Since then, EO has been a subject for over 30 years of theoretical and empirical studies (Rauch et al., 2009; Wales, 2016), it clearly reveals that EOs are the key ingredient to create business success (Wang, 2008) and to support business performance (Rauch et al., 2009), both in family and non-family businesses (Campbell & Park, 2016). Given the little understanding of the antecedents of EO (Wales et al., 2013; Wales, 2016), this study will focus more on EO as the dependent variable to learn deeper about the EO networks. In addition, given that different business context can drive different EO manifestations (Covin & Slevin, 1990; Wales et al., 2011) and that special characteristics are manifested by family businesses, such as the desire to control ownership and maintain the continuity of family involvement may have a large impact on EO (Cruz & Nordqvist, 2012; Naldi et al., 2007; Short et al., 2009). According to Lumpkin and Dess (1996), EO refers to the process, practices, and decision-making activities that lead to a new understanding. It is characterized by one or more of the following dimensions: the tendency to act independently, a willingness to innovate and to take risks, and the tendency to show aggressiveness towards competitors and relatively proactive to market opportunities. While some studies have found that EO has increasingly become an important role in family businesses (Zahra et al., 2004), other studies actually find negative findings (Naldi et al., 2007).

One theory that is commonly used to explain company's performance, especially in the field of family business, is resource-based view (Habbershon et al., 2003). Habbershon et al. argue that there is a relationship between companies' resources and capabilities with the final result of performance. Companies with different resources and capabilities will lead to competitive advantage, so they are able to generate wealth among generations in the family business.

Each category of company's capital, both in terms of organizational knowledge and controlled process, is calculated as the company's resources and capabilities (Habbershon et al., 2016; Breckova, 2016). Strategic management theory generally refers to the Barney (1991) study, which classifies business resources into 3 types: physical resources, human resources, and organizational resources. Company resources must be valuable, rare, difficult to replicate, and cannot be replaced so that they can provide a sustainable competitive advantage for the company. Sirmon and Hitt (2003) identify five characteristics of resources that differentiate family business from non-family business, namely: human capital, social capital, patient capital, survival capital, and attributes of governance structures. These diverse resources can lead to competitive advantage for the business and if all resources are managed effectively, they will provide wealth from one generation to the next generation.

Theories and hypotheses of entrepreneurial orientation emerge as unavoidable choices for business who are wishing to prosper in a competitive business environment (Eggers et al., 2013). While the implications of the entrepreneurial process for corporate growth and performance have become research topics for a number of studies (Lumpkin & Dess, 1996;

Rauch et al., 2009; Zahra et al., 1999), little consideration has been given to other factors (Wales et al., 2013), such as the preferences and objectives of main decision makers (Fini et al., 2012). Family business has a unique organizational form because they are likely to be guided by a series of specific motives, including the preservation of SEW and the stock related to the family's values-influences that the family has invested in the company (Gomez- Meija et al., 2007).

According to Brines, Summer et al. (2013), innovation, as identified by Schumpeter, is one of the key aspects of entrepreneurial process. Schumpeter's view about innovation focus on how a company able to manage their resources over time and develop capabilities that drive innovation (Schumpeter, 1934). The essence of Schumpeter's theory of innovation is the idea of combination, where "the implementation of new combinations" through existing element or resources is combined to characterize entrepreneurial articulation (Schumpeter, 1934). Schumpeter emphasize the importance of entrepreneurs in the emergence of economical innovation, describing entrepreneurs as the driving force of economic development and making them as economic innovators (Herbert & Link, 2006; Litz & Kleysen, 2001; Schumpeter, 1934). From this perspective, entrepreneurial action set existing means "to serve new purposes" and to introduce new combinations, which intermittently emerge and bring economic change (Schumpeter, 1934). Schumpeter (1934) describes five types of innovation, as follow: (1) the creation of new goods; (2) the creation of new production methods; (3) opening new markets; (4) capturing new supply of resources; and (5) new industrial organizations (e.g. Creating or destructing monopolies).

Furthermore, Briner et al., (2013) explained that innovation is very import for the continuity of success of SME family business. However, there is still limited understanding of what promotes and/or inhibits entrepreneurial or innovation activities. Research, through the lens of complexity, has provided insight to the ability of organizations to survive and adapt through producing innovative results (Fuller and Moran, 2001; Goldstein et al., 2008; McKelvey, 2004; Regine and Lewin, 2000; Surie and Hazy, 2006). Schumpeter identified innovation as one of the key aspects of entrepreneurial success. Schumpeter's view about innovation focus on how a company able to manage their resources over time and develop capabilities that drive innovation (Schumpeter, 1934). The essence of Schumpeter's theory of innovation is the idea of combination, where "the implementation of new combinations" through existing element or resources is combined to characterize entrepreneurial articulation (Schumpeter, 1934).

Therefore, family business should seek new production process, new business and new markets, with the aim of ensuring the succession of the next family generation (Nordqvist et al., 2013). Family business should understand the business environment and must have the flexibility to adapt to the changes that come from it. Family business must create a respectable position in the market and must produce creative innovation in order to have a long business life and continuous success (Ramadani et al., 2015). Longevity is crucial to family business and for the economic as whole (Ramadani and Hoy, 2015). Donckels and Frohlich (1991, in Braga et al., 2017) also argue that innovation and internationalization can arise in family business with a continuous search of business sustainability and the development of

business process to counteract the rigidity, which become one of the characteristics of family business culture. Family business supports the general economic condition by contributing to employment and trade (Ratten, 2015). Thus, the first hypothesis can be proposed as follows:

*H1. There is a significant and positive effect between innovation and the business succession of family business in Indonesia.*

Proactive, according to Abubakar and Bambale (2016) refers to company's tendency to anticipate and follow up on future needs. Proactive actions are taken to find new opportunities that may be related or may not be related to the current business line, to introduce new product and service ahead of competition, and even to eliminate operations relation to products and services that have an uncertain future (Miller & Friesen, 1978; Venkatraman, 1989).

Furthermore, according to Abubakar and Bambale (2016), a meta-analysis study conducted by Rauch et al. (2009) offers the most comprehensive review of relevant publications regarding the impact of performance for entrepreneurial orientation. Of a total of 46 studies in a country, 39 based on western countries (27 from the United States, 9 from Europe, 3 from Australia), which supported one aspect of entrepreneurial orientation, namely proactivity, that influence the success of family business. However, samples from Asia show that only seven studies support that proactive action leads to family business succession (2 from China; 2 from Korea; 1 from Malaysia; 1 from Indonesia; and 1 from Thailand). Thus, the second hypothesis can be proposed as follow:

*H2. There is a significant and positive effect between proactive and the business succession of family business in Indonesia.*

In an advanced and transitioning economic condition, Wang and Poutziouris (2010) note that risk taking action is a strategic orientation at company level, which bring a potential source of competitive advantage with positive and long-term effects on worth and financial performance of the family business. According to Wiklund and Shepherd (2005) in Cantaleano, et al. (2017), the dimension of taking risk represent the willingness and ability in which businesses must devote more resources towards projects with unexpected results. Miller and Friesen (1982) in Cantaleano (2017) define the trends of risk taking as managers' willingness to commit to large and risky resources. EO is considered as an important dimension because it refers to the level of risk in various strategic decisions, such as allocation of resources, choice of products and market, thus reflecting the criteria for decision making and patterns for making organizational decision (Venkatraman, 1989).

According to Lin and Lin (2016), business network can maintain the performance of business enterprises through a number of avenues, including a reduction in transaction costs, supply resources in a more flexible way with lower cost, and facilitate the flow of knowledge and technology improvement (Vanhaverbeke et al., 2009). A number of research approaches have provided insights into the dimension of business network, entrepreneurial and small business's networks, and entrepreneurial orientation. The variety of research approaches include risk-taking actions in family businesses (Wambugu et al., 2015). These studies examine the effect of risk-taking on business performance without considering the institutional framework that understands informal structures and risk-taking tendencies.

Some studies have contributed to the literature about family businesses and entrepreneurial

orientation by integrating studies that emphasize the importance of entrepreneurial networks (especially informal networks) and studies that emphasize the importance of risk-taking dimension from entrepreneurial orientation.

According to Lawal et al. (2018), the tendency to take risks refers to individuals' tendency to avoid or accept risk when they face with such a risky situation. Historically, entrepreneurship has been linked to risk-taking actions and entrepreneurs are described as having a characteristic of taking more risk compared to others (Littunen, 2000). The concept of risk-taking has long been associated with entrepreneurship as evidenced in the definition of entrepreneurship which focuses on the willingness of the entrepreneur to engage in measurable business risk (LekoSimic & Horvat, 2006). Some researchers further argue that the tendency to take risk is fairly stable for someone, even though these characteristic can change through experiences. Kiprotich et al. (2015) conceptualize the tendency of taking risk as an individual characteristic with a tendency to take or avoid risk. Panzano and Billings (2005) emphasize that the existence of a positive relationship between level of risk and risky decision making by individuals is expected to be seen into an organization through the top management team. The risk tendency (or affinity to take a risk) combines the tendency to allocate substantial resources to opportunities with the possibility of failure and the desire to separate from pessimis-

tic disposition (Wiklund & Shepherd, 2005). Basically, the tendency of risk taking can be conceptualized effectively as an individual's orientation towards taking opportunities in any decision-making situation, including in business. Thus, the third hypothesis can be proposed as follow:

*H3. There is a significant and positive effect between risk-taking and the business succession of family business in Indonesia.*

## Method

Until now, there are no official statistics that show the exact number of medium-scale family businesses in Indonesia. Therefore, the researchers chose to use convenience and snowball sampling techniques. Data was collected based on a questionnaire, then distributed to family businesses' successors in various regions in Indonesia (Sumatra, Java, Bali, Kalimantan, and Lombok). The researchers also collected data from referrals recommended by previous respondents. In the end, there are 153 questionnaires that were collected from successors of family businesses. All family businesses are classified as medium-scale family businesses, based on the criteria are determined based on the business's turnover and the number of employees. Of the 153 questionnaires, 117 samples were coming from second-generation leded family businesses, and 36 are from third-generation leded family businesses.

Table 1 Correlations among Variables (n = 153)

	INOV	PROACT	TAKE_RISK
PROACT	0.700**		
TAKE_RISK	0.651**	0.440**	
BUS_SUCC	0.731**	0.704**	0.351**

## Results

The respondents answer the questionnaire based on a 1–5 Likert scale. Previously, the questionnaire has been tested for its validity using the Pearson Correlation test shown in Table 1.

Based on the result of the Pearson Correlation test (Table 1), all of the Sig. (2-tailed) value are less than 0.01, meaning that all items that represent the variables on the questionnaire are valid. In addition to the validity tests, the researcher also conducted a reliability test by using Cronbach alpha value, with a result of 0.857. This value indicates that the data collected are reliable to the Cronbach alpha value that should be in 0.60 or above.

## Measures

The measurement instruments for this study are taken from Baur (2014), Utami et al. (2017), Utami (2017), Miller (1983) who indicate that EO consists of three dimensions, which are innovation, proactive, and risk-taking. The family business success instrument is developed based on a research by Mokhber et al. (2017).

## Data Analysis

Data analysis was performed with SPSS with 95% confidence level and bootstrapping of samples (10,000 bootstrap re-samples) was also

conducted. The F-test is used to see the influence of all independent variables (innovation, proactive, and risk-taking) together on the dependent variables (family business success). In addition, a t-test was also conducted to determine whether the independent variables of innovation, proactive, and risk-taking significantly influence the dependent variable, which is the success of family business.

## Results

The result of the F-test (Table 2) shows a value of Sig. 0,000, which indicate the presence of goodness of fit model between all independent variables of innovation, proactive and risk-taking to the dependent variable, namely the success of family business. Furthermore, based on the t-test result (Table 2), the study proves that the variable of innovation and proactive have a positive and significant effect on family business. On the other hand, the variable of risk-taking shows a negative and insignificant effect on the success of family business.

## Discussion

There is a significant effect between innovation and proactive towards the success of family businesses in Indonesia; thus, hypothesis 1 and 2 are proven. On the other hand, the

Table 2 The Result of Regression on the Success of Family Business

	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
(Constant)	1.106	0.483	-	2.29	0.026
Innovation	0.612	0.146	0.604	4.201	0.000
Proactive	0.374	0.122	0.371	3.053	0.004
Risk-taking	-0.229	0.127	-0.205	-1.793	0.079

F = 27.937 (p < 0.01)  
R Square = 0.631

third hypothesis that says risk-taking capability has a significant and positive effect on business succession in Indonesia, has not been proven. The study found that risk-taking actions has a negative and insignificant relationship towards the success of family businesses.

Theories and hypotheses about Entrepreneurial Orientation emerges as an unavoidable choice for businesses who wish to prosper in a competitive business environment (Eggers et al., 2013), which also applies to family business. The unique characteristics of family businesses in Indonesia, in terms of personality, family, ownership, and management system, as well as the increasing strength of technology in family business's operational system, makes family businesses realize that entrepreneurial orientation can help them to maintain business continuity. This study found the EO did lead to improvement in business performance, which supports other findings by previous studies (Engelen et al., 2015; Tang, 2008; Wales et al., 2013; Wiklund, 1999; Zahra (1991).

There is a significant and positive effect between innovation and the success of family businesses in Indonesia. This finding is in line with a study by Donckels and Frohlich (1991) in Braga et al. (2017). They argue that innovation and internationalization arise in family organizations that search to keep the continuity of the business and develop their business to counteract the characteristics of family business cultural rigidity family business supports the society's economic conditions by contributing to employment and trade (Ratten, 2015). Therefore, family businesses always seek for new production process, new business and new markets, with the aim of ensuring the succession of families in the next generation (Nordqvist et al., 2013). Family businesses should be aware

of their business environment and should have the flexibility to adapt on upcoming changes. Family business must create a respectable position in the market and industry and continue to come up with creative innovations to sustain the business and to have a continuous success (Ramadani et al., 2015). Longevity is very important for the family business and for the economy as whole (Ramadani & Hoy, 2015).

There is a significant and positive effect between proactive and the success of family business in Indonesia. This finding is in line with Abubakar and Bambale (2016) finding and a meta-analysis by Rauch et al. (2009), where those studies offer the most comprehensive review of relevant literatures regarding the impact of business performance to entrepreneurial orientation. Of a total of 46 studies in a country, 39 based on western countries (27 from the United States, 9 from Europe, 3 from Australia), which supported one aspect of entrepreneurial orientation, namely proactivity, that influence the success of family business. However, samples from Asia show that only seven studies support that proactive action leads to family business succession (2 from China; 2 from Korea; 1 from Malaysia; 1 from Indonesia; and 1 from Thailand).

Risk-taking capability variable have a negative and significant effect towards family business succession in Indonesia. This finding is supported by a research from Stam and Elfring (2008) who found that the effect of risk-taking action is significantly negative on company's performance. According to Briner (2013), this condition can happen in an active family governance as the influence of EO to the business succession of family businesses is weak. This shows that the greater role and influence of the family business, the greater the risk-

taking ability will reduce business success. Therefore, family business governance must be seen as an important moderating variable in future research. In addition, our finding shows that active family governance creates a friendly environment to see the benefits of innovation, proactive, and risk-taking strategies (Carney, 2005; Pieper et al., 2008; Villalonga & Amit, 2006 and facilitates stewardship (Davis et al., 2010; Sharma & Chua, 2013). Hence, the business will be able to see and feel the positive impacts of their performance (Le Breton- Miller et al., 2015).

On the other hand, there are two contradicting principles regarding Entrepreneurial Orientation: The first principle describes family business as a context in which entrepreneurship develops as a result of kinship and the long-term nature of the business (Ward, 1987; Zahra et al., 2004; Zahra, 2012). While the second principle is that the business is more conservative and inflexible in performing risk-taking actions associated with entrepreneurship and innovation (Autio & Mustakallio, 2003; Morris, 1998; Zahra, 2005; Chrisman & Patel, 2012). This study reflects the second principle, where the family businesses seems to be more conservative and inflexible in taking risky actions related to their business. This finding is strengthened by respondent's description, showing that the composition of the education level is still relatively low, and all family businesses are medium-scale businesses, hence they are still not too dare to take risk in a large capacity. The detailed descriptions of the respondents are as follow: based on the level of education, 5% of the respondents have studied and graduated from universities/ schools abroad, while 95% of them have studied and graduated from universities/ schools in Indonesia. in details,

30% of the respondents graduated from master's degree (S2), 38% graduated with bachelor's degree (S1), and the rest (42%) graduated from high school or equivalent. Looking at the age of the business, 56% of family businesses have run for over 20 years, while 44% of the businesses has run for 5-20 years. When we examine the gender of the business leader, 27% of the leaders are women and 73% of them are men. From the 27% women leaders, 21% of leaders are the second-generation leaders and 79% are from third-generation leaders. While from the 73% of men leaders, 56% started to lead as the second-generation leader, while the remaining 44% became leaders in the third-generation. The variation in the classification of the types of family businesses is not being a special consideration in the discussion of the study, although it seems that it may affect the innovation system and even the mechanism and executive's perception in making risky choices. But, in this study there was no grouping or classification of the family businesses. This condition may cause the risk-taking variable to have a significant negative effect on the success of family businesses in Indonesia.

The findings of this study counter-attack other studies that question the positive effect of EO on the success of family business (Galdeano et al., 2016). Furthermore, it was also stated that only family businesses facing a verge of economic difficulties will be forced to undertake entrepreneurial orientation in its business management model. However, it is important to note that family businesses should consider social-emotional wealth as a key factor of EO in their business.

The managerial implication of innovation, proactivity, and ability to take risks in a family business should be carried out by exploring

their business networks and family bonds, supported by a strong management and their influence on entrepreneurial orientation. For example, in Indonesia, the majority of family businesses are operated by ethnic Chinese families who have strong kinship, so that innovation actions will strongly depend on how the family members interact and act in an entrepreneurial and innovative way.

Another managerial implication is that family businesses with low level of innovation, proactivity and risk-taking actions should consider implementing entrepreneurial orientation culture in their family business, given the amount of interference and involvement of family members in managing the family business. Study's discussion suggests that the businesses create "cases" to show role-modelling and organizational culture on innovation and proactive actions in family businesses. Organizational culture helps create the social context of family businesses and is explained in the literature as inimitable strategic resources embedded in history and family dynamics (Zahra et al., 2004; Barney, 1991). The parenting model and "role-model" play an important role in developing entrepreneurship culture of being innovative, proactive, and risk-taker in the upcoming generation of the family business. Therefore, family governance must be seen as an important moderating variable in future studies related to EO and business success. Exploring the perspectives of second and third generation family is hoped to be done to see whether entrepreneurial orientation has been implemented and has an impact on creating business success. Thus, family businesses are expected to have a set family business governance, hence be able to scale up their business and, at the same time, smoothen the flow of their succession phase to

the next generation. In the future, researchers should study the importance of moderating variable and how it impacted EO and business succession.

The limitations of this study are: Bias in assessment perspective of fellow families and the scale of the family business only focus on second and third-generation middle-scale family business. The variations of family business's industrial classification are not getting a special consideration in this study, although many literatures found that this aspect can influence the innovation system, and even the mechanism and perceptions of the executives in taking risks.

This study found the entrepreneurial orientation is an important strategy to ensure the sustainability and the success of a family business. Through literature review, it is verified that innovation, proactive, and risk-taking behavior are parts of entrepreneurial orientation and they affect the success of family businesses in Indonesia.

Creating entrepreneurial culture through role-modeling of innovation and proactive actions is very important. The culture of an organization will form the social context of family business and is explained in the literature as inimitable strategic resources embedded in history and family dynamics.

Entrepreneurial orientation that is built from innovation and proactive variables have a significant and positive effect on the success of the family business. This shows that innovation and proactive are important aspects that should be considered by family businesses. According to Abubakar and Bambale (2016), innovation and proactive refers to the company's tendency to anticipate and follow-up on future needs. This is done by continuously seeking opportunities that may or may not be related to the

current operating line, introducing new products and services ahead of the competitors, and even eliminating operations related to products and services that have an uncertain future.

Whereas Entrepreneurial Orientation built from risk-taking variable has a significant but negative effect on the success of the family business. Wiklund and Shepherd (2005) in Canteleano et al. (2017) argue that risk-taking

dimension represents the willingness and ability of companies to devote more resources for projects with unexpected results. Respondent's descriptions in this study shows that the composition of respondent's level of education is still relatively low, and the all family businesses are classified as medium-scale businesses. Hence, these businesses may still not dare to take risks in a large capacity.

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