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Exploring the Factors Influencing CEO Successor Selection in Malaysian Small Family Businesses

(Meneroka Faktor-Faktor yang Mempengaruhi Pemilihan CEO Pengganti dalam Perniagaan Keluarga Kecil di Malaysia)

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ABSTRACT

This study extends the understanding of how CEO successor selection occurs in small family businesses, where decision authority is concentrated within the family and formal governance mechanisms are minimal. The objective was to explore the factors influencing CEO successor selection by examining how family, ownership, and business considerations shape the choice of successor. Adopting a basic qualitative research design, this study conducted semi-structured interviews with ten informants from five small family firms, comprising predecessor and successor CEO dyads. Data were analysed thematically through iterative comparison. The findings reveal four interrelated categories of influence: predecessor-related, successor-related, company-related, and external-related factors. Predecessor vision of legacy, trust, religious values, and willingness to transfer authority were central drivers, while successor motivation, early involvement, and experiential competence development strengthened leadership legitimacy. In contrast, rather than determining the selection, company and external factors primarily shaped the timing and formal confirmation of the leadership transition. This study contributes theoretically by conceptualising CEO successor selection as a relational and socially embedded process, thus extending the three-circle model of the family business system. In practical terms, the findings provide small family firms with guidance on more deliberate predecessor and successor preparation, mentoring, and structured transition planning.

Keywords: Family business; CEO selection; intergenerational succession; predecessor CEO; successor CEO

ABSTRAK

Kajian ini memperluas pemahaman tentang proses pemilihan pengganti Ketua Pegawai Eksekutif (CEO) dalam perniagaan keluarga bersaiz kecil yang kuasa membuat keputusannya tertumpu dalam kalangan ahli keluarga dan mekanisme tadbir urus formalnya masih minimum. Kajian ini bertujuan untuk meneroka faktor yang mempengaruhi pemilihan pengganti CEO dengan meneliti cara pertimbangan keluarga, pemilikan dan perniagaan membentuk keputusan pemilihan tersebut. Dengan menggunakan reka bentuk penyelidikan kualitatif asas, kajian ini menjalankan temu bual separa berstruktur dengan sepuluh orang informan daripada lima buah perniagaan keluarga bersaiz kecil yang terdiri daripada pasangan pendahulu dan pengganti CEO. Data dianalisis secara tematik melalui proses perbandingan berulang. Dapatan kajian menunjukkan empat kategori faktor yang saling berkaitan, iaitu faktor berkaitan pendahulu, pengganti, syarikat dan persekitaran luaran. Wawasan pendahulu untuk mengekalkan legasi, kepercayaan, nilai agama dan kesediaan untuk memindahkan kuasa dikenal pasti sebagai pendorong utama. Pada masa yang sama, motivasi pengganti, penglibatan sejak awal dan pembangunan kecekapan melalui pengalaman memperkukuh legitimasi kepimpinan pengganti. Sebaliknya, faktor syarikat dan persekitaran luaran bukanlah penentu utama pemilihan, tetapi lebih mempengaruhi masa pelaksanaan dan pengesahan rasmi peralihan kepimpinan. Dari segi teori, kajian ini mengkonseptualisasikan pemilihan pengganti CEO sebagai suatu proses yang bersifat hubungan dan tertanam secara sosial, sekali gus memperluas model tiga bulatan dalam sistem perniagaan keluarga. Dari segi amalan, dapatan kajian memberikan panduan kepada perniagaan keluarga bersaiz kecil untuk menyediakan pendahulu dan pengganti secara lebih terancang melalui pementoran dan perancangan peralihan yang berstruktur.

Kata kunci: perniagaan keluarga;pemilihan CEO; penggantian antara generasi; CEO pendahulu; CEO pengganti

INTRODUCTION

Family businesses are central to industrial development and economic growth. This applies particularly in emerging economies, where they constitute a large proportion of business establishments (Baron & Lachenauer 2021; Birdthistle &

Hales 2023; Hu 2019; KPMG 2026; Novotná et al. 2022). A family business is generally defined as an enterprise owned and controlled by individuals who share blood ties or hold a dominant ownership stake, typically exceeding 50 per cent of total equity (Baron & Lachenauer 2021; Leach et al. 1990). In Malaysia, micro, small, and medium enterprises (MSMEs) represent 96.1 per cent (1,086,386 firms) of all establishments in 2024 (SME Corp, 2025); more than 70 per cent of these enterprises are family-owned (Ahmad 2022; Buang & Sidek 2013; Yusof 2017). Consequently, small family businesses generate substantial employment and income, serving as a vital engine of national economic growth.

Despite their economic importance, small family businesses remain highly vulnerable to failure, particularly because SMEs in emerging economies commonly operate with limited resources in complex, dynamic, and unpredictable environments (Ayob & Dana 2017; Hu 2019; Miklian & Hoelscher 2022; Mushtaq 2022; Ramdan et al. 2024). One of the most critical challenges they face is leadership continuity, which depends largely on selecting a successor to assume the position of chief executive officer (CEO) (Mahmad Nasir 2026a; Mahmad Nasir & Adham 2026; Rumanko et al. 2021; Steinberg 2021; Yusof 2017). While succession planning has been widely recognised as a strategic mechanism for ensuring organisational continuity (Charan 2005; Johnson et al. 2018; Mahmad Nasir 2026b; Rothwell 2010), many small family businesses lack formal governance structures and structured succession systems (PwC 2018). Consequently, decisions about who ultimately becomes CEO often rest on informal judgements by incumbent owners, making CEO selection a critical yet under-examined task within the succession process. Failure to select appropriately may expose the firm to leadership instability and increase the risk of business discontinuity (Getty 1993).

CEO selection in family businesses differs fundamentally from leadership appointments in non-family firms because, in the former type, decision-making is embedded within kinship relationships and emotional ties (Morris et al. 1997; Yezza & Chabaud 2024). Family members simultaneously act as owners, managers, and relatives, and leadership selection therefore involves not only managerial competence but also trust, identity, and expectations of intergenerational continuity (Barbour 2023). Therefore, selection decisions must balance business needs, ownership control, and family harmony. Should this process be mismanaged, the consequences extend beyond organisational performance to affect both family relationships and business survival (Cambridge Family Enterprise Press 2018).

CEO selection research has primarily examined large corporations, focusing on board preferences, strategic fit, and investor reactions (Abernethy et al. 2019; Gupta & Raman 2014; Liu & Atinc 2020; Quigley et al. 2019). Although these studies provide valuable insights into executive appointments within formal governance settings, they offer limited understanding of successor selection in small family firms, where decision authority is concentrated within the owning family and formal evaluation mechanisms are minimal. Empirical research examining how family, business, and ownership considerations jointly shape CEO selection in small family firms remains scarce, particularly in emerging economy contexts. This represents a significant contextual and theoretical gap in the family business literature.

To address this gap, the objective of the present study was to explore the factors influencing CEO selection in small family businesses. More specifically, this study focuses on how incumbent CEOs evaluate and select CEO successors in small family business settings. Guided by the three-circle model of the family business system as its conceptual framework, this study examines how ownership-, business-, and family-related considerations shape the decision of the incumbent leader regarding whom to appoint as the successor CEO.

This study makes two key contributions. In theoretical terms, it extends the family business research field by explaining CEO successor selection as a relational and socially embedded process, thus extending the three-circle model. This perspective explains how leadership selection emerges from interactions between family, business, and ownership considerations that are embedded within sociocultural and religious frameworks; in doing so, it moves beyond purely economic or governance-based explanations. From a practical perspective, the findings offer owner-managers valuable guidance by identifying the relational and organisational considerations that should inform the decision-making behind the selection process. This enables more deliberate leadership transitions, ultimately strengthen long-term business continuity.

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

FACTORS INFLUENCING CEO SUCCESSOR SELECTION

Research on CEO successor selection has examined the determinants of leadership appointments from multiple disciplinary perspectives, including management (Maciel et al. 2021), strategic management (Jayantilal et al. 2020; Quigley et al. 2019), accounting (Abernethy et al. 2019), psychology (Gomulya et al. 2016), leadership (Fitzsimmons & Callan 2016), and finance (Gupta & Raman 2014). Collectively, this literature demonstrates that CEO successor selection is a multifaceted decision shaped not by a single set of objective criteria but by individual, organisational, and contextual considerations.

From an organisational perspective, studies have emphasised how governance structures and strategic needs can shape CEO successor selection. Board characteristics and evaluative roles influence successor appointment decisions (Gupta & Raman 2014; Liu & Atinc 2020; Maciel et al. 2021), while firm strategy and performance conditions affect the type of leader selected to match competitive orientation (Abernethy et al. 2019; Wang 2016). In corporate environments, investor reactions and ownership structures also affect leadership selection outcomes, particularly in publicly listed firms, where accountability to shareholders is salient (Borokhovich et al. 1996; Tian et al. 2011; Zajac 1990).

At the individual level, CEO successor selection has been associated with personal attributes and signals of leadership suitability. Researchers have highlighted the role of human capital, social capital, and international experience (Fitzsimmons & Callan 2016; Magnusson & Boggs 2006). Psychological and symbolic cues, such as facial appearance and hard-to-fake signals, also affect perceptions of leadership legitimacy (Gomulya et al. 2016; Schell et al. 2019). These findings indicate that leadership appointment decisions involve interpretive judgement rather than purely objective evaluation.

External actors and institutional mechanisms further shape CEO successor selection. Recruitment intermediaries influence candidate identification and screening (Steuer et al. 2015), while cultural norms affect leadership expectations (Jayantilal et al. 2015; Jayantilal et al. 2020). Religiosity has also been demonstrated to influence leadership appointment decisions, particularly in ethically sensitive contexts (Connelly et al. 2020). This suggests that moral frameworks may shape selection beyond economic considerations.

Looking beyond economic and structural factors, sociocultural and religious values are increasingly being recognised as critical drivers in family business decision-making (Li & Kalhor 2023; Erdirençelebi 2026; Barbera et al. 2020). In the Malaysian context, Islamic beliefs deeply inform parental responsibility and business stewardship, framing leadership transitions as a moral obligation rather than a purely commercial choice (Nasution et al. 2021; Mansouri et al. 2026). Concepts such as *rizq* (divine provision) and religious duty often determine how predecessors view their responsibility of nurturing successors, suggesting that leadership selection is frequently embedded in a broader religious and ethical framework.

Although prior research has provided valuable insights, the evidence is dispersed across heterogeneous organisational contexts. Some studies examine publicly listed corporations (Connelly et al. 2020; Magnusson & Boggs, 2006), others focus on professional recruitment processes (Steuer et al. 2015), while several investigate family firms in general (Jayantilal et al. 2020) or selected samples of family businesses (Maciel et al. 2021; Schell et al. 2019; Wu et al. 2020). Collectively, these studies identify relevant attributes and mechanisms influencing leadership appointments. However, they rarely explain how CEO successor selection unfolds within small family businesses, where ownership, management, and family relationships are deeply intertwined, and formal governance mechanisms are minimal.

Closely related to this field is the literature on CEO succession within family business contexts. Research shows that ownership structure and family involvement influence whether firms appoint family or non-family CEOs (Luan et al. 2018; Untoro et al. 2017). Family firms tend to favour internal successors when family control is strong, whereas poor performance increases the likelihood of selecting outsiders (Ahrens et al. 2015; Untoro et al. 2017). Other studies highlight how stewardship perceptions, retirement expectations, and relational tensions affect succession decisions (Ahrens et al. 2015; Collins et al. 2016; Chen et al. 2016; van Helvert Beugels et al. 2020). While informative, this body of work primarily explains who is selected rather than how the decision is socially constructed in everyday family business settings.

Synthesising the literature, factors influencing CEO successor selection can be grouped into individual, organisational, and contextual domains. Nevertheless, the existing research predominantly reflects large corporations or formally governed firms. As a result, there is still limited empirical understanding of how CEO successor selection unfolds in small family businesses, where decision authority is concentrated within the family and where selection processes can be expected to be embedded in relationships, shared values, and continuity considerations. This knowledge gap highlights the need to examine how family, business, and ownership considerations jointly shape CEO successor selection decisions in small family enterprises.

CONCEPTUAL FRAMEWORK

To guide the investigation, a conceptual framework was developed based on the three-circle model of the family business system (Tagiuri & Davis 1992). The model conceptualises a family business as a system influenced by three interrelated subsystems: family, business, and ownership. These represent different roles and interests that coexist within the family business context.

The three-circle model is used here to explain that CEO successor selection in small family businesses is shaped by three corresponding categories: family-related factors, business-related factors, and ownership-related factors. Family-related factors reflect relationships, values, and expectations among family members. Business-related factors encompass operational needs, while ownership-related factors pertain to control, authority, and selection rights.

By applying the three-circle model, CEO successor selection was found to occur at the intersection of family, business, and ownership subsystems. The framework provides a basis for understanding how these interconnected domains influence CEO successor selection decisions in small family firms.

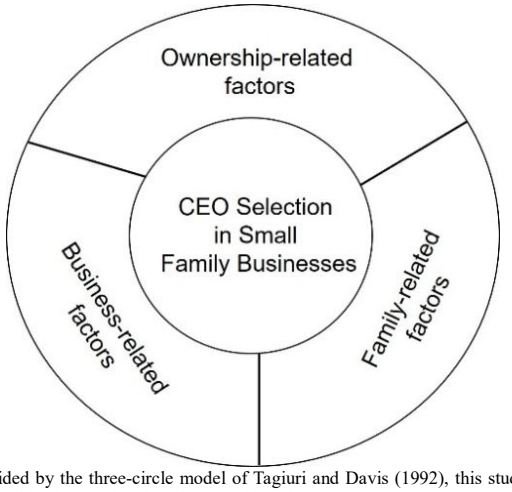

FIGURE 1. Conceptual framework of the study. Guided by the three-circle model of Tagiuri and Davis (1992), this study conceptualises CEO successor selection in small family businesses as being influenced by family-related, business-related, and ownership-related factors.

RESEARCH METHODOLOGY

RESEARCH DESIGN

This study adopted a basic qualitative research design to explore the factors influencing CEO successor selection in small family enterprises. A qualitative approach was appropriate because the aim was to understand meanings, experiences, and decision-making processes from the perspectives of individuals directly involved in CEO successor selection. Basic qualitative research focuses on how people interpret their experiences and how they make sense of social phenomena in specific contexts (Merriam & Tisdell 2016). Given the relational and processual nature of CEO selection in family firms, this design enabled an in-depth examination of interactions between predecessors and successors that could not have been adequately captured using quantitative methods.

SAMPLING STRATEGY

Purposive sampling was employed to select informants with direct, first-hand experience of CEO successor transitions. Two criteria guided the selection of informants. First, the business had to be a small family company whose ownership and management were controlled by family members. Second, the informants had to be directly involved in the CEO transition as either predecessor CEOs or successor CEOs.

In total, ten informants from five Malaysian small family businesses participated in the study, as presented in Table 1. Each case comprised a predecessor and successor CEO, forming a dyadic structure that captured complementary perspectives from both sides of the transition. The dyadic approach strengthened the analytical depth by allowing cross-verification of experiences and interpretations between predecessors and successors.

TABLE 1. Profile of informants

Code	Family Business	Role	Relationship
P1	Orchid Family Business	Founder/ Predecessor CEO	Father to successor CEO
S1	Orchid Family Business	Successor CEO	Son to predecessor CEO
P2	Lavender Family Business	Founder/ Predecessor CEO	Father to successor CEO
S2	Lavender Family Business	Successor CEO	Son to predecessor CEO
P3	Dahlia Family Business	Founder/ Predecessor CEO	Grandmother to successor CEO
S3	Dahlia Family Business	Successor CEO	Grandson to predecessor CEO
P4	Jasmine Family Business	Founder/ Predecessor CEO	Father to successor CEO
S4	Jasmine Family Business	Successor CEO	Son to predecessor CEO
P5	Lily Family Business	Founder/ Predecessor CEO	Father to successor CEO
S5	Lily Family Business	Successor CEO	Daughter to predecessor CEO

Data collection was guided by the concept of saturation. Data saturation was reached by the eighth interview, as no substantially new themes or categories emerged in subsequent interviews. However, two additional interviews were conducted to confirm the stability and consistency of the identified themes. Thus, a total of ten informants were included in the final sample. This approach ensured sufficient depth of data would be obtained while enhancing the credibility of the findings.

DATA COLLECTION

Data were collected through semi-structured interviews. This method was selected to allow flexibility in probing the experiences of participants while maintaining consistency across the interviews. Semi-structured interviews are ideal for

exploring complex organisational and family-related phenomena, as they enable informants to elaborate on their interpretations of events and decisions.

All interviews were conducted individually at the business premises of the respective firms. The interviews focused on experiences: those of predecessors regarding succession decision-making and those of successors concerning succession. Through these experiences, the factors influencing the CEO successor selection process were identified and interpreted. The ten interviews generated approximately 23 hours of interview data, with the individual interviews lasting an average of 2 hours and 18 minutes. Interviews were audio-recorded with each participant's consent and transcribed verbatim to ensure accurate data capture. To maintain confidentiality, pseudonyms were assigned to both the informants and their respective firms.

DATA ANALYSIS

Analysis was conducted concurrently with data collection, with the researcher serving as the primary instrument for data interpretation (Merriam & Tisdell 2016; Wa-Mbaleka 2020). Guided by the study's research objective and conceptual framework, an abductive approach was employed to synthesise inductive interpretations from the data with deductive references to *a priori* concepts.

Each interview transcript was reviewed repeatedly to achieve familiarity. Transcripts were imported into ATLAS.ti software for initial open coding to identify preliminary concepts related to the factors influencing CEO selection (e.g., trust in successor capability, early involvement, and managerial vacancy).

Second, axial coding was performed to group these codes into broader categories or themes: predecessor-related, successor-related, company-related, and external-related factors. The outcomes were constructed as a thematic map of emergent themes and sub-themes, as presented in the ATLAS.ti diagram in Figure 2 in the Findings section.

STRATEGIES FOR RELIABILITY AND VALIDITY

Four main strategies were employed to enhance the validity and reliability of the study. First, credibility was strengthened through the use of a dyadic interview approach, which incorporated perspectives from both the predecessor and successor CEOs of the same company. This enabled interpretation cross-checking and improved the robustness of the findings.

Second, the interview protocol was developed based on the conceptual framework, which was grounded in Succession Process Theory and the Three-Circle Model of the Family Business System. This framework established the analytical lens and scope of the study, ensuring that the data collected remained aligned with the research objectives and thereby enhancing construct validity.

Third, an audit trail was maintained throughout the research process, including interview transcripts, coding procedures, and analytic notes. This supported dependability by allowing a transparent and systematically documented research process. Fourth, to enhance confirmability, data interpretation was grounded in verbatim quotations from informants, ensuring that the findings reflected the experiences of participants.

FINDINGS

The analysis identified four categories of factors influencing CEO successor selection in small family businesses: predecessor-related factors, successor-related factors, company-related factors, and external-related factors. These factors reflected three interconnected decision-making domains: relational considerations within the family, legitimacy and authority within ownership, and contextual conditions within the business. Therefore, CEO successor selection did not occur as a single evaluative decision; instead, it emerged as an ongoing social judgement constructed through the interaction of family relationships, ownership authority, and operational needs.

PREDECESSOR-RELATED FACTORS

Predecessor-related factors emerged as the most influential in shaping the CEO selection process in the small family businesses included in this study. These factors include the predecessor's vision of business continuity as a family legacy; emotional attachment to the business and brand; trust in the successor; the predecessor's religious values; willingness to transfer managerial authority; and ongoing guidance provided to the potential successor through open communication.

Business continuity as family legacy - A central factor was the predecessor's vision of the business as a legacy to be continued by the next generation. Predecessors expressed concern about the sustainability of their business if it were to be transferred to non-family members, and they emphasised the importance of preserving the brand and family ownership. One predecessor explained that advancing age and declining physical capacity had motivated his decision to prepare his children as successors in order to protect what had been built over the long term:

"It's time for my children to take over this business because I'm almost 60 years old. We already have a few strawberry-based products under our own label, Bintang, so it will be a loss if our children as the new generation do not continue what we have been working on. My wife and I had planned for our children to take over and manage this business." [P5]

Emotional attachment to the business and brand - Closely related to this legacy vision was the predecessor's emotional attachment to both the business and the brand. The former was viewed not merely as an economic asset but also as the outcome of long-term effort and sacrifice. Holding this perception strengthened the desire to entrust leadership to a family member who could protect and sustain the firm's identity.

Trust in successor capability - Trust in the successor also played a decisive role in CEO selection. Predecessors evaluated successors based on the latter's observable behaviour, work ethic, and demonstrated capability in managing business operations. One predecessor highlighted that her confidence in her daughter's leadership stemmed from the latter's ability to manage multiple business units and her diligence regarding daily tasks:

"She is hardworking. I put a lot of hope on her to take over and manage this company. For Syazana, I see from the way she carries herself; I have confidence in her. Because she is able to manage our homestay and café businesses at the same time, and I see her as very diligent." [P5]

Religious responsibility in nurturing successors - The religious values of predecessors also influenced how they nurtured potential successors. Islamic beliefs guided their sense of parental responsibility in educating and preparing their children for future leadership positions. This involved supporting their children's education and gradually equipping them with relevant business management knowledge and skills while simultaneously recognising that the outcome ultimately depended on divine provision:

"We have tried our best. Alhamdulillah, our children are successful in terms of studies. InshaAllah there is a place for them in this company to work. We have tried, but it depends on the rizq (sustenance) God has given." [P2]

Gradual transfer of authority - Another important factor was the predecessor's willingness to transfer managerial authority to the successor. Rather than maintaining full control, some predecessors deliberately yielded their operational responsibilities once they perceived the successor to be capable. One predecessor described formally relinquishing management while retaining ownership:

"I have handed over this business to her, in terms of management. I have handed over all the affairs of my company to her. At this time, the ownership of the company still belonged to my wife and me." [P2]

Ongoing guidance through open communication - Beyond transferring authority, predecessors remained involved through providing guidance and technical support to potential successors. They assumed an advisory role and assisted when successors encountered difficulties. During this process, open communication between parent and child facilitated continuous learning and problem-solving within the business. One predecessor described the process:

"At first, I have handed over the management to my first son. Actually, it did not work out. Then, I met up with my siblings, who knew my children personally, as they watch them grow. These conversations eventually led me to decide that my second son must take over the management of the company. I also talked to the suppliers who further convince me on appointing my second son. But before making the appointment, it took a lot of efforts of me and my wife to convince my second son to take over." [P1]

Overall, predecessor-related factors demonstrate that successor selection was driven not only by assessments of candidate competence, but also by the predecessor's interpretation of legacy, trust, moral responsibility, and relational continuity. Accordingly, the decisions reflected a guided process of intergenerational transition rather than a simple replacement of managerial personnel.

SUCCESSOR-RELATED FACTORS

Successor-related factors played a pivotal role in shaping the CEO selection process across the studied family enterprises. These factors comprised the successor's motivation to assume the leadership role; competence development through continuous training and hands-on experience; early involvement in the business; and demonstrated interest in and affective commitment to the family enterprise.

Motivation to assume leadership responsibility - Motivation to accept the CEO role was influenced by both monetary and non-monetary considerations. Successors were encouraged by the predecessor's assurance that the business could provide

a stable income if properly managed, as well as by the opportunity to eventually become the firm's leader. However, leadership was not transferred immediately, being developed gradually through progressive learning and increasing responsibility. One successor explained that his decision to join the business was motivated by the prospect of future financial returns and the symbolic status of becoming the leader, although he had initially underestimated the demands of the role:

"Most importantly, my father told me that this business could make money and that I had to do the work that would basically make me the boss. So, from there, I think it's good that I can be the boss. But when I go to work at my father's company, I have to start from the bottom. I can't straight away hold a high position because I have no experience. I started from the bottom." [S4]

This indicates that willingness to assume responsibility was interpreted not as entitlement to authority but as commitment.

Competence development through practice - Beyond motivation, successors developed managerial and technical capabilities progressively through continuous training and hands-on experience. Rather than relying solely on formal education, successors enhanced their managerial and technical competencies while performing the job. They did so by participating in training programmes organised by external agencies and by working directly in operational roles. One successor described how his exposure to farm work and participation in government-supported courses equipped him with practical and managerial knowledge:

"When I first joined this company, I started by working at the farm. I work as a labourer at our strawberry farm. I also joined courses to learn more about farm management. I joined many courses organised by the Department of Agriculture, FAMA, about agriculture, marketing, online sales, and entrepreneurship, and I learned about the preparation of a business plan. I have applied much of what I've learned to my business." [S4]

Therefore, capability was demonstrated through applied experience rather than merely via, or in addition to, academic credentials.

Early involvement and tacit learning - Early involvement in the business also strengthened the legitimacy of successors as future CEOs. Some had been assisting their parents in daily business operations since adolescence, enabling them to acquire tacit knowledge and familiarity with business routines. One successor highlighted her long-term involvement in the business before formally assuming managerial responsibility:

"After completing my bachelor's degree in 2019, I helped my parents manage this business. But even before this, I did help my parents in the daily operations of the company. Even right after SPM, I have already helped my parents manage in their business." [S5]

Such early exposure allowed leadership capability to be evaluated over time by the predecessor.

Interest and affective commitment to the business - A successor's demonstrated interest in and passion for the business further influenced the predecessor to select him or her as CEO. Successors exhibiting genuine enthusiasm and willingness to continue the family enterprise were more likely to be considered by the predecessor as suitable leadership candidates. Thus, interest functioned as evidence of readiness to sustain the family business. As one successor noted, her involvement increased after the predecessor recognised her interest in the business:

"After I finished my studies, when my father saw that I showed interest in this business, then I continued to take over the management of the company." [S5]

Overall, successor-related factors indicate that legitimacy for CEO selection emerged developmentally. Readiness was constructed through motivation, experiential learning, prolonged involvement, and affective commitment. Rather than relying on formal education qualifications alone, predecessors interpreted these behaviours as proof that the successor was capable of continuing the business.

COMPANY-RELATED FACTORS

Company-related factors also influenced the CEO selection process in the small family firms included in this study. These factors comprised managerial vacancy and continuity needs, operational instability, the absence of alternative candidates, and the level of organisational structure within the firm.

Managerial vacancy and continuity needs - The need to appoint a successor was triggered by the impending departure of key managerial personnel, such as general managers or senior staff. Anticipation of this departure might prompt the

predecessor to identify a replacement to ensure the continuity of daily operations. Under such circumstances, family members were considered suitable candidates due to their availability and familiarity with the business. Therefore, CEO selection often functioned as a continuity mechanism rather than solely a formally planned succession decision.

Operational instability and performance pressure - Financial and operational difficulties also accelerated leadership decisions by predecessors. Periods of declining performance, unresolved internal issues, and business uncertainty increased the urgency to appoint or replace a predecessor. In such situations, predecessors prioritised stabilising operations over long-term developmental preparation. Thus, organisational conditions shaped the CEO selection timing more than the choice of successor did. As such, CEO selection might represent a response to organisational pressure rather than a purely strategic transition.

The absence of alternative candidates - The lack of suitable non-family employees within a firm further shaped the decision to appoint family members to management roles. In all the small family businesses included in this study, managerial expertise was concentrated within the family, making external recruitment impractical. As a result, potential successors were drawn from family members who were available and already involved in operations. This condition reinforced the preference for internal succession.

Level of organisational structure - The influence of company-related factors varied across firms. Those with semi-formal structures and non-family employees exhibited stronger operational considerations in regard to leadership transitions. In contrast, micro and informally managed firms relied primarily on the relational judgement of the predecessor.

Overall, company-related factors acted as contextual triggers rather than primary determinants, influencing when a transition occurred without dictating who was chosen. The final decision remained grounded in family and ownership considerations.

EXTERNAL-RELATED FACTORS

External-related factors were also observed to influence the CEO selection process in the small family businesses involved in this study. These factors comprised performance feedback from business partners; monitoring information from suppliers, auditors, and business associates; and informal consultation with experienced peers.

Performance feedback from business partners - Suppliers, auditors, and business associates acted as indirect monitoring agents, alerting predecessors to financial and operational issues under a successor's management. Such feedback alerted predecessors to performance problems and influenced subsequent leadership decisions. External parties, therefore, contributed evaluative signals that shaped the confidence that predecessors had in their successors.

Monitoring information and decision adjustment - Information provided by external actors sometimes led to a predecessor’s reconsideration of a leadership arrangement, which might extend to replacements or adjustments to responsibilities. However, these actors did not directly participate in the decision-making process. Their role remained informational rather than authoritative. In several instances, suppliers played a monitoring role by informing a predecessor about financial and operational issues, such as pending payments due from the company. This information alerted the predecessor to business performance problems under the successor’s management, and it might influence subsequent leadership decisions, including the termination or replacement of the successor CEO. In this sense, suppliers indirectly shaped CEO selection by providing performance-related signals that guided the judgement of predecessors.

Informal consultation with experienced peers - Predecessors sought opinions from trusted peers operating in the same industry and who had implemented similar succession arrangements. Such peers provided experiential knowledge that enabled predecessors to evaluate alternative approaches and validate their own succession decisions. One predecessor explained:

“In addition to my wife and children, I also discussed the plan to hand over the business to my son with my close friend, because my friend also did the same thing, where he also handed over his business to his son.” [P4]

Peers served as reference points for reflection and confirmation rather than decision-makers. Overall, external-related factors played a supportive role in the CEO selection process. They provided validation and information that shaped the judgement of predecessors but did not determine the final decision. Authority over CEO selection remained fully within the family. Figure 2 maps the emergent findings related to the factors influencing CEO successor selection.

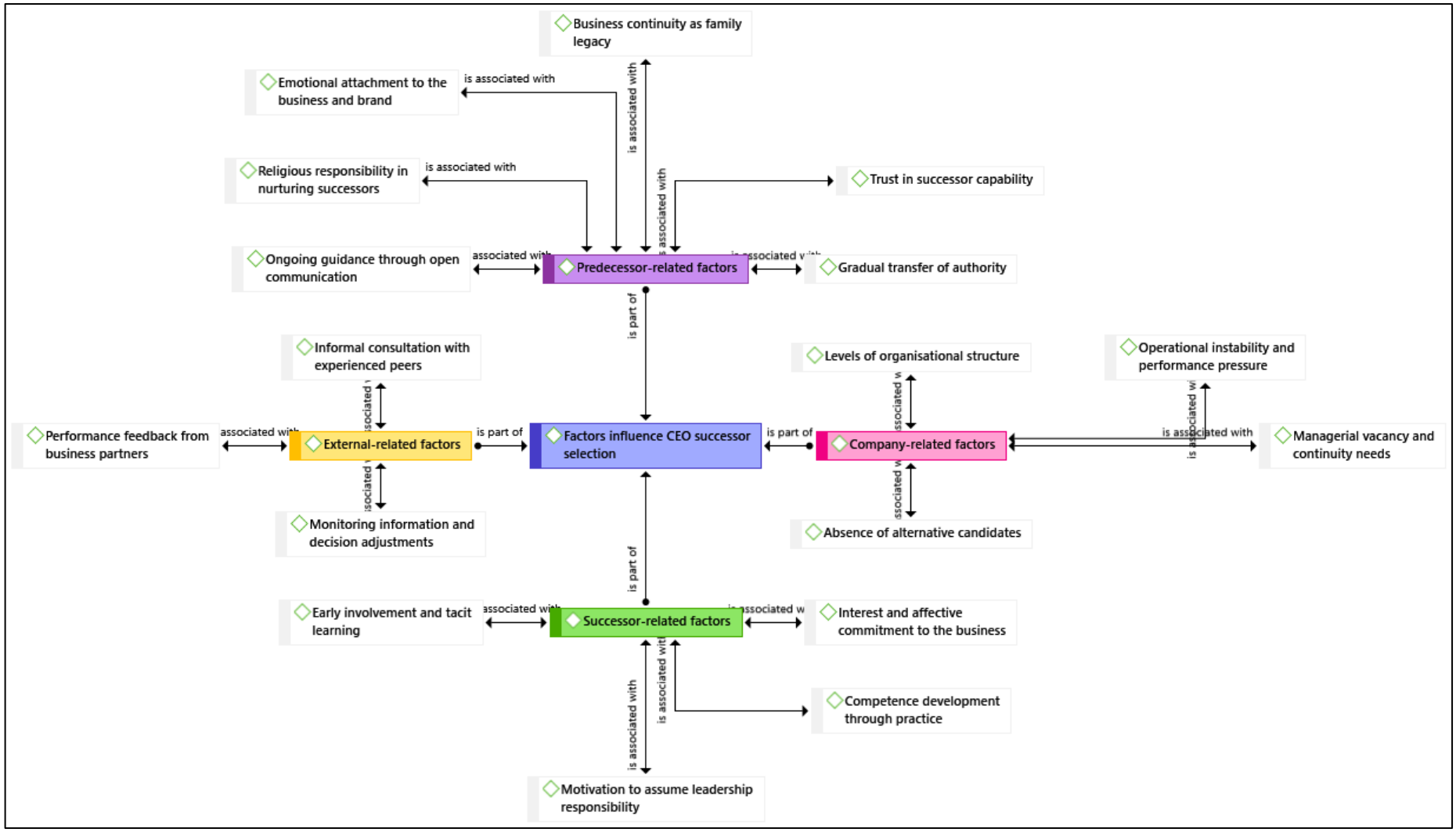

FIGURE 2. Thematic map of the factors influencing CEO successor selection in small family businesses, derived from thematic analysis and visualised using ATLAS.ti

DISCUSSION

This study explored the factors influencing CEO successor selection in small family businesses. The findings show that this process is shaped by four interrelated categories: predecessor-related, successor-related, company-related, and external-related factors. However, these do not operate independently. Instead, they reflect the interaction of three institutional domains within family firms: family relationships, ownership authority, and business operations.

This pattern corresponds closely with the three-circle model of family business, in which decisions emerge at the intersection of family, ownership, and business systems. Predecessor- and successor-related factors were primarily embedded within the family and ownership spheres, determining who was considered an appropriate and legitimate successor. Company-related factors influenced the business sphere by shaping when leadership transition became necessary, while external-related factors acted as a firm's social validation mechanisms. Thus, CEO selection did not occur as a discrete managerial appointment but as an ongoing judgement constructed through overlapping family, ownership, and organisational logic.

Within the family sphere, the findings demonstrate that CEO selection was fundamentally relational. Predecessors relied on long-term observation, emotional attachment, and value-based judgement rather than formal evaluation criteria. Businesses were interpreted as intergenerational legacies, and successor suitability was assessed through trustworthiness, responsibility, and identity continuity. This supports prior research suggesting that successors are often chosen based on loyalty and the preservation of family values rather than formal qualifications (Basco & Calabrò 2017; Lu et al. 2021). Therefore, leadership transition represents continuity of the family institution rather than a replacement for a managerial position.

Within the ownership sphere, legitimacy was gradually developed rather than formally granted. Motivation, early involvement, experiential learning, and affective commitment functioned as signals that a successor had earned the right to control the firm and inherit its management. Authority transfer occurred progressively, beginning with operational responsibilities before ownership recognition was acknowledged. This aligns with studies emphasising that experiential learning and early exposure are preparation mechanisms for successors (Monticelli et al. 2025; Stawnychko 2025). Thus, many selection decisions were reciprocal, emerging from a perceived fit between predecessor expectations and successor behaviour rather than unilateral founder choice.

Within the business sphere, company-related factors influenced the timing of succession rather than the identity of the successor. Managerial departures, operational instability, and a lack of alternative candidates created an urgency that accelerated leadership transitions. Succession was therefore event-triggered rather than plan-driven. External actors such as suppliers, auditors, and business peers further reinforced decisions by providing feedback and reassurance. Their role was confirmatory rather than authoritative, indicating that successor legitimacy in small family firms can also arise through social endorsement rather than formal governance structures.

An important contribution of this study is the role of religious values in shaping decisions across all three domains. Islamic beliefs guided parental responsibility in the family sphere, trust formation in the ownership sphere, and acceptance of outcomes through the concept of *rizq*. Succession was interpreted as stewardship rather than entitlement, demonstrating that leadership selection is embedded in moral reasoning rather than purely economic rationality.

IMPLICATIONS

Building on the foregoing discussion, this section outlines the study's theoretical and practical implications. These are presented in two parts, focusing first on the theoretical contributions and subsequently on their managerial and policy relevance.

THEORETICAL CONTRIBUTIONS

This study contributes to the family business and succession literature in several important ways. First, it advances the understanding of CEO selection by demonstrating that leadership selection in small family businesses is not a discrete decision event; instead, it is an ongoing relational process constructed through long-term interaction between predecessor and successor. Rather than being determined by formal evaluation criteria, CEO selection emerges through a perceived alignment between a predecessor's expectations and their perceptions of the successor's behaviour and competencies. This refines succession process theory by demonstrating that leadership appointments are socially constructed through ongoing interaction and deliberation, rather than dictated by rigid administrative procedures.

Second, the findings provide an empirical elaboration of the three-circle model of the family business system. The study shows how the family, ownership, and business subsystems operate simultaneously in CEO selection. Family considerations shape perceptions of successor appropriateness, ownership considerations establish the legitimacy of the authority of the successor, while business conditions trigger the transition timing. By demonstrating how these subsystems jointly produce a leadership decision, the study extends the three-circle model from a descriptive framework into an explanatory mechanism for strategic leadership selection.

Third, the study contributes to the strategic management literature by explaining CEO selection as a mechanism of strategic continuity. In small family firms, leadership choices prioritise the preservation of organisational identity and stability rather than the optimisation of managerial efficiency. Consequently, strategy in small family enterprises stems from intergenerational institutional continuity rather than purely economic selection logic. This provides an alternative explanation to conventional leadership selection models that assume rational performance maximisation.

Fourth, the study introduces moral and religious values as active analytical dimensions in succession decisions. The Islamic beliefs of predecessors informed parental responsibility, trust formation, and the acceptance of outcomes through the concept of *rizq* (divine provision). Thus, CEO selection is also shaped by value-based reasoning. This extends succession research beyond economic and governance explanations by incorporating sociocultural and moral logic into leadership decision-making in small family firms.

Finally, by focusing on small family businesses, the study addresses an important contextual gap in the literature, which has been dominated by large or professionally governed firms. The findings demonstrate that leadership selection in small firms relies primarily on informal legitimacy, experiential validation, and relational trust, rather than on formal governance mechanisms. This establishes a foundation for future comparative research across firms of varying size and with different governance structures.

MANAGERIAL IMPLICATIONS

From a practical perspective, the findings have several implications for family business owners, successors, and policy stakeholders. For predecessor CEOs, the study highlights the importance of viewing succession as a gradual legitimacy-building process rather than a final appointment decision. Preparing successors through early involvement, mentoring, and progressive responsibility transfer allows legitimacy to develop naturally across the family and ownership domains. Predecessors should manage succession as a staged transition instead of postponing it until operational urgency arises.

For successors, the findings indicate that leadership acceptance depends not only on technical competence but also on behavioural consistency, responsibility, and commitment to the family enterprise. Continuous participation in business operations, openness to learning, and demonstration of accountability strengthen perceived legitimacy. Therefore, successors should focus on long-term involvement and capability development in addition to educational qualifications.

At the organisational level, small family businesses should recognise that operational crises frequently trigger succession decisions. Even simple succession guidelines, such as phased authority transfer and role clarification, can help reduce uncertainty during transitions. Structured preparation can be embedded within daily business routines.

The study also highlights the role of external actors as informal validation mechanisms for a predecessor's CEO selection decision. Suppliers, auditors, and business peers provide performance signals that influence predecessor confidence. Maintaining constructive external relationships improves the predecessor's decision quality without diluting family ownership control.

For policymakers and support agencies such as SME Corporation Malaysia (SME Corp), the National Entrepreneurship Institute (INSKEN), the Council of Trust for the People (MARA), or TEKUN Nasional, succession programmes should move beyond technical training to incorporate relational and intergenerational communication skills. Alongside managerial competency programmes, policy agencies should implement modules focused on trust-building, gradual authority transfer, and structured intergenerational dialogue.

Overall, these findings emphasise that effective succession requires alignment between family relationships, ownership authority, and operational needs. Recognising this interaction would allow family firms to design more realistic and context-sensitive leadership transition strategies.

CONCLUSION

This study explored the factors influencing CEO successor selection in small family businesses. The findings demonstrate that this selection process is shaped by four interrelated categories: predecessor-related, successor-related, company-related, and external-related factors. Predecessor and successor factors primarily determine successor appropriateness and the legitimacy of the new leadership. Meanwhile, company factors influence the transition timing, and external factors provide necessary validation.

By interpreting these findings through the three-circle model, the study shows that CEO selection emerges from the interaction of family relationships, ownership authority, and business conditions, thereby extending the model. Leadership transition does not occur as a single managerial appointment but as a socially embedded judgement process developed over time. Crucially, the study also reveals the influence of external factors, such as feedback from suppliers, auditors, and business peers, which function as social validation mechanisms surrounding a firm. Despite these external actors lacking formal decision-making authority, they significantly influence the process by providing performance signals, experiential knowledge, and reassurance that might reinforce the predecessor's judgement and legitimise the successor.

The study contributes theoretically by explaining CEO selection not as managerial replacement but as a mechanism of strategic continuity. Leadership choices are primarily driven by the optimisation of successor competence and the

preservation of organisational identity across generations. The findings also highlight how moral and religious values shape succession decisions, extending the existing research beyond economic and governance explanations.

Overall, CEO selection in small family businesses represents an adaptive process in which relational legitimacy determines who leads and organisational conditions determine when transition occurs, while external social validation confirms the decision. Understanding succession in this way provides a more realistic explanation of leadership transition in small firms. This is because leadership choices are embedded in family interaction and reinforced by external networks, rather than determined solely by formal managerial evaluation.

Building on this relational interpretation, future researchers could further examine the internal family dynamics underlying succession decisions. In-depth studies might explore how family relationships, emotional attachment, shared identity, and intergenerational expectations shape perceptions of successor legitimacy and readiness. Such work would help explain how variations in family structure, communication patterns, and authority dynamics influence leadership transition outcomes across generational stages. Investigating these processes would contribute to a deeper understanding of family-based relationships and resources, known as 'familiness' (Habbershon & Williams 1999; Mahmad Nasir et al. 2026; Mahmad Nasir & Adham 2023a; Mahmad Nasir & Adham 2023b), by clarifying how the family subsystem actively constructs, negotiates, and stabilises succession decisions, thus constituting the contextual background of such decisions.

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