

# Exploring the Connection Between Entrepreneurship and Family Business in Indonesian Family SMEs

Kussudyarsana<sup>1</sup>, Muhammad Halim Maimun<sup>2</sup>

Universitas Muhammadiyah Surakarta

<sup>1</sup>Kus165@ums.ac.id, <sup>2</sup>halim.maimun@ums.ac.id

## Abstract

Family business is an important business entity that contribute to the world economy, including Indonesia. This study explored the linkages between family business and entrepreneurship in Indonesia. Several business aspects where investigated in this study included financial and human capital, and business governance. Purposive sampling will be used as a sampling design of this research. The Samples of this research are the entrepreneurs who start the business. This research will use mixed method, combine between qualitative and quantitative research. In here, qualitative method is conducted through interview and focuses group discussion, while quantitative method with questionnaire. Some question about the activities and resources during business start up were asked to them. During the process interview, the explanations were recorded and some critical information was outlined, and re-writes in paper work.

**Key words:** entrepreneurship and family business, Indonesia

## INTRODUCTION

Study about how family contributes to entrepreneurship is important to conduct. Many scholars are lack of attention toward potential support of family relationship in new venture teams (Brannon, Wiklund & Haynie 2015). Whereas, entrepreneurship cannot be separated from family institutions (Aldrich & Cliff 2003). It can be seen a lot entrepreneur born from self employed family (Ronstadt, 1984; Dyer, 1992), and some entrepreneurs came from certain ethnic and family create new business and occupied market (Steier, 2001). Many big companies in the world come from family business. Also, start new venture need support from other people including family. However, all those phenomena need verification and explanation: is there success business determined by entrepreneurs itself or there are any interfere from family that influences that success?

There is no doubt, investigating role of family in success business start up is challenging. First of all, measuring success business is complicated (Chakravarty, 1986), since many definitions associated with concept of success business. In addition, investigation of role family in business start up need multidisciplinary approach because several variable in this research involving variable from several discipline. Determine the family as causal variable of success business is not simple matter, because many factors probably interrelate to influence the performance of new venture. How to ensure that success came from contribution of family not from other factor is big problem. However, Dyer (1994, 2006) stated those entrepreneurship fields need more exploration about the role of family in business start up especially in how certain familial capital can be obtained and developed.

The family is viewed have big contribution to the entrepreneur because in family inhibit values that support the progress of business. Kepner (1983), said that in the family people can fulfill social and emotional needs. Social and emotional need include sense of belonging, sense of identity, intimacy need, and identity and autonomy needs. Gallo (2001) stated that in family some values like love, trust and freedom are developed. Commitment of family member is shaping

unity of family and giving Great Spirit to success. The role of family in entrepreneurship is being re-actualized since the scholars convey the concept of social capital and network perspective. The issue of family and social capital is important because family is the source of social capital. Social capital is resources embedded in relationship (Tsai & Ghosal, 1998; Coleman, 1988, Burt, 1992). Moreover, the connection between the members of family, shape the network. By this network, the resources can be utilized by entrepreneur (Anderson and Dodd, 2002).

However, the connection between entrepreneurship and family is not a new topic in entrepreneurship field because several scholars have investigated this topic. For example exploration of entrepreneurship and family business (Dyer and Handler, 1994), the resources contribution of parent toward entrepreneur (Aldrich, Renzulli, Langton, 1998), research of family embeddedness in entrepreneurship (Aldrich and Cliff, 2003), family member in entrepreneurial network (Anderson and Dodd, 2002), the role of family toward entrepreneurial career (Dyer, 2004). Although many researches concern to the contribution of family toward entrepreneurship, but still rest the question about the contribution of family in area business start up. Aldrich et al (1998) ever showed the small contribution of family toward entrepreneur in business start up, but they did not touch the relationship between family and success business start up. Reversely, some researchers conducted in area of business start up for example Carter et al (1996) Gartner et al, (1998), Watson et al (1998), Harada (2003), and Au (2006). However most of them didn't link success business start up and contribution of family.

The issues that need attention to be investigated are resources and mobility resources in business start up, and how these matters are facilitated by the family in the process business start up. In the literature of organization, resources are very important to the organization objective (Ansof, 1965). By optimizing resources, organization can create and deliver value (Hitt & Ireland, 1986). However, in the context of business start up, the important of resources is still debatable, since many entrepreneurs start the business with lack of resources (Aldrich et al, 1998). In one side, several scholars argue that several resources like financial resources, and physical resources must be present in the business start up, but the other side said oppositely. Dunn and Holtz-Eakin (1996), found that level of personal asset cannot motivated people to start the business. Aldrich et al., (1998) found that financial and physical capital, were not significant barrier that obstruct people to start the business.

The other issues that need to consideration are relationship between resources, resources mobility, survival and success of business start up. According to Gimeno et al., (1997), survival and business performance is different term. The venture might be have poor performance but survive, because the employer does not want to close the business, if they have strong motivation to keep the venture survive. Obviously, the survival of the company is depending on the level of the threshold of performance (Gimeno et al., 1997). Nevertheless, the good performance more related to survival business status than poor business performance. This research indicate different pattern between several resources, and resources mobilization toward status survival and performance. The researcher predict some resources such as finance, physical and labor are more related to the status of survival of business start up, while the other resources like entrepreneurial capacity of entrepreneur closer to business performance. Resource mobilizations are also more related to venture performance. Thus, the family can influence survive and success of business start up by providing resources and mobilize resources but with different pattern.

The latest issue is the success business start up depend on individual factor or influenced by their environment. This is important, because there are two opinions about the success business of entrepreneur. First, the success is determined by individual, and secondly by the interaction

individual and their environment. In the first stream, entrepreneur is described as a people that have independent character, autonomous, and risk taking. For example, Brockhaus & Horwitz, (1985) describe the entrepreneur has several personalities such as need for achievement, internal locus of control, high risk taking propensity, and tolerance for ambiguity. It is opposite with the tendency in networking theory and social capital where entrepreneur will be supported by member of family to gain the success business.

To searching the role of family in business start up the researcher is developing some research questions. The questions are following: (1) is there family influence the decision starting business start up?; (2) what are activities that entrepreneur doing along business start up; (2) what are resources that entrepreneur need during business start up?; (3) what are resources and activities (resources mobilization) that family offers to entrepreneur in business start up? (4) Are there resources and activities that family support contributes to success of business start up? (5) How are the pattern resources and resources mobilization (activities) toward success and survive of business start up?

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The literature explaining the contribution of family in business can be found in social capital (Steier,2001), networking perspective (Birley,1985) and resource based (Aldrich,1998; Kim,2003). Steier (2001:pp 260), said” In essence, it represents the ability of people to work together”. Social capital have been recognized for long time in field of sociology (Portes, in Steier, 2001), and re-actualized in management field in the context of alliance and networking (Steier,2001). Anderson et al. (2005) noted that there have been rising tendency of the importantly of familial networking to the entrepreneurship. In entrepreneurship, social networking is very important, because having social capital enable entrepreneur to accessing knowledge, getting support, and selling the product (Hansen, 1995 in Greve and Salaff, 2003). Family have important role, because entrepreneur can use the family network to help and support them. According to resource base, people need and use resource to start, and build the business to survive and get success business. Success entrepreneur will tend to deliver their wealth and experience to their children (Nee & Sanders,1996; Kim, 2003).

Some of scholars documented the contribution of family in business. Some contributions of family can be found in process start-up, survival and growing the business. Aldrich and Waldinger, (1990) also Steier and Greenwood (2000) in Aldrich and Cliff (2003) recorded the contribution of family member in the process of start-up in the context of financial support. Aldrich and Cliff (2003), Alistair et al. (2005) suggested the significant contribution of family toward entrepreneur by utilize the resource during the start up. Aldrich, Langton (1998) documented the support of the family in human resources and physical resources. Alistair et al (2005) noted the role of family is not only in the process build the venture but also included the execution of the strategies, processes, and structures. In addition, they said that the entrepreneurial of family member influence to the value, attitudes and norm of business. Dyer and Handler (1994) proposed four intersections between family and entrepreneurship namely: (1) early experiences in the entrepreneur’s family of origin; (2) family involvement in the entrepreneur’s start-up activities; (3) employment of family members in the entrepreneurial firm; and (4) the involvement of family members in ownership and management succession.

### Business Start Up and Decision to be Entrepreneur

One of critical step in entrepreneurship is start the business. According to the literature, several authors use some different name regarding that activity (Liao, et al, 2005). Some scholars

using term” venture creation” like Weick (1979), Gartner (1985), and others use business start up for example Van de Ven, (1984), and Gatewood (1990). Other terms with same meaning are organizational emergence (Gartner, Bird & Starr, 1992), and firm gestation (Reynolds & Miller, 1988). Basically, they refer to the same meaning, creating new business or organization to get profit, that involve motivation to start and getting first sale (Gatewood, et al, 1995).

Business start up is core of entrepreneurship step, because it can distinct entrepreneur and employee. Bygrave said “Entrepreneur is someone who perceives opportunity and creates an organization to pursue”. Base on that definition we can say that people can be categories as entrepreneur when they start the business. Not all people that intend to start business implement their intention. Only some of them take action and flag their business to become business founder. However, according to Katz (1990), there are three categories of entrepreneur: *aspiring*, *nascent*, and *fledgling entrepreneur*. *Aspiring*, reflect the high motivation to become self employed. *Nascent* entrepreneur are “those persons currently taking explicit steps to start a new business”, (Reynolds & White, 1997: 40). Finally, the *fledgling* entrepreneur is the person who establishes business. Even though both definition look different, but actually only different perspective.

Start business or to be entrepreneur is very hard decision, and sometimes frightening. One of the reasons that make people afraid to be entrepreneur is risky and uncertainty that embedded to the entrepreneur. More over start the business need to access finance and market, also knowing how to run the business process. It needs match energy, high spirit and motivation to overcome the obstacles of the business. McClelland (1965), illustrated the role of parent in nurturing, and provide the conducive environment in family, upbringing children who have high need for achievement; Ronstad (1984) and Dyer (1992), point out the tendency the parent background influence the children to become entrepreneur. Dalton and Holdaway (1989) in Dyer and Handler (1994) reported that entrepreneur got encouragement from their family to engage entrepreneurial behavior. It predicts that parent background influence the aspiration to be entrepreneur:

***H1: The parent background has influence the propensity to be entrepreneur. The people that their parent background are entrepreneur more easy to decide to be entrepreneur than the people that their parent not entrepreneur.***

### **Resources, Mobility Resources, Performance and Survival Status**

The next important aspect in the business start up is the resources. In the literature of organization, resources are very important to the organization objective (Ansof, 1965). By optimizing resources, organization can create and deliver value (Hitt & Ireland, 1986). Resources are very important because they contribute significantly to the business success. According to Barney (1991), several resources divided into three group: physical capital resources (Williamson, 1975), human capital resources (Becker, 1964), and organizational capital resources (Tomer, 1987).

However, in the context of business start up, the importantly of resources is still debatable, since many entrepreneurs start the business with lack of resources (Aldrich et al, 1998). In one side, several scholars argue that several resources like financial resources and physical resources must be present in the business start up, but the other side said oppositely. For example in context of financial resources, some scholars argued that financial capital are very important for start-up venture, and the lack of financial capital prevent people to start the business and bother daily business activities (Kim et al., (2003); Evans and Jovanovic 1989; Bates 1997; Blanchflower and Oswald, 1988). This is because starting the business need money to buy necessary equipment and supplies (Kim, et al., 2003), and to pay labor cost, raw material, overhead cost, and marketing activities (Schaper and Volery, 2007).

Previous research indicates that having money by inheritance will increase probability to people to become self employed (Holtz et. al, 1994 in Kim, 2003). But, the other scholars for example Dunn and Holtz-Eakin (1996) found that level of personal asset cannot motivate people to start the business. Aldrich et al. (1998) found that financial and physical capital, were not significant barrier that obstruct people to start the business.

The next question is what the contribution of family in business start up? In business start-up researcher predict that the presence of family is very important for entrepreneur. First of all, in family inhibited social capital. Social capital is resource that located in people's relations with others, which can be mobilizing for certain purpose of action (Lin, 1999). Social capital is very important since it enable people to access the other resources that they possess (Aldrich and Renzulli, Lin 1999). By social capital that embedded in family, entrepreneur can access resources such as finance and human capital. According Greene and Brown, (1997) social capital can be access from family and enhanced by individual. Secondly, in the family people can find beneficial value long term relationship such as trust and sense of belonging (Anderson et al, 2005). These values will create long term commitment to the firm. Stewart (2003), said that the network base on relatives contain some benefit like commitment, extensive tacit knowledge, access to information, reliability, and willingness to make sacrifices in term of time, money, and effort. From network perspective, entrepreneur with strong network ties like are more encourage supporting the other member of network than weak network ties.

In this proposal, the researcher suggest four areas of contribution of family in business start up namely; serve the availability of resources, resource mobilization support, entrepreneurial learning support (*building entrepreneurial behavior*), and consulting support. The availability of resources include provide finance, and labor. Resource mobilization support consists of helping in process planning, acting, and controlling activities. Entrepreneurial learning support, include mentoring, and giving morale suggestion when entrepreneur meet difficulties. This research indicate different pattern between several resources, and resources mobilization toward status survival and performance. The author predict some resources such as finance, physical and labor are more related to the status of survival of business start up, while the other resources like entrepreneurial capacity of entrepreneur closer to business performance. Resource mobilizations are also more related to venture performance. According to Gimeno et al (1997), survival and business performance is different term. The venture might be have poor performance but survive, because the employer does not want to close the business, if they have strong motivation to keep the venture survive. Obviously, the survival of the company is depending on the level of the threshold of performance (Gimeno et al., 1997). However, the good performance more related to survival business status than poor business performance.

Financial capital is one of the necessary resources required for enterprises to form and subsequently operate (Cassar, 2004).The lack of fund can disturb the continuity of the business. Financial capital resources are the funds from any sources used to start, operate, and grow the business (Bygrave, 1992). Entrepreneur is often described as people that have little money, but great ideas. Because they can start the business without have money in own pocket. Nevertheless, getting money is not easy task for beginner (nascent entrepreneur). The initial capital to fund generally comes from personal and family assets. Commonly, formal source funding such as banking and venture capital unwilling to lend money to beginner considering the risk. To solve the problem, they use informal source like family especially parent. They will be ready to sacrifice time, money and effort (Stewart, 2003). Thus, the family's willingness to support the venture financially is a critical variable (Dyer & Handler, 2004). Comparing to the formal source, informal source have

more flexible requirement and easier to get (Au, 2006). Therefore, the availability of fund more related to the survival of the business. The financial support from family is predicted to the survival of business start up.

Anderson et al. (2005) reported that the member of family often give support in area where entrepreneur difficult to handle, for example provide additional role in technical, interpersonal and organizational matters. Crisman et al. (1999) said that success business is determined by three factors: entrepreneur, strategy, and industrial structure. Entrepreneur is resource, and can be grouped as human resource. In organization, human resources are including employer and labor. But in business start up, the position of labor might be different from entrepreneur because the absences of the labor are frequently happened in the business start up. Strategy is not resources, but more related to mobilizing resources. By taking strategy, entrepreneurs use and combine the resource to achieve the entrepreneur goals. Industrial environment is external factor. This factor cannot be control by venture, but influence the venture performance.

***H2a: Variables family support such as financial support, Human resource support, learning support, and market support have positive influence toward business start up***

### **Entrepreneurial Learning Support and Performance and Survival Status**

One aspect that very important for the success of entrepreneur is entrepreneurial capacity. This capacity can be acquired from the working experience, education and training, also networking. According to Vesper (1996), the sources of entrepreneurial knowledge such as work experience, opinion from expert, and replication. Entrepreneurial capacity includes skill, attitude and knowledge that are needed to run the business. Previous researchers indicated family contribution in building the entrepreneurial capacity, by parental role model (Dyer and Handler, 1994). According to Handler, (1994), and Dyer (1992), many entrepreneurs grew up from self employed parent. Aldrich et al (1998) added that parent would introduce good value and attitude that support business ownership. In addition, they said that self-employed parent might be support the development of entrepreneurial capital by socialization, work experience and development of social capital. Having self employed parent is beneficial because, people has opportunity to develop their competence through working in their parent company (Carrol and Mosakowski, 1997), for example learning about time management and financial management skill since the knowledge and experience are very important to business success, we will predict that learning support will influence the performance of business start up. Dalton and Haldaway (1989) noted that self employed parent gave a chance to their children to learn business. In this paper, the author predicts that entrepreneurial capacity influence the business performance directly.

The role of family are predicted not just provide resources and mobilize resources but also cope the other aspects such as emotionally, mentality and intelligence support. Based on family business literature, family also serves opportunity to learn. According to Fairlie and Robb (2007), family businesses may provide important opportunities for acquiring general and specific business human capital. Having a family business background is important for small business outcomes (Fairlie and Robb, 2005). The strong effect of previous work experience in a family member's business on small business outcomes suggests that family businesses provide an important opportunity for family members to acquire human capital related to operating a business. As a human being, entrepreneur needs to communicate and express their feeling and their problem to people surround them including family. Naturally, family member will give advice, suggestion, and problem solving as well. Some researches indicate many people fail in the business start up. The failure is result of inability to overcome the problem. Therefore, the existence of family in giving advice and suggestion

is very important. In this case, the experience of people that give suggestion is very important.

***H2b: Variables family support such as Entrepreneurial learning Support have positive influence toward Success business start up***

### **Success and Survival Business start up**

Not all the entrepreneur gets success in business start up. Some of the entrepreneur gets failure after they start the business. According to Phillips and Kirchhoff (1989) that usage Dun & Bradstreet data, found that 24 percent of new venture was closed after first year operation, and 53 percent after your years operation. Base on Bartelsman et al. (2005), in Santarelli and Vivarelli,(2007), it about 20-40% new entrants were fail after 2 years operation, and only 40-50% stay alive after the seventh year operation.

Why do some entrepreneurs get success, and the other failure? There are many answers for those question, depend on the perspective that scholars have taken. Base on the personality characteristic, the entrepreneur tend to success business if they have several characteristics such as high need of achievement (McClelland, 1967) and internal locus of control (Brockhaus & Horwitz, 1985), tolerance for ambiguity (Low & MacMillan, 1988). According to population ecology perspective, the entrepreneur will survive if they will encounter the influence of environment to the business, so they must adapt and adopt the strategy that match with the environment (Hannan & Freeman, 1977). Base on the network perspective, the success entrepreneur will be achieved if they can connecting entrepreneur, resources, and opportunities (Aldrich and Zimmer,1986). To access the resources people or organization must have networking can connect them to the resources. According to resources base view, the entrepreneur that has competitive resources can gain the competition. The resource based view proposed that venture with assets that are valuable, rare, inimitable, and non substitutable may be able to create a sustainable competitive advantage (Barney, 1991).

Base on the empirical research, there are several reasons why some entrepreneur get in success and failure. According to Vesper (1983) in Low and MacMillan (1988), there are several causes that attributed to the failure of entrepreneur including lack of market knowledge, inability to delegate responsibility, less technical skill, and lack of money. He also proposed five key success factor of business namely; technical knowhow, product or service idea, personal contact, physical resources, and customer orders.

The earlier research also has proved that entrepreneurial activities such as planning, networking, selling, and finding resources are able to predict the result of success start up (Cooper, 1993; Gartner 1988). Gatewood, et al. (1995), studied business start up using longitudinal study, and found that internal and external factor of influence the success of male and female entrepreneur. Birley and Westhead (1993) found that incubator organization can have significant effect on the business venture. Watson et al. (1994), showed that education level of the business founder are likely to maintain business start up survive. They also proposed business founder to hold appropriate management skill, and retain it with the changes in the market place. Byckerdyke et al. (2000) investigated the cause in business failure in Australia, in period of 1970-1990, and summarized there are three major sources: economics conditions, lack of capital and lack of business ability.

It is interesting to predict the contribution of family toward success, performance and survive of business start up. Dyer and Handler (1994) reveal some influences of family to entrepreneurial behavior for example: McClelland (1965), illustrated the role of parent in nurturing, and provide the conducive environment in family, upbringing children who have high need for achievement; Ronstad (1984) and Dyer (1992), point out the tendency the parent background influence the

children to become entrepreneur. Dalton and Holdaway (1989) in Dyer and Handler (1994) reported that entrepreneur got encouragement from their family to engage entrepreneurial behavior. Anderson et al. (2005) noted the role of family is not only in the process build the venture but also included the execution of the strategies, processes, and structures. In addition, they said that the entrepreneurial of family member influence to the value, attitudes and norm of business. Because of the involvement of family in several activities of business start up, it predict that entrepreneur that have strong support from family more have good performance, and survive than entrepreneur that given family support.

***H3a. Entrepreneur that given strong support from family is tend to have better performance than entrepreneur that given weak support.***

***H3b. Entrepreneur that given strong support from family tend to survive than entrepreneur that given weak support from family.***

## RESEARCH METHOD

The sample of this research is entrepreneur that beginning the business. The number of sample for this research is about 150 young entrepreneurs. To match with the objective research, the sample must meet the criteria. Purposive sampling will be used as a sampling design of this research. The Samples of this research are the entrepreneurs who start the business. The definitions business start up is the business that has just operated. But to in order to measure the performance of the new venture, the entrepreneur will have been doing the business more than four month since start the business and no more than 3 year. There are two groups of the entrepreneur to be investigated. First, the entrepreneur that his or her parent is entrepreneur and the other is the entrepreneur whose parent has not entrepreneur. The second is entrepreneur that has strong support from family member in business start up, and entrepreneur that low support from family member.

This research will use mixed method, combine between qualitative and quantitative research. In here, qualitative method is conducted through interview and focuses group discussion, while quantitative method with questionnaire. The aim of interview and FGD are to get information that relevant to build the questionnaire. The step to build the instrument is following: first of all, reviewing relevant literature (theory and research methodology) in order to gather entities and variable of family role which significantly affect the success and failure of the business start up is conducted. Based on the findings of an extensive literature review, in-depth interview will be taken. The success entrepreneurs were interviewed to develop the instrument. Some question about the activities and resources during business start up were asked to them. During the process interview, the explanations were recorded and some critical information was outlined, and re-writes in paper work. The combination between literature review and in-depth interview were conducted to accomplishing the questionnaire. The next step, the questionnaires were examined with pilot testing. Several students in school of entrepreneurship that starting the business were employed to test the instrument. This pilot test will use 30 students. The result of pilot test was analyzed, and evaluated in order to improve the questionnaire.

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