# EMOTIONAL INFLUENCE IN FAMILY BUSINESS

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**ABSTRACT**

This study evaluates the sustainability of the family enterprise, which many indusri families who are unable to survive until the third generation. The method used in this research is the study of literature to analyze all the research ever. Further that the results of the study found that a reliable and authoritative leadership and succession done by a professional to get an intelligent leader capable of making the company survive with good performance. Innovation must continue to be done in the face of change. Open management model through a public company and to involve outside capital able to bring a good impact on the survival of the company while maintaining the characteristics of a family company.

**Keywords**: Family Business, Leadership, Succession

## INTRODUCTION

Human Resourcesare a very vital organizational asset thus its role and function are irreplaceable with other resources. No matter how modern technology used by organization, or how much budget is allotted, without professional human resources, are lose its meaning (Yuniarsih, 2008: 38).Barney (2009: 88) views human resources capabilities as potential resources for sustainable competitive advantage for organization. This can be described as human resources capabilities that can an organization to get competitive excellence with human resources management practices and encourage focus on the customers (Schuler, 2010: 73). Gibson (2012: 90) argues that the task of human resources revolves around the efforts to manage employees as the human element with allpotentials they have. Research conducted by Conner and Ulrich (2006) reports on the empirical investigation of various human resources professional roles explains the implications for the human resources professional development. Empowered working conditions will be achieved if the performance can strongly motivates all elements to achieve better performance. It is expected that the better the individual performance, the better the corporate performance.

Companies can be differentiated based on their ownership, namely public and family-based. Family-based company is unique. Glassop and Waddell (2005) pay attention to the contribution of economic growth by family company. Kayser and Wallau (2002) examine the dominance of family firms in the Germany. A survey by Jakarta Consulting Group (2007) shows that 88% of a private company in Indonesia is a family company.

Lasberg (1999) focuses his research on leadership succession in family company in the United States. Hall (2008) demonstrates the viability of the family enterprise that is only to the third generation. Lansberg (1999) is about succession; Loyalty and emotional closeness of successor

(Baer, 2007), third generation dilemma in choosing a successor (Kellerman *et al.*, 2008); Professional judgment (Hall, 2008); The level of education (Royer, 2008); and Skills in business management and gender (Harveston, 1997).

Furthermore, the problem of succession in the fourth generation company is caused by factors of employees' value systems in relation to corporation culture (Zulfikar, 2004). Many studies suggest the importance of a succession in a family company.

Family company has unique characteristics when compared to non-family companies (public), which are the involvement of family members, the power of emotions, less formal, dual leadership, high dependency on each other, and sharing their learning environment which characterizes the company's powerful families. These are very interesting when conducting research on the family company succession. Although there is statement that reveals that some family companies can only survive when it reaches third generation, there are other family companies survive in maintaining their existence.

**Problem Formulation**

Problems formulation in this study are:

1. How is the direction towards sustainability of family company?
2. How to face the value conflict in order to sustain family company?

**Objective of the Study**

Based on several related studies, family company always faces two problems in the continuing of family business; family issues in business together and professional issues in business management. This study tries to dig deeper on the sustainability direction of family company and resolve conflicts in family company for its sustainability.

**LITERATURE REVIEW**

Definition of family company is often interpreted under the focus of several factors surrounding the company such as the ownership, control, management and the desire to preserve the succession between generations and cultures, as stated by Hadler (1989). Churchill and Hatten (1987)are more likely to define the factors of family existence at the time when the succession comes from family members. Carsrud (1994: 40) explains that the family company is a company that is actually owned by a family, where all policies are made and decided by members of the family (*emotional kinshipgroup*).

A family company is often based on components that influence, not on the essence, where the main essence is a vision carried out by a family or a small numbers of family members that are supposed to be built based on the objective of dominant condition that shape and reach vision beyond generations. Tugiman (1997: 7) states that the characteristics of the family company in the context of small businesses include the key position held by family, corporate finance that tends to blend in with the family finances, no strict mechanism on financial accountability, high work motivation, and lack of specificity in management. Davis and Stern (1988) furthermore explain that in the extreme point, the characteristics of family firms prefer a conservative strategy, in order to play it safe on a less competitive market with slow growth. A study conducted by Donckels and Frohlich (1991; 159) found the facts by comparing many family firms which have consistently shown limited network, and lack of cooperation, collaboration or doing sub-contract with other companies. Pery (2000: 121) states that consequently, the company does not able to obtain high levels of profit, tends to be stable and not dynamic.

One of the role models of family company is the existence of two interests in one domain, which are business need and family interest. These interests sometimes cannot be clearly separated and cannot be clearly formulated on what interest is more important than the other interest;however, a harmony between two interests must be maintained. Kepner (1983), Lansberg (1983) and Dyer (1986) state that flexibility can lead to overlapping tasks and roles which can become the source of conflict. Longeneker states that family company consists of: 1. family 2. family business owners. 3. Family business. 4. A person who owns most business but works elsewhere. 5. Family members who are the employees and have part ownership in the family business, yet do not have ownership rights of the family. 6. The group of families who become employees as well as the owners of family businesses.

The effectiveness of family role in the company can be seen in these three forms of family business as follows:

1. *Family Owned Business* (FOB). In this form of company, family is only as *shareholder*, while the company management is given to professional executive from outside family circle.
2. *Family Business* (FB). FB makes family acts as *shareholder*as well as company management (the company is owned and managed by member of the family founder.
3. *Business Family* (BF). Owner of the company tends to emphasize on family relationship only.

The complexity of relationships within the family company requires open management that is professionally managed. Good management is required for achieving successful business. Good business management practices have the following characteristics:

1. Innovative: stimulating thoughts and understanding of new business strategy.
2. Professional and competent: recruiting and maintaining good manager non-family.
3. Creating flexible and innovative organization.
4. Creating and protecting stocks.
5. Preparing the successor.

One of the difficulties often faced by the family company is to determine what kind of business style should be applied in its management. After the company is developed, family management can be applied when the company is still at its beginning level. However, due to its development and growth, the style of family management should have mindset shifting to manage the company.

Leadership style and leadership succession becomes a big challenge in management change. Family company faces serious situation since it has dependency on its leaders to collaborate business interest and family system. Hoover and Hoover (1999) state that there are two types of leadership styles: push leader and pull leader. Push leader style of leadership looks more charismatic and charming in leading, yet the leaders who adopt this style of leadership are sometimes referred to as nice dictator. On the contrary, pull leader style of leadership blends with groups, works hard to build consensus and group commitment.In the context of family business, the family company style of leadership is strongly associated with the characteristics and models that run on the company. Gemeno *et al.*(2010) describe in his book that there are six leadership styles in family company: 1. Captain. 2. Emperor. 3. Family team. 4. Corporation, and 5. Family investment.

Leadership style is actualized through practice of interaction between leaders and followers. Generally, leaders will adjust the behavior with functions and duties as well as the values of adopted personality. Wirawan (2013: 352) states that the style of leadership is how leaders influence their followers. Helsey and Balanchard (1993) add that a person's leadership style is a pattern of behavior of someone who is trying to influence the activity patterns of others as perceived by him or her.

The quality of leadership in an organization plays a very dominant role in the success of the organization (Yukl, 2001). It means that a leader must be able to anticipate and follow changes happened in an organization. A leader must explore his or her self-potentials to be able to take role in leading others with strong principles and efficient. White and Crainer (1997) states that a leader or manager is more of a superhuman than others, strong, persistent and know everything. These have explained about charismatic leader of a company, especially family company. Based on the theory of attribution, charismatic leader is led on assumption that charisma is a phenomenon of attribution (Kanger and Kanungo, 1987). Charisma of a leader can be seen by looking at the extent to the followers' affection, emotional involvement and high motivation which are also based on high spirit of sacrifice (Shamir *et al.*, 1993). Furthermore, Bennis (1991) states that the role of leadership is "empowering the collective effort of the organization toward meaningful goals" with the following indicators of success: 1.People feel important. 2. Learning and competence are reinforced. 3. People feel they are part of the organization. 4. Work is viewed as existing, stimulating and enjoyable. Wirosarjono (1993) states that the desired leadership qualifications are true leadership which is full of authorities since this has commitment, credibility and integrity.

The development of family business cannot certainly be separated from the influence of leadership succession from leaders of each generation. Leadership succession affects the continuity of the family company. Potential conflicts happens within the leadership succession in family company is due to value conflicts between the founders who still have roles as the key motor of main business with members of family involved in the company. This often happens since new generation tends to have different opinion and higher education background. Succession is an issue that is very crucial, especially when the control of the company has shifting among generations.

**RESEARCH METHODS**

This recent study uses related researches (literature study). Empirical cases become the foundation of discussion which is also based on the theories. Analysis was done through various related studies, in order to answer the problem formulations and later to derive conclusion.

**Findings and Discussions**

It cannot be generalized that an open or professional company is totally free from family influence, since this is based on human nature as a social creature that needs to interact with other humans. Companies can achieve success if all the components owned have high performance, and this must be owned by a family company. Sunarto (2003: 56) states that the high performance of human resources can be achieved because of the trust mutuality is high among members, it means that each member trusts the integrity, characteristics, and the ability of any other member. To achieve higher performance takes a long time to build, requires confidence, and demands careful attention from management.

Sukamdani(2013) reveals facts that most businessmen in Indonesia (90%) are executives who run family business and 88% of national private companies are run by families. Susanto's research data reveal that 28.8% family businesses in Indonesia are inherited to the next generation, 12.9% are given to other families,19,8 % sells their business to other owner, 16.4% sells their business to open market, 5.4% invests their businesses, 5% make their businesses an open company and offer their stock to public, and 5.4% to find partner in business.

Miller and Miller (2005) reveal the fact that although Nordstrom, Inc. Has become a public company, this company is still characterized as family company. This company engages in retail of cloth wear, shoes, cosmetics, accessories, and other fashion product. Nordstrom, Inc. is based in Seatle, Washington DC, which has 166 stores located in 28 states and founded in

1901. The Nordstrom family has three directors from eleven members of board of director with stock ownership 27.9 %.

Indonesia has a very famous cigarette company, PT. Gudang Garam Grup. Basri and Eng (2004) explain that PT. Gudang Garam is one of the four biggest companies in Indonesia and as the second biggest public company based on Indonesia Stock Exchange which was built in 1958 by the late Surya Wonowidjojo, succeded by his son Rahman Halim who died in 2008. In 1985, the Wonowidjojo family had 94 % stock, in 1996 they had 80 % and kept decrease until 76% in 2000. As a business entity, PT. Gudang Garam still has good performance. In 2004, PT Gudang Garam still became the most profitable company, especially if seen by its return on asset (ROA) and return of equity (ROE) which showed results of more than 20%. The good performance was still shown during economy crisis and the time after. The uniqueness of PT. Gudang Garam is its style as family company.

The data show that at least there are seven models of sustaining family company: 1. Family Company in Indonesia is inherited to the next generation. 2. Given to other family. 3. Sell the business to other owner. 4. Sell the business to open market. 5. Invest the business. 6. Change it into open company by offering its stock, and 7. Find a business partner. The continuity and sustainability of a company by families can be done in many ways in order to avoid bankruptcy. The strategies that will be implemented must through deep analysis review in order to get appropriate and good strategies in the product innovation and in the marketing process.

Succession process developed by enhancing the role of shareholders for companies that have a higher ROA and ROE will be able to increase high stock in stock exchange, and thus it means that public still has high confidence and considers that the company performance is very good. Companies that are successful to maintain family business have shown that their organization culture, succession and leadership are steady and can surpass the critical point in which many bankrupt family companies failed to adjust to, which means that those bankrupt family companies cannot do innovation strategy to use resources or their powers to seize opportunity. However, for the companies that already have knowledge of their weaknesses then the right strategy is to minimize their weaknesses in order to seize the opportunities.

Family companies who exist for so long and are able to preserve its existence, develop its companies continuously and develop their self-capacity to create new leaders in order to answer global demand yet still continue to expand in order to ensure the business sustainability as stated by Kellerman et al. (2008) and Hall (2008). Naturally, visionary leaders with a high level of education based on Royer's opinion (2008) and have the skills needed (Harveston, 1997).

**Findings**

1. Companies that are successful to maintain family business have shown that their organization culture, succession and leadership are steady and can surpass the critical point in which many bankrupt family companies failed to adjust to, which means that those bankrupt family companies cannot do innovation strategy to use resources or their powers to seize opportunity. However, for the companies that already have knowledge of their weaknesses then the right strategy is to minimize their weaknesses in order to seize the opportunities.
2. The successful of family business to preserve its existence is due to leaders' power and successors' success who can because yang tidak menimbulkan gejolak konflik.

**Conclusion**

Furthermore, the research result has shown that capable and charismatic leader and succession done professionally to get intelligent leaders are able to keep companies to have good performance. Good management model through open company or sharing stock from outside the company will be able to bring good impact for the sustainability of the company by maintaining the characteristics of family companies.

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