



The Relationship between Family-Owned Business and the Success of Small Medium Enterprise

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Abstract

Most of large and successful companies are derived from family businesses that grow successfully. This business success will only happen if the family-owned business is able to create appropriate company structure and apply good management principles so that the company will develop and survive from one generation to another. A common problem found in family businesses is internal conflict in which the family member has his own interest that could interrupt the business. The differences in opinion and self-interested factors are common things in family business. Another problem that a family business should deal with is external factors. Competitive companies, politics, government regulation are some issues which are difficult to face. Those problems could give impact to the family-owned business. This study was aimed at finding out the problem solutions of family business by analyzing the relationship between family-owned business and its success in SMEs. The research method used was quantitative by using causal design. The primary data was taken from 30 respondents who are the owners of family businesses in SMEs. The technique of data analysis used was simple linear regression in SPSS software version 26. The result of this study confirmed that there was a relationship between family-owned business and its success in SMEs. The roles of family members and good management are the success keys in family businesses and SMEs. This study is beneficial to develop family small business in forms of applied theory that the business ownership has relationship and is able to give impacts towards the business successes.

Keywords: Relationship, Family-Owned, Small Medium Enterprise.

1. Introduction

The development of small and medium enterprises (SMEs) in Indonesia is one of the priorities of national economic development. The key of SMEs in the economic system is to alleviate the problem of social inequality between economic actors with one another (Jasra et al., 2011). The emergence of family businesses has encouraged people to increase income and employ other families. Families with the expertise and desire to build a start-up will participate in businesses, creating fierce competition. Family farms are more profitable because the necessary capital, such as tools and equipment, are more readily available.

Family businesses are usually owned by a family, so the business leaders tend to have family ties (Price et al., 2013). In family businesses, strategic and political planning and business decision-making depend on family members. Families in business provide a lot of support to help the company perform better. Family businesses, especially SMEs, perform better because policymakers and leaders are related. Also, since the family understands the behavior of each family member, they are easier to manage and run the business more efficiently and effectively.

As the backbone of the economy, small and medium enterprises play a strategic role in controlling the livelihood of many people. Success and achievement in business go hand in hand. A successful business relates to business owners, business performance, entrepreneurial performance, and business goals (Anggadwita et al., 2022). One of the factors of entrepreneurship is the succession process of the family business, so the continuity of the business depends on the process of changing the ownership. Both structured and unstructured inheritance have an impact on the profitability of the company. Structured inheritance ensures business continuity, but unstructured inheritance impacts business continuity because the unstructured generation is unwilling to face business challenges. There are

possibilities that structured succession will lead the business to a better direction so that family-owned companies might improve their performance.

This study is slightly different from previous studies because it examines the relationship between family business ownership and business success in SMEs. The rationales of this study are as following, first this study focuses on examining the relationship between business ownership and family business success in SMEs. Second, the contribution of family members greatly impacts the performance of family businesses in SMEs. The purpose of this study is to examine how much the relationship between family business ownership and family business success in small and medium enterprises.

2. Literature Review

2.1 Family Ownership

Generally, a family business is a company or business that is controlled by more than one related or unrelated person (Komara et al., 2021). The majority of the owners of this family business is a group of people with family ties. The success of a family business depends on the involvement or leadership of the business owner's family. Succession and continuation of a family business depends on clear planning of the joint activities of the older and next generations (Sharma et al., 1997). The success of a family business also depends on the planning, preparation and selection of successors. Family businesses have five unique resources that offer potential benefits. They are the attributes of human capital, social capital, perseverance capital, survival capital, and governance structure. A good preventive control process in a family business should consist of elements such as participation, transparency of information, appreciation and interaction.

2.2 Business Success

In general, success refers to the achievement of goals and objectives in all areas of life. Business success criteria are usually related to business performance and entrepreneurial performance against management goals and objectives (Novaliendry et al., 2021). Success is identified by business development such as more customers, more sales, more profits, break-even point, brand image, and more employees. Business success is the company's ability to achieve acceptable results and behavior. It has two dimensions: financial and non-financial success, short-term and long-term success. In addition, ways to measure business success include survival, profit, return on investment, sales growth, number of employees, satisfaction, and corporate reputation.

2.3 Small and Medium Enterprises (SMEs)

Small and medium enterprises (SMEs) are a type of small business established by a community or individuals with the aim of improving the economy. Participating in the role of SMEs through close relationships with multinational companies around the world is seen as an effective way to accelerate the growth of SMEs, especially in terms of productivity, technology and managerial issues (Jasra et al., 2011) especially in terms of productivity, technology and managerial issues. The SME sector is a key driver of employment growth and wealth creation in the country's economic system, and the performance of SMEs plays an important role in empowering and promoting development. The success of small businesses indicates the level of performance and can be measured in many dimensions, such as sales growth, capital, employment growth, and production line growth.

2.4 The relationship between family ownership and business success in SMEs

Developing a resource-based perspective of firm and agency theory, this study links family interests with SME characteristics and predicts the relationship between family ownership on SME performance (Price et al., 2013). Indeed, there is theoretical and empirical evidence that family firms use labor differently in the production process than non-family firms, and that such labor generates unique contributions to the output. Compared to family-owned firms, non-family firms are less motivated and have a short-term focus and higher operational risks. Previous research on family involvement in ownership and management is very general, and the influence of family members on firm performance is controversial. Several other studies have shown that knowledge is best used and shared within an

organization by developing individuals' analytical and critical skills to maintain and gain competitive advantage. The importance of SMEs for assurance is recognized.

3. Method/Material

3.1 Method

In this research, the researcher distributed 30 questionnaires, and 30 questionnaires were successfully gathered. The results of distributing questionnaires showed that 30 questionnaires were family-owned businesses. The questionnaires were distributed to approximately 30 respondents, with a minimum return rate of 30 questionnaires as a condition of sample fulfillment. The questionnaires distributed contained (1) General profile of respondents; (2) Measurement of the relationship between family business ownership and family business success in SMEs (3) Measurement of family member performance in business processes (4) Measurement of business ownership efforts; and (5) Measurement of family business success in SMEs. The use of questionnaires as a tool to find out respondents' answers. Where the respondent's answer is measured using a five-point Likert scale, with a value of 1 for the answer strongly disagree (SD), 2 for the answer disagree (D), 3 for the neutral answer (N) 4 for the answer agree (A) and 5 for the answer strongly agree (SA). The questionnaire data was processed and analyzed using the SPSS Version 26 application to ensure that the measurements used were valid and reliable. This study uses two (2) variables, namely family business ownership relationships (X), and family business success (Y).

3.2 Materials

SME business success was measured using 6 question items with 6 indicators including: satisfaction with the business owned, net income growth, business capital growth, business success, business performance measurement, future business development and market share, Family business ownership variables in this study are measured using a nominal scale which includes: (1) self-ownership; (2) family ownership. This study uses a causal research design. Causal research is research used to prove the extent of the relationship between two or more variables. A causal relationship is a relationship that is causal in nature. In this study there are independent (which affects) and dependent (which is affected) variables (Pazhanivelan et al., 2022). This study explains the relationship between family business ownership and family business success in small and medium enterprises SMEs.

Hypothesis is a temporary conjecture that must be tested through scientific research (Wicaksono & Lestari, 2017). Hypothesis development or basic assumption is a temporary answer to a problem that is still presumptive, because it must be proven. Thus, the hypotheses in this study are:

Ho: there is no There is a significant relationship of SME business success based on ownership.

Ha: There is a relationship between SME business success based on ownership.

3.3 Population and sampling

The population in this study were family business owners and small and medium enterprises (SMEs) in Garut which included family ownership. The sample in this study were 30 small and medium enterprises (SMEs). Data was collected by distributing questionnaires to family business owners and SMEs using purposive sampling method based on certain criteria. SME criteria refer to the Law of the Republic of Indonesia No. 20 of 2008 concerning SMEs (Jasra et al., 2011).

3.4 Formula/Equation

The data analysis included simple linear regression analysis, correlation coefficient analysis (R), coefficient of determination (Adjusted R²) and partial analysis (t test) with the help of SPSS software version 25. This analysis was used to determine whether there was a positive influence of the independent variable (X) on the dependent variable (Y) with the following regression model (Lestari & Sinambela, 2021).

$$Y = a + bX + e$$

Description:

Y = Dependent Variable

a = Constant

b = Regression coefficient

X = Risk Perception

Y = Business Innovation Model

e = error

The purpose of using simple linear regression analysis in this study was to determine how the influence of the independent variable (x) incentives on the dependent variable (y) work effectiveness.

The correlation coefficient (R) shows how much relationship occurs between the independent variables (X) simultaneously on the dependent variable (Y). The R value ranges from 0 to 1, a value closer to 1 means that the relationship is getting stronger, on the other hand, a value closer to 0 means that the relationship is getting weaker. The guidelines for interpreting the correlation coefficient are as follows:

- 0.00 - 0.199= very low
- 0.20 - 0.399= low
- 0.40 - 0.599= medium
- 0.60 - 0.799= strong
- 0.80 - 1.000= very strong

Regression with more than two independent variables uses Adjusted R Square as the coefficient of determination. Adjusted R Square is the adjusted R Square (R²) value. The coefficient of determination (Adjusted R²) aims to determine how much percentage of the independent variable is able to explain the dependent variable. The greater the coefficient of determination, the better the ability of variable X to explain variable Y (Lestari & Sinambela, 2021).

3.5 Tables

Table 1 and Tabel 2 explain the liker scale and respondent criteria.

Table 1: Liker scale

No.	Answer	Score
1	Strongly disagree	1
2	Disagree	2
3	Neutral	3
4	Agree	4
5	Strongly agree	5

Table 2: Respondent Criteria

Profile	Criteria	Total	Percent
Gender	Male	9	30%
	Female	21	70%
Age	25-35	23	76.7%
	> 30	7	23.3%

The criteria for respondents in this study are family business entrepreneurs and SMEs in Garut. According to the respondent profile data above, it shows that family business owners are dominated by women as the driving force in a family business and are on average 25 to 35 years old.

4 Results and Discussion

4.1 Coefficient Test

Analysis to determine the relationship between family business ownership and the success of the SME business, the first analysis was carried out to determine the value of the regression coefficient on variable y can be seen from the Table 3 below:

Table 3: Regression coefficient results of the relationship between family business ownership and business success

		Correlations	
		family business ownership	family business success
family business ownership	Pearson Correlation	1	.701**
	Sig. (2-tailed)		.000
	N	30	30
family business success	Pearson Correlation	.701**	1
	Sig. (2-tailed)	.000	

N	30	30
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** . Correlation is significant at the 0.01 level (2-tailed).

In the Table 3 presentation above, it can be seen that the relationship between business ownership and business success produces 0.701 and a significant value of 0.000. If the significant value shows a number smaller than 0.05 then the value is positively and significantly related (Pazhanivelan et al., 2022). This data shows that. There is a significant relationship between the success of SME family businesses based on ownership. The correlation relationship value of 0.701 shows a moderate correlation .

4.2 Hypothesis Test with Anova

Table 4 explain the result regression.

Table 4: Anova

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.929	1	8.929	27.062	.000 ^b
	Residuals	9.238	28	.330		
	Total	18.167	29			

a. Dependent Variable: family business success

b. Predictors: (Constant), family business ownership

The second table is the main Anova table. From the analysis results, the value of $F = 27.062$ with $p < 0.05$. The benchmark for assessing the F test is as follows.

- if sig: $p > 0.05$ then there is no difference.
- if sig: $p \leq 0.05$ then there is a difference at 5% sig level
- if sig: $p \leq 0.01$ then there is a difference at 1% sig level

Thus it can be concluded that there is a significant relationship between family business ownership and family business success in SMEs. ($F = 27.062$; $p < 0.05$)

4.3 Partial Test (t test)

In hypothesis testing, there is a significance when the t-statistics value is greater than 1.96, whereas if the t-statistics value is less than 1.96, it is considered insignificant (Pazhanivelan et al., 2022).

Decision making was done by looking at the significance value in the coefficients table. Usually the basis for testing regression results is carried out with a confidence level of 95% or with a significant level of 5% ($\alpha = 0.05$). The criteria for the t-statistical test (Pazhanivelan et al., 2022):

If the significance value of the t test > 0.05 then H_0 is accepted and H_a is rejected. This means that there is no relationship between the independent variable and the dependent variable.

If the significance value of the t test < 0.05 then H_0 is rejected and H_a is accepted. This means that there is a relationship between the independent variable and the dependent variable as Table 5:

Table 5: Partial Test (t)

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	5.262	1.331		3.952	.000
	family business ownership	.595	.114	.701	5.202	.000

a. Dependent Variable: family business success

The results of hypothesis testing (T test) in the table above show that the significance value of the inventory intensity variable is 0.000 which is smaller than 0.05. This shows that the inventory intensity variable has a relationship with business success.

4.4 Discussion

This study generated data proving that there was a relationship between family business ownership and family business success in SMEs, as the focal point of this study. Several hypothesis tests were carried out on the business ownership variables and business success variables. The tests used included: coefficient testing, hypothesis testing with ANOVA, partial test / test (t), in all three tests showed significant results on the relationship between business ownership and the success of a business, supported by the theories of experts explaining that the role of family members in the process of developing a family business was a determining factor. With relatively effective management and decision-making in its implementation, family businesses quickly grow and develop, with family members as ownership in this business, creating efficient business success in a family business.

In this study, researchers have several limitations, namely first, this study only concerned with examining family business ownership variables with family business success in SMEs. Future research might examine the issue based on the characteristics of the owner or the characteristics of family members because owners and family members have good orientation and performance. Both of these studies only covered the scope of small and medium enterprises (SMEs). This research has benefits in the development of family businesses in small and medium enterprises, in the form of applied theory that business ownership has a relationship to business success.

5 Conclusion

Based on the results of data analysis conducted, it was implied that there was a relationship between family business success in SMEs based on ownership. The results of the t-correlation test showed that family ownership has a significant relationship with the success proven by the data from the first test, namely the Coefficient Test: the relationship between business ownership and business success was at 0.701 and a significant value of 0.000. If the significant value shows a number smaller than 0.05 then the value is positively and significantly related. This data showed that there is a significant relationship between SME family business success based on the ownership. The correlation relationship value of 0.701 showed a moderate correlation. Then reinforced by the data from partial testing (t) which showed: If the significance value of the t test < 0.05 then H_0 is rejected and H_a is accepted. This means that there was a relationship between the independent variable and the dependent variable, the results of hypothesis testing (t-test) revealed that the significance value of the inventory intensity variable was 0.000 which was smaller than 0.05. This indicated that the inventory intensity variable had a relationship with business success.

Suggestions for future research, the use of large public company objects as research samples, so as to analyze all possible effects of broader family ownership in general. For future research, it is expected that researchers examine well and specifically the variables that are not listed in this research model to be developed and studied further.

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