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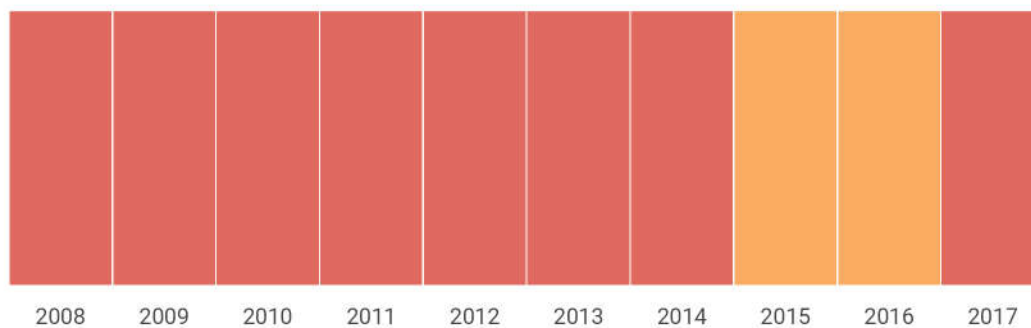
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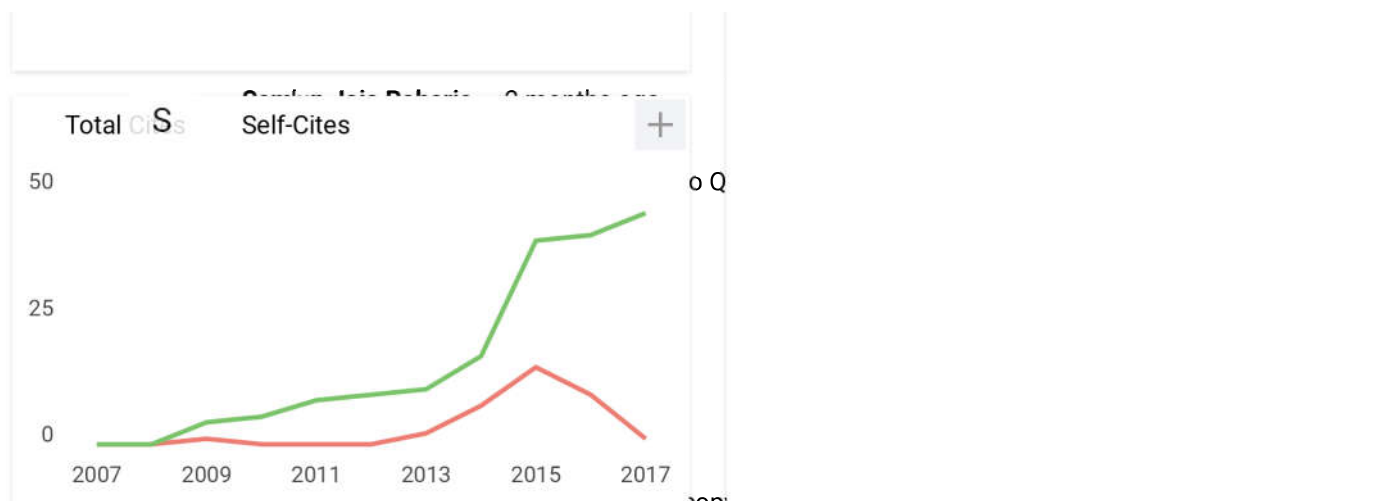


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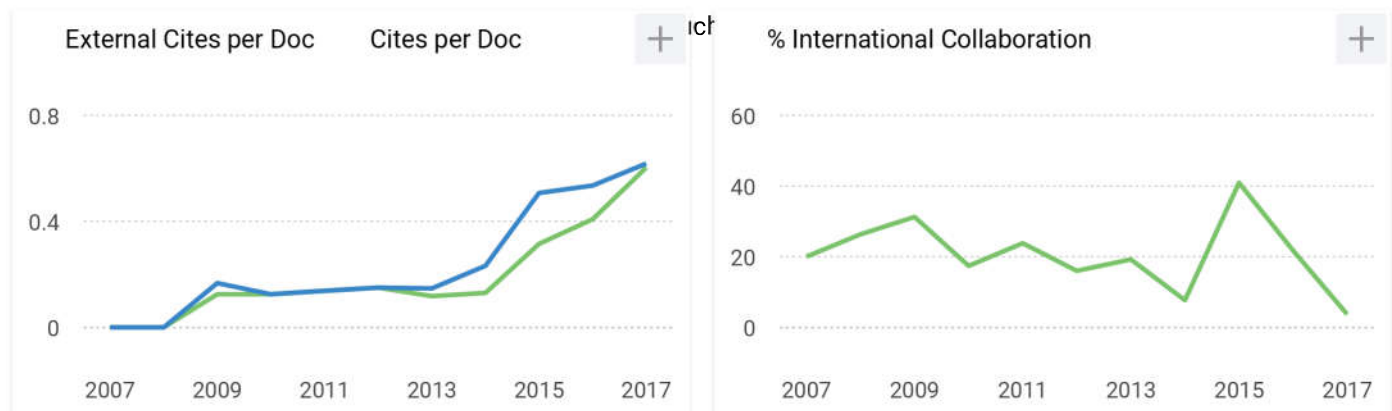


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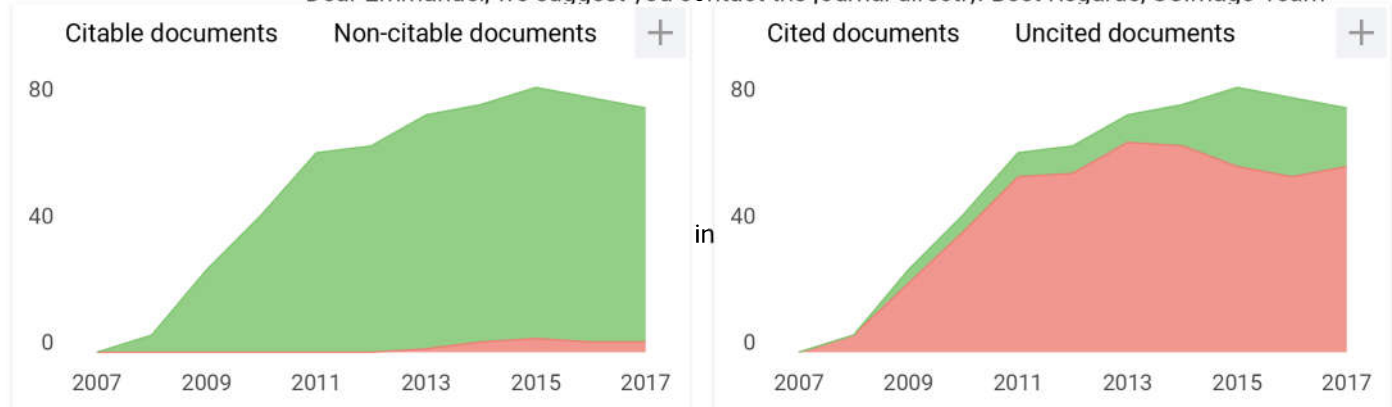




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# International Journal of Economic Policy in Emerging Economies



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# Management Practice, Firm Size and Performance of Family Business: Indonesian Experience

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## Abstract

*In the case of Indonesia, family businesses have remained important during the country's years of fast economic growth. One of the reasons for the collapse is the businesses' failure to apply appropriate management practices. Batik is one of the most important (if not the most important) family business industries in Indonesia.*

*This study attempts to enrich our understanding of the characteristics of management practices, the extent to which the practices are being applied and their implications on performance of family firms within the Batik industry in Indonesia. Data was gathered through interviews owner or director of the individual family firms of the Batik Industry in the Central Java Region (Yogyakarta, Bantul, Solo, and Klaten) by using questionnaire (self-administered questionnaire).*

*This study suggests that for the individual family firm of batik industry especially in Central Java to survive and grow, they need not only to improve its performances but also try to have more concern of their management processes to support their activities in term of financing, administration, and operational activities. It would be benefit for them to use technological capabilities to improve their performance also.*

**Keywords:** family business, management practise, batik industry

## INTRODUCTION

The importance of family businesses is well recognized worldwide. Gersick et al. (1997), for instance, suggest that family businesses generate half of the U.S. gross national product (GDP) and

employ half of the workforce in the country. The relevant literature indicates the contribution of family business to the economy of other developed countries including Australia is equally significant. In the case of Indonesia, family businesses have remained important during the country's years of fast economic growth. Most of the big companies in Indonesia started as family business. However, just like in other countries, many family businesses in Indonesia collapsed after the second or third generation. One of the reasons for the collapse is the businesses' failure to apply appropriate management practices.

In deed, there have been considerable debates on management practices problem faced by family businesses. Yet, our literature search indicates that empirical research in understanding and resolving the problem remains quite limited. Much of the previous management research in family business is **anecdotal and descriptive**, focusing on how to improve family relationships, not business performance (Sharma, Chrisman, and Chua 1997). Our literature search revealed no previous study examining the potential relationship between an appropriate management practice and performance of a family firm within the batik industry in Indonesia. Batik is one of the most important (if not the most important) family business industries in Indonesia. Batik is one of the most important export commodities of the Country; the industry contributes significantly to the gross national income and creates employment.

The following research questions were formulated in an attempt to find answers to the following questions *(1) What are some of the practices used by the firms and whether those practices are focused on the family or the business's goals (performance)? (2) How those management practices affect the business's performance?*

## **LITERATURE REVIEW**

Today, small industries support Indonesian economy significantly. Indonesian government can't rely on oil industry anymore to support its economic growth; oil industry became main component in gross national product for past decades. In the future, small industries will be a significant component to support GNP, and Indonesia has to keep maintain and develop small industries.

Small industries are highly influenced by society values and often ignore management principles. It is necessary to combine between society values and management principles, because it encourages business growth. Although cultural value influence small business practice, however, it is important to understand about management science to do businesses, in order to achieve optimal result. Some research stated that combining management science and traditional value has significant effect to company growth.

In the past few decades, the economic growth and development of the Chinese and Overseas Chinese of East and Southeast Asia are very significant and highly remarkable. Although the causes of economic growth and success are complex and likely to vary from one country to another, the significance of cultural value has been emphasized by many resources. (Shah Seow Wah, 2001).

The emerging of small industries encourages the need of knowledge about management practices or management accounting science. In fact, small industry and family company in Indonesia do their business with their sense and less supported by knowledge about management practices or management science. Less supported management practices knowledge make profit achievement won't optimal. Understanding simple management practices is needed by entrepreneurs, in order to expand their business optimally.



Effective management of projects is becoming increasingly important for any type of organization to remain competitive in today's dynamic business environment due to pressure globalization. (Dey, 2002). Understanding relationship between performance, leadership style, business strategies and management systems provide clues on how the grow the paths of fast track firms differ from those of laggards. There are two style of leadership in small firms which are initiation style and consideration style.

The initiation style leader would emphasize the clear definition of tasks and goal setting, be more likely to actively introduce his or her own ideas, assign duties and tasks to other people, and monitor their action closely. Further, this leader sets demanding performance standards, expect adherence to the standards and encourage competition among employees. Consideration style leader would show a high degree of concern for people and be supportive of them. They would seek and accept suggestion from subordinates, consult with employees in advance on important matters and criticize the work rather than the people.

These two styles are good proximate indicators of leader's behavior, because a style signals the manager's predisposition to action. Each style has been found to be effective under different types of conditions, such as differences in types of tasks and/or types of subordinates. In the small business, the leadership style of entrepreneurs in making the various strategic and operational decisions could be expected to impact the organizational effectiveness of the firm.

Understanding business strategies is important for entrepreneur in small firm in order to be existing in their industries. Business strategies are defined here in terms of actions relating to the positioning of the product/services of small businesses in the marketplace. These actions help small

firms attract customers and cope with competition. There are two types of strategies in the context of small business, the cost competitiveness and differentiation.

Small business pursuing different strategies build specific and appropriate organizational resources and capabilities (Chandler & Hanks, 1994). The cost competitiveness strategy requires capabilities in controlling purchasing and production costs, labor and distribution costs, and by achieving ongoing productivity improvements and efficient utilization of capital assets. The initiation leadership style would be conducive to this orientation toward efficiency and stringent cost control. In contrast, a strategy of competing for customers by differentiating products with features like quality, innovation and service requires superior capabilities in customer services, creative marketing, innovative product design and customization. A consideration style leader can foster an appropriate working environment.

Success of business strategy also hinges on appropriate management systems. Scholars point to planning and control systems, reporting system and resources in employee skills. Research on organizational skills, resources and capabilities associated with different strategies suggests that a cost competitiveness strategy calls for greater emphasis on operational efficiency and financial management. Accordingly, firms would use formalized cash and cost reporting, long-range financial planning, and seek a well-trained staff in production/operations, accounting and finance. The firm employing a different strategy that focuses on marketing and innovation would be more likely to utilize systematic practices that would provide information on marketing and sales. Staffing for marketing, research and design skills would be key. Also long range planning for sales growth and new products would be essential (Chandler & Hanks, 1994).

Human Resources is an important factor in small business. Usually small business is a family business, they employ their family to run the firm and often ignore human resources management practices. In some countries family business can't exist after second generation, because they don't use management principles to manage their workers, because most of their workers are their family. To make small business grow, they have to know how to manage human resources, so that they can compete well and maintain their firm in global condition.

There are two views of human resource management, universalistic approach and contextual approach. The universalistic view of human resource management assumes that there are 'best' practices that have positive and additive effect on company performance across different organizational and environmental situation. Building of this assumption, several research studies have reported positive association between firm-level measures of human resource management practices and organizational performance (Arthur, 1994; Delaney, 1997; Huselid, 1995). The contextual approach is based on the assumption that organization adopting a particular strategy requires human resource management practices that are different from those required by organizations adopting alternative strategies. The strategies include cost, quality and innovation.

The cost strategy requires an operational system capable of transforming resource inputs to quality output and/or services at the lowest possible cost, including cost due to human resources and the respective salary payments. The organizations adopting the cost strategy would rarely justify the added expense of an elaborate training system. Further, appraisal in such organizations would be more evaluative than developmental in nature.

The quality strategy aims at continuously improving the input-output transformation process to increase output reliability and customer satisfaction. The competitiveness of entire

transformation process may be determined by 'the intellectual capital of firm'. In other words, the quality strategy is associated with comprehensive training programs and performance appraisals that are developmental in nature.

In the innovation strategy, firms can be classified as a highly innovative, moderately innovative and rarely innovative. Highly innovative firms are considered 'prospectors'. Firms that are moderately innovative are considered 'analysers', and firms that are rarely innovative are considered 'defenders'. Some research (Miles and Snow, 1978; Delery and Doty, 1996) showed that the innovation strategy correlated positively with job description, career opportunities and training and further had positive effects on return on assets and return on equity.

Evaluation is one of important factors that influence success of small business. In small business context, benchmarking approach is the best way to evaluate their organization's performance. Benchmarking is the continuous process of measuring your current business operations and comparing them with best-in-class operations.

### **Management practices**

The importance of appropriate management practices in improving a firm's performance is well recognised in literature; family firms are no exception. Lansberg (1983), and Ward (1987), for example, suggest that establishment of management practices reduce conflict and can be especially helpful to improve performance. In another study, Leon-Guerrero et al. (1998) report high utilization of business-focused management practices in successful (high revenue earning) family businesses.

The extant literature suggest that management practices includes structures and processes which link management and ownership, formal management and such human resource practices including employee reviews and written job descriptions, incentive compensation plans, training and career development plans (Leon-Guerrero et al, 1998).

## **RESEARCH METHOD**

### **Sample and Response Rate**

The data for the study were collected from the owner or director of Batik Company in Yogyakarta, Bantul, Solo, and Klaten as a central batik industry. Of the total 100 sets of questionnaires that the researcher distributed, 56 sets were returned to the researcher. Of the 44 respondents who declined cooperation cited their reasons for the need to rush to work, a waste of time, unwillingness to cooperate, and needing to catch up for meetings. The survey data collection resulted in the following Table 1. Out of the total questionnaires received, 4 sets were found to be invalid for analysis due to incomplete answers. As such, of the total 56 questionnaires received, 52 sets were counted as valid for analysis or 92.86% of the total.

### **Respondents' Profile**

The majority (45.5%) of the responding firm are from Bantul, only 7.30% from Yogyakarta, and the rest from Solo and Klaten respectively of 20.00% and 27.30%. Around sixty percent (59.40%) of the respondent are below 35 years and majority has SMA (senior high school) education level (44.20%). Most of the responding of the owner or director/manager' batik firm (80.77%) have been



employing less than 50 employees and also gaining the revenue sales less than Rp 100,000,000.00 (68.90%). The summary of Respondents' Profile in the following Table 2.

### **Variable and Measures**

The questionnaire will incorporate measurement instruments for the following variables:

*1. Performance.* Organisational performance will be measured in terms of the percentage attainment of (1) target sales revenue, (2) overall performance relative to a comparable firm, and (3) change in number of employees over the last 4 years.

*2. The management practices.* The items in Appendix A will be used to first identify which management practices a firm uses, and second, the extent of application of the particular practices that the firm uses. To assess the extent of application, the instrument will use a 5-point Likert-scale anchored at both ends. On the scale, 1 represents 'not at all' and 5 represents 'to a great extent'.

## **FINDING AND DISCUSSION**

### **Management Practices**

The questionnaire of this study was used to first identify which management practices a firm uses, and second, the extent of application of the particular practices that the firm uses. There are a few management practices has been using of an individual family firm of batik industry in Central Java. Most of the firms are not considering to much of some management practices that usually company uses.

Table 3 shows that an individual family firm of batik industry has prepared job description for each their employee (70.90%) and most of them has been used that system less than 5 years (52.80%). Only 13.90% of the firm has been used more than 20 years for coordinating their job using job description for each employee. It reveals that they just realize for distributing of job in their operational activities is important.

In term of giving bonus or incentive to their employees most of the firm (61.80%).give their employee some of bonus (incentive) that a firm pays to its employees. Table 4 shows type of bonus and the basis of bonus giving to their employees. In other case, most of the firm give “tunjangan hari raya” (THR) for each year to their each employee also. They will give them some bonus (money or sembako) as an appreciation to them.

Table 5 shows the activity of selling and purchasing on their firm in term of credit. Seventy-four point five percent (74.50%) of the firms sells on credit, and 54.50% of the firms are not willing to purchase on credit. This finding also shows that most of the firm gives the maximum of credit terms of one month.

This study looks at the methods of budgeting process by identifying some budget activities to responding batik firm. Table 5 presents the result of their budget activities in their firms. The majority (60.00%) of the responding firms has plan to set their budget of next year or next period profit; and only 58.20% of the firms get the employees involved in setting targets (budget) of the firm. But this study also find an interesting fact that most of the firm do not prepare their budget based on all the option even most of them revealed that they have prepared their budget of the next period profit (see Table 7). It may conclude that the have their own way for setting their next period of budget.

Table 8 shows the basic method of price strategy of their product. It is not surprising that about 90.91% of the firm have been using “total cost + profit = price” as their pricing method. Table 9 presents that 54.50% of the firms have been comparing the actual sales with plan (budget) sales and based on the data analysis, it also conclude that 30.9% always compare actual sales with plan (budget) sales. Fifty point nine percents (50.90%) of the firms have not been comparing the actual with their plan (budget) production and only 23.6% state that their always compare actual production with plan (budget) production. It shows that the firms have more focus on their sales rather than production.

### **Organizational Performances**

Organisational performance will be measured in terms of the percentage attainment of (1) target sales revenue, (2) overall performance relative to a comparable firm, and (3) change in number of employees over the last 4 years.

Table 10 presents the target of sales revenue that the firms set for every period. They will set the target based on their previous performance of the firm. In fact, most of them (45.00%) could not state that they are really do to set the target due to some conditions or constraints have to face it. Twenty percent (20.00%) of the responding firms is revealed that they do not set the target of sales revenue because their product’s sale based on the customers order.

This study looks at performance from the perspective of sales revenue achievement over the last four years. Overall performance of sales revenue of the responding firms shows that most of the firms were gaining the revenue in range Rp 10,000,000 to Rp 50,000,000 and it was fluctuating sales revenue in every year. We capture that most of the sales revenue achievement was getting slow down for the last four years. In fact, above 60% of the responding firms have gained the revenue in range Rp 10,000,000 to Rp 200,000,000 in each year. It looks that an individual family firms in batik industry

are survived and settled even they do not have a quite complete and properly management practice on their operational activities. In term of changing in number of employees over the last four years, we can find that the responding firms were trying to have more employees to improve their performance. Most of the firms have about 10-25 employees to support their operational activities.

## **CONCLUSION**

This study suggests that for the individual family firm of batik industry especially in Central Java to survive and grow, they need not only to improve its performances but also try to have more concern of their management processes to support their activities in term of financing, administration, and operational activities. It would be benefit for them to use technological capabilities to improve their performance also.

The process of developing management process using technology is not simple and effortless. Developing and maintaining this supporting system require both conscious effort by the firm, especially the owner and management, and also support from other institutions and governments, in terms of partnership programmed and government policy that encourage management skill development. Indonesian family business firms should consider adopting more of management practices to improve their overall performance.

As expected in all research, limitations to this study were found and should be addressed to encourage more sound research in the future. The major limitations derived from this study as explained below.

The data were only collected based on an individual family firm only in particular region which are Yogyakarta, Bantul, Solo, and Klaten. This limited statistical and especially survey data may produce different results. Other regions and research scopes should be explored to see if similar findings and results could be addressed.

It is possible that the results are due to the relatively small and localized sample in the study. It may caused the unwilling to participate of individual family firm in the batik industry as the respondent. Future research using a bigger sample covering all parts of Java Island may offer an explanation for the results.

Consequently, the above-mentioned limitations should be considered as essential and critical suggestions for the future research. Future studies should take into account these limitations to produce more complete research results.

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**Table 1. Distribution of Questionnaires**

Questionnaires	Sets	Percentage
Total Questionnaire Distributed	100	100.00%
Returned	56	56.00 %
No Response	44	44.00%
Valid Case	52	92.86%
Invalid Case	4	7.14%

**Table 2. Respondents' Profile**

Characteristic		Valid Percent	Cumulative Percent
<b>Age</b>	20-25 years	9.40	9.40
	26-30 years	15.60	25.00
	31-35 years	34.40	59.40
	36-40 years	9.40	68.80
	41-45 years	9.40	78.10
	46-50 years	6.30	84.40
	51-55 years	3.10	87.50
	56-60 years	9.40	96.90
	> 60 years	3.10	100.00
<b>Total</b>		<b>100.0</b>	
<b>Education Level</b>	SD	9.60	9.60
	SMP	19.20	28.80
	SMA	44.20	73.10

	diploma	5.80	78.80
	sarjana	21.20	100.00
	<b>Total</b>	<b>100.0</b>	
<b>Region</b>	Bantul	45.50	45.50
	Klaten	27.30	72.70
	Solo	20.00	92.70
	Yogyakarta	7.30	100.00
	<b>Total</b>	<b>100.0</b>	
<b>Firm Size</b>	<50 employees	80.77	80.77
	50-100 employees	11.54	92.31
	> 100 employees	7.69	100.00
	<b>Total</b>	<b>100.0</b>	
<b>Revenue (average)</b>	< Rp 100,000,000	68.09	68.09
	Rp 100,000,000.00 - Rp 500,000,000.00	23.40	91.49
	> Rp 500,000,000.00	8.51	100.00
	<b>Total</b>	<b>100.0</b>	

**Table 3. Job Description**

<b>Management Practices</b>	<b>Yes</b>		<b>No</b>	
	<b>N</b>	<b>%</b>	<b>N</b>	<b>%</b>
Job Description	<b>39</b>	<b>70.90</b>	16	29.10
<b>It has been used:</b>				

< 5years	52.80%
6-10 years	19.40%
11-20 years	13.90%
21-30 years	8.30%
31-40 years	5.60%

**Table 4. Bonus or Incentive that a firm pays to their employees**

Management Practices	Yes		No	
	N	%	N	%
Bonus/Incentive	<b>34</b>	<b>61.80</b>	21	38.20
Type of Bonus	Basis of Bonus			
Sales Commission	% of Sales			
Sales Incentive	% of Profit			
Money Cash	Target achievement			
Goods/Gift	(time, quality, number of product)			

**Table 5. Purchase and Sales on Credit**

Management Practices	Yes		No	
	N	%	N	%
Purchase on credit	25	45.50	<b>30</b>	<b>54.50</b>
Sales on credit	<b>41</b>	<b>74.50</b>	14	25.50

**Table 6. Budgeting Activities**

Management Practices	Yes		No	
	N	%	N	%
Budget of training	11	20.00	<b>44</b>	<b>80.00</b>
Budget of Sales	26	47.30	<b>29</b>	<b>52.70</b>

Budget of Production	25	45.50	<b>30</b>	<b>54.50</b>
Budget of Profit	<b>33</b>	<b>60.00</b>	22	40.00
Budget Participation	23	41.80	<b>32</b>	<b>58.20</b>

**Table 7. Setting Budget of the next period Profit**

Basis of setting budget	Yes		No	
	N	%	N	%
Prepared for				
• each group of product	27	49.10	<b>28</b>	<b>50.90</b>
• each group of customers	21	38.20	<b>34</b>	<b>61.80</b>
• each region	12	21.80	<b>43</b>	<b>78.20</b>
• export market	9	16.40	<b>46</b>	<b>83.60</b>

**Table 8. Method of Product's Pricing**

Method of Product's Pricing	N	%
Total cost + profit = price	50	90.91
Market price - profit = cost	5	9.01

**Table 9. Variance Analysis**

Management Practices	Yes		No	
	N	%	N	%
Variance Analysis of Sales	<b>30</b>	<b>54.50</b>	25	45.50
Variance Analysis of Production	27	49.10	<b>28</b>	<b>50.90</b>

**Table 10. Target of Sales Revenue**

Achievement Target	N	%	Achievement Target	N	%
no target	11	20.00	60-70 %	0	0.00
< 10 %	4	7.30	70-80 %	6	10.90



10-20 %	2	3.60	80-90 %	2	3.60
20-30 %	2	3.60	90-100 %	0	0.00
30-40 %	1	1.80	> 100 %	1	1.80
40-50 %	0	0.00	n/a	25	45.50
50-60 %	1	1.80			

**Table 11. The Sales Revenue Achievement Year 2001-2004**

<b>Sales Revenue</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
< Rp 1,000,000	5.00	4.70	4.70	4.50
Rp 1,000,000 - Rp 10,000,000	22.50	7.00	9.30	9.10
Rp 10,000,000 - Rp 50,000,000	<b>30.00</b>	<b>48.80</b>	<b>39.50</b>	<b>43.20</b>
Rp 50,000,000 - Rp 100,000,000	15.00	14.00	18.60	15.90
Rp 100,000,000 - Rp 200,000,000	15.00	14.00	16.30	13.60
Rp 200,000,000 - Rp 300,000,000	2.50	4.70	2.30	4.50
Rp 300,000,000 - Rp 400,000,000	0.00	0.00	0.00	0.00
Rp 400,000,000 - Rp 500,000,000	2.50	0.00	2.30	2.30
Rp 500,000,000 - Rp 1,000,000,000	0.00	2.30	2.30	2.30
> Rp 1,000,000,000	7.50	4.60	4.60	4.60

**Table 12. Change in number of employees over the last 4 years**

<b>Number of Employees</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
< 10 employees	<b>36.20</b>	<b>29.20</b>	<b>30.00</b>	<b>21.20</b>
10-25 employees	<b>38.30</b>	<b>37.50</b>	<b>36.00</b>	<b>44.20</b>
25-50 employees	<b>12.80</b>	<b>14.60</b>	<b>16.00</b>	<b>19.20</b>
50-75 employees	4.30	8.30	6.00	5.80
75-100 employees	2.10	4.20	8.00	3.80
100-150 employees	2.10	2.10	0.00	1.90
> 150 employees	4.30	4.20	4.00	3.80

