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Family Business Towards an Enterprising Family: A Theoretical Review of Performance Measurement

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ABSTRACT: Family businesses have an important role in the economy, and on the other hand also have deviations from the general assumptions of a firm. The existence of a family element in its activities makes family businesses tend to be irrational. This review aims to examine models related to their definition and performance measurement. By using a descriptive approach and literature review techniques, it is hoped that we will be able to present a clear definition of family business performance towards an entrepreneurial family. Various literature and theories provide a definition that family business is a metasystem consisting of a feedback cycle between the family unit, business entity and family members. Family business enterprises (FBE) are expected to generate transgenerational profits and wealth so that they can guarantee the creation of an entrepreneurial family. FBE performance that supports entrepreneurial families requires supernormal profits from business activities. Where FBE performance is influenced by system performance, which comes from resources and capabilities. Meanwhile, FBE's competitiveness comes from distinctive familiarity. So it can be concluded that the role of distinctive familiness is important for FBE performance and the success of creating transgenerational wealth.

KEYWORDS: family business, enterprising family, family business enterprise, distinctive familiness

I. INTRODUCTION

Family business is often defined simply as a business that is owned and/or managed by one family (Chua et al., 1999; Intihar & Pollack, 2012). Family firm (a.k.a. Family Business Enterprises) is one where a family owns enough of the equity to be able to exert control over strategy and is involved in top management positions (Pounder, 2015). This definition is still considered unclear because it does not explain in detail the various intrinsic variations in family business (Colli & Rose, 2008).

Family business enterprises (FBE) have an important role in the economy, where the assumptions of firm behavior experience deviations in FBE (Johansson et al., 2020). Figure 1 presents the revenue breakdown (%) of family business in the world, by industry in the years 2023 and 2021. Which is the consumer sector remains the top-ranking industry with 40% in 2021 and 39% in 2023.

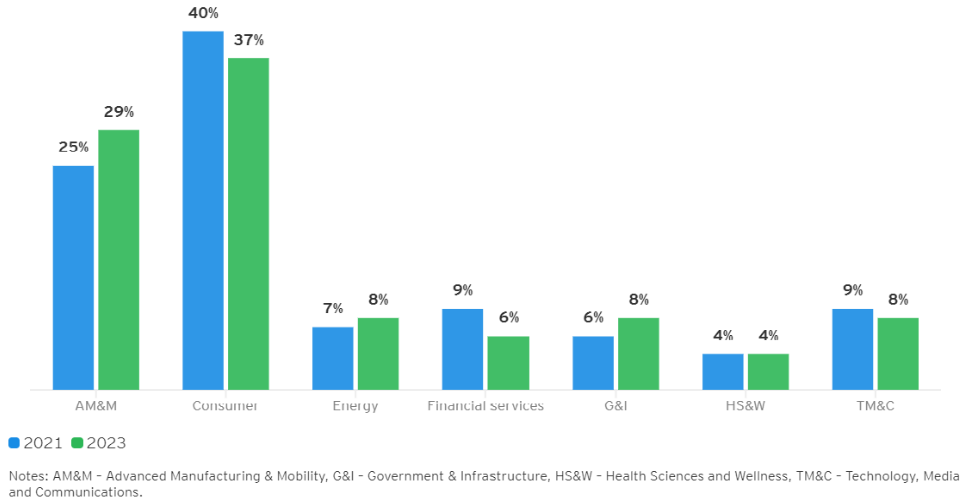

Figure 1. Revenue of family businesses by industry — 2023 versus 2021

Source: https://www.ey.com/en_gl/family-enterprise/family-business-index

Moreover, family business is also often said to be 'irrational' because of the emotional aspects, such as hereditary management and the need for special attention to relationships in business (Fletcher, 2002). ollectively, the family enterprises that were included in the 2023 EY and University of St.Gallen Family Business Index generated $US8.02 trillion in revenue from the largest 500 family (ey.com).

FBE is not only a firm that is driven for profit, but more than that, of course the expected profit is long term. So the vision of the family business is always to strive for the firm to become a source of transgenerational wealth. Family business enterprises (FBE) have their own unique characteristics when compared to non-FBE businesses. So, it becomes interesting to examine models related to the definition and measurement of performance.

II. METHOD

This research is library research designed using literature review techniques. In simple terms, the purpose of a literature review is to educate someone about a topic area before being able to provide further arguments or conduct research (Arshed & Danson, 2015). The process of achieving these goals in the literature review is presented in Figure 2.

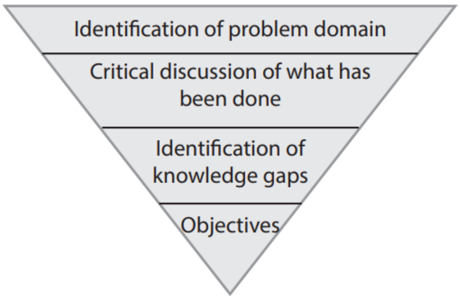

Figure 2. Illustration of the Process of Achieving Literature Review Goals
Source: Maier, 2013

Library research is research in which searches are carried out through various libraries, without the need for field research (Sari & Asmendri, 2020). A literature review is a description of theories, findings and other research materials obtained from reference materials to serve as a basis for research activities.

III. RESULTS AND DISCUSSION

The FBE performance discussed in this section does not only focus on measuring 'nominal' performance achievements, but also presents how the social system in the FBE works. So, at the initial stage it starts with a general performance proposition, where the desired result is maximization of the utility function of the family business social system, and then a theoretical explanation of its metamorphosis into an entrepreneurial family.

A. Social System of Family Business

The family business social system is a 'metasystem' consisting of three broad subsystem components, which include: (1) the controlling family unit (family unit) – which represents the history, traditions and life cycle of the family; (2) business entity – represents the strategy and structure used to generate wealth; and (3) (individual members) each family member – representing the interests, skills and life stage of the owner/manager of the family participating in the FBE.

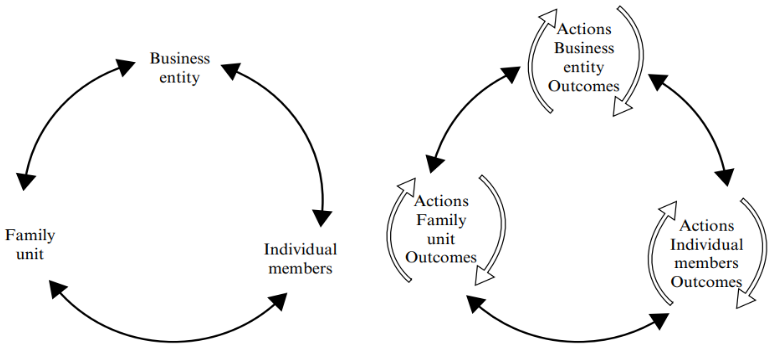

Figure 3. System Interaction in Family Business
Source: Habbershon et al., 2006.

The systemic model illustrated in Figure 4 does present a limited picture of core stakeholders, but this model is still maintained by family business 'activists' in order to be able to gain 'systemic influence'. Each subsystem requires in-depth stakeholder analysis, so that by defining the arguments in the system utility function according to stakeholder interests, the performance analysis in the system becomes stakeholder specific.

The model in Figure 4 shows a circular feedback process with continuous influence, and does not emphasize overlap. These subsystem interaction circles represent the interests of subsystem stakeholders – goals, traditions, life cycle stages, values, and so on – that result in subsystem performance or measures of success. In this case, the utility function of the metasystem, either implicitly or explicitly, depends on the subsystems and the interactions within and between subsystems. The model also recognizes that the influence of external stakeholders or the environment enters the family business social system through subsystem components included in the metasystem. It is not possible to separate the influence of one subsystem from another, or to speak as if one part of the system could be separated from another.

Performance in a family business is built from a model that takes into account various arguments to be included in the metasystem utility function, namely the level of shareholder income, the number of family members active in the business, the role of family members in the business, family reputation, short-term profits, long-term profits, share market, return on investment, level of community involvement, philanthropic importance, dividend level, fastest business sale, and/or long-term wealth accumulation, and so on (Habbershon et al., 2006).

It should be noted that the metasystem defines its own utility function based on subsystem components and systemic influences between and within subsystem components. In propositional form, the utility function for transgenerational value creation in a metasystem can be written as follows:

Utility = f(arguments that positively affect transgenerational value)

So, after understanding the utility function proposition, the next discussion can be more specific.

B. Towards Enterprising Family

The focus of the discussion on entrepreneurial families is important, because the direction of the family business is of course expected to be developed into an entrepreneurial family, as a form of transgenerational success. In the entrepreneurial families system, the achievement of the vision is largely determined by the family coalition directly in the business to direct entrepreneurial activities in the family unit, business entity and family members to pursue maximum welfare potential for the current and future generations.

FBE must focus on creating long-term prosperity because if it is not done, FBE will be eroded from the market. Only FBEs are able to create wealth that can become transgenerational entrepreneurial families. This transgeneration is of course closely related to ensuring the survival of the various stakeholders involved in the family business.

Leaders in FBE must be able to create wealth to meet common goals with profits generated above the market average (Rowe, 2001). Generating above average profits is obtained when a company achieves strategic advantages and successfully exploits these advantages compared to other companies. Companies that do not have a competitive advantage or are in an unattractive industry will earn the best average returns. The challenge in an entrepreneurial family is to develop family-based resources and capabilities that have the potential to generate profits. As long as these differentiated resources can be developed in a way that leads to competitive advantage, the result will be above-average profits and intergenerational wealth creation.

Wealth creation in entrepreneurial families is a function of shaping the performance of rent and generational rent potential. So that the first proposition can be narrowed down, and give rise to the second proposition for the entrepreneurial family performance model, namely:

Utility = f (transgenerational wealth potential)

Transgenerational wealth of the entrepreneurial family = f (rent generation potential)

This second proposition has a number of implications for the family business integrated system model that was discussed previously. First, the underlying assumption of the model is that the system is geared towards transgenerational wealth creation. Second, to generate wealth, it is necessary to articulate a performance model in such a way that the business entity subsystem obtains profits, and thus becomes a wealth creation engine. Third, because the focus of the review is on wealth creation which is influenced by the family and not just wealth creation, the articulation of the performance model is such that it can capture the unique systemic influence of the family unit and family members on the performance results of the business entity. To build such a system performance model, a strategic framework from a resource-based view of the company is used..

C. Resource-based view (RBV) in Enterprising Family

Strategic management views the RBV as a theoretical model that links organizational influence with resources, capabilities, and performance outcomes at the corporate level (King & Zeithaml, 2001). RBV scholars incorporate the perspectives of psychology, organizational development, evolutionary economics, entrepreneurship, and systems dynamics to explain this (Macintosh & Maclean, 1999). The resource-based model assumes that each organization is a collection of idiosyncratic resources and capabilities that differentiate the firm's performance over time and are the source of its profits (Hitt et al., 2001). This leads to the third family enterprise performance model proposition, namely:

Rent generation = f (resources & capabilities)

The resources in question refer to all corporate assets and organizational attributes (Barney, 1991), including the knowledge and processes controlled by them. Examples include the impact of external capital assistance (outside parties) on the growth of new businesses (Chrisman & McMullan, 2000), the impact of technological innovation on businesses (Hadjimanolis, 2000). Meanwhile, capabilities are a special type of resource – which cannot be transferred and is embedded organizationally with the aim of increasing the productivity of other resources (Makadok, 2001).

D. Kinship in Firm

The systemic influence produced by the interaction of subsystems – family unit, business entity, family members – creates a unique set of resources and capabilities. These resources and abilities have been deeply embedded in the characteristics that we call 'family factors' (*f* factors) and connote *f* resources and *f* abilities. Figure 4 shows how each of the three subsystems can generate family-based systemic resources and capabilities, which feed into the metasystem performance model. Any resources and capabilities that can be attributed to a firm may have an f factor influence, either positive (*f+*) or negative (*f*–). The *f+* factor is positioned as 'special' and has a positive influence because it has the potential to provide benefits. Meanwhile, the f- factor is 'constructive', where this factor has the potential to hinder competitiveness. For example, family-influenced firms may have unique potential in terms of trust, cost of capital, HR policies, leadership development, alliance-building strategies, decision making, and so on, depending on the specific context of the systemic influence of the family business system.

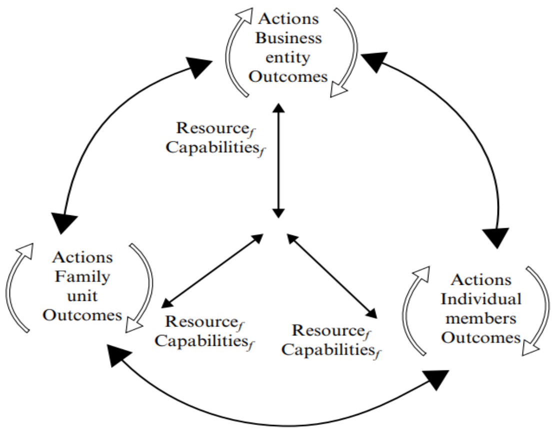

Figure 4. Resources and Capabilities

Source: Habbershon et al., 2006

In line with the model in Figure 4, Habbershon et al. (2006) further developed the fourth proportion of entrepreneurial families' performance, namely:

Resourcesf and capabilitiesf = f (systemic influences of an entrepreneurial families system)

Meanwhile, 'familiness' in a company is the sum of resourcesf and capabilitiesf (∑f) in the company. Familiarity is a potential differentiator for company performance and explains the influence of family on company performance. So it can be written:

Familiness = ∑ (resources$_f$ and capabilities$_f$)

As previously explained, 'distinctive familiarity' (∑f+) is a determinant of the availability of a company's competitive advantage. So that the fifth proposition can be formulated in FBE performance.

Advantage$_f$ = f(distinctive familiness)

Bearing in mind that the rent-generating performance of an FBE is a function of the advantages that come from the distinctive familiarity of an FBE, a final proposition can be formulated that:

Rent generating performance$_f$ = f (advantage$_f$)

So that the FBE performance model can be described in full as in Figure 5.

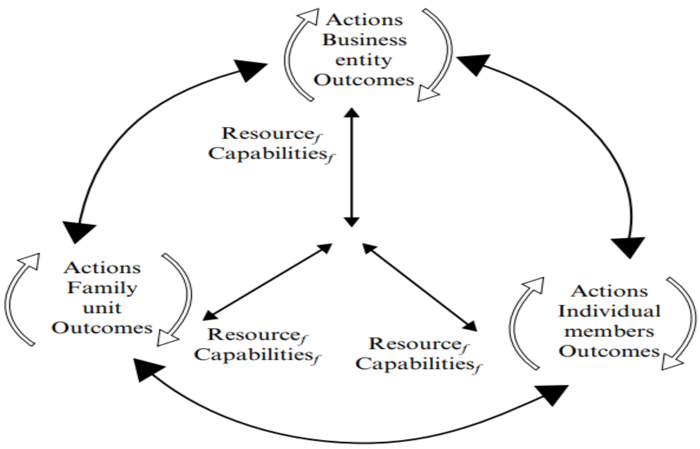

Figure 5. FBE Performance Model

Source: Habbershon et al., 2006

Figure 5 shows that the resources and capabilities resulting from subsystem interactions are capable of generating supernormal profits and rental possibilities.

CONCLUSIONS

Family business is a metasystem consisting of a feedback cycle between the family unit, business entity and family members. Family business enterprises (FBE) are expected to generate transgenerational profits and wealth so that they can guarantee the creation of an entrepreneurial family.

FBE performance that supports entrepreneurial families requires supernormal profits from business activities. Where FBE performance is influenced by system performance, which comes from resources and capabilities. Meanwhile, FBE's competitiveness comes from distinctive familiarity. So, it can be concluded that the role of distinctive familiness is important for FBE performance and the success of creating transgenerational wealth.

Future research needs to be directed at more specifically identifying distinctive familiness. This may be different for each family, but in general it can be studied from the best practices of various FBEs, and the distinctive familiness that develops.

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