GOVERNANCE IN FAMILY BUSINESS:
EMPIRICAL STUDY IN BUS TRANSPORTATION INDUSTRY

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Abstract

This study aims to provide clear explanation and answer based on the research gap of previous studies that studied about the relationship between managerial trait from family business and managerial performance. This study also investigates the phenomenon about low managerial performance that triggered low continuity of bus industry belonged to family business in Indonesia. Justification of this research is the first research about manager from family in bus transportation industry in Indonesia, considering the previous research conducted by Sudibyo (2011) related to succession of CEO leadership of Indonesian family company -according to the successor perspective and Sobirin et al., (2013) in batik industry in small scope in City of Pekalongan, Central Java. The model used for testing in this study is multivariate analyses with Structural Equation Model (SEM), which is based on AMOS program. The sample in this study is the manager that holds a position as supervisor and managerial controller of 505 persons. The number of samples is determined by proportion (%) of managers in the bus ownership industry. The questionnaires were distributed through direct distribution and by letter in June, July and August 2015. Of the distributed questionnaires, there are left 283 questionnaires. After being selected, there are 262 questionnaires that can be retested using SEM AMOS 22.0. Based on the result for 9 proposed hypotheses, there are 6 accepted hypotheses and 3 rejected ones. The accepted hypotheses are as follows: the influence of managerial trait in family business on soft governance capability which has coefficient value of 0.517 that shows positive and significant relationship since CR value is 2.705 and significant at 0.007, the influence of soft governance capability on managerial performance which has coefficient value as 0.506 that shows positive relationship since CR value is 6.183 and significant at 0.000. These results prove that soft governance capability has an ability to mediate the relationship between casualties of managerial trait variable on bus transportation industry in Jakarta, and it is significant with alpha value 5%. 

Keywords: Managerial Trait, Proorganizational Behavior, Soft Governance Capability, Family Dynamics, Managerial Performance

1. INTRODUCTION

Governance means different things in different organizations but can be particularly difficult to define in family run businesses. Complex dynamics between family members, different visions for strategy development and ownership as well as succession, can create quite an emotional
environment in many family-run companies and make decision making a difficult process. That’s why defining clear values, mission and strategy are particularly important in family businesses. The family business has a far-reaching influence on economies throughout the world. No other type of business has driven economic development in the same way and today, in almost all countries, family businesses including such giants as Ford, Levi Strauss, L’Oréal and Ferrero are the source of more than half of the Gross National Product (GNP) and employment.

Past research into the phenomenon of the family business is surprisingly small in quantity and rather shallow in its theoretical consideration (Kohsaka, 1993). This was probably due to the wide acceptance of Berle and Means’ concept of the ‘managerial firm’ as the dominant theoretical paradigm for studying companies, focusing on issues such as the separation of ownership and control as well as agency costs. The research gap becomes the main factor to perform in this study since there are a lot of different opinions and inconsistencies of family influence on the managerial trait. Some researchers such as Amran (2012), Lin and Hu (2007), Anderson and Reb (2003), and Wesley (2010) also stated that managerial trait will influence managerial performance. Meanwhile other researchers (Barontini and Caprio, 2006; Chahine, 2007; Chua, 2003; Cohen and Lauterbach, 2008; Gordini, 2012; Navarro, 2011) also stated that managerial trait from their family will not significantly influence managerial performance.

This study also investigates the phenomenon of low managerial performance that triggered low continuity of bus industry belonging to a family in Jakarta, Indonesia by a new concept of Soft Governance Capability that will pass the description. There is phenomenon of the low rate of managerial performance from the family business in Indonesia that causes the discontinuity of family manager regeneration as found by Susanto (2011).

This study aims to provide a clear explanation and answer on research gap of previous studies about the relationship between managerial trait from the family business and managerial performance. The systematics of the research paper is as follows: introduction, review literature review, the development of empirical models and nine hypotheses. Next are methods, results, and discussions and in closing are the conclusions and business implications, while reference is a reference to this research paper.

2. LITERARY REVIEW

Dyer (2006), Villalonga and Amit (2006), Westhead and Howorth (2007) divided the family business into three parts based on ownership, ownership, and managerial control. Meanwhile, Boué (1999), Basco and Rodriguez (2011) categorized family business into four types based on the internal decision, family consideration in business process, unleashed systematically rule. Sharma and Nordqvist (2007) developed family business typology based on ownership spectrum. Soft governance based on ownership is developed by Lussier and Sonfield (2012) and Yu et al. (2012), who promoted family business into some construct clusters, they are performance, strategy, social impact and economy, governance, succession, family role and family dynamics.

Al Abduwani (2012) introduced soft skill wheel which consisted of three variables, situational, personal and interpersonal variable. There have been many studies on hard skill or technical aspect, our concern is not only about valuing its relative contribution and skillful component but also documenting the existence of soft skill in an organization (da Silva dan Tribolet, 2007; Hillmer, 2007). The theory about capability comes from Amarta Sen in Robeyns (2003) that defined capability as a basic skill which will become a subset of an ability, refers to life continuity and poverty avoidance. Valdya (2011) and Tsasis (2009) stated that internal cooperation may be formed by two organizations or more that pursue their common aims together. Ahenkora and Adjei (2012) and Chau and Witcher (2008) performed research in managerial capability to run an organization effectively. In a long-term, it will help improving leadership in an organization and family business (Chua et al., 2003; Ibrahim et al., 2001).

Other scholars that studied dynamic capability are Anand et al., (2009), Eisenhardt and Martin (2000). Based on concept tracking, it can be synthesized as Soft Governance Capability and proposed as follow: Soft Governance is an ability to manage a family business which is characterized by a volunteer, open partnership, motivation, ethics to create and push potential managerial performance.

This proposition is proposed differently from previous governance theories on technocratic tradition and bureaucracy about efficiency that was formerly used by OECD and referred by many authors (Jessop, 2003; Esmark; Bevir, 2003 and Triantafillou, 2010).

2. THE DEVELOPMENT OF EMPIRICAL MODEL AND HYPOTHESES

2.1. The influence of managerial trait from family business on pro-organizational behavior

This study is about the changes of a managerial trait from a family business that depends largely on self, report, and multiple questions as the determination of changes in behavior and traits (Zairi, 1998; Hasson, 2007). Manager trait from family business shows self-efficacy that influences the product development and arouses commitment in pro-organizational behavior (Busch, 1998; Friedkin and Johnsen, 2003). Moreover, Schwarz & Bahmer (2001) and Schwarz and Clore (1988) explained empirical order responded by an employee under supervision. Wood (2012) provided evidence that show the relationship between enriched work design by the manager and organizational performance and mediated by employee welfare which will finally influence organizational loyalty. Stites and Michael (2012), Bramer (2007) found evidence about the relationship between employee perception and organizational commitment in the manufacturing industry. King and Lennox (2001), Fazio and Zanna (1981) and Ajzen (2001) stated that managerial practice which is oriented on employees has been proved to be the best tool to push employee commitment.
Based on the explanations above, it can be concluded:

1. The better the manager trait of the family business, the stronger the pro-organizational behavior will be.

2.2. The influence of manager trait of family business on soft governance capability

Organizational commitment, leadership, and performance have been seriously investigated by Sosik (2001) and Graham et al (2013). They categorized managerial leadership of the family business. Managerial competence of family business also arouses belief on the organizational system and influences organizational performance (Lahdevuori, 2013).

If managers want to get trust and acknowledgment, they need to consider employee’s needs and development through the specific aspect of unsatisfaction possibility and their social relationship (Bang and Jorgensen, 2007). Al Abduwani (2012) stressed soft governance through soft skill wheel which consists of the situational, operational and personal variable. It is strengthened by Hillmer (2007) who said human capital as knowledge, skill, and ability that will help increase productivity and performance.

Based on the explanations above, it can be concluded:

2. The better the managerial trait of the family business, the higher soft governance capability will be.

2.3. The influence of manager from family business to family dynamics

Managerial trait had been investigated by some scholars (Graves, 2012 and Den Hartog et al., 2013). They tested the effect of a managerial trait which is influenced by psychological pressure, career satisfaction and performance when a manager faces risk. A manager that can build conducive relationship personally will significantly decrease family dynamics in a family business (Levenson, 2006; Heslin & Vande Walle, 2011)

Brower (2008) found that managerial openness shows the unique relationship between manager and the owner of the family business. In this context, managerial openness will respond any dynamics occurred in the family business (Chua, 1999; Rautiainen, 2012). The manager has to be able to balance family dynamics (Mannarino and Rocotta, 2008).

Relational dynamics in a family business is the relatedness accumulation among managerial styles in a family business (Scranton, 1992; Michaud, 2005). Serious consideration needs to be included because family conflicts are highly correlated with family dynamics and succession (Nasser, 2013).

Based on the explanations above, it can be concluded:

3. The better the managerial trait of the family business, the stronger control on family dynamics will be.

2.4. The Influence of family dynamics on soft governance capability

Creativity to respond environmental dynamics (both family and external environment) is influenced by managerial openness and ability to build a relationship. It is also postulated by Joo (2007), Yeh (2012). It is in line with the result from (Bryan, 2006; Dulebohn, 2012). They indicated that family business has prepared a “prince” to become a manager of the business through continuous training which is suited to organizational size. The purpose of this training is to improve managerial capability.

Meanwhile, the results from Michaud (2005), Mueller (2013) and Connely (2013) stated that family business must be reminded not to reach individual ambition by sacrificing other interest and fail to solve organizational problems that may emerge. As a result, an organization needs anticipation to face family dynamics which is triggered by an event or action that is accumulated by pressure, an opportunity to make a basic change through resources availability, environment and family business purpose (Gersick, 1997; Lines, 2004). Based on the explanations above, it can be concluded:

4. The stronger control on family dynamics, the higher soft governance capability will be.

2.5. The influence of family dynamics on managerial performance

Craig and Moores (2005) and Hannah (2013) focused their studies in some variables, they are financial, innovative, learning, customer and succession planning variables that become important business dynamics as they will influence managerial performance. The relationship between family dynamics and business strategy can be tracked from Aukén and Werbel (2006), Short (2009) and Fletcher, 2010 in which family business continuity depends on the family commitment and entrepreneurial orientation that will finally influence managerial performance of family business.

Generally, Smith (2007), Cheot and Xiangkang (2009), Gunday (2011) investigated the difference between strategy and its implementation through the small size family management team. Longenecker (1997), Chua and Sharma (1999), Ittner (2003) and Lee (2006) confirmed that family dynamics in a family business will push higher performance and income development continuously. It will be much more beneficial if a family member is involved with management.

Family involvedness is an important factor in family dynamics that will influence managerial performance (Kotey, 2005, Bititci, 2006; Wee and Ibrahim, 2012; Doshi et al., 2013; Conchie, 2013).

Based on the explanations above, it can be concluded:

5. The better the managerial trait of the family business, the higher soft governance capability will be.
2.6. The Influence of soft capability governance on managerial performance

The novelty will be tested empirically. It is in line with Colman et al., (2011), Lu & Sonfield (2012) a Greenhouse & Powell (2006) who tried to relate managerial practice capability with the use of infrastructure and informative and technology software. Greenhaus and Powell (2000) and Schwepker Jr and Good (2013) proved the relationship between managerial leadership and organizational trust, sales performance, and managerial performance. Parnell and Dent (2009) and Auden (2006), Holloway and Holloway (2009) and Gruman and Saiks (2011) investigated managerial practice which is related with an intuitive role to build managerial performance togetherness. Other relevant evidence about a managerial ability that can move employee involvedness are self adjustment, apologizing, courage, empowerment, accountability, originality, humble attitude, and service that all will influence managerial performance (Yarrington, 2007; Siu, 2010; Dierendonck, 2011; Lu, 2012).

There are five factors that influence the relationship between soft skill capability and managerial performance, they are trust, communication, response to employee aspiration, and rule order (Li and Lin, 2006; Gunasekaran, 2008; Hatala and Lutta, 2009; Charbonnier-Voirin et al., 2010, Ehtesham et al., 2011).

Based on the explanations above, it can be concluded:

H6: The higher soft governance capability, the higher managerial performance will be.

2.7. The influence of pro-organizational behavior on soft governance capability

The concept of Self Determination Theory (SDT) was firstly introduced by Ryan and Deci (2000) and continued by Wallace (2013). As a result, high employee involvedness in the workplace will improve managerial effectiveness to run a strategy (Brummelhuis, 2010; Ng and Feldman, 2010). In soft governance capability context, helpful behavior which is initiated by family can help improving helpful willingness among team member, as it is conceived by soft governance capability.

Stewart (2010) performed some research by showing leadership approach on the individual rate which is closely related with pro-organizational behavior. Another result from this study stated that organizational commitment to its employee (OCE) will improve managerial performance. The organizational commitment will also increase the quality of decision-making process that pushes adequate, collaborative and initiative informational management (Florea and Florea, 2013; Islafatun, 2013; Adiprasetyo, 2013; Soenjoto, 2013).

Furthermore, the process of knowledge creation and perception are closely related to pro-organizational performance. This process has been proven to be the best tool to improve organizational learning in managerial competence repairment and organizational soft governance (Duh, 2007; De Groot and Antonsson, 2012; Song and Kolb, 2013). Decision making process in foreign investment can explain organizational behavior through a proorganizational perspective which is associated with manager's entrepreneurial orientation (Skarlicki et al., 2008; Kaya and Agca, 2009; Wilks, 2011 and Illie, 2012).

Based on the explanations above, it can be concluded:

H7: The stronger pro-organizational behavior, the higher soft governance capability will be.

2.8. The influence of reorganization behavior on managerial performance

Wall et al., (2004) and Appelbaum et al., (2006) argued convergent validity as the measurement tool of subjective and objective managerial performance. In addition, the influence of various manager on managerial performance is proven to be the strong employee's initiative and commitment for an organization compared with an organization that has more homogenous employee and manager (Hambrik and Mason, 1984; Nishii, 2007; Morin, 2011, Kanten and Ulker, 2013).

Next, Thomas and Pandey (2010), Zribi and Souai (2013) and Ng et al., (2014) had proven the relationship between high performance and certain characteristics such as future orientation, optimism, and active orientation that all will contribute to manager's success. Yukl and Mashud (2010), Rishipal and Jain (2013) underlined the importance of managerial effectiveness to be the most important element in managerial performance as the tool to push competitive advantage for an organization.

Webster and Adams (2010) and Choudhary (2012) also tried to investigate the managerial effectiveness as the main attention of a research.

Based on the explanations above, it can be concluded:

H8: The stronger pro-organizational behavior, the higher managerial performance will be.

2.9. The influence of managerial trait of family business on managerial performance

Positive attitude attribute such as trust will be formed in involvedness. Negative attitude attribute such as reward and organizational fairness will positively influence the achievement of managerial performance (Rynes, 2002; Lee, 2006; Chitoor and Das, 2007). In such a context of family business, Winter (2004), Tsai et al., (2007), there is a positive relationship between managerial trait and managerial performance of the family business. It explains that an organizations with strong market share will achieve more positive managerial trait on work autonomy and reward for their performance (Chahine, 2007 and Vicente, 2013).

Chompuken (2011) and Lotto (2013) stated that managerial trait positively related to targeted performance, empowerment and managerial performance effectiveness. In family business context, Kok et al., (2003) and Davies et al., (2010) proved that professionalism is influenced by personal managerial competence and it will finally influence organizational performance.
Based on the explanations above, it can be proposed:

H9: The better the managerial trait of the family business, the higher the managerial performance will be.

Based on the developed model, literary review and proposed hypotheses, the empirical model in this study can be described as follows:

**Figure 1. The empirical research model**

![Diagram of the empirical research model]

### 3. METHODS

Population in this study are the managers that hold a position as a managerial controller as 505 persons. The number of samples is determined by proportion (%) of managers in bus ownership industry. The questionnaires are distributed through direct distribution and by letter in June, July and August 2015.

The research variables used, consist of 5 variables measured using indicators: The Managerial Trait of Family Business (6 indicators), Proorganization Behavior (6 indicators), Soft Management Capability (8 indicators), Family Dynamics (12 indicators), and Managerial Performance (8 indicators). Of distributed questionnaires there left 283 questionnaires, after being selected, there are 262 questionnaires that can be retested using SEM AMOS 22.0.

### 4. RESULT AND DISCUSSION

Based on the respondents in the bus transportation industry is dominated by male managers (100%). Thus it can be understood that men are the parties who deal more with matters relating to the operational management of bus transportation companies, are no exception to family-owned companies.

Based on the age in this study, most of the manager and the owner of family business fills the age range between 40 till 50 years of age as 36.73%. The owners/managers that come from family and fill the age range (>25 years) are 32.66%, whereas the younger one that fills the age range between 31 until 40 years of age are 26.53%. The owners/managers from a family who fill the age range from 21 until 30 are 4.08%, and there is no respondent under 20 years of age.

Based on the educational background, most respondents have at least Diploma degree as 83.67% and the rest of it is from Post Graduate program as 16.33%.

#### 4.1. Goodness of fit model test

SEM testing aims to view the adjustment model. The result testing of full model is presented in table 1 below.

<table>
<thead>
<tr>
<th>Goodness of Fit</th>
<th>Cut off value</th>
<th>Result Model</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute Fit Measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(\chi^2)-Chi-square (df=1)</td>
<td>(\leq 3.84)</td>
<td>2.782</td>
<td>Fit</td>
</tr>
<tr>
<td>CMIN/DF</td>
<td>(\leq 2.00)</td>
<td>2.782</td>
<td>Un fit</td>
</tr>
<tr>
<td>Probabilities</td>
<td>(\geq 0.05)</td>
<td>0.095</td>
<td>Fit</td>
</tr>
<tr>
<td>RMSEA</td>
<td>(\leq 0.08)</td>
<td>0.088</td>
<td>Moderate</td>
</tr>
<tr>
<td>GFI</td>
<td>(\geq 0.90)</td>
<td>0.995</td>
<td>Fit</td>
</tr>
<tr>
<td>Incremental Fit Measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGFI</td>
<td>(\geq 0.90)</td>
<td>0.927</td>
<td>Fit</td>
</tr>
<tr>
<td>TLI</td>
<td>(\geq 0.95)</td>
<td>0.981</td>
<td>Fit</td>
</tr>
<tr>
<td>CFI</td>
<td>(\geq 0.95)</td>
<td>0.998</td>
<td>Fit</td>
</tr>
<tr>
<td>NFI</td>
<td>(\geq 0.95)</td>
<td>0.997</td>
<td>Fit</td>
</tr>
</tbody>
</table>

Based on model testing, it shows chi square value \(2.782\) is lower than cut off value 3.84, it means that the model is similar to empirical data. As a result, model fit can be accepted. GFI value (1.000), AGFI value (1.995), TLI value (0.982), CFI value (0.998) and NFI value (0.997) from the model has
filled required criteria and the model shows no difference between predicted model and observed data. RMSEA value (0.088) is in the range 0.08 till 0.10, it shows that the model is accepted moderately. It is supported by adequate measurement. As a result, the predicted model is accepted and suited with observed data.

4.2. Causality testing (significance test) – regression weight

Output result of full composite model from the empirical model is presented in table 2.

| Table 2. The full model hypothesis testing of the regression weight |
| --- | --- | --- | --- |
| Pro-Organization Behavior | The Managerial Trait Of Family Business | .911 | .055 | 16.586 | 0.000 |
| Family Dynamics | The Managerial Trait Of Family Business | .804 | .050 | 15.950 | 0.000 |
| Soft Governance Capability | The Managerial Trait Of Family Business | .517 | .191 | 2.705 | 0.007 |
| Soft Governance Capability | Family Dynamics | .397 | .077 | 5.156 | 0.000 |
| Soft Governance Capability | Pro-Organization Behavior | .005 | .174 | .028 | .978 |
| Managerial Performance | Family Dynamics | .410 | .066 | 6.194 | 0.000 |
| Managerial Performance | Soft Governance Capability | .506 | .082 | 6.183 | 0.00 |
| Managerial Performance | The Managerial Trait Of Family Business | -.145 | .169 | -.861 | .389 |
| Managerial Performance | Pro-Organization Behavior | .216 | .142 | 1.520 | 0.129 |

Table 3. Standardized Regression weight for hypotheses testing

| Pro-organization behavior | The Managerial Trait Of Family Business | .908 |
| Family Dynamics | The Managerial Trait Of Family Business | .800 |
| Soft Governance Capability | The Managerial Trait Of Family Business | .514 |
| Soft Governance Capability | Family Dynamics | .397 |
| Soft Governance Capability | Pro-Organization Behavior | .005 |
| Managerial Performance | Family Dynamics | .410 |
| Managerial Performance | Soft Governance Capability | .507 |
| Managerial Performance | The Managerial Trait Of Family Business | -.145 |
| Managerial Performance | Pro-Organization Behavior | .217 |

Table 2 shows 6 of 9 relationships that have significant influence at significant rate 5% with CR > 2.00 and p-value < 0.05. As a result, CR value shows that the relationship between variables in this model significantly influence each other, therefore the hypotheses can be accepted. Table 3 shows causality relationship from 9 hypotheses, and it shows that there are 6 relationships which have CR value > 2.00 and significant at > 0.05.

5. CONCLUSION

First, the result testing for hypothesis 1 stated that managerial trait positively influences pro-organizational behavior, it enriches some previous studies (Wood, 2012; Stites & Michael, 2011). Second, the result testing for hypothesis 2 stated that manager from family business trait positively influences soft governance capability, it enriches some previous studies (Barbuto, 2005; Rowold and Wolff, 2009; Wu, 2013). Third, the result testing for hypothesis 3 stated that manager trait positively influences family dynamics, it enriches some previous studies (Latham & Baun, 2009; Wu & Chaturvedi, 2009). Fourth, the result testing for hypothesis 4 stated that family dynamics positively and significantly influence managerial performance. It enriches some previous studies (Pattilo and Soderbom, 2009). Fifth, the result testing for hypothesis 5 stated that family dynamics positively and significantly influence managerial performance, it enriches some previous studies (Lavie, 2010 and Mueller, et al., 2013). Sixth, the result testing for hypothesis 6 stated that soft governance capability positively influences managerial performance, it enriches some previous studies (Schwepker & Good, 2013; Gruman & Saks; 2011; Ehtesham (2011). Seventh, the result testing for hypothesis 7 stated that this hypothesis is denied, it is in line with Ilie (2012) and Skarlicki (2008), but different from Bennet and Robinson (2000) who stated that unethical pro-organizational behavior is frequently done by an employee to protect negative things from an organization. Eighth, the result testing for hypothesis 8 stated that there is positive but not significant relationship between pro-organizational behavior and managerial performance. It is line with Appelbaum (2006), Morin (2011) but different with argue from (Kanten & Ulker, 2013; Chiaburu, 2013). Ninth, the result testing for hypothesis 9 stated that there is a negative and insignificant relationship between managerial trait and managerial performance, it is in line with evidence from Cremes and Petajisto (2008) and Gordini (2012) that recommend the family business to be performed by internal people.

The managerial implications are two strategies: (1) to improve managerial performance by fixing family managerial trait that will increase soft governance capability, and it will finally increase managerial performance, (2) to improve managerial performance by fixing family manager trait that will strengthen control and family dynamics, and it will finally increase soft governance capability.
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