

BALANCING BUSINESS DIMENSIONAL AND FAMILY DIMENSIONS IN FAMILY BUSINESS: OWNERSHIP APPROACH

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ABSTRACT

To balance between business dimension and family dimension with ownership approach should consider three factors: (1) family control, (2) shareholders liquidity, and (3) growth capital. Family control has an influence on the ability to control the company. Shareholders liquidity has influence on the voting rights of shareholders. Last is the growth capital that has an influence on operationalize the company efficiently. Using Sharma's performance matrix, the best type of family business is a professional family business (FB) rather than a family business with family oriented (Fb) or a family business with Business oriented (fB). Although the FB has difficulty balancing the business dimension and family dimension.

Keywords: Family Control, Shareholders Liquidity, Growth Capital, Sharma Performance Matrix

INTRODUCTION

Family business is different from non family business. In the family business there is a business problem itself (same as non family business) related to competition with competitors either a kind or not the same. The uniqueness in the family business is the existence of family problems and ownership (Davis, 1999). Family issues related to family business are genogram, influential people, and regeneration process. The ownership issue associated with the family business is the controlling shareholder and continues on the offspring.

Composition of ownership in family companies in the world as much as 68% of the total go public company is a family ownership. The majority of large companies in the Indonesia Stock Exchange (IDX) about 80% controlled by the family (Atmaja, 2016). This amount of ownership provides sufficient authority to regulate the performance of the company. This means ownership is closely related to the performance of the company and causes to decrease of the agency problem.

In general, how to analyze a family business is treated the same as a non-family business. Whereas the purpose of family business is a multi-dimensional goal. There is a business dimension that pursues profitability and growth but behind it there is a family dimension that prioritizes harmony among family members. For that reason, in this literature study will discuss balancing the business dimension and family dimension in family business.

LITERATURE REVIEW

Family business dominates the global economy (LaPorta, Lopez-deSilanes, and Shleifer, 1999). This family business is different from a non-family business organization because of the overlap between the family system and the work system. These controlling family members significantly influence the company's strategic objectives and direction and will ultimately determine the company's performance and viability. To achieve longevity and prosperity, family firms must achieve the efficiency and effectiveness of business goals. In addition, family firms also pay attention to family oriented goals such as harmony, transition generation, and ownership issues.

The purpose of family business is a multi-dimensional goal. Often in family businesses, the goals for family harmony, reputation, and continuity are more important than more business-focused goals such as profitability, growth, and survival.

Company performance based on business dimension and family dimension can be grouped into four orientation (Ward, 1987) that is: (1) Fb – Family Business with Family Oriented, (2) fB – Family Business with Business Oriented, (3) FB - Professional Family Business, and (4) fb – Family Business Without Orientation. Sharma (2004) developed a basic matrix to demonstrate the performance of family firms based on family dimensions and business dimensions. High performance in the family dimension helps build capital capacity and emotional resilience in the family, while high performance on the business dimension builds financial capacity. Companies that acquire a high level of emotional and financial capital will increase resilience to overcome challenges and build opportunities as families and corporations undergo different stages of life (Hoy and Sharma 2010). In other words, cell I (FB) as shown in Figure 1 is the ideal position for a family company. However, from time to time, the family company may find itself in one of the other three cells.

<p>CELL 1 (+) Performance on a business dimension (+) Performance on a family dimension FB Emotional capital is high High Financial Capital</p>	<p>CELL 2 (+) Performance on a business dimension (-) Performance on a family dimension fB Emotional capital is low High Financial Capital</p>
<p>CELL 3 (-) Performance on a business dimension (+) Performance on a family dimension Fb Emotional capital is high Low Financial Capital</p>	<p>CELL 4 (-) Performance on a business dimension (-) Performance on a family dimension fb Emotional capital is low Low Financial Capital</p>

Figure 1: Sharma Performance Matrix

Source: Sharma, Blunden, Labaki, Michael dan Algarin, 2013

From the results of the research indicates that family firms with clear goals in one dimension or another dimension (Fb or fB) tend to perform better on selected dimensions. In professional family business (FB), the corporate leaders work hard to balance between family goals and business goals. This position is the most challenging. Although constant competition to achieve family and business goals requires serious attention, these ambiguous companies will perform better than family business with family oriented (Fb) or family business with business oriented

(fB) (Basco and Pérez Rodriguez 2009). The results of Kusumawati (2014) showed that firms with high family ownership had lower agency conflict rates than those with low family ownership.

The results of research conducted by Athalia Hidayat and Edward Luwinar on the influence of family control on the financial performance of the company show that: (1) the financial performance of family buainwaa is lower than non-family business, (2) the financial performance of family business under the leadership of the CEO of the next generation lower than the performance of a family business that has a professional as a CEO as well as those still led by the founder (family founder) and (3) the company with the founder as the founder chairman and the next generation as the chief executive (descendant CEO) has the lowest financial performance compared to other board of commissioners-directors (Atmaja, 2016). This is in line with the theory that parents tend not to bear their children.

ANALYSIS AND DISCUSSION

To balance the family dimensions and business dimensions there are 3 important things that need to be analyzed. First is the family control. The dimension of control is the level of family involvement in: ownership, management and governance functions as shown in Table 1. The level of family control determines the extent to which the family has the potential to exercise power and influence strategic decisions. In the early stages of family business, management and ownership are concentrated in the same person. At the growth stage of family business, there is a change of family control as a result of company transition from one generation to the next which requires big capital for company growth.

There is evidence to suggest that corporate performance is affected differently by family involvement in ownership, governance and management determined by the complexity and size of the firm. In small companies, families typically dominate ownership and management teams to help the company's performance as a result of very efficient and slim governance. However, in larger companies it is necessary to open ownership to outsiders to finance growth and encourage company performance. In addition, the complexity of managing large companies requires expertise to manage them so it needs to open management positions for non-families.

Table 1: Family Control Dimensions

Attribute	Opportunities	Challenges
Management 100% non family	Superior management expertise, given the broader population of managers to select from	Agency conflicts: control of nonfamily managers, expensive incentives, loss of family-firm-specific culture
100% family	Efficient leadership, preservation of tacit knowledge	Lack of expertise among family managers, conflicts (e.g., altruism)
Ownership Family with minority stake	Access to nonfamily capital and opportunities for growth	Reduction of family influence and reduced focus on family goals; short-termism
100% family	Powerful position of family, tight control of the firm and its values	Abuse of power, limited growth opportunities
Governance 100% nonfamily	Independent advice and control	Loss of family influence
100% family	Ensured family control	No access to external expertise and control

Source: Zellweger, Thomas, 2017: 10

The control dimension is determined by the number of family controls while the complexity dimension measures the complexity of the family control. The complexity of family control increases as the number of family owners and managers increases. The owner-manager constellation shows a fairly simple form of governance with one person having multiple roles as owner and manager. The advantages of this form of governance are the speed and efficiency of decision making, and the absence of owner-manager agency problem. The challenge is the lack of access to external advice and external capital to fund growth and related to succession issues.

Table 2: Complexity of Family Control

Attribute		Opportunities	Challenges
No. of Family owner	1	Efficient and fast decision making	Lack of external capital, undiversified owner wealth
	2 - 5	Committed and patient owners	Conflicts with potentially severe consequences because of deadlock
	5 or more	Committed and patient owners	Coordination among owners, lack of identification with the firm
No. of Family managers	1	Efficient leadership, few control problems	Lack of expertise and dedication in later generations, succession problems
	Several	Support, commitment, trusted relationships	Relational and task conflicts
Configuration	Owner-manager	Efficient leadership and control	Role overload, responsibility
	Cousin consortium	Culture of commitment and support	Relational conflicts, coordination and communication, identification with the firm

Source: Zellweger, Thomas, 2017: 11

As the number of owners and managers increases, the need to coordinate, communicate and improve family governance is increasing. This need is followed by an increased potential for conflict as shown in Table 2.

The main issue of family ownership is that with only 51% ownership, the family can already control a company. That is, the majority shareholder can enjoy private benefits of control at the cost of minority shareholders.

The second is the shareholder liquidity. Periodically shareholders in family companies need liquidity to meet family needs. However, growing companies need additional capital. In this difficult situation, conflicts will occur between meeting the needs of the company's capital and the liquidity needs of its shareholders.

At large companies usually have made liquidity plans for shareholders. Funding from this liquidity plan comes from internal funds in the balance sheet or from free cash flow of a business, or from external debt or equity capital.

There are two approaches to making a liquidity plan (fbcg, 2017): (1) providing a total exit for shareholders wanting out, (2) providing money for those who want to remain shareholders but also seek some personal funds; and (3) a combination Both of which must be determined as part of a family shareholder agreement.

"Total exit" is done by entering into a sale and purchase agreement, in which there is pricing and terms of payment. Therefore, a formula for assessment and payment requirements that

ensures business continuity is required. However, most families will remain shareholders and the owners' family feels a commitment to protecting other interested parties such as employees, communities and future generations of family owners.

The valuation of formula is calculated based on the profit and / or book value that has occurred. Payment terms are usually between three to ten years, secured by an interest-paying note, with conditions that restrict payments in case of a company's cash flow issue. The seller's shareholders do not retain the voting role, but may receive a provision that boosts the payout if the business is to be sole in the near future (fbcg, 2017).

The more complicated is the means to provide partial liquidity that is the ability to sell a portion of one's shareholdings. The main issue is how the sale of some shares will affect the family's harmony and governance structure. For example, if someone sells half of his shares, does he still have a full vote in the Family Council? Or, will he still receive all the same benefits, like shareholder meeting costs?

If large families, corporations can make occasional public bidding for redeem shares. Certain sums are set aside for this purpose and sales are proportionally received to one's holdings. This buyback event can not occur regularly or often without causing significant tax losses. In other cases, the family business "makes the market" in the company's stock by connecting potential buyers and sellers in the family. Still others maintain a standing redemption fund, ready to make purchases at specified prices and terms. Family businesses take this approach in collaboration with their advisers to avoid triggering tax problems.

Dividend distribution or partial distribution of corporate profits is a more general way to provide shareholder liquidity. The drawback is everyone has to get a dividend whether they want it or not, the business retention of capital for growth is compromised and possibly high tax costs.

Another liquidity plan is to allow shareholders to borrow against their shares. Corporations set up arrangements with banks and guarantee their loans. The advantage is that shareholders do not have to give up their positions of ownership, and corporations usually do not have to have cash first. The disadvantage is that the borrower may overextended and the corporation may be forced to provide collateral. To reduce this risk, some liquidity plans only guarantee about 50% of the value of the stock.

Other methods of increasing liquidity (fbcg, 2017) are: (1) taking the business public, (2) having a standby buyer (3) creating an employee share ownership plan / ESOP) and (4) forming a family trust fund Individual needs.

Generally, liquidity based on time dimension is divided into 3 namely: immediate, curret, and ongoing. For ongoing can be done by investing in liquid security. This Immediate happens when the shareholder dies or there is a dispute between shareholders so that his share ownership is sold. Current arises from shareholders to meet basic needs. Without flexibility, they are difficult to increase the value of the company.

Third is growth capital. Growth of working capital is an excess of current assets from current liabilities is beneficial to operationalize the business today and provide future funding needs. The need for working capital funding is derived from internal cash flow or by optimizing short-term debt. The more competitive, the greater the need for funds. Good cash management can help solve problems by matching funding needs with cash flow, optimizing processes, and changing performance metrics to build a cash culture and reduce service costs.

CONCLUSION

To balance between business dimension and family dimension with ownership approach should consider three factors: (1) family control, (2) shareholders liquidity, and (3) growth capital. Family control has an influence on the ability to control the company. Shareholders liquidity has

influence on the voting rights of shareholders. Last is the growth capital that has an influence on operationalize the company efficiently. All three models can be modeled below:

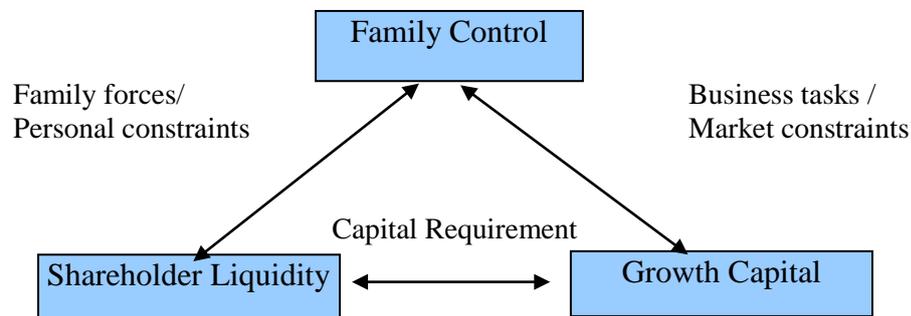


Figure 2: Balance of Family Dimensions and Business Dimensions

Source: Aronoff, Craig E and John L. Ward. 2011.

Using Sharma's performance matrix, the best type of family business is a professional family business (FB) rather than a family business with family oriented (Fb) or a family business with Business oriented (fB). Although the FB has difficulty balancing the business dimension and family dimension.

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