

The 6th International Conference on Entrepreneurship
THE PROPOSAL FOR FAMILY CONSTITUTION ON UD. XYZ
(CASE STUDY: UD. XYZ)

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ABSTRACT

This research is a case study discussing about family constitution on UD. XYZ, which is a family business. There are three elements that make up a family constitution. The findings of this research shows that in the first element, Family Values and Beliefs, which has four points indicates that UD. XYZ fulfills those requirements. On Family Values and Goals that consists of 12 sub-points, also shows that UD. XYZ already met all the criteria. The second element, Family Business Principles, shows that the requirements are partially fulfilled, leaving a few that still needs improvement. On the last element, Family Business Policies, UD. XYZ already understands the concept.

Keywords: *family constitution, family values and beliefs, family values and goals, family business principles, family business policies*

INTRODUCTION

Family is a small sub-unit of society that consists of the head of the household, and the family members where each are co-dependent on one another. Lestari (2016:3) states that family is a social group that possesses the characteristics of cohabitation, economically cooperative, and in it a reproductive process occurs. Nowadays, starting a family business is no longer underestimated, nor considered new or taboo. The Jakarta Consulting Group (2008:4) denotes that *Family Business Enterprise (FBE)* is an enterprise of which are managed and owned by one or more of family members. Furthermore, John L. Ward dan Craig E. Aronoff (2002) wrote that a company constitutes as a family business when two or more family members are involved in overseeing the company's financial activities. One of the ways to manage and prevent conflicts in a family business is to set up a constitution. A constitution is a written document of agreement that can be amended at any time. UD. XYZ is a family enterprise that deals with household products. Abdul (46) is the *owner* of UD. XYZ, while Abdul's wife Ulfah acts as the co-owner. This couple has three daughters. Currently, Abdul hasn't understood yet the importance of a constitution in a family business and refuses to listen to the suggestions from the other family members. Abdul's company does not practice the distribution of shares, nor applies a computerized system. In his mind, Abdul is convinced that the company is only owned by himself. At the moment, Abdul has another branch of UD. XYZ that operates in the same field, also dealing with household products. There's a possibility that someone else might join the company management in the future. Therefore, Abdul should establish a family constitution to make sure everything is clear and decisive, to prevent possible future conflicts.

RESEARCH METHODS

This research is conducted using the *qualitative-descriptive* method. This method puts the researcher through a qualitative process, where the gathering of data is done thoroughly and meticulously to get the needed information as detailed as possible from the subjects in question.

Social Situation

In a qualitative research, Spradley refrained from using the word "population", instead he uses the

term “social situation”. The term itself is self-explanatory, that of which contains three elements, namely 1) place; 2) actors; and 3) activities.

Data Collection Techniques

The primary data collection technique used in this research is semi-structured interview. This type of interview is also referred as *in-depth interview*. The main goal is to identify the core issues, where the subjects are encouraged to share their opinions and ideas about the problem.

Data Sources

This research uses both primary and secondary data sources. Primary data is the information gathered directly from the subject to the researchers (Sugiyono, 2012), whereas secondary data is the surrounding information that are gathered outside the use of the primary method.

Credibility

Sugiyono (2012:270) explains 6 techniques that can be used in testing credibility, which are: extension of observation; negative case analysis; data references; and member check.

Data Analysis

The steps of data analysis used in this research is as follows: data reduction; data display; and conclusion drawing (verification). Based on the three mentioned steps, researchers will be able to summarize the interview about the proposal of family constitution on UD. XYZ conducted on the following subjects: the owners; the business practitioners, lawyer(s), and psychologist(s).

DATA ANALYSIS AND DISCUSSION

The researchers was able to gather data by interviewing five relevant subjects, as detailed in the following table:

Table 1. Subjects Profile

No.	Name	Occupation/Role	Status
1.	Abdul	UD. XYZ	Owner
2.	Ulfah	UD. XYZ,	Owner
3.	Hj. Rusti Widayati, S.E	Saygon Water Park, Kebun Kurma.	Owner of Saygon Water Park (Business Practitioner)
4.	Suryono Pane, S.H	Suryono Pane and Partner	Lawyer
5.	Astrid Regina W, Dra., Psikologi	Siloam Hospital	Psychologist

Source: researcher’s data, processed (2018)

Family Constitution

Family Constitution or family agreement in Indonesian language is called *perjanjian keluarga*. According to Montemerlo and Ward (2011), a family constitution or agreement both explicitly and implicitly is created to impose a guideline for members of the family regarding important and potentially controversial decisions related to the business in practice. One of the main points in a family constitutions is the Family Values and Beliefs, which comprises of Family Values and Goals, Family Business Principles, and Family Business Policies.

Some families rely on philosophy in running a family business, while some depend on principle. Based on the data gathered by interviewing Mr. Abdul and the Business Practitioner, it can be concluded that differences exist in the way both families expresses opinions and decide between choices. This finding supports the argument proposed by Montemerlo dan Ward. Abdul’s family prefers relying on philosophy when making a business decision, whereas the Business practitioner’s family incline towards using their own established principle in the decision making process. By interviewing the lawyer it is also discovered that on average, most of the time the families make decisions that are only stated and discussed verbally without making written statements. It can be concluded that some people lacks understanding on the importance of a constitution.

Family Values and Beliefs

Family value is a moral principle. Moral is the action, behavior, or verbal expressions that comes out of an individual when interacting with another individual. If these expressions is aligned with the values and the norm of the society, said individual can then be considered to be morally good (Muchson & Samsuri, 2013). They also denoted that culture, vision, and mission are very important things for a family to have. The following things might be chosen by a family to fill their family values, such as: confidence in guiding a family, confidence in guiding a family in a business sense (company's entrepreneurship), owner's rating – the confidence of an owner on the potential successor candidate, and the vision in a family business. Based on the four things mentioned above, Abdul's family is already qualified on the criteria in the element of Family Values and Beliefs.

Family Values and Goals

Montemerlo and Ward (2011:37) mentioned that there are values and goals in a family which are: 1) A sense of responsibility in working; 2) unity, harmony, understanding of each other, and love between members in a family that are also business owners; 3) ethical behavior that are inspired from wisdom and honesty; 4) trust in the director(s) and company managers; 5) balance between work and family; 6) having a sense of rights and obligations as shareholders and as a family that owns the business; 7) consistent growth along with the competitors and the market; 8) a higher profitability index compared to the average of other family businesses; 9) growth based on independent financing and having a sense of caution on managing the finances; 10) dividend sharing that respects the company's needs, but has a consistency in the market levels; 11) comprehensive information for shareholders; and 12) a chance of professional growth for the family members.

Based on the points mentioned above, Abdul and Ulfah's family already met all 12 sub-criteria.

Family Business Principles

Family Business Principles probably explains that regarding the binding nature of a business practice, the family members involved must agree on the importance of a professional good governance. According to Yenny (2013), good governance is a form of constructive management, also called constructive administration which places the role of a group or an organization as the agent of change in that organization, that will in turn affect the organization. Generally, family business principles usually involves the core problems of the corporate family relations, such as: 1) Work - in, training, career development, compensation, appraisal, reward and punishment, insurance, out, leadership position and special requirements, including dealing with family and non-family staff; 2) Ownership - Access to the shares, share transfer, company evaluation, dividend, share distribution, resources for liquidation, transparency, and shareholders meeting structure; 3) Business governance - system design, responsibility, composition, shareholders, and top management; 4) Top management - managing the composition of the committee, roles, and succession; 5) family governance; and 6) agreement's amendability. From those six points, Abdul's family only qualifies on the first criteria, while on the rest of the criteria it still needs improvements.

Family Business Policies

In some cases, family business policies may stem from perspective, but it might also be based on moral enforcement. According to *Kamus Besar Bahasa Indonesia* (2018), perspective means outlook. All the family members who are still young have the opportunity to conduct interviews with consultants who are experts in their fields regarding their talents to guide their professional careers (after they have finished their education). They will also be guided by senior family members other than their parents. In order to be eligible to work in the business, all young family members must fulfill the following meritocratic criteria, which are: 1) Bachelor's degree; 2) knowledge of foreign languages; 3) having at least two years of experience which will later produce a family business idea, 4) Having a beneficial support in the company from a personnel recruitment expert and the vice president of human resources.

From the interview conducted with Ulfah, she highly expects her daughters to run and expand the

family business that they owned. One of the ways is by making sure that all of her daughters at least gets a bachelor's degree. Moreover, if one of the family member doesn't join the family business, Ulfah will still provide them with shares or capital to start their own preferred business. Based on those, it is can be concluded that Abdul's family already understood the contents of the family business polices element.

Managerial Implications of a Family Constitution

The results of this research yields some managerial implications for a family constitution to be proposed to the owner of UD. XYZ, detailed in the table below:

Table 2. Managerial Implications

NO	Point	Pre-Research	Post-Research	Proposal
1.	Family constitution	Owner disagrees and doesn't understand the need for a family constitution.	Owner starts to incline towards having a family constitution after the conducted interview and discussion.	Owner should begin composing a family constitution with the help of a legal advisor, e.g. a lawyer to assist with the legality of the official documents.
2.	Ownership and decision making	Owner was reluctant to discuss about ownership in UD. XYZ.	Owner starts to agree to the concept of shared ownership in UD. XYZ (share distribution among family members).	It is advised to include the form of ownership as an important item in UD. XYZ's family constitution
3.	Workload management	Owner allows the in-laws to be involved in the family business without any agreed terms beforehand.	Owner starts to consider offering an official position for the in-laws and their appropriate salaries.	Things concerning individual workload and job descriptions should be clearly defined in the family constitution.
4.	Roles of second-generation family members	Role and involvement is minimal.	Involvement is increased, contribution is encouraged.	It is advised for owners to take inputs from other family members, including from the second- generations.
5.	Management system	Still uses convention al means.	Starts to consider improvement and update on the current system in place.	It is advised for owners to consider using computerized system that can improve effectiveness and efficiency.
6.	Terms and conditions for involvement in the family business	No special requirements for those wanting to join the family business.	No special requirements yet for those wanting to join the family business.	Having a criteria for those wanting to join the business is strongly advised, so that the new members will be qualified and has a fighting spirit to join. Also so they have a sense of responsibility.

Source: researchers data, processed (2018).

CONCLUSION AND RECOMMENDATIONS

Conclusion

To make a family constitution proposal, it needs to include three elements: Family Values and Beliefs which contains Family Values and Goals; Family Business Principle; and Family Business Policies. Family constitution or family agreement in Indonesian language is called *perjanjian keluarga*. From the research conducted, it is found that UD. XYZ does not have a working family constitution as of yet to prevent conflicts in a family business.

Therefore, it is expected for UD. XYZ to have a family constitution. Because by having a family constitution in place, it contains written rules about rights and responsibilities, what can and cannot be done in the business, and agreements made and officially voted by the same family members involved in the business. Furthermore, a family constitution is expected to contain a written signature from each family member involved on top of a stamp. The purpose of this is to make sure the document is legal and binding to each member that signs it, so that everyone receives their intended rights and limitations, as agreed according to the roles of each member.

Suggestions For future researchers

Future researchers could improve the research about this topic by expanding the scope of the references, and also by increasing the number of subjects to improve the accuracy of the results.

For family businesses

A family constitution that includes Family Values and Beliefs which contains the sub- elements of Family Values and Goals, Family Business and Principles, dan Family Values and Policies is needed in family business, which will have direct effect on the success of future generations.

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