IMPROVING THE PERFORMANCE AND RESILIENCE OF FAMILY COMPANIES

Have Zulkarnaen¹, Isnaini Anniswati Rosyida², Ahmad Fakhrrurraji³

Darul ‘Ulm Islamic University¹,²
Madura State Islamic Institute³

havezulkarnaen@unisda.ac.id,
isnaini@unisda.ac.id,
Fakhrrurraji@iaimadura.ac.id

Received: January, 2024; Accepted: January, 2024; Published: March, 2024

ABSTRACT

The main focus in this study is to understand what factors can shape the performance and resilience of family companies. The research method used is a literature review with a qualitative approach, especially through analysis of relevant and reputable previous research. This research adopts literature study techniques to explore and integrate findings related to the research topic, especially in the context of the object of discussion here being family companies. The findings from this literature review are how improving performance and resilience in companies is significantly influenced by factors such as shareholder protection, crisis management, social capital, and risk management which can play a role in shaping the performance and resilience of family companies.

Keywords: Durability, Performance, Family Company

JEL Classification:

INTRODUCTION

The economic turmoil we faced after the financial crisis had a major impact on the survival of companies. It's true, all over the world, many companies are going bankrupt or investing less than usual. Downsizing is an everyday practice used by managers to reduce costs as much as possible (Block, 2010). This kind of situation is not unique to this particular time period as several crises have occurred in the past, causing layoffs and slowing the economy. Nevertheless, over the centuries, family firms seem to have been able to overcome this unusual situation if we refer to the majority of family businesses developing throughout the world (Conz et al., 2020). Chrisman (2011) suggests that a greater ability to overcome critical situations arises from the unique nature of family businesses that demonstrate a high level of organizational resilience to face difficult times.

Family companies, as business entities run and owned by the family, have their own dynamics that differentiate them from non-family companies. This phenomenon has attracted the attention of researchers and business practitioners to better understand how family companies can improve their
performance and resilience in facing various economic and managerial challenges. When talking about improving performance, family companies are often faced with the complexity of family relationships, decision making that is closely related to family values, and leadership transitions from one generation to the next. All of these aspects can influence the operational efficiency, innovation, and adaptability of family companies in an ever-changing market.

The resilience of family companies is crucial in a global business context that is full of challenges. In facing external and internal pressures, family companies must be able to survive and continue to develop. A fundamental question arises: How can family firms improve their performance and at the same time build strong resilience? It is true that, despite evidence showing that family firms have extraordinary longevity (Corbetta and Salvato, 2012), the literature on resilience analysis in the context of family businesses is still relatively scarce.

Analyzing this literature, we will explore a conceptual framework involving critical factors that can influence the improved performance and resilience of family firms. By deepening our understanding of the internal and external dynamics of family companies, it is hoped that we can detail management strategies and practices that can support the achievement of this goal. As a contribution to academic and applied understanding, this literature analysis is aimed at providing valuable insights for researchers, business practitioners, and other stakeholders involved in the world of family firms.

LITERATURE REVIEW

Corporate resilience, in a business context, refers to the ability of an organization to survive and succeed through various challenges, pressures and changes in its external and internal environment. This concept covers a number of interrelated aspects, including the ability to deal with market uncertainty, respond to economic changes, manage risk, and maintain long-term operational continuity. Corporate resilience reflects the extent to which an organization can overcome crises, adapt its business strategies, and remain competitive in a dynamic market. This involves not only responding to external changes, but also the organization’s internal capacity to manage conflict, maintain competitive advantage, and manage resources efficiently.

Several key dimensions of the corporate resilience concept involve financial, operational and strategic aspects. Financially, a company’s resilience can be reflected in its ability to maintain liquidity, manage debt, and deal with sudden financial pressure. From an operational perspective, organizations that have high resilience can continue to operate efficiently and effectively even in difficult conditions. Meanwhile, from a strategic perspective, company resilience includes the ability to adapt to market changes, anticipate industry trends, and innovate.

Organizational resilience can be characterized by several aspects or dimensions. Bauweraerts, (2016) argues that resilient companies are pragmatic and face reality without showing excessive optimism, have a strong system of shared values that enhance understanding when they face difficulties or challenges, and are resourceful because they can use existing resources to deal with unexpected situations. There are four challenges that must be resolved by a
company in order to be considered a strong organization. Cognitive challenges refer to an organization’s awareness that it must be realistic about change and its consequences. Strategic challenges presuppose that organizations demonstrate the capacity for imagination to design new strategic orientations that renew old strategic orientations. Political challenges are directly related to the reallocation of resources that promotes promising future ideas and eliminates outdated products and programs. Ideological challenges involve a proactive attitude and a constant search for new opportunities. Therefore, resilient companies combine a defensive approach based on ex-ante prudence in terms of risk management so that they can efficiently cope with exogenous shocks when they occur, and a proactive approach based on creativity and imagination regarding the solutions implemented to recover processes, products, and services.

Longevity does not mean that family firms have resilience because the large number of family firms that exist in the world may be due to the temporary advantages of family involvement in the early stages of business development or the organization of the economy around the family unit (Conz et al., 2020). Family involvement may occur later in a firm's life cycle, indicating that family organizations are better able to thrive over time. These results seem to indicate that organizational resilience is a component of family firms even though they should be considered as a heterogeneous group of firms (Chrisman et al., 2011). Therefore, it is reasonable to understand that family firms present specific advantages that make them better able to cope with environmental changes and financial constraints, so they can be assumed to be family firms.

Performance improvement in the corporate context refers to the efforts made by organizations to improve their results and achievements in various aspects. This includes operational efficiency, strategic effectiveness, product or service innovation, and the organization's ability to adapt to environmental changes. One of the main aspects of improving performance is increasing operational efficiency. This includes managing resources efficiently, controlling costs, and increasing productivity. Efficient organizations can optimize their business processes, reduce waste, and increase output with existing resources.

Performance improvement is also related to the organization's ability to develop and implement effective strategies. This involves a deep understanding of the market and competitors, as well as the ability to adapt strategies according to changes in the business environment. Innovation is a key element in improving performance. Organizations that are able to create new products or services, introduce innovative business processes, or adopt the latest technology have a greater opportunity to develop and lead in their industry.

Performance improvement also includes the organization's ability to adapt to change. A dynamic business environment requires organizations that are flexible and responsive to changes in markets, technology and regulations. Most performance improvement efforts involve implementing effective performance measurement systems. This may include the use of key performance indicators to evaluate achievement of objectives and identify areas requiring improvement.

Improving performance is not only a goal for non-family companies but also becomes important in the context of family companies. In this case, aspects
such as succession planning, managing family relationships, and harmony between family interests and business interests are important factors that influence the achievement of long-term performance improvements. Therefore, research and practice continue to develop to identify the best strategies that can be used by companies, including family companies, to achieve sustainable performance improvements.

Furthermore, certain leadership styles and behaviors can create a competitive advantage in family firm performance. Specifically, strong leadership behaviors and the development of a shared vision in a transformational leadership style result in better financial results for the company. Although centralized and autocratic leadership styles can provide benefits to company performance in family companies with concentrated ownership due to faster decision making and higher efficiency, these leadership styles increase agency conflicts between majority owner-managers and minority shareholders in companies with higher levels of ownership. lower kinship. ownership and, thus, may lead to lower financial performance.

In the era of ever-evolving business dynamics, family companies are becoming the subject of increasing attention for researchers and business practitioners. The family firm phenomenon is not only interesting because of its role in the family legacy, but also because of the unique challenges and opportunities faced in achieving improved performance while maintaining sustainable resilience. In this context, this research aims to explore and analyze relevant previous research to understand the key factors that influence performance improvement in family firm resilience.

The importance of understanding the role of family firm resilience in efforts to improve performance not only creates a foundation for business sustainability, but also provides valuable insights for stakeholders, researchers and practitioners interested in the family firm context. Through a literature review of previous research, we will be able to explore key findings, conceptual frameworks, and research methods used by previous researchers. Thus, this research seeks to make a significant contribution to our understanding of how to effectively improve the performance of family companies in facing external and internal challenges.

<table>
<thead>
<tr>
<th>Journal Article</th>
<th>Research Title</th>
<th>Resumes</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Journal of Family Business Strategy, Elsevier” (Rehman et al., 2023)</td>
<td>“Corporate Social Performance of Family Firms and Shareholder Protection”</td>
<td>When family enterprises enjoy greater minority shareholder protection to lower conflicts of interest than non-family firms, the difference in CSP between the two types of firms is less. When family companies have stronger shareholder rights in corporate governance than non-family companies, the difference in CSP between the two types of organizations will be bigger. The</td>
</tr>
<tr>
<td>Study</td>
<td>Journal</td>
<td>Summary</td>
</tr>
<tr>
<td>---------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>“Journal of Family Business Strategy, Elsevier”</td>
<td>“Business Families In Times Of Crises: The Backbone of Family Firm Resilience and Continuity”</td>
<td>This study examines the function of business families as a valuable asset in the crisis management of family businesses against the backdrop of the global economic crisis that is linked with it. This study explores the ways in which business families dealt with the pandemic outbreak and how some of them were able to seize chances and come out of the crisis stronger than before. This study establishes a research agenda in this regard by focusing on the unique role that business families play in crisis management within family businesses.</td>
</tr>
<tr>
<td>(Calabrò et al., 2021)</td>
<td></td>
<td>study's findings are consistent with the theory that the CSP disparities between family-owned and non-family businesses are mostly explained by variations in shareholder protection at the national level.</td>
</tr>
<tr>
<td>Scandinavian Journal of Hospitality and Tourism, Research Gate</td>
<td>“For Better Or For Worse” – The Role of Family Ownership In The Resilience of Rural Hospitality Firms</td>
<td>Family firms tend to have special resource combinations, and the way family members collaborate shows what kind of internal social capital they have. Family members' mutual regard and trust are also crucial components of internal social capital. On the other hand, family businesses may face difficulties in surviving due to the human capital component. The opposition of past generations to certain forms of change is something that many current business owners have experienced, and intergenerational authority can impede the growth of a company during succession. This study demonstrates how family ownership can support rural hotels' long-term survival. On the other hand, one could counter that family ownership might have a detrimental effect on the family firm's resiliency if...</td>
</tr>
<tr>
<td>Journal of International Entrepreneurship. Research Gate, (Mzid et al., 2019)</td>
<td>“How Does Family Capital Influence the Resilience of Family Firms?”</td>
<td>The family business’s social capital, which might include contacts both domestically and abroad, is what most helps the business reorganize its resources after a shock. In family businesses, social capital and human capital play a major role in determining financial capital. In order to increase business resilience, social and human capital are mediated by financial capital. Our findings have implications for the literature on international entrepreneurship as well. Specifically, we show that connections abroad offer family firms facing difficulties both significant social support and access to local strategic alternatives.</td>
</tr>
<tr>
<td>International Business Research, (Bauweraerts, 2016)</td>
<td>“How Do Family Firms Manage Risky Situations? An Organizational Resilience Perspective”</td>
<td>Family companies now make up a sizable share of economies worldwide. Their longevity implies that they are adept at risk management throughout tumultuous times due to their distinctive qualities. This article aims to theoretically analyze how the distinctive characteristics of family businesses affect absorptive, renewal, and learning capacities, drawing on the idea of organizational resilience.</td>
</tr>
</tbody>
</table>

**METHOD**

In this research, a qualitative research method was used using literature study techniques as the main approach. Qualitative research methods were used to gain an in-depth understanding of the complex dynamics in the family firm context, with a particular focus on two main aspects: family firm resilience and performance improvement. The identified articles were then critically analyzed to extract key findings and concepts related to the resilience and performance improvement of family firms. This includes an evaluation of the methodology, research findings, and practical implications of the studies. This approach provides
a robust framework for investigating the complexity of family firms and understanding how resilience and improved performance can be achieved in this context.

RESULTS AND DISCUSSION

RESULTS

Improving the performance and resilience of family companies are two important aspects in facing changing business dynamics. Previous studies provide valuable insight into the key factors that can influence these two aspects, opening up opportunities to design more effective strategies for managing family firms. Companies with family controlling shareholders, especially if the CEO position is also held by the family, have much better financial performance than non-family companies. This impact can be attributed to the superior resilience of family companies, for example due to their ability to utilize family social capital and patient financial capital so that in times of crisis they can bring about change (Rehman et al., 2023).

Previous studies highlight the importance of shareholder protection in understanding differences in Corporate Social Performance (CSP) between family and non-family companies. These findings provide insight that strong minority shareholder protection may reduce CSP differences between the two types of companies, while stronger shareholder rights in corporate governance may increase such differences. This analysis paves the way for designing shareholder protection policies that can support improving the performance of family companies through more effective social responsibility.

Crisis Management and Business Family Resilience provides a perspective on the role of the business family as a key element in crisis management of family companies. An analysis of how business families responded to the pandemic outbreak and successfully turned challenges into opportunities illustrates the resilience advantages of family firms. This discussion strengthens the argument that focusing on the family as a resource that can manage crises effectively can be the foundation of a strategy to improve the performance of family companies in difficult times.

Research in the Scandinavian Journal of Hospitality and Tourism highlights the unique combination of resources in family businesses, including internal social capital and the involvement of family members in company operations (Bauweraerts, 2016). This analysis shows that trust and respect among family members are key elements of internal social capital that can strengthen the resilience of family firms. However, it is also recognized that insufficient involvement of family members can be a barrier. In the context of performance improvement, a deep understanding of how to manage these aspects can be the key to success.

Analysis from the Journal of International Entrepreneurship shows that social capital, especially in the form of international contacts, can influence the financial capital of family firms (Mzid et al., 2019). These findings open the door to designing better strategies for leveraging international relationships to support
the resilience and performance of family firms. This discussion can become the basis for planning international expansion policies that can strengthen the resilience of family companies in the global market. An article in International Business Research proposes an organizational resilience perspective for understanding how family firms manage risk in turbulent times (Mzid et al., 2019). By considering the concept of organizational resilience, this discussion can provide a theoretical basis for designing more efficient strategies in dealing with risk and change in the context of family companies.

DISCUSSION

In the overall discussion, it is seen that factors such as shareholder protection, family-led crisis management, social capital, and risk management can be critical elements in designing strategies to improve the performance and resilience of family companies (Conz et al., 2020). The integration of these findings formed the basis for identifying areas requiring further attention and for designing a holistic conceptual framework for this research. Family companies that are not controlled will trigger opportunistic behavior in their activities, therefore good governance is always needed in their activities so that this can be avoided. (Zulkarnaen et al., 2022)

CONCLUSION

Based on a review of previous reputable literature studies, it can be concluded that improving the performance and resilience of family companies are interrelated and can be strengthened by a number of key factors. Shareholder protection, especially minority shareholder protection and corporate governance, plays an important role in shaping the Corporate Social Performance (CSP) of family companies. The ability of a business family to manage crises effectively is also a determining factor in supporting the resilience of family companies. Social capital, which involves the trust and involvement of family members in the business, is emerging as an important element in strengthening the long-term resilience and performance of family firms. The influence of social capital, especially through international contacts, can also have an impact on financial capital, which, in turn, can strengthen the resilience of family firms. The integration of findings from these studies provides a comprehensive conceptual framework for further research on improving the performance and resilience of family firms. This can be the basis for developing strategic models and best practices that can guide family companies towards long-term success amidst ever-evolving business dynamics.

REFERENCES


