

How Does the Family Capital and Market Orientation Affect the Business Performance of the Family Business in the Manufacturing Sector?

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Abstract— This study aims to determine the effect of family capital and market orientation on the performance of the family business in the manufacturing sector. The unit of analysis in this study was 155 family business manufacturing sectors, which were determined by purposive sampling. Data analysis using Structural Equation Modeling (SEM) as one of the multivariate data analysis techniques. The findings show that family capital and market orientation have a direct and significant influence on the performance of the family business in the manufacturing sector.

Keywords—*Family Capital, Market Orientation, Business Performance, Family Business*

I. INTRODUCTION

Study of the importance of family business in understanding business creation and growth^{9,19,32,16} and its contribution to the formation of gross national products and creating welfare^{22,11} is a study that has been carried out in the perspective of the relationship between family, economy, and business.

Entrepreneurship and family business research has become an interesting study in an effort to produce new findings in the field of family entrepreneurship research^{10,24,31}. The family business has several unique values. This unique value can be seen from the relationship between business and family that leads to unique dynamic abilities and can shape corporate behavior, so that it prioritizes it to achieve sustainable competitive advantage, but vice versa^{12,26}. Base On (28) also argues that unique resources and family business competencies enable them to have greater potential in a changing market environment.

Until now the family business still has several problems. The family business still has limitations in controlling strategic resources sourced from family capital, so this condition encourages the importance of investment to develop strategic resources, so that it is in line with the implementation of strategies in order to create competitive advantages and produce improved company performance⁵.

Base on (5) shows that there are three types of resources, which include physical capital resources, human capital resources and organizational capital resources. The first category corresponds to a group of temporary

intangible resources of human and organizational capital that are intangible²⁵. Intangible resources are concrete and include resources such as raw materials and intangible resources, which are non-material and mostly tacit⁷. This generally asserts that intangible resources can provide competitive advantages for the company^{27,29,4,25}. While tangible resources are flexible and easily replicable⁷ and intangible resources are difficult to develop or replicate²⁰.

Based on these problems, motivation arises to examine empirically related to family business issues in gaining competitive advantage, by developing a research design that integrates strategic resources and entrepreneurial orientation as the basis for implementing competitive strategies so as to improve or improve the performance of family business businesses, and this is in accordance with the views of experts in the field of strategic management that creating a competitive advantage of a company depends largely on the compatibility between internal capabilities and changes in external conditions faced¹.

II. LITERATURE REVIEW

The study of family businesses relates to their resources and abilities^{13,17}. Intangible resources owned by family businesses can be compared to non-family businesses, but the characteristics of intangible family business resources seem quite different. This intangible resource is called the concept of "familiness"^{6,8,13,30}. It is suggested that "familiness" result from the interaction between family and business and refers to a number of unique resources¹³. Base on (30) identified five resources as components of "familiness", which included human capital, social capital, survivability capital, patient capital and governance structure. Other family behaviors have been identified in the concept of "family capital", including information channels, obligations and expectations, reputation, identity and moral infrastructure^{18,3}.

Regarding the resource component in the family business, the first construct in this study is family capital, with dimensions: human resources and knowledge management based on strategic management views emphasize the importance of a unique or special company as sources of competitive advantage¹⁸. The second construct in

this study is market orientation, which includes collecting market information systematically regarding current and future customer needs, disseminating market information to all organizational units / departments, and designing and implementing organizational response to market information in a coordinated and comprehensive manner²³. Both of these constructs are a thought process of this research that is explored in line with theoretical thinking and empirical facts from several previous research studies, thus making the above construct into a research statement explaining as a determinant of factors in the performance of the family business in the manufacturing sector.

III. RESEARCH METHOD

This study is included in the type of explanatory research, which is non-experimental and aims to analyze the influence of family capital and market orientation on the performance of the family business in the manufacturing sector in Makassar City, using a quantitative approach through parameter testing in answering hypotheses that use questionnaires in the collection data. To get the data according to the research design, the type of closed question is used (closed-ended question). Family capital refers to the thinking of Hoffman, which involves collecting systematic market information regarding current and future customer needs, disseminating market information to all organizational units / departments, designing and implementing organizational responses to market information in a coordinated and overall, while the measuring scale used is ordinal. The measurement of the business performance of the family business is the measurement of performance with 2 (two) dimensions which includes financial and non-financial performance, while the financial performance is indicated by the perception of business actors on profitability, sales growth, while non-financial performance is measured by customer satisfaction, employee satisfaction and scale use is ordinal.

This research was conducted on the family business of the manufacturing sector in Makassar City which was spread in a number of districts, while the unit of analysis used in the sample data of this study was the family business of the manufacturing sector as many as 155 family businesses. Data analysis techniques use statistical testing to verify various problems presented in the hypothesis, so that they can be generalized, and based on Structural Equation Modeling (SEM) analysis as a multivariate data analysis technique with the consideration that the use of this model is a combination of path analysis and factorial analysis.

IV RESULTS AND DISCUSSION

Testing data alignment both on the magnitude of the research sample, as well as on a number of observation moments or research indicators that should fulfill the requirements of goodness of fit indices look like Table 1 which shows that the research data has fulfilled the structural model in measuring the exogenous latent variables on endogenous latent variables and the variable manifest or loading factor that is generated.

Table 1. *Good of Fit Indeces*

Criteria	Expected Cut-off Value	Test Result	Information
P-Value	Small expected	0,0000	Fit
Rel Chi-Square	≤ 2,00	0,0000	Fit
CFI	≥ 0,80	2,0000	Fit
RMSEA	≤ 0,08	0,0239	Fit
GFI	≥ 0,80	0,9989	Fit
AGFI	≥ 0,70	0,9103	Fit

Source: Results of research data processing, 2018.

To see the value of the contribution of each variable, it can be seen from the explanation of the structural relationship between variables and the level of acceptance and rejection of the hypothesis with the P-value <α (0.05) test criteria, which shows the significance of the hypothesis proposed, and then stated in the results testing as follows.

Table 2. *Criteria for Research Hypothesis Testing Results*

Research Variable	Estimate	CR	P Value	Decision
X ₁ → Y	0.872	2.201	0.021	Significant
X ₂ → Y	10.654	2.648	0.023	Significant

Source: Results of research data processing, 2018.

The findings of this study indicate the parameter estimation value of the exogenous family capital variable (X1) on the endogenous variable business performance (Y) of 0.872 > 0.000, and the critical ratio value on the path coefficient that has a positive value of 2.201 or 22.01 at P value 0.021 < α 0.05, so that the exogenous variable of family capital (X1) has a significant effect on endogenous variables of business performance (Y). The findings of this study complement the results of previous research which states family capital, especially management knowledge in business practices is more emphasized on hard competency strengthening (hard competency) related to the task and function of work in encouraging performance, so that specialization is understood only in the ability of workers in in completing the work for which he is responsible²¹¹⁶.

Parameter estimation value of market orientation exogenous variable (X2) on endogenous variable business performance (Y) is 10,654 > 0,000, and critical ratio value on path coefficient that has positive value is 2,648 or 26,48 at P value 0,023 < α 0,05, so that the market orientation exogenous variable (X2) has a significant effect on endogenous business performance (Y) variables. The fact of this study, shows the development of research conducted by Alkali & Isa (2012) which states that businesses that have good capabilities in dealing with market opportunities and this is due to their business activities based on customer needs, will but the research he conducted did not examine the ability of family businesses to translate data-based market change information, so that customer-based business activities must be synchronized with the management of customer data to achieve long-term performance.

IV. CONCLUSION

The results of this study indicate that family capital has a direct and significant influence on the performance of family business enterprises, thus it can be stated that family capital with indicators of human resources and knowledge management, which is carried out by the family business of the manufacturing sector has an influence on improving performance, or can be stated that the practice of the family business in the manufacturing sector in managing family capital is more focused on improving performance both on efforts to increase sales and profit growth which are the targets of business existence.

Another finding from this study shows that market orientation has a direct and significant influence on the performance of the family business in the manufacturing sector, thus it can be stated that market orientation is carried out both in the process of gathering information, dissemination of information to all members or employees to encourage mutual commitment in each organizational units, as well as a sensitive response to changes due to customer expectations and the presence of competitors, have a significant influence on improving the business performance of family business people.

The implication of this research is that in the management of family capital which is a strategic asset, the family business must be oriented and increase its relevance to the ability to translate the changes that occur in the external business environment, especially those related to human resource competencies, organizational capabilities, knowledge management, and managerial experience to achieve acceleration between the management of strategic assets, with a growing industrial environment. The family business must further increase its activity base on the ability of human resources (human resources based) both obtained in training and technical information on work, as well as based on experience sharing (sharing experience), which is used as a force on market orientation practiced by building relationships with target customers, as well as relationships with similar business groups in stabilizing prices and evaluating product development.

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