

FAMILY MEMBERS & FAMILY BUSINESS ACTIVITIES: A PSYCHOLOGICAL CONTRACT?

Samuel PD Anantadjaya¹, B. Agus Finardi², and Irma M. Nawangwulan³

¹School of Accounting, Faculty of Business Administration,
Swiss German University, EduTown, BSD City, Serpong, Tangerang Selatan, Indonesia

² School of Business, Faculty of Business Administration,
Swiss German University, EduTown, BSD City, Serpong, Tangerang Selatan, Indonesia

³ English Tutorial Center, Bandung, Indonesia

Abstract

Family businesses seem to be flooding the market. Small, medium-sized, and large businesses appear to have some kind of connections to each other, which likely to form groups of businesses. There are chances that the structures of family may contribute to the successful mixture between family members and their family business activities.

The initial perspective uses the entrepreneurial theory of the firm. The psychological contract of the well-known ownership theory is also explored to provide a foundation toward building a case surrounding the mixtures of family members and family business activities. Since psychological contracts imply only intangible bonds, this model is leaning toward unwritten or illusive agreements among family members. This includes emotion, feeling, or attitudes of certain family members toward the business activities, rather than relying on the written agreements among family members.

This study gathers the necessary data from numerous smaller-scaled organizations in Bandung and Jakarta. It is expected that such studies reveal the complexities in mixing family members into the family business operations. It is also expected that family members, who do not have direct controls over the family business operations, have only psychological contracts in their mind. This psychological contract influences their behaviors toward family business management.

Key words: family business, family members, psychological contracts, illusive agreements, business operations.

1. Introduction

Family members are often regarded as the most important support in individual's life, not only for rational supports, but often times, also for emotional supports. If one were asked to divide proportionately between rational and emotional supports, it appears that family members take on a much bigger proportion. Though, there are no written agreements as far as the amount of supports, undoubtedly, family members appear to devote as much as time and efforts among themselves. Such intangible

bonds among family members become an interesting aspect to investigate, particularly in terms of managing family business organizations.

The historical Coase' theory of the firm, including its later development, has been widely used in many organizations across industries (Anantadjaya, 2008). The theory of the firm provided the first foundation on how firms are viewed years ago. As time passes, contemporary views on firms have emerged to expand the horizon on the original boundaries of the theory of the firm. This paper uses the

perspective of entrepreneurial theory of the firm, or otherwise known also as “entrepreneurial growth theory of the firm”, as the foundation to build up arguments toward family members and family business activities in today’s business environment. It is expected that theory of the entrepreneurial-growth-firm is able to provide the foundation closer to the reality of the firm’s operational and managerial activities, than the original theory of the firm, which accounted firms only as black boxes with many unknown substances.

In the dynamic environment, certain developmental processes are common in entrepreneurial firms (Anantadjaya, 2008). Mobilizing resources are the key to form a resource base, which is capable of generating hefty returns. This is the area where entrepreneurs seek to secure the productive opportunities, which may include of all the productive possibilities that entrepreneurs can take advantage of. Although all of these thinking are formulated only in the entrepreneurs’ imaginations, such imaginations broaden the range of investment opportunities for firms. Entrepreneurs do not just perceived opportunities that have existed in the market as a result of various types of changes in prices or preferences. Entrepreneurs do attempt to create many opportunities. To realize opportunities, entrepreneurs must organize business activities. Firm’s resource base needs to be present and mobilize before entrepreneurs can attempt to organize business activities. Thus, entrepreneurs need match up market opportunities to the available resources for firms to start growing (Anantadjaya 2008; Colombo and Grilli, 2005; Westaby, 2005; Whincop, 2000).

2. Theoretical References

2.1. Theory of the Firm

Traditionally, the theory of the firm is targeted merely to provide responses on some basic questions, such as; why are there firms, what would be the boundaries of firms relative

to their marketplaces, and what would be the firm’s internal organization (Stam, et al, 2006). As Coase’s “The Nature of the Firm” article indicated (Anantadjaya, 2008; 2009), price mechanism provided a foundation toward the formation of firms. It was stated in the article that the allocation of factors of production between different users relative to their prices, was likely to direct the production activities in any given firm. The existence of firms is particularly beneficial for individuals and business groups in terms of the power of negotiation and closing out contractual agreements for each exchange transactions in the market. There was a time when internal organizational functions are seen as a black box¹ that merely transforms inputs into outputs. In a similar sense, the emergence of entrepreneurs in trying to allocate those factors of production in relation to their relative prices was advantageous to the actual ways of production activities. Moreover, the article indicated that while economists tend to view the price mechanism as a coordinating instrument in the market, such a coordinating instrument is somewhat mirroring the coordinating role of entrepreneurs in any firms. Thus, it is important to note that a coordinating function represents both the work of price mechanism and coordinating role of entrepreneurs. As the costs of organizing all of those factors of production are sufficiently coordinated within a firm by entrepreneurs, the actual costs of obtaining products are minimized. This is due to the emergence of specialists, who essentially direct the production activities.

¹ The Neo-Classical Theory of the Firm viewed firms as a black box, which transformed inputs into outputs with frequent adaptation process to any new opportunities in the marketplace. In many Economics textbooks, firm is universally modeled as a single player, who face series of decisions that portrayed as straightforward, such as; level of production, sources of raw materials, transformation process from raw materials into finished goods, compensation and benefits for employees, marketing activities, quality control, and many others. Theory of the firm is also regularly modeled more as a mathematical set of problems, and cost curves, rather than complexities of human interactions. This leaves firms with no room to analyze the roles of entrepreneurs (Anantadjaya, 2008; Marr, 2005).

The allocation of factors of productions is later labeled as the sources of sustainable competitive advantage in the management field. This has become one of important areas and fields of study in strategic management. The prominent signals toward allocation of factors of productions in relation to firm's sustainability have been emerging in recent years through the rise of strategic management. Questions toward sources of firm's performance have certainly emerged from both the industrial effect, including from any other specific capabilities, as well as how firms can reach and potentially sustain their competitive advantage (Anantadjaya, 2008; 2009; Jensen, 2001; Sampurno, 2006; Sangkala, 2006).

2.2. The Growth Theory of the Firm

According to Penrose in her famous article of “The Growth of the Firm”, such a theory supported the notion that the industrial effect can potentially bring about successful achievement and sustainability of firm's performance (Anantadjaya, 2008; 2009; Stam, et al, 2006). The Penrosean theory of growth of the firm stated that growth represents the end-result of a mixture of creative and dynamic interaction between productive resources of the firm while matching them to the market opportunities.

Limited availability of firm's various resources are likely to portray hurdles toward firm's growth and expansion. All this time, firms have been relatively concentrating themselves on managing installed and utilized resources. Infrequent writings were compiled on the unused resources, in particular technology and entrepreneurial efforts, which are fundamentally pushing firms into the growing path. Since a firm supposedly plays a double role as the administrative organization whose interests are mainly collecting and allocating the pool of various factors of production, firms then must start planning the utilization rate of the available resources wisely. The so-called “inherited” resources

provide the groundwork on internal management to start running the production activities. In order to maintain and/or otherwise improve the production activities, there are additional resources to be taken from the market. It is important to absorb services from existing management as a way to set a limit to the amount of expansion that can be planned and executed although additional resources from marketplace become a necessity. This is true for both external² and internal³ growth. Firms are not necessarily confined with any given products, but the series of activities that those firms are moving into are somewhat related to their existing resources. This shows that there is a relatively close connection between various kinds of resources with which the firms work on, and development of ideas and knowledge for managers. Since the firm's concentration is usually on the internal productive resources, it has a tendency to increase demands toward maximizing the use of the unproductive resources. Thus, management and entrepreneurs are faced with demands for expansion, innovation, and making a good use of all sources of competitive advantage. This competitiveness environment pressures firms to specialize in areas that they are doing comparatively good over period. Existing products are merely representing the current ways of any firm in using its various resources toward sustainability. It provides factual grounding on numerous product developments to obtain all firms' potentials. The success of

² External growth refers to expansion of firms through maximizing the utilization rate of external resources, which includes mergers and acquisitions (Anantadjaya, 2008; 2009).

³ Internal growth refers to expansion of firms through maximizing the utilization rate of internal resources, which includes the quality improvement on human capital. The term “human capital” refers to numerous aspects of human; from basic skills to the most advanced skills, competence, capabilities, intelligence, and many others. The term “skills” covers all types of human skills in managerial activities, such as the following, but not limited to; technical skills, conceptual skills, human relation skills, time management skills, and decision making skills (Nawangwulan, et al, 2006; Noe, et al, 2006; Yogaswara, et al, 2005; Yogaswara, et al, 2006a).

the firm may certainly rest on that final product. However, today's firms are relying on new products, which are substantially different from their original products that they were once based their success upon.

Aside from the various product manufacturing of a given firms, managerial styles and entrepreneurial activities are supposed to represent productive factors of production as well. However, such managerial styles and entrepreneurial competence may well be viewed as unproductive. Conservatism attitudes toward financial dealings, or general precautions toward various investment decisions, are often labeled as failure to maximize profits. Thus, it is said to be a major failure toward supporting growth of the firm (Stam, et al, 2006). The fact of the matter today is that managerial styles and entrepreneurial efforts often create substantial growth of the firm (Anantadjaya and Nawangwulan, 2006; Cardy and Selvarajan, 2006; Carroll and Hunter, 2005; Noe, et al, 2006).

2.3. Entrepreneurial Theory of the Firm

As firms developed and evolved dramatically over period, there are fundamental questions that remain unanswered by the traditional approach of theory of the firm. Since the traditional responses dealt with a more static analysis on firms, a more dynamic analyses of firms would likely require more vibrant questions as well. Such inquiries may include the following, but not limited to; how firms evolve and co-evolve with other firms and marketplaces, how the boundaries of firms are affected by such evolvment, how to identify firm's internal development, how to identify paths to take on, and many other queries (Carson, 2006; Kim, et al, 2006; Stam, et al, 2006; Westaby, 2005; Whincop, 2000). Those inquiries seem to combine the traditional theory of the firm, theory of the growth of the firm, and the roles of management and entrepreneurs in the firms; to form a new theory of firm, or better known as the theory of

the entrepreneurial-growth-firm (Charan, 2006; Forman, 2006a; Forman, 2006b; Stam, et al, 2006). There are people, who believe that firms' existence and roles of entrepreneurs cannot be separated from each other. The existence of firms and firms' abilities to evolve in the marketplace are mainly due to the roles of entrepreneurs and management members. Likewise, entrepreneurs require firms to provide their productive roles in creative thinking and managing the dynamic interaction among people of colors; not only inside the firms, but also with others outside the firms (Foss and Klein, 2004; Garnsey, et al, 2004).

The theory of the entrepreneurial-growth-firm represents the dynamic entity of a firm, and is closer to the reality of the firm's operational and managerial activities, than the original theory of the firm, which accounted firms only as black boxes with many unknown substances. In the dynamic environment, certain developmental processes are common in entrepreneurial firms. Mobilizing resources are the key to form a resource base, which is capable of generating hefty returns. This way of thinking is certainly supported by Penrosean theory of the growth of the firm (Anantadjaya 2008; 2009; Stam, et al, 2006); that was, growth is a cumulative process whereby members build knowledge and competence together. Penrose indicated that firm's internal development process bring about growth for the firm, in such a way that "...interacting series of internal changes leads to increases in size accompanied by changes in the characteristics of the growing object"⁴ (Stam, et al, 2006). Growth for firms is perpetuated by "productive opportunity", which occurs in cumulative processes of interaction between

⁴ This refers to the Theory of Cognitive Leadership by Witt (1998b; 2000). Such a theory is a complement to this approach as it analyzes the effects of growth on the development of the firm. The term "growth" refers to "increasing in size", which is not limited only to just sales and revenue of an organization, but also includes increasing numbers of employees, increasing numbers of land/building sizes, or increasing numbers of fleet. The term "development of the firm" is defined as "corporate governance and leadership".

the firm's productive base and market opportunities. This is the area where entrepreneurs seek to secure the productive opportunities, which may include of all the productive possibilities that entrepreneurs can take advantage of. Although all of these thinking are formulated only in the entrepreneurs' imaginations, such imaginations broaden the range of investment opportunities for firms. Entrepreneurs do not just perceived opportunities that have existed in the market as a result of various types of changes in prices or preferences. Entrepreneurs do attempt to create many opportunities. To realize opportunities, entrepreneurs must organize business activities. Firm's resource base needs to be present and mobilize before entrepreneurs can attempt to organize business activities. Thus, entrepreneurs need match up market opportunities to the available resources for firms to start growing (Colombo and Grilli, 2005; Westaby, 2005; Whincop, 2000).

Due to the complexities and large amount of setting up internal productive bases, many young firms intent to set up their simple bases, prior to advancing their bases toward the actual installations of plant, machinery and other equipment. Start-up firms may have to rely on the entrepreneurs' ability in mobilizing resources to start building the firms' internal productive base. Research firms are examples of firms with a simple productive base. Though those research firms may not be young anymore, however, the simplicity of their productive bases has significantly shown the power for growth. Stam, et al (2006) indicated that “the continual change in the productive services and knowledge within a firm along with the continual change in external circumstances present the firm with a continually changing productive opportunity”. As firm grows, its resources may strengthen and support the productive activities of the firm. As firm grows, dynamic processes occur internally as firms attempt to maintain the current level of production, while achieving sustainable growth into years to come. The main ingredient for sustainable growth is the

ability to build solid resource base and adapt such a resource base to respond to new opportunities in the market. Since market and opportunities vary over time, firms may mobilize resources to generate maximum returns from any productive activities, which are chosen from all alternatives suitable to the firm's abilities, of course, taking into account the financing abilities, production scopes, economics of scale, and the preferences of the entrepreneurs. Although preferences of entrepreneurs may be modest, the entrepreneurial firms will pursue expansion regardless. In the case of start-up firms, moderate expectations and limited access to various resource-bases may be the significant reasons for modest growth projection. This is true at least for short period ahead prior to the actual establishment on the solid productive base internally. As it becomes relatively logical for firms to continuously growing, failure to do so may put the firms into jeopardy as firms are challenged by demands of coordinating growth⁵ (Stam, et al, 2006; Yogaswara, et al, 2005).

Borrowing one perspective from human resources management in looking at the pool of human resources, practitioners usually realize

⁵ The term “coordinating growth” refers to the operational activities among various business units of a firm whose works are to be coordinated in such a way in order to realize the expected growth as planned. Each of the business units must formulate and develop their own growth projection to mirror the organizational-wide growth path. When coordinating activities are performed, human capital plays an important role in synchronizing the works of all individuals across business units. The climate in contemporary management, or as one may refer to as “strategic management”, the agreed role and function of the human resource profession are changing (Florackis, 2005; Foss and Klein, 2004; Gamsey, et al, 2005; McKoy, 2006). The traditional view on roles and functions of human resources usually include; recruitment, selection, training, development, placements, performance reviews, compensation and benefits. However, the contemporary view on human resource roles these days include all of the traditional roles and functions, in addition to the roles and functions as strategic partners, change agents, administrative experts, and employee advocates (Nawangwulan, et al, 2006; Noe, et al, 2006). The new roles and functions of the human resource professionals should be are still highly debated, nevertheless (Forman, 2006a; Forman, 2006b; Yogaswara, et al, 2005).

that human resources function as creators toward high-performance work practices (Jensen, 2001; Kohlbeck and Mayhew, 2006; Witt, 1998a; 1998b; 2000). This would likely push the attention to look for innovative ways of achieving such the condition of high-performance work practices (McKoy, 2006), such as; the formulation and implementation of feedback mechanism⁶ (Carson, 2006), quality control for production units, application/monitoring of balanced scorecard (Anantadjaya, 2007), and sets of measurements on corporate governance (Bauer, et al, 2004; Florackis, 2005; Witt, 1998b; 2000). These represent some innovations that human resources have introduced in many workplaces in recent years. Some innovative ways to achieve the high-performance work practices tend to concentrate on staff capacity as a way to strengthen the strategic pillars of the organization (McKoy, 2006). In addition, McKoy (2006) also indicated that members of organization have now demanded value-added approach⁷ in managing the human resources as

human resources are taken into account as essential to the organizational strategy, which is far more difficult to obtain than other capitals. This is, perhaps, to say that the role of human resources in an organization have certainly been augmented into a new higher position. That is, as the real source of organizational competitive advantage. As organizations must constantly re-invent themselves to adapt to the changing environment, human resources becomes the critical factors to integrate various business operational activities from multi-departments (Colombo and Grilli, 2005; Fulghieri and Suominen, 2005; McKoy 2006).

As in the previous theories, the entrepreneurship growth theory of the firm maintains solid grasp that entrepreneurs and managers are rational. Thus, as mentioned, this states that entrepreneurs and managers will act and/or otherwise response rationally to achieve the organization's maximum profits (Stam, et al, 2006). In addition, rational human resources will attempt to create high-performance work practices (Jensen, 2001; Kohlbeck and Mayhew, 2006). It means that they will look for innovative ways of achieving high-performance work practices (McKoy, 2006): feedback mechanism (Carson, 2006), quality control, balanced scorecard (Anantadjaya, 2007), and measurements on corporate governance (Bauer, et al, 2004, Tabalujan, 2002). Also, as rational human resources, people tend to create and/or otherwise seek value-added approach in managing human resources. This becomes very important for firms as to establish the real source of organizational competitive advantage (Fulghieri and Suominen, 2005). Integrating various business operational activities from multi-departments is also critical as firms must adapt to changing environment (Colombo & Grilli, 2005; McKoy, 2006).

2.4. Group Psychology and Group Synergy

⁶ Some innovative ways in creating high-performance work practices tend to focus on staff capacity as an element to achieve the higher standards on work practices in any firm. The formulation, development, and implementation of performance appraisals are unquestionable included. Though there are numerous types of performance appraisals, the 360-degree feedback has gained an increasing popularity in many organizations, including educational institutions. In USA alone, at least, Carson (2006) indicated that the rate of usage has increased from a mere 40% in 1995 to a hefty 65% by 2000. With the increasing use of computer and internet in organizations, this 360-degree feedback becomes much easier to conduct. The 360-degree feedback serves organizations as a tool to provide management with a complete picture of the quality of human capital, and thus such a performance evaluation mechanism attempts to improve reliability on leaders' assessment (Carson, 2006; McKoy, 2006; Nawangwulan, et al, 2006; Noe, et al, 2006).

⁷ The term “value-added approach” refers to additional valuable perspective for human resources in any organization, which positions those human resources as human capital (instead of as “disposable capital”), who are able to play a strategic role in supporting and realizing organization-wide strategic view. The roles and functions of intangible assets have claimed a much larger portion from the overall organizational contributions, in particular, in the ability to create economic value added. Human capital is undoubtedly a part of intangible assets that can potentially bring about economic value added despite any related expenses to the organizations, which may attached to human resources (Noe, et al, 2006; Sampurno, 2006; Witt, 2000).

In consideration on the rational thinking of managers and entrepreneurs, and the theory of the firm, the theory of social psychology (Yolles, 2008) may also seem to provide a competing view. The urge to increase knowledge and understanding may actually start from individuals, prior to expand relatively all operational activities in firms. This is often referred to as “collective mind”, where firms are not a place to store “products”, but also represent chains of actions toward operational reliability. The theory of group psychology (Geisinger, 2004) also supports such collective minds to achieve the highest profitability for firms. This concept of thinking on the group psychology portrays rational cognitive psychology for individuals.

Hence, these combinations of theories are used as the foundation to support the notion that family business activities are just a mere psychological contract for family members.

3. Research Method

A non-probability cluster convenience sampling method is used in this study to note the characteristics of those family business firms, particularly in small and medium enterprises in certain locations, and industries. The non-probability cluster convenience sampling method is used to segregate family members and non-family members, organizations in Jakarta and Bandung, family members, who are involved directly with the daily operational activities in the family business, and based on the previous field study, which incorporated this sampling method (Anantadjaya, et al, 2007; Yogaswara, et al, 2005; 2006).

Research is conducted by gathering data from primary and secondary sources in service industries in Jakarta and Bandung. Variables chosen in noting the psychological contracts are; job satisfaction, internal locus of control, involvement, motivation, and mood/attitude (Yolles, 2008) of the family members, who are also involved directly with

the family business activities. Aside from the qualitative analyses, which are based on interviews and direct field observations, a combination of quantitative inferences will be gathered to present the statistical results pertinent to this study. As stated, it is expected that such studies would reveal the significance of psychological contracts among family members in small and medium enterprises in trying to safeguard the operational activities of the family business.

3.1. Research Model

The framework of thinking in this study is as illustrated in the following diagram. The diagram illustrates the possible influence between family members and their behaviors in conducting the actual family business activities. It is expected that in managing and running the family business operational activities, family members are acting solely based on psychological contracts. This is to say that family members often do not possess formal written contractual agreements in performing daily tasks. Hence, no formal job descriptions, responsibilities, levels of wages and salaries, and performance appraisal for any jobs and tasks.



Figure 1. Framework of Thinking

3.2. Research Variables

As mentioned earlier, variables chosen to note the existence of psychological contract are; job satisfaction, internal locus of control, involvement, motivation, and mood/attitude toward work.

The variable “job satisfaction” is used to show the level of satisfaction on family

members toward the overall job descriptions and responsibilities in the family business activities. It is expected that as the level of job satisfaction increases, group synergy is established among family members, and it may be an indication that psychological contracts seem to exist among family members.

The variable “internal locus of control” is used to show the level of control on family members toward their own success and career path in the family business. It is expected that as the level of internal locus of control increases, group synergy is established among family members, and it may be an indication that psychological contracts seem to exist among family members.

The variable “involvement” is used to show the level of involvement on family members toward job descriptions and responsibilities in the family business activities. It is expected that as the level of involvement increases, group synergy is established among family members, and it may be an indication that psychological contracts seem to exist among family members.

The variable “motivation” is used to show the level of motivation on family members toward job descriptions and responsibilities in the family business activities. It is expected that as the level of motivation increases, group synergy is established among family members, and it may be an indication that psychological contracts seem to exist among family members.

The variable “mood/attitude” is used to show the level of mood/attitude on family members toward job descriptions and responsibilities in the family business activities. It is expected that as the level of mood/attitude increases, group synergy is established among family members, and it may be an indication that psychological contracts seem to exist among family members.

4. Result and Discussion

4.1. Overview of the Study

Based on the previous studies by Yogaswara, et al (2005; 2006), the original sample consists only 50 (fifty) respondents, whose businesses are still relatively young, and operate in the service industries in Jakarta and Bandung. Those respondents are chosen due to previous acquaintances during prior studies. The products and services sold in those establishments range from bakery/cakes, hair-dressers, barbershop, laundry/dry cleaning, delivery/courier, copy center, phone booths/kiosks (*wartel*), computer/internet rentals (*warnet*), cellular phone vouchers, snacks, garment, textile, and tutorial centers for computer and language training (*kursus/bimbel*). Since, the total respondents for laundry/dry cleaning services are insufficient from the previous studies, additional data gathering is performed to increase the number of respondents (Anantadjaya, et al, 2007; Nawangwulan, et al, 2007; Yogaswara, et al, 2007).

Based on the previous study, it is derived that about 57% (fifty-seven percent) of those respondents are located in Jakarta, and the remaining 43% (forty-three percent) is in Bandung. Since there were no significant differences in the demographic or responses regardless of the city, their responses are combined. The preliminary studies have been conducted since 2005, but without the development of analytical papers. In 2007, an analytical paper on consumer behavior, supply chain management, and customer satisfaction was finalized (Anantadjaya, et al, 2007). Such studies are documented and used as references on this paper.

4.2. Design and Procedures of the Study

All participants were distributed a set of questions concerning the dimensions used to measure psychological contracts. Few preliminary statistical analyses are processed using SPSS (student version).

The reliability analysis on the data indicates that out of 130 (one hundred and thirty) respondents in the studies, about 100% (one hundred percent) of the data are considered valid. The reliability statistics indicate that the data are considered 77% (seventy-seven percent) reliable. Since the descriptive statistics indicate that there are large variations⁸ in terms of the scaling on the original data, a standardization process on scaling is deemed necessary. Standardized Z-scores are used in further analysis.

Table 1. Case Processing Summary
 Source: SPSS (student version)

Case Processing Summary		
	N	%
Cases Valid	130	100.0
Excluded ^(a)	0	.0
Total	130	100.0

^(a) Listwise deletion based on all variables in the procedure.

Table 2. Reliability Statistics
 Source: SPSS (student version)

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.762	.770	25

Based on the studies and the numbers of variables used, the communalities table indicates that the variations on each of the variables appear to be relatively insignificant. These insignificant amounts of variations are mirrored by KMO and Bartlett's Test indicates an adequacy measurement of only a mere 0.631. This number specifies a marginal amount of sampling adequacy. Nevertheless, although the result does not indicate a substantially high adequacy level as expected,

⁸ The minimum value is 1, and the maximum value is 5. This follows the Likert 5-scale.

this implies that the sampling was adequate for further testing.

Table 3. KMO and Bartlett's Test
 Source: SPSS (student version)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.631
Bartlett's Test of Sphericity	Approx. Chi-Square	897.376
	Df	300
	Sig.	.000

Referring to the communalities table, it appears that only “internal locus of control” and “motivation” do have a rather higher power to provide the explanation toward the formation of group synergy, and thus, the existence of psychological contract among family members in conducting family business activities.

Table 4. Communalities (modified)
 Source: SPSS (student version)

	Extraction
Job Satisfaction	.440
Internal Locus of Control	.541
Involvement	.448
Motivation	.500
Mood/Attitude	.454
Extraction Method: Principal Component Analysis	

The component transformation matrix, however, suggests that the data cannot be reduced into 5 (five) factors, which in essence does not seem to be following the initial expectations to relate to the basic 5 (five) dimensions of psychological contracts; job satisfaction, internal locus of control, involvement, motivation, and mood/attitude. Since the statistical results do not show substantial/acceptable supports on the formation of 5 (five) factors, as described above, the pre-determined connections and influences are not supported as well. This means that statistically, there is no connection and influence of “family members in family business activities”, toward “psychological

contracts”, on the basis of the variables used in this study. Therefore, the following inferences can be drawn;

- Statistically, there is no influence of “job satisfaction” toward “psychological contract”, and “family members in family business activities”.
- Statistically, there is no influence of “internal locus of control” toward “psychological contract”, and “family members in family business activities”.
- Statistically, there is no influence of “involvement” toward “psychological contract”, and “family members in family business activities”.
- Statistically, there is no influence of “motivation” toward “psychological contract”, and “family members in business activities”.
- Statistically, there is no influence of “mood/attitude” toward “psychological contracts”, and “family members in family business activities”.
- Since statistically there is no influence of “dimensions of psychological contract” toward “family members in family business activities”, it can be inferred as well that statistically there is no influence of “family members” toward “family business activities”.

Therefore, as the statistical results fail to provide sufficient basis toward justifying the formation of the expected factors, the data set are incorporated into another approach, using the correlation analysis among variables.

From the correlation table, it is apparent that although the relationships among variables are considerably strong, at the level of both 99% and 95% confidence, except for “motivation”, which is significant at the level of 90% confidence, the actual correlations of

those relationships are very weak. At the level of confidence of 99%, the highest robustness of relationship is only a mere 31% between “psychological contract” and “internal locus of control”.

Table 5. Correlation (modified)
 Source: SPSS (student version)

		Internal Locus of Control	Involvement	Motivation	Mood/Attitude
Job Satisfaction	Pearson Correlation	.305 (^)	.190 (*)	.159	.186 (*)
	Sig (2-tailed)	.000	.030	.071	.034
	Cov	.099	.064	.062	.065
	N	130	130	130	130
		<ul style="list-style-type: none"> • (^): correlation is significant at the 0.01 level (2-tailed) • (*): correlation is significant at the 0.05 level (2-tailed) 			

Table 6. Coefficients (modified)
 Source: SPSS (student version)

Model	Standardized Coefficient	Significance
	Beta	
Constant	2.048	.000
Internal Locus of Control	.307	.003
Involvement	.019	.849
Motivation	.056	.592
Mood/Attitude	.195	.051

The statistical results of a multiple regression analysis, as shown in the following table, appear to confirm the previous statistical results. At the level of 95%, the significant variables are; “internal locus of control”, and “mood/attitude”.

Hence, it is safe to conclude that “internal locus of control” appears to be the strongest and most significant variable that brings about influence to the level of psychological contracts among family members. Likewise, the variable “mood/attitude” appears to be the weakest variable that brings about influence to the level of psychological contracts among family members.

5. Conclusion and Recommendation

5.1. Conclusion

The statistical results indicate that psychological contracts among family members do exist when family members show a stronger internal locus of control and a moderate level of mood/attitude toward routine performance on their job descriptions and responsibilities. It is to say that the success (or failure) of the family business activities is contributed by the family members’ decision to take on their own control on career path. Once family members decide to take on their own success on their career path, about 31% of the time, their decisions are bound by the psychological contract in the family business activities. Similarly, it confers that the success (or failure) of the family business activities is contributed by the family members’ decision to form and shape their mood/attitude toward performing their routine job descriptions and carrying out their responsibilities. Once family members decide to form their own mood/attitude, about 20% of the time, the actual process on forming and shaping mood/attitude is bound by the psychological contract in the family business activities. Interestingly enough, such findings appear to conform to the previous study on business process (Anantadjaya and Nawangwulan, 2006; Nawangwulan, et al, 2006).

Hence, family members stand a chance of a minimum of 70% success rate in

performing and/or conducting family business activities away from the family norms and practices.

5.2. Recommendation

Although this study is limited to small and medium service organizations, this study appears to have provided the preliminary foundation on the formation of relationships between family business, and psychological contracts among family members. Further studies can certainly include more variables and measurements to attempt a better formation of psychological contracts among family members. Also, future studies can include a much greater samples outside the service firms, and incorporate bigger firms.

References

- Anantadjaya, S. P. D., and I. M. Nawangwulan (2006), “The Tricky Business of Process Evaluation”, *The Jakarta Post*, Management Page, Wednesday, September 6, 2006, p. 19, available online at www.thejakartapost.com
- Anantadjaya, S. P. D. (2007), “Financial Aspects of HR Scorecard & Business Process Evaluation: An Empirical Study in Retail & Service Industries”, *proceeding, International Management Symposium, Universitas Surabaya*, March 2007, p. 80-98, available online at www.ssrn.com.
- Anantadjaya, S. P. D. (2008), “Comparative Literature Study on The Resource-Based Theory of the Firm and Knowledge-Based Theory of the Firm”, *Jurnal Sistem Informasi, vol. 3, no. 1, Maret 2008, Universitas Kristen Maranatha*, Bandung: Indonesia, p. 55-73. ISSN # 1907-1221, available online at www.ssrn.com.
- Anantadjaya, S. P. D (2009), “Measuring Human Resources Anantadjaya, Sam PD (2009), “Measuring Human Resources: A Case Study in Small and Medium Enterprises”,

Proceeding, Seminar Nasional Industrial Services 2009, Jurusan Teknik Industri, Universitas Sultan Ageng Tirtayasa, Cilegon, April 29-30, 2009, Banten: Indonesia, p. III-101 – 114, ISBN # 978-979-19280-0-7, available online at www.ssrn.com

Bauer, R., N. Guenster, and R. Otten (2004), “Empirical Evidence on Corporate Governance in Europe: The Effect on Stock Returns, Firm Value and Performance”, *Journal of Asset Management*, vol. 5, number 2, p. 91-104, available online at www.ssrn.com.

Cardy, R. L., and T.T. Selvarajan (2006), “Competencies: Alternative Frameworks for Competitive Advantage”, *Business Horizons 49, Kelly School of Business, Indiana University, USA*, p. 235-245, available online at www.sciencedirect.com.

Carroll, T., and S. D. Hunter (2005), "Organizational Design, Organizational Learning, and the Market Value of the Firm", *MIT Sloan Research Paper No. 4563-05*, available online at www.ssrn.com.

Carson, M. (2006), “Saying It Like It Isn’t: The Pros and Cons of 360-degree Feedback”, *Business Horizons 49*, p. 395-402, *Kelly School of Business, Indiana University, USA*, available online at www.sciencedirect.com.

Charan, R. (2006), “The 8 Characteristics of Great Leaders”, *Human Capital Magazine*, December 21, 2006, downloaded from www.humancapitalmag.com, on Thursday, January 4, 2007.

Colombo, M. G., and L. Grilli (2005), “Founders’ Human Capital and The Growth of New Technology-based Firms: A Competence-based View”, *Research Policy 34*, Politecnico di Milano, Department of Economics, Management, and Industrial Engineering, Pza Leonardo da Vinci, Milan, Italy, p. 795-816, available online at www.sciencedirect.com.

Forman, D. C. (2006a), “How Do You Measure

Up? The Top 18 Talent Practices in High Performance Workplaces”, *Human Capital Magazine*, downloaded from www.humancapitalmag.com, on September 4, 2006 at 10:35 AM.

Forman, D. C. (2006b), “The Missing Ingredients: Leadership, Talent Development. The Payoff of a Robust Development Program”, *Human Capital Magazine*, downloaded from www.humancapitalmag.com, on September 4, 2006, at 10:35 AM.

Foss, N., and P. G. Klein (2004), “Entrepreneurship and the Economic Theory of the Firm: Any Gains from Trade?”, *CORI Working Papers no. 2004-09*, University of Missouri – Columbia, August 2004, Missouri: USA, available online at www.ssrn.com.

Florackis, C. (2005), “Internal Corporate Governance Mechanism and Corporate Performance: Evidence from UK Firms”, *Applied Financial Economics Letters*, vol. 1, p. 211-216, Taylor & Francis Group, Ltd, UK, available online at www.ssrn.com.

Fulghieri, P., and M. J. Suominen (2005), "Does Bad Corporate Governance Lead to too Little Competition? Corporate Governance, Capital Structure, and Industry Concentration". *ECGI - Working Paper No. 74/2005*, available online at www.ssrn.com.

Garnsey, E. W., E. Stam, P. Heffernan, and O. Hugo (2004), "New Firm Growth: Exploring Processes and Paths", January 16, 2004, *ERIM Report Series Reference No. ERS-2003-096-ORG*, Erasmus Research Institute of Management, Rotterdam: The Netherlands, available online at www.ssrn.com.

Geisinger, A. (2004), “A Group Identity Theory of Social Norms and Its Implications”, *Tulane Law Review, Vol. 78*, p. 605-652, available online at www.ssrn.com.

Jensen, M. C. (2001), “Value Maximization, Stakeholder Theory, and The Corporate

Objective Function, *working papers no. 01-01, Harvard Business School, Massachusetts: USA*, available online at www.ssrn.com.

Kim, P. H., K. T. Dirks, C. D. Cooper, and D. L. Ferrin (2006), “Where More Blame is Better Than Less: The Implications of Internal vs. External Attributions for the Repair of Trust After a Competence vs. Integrity-based Trust Violation”, *Organizational Behavior and Human Decision Processes* 99, p. 49-65, available online at www.sciencedirect.com.

Kohlbeck, M. J., and B. W. Mayhew (2004), "Agency Costs, Contracting, and Related Party Transactions". *School of Business, University of Wisconsin, Madison, Wisconsin: USA*, available online at www.ssrn.com.

McKoy, D. V. (2006), "Boardroom Politics: Implications for Human Resources Management". *Law, Management, and Policy Forum, University of West Indies, Barbados*. This paper was presented at *The Human Resources Management Association of Jamaica Conference 26* in Ocho Rios, Jamaica, 16-19 November 2006, available online at www.ssrn.com.

Nawangwulan, I. M., S. P. D. Anantadjaya, and P. Yogaswara (2006), “Business Process Studies”, *working papers on management audit and findings*, reference no. R-04-2006, ETC & Foundation, Bandung: Indonesia.

Noe, R. A., J. R. Hollenbeck, B. Gerhart, and P. M. Wright, (2006), *Human Resources Management: Gaining A Competitive Advantage*, McGraw-Hill/Irwin, New York: USA.

Sampurno (2006), “Peran Aset Nirwujud Pada Kinerja Perusahaan: Studi Industri Farmasi di Indonesia”, *proceeding, The 1st Doctoral Journey in Management*, Management Research Center, Fakultas Ekonomi, Universitas Indonesia, November 23, 2006, Jakarta: Indonesia.

Sangkala (2006), *Intellectual Capital Management: Strategi Baru Membangun Daya Saing Perusahaan*, Penerbit Yapensi, Jakarta: Indonesia.

Stam, E., E. Garnsey, and P. Heffernan (2006), “A Penrosean Theory of the Firm: Implications and Applications for the Study of the Growth of Young Firms”, *Economics of the Firm: Analysis, Evolution, and History*, Routledge Studies in Global Competition, available online at www.ssrn.com

Tabalujan, B. S (2002), “Family Capitalism and Corporate Governance of Family-controlled Listed Companies in Indonesia”, *University of New South Wales Law Journal* 25, available online at www.ssrn.com.

Westaby, J. D. (2005), “Behavioral Reasoning Theory: Identifying New Linkages Underlying Intentions and Behavior”, *Organizational Behavior and Human Decision Processes* 98, p. 97-120, available online at www.sciencedirect.com.

Whincop, M. J. (2000), "Entrepreneurial Governance". *Faculty of Law, Griffith University, Australia*, available online at www.ssrn.com

Witt, U. (1998a), “Do Entrepreneurs Need Firms? A Contribution To A Missing Chapter in Austrian Economics”, *Review of Austrian Economics*, vol. 11, p. 99-109.

Witt, U. (1998b), “Imagination and Leadership: The Neglected Dimension of An Evolutionary Theory of The Firm”, *Journal of Economics Behavior and Organization*, vol. 35, p. 161-177.

Witt, U. (2000), “Changing Cognitive Frames – Changing Organizational Forms: An Entrepreneurial Theory of Organizational Development”, *Industrial and Corporate Change*, vol. 9, no. 4, p. 733-755.

Yolles, M. (2008), “The Social Psychology of

Collectives and Their Pathologies”, *Economic Corruption: Detection, Costs, and Prevention*, F. N. In De Luca (ed), Nova Science Publishers, Inc., New York: USA

Yogaswara, P., S. P. D. Anantadjaya, and I. M. Nawangwulan (2005), “Entrepreneurial Research”, working papers on management audit work and findings, reference no. R-01-2005, ETC & Foundation, Bandung: Indonesia.

Yogaswara, P, I. M. Nawangwulan, and S. P. D. Anantadjaya (2006a), “Management Audit”, working papers on interviews with personnel of numerous universities, retail stores, hoteliers, textile/garment firms in Bandung, Jakarta, Bogor, Bekasi, and Tangerang, reference no. R-02-2006, ETC & Foundation, Bandung: Indonesia.

Yogaswara, P., I. M. Nawangwulan, and S. P. D. Anantadjaya (2006b), “Customer Evaluations”, *working papers on management audit and audit findings*, reference no. R-03-2006, ETC & Foundation, Bandung: Indonesia.

Suggested citation:

Anantadjaya, Samuel PD, B. Agus Finardi, and Irma M. Nawangwulan (2010), “Family Members & Family Business Activities: A Psychological Contract?”, *proceeding, The 2nd Indonesia International Conference on Innovation, Entrepreneurship & Small Business*, section 12: Family Business & Women Entrepreneurship, p. 773-786, Serpong, Tangerang: Indonesia.