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Key Success Factors of Islamic Family Business

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Abstract

Previous studies about family business in Islamic value are still few. Accordingly, further study in that area is needed. The purpose of this research is to fulfil the need and to give the perspective about family business in Islamic insight. The role of faith and religious beliefs on ethical business practices becomes a highly pertinent question (Quddus, Bailey, and White, 2005). The overarching principles of Islam set the operating framework for every aspect of how business is conducted in the Moslem world. Interview is conducted in this research to six Moslems who have family business. The data is analyzed using multiple cases study. It shows the information about the definition of success and keys success factors in family business from Islamic values. The expected contribution is to give additional insight about family business in Islamic values. In this study, the types of family businesses are in difference industries, so the basic concept about the family business in Islamic insight can be generalized.

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Keywords: key success factors; family business; Islamic values; success.

1. Introduction

Islam is now the world’s second largest religion after Christianity\textsuperscript{a}. Moslem in Indonesia is 203 million, which is the biggest Moslem population in the world\textsuperscript{b}. Actually Islam was spread in Indonesia by the entrepreneurs, but the number of Indonesian entrepreneurs only reached 0.08\% and a percentage of it, few people is Moslem\textsuperscript{c}. There are some papers have written success factors of family business for examples: A Neglected Factor Explaining Family Business Success: Human Resource Practices

\textsuperscript{a} http://www.religioustolerance.org/islam.htm
\textsuperscript{b} http://islam.about.com/od/moslemcountries/a/population.htm
\textsuperscript{c} http://www.republika.co.id/berita/ekonomi/bisnis/12/03/02/m08l5i-mash-sedikit-jumlah-pengusaha-moslem-indonesia

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Characteristics and Key Success Factors in Family Business: The Case of Korean Immigrant Businesses in Metro-Atlanta (Nam and Herbert, 1999), Determinants of Longevity and Success in Lebanese Family Businesses: An Exploratory Study (Sreih and Djoundourian, 2006), Exploration of Firm Performance Factors in Family Business: Do Families Value Only The “Bottom Line”? (Castillo and Wakefield, 2007). In this paper, researchers attempt to fill in some of the gaps in the literature on family business from Islamic perspective. The role of faith and religious beliefs on ethical business practices becomes a highly pertinent question (Quddus, Bailey, and White, 2005). Previous studies about family business in Islamic value are still few. Accordingly, further study in that area is needed. The purpose of this research is to fulfill the need and to give the perspective about family business in Islamic insight. The overarching principles of Islam set the operating framework for every aspect of how business is conducted in the Moslem world.

In Islam, the question of whether an act is considered a virtue or a vice is determined in the Qur’an and Hadith (Sunnah), Prophet’s sayings and actions (Alhabshi, 1993; Abuznaid, 2009). It is not enough for a Muslim to observe the five pillars of Islam, a Muslim has to make business decision that is guided by faith (iman), which in practice means following law (syariah), and engaging in what is permitted (halal), and avoiding what is forbidden (haram) (Allawneh, 1998; Abuznaid, 2009). So, a Moslem has to distinguish between halal, i.e. ethical, and haram, i.e. unethical, right or wrong, fair and unfair, just and unjust, and a good intention and bad intention (Abuznaid, 2009). The business decision maker has a free choice, but religious principles provide a framework for the appropriate exercise of that choice (Ali and Gibs, 1998; Abuznaid, 2009). So, how to reach the success in family business by Islamic value will be discussed.

2. Theoretical Context

2.1 Family Business

Family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families (Chua, Chirsman, and Sharma; 1999). The ethnic characteristic family business to success has been studied by previous researcher. Dean (1992) found that African American family business owners have written business plans and guidelines, report relatively little conflict and ambiguity about family business, have no succession plan, and highlight special racial and ethnicity concerns. Wong, McReynolds, and Wong (1992) found that Chinese family businesses have strong kinship, create a more harmonious business environment, keep ownership of family firms in the nuclear family, extend preference in hiring to family members and relatives, and have little or desire for continuity of business across generations. Korea is a traditional country with a long history and a complicated culture composed of four levels: Shamanism, Buddhism, Confucianism, and Christianity. Nam and Herbert (1999) found that the key success factors of Korean Immigrant Businesses in Metro-Atlanta are sincerity, diligence, effort and honesty. Others have found that family business succeed as a result of the strong family ties that bind them (Castilo and Wakefield, 2007).

2.2 Islamic Family Business

Within the Islamic culture, the term that is mostly associated with how to success in business is referred to the Holy Qur’an (Beekun, 2004). God, in the Qur’an, has described Prophet Mohammad as a good figure (Abuznaid, 2009). Islamic business ethics is defined as the code of moral principles that are prescribed by Qur’an and Hadith (Sunnah) or sayings of Prophet Mohammad (Abuznaid, 2009). So, in Islamic perspective, how to build success must based on Qur’an and Hadith which is business should have an ethic. Ethics have two dimensions; first ethics toward God, the creator. A Muslim has to believe in God and has to worship Him. The second is ethics toward others; a Muslim business person has to deal ethically with others by maintaining good treatment and good relationship. Hence, Islamic ethics is based on tawhid, or unity principle, which determines the unique relationship between God and man; man and man; and man and his environment (Alhabshi, 1993; Abuznaid, 2009). That is why ethics provide an essential foundation for business transactions.

3. Research Methodology

The researchers set about establishing the criteria for selecting respondents for this multiple cases study. First, for a family business to be considered, it had to be owned and managed by more than one
of the family member (Hollander & Elman, 1988; Astrachan & Astrachan, 1993). This definition of family business is clearly less restrictive than other definitions because it is not dependent on the involvement of more than one family member (Winter, Fitzgerald, Heck, Haynes, and Danes, 1998; Nams and Hebert, 1999). Second, the leader of the firm must owned and managed by Moslem who has depth insight of Islamic value. It means the businessmen who are not only believe but also do business the Islamic way (Tsuruoka, 1993). The multiple cases study is chosen because the authors focused on the “why” in more than one act had occurred; the authors have to draw on a wider array of documentary information. (Yin, 2002; 6)

Indonesia has no family business database, and the authors therefore proceeded by means of personal contact and the Internet searching. The researchers were able to identify 28 firms based on the criteria, but 18 were eliminated at this stage because they do not want to take part in this research, 2 respondents are not family business, 2 respondents can not described Islamic value, leaving us with a sample of 6 family business. As shown in Table 1, all of the sample family businesses work in different sectors, have different turnovers (in IDR), and different characteristics in terms of number of family members employees and non-family members employees, they all meet the basic criteria.

Individual meeting were arranged with the owners of the family business. Before the in-depth interviews, the owners were told about the research goals and the problem situation. With their permission, the interviews were recorded. The researcher used a list of questions to ensure that the same information was obtained from each subject. The information in question included details of the firms, the definition of success in family business, and keys factors success in Islamic family business. The interviews were then transcribed verbatim by the researcher. The data were processed using a list of predetermined codes. The results were drafted in diagram and report forms on the basis of the comment received (Cadieux, 2007).

<table>
<thead>
<tr>
<th>Table 1 Sample Family Business</th>
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<tbody>
<tr>
<td>Sector</td>
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<tr>
<td>Rice Field</td>
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<tr>
<td>UD. Cahaya Maju</td>
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<td>Toko Emas</td>
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<tr>
<td>Tambak</td>
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<td>Citra Rasa Catering</td>
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<tr>
<td>Year business was founded</td>
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<td>Current Location</td>
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<tr>
<td>Number of family member</td>
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<tr>
<td>Number of non-family member</td>
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<tr>
<td>employees</td>
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<tr>
<td>Family ownership</td>
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<tr>
<td>Turnover per month (IDR)</td>
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<td>Gender of Leader</td>
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<td>Generation</td>
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Based on that Table 1, the characteristic of the sample are different not only the type of industry but also the size of industry. Besides that, because the previous researcher stated that few family firms survive the founders’average tenure of 24 years (Beckhard and Dyer, 1983; Astachan and Kolenko, 1994) and there is gender differences in perceived business success and profit growth among family business managers (Lee, Jaspe, and Fitzgerald; 2010), the authors try to minimize the bias, that is why we choose the company more and less than 24 years, also the gender of leader both from male and female. First-, second-, and third-generation family businesses were becoming our respondent although the previous researcher said that as family businesses move from first to second to third generation, some managerial characteristics and practices remain the same (Lussie and Sonfield; 2009).
4. Results

Although each firm comes from different industries, there were nevertheless a number of similarities in the paths they had taken to obtain the success in family business. The following sections describe why they do the business, the definition of success in business and the key success factors in Islamic family business are.

The Reason Why Do Business

- 90% of rizki is derived by God through entrepreneurship. Saudagar is a trader that based on Islamic value. Sau means 1000, dagar means mind. So, the prophet is saudagar. (KN.A7)
- Prophet is a trader. (S.A3)
- God open the door of rizki, which 9 out of 10 is trader. (UDC.A5)
- I run the business to look for the halal things which fit to the Islamic value. (TM.A3)
- Our paragon is Prophet. One thing that Prophet do is business. (T.A2)
- Prophet is a trader and so is his wife. (CRC. A5)

Figure 1 The Reason Why Do Business

As shown by Figure 1, the reason of the respondents do the business is because the good figure in Islam, Prophet Mohammad, was a businessman. And also, Khodija, the Prophet Mohammad’s first wife, was one of the most eminent business persons of ancient Arabia (Syed and Ali, 2010). Mohammad was a successful businessman. As a young Mohammad (12 years old) had already business in goat herding. His uncle, Abu Thalib invited him to trade in the land of Sham. That is the initially Mohammad recognize the serious business and became real entrepreneurs. Then, he got an excellent reputation from the people of that country. He was called Al-Ameen (means: trustworthy). At 17 years old, Mohammad was given a full mandate by his uncle for the trading. Until 20 years old, he has almost mastered the Global Business Center in his era (Now: Iraq, Jordan, Bahrain, Syria, and Yemen).

Definition of Success in Family Business

- Companies provide welfare and a better quality of life to all parties which are involved. (KN.A12)
- If the business previously had 2 tons and now it has 4 tons. But do not forget the workers (welfare) (S.A6)
- Successful is when the turnover is originally only 100, then becomes 200, and later becomes more and more. If it is associated with Islam, perhaps more benefits of the assets, more useful for others. It's called a success. (UDC.A9)
- Success in building a family, earning an income for the family, being able to support, and develop employees, and pay employees. (TM.A7)
- Success is, as long as the business develops well, survives well, and also beneficial to the people around us. (T.A6)
- Not only to get profit, success is to have a lot of friends, a lot of experience, and a lot of knowledge. (CRC.A6)

Figure 2 Definition of Success in Family Business

As figure 2 shows that family business is considered successful if the family business can give more welfare to the stakeholders and useful to the society. Based on the respondents’ answer, success in family business is not measured by financial, but success is measured by how much the family business care to society (Syed and Ali, 2010). Economic activities in Islam must be beneficial and meaningful for self and society (Ali, 2005; Syed and Abbas, 2010). That is why the Islamic instructions neither santon profit maximization nor give priority to shareholders’ interest at the expense of other stakeholders. According to Islamic law, workers should be paid for a living wage to satisfy their basic everyday needs (Syed and Ali, 2010). So, it is a philosophy embracing the idea that all business should have a "socioeconomic" and not just an "economic" function (Tsuruoka, 1993). It is consistent with Taiguri and Davis (1992) research stated that the desire to have the company be a means to personal growth, social advancement, and autonomy, also be a good corporate citizen by contributing to the community in a number of ways.
Key Success Factors in Islamic Family Business

1) Honest

- 1000 says 1000. (S.A3)
- Such as cables and nails, you should not less measure it, it is better to give more, though it is a little bit expensive. (UDC, A8)
- I do not alter the gold that I sell. (TM, A6)
- Honesty, since I started business at 1986, there haven’t been any consumer complained to me. (TM, A13)
- We are honest and transparent in doing this business. (T.A2)
- When I cook, I am not hypocritical, from my deep heart I cook as if I cook for my self. (CRC.A6)

Islamic family business must conduct ethical business. Ethics is defined as the code of moral principles that sets standards of good or bad, right or wrong behavior (Schemerhorn, 2008). Within the Islamic context, the concept of ethics has been described widely in the holy Qur'an. Terms like goodness, righteousness, justice, truth, right, and piety have been described as Salihator goodness, and impious actions are described as Sayyi'ator evil (Abuznaid, 2009). Honest is one of ethical business which is the initial foundation of how we can start a business to shar'ie as taught by Prophet. “Woe to those who give less [than due], Who, when they take a measure from people, take in full. But if they give by measure or by weight to them, they cause loss”. (Surah Mutaffifin. 83: 1-3). The need for honesty is inherent in Islamic family business, requirements which have wide-ranging implication across the full spectrum of business activities, from advertising to after-sales customer service. Islamic family business must also respect the principle of trusting each other. Honest (Shiddiq) is a quality which a Moslem business person should develop and practice in himself (Abuznaid, 2009). Honesty is the virtue of communicating the truth and creating trust in the minds of others. “O you who have believed, why do you say what you do not do? Great is hatred in the sight of God that you say what you do not do” (Surah As-Saff. 61 : 2-3).

Therefore, business honesty means the virtue of communicating business truth and creating business trust in the minds of others. We need to embrace honesty in business not only because that is what morality promotes, but also because that will make us good and will bring us great benefits and advantages in our entrepreneurial lives. If we lie and deceive people, we might attain short-term business success. Honesty creates trust. Trust creates good relationships. Good business relationships bring great and lasting business results. The Qur'an says: “O Believers, Have fear of God and stand with the truthful” (Surah At-Tauba. 9: 119). Additional from Hadith Bukhari Volume 9, Book 86, Number 94: Narrated 'Abdullah bin 'Umar: A man mentioned to the Prophet that he had always been cheated in bargains. The Prophet said, "Whenever you do bargain, say, 'No cheating.'"

2) Charity (Almsgiving, zakat, infaq)

- There is no verse that says accept alms or accept infaq. The verses say pay zakat. (KN.A7)
- Besides hard work, we pray, give alms, pray Dhuhra and Tahajjud and also pay zakat. (S.A5)
- Number one read Qur’an, number two pray, number three infaq. By doing those things, hopefully, it will be successful. (UDC., A8)
- We must give alms, it is an obligation, it is the Prophet's guidance (TM.A13)
- Looking for fortune is not only to get a lot of income, but the important one is also being able to produce something, so we can pay zakat, and give alms. (T.A5)

One of Muslim’s religious rite is giving material to another as an act of religious virtue. In Islam, there are a lot of kinds of charity, i.e: zakat, infaq, alms (sadaqah or saddaqa), and waqaf. Zakat is the
fourth of the five pillars of Islam. Various rules attach to the practice but, in general terms, it is obligatory to give 2.5% of one's savings and business revenue and 5–10% of one's harvest to the poor. Muslim believe by charity will purifying the assets. “Of their goods take alms so that thou mightiest purify and sanctify them...” (Surah 9. At-Tauba: 103). That is why the assets at business will be bless. Besides that, muslim believe: if you give more, you get more. It is stated in Qu'ran. “We will increase the doers of good [in goodness and reward].”... (Surah Al-Baqara. 2:58). “The likeness of those who spends their wealth in God's way is as the likeness of a grain which growth seven ears, in every ear a hundred grains. God giveth increase manifold to which He will. God is All Embracing, All Knowing”. (Surah Al-Baqara. 2: 261). This concept encompasses any act of charity out of compassion, love, friendship (fraternity) or generosity.

3) Good Intention
- Running this business is accompanied by good intentions (TM.A13)
- Looking for rizki by qonaah in Islam is not only to earn a lot of income. (T.A5)
- My objectives do the catering business are to fill my 60s with activities, and to worship, to establish friendship, and to increase the income of my friends with my business. (CRC. A5)

Figure 5: Good Intention is Key Success Factors in Islamic Family Business

Islamic thinking places emphasis of work intention than outcomes (Syed and Ali, 2010). The first and foremost, we ought to have good intentions. Good intentions should be the basic that lead us to act of goodness. That is why good intentions count very high in Islam, as in Hadith Bukhari Volume 1, Book 1, Number 1: Narrated 'Umar bin Al-Khattab: I heard Allah's Apostle saying, "The reward of deeds depends upon the intentions and every person will get the reward according to what he has intended. So whoever emigrated for worldly benefits or for a woman to marry, his emigration was for what he emigrated for."Good intentions is the good desire for both ourself and others. Good intentions can make a business grow from year to year and be blessed to more people. If we do business based on good intentions, all of things we do will be led to the goodness rizki. So, good intentions in trading activities can turn into rewards and the whole side of a Muslim life is being not only a religious value but also obedience.

4) Positive Thinking on Conflicts
- There is conflict, but the dispute will be blessing the business. I will make conflict as process to find more true truth. As long as we want to give in if it knows the correct. (KN.A12)
- Yes, I ever has conflict. My wife ask "How does this farm not work?". The next season, I promise to farm better. Farming is luck from The God, the natural changing occurrence is from the God. (S.A8-10)
- Thank God, there is no conflict. There is meeting which the attendance not only family members but also employees (all workers). The objective is if there is bad thing in this business, we will discuss. Including the issues of increasing the salary. In sales, too, usually the workers can also issue their opinion. Besides, it's a family business, I consider the worker as family too. I collected them, the female workers and male workers, Don't let there is the husband has affair to female workers (UDC.A10-12)
- Thank God, since the first time I built this family business, there was never any conflict. It is because the business is not belong to others people, but family. So there's no accounting process, only an informal communication and another complex activities is nothing. (TM.A8)
- Thank God, we don't have conflict because we must be open, honest, and transparent among others. So we are not negative thinking (su'udzon) in running the business. (T.A7)
- Just a little conflict, example: If I feel so tired, my child will ask me not forget noting this one and that one. There is no great conflict here. (CRC.A7)

Figure 5: Positive Thinking on Conflicts is Key Success Factors in Islamic Family Business

“Mankind was one single nation and God sent Messengers with glad tidings and warnings; and with them He sent the Book in truth to judge between people in matters wherein they differed; but the
People of the Book after the clear Signs came to them did not differ among themselves except through selfish contumacy. Allah by His Grace guided the believers to the truth concerning that wherein they differed. For God guides whom He will to a path that is straight” (Surah al-Baqara, 2:213). “If thy Lord had so willed He could have made mankind one People: but they will not cease to dispute. Except those on whom He hath bestowed His Mercy; and for this did He create them” (Surah Hud. 11:118-119). Based on those chapters, we can see that conflict is God’s scenario in human civilization.

Figure 6 shows that three companies have no conflict, one company has a little conflict and two companies have conflict. The answer of respondents stated that they face the conflict in positive thinking. Thinking positive in conflict is very useful. When faced with a conflict, most healthy groups will look for more information to resolve it. Because the disagreement was expressed, a more thorough investigation will be conducted. When the group makes a decision, it will be based on additional information that probably wouldn't have been obtained had the conflict not occurred (Stack, 2005). In Quran is stated: “Invite (all) to the way of thy Lord with wisdom and beautiful preaching; and argue with them in ways that are best and most gracious: for thy Lord knoweth best who have strayed from His Path and who receive guidance” (Surah An-Nahl, 16:125). “And obey Allah and His apostle; and fall into no disputes lest ye lose heart and your power depart; and be patient and persevering: for Allah is with those who patiently persevere” (Surah Al-Anfal, 8:46). So, to overcome the conflict or dispute in Islamic family business, they should good communication. Understanding the emotions as difficult approach conversations is important. If not careful, these emotions can influence the communication in ways that aren't conducive to achieving the desired outcome (Maxwell, 2008). The meeting is useful for understanding each other or tolerance (Cotringer, 2006). Besides that, we also need patient. Taking time to become aware of the own emotional starting point, setting realistic expectations for the outcome, and staying on the side of the street can make for a safer, less harrowing experience (Maxwell, 2008). Finally, surrendering the final result to God and believe in the God will give the wisdom behind the conflict.

5. Discussion and Conclusion

The Moslem family business owner and manager almost have convergent answers to define success in family business and key success factor in family business. As stated above, appropriate with the main purpose of this paper, this research has defined the definition about success business in Islamic perspective is that family businesses can give more welfare to the stakeholders and useful to the society. The key success factors in Islamic family business that are prescribed by the Holy Qur’an and Hadith (Sunnah) are honest, charity, good intention and positive thinking on conflicts. The contribution of this paper is to give additional insight in reaching the success of family business in Islamic values. In this study, the types of family businesses are in different industry, so the basic concept about the family business in Islamic insight can be generalized. The limitation of this study are the authors only do in six samples of family business, so for the future research can be done in more than six samples. The authors suggest future research on the reason why the number of Islamic entrepreneur is rare and how to increase that number.

References


