Innovations in Digital Business and Family Commitment

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Abstract: Indonesia is the only South-East Asian nation to participate in the G20. Based on data from 'The Role of SMEs in Asia and Their Difficulties in Accessing Finance', one of the four countries in Asia with the largest percentage of SMEs is Indonesia (99.9%). The authors will conduct this particular investigation on SMEs as they play a vital role and have a huge impact on the economic development of Indonesia. According to survey results from Price Waterhouse Coopers in 2014 regarding family businesses, 95% of businesses in Indonesia are owned or managed by families. Previous findings from family enterprise research show how family engagement as a function of family business positively affects the relationship between innovation and enterprise success. More than 1.022.213 publications released between 2014 and 2019 were screened using the keywords: digital business adoption, e-business adoption, e-commerce adoption, family commitment, family firms, SME innovation, and SME performance. Eventually, for this study, 21 journals were selected based on this analysis, the conceptual model has four possible connections: the good relationship between digital business adoption and SME achievements; the positive relationship between the adoption of digital business and innovativeness; the positive direct impacts of innovativeness on family-firm performance; and a good relationship between SME performance and family commitment and innovativeness. This research refers to a conceptual framework that could play a major part in the success of SMEs through digital business, family commitment, and innovativeness.

Keywords: Firm Performance, Organisational Innovation, Family Commitment, Digital Business

1. INTRODUCTION

Indonesia has 258.7 million inhabitants and a total land area of 1.913.579 km2, making it ASEAN's largest and most populated country. As one of the three coastal countries in Málaca, it has a strategic position on one of the busiest shipping routes in the world, with some reports showing that 40 per cent of international trade crosses this path annually. Because of these factors, as well as having the largest ASEAN economy and the sixteenth-largest globally with a GDP of USD 932.3 billion in 2016, Indonesia is the only South-East Asian nation to participate in the G20 [1]. Based on data from 'The Role of SMEs in Asia and Their Difficulties in Accessing Finance', the four countries in Asia with the largest percentage of SMEs are Indonesia (99.9%), Bangladesh (99.9%), Korea (99.9%) and
Cambodia (99.8%). In other Asian countries the percentages of SMEs are: Japan (99.7%), Thailand (99.7%), Philippines (99.6%), Sri Lanka (99.5%), Singapore (99.4%), Vietnam (97.7%), China (97.3%), Malaysia (97.3%), while the smallest percentage is in Kazakhstan (96.1%) [2].

In comparison, in 2018 SMEs accounted for nearly all sector companies in the European Union-28 (99.8%), and two-thirds (66.6%) of total jobs [3]. SMEs are the backbone of the American and European economies. Thirty million small and medium-sized businesses in the United States account for approximately two-thirds of net new private sector employment in recent decades. SMEs that export continue to expand much faster, generate more jobs and pay higher wages than comparable enterprises that do not [4]. Small and medium enterprises account for more than 60% of total jobs in developing manufacturing countries. SMEs represented 99.4% of all enterprises in China and accounted for 59% of Chinese growth domestic products and 60% for total sales, according to Chinese National Statistics Bureau figures [5].

Statistics from the Agricultural Census 2013 of the Indonesian Central Statistical Agency indicate that the number of farm households is 26,135,469; of these, 0.016 per cent or around 4,200 units are incorporated. Based on results obtained in the 2016 Indonesian Central Statistical Agency Economic Census, there are 26,263,649 units of micro-, small- and medium-sized enterprises and 447,352 units of medium-scale and large enterprises. The three biggest non-agricultural SME areas in Indonesia are: wholesale and retail trade (46.27%), food and drink supply (16.93%) and the manufacturing [6]. During 2016 the manufacturing sector increased by 4.29 per cent and the food and beverage industries are steadily expanding [7].

Indonesians use the internet for long periods. However, when compared to countries that already use the internet, usage is not linear. Over 60% of Indonesian SMEs are online, but only about 15% have online ordering and trading systems. Indonesian SMEs face obstacles, and only a few have overcome the hurdles to e-commerce [8]. Deloitte also found that more than one-third of SMEs in Indonesia (36%) were traditional, another third (37%) only had fundamental internet skills, 18% had intermediate web abilities, and under one-tenth (9%) are an enhanced internet business [9]. Moreover, products sold on the Indonesian e-commerce platforms are still below 10% of total turnover, so it is a challenge to make the digital economy and e-commerce grow, and Indonesia is still predominantly limited to the physical market [10].

Through analysing information on the internet user population in Southeast Asian countries, the authors will study digital business. Indonesians, Filipinos and Malaysians spend about four hours on the internet daily. Thais spend four hours and fifty-six minutes daily on phone internet, more than any other country in the world. By comparison, web users in Great Britain and the U.S. only spend about two hours a day on mobile internet, and one and a half hours a day in France, Germany, and Japan [11].

SME development is an important backbone of the efforts of regional integration. Micro-, small- and medium-sized enterprises account for about 97% to 99% of the companies in the Association of Southeast Asia Nations. The number of medium-sized companies in the entire region is relatively low, which could reveal a missing core in the competitive structure of the area [1]. Indonesia’s Digital Islands comprise the biggest online user base in the Southeast Asian area (150 million online users in 2018), have the biggest online economy (twenty-
seven billion US dollars in 2018) and the fastest-growing online economic climate in Southeast Asia. While e-commerce is experiencing healthy development in most Southeast Asian nations, Indonesia leads the way, reaching 12 billion US dollars in 2018 and accounting for more than one in every two dollars invested in the region [11].

Small- and medium-sized enterprises in Indonesia account for over 90% of all companies outside of the agricultural industry, SMEs are the biggest source of jobs and supports more than 90% of the country's workforce [12]. In Indonesia, SMEs made up 99.99% of total businesses and employed 97% of the workforce [13]. The authors will conduct this particular investigation on SMEs as they play a vital role and have a huge impact on the economic development of Indonesia. Most businesses in Indonesia are small- and micro-scale businesses. SMEs are involved in speeding up economic development after the financial crisis that occurred from mid-1997 to 1998, when big companies had difficulties rebuilding their businesses [12]. It is the small- and medium-sized enterprises that are able to contribute significantly to Indonesia in these hard times [14].

Moreover, Deloitte Access Economics estimates that the Internet is worth about 1.6% of Indonesia's GDP and is important for the Indonesian economy [9]. The market for internet commerce is expected to grow by 8% from 2017 to 2022, and to be worth a projected 55 billion to 65 billion US dollars by 2022. This is close to the trajectory of China between 2010 and 2015. In 2022 internet users are expected to penetrate Indonesian online business to 83%, from 74% today. In parallel, typical private spending online is going to rise from 260 US dollars to 620 US dollars annually in 2022 as customer loyalty within the environment improves and greater numbers of SMEs will offer an increasing range of goods online and accessible, reliable delivery [8].

The Indonesian E-commerce Association (Idea) has stated this in the past, agreeing with Google and Temasek’s research, which indicates that Indonesia's digital economic climate will reach 27 billion US dollars, or around Rp 391 trillion. This particular figure ranks Indonesia's electronic economy transactions first for the Southeast Asian area, at 49 per cent.

Based on data from SMEs that are already using the internet in Indonesia, the use of e-commerce in the sector is still between 9% and 15%. As a comparison, the percentage of digital economic development in Southeast Asian countries is: Singapore 73%, Malaysia 67%, Brunei 65%, Vietnam 44%, Philippines 37%, Thailand 29%, Cambodia 6% and Myanmar 1%[11]. This can be compared with Egypt 32% [15] and Australia 16% [16].

2. LITERATURE REVIEW

The authors compare study about SMEs in Indonesia with previous research on the organisational effect of internet technology, by studying the relationship of the use of e-business and firm performance in small and medium companies, especially in the manufacturing sector [17]. However, in this study, the authors will research SMEs in the culinary or food and beverages sector, especially in family businesses. According to the phases of the process of using information, or the stages in adopting e-business, from previous research into e-business in one country of Europe, it can be concluded that ‘e-business use’ mentioned the final stage in the e-business stages and is more appropriate for developed countries. By way of contrast, the authors use the Digital Business Adoption model in research that will be conducted in developing countries such as Indonesia.
According to survey results from Price Waterhouse Coopers in 2014 [18] regarding family businesses, 95% of businesses in Indonesia are owned or managed by families, while 60% of listed companies are family businesses in the whole of Southeast Asia. Family businesses have a dominant role in many other countries, making up about 67% in China and about 70% in Malaysia [19]. In the US, family-controlled businesses account for over 80% of all firms, 12% of Gross Domestic Product (GDP) and 15% of the workforce [20]. In Europe, approximately 99% of small- and middle-sized companies are family-owned in Italy, and in France, 90% of small-sized enterprises are family-owned. Family-owned firms in Germany create 66% of GDP and provide 75% of jobs [20]. In Spain, 90% of businesses are family businesses that recruit 70% of the private workforce and produce 60% of GDP [21].

Research into family businesses in Taiwan investigated the relationship between innovativeness, as an element of entrepreneurial orientation, and company performance under various possibilities of family governance, and to examine its effects in the short and long term. It was found that organisational innovation is positively related to firm performance simultaneously and continuously, and positive relationships are enhanced when family members serve as CEOs, top managers, directors or directors. Conversely, the relationship between organisational innovation and firm performance becomes insignificant when family members are not in this position, indicating passive family governance [22]. Research in Finland revealed that there is a good relationship between innovation and sales growth in family businesses [23], and Finnish family companies show a moderate U-shaped curvilinear effect on the company's innovation, which has the greatest impact on company performance when family commitment is high. But this may not be relevant for all countries in Asia, especially Indonesia, because Indonesia is a developing country located in Asia, while Finland is a developed country with a European culture. The authors expect that the results of research in Indonesia will be similar to studies in Taiwan, which also has an Asian culture, and where innovativeness is positively related to company performance simultaneously and continuously, and positive relationships are enhanced when family members serve as CEOs, top managers, directors or directors, what is known as Family Governance, which is not U-shaped.

This study aims to develop a conceptual model linking digital business adoption to SME performance, digital business adoption to SME innovation and SME innovation to firm performance moderated by family commitment. This will be implemented in developing countries such as Indonesia.

1 Methodology

The authors searched for relevant articles using a systematic literature review (SLR). This particular study uses the SLR approach suggested by [24], [25]. A literature review is the compilation of available documents, published as well as unpublished, on the subject containing, from a specific viewpoint, information, ideas, data and evidence to meet certain objectives or express certain views on the nature of the subject and how it is to be examined, and a good review of the documents in conjunction with the proposed research [26]. This strategy is divided into several sections: defining the research question that is to be addressed in the introduction; locating the research sources; completing the search process using keywords; collecting the information; and analysing the results to address the research question [24].
The authors’ search keywords were: digital business adoption, e-business adoption, e-commerce adoption, family commitment, family firms, SME innovation, and SME performance. 1,022,213 journal publications were identified using the Science Clear search engine. The authors then limited the year of publication from 2014 to 2019, yielding 287,812 publications. The authors further narrowed the origin to specific social science journals, namely The Journal of Business Research, Information and Management, The International Business Review, and Procedia – Social and Behavior. Following this, 73 journals published between 2014 and 2019 were found. After screening these for the relevant industry types and methodologies, the systematic review involved 21 journals.

The authors suggest a connection between digital business adoption, organisational innovation, family commitment and SME performance (Figure 1):

H1: Digital business has a significant direct impact on SME performance
H2: Digital business adoption has a positive impact on SME innovation
H3: SME innovation has a strong direct effect on SME performance
H4: SME innovation has a strong direct effect on SME performance moderated by family commitment

![Figure 1: Relationship between digital business adoption, SME innovation, family commitment, and SME performance](image)

3. RESULTS

The authors analysed 21 texts and found four main topics present: first, a relationship between digital business adoption and SME performance; second, a relationship between digital business adoption and SME innovation; third, a relationship between SME innovation and firm performance; finally, a relationship between SME innovation and SME performance, moderated by family commitment.

3.1 Digital Business Adoption and SME Performance

E-business refers not only to the purchase and sale of goods and services but also to any form of online business including customer service, business partnerships, e-learning and electronic transactions within organisations [27]. “In its scope, online business is wider than E-commerce. It is similar to the word E-business, which was first coined by IBM, which in 1997 defined it as: E-business (e’biz’nis)–a transformation of key business processes by using Internet technology” [28].
The IT system has a six-phase view view of the process of using information technology, combining: initiation, adoption, adaptation, acceptance, routine, and infusion. The dependent variable, the use of innovation, is typically represented in six steps between 1 and 6 [29]. E-business measures e-business use to support the business processes of growth, after-sales, marketing, design and distribution throughout the entire value chain [17].

Digital business adoption has a significant impact on company performance [17], [31], [32]. One of the benefits of using digital technology in Indonesia for SMEs [9] is an increase in revenue of up to 80%. Nevertheless, issues such as: online marketing [33], limited technical literacy [34], less than optimum access to the e-commerce platform [35], as well as lack of online expertise and skilled human resources [8] affect Indonesia. In contrast, the use of e-commerce in Indonesia's SME market is still between 9% and 15%.

3.2 Digital Business Adoption and SME Innovation

Innovation is inclusive of and promotes new innovations, new developments, interactions and creative processes capable of generating new goods, services or innovative technological development processes [36]. Innovation is an application of knowledge to generate new knowledge [37]. In other words, development is also a way of changing the organisation as a reaction to internal, external and environmental changes. Prior studies explored the use of e-business and their effect on corporate development and efficiency in manufacturing companies [17], whereas the present study looks at the field of food and drink. Previous studies have shown that the use of IT has a positive relationship to the performance of SME innovation [38].

3.3 SME innovation and SME performance

The previous research explored customer success using four different product, system and organisational innovation combinations for development approaches. Although the study did not officially test its complementarity, companies with more than one type of innovation grew faster than companies focused on one form of innovation [39]. Process innovation is a system in which businesses can offer better manufacturing processes or services to better performance than existing ones [40]. Innovation adoption is typically designed to help or improve the adopting organisation’s performance [41]. In the long term, a broad theoretical question was raised about IT's ability to drive major developments in corporate business processes, products and services and significantly boost business performance [17]. Another report shows that companies rely on innovation as a key value-added practice that turns the benefits of structured strategic planning into increased performance [42].

3.4 SME innovation and SME performance, moderated by family commitment

A company is called a family business [18] if:
- The majority of ‘votes’ are in the hands of the founder or person who acquired the company (or their spouse, parent, child or heir);
- At least one family representative is involved in the management or administration of the company;
- For a public company, the founder or person who acquires the company, or his or her family, has 25% rights to the company through investment and there is at least one family member in management.
Several observations can be made about this definition of a family business. First of all, the definition does not differentiate between governance and management, with a few exceptions. Secondly, require control of ownership or family management, others only need ownership and management. The definition therefore includes three ownership and management combinations that meet the requirements [43]:

(A) Family-owned and run
(B) Family-owned but not run by the family
(C) Family-run, but not family-owned.

Many family businesses in the world try to implement new technologies and innovation to improve their performance [44], [45], [46], [47]. Previous findings from family enterprise research show how family engagement as a function of family business positively affects the relationship between innovation and enterprise success. This awareness improves our understanding of the output effect of specific interactions between the company’s resources and the family environment in processes involved in the development and introduction of new goods. More generally, previous findings help to understand the consequences of innovation performance more contextually [48].

The family commitment embodied in the family’s loyalty to identity is part of family culture, and has a major influence on business and financial results. The aspect of successful commitment is closely linked to an individual’s personal association with the organisation, which is a result of a person's personal psychological meaning. High family commitment can thus contribute to family members’ positive attitudes towards the business. Therefore, higher family involvement will increase social contact between family and family business owners who influence company-related decision-making. Family commitments tend to increase engagement and active participation [49]. Companies with a large family participation have greater capabilities for innovation than others because it usually takes time to express the positive effects of innovation. Previous studies have improved our understanding of innovation in family businesses by demonstrating how family engagement as a characteristic of family businesses has influenced the relationship between innovation and business performance [50].

4. CONCLUSION

In this literature review, the authors suggest that four possible links exist: digital business adoption, SME innovation, family commitment and SME performance. Digital business adoption has a major direct effect on SME performance. As a result, there is a strong direct impact on SME innovation, which in turn has a positive impact on SME performance. Digital business has a direct positive impact on SME performance, which is moderated by family commitment.

This study is limited by the fact that the literature review is exclusively based on one Science Clear search engine. Further research is required on the empirical validity of the relationships between digital business adoption, SME innovation, family commitment and SME performance.

Further evidence-based research will contribute to theory and practice. The original contribution of this paper is to illustrate the relationship between digital business adoption, SME innovation, family commitment and SME performance. The authors also provide suggestions for further research by comparing organisational innovation with other forms of
innovation types such as frugal innovation, radical innovation, incremental innovation. The authors also suggest family involvement, the number of generations of a family are in a company, as well as the form of family commitment to measure how much influence a family member has.

5. REFERENCES


