

The Effect of Conflict of Interest and Lack of Innovation on Family Business Failure

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ABSTRACT

Failure in a family business can result in interpersonal tensions and serious financial problems. Factors such as lack of planning, conflicts of interest and lack of innovation can lead to such failures. The difficulty in maintaining a balance between personal and professional relationships is often a major challenge in family businesses. The purpose of this study is to identify the factors that lead to family business failure, evaluate the associated risks, and explore the recovery actions that can be taken. This research uses a quantitative method with a descriptive verification approach to collect and analyze data. The object of this research is a family business owned by a student family in Tasikmalaya. The results of this study indicate that conflicts of interest and innovation have an effect of 80.5% on the failure of family businesses owned by UPI Tasikmalaya campus students. This proves that if there is a conflict of interest and innovation in the family business that is not immediately resolved properly, the family business will fail.

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1. INTRODUCTION

In an era of increasing globalization, don't want to be at the centre of attention. Business is one of the main commercial activities of the national economy. Business is not only the heart of the economy, it is also a dynamically changing and increasingly complex area. In this ever-changing environment, business actors are faced with challenges that require adaptability, innovation and a deep understanding of relevant strategies. Businesses are designed not only to satisfy the desires and needs of the community but also to provide facilities that attract the interests and purchasing behavior of the public. In general, business activities have a purpose and purpose related to the profit factor of the enterprise, but the concept of profit has a different meaning for each individual or group that carries out business activities because it relates to different beliefs about attitudes, dangers, values, norms and perceptions for the entrepreneur in managing such activities¹.

Business in Indonesia, dominated by family spread across industries². According to the Central Statistical Agency (BPS) in 2014 stated that family-owned companies that dominate the private sector have contributed up to 82.44% of Gross Domestic Income. Therefore, a very important role is played by the family business in its contribution to the gross national product³. Family are also often regarded as one of the pillars of the global economy, as they make a significant contribution to economic growth and job creation. Although family have a high potential for success, they also face a number of unique challenges that can affect their survival and

performance. According to Purwanto et al. one of the challenges is to balance activities and family problems with business activities and problems so that there is no risk that causes business failure⁴. In addition, according to Ali et al. strategic factors that are one of the causes of company failure is that meetings are not held on a regular basis resulting in poor planning, lack of communication, coordination, and poor performance of company members⁵. Further, Rahadi also explained that there are many factors that cause the continuous failure of family, among others are the lack of cadreship, poor management, and weak business competitiveness⁶. Chandra et al in their research also stated that the lack of innovation and creativity is an important factor for a business to continue to maintain its existence and avoid bankruptcy, one of which is to innovate on the product by taking advantage of existing technological advances⁷. Moreover, conflict of interests and lack of innovation are one cause or factor of underdevelopment of the family business.

The two main aspects of this research are a conflict of interest and a lack of innovation, which can be a major factor in the failure of a family business. Generally, conflict can arise from inconsistencies, unfair distribution or treatment, and misunderstandings⁸. In a family business, it consists of several parties that have their own interests. According to Siregar et al. decisions that can be influenced by personal interests are the main source of conflict of interest⁹. Conflicts of interest in a family business can arise from a variety of sources, including differences in values, expectations, and purposes among family members involved in running a business. These differences of opinion can hinder effective decision-making and create instability in business management. Margaretha also explains that conflict in family business refers to two or more people or groups in the family who have opposing thoughts, views, arguments, views and opinions, thus blaming each other and having a negative impact on the company¹⁰. Next according to Malika Family business failures are often caused by internal factors. One is conflict between family members, prolonged conflict resulting in disruption of company activities, disorganization of employees, decreased working spirit, and declining performance¹¹. From the above-mentioned theory, it can be concluded that conflict of interest is a matter of disagreement that concerns the personal interests of family members. This is what can lead to family conflict and underdevelopment of the family business.

On the other hand, a lack of innovation can result in family not being able to compete in an ever-changing market, thereby undermining competitiveness and long-term sustainability. According to Tjantoko et al. innovation is one of the important activities that a family business should do, and it is important because through the process of innovation, business can survive and thus can support and advance the economy¹². Martha et al. further mentioned that no thought to develop a family business through innovation in basic products that have been produced by families in the past is a common problem in the family business¹³. Lin et al. also explained that family tend to avoid risk and fear to waste the resources that they have accumulated over the years resulting, family stick to traditional products and methods and are reluctant to expand¹⁴. The founder/leader of a family business plays an important role in bringing innovation to the success of their business¹⁵. From the theory that has been explained above, innovation has become one of the most important things in developing a family business. If a family business fails to apply innovation to its business, it will lead to a failure in the family business it is running.

Despite increasing literature about family business, there is still a huge gap in knowledge about the impact of conflict of interest and lack of innovation on family business failure. Previous research tends to focus more on specific aspects without fully understanding how the two factors interact and interact. Therefore, the study aims to find out the impact or influence of **“The Effect of Conflict of Interest and Lack of Innovation on Family Business Failure”**.

2. RESEARCH METHOD

In this study, the researchers used quantitative research methods with descriptive and verification approaches. According to Prof. Ma'ruf Abdullah, quantitative research methodology is a research approach based on a particular paradigm, a paradigm that considers that researchers can deliberately create change in the world around them through various experiments. The quantitative approach emphasizes the use of empirical data that can be measured in numerical or numerical form, using representative samples. The descriptive approach can describe how the influence of conflict of interest and lack of innovation on failure in the family is described. While the verification approach is basically to test the theory with the hypothesis, the test of hypotheses is carried out using statistical calculations used to test variable X against variable Y studied. The study adopted quantitative research designs through questionnaires. The research starts with the creation of a number of questions that support the research, with the researchers processing data from the results of the questionnaire which will later serve as a reference to the study. The questionnaires are also used to gather quantitative data about respondents' perceptions and experiences of conflict of interest, the level of innovation, and the failure of the family business.

The population in this study is aimed at the entire UPI students campus of Tasikmalaya which number as many as 300 people. However, to facilitate the process of data collection. The researchers just took samples from the population through quote sampling or taking several people from each Army. The sampling criteria for the study are dedicated to students of UPI Campus Tasikmalaya who already have a family business with a total of

31 respondents. Questionnaires were developed to measure the level of conflict of interest, the degree of innovation, and record the likelihood of business failure. The questionnaires are conducted through an online questionnaire where respondents are asked to provide answers based on the Likert scale. Questionnaire data is collected ensuring the consistency and accuracy of the answers. Each questionnaire is checked to make sure no answers are incomplete or inconsistent. Questionnaire data is processed using statistical analysis software such as SPSS, descriptive statistical analytics used to describe data spreads. Second Order Confirmatory Factor Analysis (CFA) is a statistical method used to test structural models involving latent or non-measured variables.

3. RESULT AND DISCUSSIONS

3.1 Validity and Reliability

Testing After a validity and reliability test, it can be concluded that the entire question item is valid because the correlation value is more than 0.05 and reliable because the Cronbach alpha value is greater than 0.6. It's proven in the table below.

Table 1. Validity and Reliability Test Results

Question Item	Correlation value	Alpha cornbach value
X1.1	0,685	0,497
X1.2	0,695	
X1.3	0,343	
X1.4	0,469	
X1.5	0,608	
X2.1	0,467	0,733
X2.2	0,700	
X2.3	0,883	
X2.4	0,676	
X2.5	0,708	
Y.1	0,606	0,846
Y.2	0,695	
Y.3	0,565	
Y.4	0,644	
Y.5	0,584	
Y.6	0,601	
Y.7	0,694	
Y.8	0,687	
Y.9	0,676	
Y.10	0,758	

3.2 Classical Assumption Test

Table 2. Normality test results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		35
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	3.16221398
Most Extreme Differences	Absolute	.104
	Positive	.104
	Negative	-.097
Test Statistic		.104
Asymp. Sig. (2-tailed)		.200 ^{c,d}

Based on the above table, it is possible to conclude that the Kolmogorov-Smirnov value is 0.200 where the number is greater than 0.05 so it can be concluded that the data obtained is distributed normally. Normal-distributed data can then be further analyzed such as descriptive analysis and double linear regression analysis.

3.3 Descriptive Statistical Analysis

Table 3. Results of Descriptive Statistical Tests

		Conflict of Interest (X1)	Innovation (X2)	Family Business Failure (Y)
N	Valid	35	35	35
	Missing	0	0	0
Mean		18.71	19.49	39.23
Median		19.00	20.00	39.00
Std. Deviation		2.492	3.311	5.325
Minimum		12	9	21
Maximum		23	25	49

Based on the results of the descriptive analysis that has been carried out and the results shown in the table above, it can be concluded that the variable X1 has a maximum value of 23 and a minimum of 12 with an average of 18.71. For variables X2 has a max value of 25 and the minimum value of 9 with an average of 19.49. Then for the dependent variable or variable Y has a maximal value of 49 and minimum of 21 with the average of 39.23. Study data and values are obtained from a total of 35 respondents.

3.4 Double Linear Regression Analysis

Table 4. Double Linear Regression Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.928	4.666		2.342	.026
	TOTAL_X1	.242	.239	.113	1.013	.318
	TOTAL_X2	1.220	.180	.758	6.780	.000

a. Dependent Variable: TOTAL_Y

Based on the results of the double linear regression analysis that has been performed and shown in the table above, then the equation of the lineary regression model is as follows:

$$Y = a + b_1X_1 + b_2X_2$$

$$Y = 10,928 + 0,242X_1 + 1,220X_2$$

The equation above of the model of double lineal regression is known that the constant value is 10.928 and is positive, so that when the independent variable is 0 then the dependent variable values 10,928.

The value of the conflict of interest variable is 0.242, which means that if there is an increase in the variable, then the family business failure variable will increase by 0.242.

3.5 Decision-taking in Dual Linear Regression

Test Results on the coefficient table show that the significance value of the conflict variable of interest is 0.318 and the innovation variable is 0,000. That is, the conflict of interest variable affects the failure of the family business but not significantly, unlike the innovation variable where this variable has a positive and significant impact on family business failure. This is due to the significance value of the variable X1 >0,005 whereas the Variable X2 <0,005.

3.6 Uji F

Table 5. F Test Results

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	624.185	2	312.093	29.375	.000 ^b
	Residual	339.986	32	10.625		
	Total	964.171	34			

a. Dependent Variable: TOTAL_Y
b. Predictors: (Constant), TOTAL_X2, TOTAL_X1

The test results in the table above show that the significance value is 0,000 where the number is < 0.05 . It can be concluded that simultaneously, both independent variables influence the dependent variable.

3.7 Determination Coefficient Test (R²)

Table 6. Results of Determination Coefficient Test (R²)

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.805 ^a	.647	.625	3.260
a. Predictors: (Constant), TOTAL_X2, TOTAL_X1				
b. Dependent Variable: TOTAL_Y				

The above table shows that the correlation value of the independent variable to the dependent variable is 0.805. This means that the influence of independent variables (conflict of interest and innovation) has an impact of 80,5% on the dependant variable (The family business failed)

4. CONCLUSION AND RECOMMENDATION

It can be concluded from the results above, conflicts of interest and innovation have an impact of 80,5% on the failure of the family business that has students of UPI campus Tasikmalaya. This proves that if there is a conflict of interest and innovation in a family business which is not immediately properly addressed will result in that family business will fail.

For family that have problems of conflict of interest and lack of innovation in their, the researchers suggest to find an immediate way out of the problem so that their business can avoid failure. Strengthening open communication, setting clear guidelines, and planning relevant innovations are key points in dealing with these challenges. By focusing on diversity or collaboration, as well as investing in personal development and careful strategic planning, can build a stronger foundation for long-term survival and growth.

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