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Entrepreneurial Orientation of Family Firm within Maturity Industry: A Multi-Case Study in Rice Milling Industry in Indonesia

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Abstract

This paper, based on a qualitative multi-case study, attempts to explore the entrepreneurial behaviors of fimily firms measured by the five dimensions of entrepreneurial orientation (EO). The data were collected by means of in-depth interview and focus group discussion involving small-scale, medium scale and large scale family firms. The results show that all dimensions of EO tend to be low for small-scale family firms but tend to be high for medium and large scale family firms. Overall this study concluded that EO dimensions are dynamics. Their degree are influenced by both internal firms and the attitude towards industry environment

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Keywords: entrepreneurial orientation, family firm, firm survival, rice milling industry

1. Introduction

Rice is the basic primary processed product obtained from paddy which cannot be consumed in its raw form. This would mean that to enable paddy for human consumption, it must be suitably processed into rice. Therefore, paddy processing activities are necessary condition that must be done either by the farmers themselves or other people. In the past, farmers use hand tools to do the processing. Currently, most of the processing is done by machine in the rice milling unit (RMU). According to PERPADI (2011) – Indonesian rice miller association, as of 2013, there are 182,199 rice milling units consist of 167,840 small scale one phase RMUs, 8,634 medium size two phase RMUs, 2,117 large size three phase RMUs and the rest, 3,618 units, are classified as mobile or uncategorized rice milling units. Most of

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them are owned and operated by individuals or in collaboration with their family (Patiwiri, 2004). Therefore they can be said as family firms.

While traditionally RMU owners were merely rendering milling service to the farmers, in the mean time, they also act as middlemen who become intermediaries between farmers and rice consumers in the rice market. They enter into trading – buying and selling paddy/rice for profit. This is especially true for medium and large size RMU owners because they have capabilities – financial resources, network and technology to do so. As middlemen therefore RMU owners play two important roles. As a production unit, they converts paddy into milled rice, and, as a marketing unit, they purchase paddy directly from farmers or indirectly from paddy collectors/traders to be milled in their own RMU and forms part of the total distributive chain of milled rice to consumers, commercial merchants and government agencies. In many cases middlemen with substantial market power dominate rice supply chains (Mitchell, 2011).

After financial crisis that happened in this country in 1997, Indonesia was forced to liberalize rice industry. While trade liberation is believed to increase efficiency and welfare, the reality shows otherwise. A study conducted by Sugiyanto (2008) for example shows that liberation on rice industry has a negative impact on its related industry i.e. rice milling industry. Before trade liberation, RMU owners and paddy collectors could play as oligopolists. They bought paddy from local farmers and enjoyed high margin from processing rice. However, after trade liberation RMU owners and paddy collectors were free to buy paddy from different districts and bring them to their millers that may far away from that distrcits. As a result, competition among RMU owners is getting stiffer. It is not surprising if many small size RMU owners with limited financial resources were unable to compete and have to close down their rice millers. Many of them were rather to choose another business just to survive (Sobirin, 2015).

Related research conducted by Sobirin & Rosid (2014) concluded that the rice milling industry in Indonesia has now reached a maturity stage leading to stagnate characterized among other by: market segments and products have been met, the technology in this industry has been "obsolete", the fall of profit margin, as well as lack of supply of paddy due to the conversion of agricultural land into non-agricultural use that is increasingly uncontrollable. In spite of the various problems facing rice milling industry, surprisingly many large scale non-family firms with strong capital, extensive network and advanced technology enter into industry that result in chaotic industry environment and causes tougher and increasingly unhealthy competition. In industry environment such as this, the question is whether the rice mill operators who are traditionally dominated by family firms can still survive, or even thrive so that these firms can be passed on to the next generation.

To answer the aforementioned question, this paper attempts to explore the entrepreneurial orientaion of family firms within rice milling industry. Entrepreneurial orientation is basically an attitude or orientation towards both internal and external business environment. So, it is concevied as a quasi-psychological concept to understand the emergence and success of business (Frese, at al., 2002). To do so, an exploratory multiple case study approach was carried out involving 18 rice milling family firms located at Klaten district of Central Java and Metro Lampung district of Lampung Province. The firms are classified into three: Small Scale, Medium Scale and Large Scale Family Firms. The data were collected through indepth interview with RMU owners as key informants, focus group discussion, field observation and secondary available documents.

2. Literature Review

2.1. The Essence of Family Firm

Family firm is the common form of business organization in the world (Shanker & Astrachan, 1996). In terms of size, family firm is diverse ranging from micro enterprise to very large corporation supported by modern governance. Irrespective of this size, family firm as distinct field of study is unique in itself. It is conceptualized exactly as the overlap of two distinct and contradiction social systems – family system and business system. Both systems are described as separate entities with diverging goals, attitudes and structures that coincide in the family firm (McCollom, 1990).

Although separated, these two systems are in fact interdependence within family firm domain and considered as the trait that differentiates family firms from other forms of organizations (Davis and Stern, 1988). Scholars soon adopted a view that the sum is more than its parts. That is, that the family firm evolves from the combination of family and business elements as a single entity *sui generis* with unique characteristics in its own rights. However, due to the