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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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1. Introduction

Islam is now the world's second largest religion after Christianity^a. Moslem in Indonesia is 203 million, which is the biggest Moslem population in the world^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^c. There are some papers have written success factors of family business for examples: A Neglected Factor Explaining Family Business Success: Human Resource Practices

^a <http://www.religioustolerance.org/islam.htm>

^b <http://islam.about.com/od/moslemcountries/a/population.htm>

^c <http://www.republika.co.id/berita/ekonomi/bisnis/12/03/02/m0815i-masih-sedikit-jumlah-pengusaha-moslem-indonesia>

(Astachan and Kolenko, 1994), 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

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