

GOVERNANCE IN MANAGING FAMILY ENTERPRISES

Raymond Win Sarta¹, Kartika Nuringsih^{2*}

¹ Faculty of Economics & Business, Universitas Tarumanagara, Indonesia.
Email: raymond.115210058@stu.untar.ac.id

² Faculty of Economics & Business, Universitas Tarumanagara, Indonesia*
Email: kartikan@fe.untar.ac.id

*Corresponding Author

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ABSTRACT

Succession to maintain a family company faces obstacles due to conflicts of interest among family members. Therefore, this study aims to determine the factors that influence internal conflicts in family business management in several enterprises in Jabodetabek. As a governance mechanism of family business management, two independent variables, namely emotional intelligence and perceived compliance with the code of ethics, are placed to identify this conflict. This study used convenience sampling involving 125 business owners as respondents. The businesses are small and medium-sized in food and beverage, fashion, beauty, and construction industries. The results of structural regression processing show that emotional intelligence has no significant effect on internal conflict, while the perceived compliance with the code of ethics has a positive and significant effect at the 5 percent level on internal conflict. Specifically, there is a controversy that the formation of perceptions of compliance with the code of ethics has the effect of triggering potential internal conflicts. The formation of opportunistic behavior tends to influence decision making so that the perception of compliance can trigger internal conflict. This effect needs to be considered by family business owners and managers to anticipate the possibility of conflict between family members.

Keywords: Emotional Intelligence, Ethics Code Compliance, Internal Conflicts.

1. INTRODUCTION

In 2019, the Indonesia Institute for Corporate and Directorship stated that more than 95% of businesses that have existed and developed in Indonesia are family-owned businesses. This shows that family business activities essentially present a major contribution to national economic development, which is able to move the wheels of the Indonesian economy in a better direction in the future. However, in 2020, Indonesia was hit by the Covid-19 pandemic where the SARS-CoV-2 virus broke out and spread almost throughout Indonesia (Putri, 2020). This resulted in the paralysis of various business sectors at that time, which also had a massive impact on the Indonesian economy. The disruption that occurred in this economic sector resulted in many companies deciding to lay off and terminate some of their employees due to continued uncertainty, the implications of stopping business operations, and reduced productivity in the informal sector. The socio-economic conditions due the Covid-19 pandemic have also suppressed the welfare of family businesses (Rakhmawati, *et al.*, 2020). This phenomenon then invites special attention so that business owners and managers are able to maintain the business that has been pioneered since the first generation, namely through strategic changes and business model adjustments to overcome the crisis that occurs and create a sustainable business foundation in the future (Saifuddin, 2021).

Through the pandemic event in 2020, many new family business actors emerged with the majority being small and medium scale in Indonesia. As time goes by until the current post-pandemic era, many family business ventures are able to compete and develop in Indonesia, but not a few also find problems in the middle of the business process. For example, SMG

company, which is one of a family-owned enterprise in Indonesia, in 2019, SMG company faced several internal problems triggered by at least five things, namely ineffective communication between family members (frequent miscommunication), professionalism & trust issues, acts of nepotism (inheritance lawsuit issues), poor internal governance or management systems within the company, as well as business and family related conflicts of interest (Vellati & Wahjono, 2022). Previous research conducted by Calvin & Edalmen (2022) revealed that emotional intelligence has a negative and significant effect on job stress, where job stress is defined as a response felt by individuals due to several factors that put pressure and demands on the outside, which can cause conflict due to these pressures and demands.

For the second independent variable used, previous research conducted by Poza (2018) revealed that the higher the level of compliance with the code of ethics by family business members, the lower the potential for conflict in the family business. Conflict can be identified as a condition of incompatibility between values or goals to be achieved, both within the individual and in relation to others (Huzaini, 2022). Therefore, this is what then causes conflict in the internal business, which needs to be solved. The concept of triangulation proposed by an American psychologist, Professor Murray Bowen, namely by presenting a third party as an arbiter of conflict can be an option to resolve existing problems (Fatma, 2019). Based on the research conducted, the research question of this study is whether emotional intelligence and perceived compliance with the code of ethics have an influence on internal conflict in family businesses or not. The purpose of this study is to determine that emotional management factors and code of ethics factors can affect the emergence of conflict in family businesses.

2. RESEARCH METHOD

Samples

The minimum sample size of a study where the exact population size is unknown is between 30-500 samples, as well as research using multivariate analysis which the number of members at least 5-10 times the number of variables used (Agustina, 2018). In this study, there are a total of three variables used with 19 indicators, which means the minimum sample size required in this study is 95 respondents, and it was found that the number of respondents collected was 125 respondents first line. The unit of analysis or respondents used in this study were small and medium-sized family business owners who operate their businesses in the sales of food & beverage, fashion, beauty, and construction products in Jakarta, Bogor, Depok, Tangerang, and Bekasi. Quantitative research was conducted using primary data samples through questionnaires circulated via Google Form to friends, companions, and relatives who met the criteria as owners or managers of family business enterprises.

Measurement

The research method used in this research is descriptive quantitative, which involve the collection of data so that information can be quantified and subjected to statistical treatment in order to support or refute alternative knowledge claims (Apuke, 2017). The model in this study uses two independent variables, namely emotional intelligence and perceived compliance with the code of ethics, and a dependent variable, namely internal conflict. In this study, the total number of indicators used is 19 units, which 5 indicators of emotional intelligence (EI) variable referenced by Calvin & Edalmen (2022), 6 indicators of perceived compliance with the code of ethics (PCCE) variable referenced by Poza (2018), and 8 indicators of internal conflict (IC) variable referenced by Efendy (2018).

Data collection and analysis

The research uses primary data samples through questionnaires circulated via Google Form to a person who meets the criteria as owners or managers of family businesses in Jabodetabek. The data that has been collected is then processed using Smart-PLS 4.0 software including PLS-SEM algorithm testing using construct validity & reliability, discriminant validity (cross loadings and Fornell-Larcker Criterion), R-Square, f-Square, Variance Inflation Factor (VIF), Goodness of Fit, Q-Square, and bootstrapping tool to test the hypothesis.

3. RESULTS AND DISCUSSIONS

The criteria for respondents used as subjects in this study are small and medium-sized periodic family business owners in the Greater Jakarta area, which are engaged in several existing industrial sectors, namely food & beverage, fashion, beauty, and construction.

Table 1. Construct Validity and Reliability Test Result
 Source: Data Processing (2024)

<i>Variable</i>	<i>Cronbach's Alfa</i>	<i>Composite Reliability (Rho_a)</i>	<i>Composite Reliability (Rho_c)</i>	<i>AVE</i>
Emotional Intelligence	0.798	0.801	0.867	0.622
Perceived Compliance with the Code of Ethics	0.821	0.860	0.865	0.522
Internal Conflict	0.870	0.883	0.902	0.606

Construct validity is one of the validity value measurement tools contained in Smart-PLS 4.0 software. The purpose of using this feature is to determine the validity of each relationship between existing indicators and their construct or latent variables. Table 1 shows the results of the validity and reliability analysis, the AVE results for all variables used have adequate validity because the AVE value > 0.5. The results of Cronbach's alpha and especially Composite reliability (rho-a and rho-c) for all existing variables have met the threshold level of 0.6 (Karatu & Mat, 2015).

Table 2. Cross Loading Test Result
 Source: Data Processing (2024)

<i>Code</i>	<i>Emotional Intelligence</i>	<i>Perceived Compliance with Code of Ethics</i>	<i>Internal Conflict</i>
EI 2	0.666	0.305	0.398
EI 3	0.852	0.295	0.390
EI 4	0.832	0.181	0.261
EI 5	0.793	0.217	0.316
IC 1	0.320	0.769	0.636
IC 2	0.244	0.840	0.728
IC 4	0.209	0.750	0.458
IC 5	0.327	0.790	0.631
IC 6	0.135	0.588	0.314

IC 7	0.142	0.553	0.333
PCCE 1	0.451	0.559	0.763
PCCE 2	0.359	0.644	0.802
PCCE 3	0.346	0.556	0.823
PCCE 4	0.396	0.389	0.670
PCCE 5	0.320	0.595	0.806
PCCE 6	0.292	0.717	0.797

Notes: EI: Emotional Intelligence; IC: Internal Conflict; PCCE: Perceived Compliance with Code Ethics

In the discriminant validity method, the reflective model is used to see the amount of influence of each variable on each indicator which is evaluated through the cross-loading method and the Fornell-Larcker Criterion. Based on Table 2, the results of the cross loadings analysis show that the value of each indicator of a construct is greater than the value of the construct on other indicators. This is tested per row of variable indicators horizontally. Thus, the cross loadings test which is part of the discriminant validity test can be said to be valid or pass the test.

Multicollinearity test using variance inflation factor are used to determine whether there are independent variables that influence each other with the dependent variable, and is also used to measure how much variation increases from the regression coefficient when compared to the independent variable if it is linearly connected. The results of multicollinearity testing show the results of a positive linear relationship between the independent variables that influence each other with the dependent variable which is 1.259. This result is due to the emotional intelligence variable and the perception of compliance with the code of ethics on all indicators showing the value lower than 10 points.

Based on Table 3, the results of the Fornell-Larcker Criterion analysis show that the value of each latent variable is greater than the correlation between latent variables. This is tested per variable that intersects horizontally and vertically. The Fornell-Larcker Criterion test which is part of the discriminant validity test can be said to be valid or pass the test.

Table 3. Fornell-Larcker Criterion Test Result
 Source: Data Processing (2024)

<i>Variable</i>	<i>Emotional Intelligence</i>	<i>Perceived Compliance with Code of Ethics</i>	<i>Internal Conflict</i>
Emotional Intelligence	0.789		
Perceived Compliance with Code of Ethics	0.335	0.723	
Internal Conflict	0.453	0.758	0.778

Coefficient of determination test (R^2) is used to measure the level of variation in changes in the independent variable on the dependent variable. The result of the coefficient of determination test on the dependent variable which is internal conflict is 0.575 (57.50%). These results indicate that there is a moderate influence on the magnitude of the variability value of these variables, while the rest or others of 0.425 (42.50%) are influenced by other variables. The

effect size test (f^2) is used to measure the impact of certain predictor constructs on endogenous constructs or dependent variables. The result of the effect size value on the emotional intelligence variable on internal conflict is 0.000. This shows that emotional intelligence has a small influence on the structural level. Another case with the influence on the next variable; the variable of perceived compliance with the code of ethics on internal conflict shows a value of 1.089. This shows that perceived compliance with the code of ethics have a medium influence at the structural level.

The goodness of Fit test is used to evaluate the extent to which Structural Equation Modelling (SEM) matches the existing empirical data. The result of the Goodness of Fit value found is 0.579. This shows that the value has a high fit or has met the standards of a Structural Equation Modelling. Q-Square is an illustration of the presence or absence of predictive relevance in a research model, by measuring the dependent variable. If the Q^2 value > 0.05 , then the model is considered to have predictive relevance, while if the Q^2 value < 0.05 , the results indicate that the research model lacks predictive relevance. The Q-Square is 0.519 that the research model used has predictive relevance or good observation value, because the Q^2 value > 0.05 (Kante, *et al.*, 2018).

Table 4. Path Coefficient Analysis Result
 Source: Data Processing (2024)

<i>Path</i>	<i>Original Sample</i>	<i>Sample Mean</i>	<i>Standard Deviation</i>	<i>T-Statistics</i>	<i>P-Values</i>
Emotional Intelligence -> Internal Conflict	-0.012	0.006	0.097	0.119	0.905
Perceived Compliance with Code of Ethics -> Internal Conflict	0.763	0.762	0.086	8.825	0.000

Path coefficients are a measure of value that is useful in showing the direction of the relationship in a variable through the hypothesis that has been formed at the beginning. In the results of hypothesis analysis, researchers want to prove that there is reliability or similarity of references if the results are obtained in line with the research conducted, and this can also be a new finding if it is not in line with the research conducted by providing appropriate arguments to account for the research results. Path coefficient analysis on the bootstrapping in Smart-PLS 4.0 software is used on research models without involving mediation or moderation variables with the aim of concluding whether the formulated hypothesis is accepted or rejected significantly, by looking at those components in Table 4, namely the original sample, sample mean, standard deviation, t-statistic, and p-value results.

The results of testing the first hypothesis concluded that the test results were not significant, and the basic hypothesis stating that emotional intelligence has no negative effect on internal conflict in family businesses is accepted, with the original sample found to be -0.012, a sample mean of 0.006, a standard deviation of 0.097, a t-statistic value of 0.119, and a p-value of 0.905. Therefore, it can be concluded that emotional intelligence has no effect on internal conflict in family businesses. On the other hand, the results of testing the second hypothesis conclude that the test results are significant and the hypothesis that perceived compliance with the code of ethics does not negatively affect internal conflict in family businesses is rejected, with an original sample of 0.763, a sample mean of 0.762, a standard deviation of 0.086, a t-statistic value of 8.825, and a p-value of 0.000. Therefore, it can be concluded that the perceived

compliance with the code of ethics has a positive effect on internal conflict in family businesses.

The results of testing the first hypothesis shows that emotional intelligence has no negative effect on internal conflict. Based on these results, high or poor emotional levels are not proven to trigger internal conflict in family businesses, so further research needs to be done that is more accurate. Internal conflict can essentially be triggered by various things, one of which is due to work stress factors that arise, both from internal and external members so that both influence each other, including in the context of members of family business actors. According to research conducted before, emotional intelligence has a negative and significant effect on job stress (Calvin & Edalmen, 2022), this means that high emotional intelligence will have an impact on low work stress (Khoirurrahman, *et al.*, 2023). Low work stress indicates that the potential for individual conflict is low. This research is not in line with the researcher, where emotional intelligence is concluded to have no negative and insignificant effect on conflict triggers.

Based on the family system theory, when conflict has the potential to occur due to emotional tension involving several family members, whether it involves family business issues or daily life, there is a basis that can prevent the conflict, namely the concept of triangulation. This is a concept where a third party is presented as a deterrent before deep conflict occurs, or as a mediator of conflict between 2 parties. The third party can be defined as an internal member (siblings; nuclear family) or external member (extended family). In this study, the concept of triangulation proposed by Professor Bowen can be used as an argument that the potential for conflict can be suppressed and anticipated through the presence of a third party, so that emotional tension due to the low level of emotional intelligence possessed by members of the family business actors does not have the potential to cause a split in the internal family business actors.

The results of testing the second hypothesis shows that perceived compliance with the code of ethics has a positive influence on internal conflict. However, at the same time, the research results show a conceptual misalignment with the research theory used. Based on the research conducted earlier, the higher the level of compliance with the code of ethics by family business members, the lower the potential for conflict in the family business, which is regulated in the agreement on the use of finances (cash), communication between individuals (communication), comments given to others (critic), responsibilities held (commitment), concern for each other (compassion), and humble attitudes shown to fellow members (credit). This concept is not in line with the conclusions by researchers in their research. Based on the previous research conducted by Khalisah, *et al.* (2022), the code of ethics in the world of work has a significant influence on employee performance. Good or bad performance can represent the level of stress possessed, which can affect the trigger of internal conflict. The results of the study proved to be valid with results that had a significant effect, so that it was in line with the output results found in this study.

Due to the discrepancies found with the concept of the research theory used, the researchers conducted a more in-depth study. It was found that someone who has critical thinking skills means that the person has critical thinking competencies, including being able to make decisions, solve problems, and reasoning. This is very much needed in achieving achievements in the world of work (Mujanah & Sumiati, 2020). However, an individual is also capable of utilizing their critical thinking to behave incorrectly to the detriment of others. As a result, the level of responsibility and awareness that influences the subject's behavior is low. This

conclusion is also in line with the concept of human behavior called opportunistic behavior, which is the emergence of selfish behavior that only pays attention to its own interests and sacrifices the interests of others.

Opportunistic behavior is a routine behavior that takes advantage of every opportunity without having to comply with applicable principles or rules. Based on the assumption of human nature, managers as humans will act opportunistically, which will prioritize their own interests (Prawitasari & Putra, 2019). This opportunistic behavior can occur in individuals who manage family business enterprises and is directed at others due to the low level of responsibility and awareness in their behavior, and no longer need the existence of rules or codes of ethics in running the business. With differences in interests, it can have a negative impact on the internal operations of the business itself, which also can hinder the business succession process and result in internal conflict. This is what then becomes the researcher's argument for the hypothesis results in this study, namely the emergence of opportunistic behavior by family business management members. It can be concluded that family members do have a good understanding or perception of compliance with the code of ethics, but the subjects are unable or fail to comply with these rules in real practice. In the end, this is what results in internal conflict within the family business.

4. CONCLUSIONS AND SUGGESTIONS

Based on the research that has been conducted as well as the results and discussion described in the previous point, it can be concluded that emotional intelligence has no influence on the occurrence of internal conflict in family enterprise due to the concept of triangulation that is considered capable of suppressing and anticipating conflicts between members of family business managers, and the perceived compliance with the code of ethics have a positive and significant influence on the occurrence of internal conflict in family enterprise due to opportunistic behavior made by fellow members so that it can have a negative impact on business sustainability.

Therefore, the governance system in family enterprise ventures needs to be better organized so that family members are able to anticipate violations or triggers that result in internal conflicts in the family enterprises. Although research has been conducted, there are limitations found, namely the independent variables used in this study are only limited to emotional intelligence and perceptions of compliance with the code of ethics, and the number of respondent samples obtained is only limited to 125 subjects from the Jabodetabek. For future research, a research model can be developed with the theme of succession planning in family enterprise for sustainable businesses.

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