

# Family Business Failure Of Minang Ethnic, Indonesia In Facing Digital Transformation

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## Abstract

*The purpose of this study is to determine the failure faced by family businesses of Minang ethnic due to digital transformation. This is a qualitative research with data obtained from 20 failed family businesses in the food and convection sector in 4 provinces of Pekanbaru, Palembang, Jakarta, and Surabaya in Indonesia from 2018 to 2020 through in-depth interviews. The results showed that the failures experienced by family businesses are due to several conditions, such as inadequate management. Furthermore, its leaders are mostly direct descendants like biological children with very weak leadership abilities, hence they are unable to make changes to digitization. Despite the fact, the products have a good culture and brand, they are unable to develop the company due to their inability to carry out digital transformation. In addition, consumers or the public have very little knowledge of existing companies or products because they are unable to convey adequate information. This research contributes to highlighting cases of family business failure due to the inability to carry out digital transformation. The literature provides more information and theories regarding developed countries and little is done to family companies of an ethnicity that have strong products, culture and social capital. The limitation of this research is that it still has a few respondents and uses qualitative methods. Therefore, further research needs to be carried out using quantitative methods, a greater number of respondents, and other variables.*

**Keyword:** Business failure, Qualitative, Digital transformation, Strategy, Culture.

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## 1. INTRODUCTION

Business failure has been researched for a long time with approaches made in various sectors (Horrigan, 1968). Furthermore, in terms of development, many methods and models have been carried out in the research associated with this topic (Beaver, 1966; Freeman *et al.*, 1983; Dunne *et al.*, 1989; Moulton *et al.*, 1996; Yamakawa *et al.*, 2015). Research for business failure is not only in the field of entrepreneurship rather, it is also carried out with approaches in other sectors such as sociology, finance, etc. Currently, one approach that needs to be taken is regarding failure in the family business because it is a source of wealth capable of growing the economy (Randerson *et al.*, 2015). There are reasons associated with the development of measuring family business failure. For instance, although many have been built over the years, however, within a short period, they are unable to survive and even go bankrupt. Furthermore, many family businesses start very strong. Eventually, they become unable to compete for various reasons, including the inability to adapt to technological changes such as digitization and digital transformation, which are needed to survive in the market (Rashid and Ratten, 2020).

Research on business failure is analyzed from individual and company perspectives and developed in terms of ethnicity. Until now, there have been many studies on business failure based on ethnic using the Chinese ethnic. Minang ethnic is very well known in Indonesia as an ethnic that is very dominant in entrepreneurship. Its various types of sectors, such as food, handicrafts, and other products, are popular in Malaysia and Singapore. Primadona (2020) and Zahra and Sharma (2004) stated that initially, family businesses of the Minang ethnic were able to improve welfare and played a role in regional development or poverty reduction. According to Randerson *et al.* (2005), previous research has shown that family businesses are capable of being a source of wealth and create jobs. Family businesses in the Minang ethnic are managed

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from generation to generation with many currently headed by the 2nd or 3rd generation in the lineage. Presently it is interesting to study the development of family businesses due to the effect of technological developments and digitization. Sharma, Chrisman, and Gersick (2012) stated that the family business has the main rating for confirmation and research. Moreover, in the Minang ethnic, it is based on high social capital and is generally managed by the nuclear family, hence innovations and changes to technological advances need to be questioned. This business category is very slow following changes because they are influenced by other factors that hinder their development (Naldi *et al.*, 2007). The Covid Pandemic 19 caused major changes in the Micro and Macro business environment. Therefore, family businesses that do not survive go bankrupt because changes in the environment affect their existence (Karatas and Ozkan *et al.*, 2011). Research on innovation and technology in family businesses is of particular concern, especially in business management and sustainability (De Massis *et al.*, 2012).

Even though the demand for innovation and technology is not new in the business sector (Freeman, 1976), the various obstacles currently make it necessary for family businesses to adjust to technological advances to master digitalization (Hauck and Prugl, 2015). According to Röd (2019), family businesses are more difficult to adapt to change and less innovative than their nonfamily counterpart. However, adjusting it by carrying out digital transformation is crucial for its sustainability (Wielsma and Brunninge, 2019). Furthermore, it faces some developmental obstacles and limited by habits in managing very strong instilling values passed down from generation to generation (Erdogan *et al.*, 2020). The top management of family business management, dominated by lineage, needs to be able to master technology by embracing innovation to make decisions (Tretbar *et al.*, 2016; Arzubagi *et al.*, 2019). Stubner *et al.* (2012) stated that the right decisions need to be made in any company because it also affects performance. Several studies have stated that management in family companies is low, hence it is necessary to innovate and show competitive advantages (Zahra *et al.*, 2008; Chrisman, 2019; James *et al.*, 2017; Madison *et al.*, 2016).

In recent years, many family businesses have experienced failure in performance and in achieving success, with some going bankrupt. The definition of business failure is still debated because it has different meanings depending on the perspective used to analyze the process (Everett and Watson, 1998; Perry, 2001; Gaskill *et al.*, 1993; Zachakaris *et al.*, 1999). This research focuses on analyzing business failures in terms of the expected performance, which is not achieved and bankruptcy of the Minang ethnic family business, Indonesia, from 2018 to 2020. The effect of digital transformation is the main factor affecting this business. In recent years, it cannot be denied that digitalization has indeed entered all elements of business, including generationally run by families.

## **Theoretical Background**

### *2.1. Business Failure*

Understanding business failure is inseparable from the process of entrepreneurship (Jenkins and McKelvie, 2016). Research in the last few decades still focuses on discussing business success and has not paid special attention to failure (Byrne and Shepherd, 2015; Corner and Pavlovich, 2007; Buyze and Ooghe, 2012). Some preliminary studies have examined the relationship between success and failure. For instance, Shepherd (2003), Singh *et al.* (2007), and Eggers and Song (2015) stated that it is important to study success and failure because they have the same possibilities in the entrepreneurial process. An entrepreneur is usually exposed to both possibilities even though success is an achievement that deserves to be announced, and failure tends to be saved as an experience (Shepherd *et al.*, 2011) because it influences a person's attributes or image (Pronin and Ross, 2006, Shepherd *et al.*, 2011). Entrepreneurial studies have tried to be more specific in defining success. Although failure is seen more from the nature of the entrepreneur, its interpretation needs to combine two things, namely from a psychological and genetic perspective (Wang and Chugh, 2014). Until now, society has assessed failure in a negative way and tends to be associated with other things. Therefore, it is often something that needs to be avoided even though business failure is an experience towards success based on several studies (Cope, 2003, 2011; Arenius and Minniti, 2001; McGrath and Cardon, 1997; Schoemaker and Gunther, 2006, Ucbasaran *et al.*, 2010). Failure is learning

capable of providing knowledge that needs to be appreciated as an entrepreneurial process in conducting business (Yamakawa and Cardon, 2015; Cannon and Edmondson, 2001; Jenkins, 2012). Several definitions of business failure in entrepreneurship are divided based on perspectives in certain contexts. For example, business failure from a financial context is different from a psychological perspective (Halabi, 2010).

Companies that do not achieve financial performance or targets are called failures. Furthermore, those unable to survive and fulfil operational needs are also called failures (Coelho and McClure, 2005; Cressy, 2006). According to Bruno *et al.* (1988), Shepherd (2003), Michael and Comb (2008), profit targets not fulfilled or unable to match expectations are also called failures. However, in some cases, not all are called business failures. For example, unfulfilled targets could be due to too high expectations. Hence, they are not realistic, and the final result is unable to achieve them, therefore, the company still finds other advantages in this condition. This research is in accordance with the study carried out by Liao *et al.* (2008), which stated that business failure is a condition in which entrepreneurs are unable to control their business due to decreased income, thereby leading to closure within 3 years. Many research focuses are analyzed from failures, for example, closing businesses to minimize the worst possibility or future losses (Borchert and Cordozo, 2010; Abdullah *et al.*, 2009; Carter and Auken, 2006). However, according to Liao's idea, this research focuses on business failure, which separates several associated criteria.

## 2.2. *Digital Transformation*

Changes in patterns and strategies utilized by customers to make transactions in the digital market are influenced by several factors, such as trust in the intended producer and the accuracy of information received through technology media. Companies also need to be able to think about the convenience and desires of consumers in this digital process (Berman, 2012). According to Benlian (2015), digital transformation changes all business activities as a whole, not only in a small capacity rather in almost all activities within existing units starting from the strategies used by company executives to convey information to consumers and to build relationships with other environments involved in the business. Currently, most business activities are faced with digitalization due to digital transformation, therefore companies also need to adjust to the use of this technique for proper implementation in the market (Duarte, 2016). Even though digital transformation has existed in the business sector for a long time, the term digitalization is still considered far from expectations, especially in academia, because its meaning is still debated (Kaplan, 2019). Despite the varying perspectives on the meaning of digital in studies carried out by Berman (2012) and Auriga (2016), this research determines the optimizing process of the term by supporting all business activities. According to Berman (2012), due to the increasing needs of digitalization in the business sector, companies need to be able to carry out digital transformation to enable all activities in accordance with the needs of the world today. The justification and unity of understanding of the process used to carry out digital transformation in business need special attention because it impacts all elements. Therefore, it is necessary to set the main indicators supporting this digital transformation because it helps build a sustainable economy (Berman, 2010; 2012). In addition to surviving and getting advantages in competitions, companies need to carry out digital transformation because it also supports the placement of strong models and elements in business (Berman, 2012).

Digital transportation has a very broad meaning because it is formed by the combination of personal and company information technology such as cellular, cloud technology, and the internet (While, 2008). The implementation of digital transformation acts as an integration of digital technology and business processes (Lie *et al.*, 2011). Furthermore, managing a business makes it necessary for companies to innovate the utilization of information technology as a new nuance (Westerman *et al.*, 2014; Hess, 2016). Despite the high desire for companies to make changes to facilitate digital transformation in individuals, the obstacles associated with its utilization have prevented the actualization of optimum results (Schuchmann and Seufert, 2015). Recent research showed that two components need to be carried out for a company to succeed in digital transformation, namely complementing in reshaping customers' value propositions and using greater technology to make them feel good (Berman, 2012). However, entrepreneurs' reality is the slow change in

their business because many technological masters need to be mastered, which tends to experience fast changes within a certain time (Proctor, 2017). According to Azhari *et al.* (2014), there are 8 elements that build digitalization. Therefore, it is successful in implementing organizational or company strategies, leadership, products, operations, culture, people, governance, and technology. These eight elements work adequately when a company experiences no failure in digital transformation.

Many businesses have experienced success because they were able to utilize the advantages associated with digital transformation to position the company in the minds of consumers. Similarly, many businesses also experience failures due to their inability to keep up with technological developments impeded by the mismatch of existing resources with the expected technological mastery capabilities. Furthermore, the strategy for running a business by carrying out digital transformation is also a concern because it significantly influences the results obtained. This research analyzes businesses managed within the family's scope, which often follows patterns that have been passed down from generation to generation. It also aims to answer questions, such as why are many family businesses are unable to adapt to technological developments and end up experiencing failure. Is the readiness of human resources weak, or is there a culture in the business that needs to be able to make changes quickly? Webb (2013) stated that making cultural change is the biggest challenge for any change program in the business sector. This research contributes to producing the causes and failure of family businesses in facing digital transformation. Furthermore, the research analyzes the reasons for companies' failure in managing businesses using digital transformation as an effort to contribute to family businesses. The research's novelty provides an overview of the family business failure due to the inability to carry out digital transformation.

## II. METHOD

This research is a qualitative research with data obtained from 20 family company owners in the convection and food sectors at 4 locations in Indonesia through in-depth interviews. The questions were associated with the research carried out by Land and Heinz (2015) regarding digital maturity in companies. This is analyzed from the dimensions regarding the maturity and failure levels of family companies in carrying out digital transformation.

**Table 1.** Respondents of Minang Ethnic Family Companies that have experienced failures since 2018-2020

No	Respondent	Location	Gender	Education	Business Establishments	Number of employees
1	CEO of Convection 1	Jakarta	Male	Senior High School	1965	101
2	CEO of Convection 2	Jakarta	Male	Undergraduate Program	1978	70
3	CEO of Food 1	Jakarta	Female	Senior High School	1985	98
4	CEO of Convection 3	Jakarta	Male	Senior High School	1982	115
5	CEO of Food 2	Jakarta	Female	Undergraduate Program	1999	89
6	CEO of Food 3	Surabaya	Female	Senior High School	1985	76
7	CEO of Convection 4	Surabaya	Male	Senior High School	1970	67
8	CEO of Food 4	Surabaya	Female	Senior High School	1983	176
9	CEO of Convection 5	Surabaya	Male	Senior High School	2002	56
10	CEO of Food 5	Surabaya	Female	Senior High School	2005	90
11	CEO of Food 6	Palembang	Female	Senior High	2006	73

12	CEO of Food 7	Palembang	Female	School Senior High	1987	54
13	CEO of Food 8	Palembang	Female	School Senior High	1980	65
14	CEO of Food 9	Palembang	Female	School Senior High	1972	55
15	CEO of Convection 6	Palembang	Male	School Senior High	1981	60
16	CEO of Food 10	Pekanbaru	Female	School Senior High	2003	89
17	CEO Makanan 11	Pekanbaru	Female	School Senior High	1976	150
18	CEO of Convection 7	Pekanbaru	Female	School Senior High	1996	90
19	CEO of Convection 8	Pekanbaru	Male	School Senior High	1987	51
20	CEO of Food 12	Pekanbaru	Female	School Senior High	2001	24

The data were collected for 10 months by visiting family companies and carrying out in-depth interviews with an open-ended question structure. Apart from company leaders, interviews were also conducted with several former employees that had worked for 10 to 15 years.

All interview results were recorded and transcribed. Furthermore, data analysis was carried out based on three criteria, namely (1) original records, (2) identifying the key factors of the data results, and (3) understanding meaning in a particular context (interpretation) (Wolcott's, 1994). Furthermore, an open coding technique with a grounded theory approach (Strauss and Corbin, 1990) was applied to the analysis process, which was carried out consistently from the results obtained.

## 1. Findings

In this section, the authors determined the findings regarding the failures experienced by Minang ethnic businesses from 2018-2020. The failure to face digitization is the main reason discussed in this research. Some of the findings are described using field data, and a reviewable to reveal the novelty generated.

### 4.1. Indonesian Minang Ethnic Business

The family business of the Minang ethnic is strongly influenced by the matrilineal lineage, namely a community custom that regulates the flow of descent from the mother's side. This is the only ethnic group that utilizes Indonesia's matrilineal system, which also affects the family business management system. Minang is an ethnic group that is well known for its entrepreneurial life. They are found in almost all regions in Indonesia and even abroad, with a dominant job of entrepreneurship. The dominant business undertaken is in the food sector, which has been famous for its Padang cuisine and also in the convection. The Minang ethnic is influenced by the custom of wandering, which means that boys above 17 years need to be independent and leave home to look for work in other areas, thereby making them entrepreneurs. This is still happening today and has become a culture in the Minang ethnic community. Meanwhile, daughters become successors in the offspring, including inheritors of properties and family businesses.

Such conditions make men in the Minang ethnic group have strong individual abilities in running a business, and this is in accordance with the research conducted by Emrizal *et al.*, (2020). The wandering life carried out makes them live in various regions under numerous conditions. Some have been in business for 20 to 70 years, while others are still starting and intend to span for 70 or more years. In managing a business, the Minang ethnic group still uses a very strong kinship system, which means that family members manage the company. Furthermore, this ethnic also plays a significant role in social capital (Primadona, 2016). Successors and employees have held the principle of kinship or fellow Minang ethnic for a long time.

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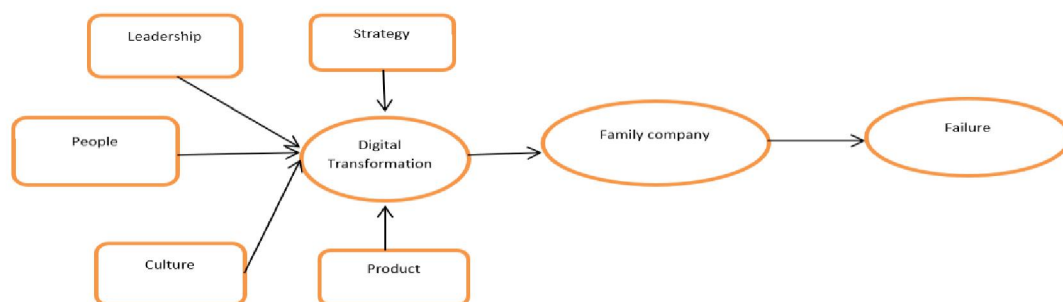
Furthermore, there is a strong habit of bringing other Minang ethnic groups to wandering places when employees or business successors are needed. The sense of trust and culture of building networks among them is also the main reason for the strong social capital of the Minang ethnic because it is involved in all activities in managing the business.

Based on these conditions, it is concluded that the culture of wandering in the Minang ethnic from a young age makes business founders generally have low education (first descendants of family businesses). This is because they do not have time to continue their education, and at the age of 17, students are expected to have completed high school. Furthermore, the Minang ethnic still adhere to principles based on culture hence they are not yet open in general with difficulties in facing competition, especially in mastering digitalization.

#### 4.2. *Digital Transformation in the Minang Ethnic Family Company*

Human resources' readiness to face digitization is a big problem in the family business, which has provided great opportunities for families to run a business even though this readiness is slowly conducted. The desired result of digital transformation is that company management has a lighter responsibility than usual in terms of controlling, implementing, and planning, hence existing products are able to reach consumers quickly and satisfactorily. The existence of strong trust from consumers is the main key to success in selling products from companies in addition to the existing digital services and systems. In facing such changes, entrepreneurs' main factors in family businesses are the readiness of the infrastructure in the business, management capable of mastering scalable and accurate technology, superior resources in mastering technology and equipment in accordance with consumer needs for digitization.

Family assets have also been widely used in businesses, and there is no such thing as idle money because everything is invested. Furthermore, almost all family businesses in the Minang ethnic empowered most employees from their families or community. At the beginning of establishing the business, everything invested is considered as a contribution, therefore, the effort is carried out simply without making a lengthy plan or assessing the investment return period because the initial basis is trust. Family businesses need to have good management, such as having transparent and accurate financial reports in accordance with proper principles. However, only 4 out of 20 family business owners interviewed had complete financial statements from the start. Meanwhile, the rest prepare financial statements only to determine the overall company's profit. According to the majority, they do not need financial reports because the nuclear family owns all investments in the business. Although measuring business performance is no longer a new science (Balton, 1971), it is something that is difficult to be carried out by this ethnic group. However, this process is easily carried out using current technological developments. The most visible limitation of this family business is the little ability to master technology. The real limitation is that the desire of family business owners to master technology is also low compared to other ethnicities such as the Chinese that tend to recognize the importance of performance reports, especially financial statements (Primadona, 2016). The model for the causes of Minang ethnic family company failure in facing digital transformation is shown in figure 1.



**Fig 1.** shows the several factors that cause family companies to fail in carrying out digital transformation, as follows.

##### 4.2.1. *The shattered strategy*

Family companies lack the ability to create important strategies for carrying out their mission and vision and incapable of controlling external factors. This means that there is a strong will from all elements to adopt a new strategy due to changes towards digitalization. Everything is adjusted to the vision and mission of the company that is able to be seated and run together. Unfortunately, the Minang ethnic family companies have outdated vision and mission and were very slow to implementing strategies, accompanying technological changes. They acted as though they were in a past era by upholding the Minang ethnic business entrepreneurial culture's values, namely the social capital value, which includes having high trust and a strong network to run a business. In conditions of digital transformation, companies however, need to be able to have a strong strategy in mastering technology. However, from observations and through in-depth interviews, only a small proportion of family companies were able to master technology and implementing digital transformation. This condition is exacerbated by the ability to determine appropriate strategies in times of change. The vision and mission of these companies need to accompany new changes, however, in reality, they failed. For example, a food business that had been running for 30 years failed due to its inability to understand the new strategy. Further, today's food business is not only focused on opening a shop or having a strategic place, rather it needs to be accompanied by digital sales. Only 3 out of 20 family businesses asked for information as sample research and made changes, although it was not optimal. The strategy adopted by the Minang ethnic family business is very different from other ethnic groups, such as the Thionghoa that were quicker to make changes by establishing strategies in accordance with demands. Therefore, in the conditions of digital transformation, the role previously played by the Minang ethnic group was controlled by the Chinese.

Almost all family companies are unable to create a vision and mission, hence the roadmap that is the goal of the achievement is unobtainable. Furthermore, their business management is only based on momentary abilities and short-term opportunities. Food businesses in Surabaya, which had 10 outlets with over 300 workers and opened from 2 pm to 4 am with a turnover of 1.6 billion per month, have also closed since March 2020. They were unable to control various conditions, and the majority was associated with digital transformation. These businesses were meant to have made changes a few years ago because many consumers needed simplicity, however, they were reluctant to do so and failed eventually. Therefore, their inability to create a simple vision and mission due to poor strategies led to their closure.

This also happened to several family companies in Jakarta, the capital city of Indonesia. Minang ethnic entrepreneurs have many businesses in the center of this city, and even the biggest Mall in the capital city is inhabited by more than 70 percent. However, within a short period, everything has changed, and currently, only a small proportion of them still have businesses running in the Mall. Tanah Abang Mall is the largest wholesale center in Southeast Asia and was formerly inhabited by the majority of Minang entrepreneurs with family businesses that have been passed down from generation to generation. Five family companies interviewed for the convection sector admitted to no longer having a place of business despite raising their standard. One of the major reasons for their inability to survive was their slowness in adjusting to changes. Another reason is the lack of confidence to start using digitalization because generally, their employees had limited abilities and based on the level of education, they had a very low average, with the highest graduating from high school without attending college. This is because undergraduate tend to work for companies with better employee management, thereby making it an obstacle to establishing a strategy to achieve the company's vision and mission. Five family companies interviewed for the sector of convection, in managing their businesses, still use traditional and simple systems in running and managing their businesses. They do not carry out systematic product marketing using digital transformation because they consider the costs incurred for digitization as a waste of money. Other ethnic businesses, such as the Chinese, have limited resources with a very good IT system to control and run the business. The vision and mission are clear, and many goals are achieved, therefore, in this condition, they have a lot of innovation both in sales and creating products. Meanwhile, the Minang ethnic group suffered destruction, which led to the closure. The workings or processes in the Minang ethnic family company significantly differ from other family companies. For instance, it was originally founded to accommodate family interests, making it far

from setting long-term goals. The culture of wandering makes them very confident and live in almost all parts of Indonesia. In selecting employees, this company also considers their ethnic, and for certain positions, they are occupied by their own siblings or relation because it is the entrepreneurial culture of the Minang ethnic. Furthermore, other employees are also brought in from their regions, and these people generally have a low level of education. According to Affee (2011) and Albrecht (2015), digital transformation is an obstacle for family companies' growth and development. This is because the ability to carry out digital transformation is seen from the readiness of resources to make changes. The business strategy can be run by opening as many stores or outlets as possible for consumers to be served at all levels. This service is also a strategy in developing a business because although those adopted by others are different. Another segment is consumers in need of services from noon until 4am, however, this is not for other similar businesses.

#### 4.2.2. *Weak leadership*

Leadership is the spearhead in making changes towards digitalization therefore, leaders need to have the ability to master technology to be able to easily convey to management and propose changes. More than 60 percent, which are approximately 17 entrepreneurs/family business leaders, admitted to not having the ability to master IT. Therefore, they are limited in terms of disseminating digital transformation into the company. Low education, as well as poor leadership qualities, makes them reluctant to make changes. Furthermore, the company's large costs to build a strong IT system are the burden of the family company. Most time, the first question that arises is how much profit is obtainable by making changes to IT. However, assuming this question was resolved a few years ago, the impact that will be faced may not be too fatal. However, in the current state of the Pandemic, answering the question is a step towards ending lags and bankruptcies. In fact, family companies do not need to feel a loss when they have prepared from the start. Based on the desired IT needs, it is not too big and does not require a lot of investment, rather, the actual resource capacity needs to be prepared to be able to survive. The desire to change and the shared enthusiasm for it is the main factor in this case. The role model of a leader needs to be a reference, however, this is weak in the Minang ethnic family company.

The Minang ethnic family company leaders are men and women that all depend on the lineage of the manager and not on those that are competent. Furthermore, this ethnic group adheres to a Matrilineal system in which lineage falls to the mother's side. This also affects the leaders of the family company where women inherit it, therefore many Minang ethnic family company leaders are women. Based on research, 13 company leaders are women, which is also one of the considerations in carrying out digital transformation. In general, the reins of leadership are inherited by the nuclear family, such as children, especially daughters. In preparing company leaders, it is important to contribute to the company to seek experience and not acquiring higher education. This view is outdated in this era of digitalization, the name of the company has become big because they are accustomed to continuing existing ones and are rarely prepared to make changes, therefore, this time, family businesses have been stagnant, and it is difficult to make changes. The leaders believe that difficulties faced by the company are not only their responsibility rather it is also that of those before and after them. The leaders' struggle to making changes is very weak because they are used to continuing the previous one, therefore, achievements are less visible because the name of the family company is more towards the big name of the family.

Historically, the family business of the Minang ethnic group is led by honored men. Many of the great leaders in Indonesia were born from the Minang ethnic, and all of them were well-grounded in the culture and the characteristics. However, in running a business, despite having high leadership personally, their inability to utilize digitalization has an impact on the company's existence.

#### 4.2.3. *Weak dimensions of people for digital transformation*

Employees involved in Minang ethnic family companies were not selected based on their competency in the fields, rather approximately 70 per were considered due to family relationships. Similar human resources make it very difficult to make changes that are unpleasant and even tend to be forced. Moreover, digital



transformation is a very tough attribute because it needs to be carried out thoroughly. All systems need to be ready for change and require a common perception at all company levels from the bottom to the top. According to the interview results, company leaders or management generally make the element of making change one of the weaknesses of the organization because of their inability to interpret the importance of changing to digitalization. Employees that generally have a low level of education, till when the company's performance has decreased, are still not aware of the importance of carrying out digital transformation. The 16 employees interviewed stated that making changes is not an issue taken seriously by the management or leadership, which makes employees feel like it is not something important to think about. However, when these companies were about to close down, employees realize that digital transformation is very much needed. In fact, they feel that it is too late to make changes because, businesses that tend to survive are those able to innovate in all fields, from using IT in management systems, innovation in sales, production, and also marketing.

Approximately 80 percent of family company owners admitted that making changes by means of digital transformation is not considered a priority. Meanwhile, among the 20 company owners, 2 positioned themselves to survive by using digital transformation to promote and sell products. Their results in the last 5 months helped them simply fulfill basic needs to defend themselves from destruction. Family companies, such as those in the food sector, are more likely to reduce employees, close some activities and re-start with the digitalized method. For this food business, things that need to be considered include the ability to master and use applications that are now popular and favored by consumers. Generally, family businesses find it difficult to adapt to technological innovation, while their competitors carry out digital transactions benefit. For instance, convection businesses with a system using digitization have experienced a very good increase from their inception in terms of marketing and sales. In 2017, few businesses across the globe used sales applications, and in Indonesia, it is still a new phenomenon because of this digitization system. Companies and consumers need to be educated on the use of the digitalization system, thereby enabling transactions between both parties. Many systems are also built not in accordance with the conditions of the community, which is too complicated and difficult in the use of applications created by the company.

Studies on the several applications of family companies in the food and convection sector showed several weaknesses associated with the system, such as lack of detail in offering products and companies asking for too much personal data, hence consumers feel bored and stop exploring the next stage. Furthermore, the company takes too long to respond due to insufficient human resources to serve consumers whose numbers are unpredictable and many other attributes that do not meet their numerous criteria. It is necessary to carry out an initial survey of consumer needs in the food and convection sector to ensure the created applications are in accordance with their desires. However, the 18 companies interviewed had never wanted to know about this, which was one of the reasons they failed.

#### 4.2.4. *Strong culture failing to make changes*

The organizational culture concept refers to the beliefs, values, behavior patterns, and understandings shared by members of an organization and become a symbol for running the organization. Similarly, in a family company, the organizational culture is formed from the values that have long existed and even become its hallmarks. In the Minang ethnic family company, the culture is created from the community's social capital. Social capital develops in everyday life, and it is associated with the trust, values, and norms of the Minang ethnic group. The trust of individuals with members of the same ethnic is very high, especially when both are in other areas or have migrated. They build businesses of the same ethnic group both in terms of capital and products and improve employee life. The capable employees are jointly assisted to be able to have their own business, therefore within a certain period, the number of Minang ethnic entrepreneurs always increases. The desire to invite their family to become entrepreneurs based on social capital has become a Minang ethnic family company's culture. Therefore, many similar businesses have opened, however, they are not afraid to be competitive.

The Minang ethnic influences the family company's culture by having a strong corporate culture that does

not easily accept the digital transformation. According to Robbins (2010), by having high social capital, company culture's characteristics easily carry out digital transformation. One of them is having more attention to employees, which is one of the advantages of the family companies of the Minang ethnic in building employee trust and shaping the company culture. However, many other characteristics are not supportive because they are less aggressive, thereby leading to numerous changes and innovations for products and management that are far from expectations. According to the owners of family businesses, it is very difficult to make changes. These managers are not confident in conveying ideas and end up in silence for several years without change, while the digitization occurs quickly. According to the food company manager, most organizations are scared of making changes because customers find it difficult to accept their products. They tend to think that digitization is only for a few products, such as the franchise business, etc. This led to the failure of the Minang ethnic family company in carrying out digital transformation.

#### 4.2.5. *Overlooked Products Superiority*

Many Minang ethnic family companies are involved in the food and convection sector, this has been carried out from generation to generation. Furthermore, the Minang ethnic food sector is ranked first to create Minang cuisine, also known as Padang cuisine. This product brand is very well known throughout Indonesia and even includes food at a high price compared to similar products. The superiority of this product is a great opportunity therefore, in general, the business of Minang ethnic family companies is massive this sector. Furthermore, convection is also a business sector engaged in by this ethnic group. Therefore, when this ethnic opens a new business, they are more likely to enter this sector (Primadona, 2016). However, due to digitalization, it turns out that most products' strength cannot survive without making changes. In the food business, product quality determines hygiene, health, and taste. However, everything becomes in vain, supposing the company is unable to deliver products to consumers quickly and safely. Over the years, people's tastes have changed, unfortunately, family companies are unable to make adjustments. Therefore, product superiority is no longer the only thing that has to be a strength because many others act as substitutes and meet consumer needs.

Products with large company names in the form of franchises are able to take the middle to the upper class by providing good and satisfying service. For instance, KFC or Pizza Hut is not actually a superior product for most Indonesians, however, it is acceptable to consumers' tastes. Reflecting on this, Padang cuisine, which has been famous to the world level, such as Rendang, cannot be consumed by the wider community because product marketing does not reach all consumers. Furthermore, family companies are unable to innovate, therefore, during digitalization they cannot survive even though the products offered are superior. When they want to change the system, it needs to be from all levels because it greatly influences management in making policies and determining plans. According to the interview results, company owners said that they did not think that leaving digitalization would have such a big impact on them because they felt comfortable running a business traditionally. Although they expanded their companies by opening numerous branches, their inability to implement digital transformation made the company fail.

This is similar to convection products, a wholesale company that supplies products to almost all of Indonesia, Malaysia, Singapore, and Brunei Darussalam. Convection products are no longer only able to rely on product quality and price, rather on how to supply them to consumer's quickly and satisfactorily. Therefore, digitalization is the spearhead in marketing, requiring technological readiness to innovate and build a sales system suitable for consumer needs. A superior product is the main goal of the company that is recognized by the general public, however, the Minang ethnic family company failed due to its inability to carry out digital transformation. The main obstacle found in this company is the lack of ability to change, intention, the willingness of resources, and the desire to sacrifice costs, therefore, the company that has been standing for a long time failed.

The dimension to build digitalization maturity for Minang ethnic family companies includes strategy, culture, population or community, leadership, and products. These five dimensions are actually strong,

however, the lack of digitization has led to the company's failure. They also failed to carry out innovation because and lagged behind in digitalization despite offering superior products.

**Table 2.** Mapping of Digital Transformation in Minang Ethnic Family Companies

Company	Dimensions of Technology Maturity					Description
	Strategy	Leadership	People	Culture	Product	
Convection 1	X	X	X	X	X	Did not carry out DT
Convection 2	X	X	X	X	X	Did not carry out DT
Food 1	X	X	X	X	X	Did not carry out DT
Convection 3	X	X	X	X	X	Did not carry out DT
Food 2	X	V	X	V	X	Carried out DT but still limited
Food 3	X	X	X	X	X	Did not carry out DT
Convection 4	V	V	X	X	V	Carried out DT, but still few and weak
Food 4	X	X	X	X	X	Did not carry out DT
Convection 5	X	X	X	X	X	Did not carry out DT
Food 5	X	X	X	X	X	Did not carry out DT
Food 6	X	X	X	X	X	Did not carry out DT
Food 7	X	X	X	X	X	Did not carry out DT
Food 8	X	X	X	X	X	Did not carry out DT
Food 9	X	X	X	X	X	Did not carry out DT
Convection 6	V	V	X	V	X	Carried out DT but not optimal
Food 10	X	X	X	X	X	Did not carry out DT
Food 11	X	V	X	V	V	Carried out DT, but still weak
Convection 7	X	X	X	X	X	Did not carry out DT
Convection 8	X	X	X	X	X	Did not carry out DT
Food 12	X	X	X	X	X	Did not carry out DT

**Table 2** shows that digital transformation does not work well in Minang ethnic family companies despite having good products with well-formed culture. The Minang ethnic family company, which has long been established, with a significant number of employees, without obstacles, is likely to be destroyed due to digitalization.

### III. RESEARCH LIMITATIONS

This research contributes to the development of science in the field of entrepreneurship and information technology to determine new instruments in measuring entrepreneurial failure. The failure of entrepreneurs in family companies to face digital transformation serves as a reference point for other organizations. This has only been seen from family companies in the community, and the causes of this failure are used to determine the inability of MSMEs or other companies to deal with a large number of respondents and various business sectors.

### IV. CONCLUSION

This research reveals that Minang ethnic family companies failed to face digital transformation, due to five reasons, such as their inability to set a strategy, weak leadership, inability of the company culture to play a role, and the lateness in adapting to digitalization changes. Digital transformation also impacts public acceptance of the products produced, where it easily introduces companies and products to the wider community. Therefore, Minang ethnic family companies failed to face digitalization because the majorities were unable to carry out digital transformation, thereby leading to failure, bankruptcy or closure. This research does not only provide understanding, rather it also enriches the fields of entrepreneurship and information technology. The contribution of the two fields is very interesting and needs to be examined more widely by providing recommendations on other fields that have an interest in company development, such as the government as regulators for better policies.

## V. ACKNOWLEDGEMENTS

Thank you to the 20 family company owners who have been willing to help us provide information, former employees and ethnic Minang who have been asked for information.

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