

Democratic Leadership Practice to Construct Clan Organizational Culture in Family Companies

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Abstract

A family business is a company where most of its capital and the management position is owned by family members (clan). The leader plays an important role in defining an organization, thus influencing the organization's success. A leader who has a leadership style based on family (clan) relation has the facilitator's role when conflict appears within the organization. This research aims to find the impact of the democratic leadership model on a family business that adopts the clan cultural organization. The independent variable of this research is the democratic leadership model. Meanwhile, the dependent variable is the clan culture within the organization. This research uses a quantitative method with a descriptive and causality type of research. This research population is PT Global Avionika Indonesia staff, where the data was acquired by distributing questionnaires using a saturated sampling technique. The finding in this research shows a positive and significant impact of the democratic leadership model on the clan culture within the organization PT Global Avionika. The determination test also points out that democratic leadership models affect 19.8 percent of the clan culture within the organization, and the rest of 80.2 percent were affected by other factors that were not covered in this research.

Keywords: Family Business, Human Resources, Democratic Leadership, Clan Culture

JEL Classification Code: J20, J24, J28

1. Introduction

Human resource is a primary factor affecting an organization in achieving its goals. Therefore, it needs to be appropriately managed, thus increasing the organization's effectiveness in fulfilling the goals (Northouse, 2019).

One of the challenges is maintaining human resources to live alongside organizational culture. The importance of organizational culture has received much attention in recent times. Simpler cultural components, such as a standard set of values or a mission statement, can bring harmony and cohesion among workers (Robbins & Judge, 2017). Previous studies mostly showed that organizational culture has a significant impact on the company's long-term performance and organizational culture is a more critical factor in determining the success or failure of a company in the coming decades (Al-Ali et al., 2017; Warrick, 2017; Elsbach & Stigliani, 2018). The stronger the organizational culture, the greater the motivation for employees to move forward together with the organization (MacQueen, 2020; Fakhri et al., 2020; Hoa et al., 2020). The introduction, creation, and development of organizational culture in an organization are needed to build an effective and efficient organization according to the vision and mission to be achieved (Fernandes, 2018; Nguyen & Pham, 2020; Paais et al., 2020). A stronger organization's culture can be an added value for the employees, such that organization can optimize its resources to achieve organization goals (Gilang et al., 2019). Organizational culture is even of greater importance

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in the sphere of the family firm, where a set of values, beliefs, and interests, highly influenced by the family relations (Chrisman et al., 2002; Denison et al., 2004; Gómez-Mejía et al., 2001), may produce significant differences from any other non-family organizations (Dyer, 1986; Barontini & Caprio, 2006)

PT. Global Avionika Indonesia is a family-owned and managed firm founded in 2001, engaged in aircraft maintenance specializing in Maintenance, Repair, and Overhaul (MRO). PT. Global Avionika Indonesia is classified as a family-owned and managed firm because, from the director to staff to employees, it consists mostly of family members (Carrasco-Hernández & Sanchez-Marín, 2007; Chrisman et al., 2002; Chua et al., 1999). The family-owned and managed firm is a type of company with a high concentration of ownership and management in the family's hands. Family-owned and managed firms and professionally managed families are characterized by a clan culture typology while market and hierarchy cultures are more relevant in non-family firms (Sánchez-Marín et al., 2016). The problem that often arises in family companies is that family members cannot carry out their duties (Neubauer & Lank, 2016). Feelings of jealousy sometimes arise between employees whose status are non-families and employees who originated as families. Therefore, a leadership role is essential to reduce the tension among employees (Caputo et al., 2018). Several studies mention that type of organizational culture practiced in a family-owned firm is highly influenced by clan culture (Dyer, 1986; Gersick et al., 1997; Sanchez-Marín et al., 2016).

Clan culture based its values and beliefs on the internal aspects related to the firm and on organizational flexibility (Cameron & Quinn, 1999; Stock et al., 2007). Clan culture refers to communication between employees and leaders as if they are a big family, with all staff working together to create a friendly working environment. The leadership style also affects the way the clan culture is implemented within the organization. Family-owned and managed firms use participative leadership by carrying out group values, less bureaucracy, and less formalized practices into the company (Chandler et al., 2000; Ogbonna & Harris, 2000; Sanchez-Marín et al., 2016; Zahra et al., 2004). Sorenson (2000) highlights that a family firm can succeed by choosing a suitable leadership style for the company.

PT. Global Avionika Indonesia using a democratic leadership style. Democratic leadership is conceptually distinct from positions of authority; rather, it is defined as the performance of three functions: distributing responsibility among the membership, empowering group members, and aiding the group's decision-making process (Gastil, 1994). The leaders distribute duties among employees equally. It does not see the status of the employee, whether they

are family or non-family. This leader behavior results in respect attitude from every employee. Aside from initial observation about clan culture and democratic leadership style applied in this family-owned firm, it is interesting to research how a democratic leadership style can affect its clan culture.

2. Literature Review

Leadership is one of the world's oldest preoccupations and a universal phenomenon in humans (Bass, 1990). From ancient to modern history, leadership has played an integral role in developing groups, societies, and nations. Over the centuries, leadership has been defined in terms of leaders' behaviors. Bass (1990) attempted to define leadership from the classics of Western, Egyptian, Greek, and Chinese literature as early as the 6th century BC. The Old and New Testaments and the classics of Homer, Plato, Aristotle, and Confucius noted leaders' roles. As with the definitions of leadership, the definitions of democratic leadership are also dynamic and abundant. For instance, from 1938 to 1985, there were 29 different definitions and styles of democratic leadership (Bass, 1990). Luthans (1998) reviewed 8 different democratic leadership styles drawn from classic studies and leadership theories. These different definitions and styles have contributed to the fact that there has been no clear, well-developed definition of democratic leadership.

The idea of democracy is itself wide, and there are various forms of democracy (Held, 1996). A key fault line is between broad and narrow conceptions of democracy. Carr and Hartnett (1996) contrast classical and contemporary conceptions, one is a critical concept incorporating a set of political ideals and a coherent vision of the good society and encompassing a substantive conception of the person while, the other emphasizes procedures that curtail abuse of leaders' power and is based on an individualistic conception of human beings as private individuals who form social relationships to satisfy their own needs.

The definitions of democratic leadership conceptualized by White and Lippitt (1960) emphasize group participation and group decisions encouraged by the leader. Starratt (2001), in his exploration of democratic leadership, also contrasts a narrow concept of democratic theory (representative government) with a more communal, fraternal, collaborative expression of democracy. In Fullan (2001), the democratic leader is brusquely defined: he or she forges consensus through participation, including seeking and listening to doubters, which parallels with the idea from Goleman (2002). In a seminar of leading thinkers on the future of leadership, Lawler (2001) argued about democratic leadership. Democratic leadership functions as a means of engendering compliance with dominant goals and values

and harnessing staff commitment, ideas, expertise, and experience in realizing these. Democracy is instrumental and de-politicized. Lawler's outline of workplace democracy is a good summary description of some of the defining components of distributed leadership. Democratic leadership entails rights to meaningful participation and respect for and expectations toward everyone as ethical beings.

Anderson (1959) defined the democratic leader as one who shares decision making with the other members. He asserted that democratic leadership is associated with higher morale in most situations. He denied that democratic leadership is associated with low productivity and high morale and that authoritarian leadership is associated with high productivity and low morale. Hackman and Johnson (1996) supported Anderson's explanation of the relationship between democratic leadership and productivity. Democratic leadership is associated with increased follower productivity, satisfaction, involvement, and commitment (Hackman & Johnson, 1996). Member satisfaction and nominations for leadership are greater under democratic leadership (Bass, 1990). Although the significant drawbacks to democratic leadership are time-consuming activities and lengthy debate over policy, participation plays a crucial role in increasing leadership productivity (Denhardt & Denhardt, 2003; Hackman & Johnson, 1996). As noted earlier, participation is a core characteristic of democratic leadership; and the ideal of democratic leadership is friendly, helpful, and encouraging participation (Luthar, 1996). Furthermore, Wilson et al. (1994) categorized autocratic leadership, participative leadership, and high involvement leadership by the level of participation encouraged by the leader. Chemers (1984) also defined democratic leadership as emphasizing group participation. Thus, participation is the primary characteristic of democratic leadership (Bass, 1990). On the other hand, Kuczarski and Kuczarski (1995) cited a democratic leader's characteristics as knowledgeable, influential, stimulating, a winner of cooperation, a provider of logical consequences, encouraging, permitting of self-determination, guiding, a good listener and respecting, and situation-centered. Gastil (1994) defined the characteristics of democratic leadership as distributing responsibility among the membership, empowering group members, and aiding the group's decision-making process.

As mentioned by Deshpande and Webster (1989), culture is a set of assumptions and understandings concerning organizational functioning and focusing on why things occur the way they do inside the company (Crittenden et al., 2011). The concept of organizational culture is a key model imparted to guide an agency's individuals and includes beliefs, expectations, and fundamental requirements

(Sánchez-Marín et al., 2018). In this regard, Cameron and Quinn (1999) adopted a general model of culture, in which the organizational culture assessment instrument fits with the competing perspective of organizational culture (Stock et al., 2007) and can be useful to describe an organizational culture system and clan culture, which is consistent with human relations in organizational theory. This model focuses on the resilience of human relations, association, and internal organizational relations, such as within family firms. In an organizational clan, individuals share common values and beliefs to constitute a culture to guide a firm's actions and to provide a perception of goal congruence among the human resources (Ouchi, 1980; Wilkins & Ouchi, 1983; Büschgens et al., 2013). Despite the variety of interpretations and cultural dimensions, many common themes and similarities can be identified in organizational culture research (Parker & Bradley, 2000), such as values, ideologies, beliefs, and processes (Cameron & Quinn, 2011).

Since it places a high value on employees and the organization's flexibility, the clan culture represents a collaborative value orientation; the leadership style is mostly concerned and supportive. This organization emphasizes teamwork, employee involvement, empowerment, cohesion, and participation; it is held together by loyalty and tradition. Research has shown that this type of culture was positively related to trust (Zammuto & Krakower, 1991). 2011). Clan cultures emphasize flexibility with an internal focus. Teamwork and employee development, as well as participation and empowerment of employees, hold the organization together, while concern for people is part of defining success (Cameron & Quinn, 2011). From the viewpoint of families, clan culture can be considered as a different subject from family participation in the entrepreneurial activities of businesses (Merino et al., 2015). As a business can expand by creating intangible values, the family business structure can also be a proper place created by heritage. Family businesses demonstrate a critical job in most industrialist economies because of their commitment to the production of occupations and wealth generation (Feltham et al., 2005; Carrigan & Buckley, 2008; Randerson et al., 2015; Camisón et al., 2016). Family businesses exist at the intersection of the two essential domains within society and economy, the family and business' domains. As mentioned previously, a key concept to better understand family business is familiness (Frank et al., 2010). Habbershon and Williams (1999) defined familiness as a "unique bundle of resources a particular firm has because of the interaction of the system between the family, its members, and the business. This unique resource bundle influences the capabilities of a business, leading to a competitive advantage, which is ultimately translated into superior performance (Dibrell & Moeller,

2011). According to Basco et al. (2018), familiness can be divided into four categories: human capital, social capital, physical capital, and financial capital. Sharma (2008) has summarized these categories as follows: human capital addresses specialized technical and emotional capabilities and the mental capital of family and non-family members; social capital refers to the relationships among people and institutions that encourage activities and make build esteem; physical capital can include plant, system, and different physical belongings and resources of a firm; finally, financial capital refers to tolerant investments, which are made by individual families and their partners in the company (Basco et al., 2018).

3. Research Methods

The research uses quantitative methods, a research method based on the philosophy of positivism, used to research a specific population or sample. Based on the research purpose, this research uses a descriptive research method, a research conducted to determine the value of the independent variable, either one or more variables without making comparisons or linking the variables with one another. Verification research or causality research is a study to test the causal relationship's correctness (causal-and-effect), namely the relationship between the independent variable and the dependent variable. Quantitative research methods are used to examine specific populations or samples, data collection

using research instruments, quantitative/statistical data analysis, and test the predetermined hypothesis (Fakhri et al., 2019). Regression analysis is the method used to analyze the data, using a simple regression method which is based on the functional or causal relationship of one independent variable with one dependent variable. That is, simple linear regression analysis is a statistical tool for quantifying the relationship between just one independent variable and one dependent variable based on experience (observations) This study's hypothesis is to determine how much influence the independent variable, namely democratic leadership style, has on the dependent variable, namely organizational clan culture.

4. Results and Discussion

4.1. Validity and Reliability Test

The validity test of each measurement item is done with software which is Statistics (SPSS) version 22.0 for Windows. The purpose of the validation test is to calculate whether the instrument used can measure items to fulfill research goals.

Based on the validity test result, it can be seen from Table 2 that the value of the coefficient in every item, when compared with a minimum value of 0.320, indicates the instrument used can be used to measure items to fulfill research goals.

Table 1: Validity Test of Democratic Leadership Items

Questionnaire Items	Coefficient of Correlation (r-value)	Critical Value (r- table)	Label
P_1	0,510	0,320	Valid
P_2	0,660	0,320	Valid
P_3	0,597	0,320	Valid
P_4	0,629	0,320	Valid
P_5	0,619	0,320	Valid
P_6	0,716	0,320	Valid
P_7	0,674	0,320	Valid
P_8	0,594	0,320	Valid
P_9	0,635	0,320	Valid
P_10	0,510	0,320	Valid
P_11	0,660	0,320	Valid
P_12	0,597	0,320	Valid
P_13	0,629	0,320	Valid
P_14	0,619	0,320	Valid
P_15	0,716	0,320	Valid

Table 2: Validity Test of Clan Culture Items

Questionnaire Items	Coefficient of Correlation (r-value)	Critical Value (r- table)	Label
P_16	0,576	0,320	Valid
P_17	0,780	0,320	Valid
P_18	0,744	0,320	Valid
P_19	0,835	0,320	Valid
P_20	0,482	0,320	Valid
P_21	0,576	0,320	Valid
P_22	0,780	0,320	Valid
P_23	0,744	0,320	Valid
P_24	0,835	0,320	Valid
P_25	0,482	0,320	Valid
P_26	0,576	0,320	Valid
P_27	0,780	0,320	Valid
P_28	0,744	0,320	Valid
P_29	0,835	0,320	Valid
P_30	0,482	0,320	Valid

Table 3: Reliability Test

Cronbach’s Alpha	N of Items	Result
0.887	30	Reliable

Table 4: Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.276	.449		2.840	.007
Democratic Leadership Style	.500	.168	.445	2.978	.005

4.2. Descriptive Analysis

Based on the descriptive analysis of democratic leadership practice, whole items produce a value of 63.61 percent which is in the Fair category. The condition exhibit that good deeds from the leader, not all are considered acceptable by employees. Sometimes employees feel burdened by the delegation of authority, employee involvement, and interactions in determining company policies. Obligations from leaders that every employee needs to increase their potential, and giving the employee more trust also can diminish their confidence.

Based on the family company’s clan culture application results, the item with the lowest average score is the item ‘the organization always supports employees to improve

competence’. The condition shows that the support from the organization to develop employee competencies is considered insufficient by employees. The competence or power to determine something can only be done by the employees themselves. Organizational clan culture practice within this company in the overall situation produce only 64.97 percent within the Fair category.

4.3. Regression Analysis

The hypothesis from this research indicates a positive and significant correlation between democratic leadership and clan culture within the family company. It shows that the higher democratic leadership practice will implicate and elevate clan culture practice within the company and vice

versa. Meanwhile, from the analysis, the value of influence between democratic leadership and clan culture points out that democratic leadership models affect 19.8 percent of the clan culture within the organization, and the rest of 80.2 percent were affected by other factors that were not covered in this research.

5. Conclusion

The result of this research emphasizes several points that can be identified from the calculation above. First, this result is based on a descriptive analysis of the democratic leadership variable. Employees who are not from the inner circle of family members get different treatment. The observation and the data implicate that the employees are not comfortable with this situation. Employees also do not feel motivated to engage further with company activities. They are only focusing on the duties that are part of their job description. Employees' confidence also indicates as average. These findings contrast with previous research that mentions democratic leadership. For the most part, research findings implicate positive improvement in democratic leadership practice (Hackman & Johnson, 1996; Foels et al., 2000; Woods, 2004; Puni et al., 2014). Second, this result is based on a descriptive analysis of the democratic leadership variable. Employees experience situations wherein organization support is not delivered well to develop employee competencies. Previous study reveal that clan culture practice tends to raise employees' competencies, despite employee status, whether they are inside the inner circle of the family business or an outsider (Richard & Kang, 2018). However, this research presents different results wherein the company does not make enough effort to help employees develop their competencies. Third, the result based on regression analysis shows that democratic leadership positively and significantly influences organizational clan culture, despite the number indicating a small amount of how democratic leadership can influence clan culture practices. This result is mostly in line with previous studies whose research mainly analyzes the correlation between leadership and organizational culture (Awan & Mahmood, 2010; Kim, 2014; Rohim & Budhiana, 2019; Balaji et al., 2020).

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