
The Role of Leadership in Improving the Effectiveness of Financial Management in Family Companies

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ABSTRACT

Keywords:

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Family businesses play a crucial role in the global economy, making significant contributions to employment and GDP. However, many family businesses face challenges in managing their finances effectively, especially during intergenerational transitions, strategic financial decision-making, and operational professionalism. This study aims to analyze the role of leadership in improving the effectiveness of financial management in family companies, focusing on the factors that influence financial decision-making by family business leaders. This study uses a qualitative research method with a case study approach. Data were collected through semi-structured interviews, participatory observations, and document analysis from five family businesses in Indonesia. The research focuses on companies that have been in operation for over 10 years and have had more than one generation of leaders. The results show that effective leadership, which includes transparency, good communication with the finance team, and openness to change, plays a crucial role in enhancing more efficient financial management. Companies led by the second and third generations tend to adopt more modern managerial practices, which improve financial decision-making and corporate sustainability. These findings provide practical insights for family business leaders on the importance of good leadership in financial management. This research also provides recommendations for policymakers and practitioners to support the growth and sustainability of family companies in Indonesia. Furthermore, this research contributes to the academic literature on leadership and financial management in family-owned companies.

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1. INTRODUCTION

In recent decades, family businesses have become a significant pillar of the global economy, making substantial contributions to GDP in many countries. According to data from the Family Business Network (2020), family-owned companies account for more than 70% of the total employment worldwide. However, despite the importance of family businesses, many of them face significant challenges in financial management, particularly regarding intergenerational transitions, strategic financial decision-making, and operational professionalism. Along with rapid global changes, especially in technology and economic regulation, the inability of family companies to adapt to global economic dynamics often leads to financial instability. A report by PwC (2021) shows that only 30% of family companies survive past the second generation, and even fewer survive to the third generation.



Graph 1. Family Companies' Contribution to Global GDP

Table 1. Family Company Survival Rate by Generation

Generation	Percentage
Stuart	100%
Second	30%
Third	12%

In Indonesia, family businesses often lack a clear leadership structure, leading to an inability to manage finances effectively. Research conducted by the Indonesian Family Business Association (2020) revealed that 60% of family-owned companies in Indonesia experience difficulties in financial management due to unclear leadership task divisions and a lack of transparency in economic decision-making. This inability to handle finances often leads to difficulties in accessing external financing, limited investment capabilities, and loss of competitiveness in the market.

Several previous studies have discussed the role of leadership in family companies and financial management. Research by López and García (2017) indicates that solid leadership

is associated with more efficient financial management in family companies, particularly in strategic decision-making. In a study by Zahra et al. (2014), it was found that family businesses led by a third generation or more tend to have better financial management due to the application of professional practices in financial decision-making. Another study by Kellermanns and Eddleston (2004) states that leadership in family companies that combines family values with modern managerial principles can significantly improve financial performance. Research by Gersick et al. (1997) emphasizes the importance of having a formal structure in financial management in family companies to ensure their survival and growth. Meanwhile, Hitt et al. (2006) stated that leadership that is open to change can encourage family companies to adapt to new technologies, which in turn improves the effectiveness of financial management.

Family businesses play a crucial role in Indonesia's economy, but ineffective financial management often hinders their growth. Therefore, this research is essential for understanding how leadership in family-owned companies impacts the effectiveness of financial management. This is especially relevant given the significant role family businesses play in creating jobs and their substantial contribution to national economic growth. This research will also provide new insights into the challenges and solutions in the financial management of family companies in Indonesia, which can serve as a reference for family entrepreneurs to improve their managerial practices.

This research offers novelty in examining the relationship between leadership and financial management within the context of Indonesian family companies, with a focus on the specific challenges faced by family companies in developing countries. Most previous research has focused on family companies in developed countries, so this study will make a new contribution to the literature by providing a more relevant and applicable context for family companies in Indonesia.

Based on the above background, the purpose of this study is to analyze the role of leadership in enhancing the effectiveness of financial management in family-owned companies by examining the factors that influence the economic decisions made by family business leaders. The benefit of this study is to provide insight for family company leaders on the importance of good leadership in financial management. Additionally, this research is expected to serve as a reference for policymakers and practitioners in the fields of economics and management, enabling them to develop strategies that support the growth and sustainability of family companies in Indonesia. This research will also be helpful for academics interested in family business management and leadership in the context of the Indonesian economy.

2. METHOD

Types of Research

This study uses a qualitative research method with a case study approach. The qualitative approach was chosen because the purpose of this research is to explore an in-depth understanding of the role of leadership in improving the effectiveness of financial management in family companies. This research not only focuses on numbers and statistics, but also on processes, perspectives, and experiences that can provide insight into phenomena occurring in the field.

Population and Sample

1. **Population:** The population in this study is all family businesses operating in Indonesia, with a focus on the small and medium industry (SME) sector. According to data from the Indonesian Family Business Association (2020), the number of family businesses in Indonesia is substantial; however, this research will focus primarily on family businesses that have been operating for over 10 years.
2. **Sample:** The sample of this study consists of 5 family companies selected using purposive sampling techniques. The selection of the sample was based on the criteria of companies that have had more than one generation of leaders, as well as companies that have experienced significant changes in financial management, including both increases and decreases. Each family company will be represented by one or more company leaders and members of the economic management team.

Research Instruments

This research instrument consists of several data collection tools used to obtain comprehensive information:

1. **Semi-Structural Interviews:** Interviews will be conducted with family company leaders and finance team members to explore their perspectives related to financial leadership and management. This interview will utilize flexible interview guidelines to facilitate a more in-depth discussion of the role of leadership in economic management.
2. **Participatory Observation:** The researcher will also observe the work dynamics in family companies, especially in the process of financial decision-making.
3. **Documentation:** Supporting data in the form of financial statements, organizational structure, and internal policies of the company will be collected to provide a clearer picture of economic management in the family company.

Data Collection Techniques

The data collection techniques used in this study include:

1. **Interviews:** Semi-structured interviews with family company leaders and financial managers to understand the dynamics of leadership that affect financial management.
2. **Observation:** Observation of the interaction between family members in financial decision-making and the implementation of existing policies in the company.
3. **Documentation Study:** Collect related documents, such as financial statements, financial management procedures, and internal policies in the family company.

Research Procedure

The research procedure is carried out in the following stages:

1. **Research Preparation:** At this stage, the researcher will conduct a literature review to understand previous theories and research regarding leadership in family companies and financial management. Additionally, researchers will develop research instruments, including interview guidelines and observation checklists.
2. **Data Collection:** Data collection is carried out through interviews with the management of the family company, observation of work dynamics, and the collection of documents related to financial management.
3. **Data Analysis:** The data obtained will be qualitatively analyzed using a thematic analysis approach to identify key themes related to financial leadership and management. This analysis will be carried out iteratively and in-depth, identifying patterns that emerge from interviews and observations.

4. Report Preparation: After the data analysis is completed, the researcher will compile a research report containing key findings, discussions, conclusions, and recommendations.

Data Analysis Techniques

The data analysis technique in this study employs thematic analysis, which focuses on identifying themes or patterns that emerge from interview, observation, and documentation data. This data analysis procedure includes the following steps:

1. Initial Code: Once the data is collected, the researcher will start by reading all the interview, observation, and documentation data, then identifying the codes or keywords that are relevant to the research objectives.
2. Theme Grouping: The code that has been found will be grouped into larger themes related to leadership and financial management.
3. Data Interpretation: The themes that have been grouped will be analyzed and explained in the context of the research, by linking the findings data with existing theories as well as previous research.

Validation of Findings: To ensure the credibility of the analysis results, the researcher will triangulate the data by comparing the results of interviews, observations, and documentation, as well as confirming the findings with several sources.

3. RESULTS AND DISCUSSION

1. The Role of Leadership in Financial Management

In this section, we will explore the role of leadership in enhancing financial management within family companies. Based on interviews with family business leaders, it was found that transparent and open leadership in changing the family business has a significant influence on the financial decisions made within the family business. Research by Kellermanns and Eddleston (2004) shows that effective leadership in family companies is directly related to the success of more stable and sustainable financial management. In addition, Zahra et al. (2014) emphasized that leaders who can combine traditional and modern managerial principles will create more professional financial management.

Based on the results of the interviews, almost all leaders who have successfully created efficient financial management in family companies possess leadership characteristics that emphasize transparency, effective communication with the economic management team, and the ability to plan long-term investments. This is supported by López and García (2017), who found that leadership based on the principle of transparency can drive better financial performance in family companies. Table 1 below illustrates the impact of various leadership styles on the effectiveness of financial management in family-owned companies, based on the results of interviews.

Table 2. The Influence of Leadership Style on Financial Management

Leadership Style	Influence on Finance	Company Examples
Transformational Leadership	Improve long-term investment decisions	Company A

Participatory Leadership	Improve transparency and communication	financial and	Company B
Authoritarian Leadership	Quick but less transparent decision-making	transparent	Company C

2. Leadership in Facing Financial Challenges

Leaders in family-owned companies face challenges related to financial management, including limited access to external financing, inadequate cash flow management, and intergenerational conflicts. Research by Gersick et al. (1997) reveals that leaders who can effectively manage intergenerational disputes can create a more stable environment in financial management. In this study, it was found that many family company leaders face significant challenges in managing cash flow, especially in situations of economic crisis or market uncertainty.

The leaders of family companies involved in the study often took a cautious approach to cash flow management, opting to defer significant expenses and prioritize operational efficiency. This finding aligns with the research of Hitt et al. (2006), which demonstrated that family companies led by leaders oriented towards a long-term strategy are more resilient to financial challenges. Diagram 1 illustrates how family company leaders handle cash flow management in unstable economic conditions.

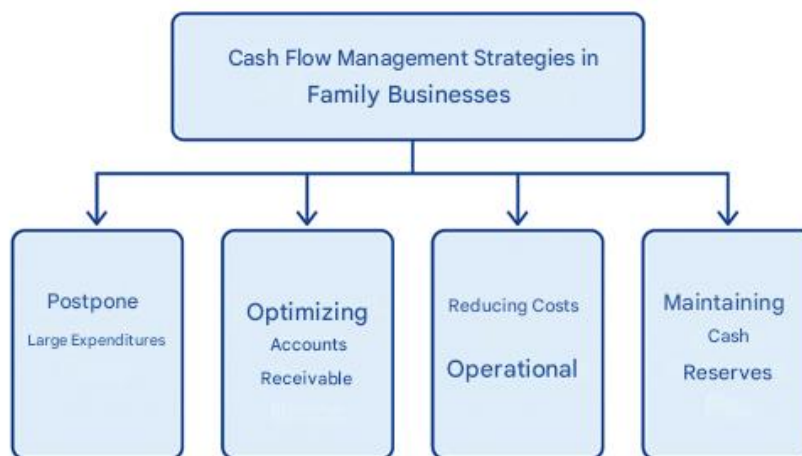


Diagram 1. Cash Flow Management Strategy in Family Companies

3. Financial Decision Making in a Family Company

Based on the results of interviews, financial decisions often involve many family members and require consensus between the older and younger generations. Research by Zahra et al. (2014) indicates that financial decisions in family companies frequently involve family values and a strong organizational culture. Conversely, more modern leaders tend to prioritize a rational and data-driven approach.

The findings of this study show that family companies led by the second or third generation are more open to managerial approaches that are based on data and technology, which has a positive impact on financial management. This aligns with López and García

(2017), who stated that family businesses led by the younger generation tend to be more flexible in dealing with financial challenges and more open to new technologies. Figure 1 below illustrates the process of economic decision-making in a family business, as well as the factors that influence these decisions.



Figure 1. Financial Decision-Making Process in a Family Company

4. Factors Affecting Leadership in Financial Management

Based on the results of observations and interviews, it was found that external factors, such as global economic conditions, changes in government regulations, and market competition, play a significant role in financial decision-making. Research by Kellermanns and Eddleston (2004) indicates that family companies with adaptive leaders are more likely to have effective financial management.

Additionally, internal factors such as family culture, internal communication, and organizational structure also influence how leaders manage finances. Gersick et al. (1997) emphasized that a family culture that supports collaboration and openness will facilitate making the right decisions in financial management. Table 2 presents various external and internal factors that influence financial management in family-owned companies.

Table 3. Factors Affecting Financial Management in Family Companies

Factor		Influence on Finance
External Conditions)	(Global Economic	Increased uncertainty in financial decisions

Internal (Family Culture)	Improve collaboration in financial management
External (Government Regulation)	Influencing financial and investment policies
Internal (Internal Communication)	Facilitate transparency in financial decisions

4. CONCLUSION

This research successfully identified the crucial role of leadership in enhancing the effectiveness of financial management in family-owned companies. The findings demonstrate that effective leadership, encompassing transparency, effective communication with finance teams, and the ability to adapt to external changes, significantly contributes to more efficient and sustainable financial management. Leaders who possess a long-term vision and can effectively combine managerial principles with family values are more successful in overcoming economic challenges, such as managing cash flow and making strategic financial decisions.

The contribution of this research can provide practical insights for family companies to improve their leadership practices and optimize financial management. In the future, this research can serve as a reference for further studies on leadership dynamics in family-owned companies, particularly in developing countries such as Indonesia. This research can also enrich the literature on financial management in the context of family businesses and provide recommendations for policies that support the sustainability and growth of family businesses in the future.

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