

**THE EFFECT OF PARENTING, HARMONIZING, AND
COLLABORATION (PHC) WITH THE MODERATING ROLE OF
TRANSFORMATIONAL LEADERSHIP ON THE FINANCIAL
PERFORMANCE OF FAMILY BUSINESSES IN INDONESIA**



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**TO FULFIL SOME OF THE REQUIREMENTS
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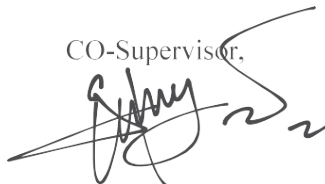
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Pembimbing



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PREFACE

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Jakarta, April 2025

Meilisa Tri Nugraha

THE EFFECT OF PARENTING, HARMONIZING AND COLLABORATION (PHC) WITH THE MODERATING ROLE OF TRANSFORMATIONAL LEADERSHIP ON THE FINANCIAL PERFORMANCE OF FAMILY BUSINESSES IN INDONESIA

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ABSTRACT

This study aims to analyse the effect of Parenting, Harmonizing, and Collaborating (PHC) on the financial performance of family firms in Indonesia, with transformational leadership as a moderating variable. The background is based on the important role of family firms in the Indonesian economy, where well-performing family firms contribute significantly to the national Gross Domestic Product, but face major challenges in maintaining continuity and improving financial performance between generations. The research uses a positivistic quantitative approach with data collection through an online questionnaire distributed to founders, family members, and non-family professionals in family firms that have involved at least two generations and have an average revenue above USD 100 million. The questionnaire generated 114 respondents data and was analysed using the Partial Least Square-Structural Equation Modelling (PLS-SEM) method. The results showed that: Parenting has no significant effect on financial performance, and even tends to have a negative effect with a path coefficient of -0.12 ($p > 0.05$). This indicates that traditional parenting patterns in family companies have not been effective in improving financial performance. Harmonizing has a positive and significant effect on financial performance with a path coefficient of 0.35 ($p < 0.01$), indicating that harmony between family members can improve company performance. Collaborating also has a positive and significant effect with a path coefficient of 0.28 ($p < 0.05$), confirming that collaboration between family members and non-family professionals contributes to improving financial performance. Transformational leadership did not act as a significant moderating variable in the relationship between the three PHC variables and financial performance (moderation value $p > 0.05$), which means that this leadership style does not strengthen or weaken the influence of PHC on financial performance. These findings confirm that harmony and collaboration, both among family members and with non-family professionals, are key factors in improving the financial performance of family firms in Indonesia. Meanwhile, traditional parenting and transformational leadership style do not directly strengthen the influence of PHC on financial performance. The practical implications of this study emphasise the importance of harmonious and collaborative family governance and the need for adjustments in communication and parenting patterns between generations in family firms in Indonesia.

Keywords: *Parenting, Harmonizing, Collaborating, Transformational Leadership, Financial Performance, Family Business, PHC.*

**PENGARUH PARENTING, HARMONIZING DAN COLLABORATION
(PHC) DENGAN PERAN MODERASI KEPEMIMPINAN
TRANSFORMASIONAL TERHADAP KINERJA KEUANGAN BISNIS
KELUARGA DI INDONESIA**

Nugraha, Meilisa Tri; Cahyadi, Hadi; Wijaya, Henryanto

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh Parenting, Harmonizing, dan Collaborating (PHC) terhadap kinerja keuangan perusahaan keluarga di Indonesia dengan kepemimpinan transformasional sebagai variabel moderasi. Dilatarbelakangi oleh pentingnya peran perusahaan keluarga dalam perekonomian Indonesia, dimana perusahaan keluarga yang berkinerja baik memberikan kontribusi signifikan terhadap Produk Domestik Bruto nasional, namun menghadapi tantangan besar dalam menjaga kesinambungan dan meningkatkan kinerja keuangan antar generasi. Penelitian ini menggunakan pendekatan kuantitatif positivistik, pengumpulan data melalui kuesioner online yang didistribusikan kepada para pendiri, anggota keluarga, dan profesional non-keluarga di perusahaan keluarga yang telah melibatkan setidaknya dua generasi dan memiliki pendapatan rata-rata di atas USD 100 juta. Kuesioner tersebut menghasilkan 114 data responden dan dianalisis dengan menggunakan metode PLS-SEM. Hasil penelitian menunjukkan bahwa: Pola asuh orang tua tidak berpengaruh negatif secara signifikan terhadap kinerja keuangan, dengan koefisien jalur sebesar -0,12 ($p > 0,05$). Hal ini mengindikasikan bahwa pola pengasuhan tradisional pada perusahaan keluarga belum efektif dalam meningkatkan kinerja keuangan. Harmonizing berpengaruh positif dan signifikan terhadap kinerja keuangan dengan koefisien jalur sebesar 0.35 ($p < 0.01$), mengindikasikan bahwa keharmonisan antar anggota keluarga dapat meningkatkan kinerja perusahaan. Collaborating juga berpengaruh positif dan signifikan dengan koefisien jalur sebesar 0,28 ($p < 0,05$), mengkonfirmasi bahwa kolaborasi antara anggota keluarga dan profesional non-keluarga berkontribusi meningkatkan kinerja keuangan. Kepemimpinan transformasional tidak berperan sebagai variabel moderasi yang signifikan dalam hubungan antara ketiga variabel PHC dengan kinerja keuangan (nilai moderasi $p > 0.05$), yang berarti bahwa gaya kepemimpinan ini tidak memperkuat atau memperlemah pengaruh PHC terhadap kinerja keuangan. Temuan ini mengkonfirmasi bahwa keharmonisan dan kolaborasi, baik di antara anggota keluarga maupun dengan profesional non-keluarga, merupakan faktor kunci dalam meningkatkan kinerja keuangan perusahaan keluarga di Indonesia. Sementara itu, pola asuh tradisional dan gaya kepemimpinan transformasional tidak secara langsung memperkuat pengaruh PHC terhadap kinerja keuangan. Implikasi praktis dari penelitian ini menekankan pentingnya tata kelola keluarga yang harmonis dan kolaboratif serta perlunya penyesuaian pola komunikasi dan pola asuh antar generasi dalam perusahaan keluarga di Indonesia.

Kata kunci: *Parenting, Harmonizing, Collaborating, Kepemimpinan Transformasional, Kinerja Keuangan, Bisnis Keluarga, PHC.*

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CHAPTER I

INTRODUCTION

1.1. Research Background

Family businesses are the oldest form of business in the world, and they have a wide range of business types, from small and medium-sized enterprises to large conglomerates operating in various industries and countries (International Finance Corporation, 2024). A family business involves at least two generations of family members influencing company policies and financial performance (Donnelley, 2004).

Intergenerational business preservation is important in the family business itself because of the observations of many researchers that businesses do not survive due to poor financial performance of the company and fail in the transition process to the next generation (De Massis et al., 2008). Previous research has found that most family businesses cannot survive for several generations (De Massis et al., 2008). Almost 70% of family-owned businesses fail or are sold before the second generation can take over, only 13% survive to the third generation, and only 3% survive to the fourth generation (Ward, 2011; Zellweger et al., 2011). In fact, according to International Finance Corporation (2012), well-performing family firms are the backbone of the corporate and employment sectors. In addition, global gross domestic product (GDP) is accounted for by the world's family-owned companies by about 70% to 90% each year. In Asia, more than 70% of businesses are family-owned in developing

countries, family businesses account for about 60 of private sector companies with revenues of \$1 billion or more (McKinsey, 2014), while in Indonesia, family businesses that have good financial performance account for about 80% of GDP (Cahyadi, 2022; International Finance Corporation, 2024). Based on current trends, as first predicted by (McKinsey, 2014) and later reported in The Economist, family businesses will account for around 40% of the world's largest companies. Furthermore, it can be concluded that family businesses that have good corporate financial performance are an important component of economic infrastructure and wealth creation, with a wider negative impact on the economy if family infighting triggers decisions that harm the business and reduce financial performance.

In 2016, a World Bank report on Family Business in Indonesia estimated that the richest 10% of Indonesians controlled nearly 77% of the country's wealth (Gibson, 2017). Based on a compilation of Indonesia Stock Exchange data compared to State-Owned Enterprises (SOEs) and Multinational Companies (MNCs), Family Businesses generated the majority of revenue (56.8%) for public companies in Indonesia in 2017-2019 (Cahyadi, 2022). In addition, Forbes released a list of the 50 richest Indonesians, the following summary from the 2019 period to the 2023 period through its official website, Forbes Billionaires.

Forbes Indonesia's 50 Richest 2019-2023

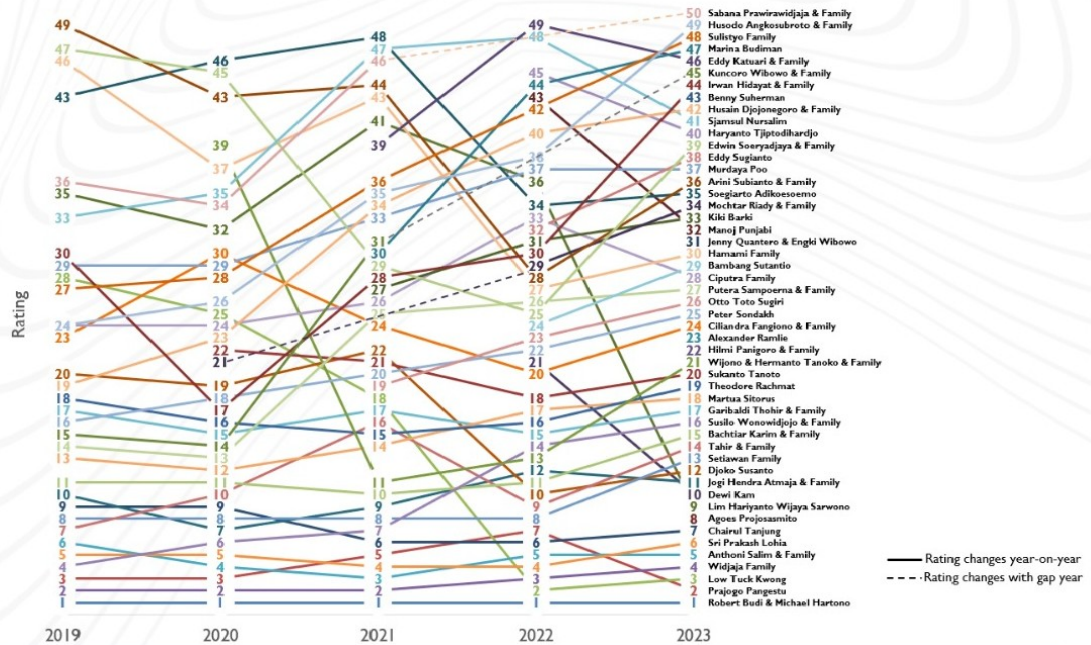


Figure 1.1 - 50 Forbes' Richest People in Indonesia (2019-2023)

Source: Family CEO vs Non-Family CEO: Who Dominates The Leadership of Indonesia's Large Family Businesses? – (Helios, 2024)

From the figure above, it can be seen how Indonesian conglomerates have maintained and even increased the value of their wealth over these 5 years as a result of their company's excellent financial performance. Seeing how important the role of family businesses that have good financial performance is for the country's economy and how conglomerates in Indonesia can continue to maintain wealth, unfortunately not much research has been done to find out and learn how to maintain the dynasty and succession of family businesses can run well so as to maintain and improve the company's financial performance (Cahyadi, 2022),

even less systematic research results in the transfer of managerial control of business (De Massis et al., 2008).

According to (De Massis et al., 2008), there are three direct and overarching causes of failed succession, namely (1) all potential successors refuse to continue leadership of the business; (2) the majority shareholder rejects all potential successors; (3) the majority shareholder does not carry out succession even though there is a willing and acceptable candidate for successor. The causes of succession failure, however, are not always factors that play a role in the succession process (De Massis et al., 2008).

Succession failure is certainly a major concern in preserving the business. Conceptualising the efforts of family business founders to pass on the business to the next generation is contained in the discussion of the Theory of the Intergenerational Perpetuation of Large Family Businesses (Cahyadi, 2022). This study explains most of the better or worse financial performance of companies from the application of the theory of preservation of family businesses between generations because the efficiency of all family processes and the way families resolve conflicts often determine the performance of family businesses (Cahyadi et al., 2024).

The financial performance of companies in family businesses often depends on family processes and the family's capacity to deal with disruptions. Most founders and predecessors agree that nurturing through parenting is very important in shaping children's character to be resilient (Van Wyk, 2013) and have a simple lifestyle (Cahyadi, 2022). All of them underscore the founder's

responsibility in identifying and communicating an established set of values to support a smooth succession and ensure the growth of the company's financial performance. Competition, tension and conflict within the family can destroy the family business. Most families want stability and peace, but many end up being torn apart by conflict. Family business conflicts are mainly caused by failure to meet the needs of some family members and are not often caused by poor performance. Conflict can occur when relationships are unclear or uncertain. The resolution of these disputes becomes critical to the continuity of the business and the family. Between family members is essential for intergenerational sustainability. Family business conflicts include sibling rivalry, marital conflicts, children's desire to differentiate themselves from their parents, identity conflicts, and the distribution of ownership among family members (Fries et al., 2021). Conflicts may occur between fathers and sons over inheritance and management styles, or more commonly between brothers or cousins and their spouses. If family members clash, each unit may prioritise its own goals and form a new, separate branch. Despite the conflicts inherent in family businesses, founders try to mitigate the risks through 'conflict control', which academics consider essential to the survival of family businesses (Fries et al., 2021). Experts recognise that family businesses tend to face increasing family complexity over time due to multiple children, marriages, and sometimes remarriages (Cahyadi, 2022). To mitigate the negative impact of increasing family complexity, it is recommended that family businesses use traditional family and corporate governance procedures. One

approach is to negotiate a formal family constitution. Pruning the family tree is another way to tackle family complexity (Fries et al., 2021).

Most family businesses in Indonesia have mixed-constellation management teams that involve a mix of family and non-family leaders. According to (Cahyadi, 2022), the Family Corporation model dominates large family businesses in Indonesia, which are complex in both family and business terms. These families often believe that they are responsible for their competitive growth and survival as they own the business. Therefore, professional managers, even CEOs and members of the Board of Directors, are merely employees. However, the a limited number of willing members with the required skills and experience (Tabor et al., 2018). Over time and as they grow and diversify, many entrepreneurial family businesses are required to hire non-family managers, thus introducing professionalism. Inevitably, the recruitment and promotion of professional managers led to changes in power relations, legitimacy norms and incentives within the business (Cahyadi, 2022). They need non-family (professional) employees and managers to be their frontline. They need the best talent and culture. Employee managers who are culturally, strategically and operationally compatible with the business are critical in maintaining and improving financial performance (Cahyadi, 2022).

It is important to understand the leadership styles and behaviors that family firm leaders tend to adopt in relation to financial performance in family firms, and what this generally implies at the firm level and family level. This is an

important research gap, as leadership is likely to have a substantial impact on the financial performance of firms (Fries et al., 2021).

A widely recognised leadership style in family firms, Transformational Leadership is a leadership style that creates a shared vision among employees (Arnold, 2017). Transformational leaders in family firms have a strong attachment to the company, both emotionally and financially. They exhibit leadership behaviours that inspire the rest of the organisation, acting as self-sacrificing examples for the good of the company and its employees (Fries et al., 2021). This enables the transformational leader to create an organisational environment based on trust, individual attention, and supportive mentoring relationships (Menges et al., 2011).

Transformational leadership may play a role in influencing the relationship between family control and financial performance. The degree of delegation of control is one of the fundamental differences in leadership approaches (Akpapere et al., 2019), the extent to which company founders delegate authority to other company members may have an impact on the relationship between family influence, control and business success (Maharajh et al., 2024).

Based on the description of the background of the problem and suggestions from previous research, it encourages the author to conduct research with the title **The Effect of Parenting, Harmonizing and Collaborating (PHC) with the Moderating Role of Transformational Leadership on the Financial Performance of Family Businesses in Indonesia.**

1.2. Problem Identification

Preserving an intergenerational business is a problem that founders and parents in a family business position try to solve with a significant process (Cahyadi, 2022). Research conducted by Cahyadi (2022) conceptualised the key concerns of family business founders and participating family members and how they address these key concerns. Parenting to Equip (Parenting), Harmonizing to Prosper (Harmonizing), and Collaborating to Endure (Collaborating) are the strategies that contribute to perpetuating intergenerational family businesses.

1.3. Problem Restriction

In order to make the discussion more focused, this research is limited to the following problems:

1. Dependent variable: Financial Performance
2. Independent variables: Parenting, Harmonizing, Collaborating
3. Moderating variable: Transformational Leadership
4. Research population: Family companies in Indonesia that have an average income of USD 100 million.

1.4. Problem Formulation

Based on the description described above, this study formulates questions to examine the factors that influence Financial Performance, namely:

1. Does Parenting have a positive effect on Financial Performance?
2. Does Harmonizing have a positive effect on Financial Performance?
3. Does Collaborating have a positive effect on Financial Performance?

4. Does Transformational Leadership strengthen the effect of Parenting on Financial Performance?
5. Does Transformational Leadership strengthen the influence of Harmonizing on Financial Performance?
6. Does Transformational Leadership strengthen the influence of Collaborating on Financial Performance?

1.5. Objectives and Benefits

1.5.1. Research objectives

This research aims to:

1. Test empirically the effect of Parenting on Financial Performance.
2. Test empirically the effect of Harmonizing on Financial Performance.
3. Test empirically the effect of Collaboration on financial performance.
4. Test empirically the role of Transformational Leadership in moderating the effect of Parenting on Financial Performance.
5. Test empirically the role of Transformational Leadership in moderating the effect of Harmonizing on Financial Performance.
6. Empirically testing the role of Transformational Leadership in moderating the influence of Collaborating on Financial Performance.

1.5.2. Research benefits

Based on the objectives of this research, it is expected that this research will provide the following benefits:

1. Theoretical Benefits

The theoretical benefits expected to be obtained from this research are as follows;

- a. Contribute to enriching evidence related to the sustainability of family businesses that can systematically improve the financial performance of a family business.
- b. Contributing to the Theory on Intergenerational Perpetuation of Large Family Business.
- c. Become a reference for further research on factors that influence financial performance in terms of succession theory.

2. Practice Benefits

This research is expected to provide the following practical benefits:

- a. Adding knowledge on how Parenting, Harmonizing, and Collaborating contribute to improving Financial Performance.
- b. Provide an international perspective on the contribution of Parenting, Harmonizing, and Collaboration in improving the financial performance of family business companies in Indonesia.
- c. Identify factors that influence Financial Performance.
- d. Encourage the development of a more adaptive Parenting, Harmonising, and Collaborative approach by considering factors that affect Financial Performance.

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