Leadership Styles and Financial management of Family Businesses: Case Studies

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Abstract
This case study examines the relationship between leadership style and financial management in family businesses. Family businesses are unique in terms of their ownership and management structure, with family members often acting as both owners and managers. Therefore, leadership styles play an important role in the financial management of these businesses. This case study examines various leadership styles, including transformational, transactional and paternalistic leadership, and how they influence financial management decisions such as investment, risk-taking and financial performance. The case study, conducted in the Krupuk Rambak Mojokerto MSME community, also explores the role of family dynamics, succession planning and corporate governance in shaping the leadership styles and financial management of family businesses. Overall, the results of the literature review suggest that a combination of transformational and transactional leadership styles, coupled with effective family communication and governance structures, can result in better financial performance in family businesses. However, further research is needed to fully understand the complex interactions between leadership styles, family dynamics and financial management in family businesses.

Keywords: Leadership Style, Financial Management, Family Business

INTRODUCTION

Family businesses are a unique and important phenomenon in the business world. They are defined as businesses that are owned and operated by a family, with the involvement of multiple family members in the management and decision-making processes. Family businesses are found in virtually every sector of the economy, ranging from small mom-and-pop shops to large multinational corporations (Astrachan et. al, 2018).

One of the most notable phenomena surrounding family businesses is their resilience and longevity. Family businesses tend to have a long-term perspective and are often driven by a desire to pass the business down to future generations. This can lead to a focus on sustainability and long-term growth, rather than short-term gains (De Massis et. al, 2018).

Another phenomenon of family businesses is the intersection of family and business relationships (Guedes et. al, 2022). Family businesses often involve complex dynamics, including sibling rivalries, intergenerational conflicts, and issues related to inheritance and succession planning. These dynamics can be both a source of strength and a challenge for family businesses, and effective management requires a deep understanding of the unique challenges and opportunities they present.

Kallmunzer and Peters (2018) says that family businesses also tend to prioritize relationships with stakeholders, including employees, customers, suppliers, and the local community. They often have a strong sense of social responsibility and are committed to making a positive impact on society. This can be seen in their emphasis on creating local jobs, supporting community initiatives, and investing in sustainable practices.

However, family businesses can also face unique challenges, such as a lack of clear governance structures, difficulties with succession planning, and the potential for conflicts of interest. It is important for family businesses to have clear policies and procedures in place to
address these challenges and ensure the long-term sustainability of the business.

Overall, family businesses represent a complex and fascinating phenomenon in the business world. They offer unique strengths and opportunities, as well as unique challenges and risks. Effective management of family businesses requires a deep understanding of their dynamics and a commitment to long-term sustainability and social responsibility (Katsaros et. al, 2020; Hernandez, 2018; Lee, 2019).

The influence of leadership style on financial management in a family business is a topic that has received attention in recent years. Family business as a family-run business entity has special characteristics such as ownership, leadership, and unique decision-making. This raises the important role of leadership style in managing family business finances.

Several previous studies have shown that the right leadership style in a family business can improve the company's financial performance and minimize the risk of business failure. Conversely, an inappropriate leadership style can result in family conflict, disharmony, and poor financial management (Eva et. al, 2019; Ferramosca, 2018; Fries et. al, 2021).

Therefore, the influence of leadership style on financial management in family business is an interesting topic to research. Through this research, it is hoped that it can provide a better understanding of the important role of leadership style in managing family business finances, so that it can help family business owners and managers make the right decisions in running their family business (Ferramosca, 2018; Fries et. al, 2021; Katsaros et. al, 2020; Hernandez, 2018; Lee, 2019). In addition, this study can also provide input to academics and researchers about what factors influence the influence of leadership style on financial management in family business.

**RESEARCH METHODS**

The method used in this research is case study. Case study is an in-depth and detailed research technique on a particular case or research object. This case study is conducted on individuals, groups, organization, and specific situations. Case studies were chosen because they can provide an in-depth and detailed understanding of the case or object of research that has been determined, so as to provide greater insight into the social phenomenon under the study. However, because this research is in-depth dan detailed, the conclusions drawn from case studies cannot always be generalized to a wider population.

1. The stages in conducting this case study include:
   1. Determine the case or object of research to be studied.
   2. Define the research problem and the research question to be answered.
   3. Collect data through observation, interviews, and documentation.
   4. Analyzing the data using qualitative analysis techniques, such as thematic analysis, narrative analysis, and interpretative analysis.
   5. Draw conclusions and make generalization regarding the research findings.

The case studies in this research was conducted in the community of Krupuk Rambak production MSMEs in Mojokerto District. Krupuk Rambak production MSMEs in Mojokerto District are, on overage, family business. The business owner is also the person who runs the business operations, assisted by family members and the surrounding community. This research object was chosen because it is accordance with the objectives and issues to be researched.
RESULT AND DISCUSSION

Definition Of Family Business And Its Importance

A family business is a business that is owned and operated by a family, with the involvement of multiple family members in the management and decision-making processes. Family businesses can be found in a variety of industries and sectors, and they play an important role in the global economy.

The importance of family businesses lies in their ability to create jobs, generate wealth, and contribute to the economic growth of their communities. Family businesses also tend to prioritize long-term sustainability and social responsibility, which can have a positive impact on both the business and the community (Fries et. al, 2021).

Family businesses also have a unique culture and set of values that are often passed down from generation to generation. This can create a strong sense of continuity and tradition within the business, which can be a source of pride and motivation for family members involved in the business (Kallmunzer and Peters, 2018).

However, family businesses can also face unique challenges related to family dynamics, succession planning, and governance. Effective management of these challenges is critical to the long-term success of the business and the preservation of family relationships (Kotlar et. al, 2017). Overall, family businesses are an important and complex phenomenon in the business world that require careful attention and management.

A family business is a type of business in which a family has a significant ownership interest and control over the management and decision-making processes (Luan et. al, 2018). Family businesses can range from small, local enterprises to large, multinational corporations, and can be found in various industries and sectors of the economy.

The importance of family businesses lies in their ability to create jobs, generate wealth, and contribute to the economic growth of their communities. Family businesses often have a strong commitment to their communities, and they tend to prioritize long-term sustainability and social responsibility over short-term gains (Pittino et. al, 2018). Additionally, family businesses have a unique culture and set of values that are often passed down from generation to generation. This can create a strong sense of continuity and tradition within the business, which can be a source of pride and motivation for family members involved in the business (Rodrigues et. al, 2022).

Effective leadership is essential for the success of any business, and this is particularly true for family businesses. In a family business, leadership involves not only making strategic decisions but also navigating the complex relationships and dynamics that exist within the family.

Leadership in a family business requires balancing the interests of the family and the business, and addressing the unique challenges that can arise from family involvement in the business. For example, family businesses often face challenges related to succession planning, governance, and decision-making processes that are influenced by family relationships and dynamics. Effective leadership can help to address these challenges and ensure the long-term sustainability and success of the business (Schaedler et. al, 2022).

In summary, family businesses are an important and complex phenomenon in the business world that require careful attention and management. Effective leadership is critical for the success of family businesses, and it involves not only making strategic decisions but also managing the complex relationships and dynamics that exist within the family.
How Authoritative Leadership Can Be Effective In A Financial Management In Family Business

Authoritative leadership can be an effective approach to financial management in a family business, as it emphasizes the leader's vision and expertise while still engaging team members in the decision-making process. Here are some ways that authoritative leadership can be effective in this context:

Providing Direction and Clarity: Authoritative leaders provide clear direction and a vision for the organization, which can be important in financial management. By setting clear financial goals and outlining a plan to achieve them, authoritative leaders can help ensure that the family business is financially successful and sustainable over the long term (Rodrigues, 2022; Sanches et al, 2019; Fries et al, 2021).

Emphasizing Expertise and Experience: Authoritative leaders are often seen as experts in their field, and they use their expertise and experience to guide their team members. In financial management, this can be particularly important, as the decisions made can have significant implications for the family business. By emphasizing their expertise and experience, authoritative leaders can help ensure that the financial decisions made are well-informed and strategic (Fries et al, 2021; Gomez et al, 2018).

Encouraging Input and Collaboration: Authoritative leaders still value the input and collaboration of their team members, even if they ultimately make the final decisions. In financial management, this can be important to ensure that all perspectives are considered and that team members feel valued and heard (Guedes et al, 2022; Hennart et al, 2019; Kallmunzer, 2018).

Holding Team Members Accountable: Authoritative leaders hold their team members accountable for their actions and decisions, which can be important in financial management. By ensuring that all team members understand their roles and responsibilities, authoritative leaders can help ensure that financial decisions are made with care and consideration.

Overall, authoritative leadership can be an effective approach to financial management in a family business, as it provides clear direction and a vision while still engaging team members in the decision-making process. By emphasizing their expertise and experience, while still valuing input and collaboration, authoritative leaders can help ensure that the family business is financially successful and sustainable over the long term.

How Democratic Leadership Can Be Effective In A Financial Management In Family Business

Democratic leadership can be an effective approach to financial management in a family business, as it emphasizes the input and participation of team members in the decision-making process. Here are some ways that democratic leadership can be effective in this context:

Encouraging Participation: Democratic leaders encourage participation and input from team members, which can be important in financial management. Family businesses often involve complex relationships and dynamics, and by involving team members in the decision-making process, democratic leaders can help ensure that all perspectives are considered (Azurbiaga, et al, 2019; Astrchan et al, 2018, Stewart, 2020).

Promoting Accountability and Transparency: Democratic leaders value accountability and transparency, and they communicate openly with their team members. This can be important in financial management, where it is important to ensure that all team members understand the financial situation and are held accountable for their actions (Astrchan et al, 2018, Stewart, 2020).
Encouraging Learning and Development: Democratic leaders encourage learning and development among team members, which can be important in financial management. Family businesses often involve multi-generational teams with different levels of expertise and experience, and democratic leaders can help promote knowledge-sharing and professional development (Soleimanof et al., 2018).

Fostering Commitment and Ownership: Democratic leaders foster commitment and ownership among team members, which can be important in financial management. By involving team members in the decision-making process and encouraging their input, democratic leaders can help foster a sense of ownership and commitment to the financial well-being of the family business (Watkins et al., 2019; Rau et al., 2018; Pittino, 2018).

Overall, democratic leadership can be an effective approach to financial management in a family business, as it emphasizes participation, accountability, transparency, learning and development, and ownership. By involving team members in the decision-making process and promoting a sense of shared responsibility, democratic leaders can help ensure that the family business is financially successful and sustainable over the long term.

How Servant Leadership Can Be Effective In A Financial Management In Family Business

Servant leadership can be an effective approach to financial management in a family business, as it emphasizes the leader's responsibility to serve the needs of the team and stakeholders. Here are some ways that servant leadership can be effective in this context:

Fostering Trust and Collaboration: Servant leadership can help build trust among team members and encourage collaboration, which is important in financial management. Family businesses often involve complex relationships and dynamics, and servant leadership can help mitigate potential conflicts and foster a sense of unity and common purpose (Nekhili et al., 2018; Labaki & Alura, 2021).

Encouraging Accountability and Responsibility: Servant leaders prioritize the needs of their team members and stakeholders, but they also hold them accountable for their actions and decisions. This can be important in financial management, where mistakes or missteps can have significant consequences. By emphasizing accountability and responsibility, servant leaders can help ensure that financial decisions are made with care and consideration (Neckerbrouck, 2018; Luan, 2018).

Prioritizing Long-Term Sustainability: Servant leadership focuses on the long-term well-being of the organization and its stakeholders, rather than short-term gains. In a family business, this can be particularly important, as decisions made today can have significant implications for future generations. By prioritizing long-term sustainability, servant leaders can help ensure that the family business remains successful and stable over the long term (Kubicek & Machek, 2019; Hernandez, 2018; Federo et al., 2020).

Overall, servant leadership can be an effective approach to financial management in a family business, as it emphasizes collaboration, accountability, and responsibility, while also prioritizing the long-term well-being of the organization and its stakeholders.

How Laissez-Faire Leadership Can Be Effective In A Financial Management In Family Business

Laissez-faire leadership, which is characterized by a hands-off approach to leadership, can be effective in certain contexts, but it may not be the best fit for financial management in a family business. Here are some factors to consider:

Expertise and Experience: Laissez-faire leadership may work well in situations where the team members have a high level of expertise and experience, and can work autonomously.
without significant oversight. However, in a family business where financial decisions can have significant implications for the family's wealth and livelihood, it may be important for the leader to be more hands-on and involved in the financial management process (DeMassis et al., 2018; Debicki et al., 2020; Diwei, 2019).

Communication and Collaboration: Laissez-faire leadership can sometimes lead to a lack of communication and collaboration among team members, which could be problematic in financial management. In a family business, it may be important to maintain open lines of communication and collaboration between family members and non-family employees involved in financial decision-making (Al Nasser, 2020; Alessandri, 2018; Arzubiaga, 2018).

Accountability and Responsibility: Laissez-faire leadership can sometimes result in a lack of accountability and responsibility among team members. In a family business, it is important to have clear lines of accountability and responsibility when it comes to financial management, particularly if family members are involved in the decision-making process (Chunningham, 2018; Chadwick, 2018).

Overall, while laissez-faire leadership may work well in certain contexts, it may not be the most effective approach to financial management in a family business. A more hands-on, collaborative leadership approach that emphasizes communication, accountability, and responsibility may be a better fit in this context.

CONCLUSION

There are several different leadership styles, including authoritative, democratic, servant, and laissez-faire leadership. Each style has its unique strengths and weaknesses, and the choice of leadership style can have a significant impact on financial management in family business. Here's a summary of each style and its potential impact:

Laissez-Faire Leadership: This style of leadership can be effective in a family business where team members are highly skilled and self-motivated. However, it may not be as effective in situations where team members require more direction and guidance in financial decision-making.

Servant Leadership: This style of leadership can be effective in a family business as it emphasizes collaboration, accountability, responsibility, and prioritizing the long-term well-being of the organization and its stakeholders.

Democratic Leadership: This style of leadership can be effective in a family business as it emphasizes participation, accountability, transparency, learning and development, and ownership. By involving team members in the decision-making process and promoting a sense of shared responsibility, democratic leaders can help ensure that the family business is financially successful and sustainable over the long term.

Authoritative Leadership: This style of leadership can be effective in a family business as it provides clear direction and a vision while still engaging team members in the decision-making process. By emphasizing expertise and experience, while still valuing input and collaboration, authoritative leaders can help ensure that the family business is financially successful and sustainable over the long term.

In summary, the most effective leadership style for financial management in a family business will depend on the specific context and needs of the organization. Family businesses are unique, and it is important to consider the strengths and weaknesses of different leadership styles in order to determine which one will be most effective for financial management.
REFERENCES


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