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Family Controlling Shareholder and Financial Distress in Indonesia: Socio-Demographic Moderation

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Abstract

Financial distress is a major issue for a company in terms of maintaining the sustainability of its performance in the future. One aspect that needs to be considered is the controlling shareholder family. It is an important factor that needs to be considered to see how the company's performance will develop in the future. Therefore, this study examines the relationship between the family controlling shareholders and the financial distress in Indonesia, which is moderated through socio-demographic factors. The moderated regression analysis (MRA) was applied to 253 Indonesian public limited companies from 2013 to 2021. The result revealed that family-controlling shareholders positively and significantly affect financial distress. On the other hand, experience as a socio-demographic factor also moderated this nexus negatively. Thus, the important role of the family controlling shareholders must be considered as a main factor for predicting financial distress in Indonesian companies.

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INTRODUCTION

Financial distress is a crucial factor that forms the basis for an industry to determine the continuity of its operations, both in the short and long term. This condition refers to a situation when a company faces financial difficulties for several periods, which impacts the company's internal stability and affects the trust of various stakeholders (Ashraf et al., 2019; Candradewi & Rahyuda, 2021; Supriyanto & Darmawan, 2018; Wang & Deng, 2006; Whitaker, 1999). High levels of financial distress are often associated with a greater risk of bankruptcy, resulting in reduced investment interest for potential investors (Platt & Platt, 2006; Sidhu & Katoch, 2019). However, some companies can carry out better financial and operational restructuring to restore company performance through organizational policies. Managing internal company policies is important, as financial distress conditions can affect the local and national economy if the company is declared operationally bankrupt (Inekwe et al., 2018). Therefore, companies must maintain financial stability by implementing prudent and long-term financial management principles, especially in ownership and managerial governance matters.

Regular monitoring of financial conditions is a strategic step that cannot be ignored. Analysis of financial ratios such as liquidity, solvency, and profitability ratios provides a comprehensive picture of company performance, especially in financial distress conditions (Asyikin & Chandrarin, 2018; Gunawan & Putra, 2021). On the other hand, company performance needs to be supported by good managerial governance driven by policies developed by its owners. Generally, in Indonesia, family share ownership in a company is often found or referred to as Family Controlling Shareholders (FCS). FCS sometimes shows emotional ties to the company and long-term loyalty, which can influence decisions under financial pressure (Amin & Liu, 2020). On the one hand, the direct involvement of family members in managing the company can be an advantage, especially in maintaining business continuity and the company's core values, along with efforts made to maintain the company's profitability. However, this emotional closeness can hinder rational decision-making, especially in situations of financial distress that require significant action, such as asset liquidation or comprehensive restructuring (Sanches & Franco, 2016). In addition, family-owned businesses often affect the level of transparency and governance of the business. When facing financial pressures, family businesses that do not have a solid governance system tend to have difficulty gaining the trust of investors and creditors. Role conflicts between family members and outside professionals can worsen the situation, mainly if business decisions are based more on personal interests than the company's long-term goals. Therefore, exploring how FCS could affect the company's financial condition is important.

By looking at some previous findings, numerous types of research about the determinants of financial distress in the case of governance are available. However, the issue of family controlling shareholders has still not been explored. Kristanti et al. (2016) examined the nexus between corporate governance, financial ratios, and the probability of financially distressed family firms in Indonesia that are listed on the Indonesia Stock Exchange from 2008 to 2013. The result revealed that adopting corporate governance can boost a company's financial performance and allow it to avoid financial distress. Farooq et al. (2020) investigated the role of corporate governance on the likelihood of financial distress for Pakistan Stock Exchange (PSX) non-financial listed companies from 2010-2018. The results showed that audit committee size and independence show significant positive while external auditor's quality shows a significant negative association towards financial distress. Board size and CEO dominance have a significant negative relationship among board governance variables, while duality is negatively associated with financial distress. Ownership structure variables show a significant negative association with financial distress, except for ownership concentration, which shows a positive relationship with financial distress. Candradewi

& Rahyuda (2021) analyzes the impact of financial indicators, corporate governance, and macroeconomic variables on the financial distress of manufacturing companies listed in the Indonesian Stock Exchange (IDX) for 2016-2018. In the specific case of corporate governance, the findings revealed that the size of the board of directors has a negative and significant effect on financial distress. Younas et al. (2021) examined the effect of corporate governance on financial distress in the case of Asian emerging markets. The previous study revealed that company governance has a positive and significant impact on reducing the risk of financial distress in Pakistani firms.

By comparing previous findings, this study found that most previous studies have analyzed governance as a determinant of financial distress in Indonesia. In contrast, the governance issue has only been discussed from a managerial perspective. The role of families involved in companies towards financial distress is still rarely found. It appears that there is a research gap that can be developed for the development of research related to this topic. In addition, developing research related to the relationship between the role of the family and financial distress is important to provide initial knowledge that can impact the creation of appropriate managerial policies for companies..

Based on these studies, the relationship between FCS and financial distress is still rare in Indonesia. Hence, this study investigates the impact of family controlling shareholders on financial distress in Indonesia. It is important for policymakers in companies to control the effect of family on the company's financial condition; one of them is financial distress. On the other hand, the expected result of this study could be used for managers to formulate the appropriate strategy for companies to be resilient.

RESEARCH METHODS

The data utilized in this study is secondary data sourced from the financial reports of companies listed on the Indonesia Stock Exchange (IDX). The dataset comprises panel data from 253 companies from 2013 to 2021. The constructed model was tested using panel regression, employing the moderated regression analysis (MRA) approach. According to (Dawson, 2014), the MRA approach uses interaction terms (multiplying two or more independent variables) to detect moderation effects. Consequently, the moderation hypothesis is tested based on the interaction coefficient between independent and moderating variables.

The theoretical foundation of this study is grounded in agency theory, as proposed by Jensen & Meckling (1976), which emphasizes the role of control and supervision in situations where principal-agent relationships exist. Two primary scenarios arise within family-owned firms: pursuing personal interests to maximize company income or aligning decisions with the firm's overall objectives. The model specification integrates the Upper Echelons Theory (UET) to reinforce the theoretical argument regarding CEO characteristics as a moderating variable.

Upper echelon theory can refer to the extent to which the characteristics and backgrounds of top executives predict organizational outcomes. The theory states that executives interpret situations through their unique experiences, values, and personalities, influencing strategic choices and performance. Observable characteristics such as age, education, and background of top executives measure opportunities for policies and actions to improve the firm (Hambrick et al., 1982). UET emphasizes that an organization reflects its top managers as their decisions shape strategic direction. This perspective is important for understanding how diversity in leadership and executive backgrounds affects organizational behavior and success.

Three models are tested to examine the influence of family-controlling shareholders (FCSs), considering company performance and socio-demographic factors such as gender, education level, and experience. The models are formulated as follows:

$$DISTRESS_{it} = B_0 + B_1SIZE_{it} + B_2GROWTH_{it} + B_3AGEi_t + B_4PROFIT_{it} + B_5LEV_{it} + e_{it} \quad \text{..... (1)}$$

$$DISTRESSit = B_0 + B_1FCS_{it} + B_2SIZE_{it} + B_3GROWTH_{it} + B_4AGE_{it} + B_5PROFIT_{it} + B6LEV_{it} + e_{it} \quad (2)$$

$$DISTRESSit = B_0 + B_1FCS_{it} + B_2GENDER_{it} + B_3EDUCATION_{it} + B_4EXPERIENCE_{it} + B_5FCS*GENDER_{it} + B_6SIZE_{it} + B_7GROWTH_{it} + B_8AGE_{it} + B_9PROFIT_{it} + B_{10}LEV_{it} + e_{it} \quad (3)$$

$$DISTRESSit = B_0 + B_1FCS_{it} + B_2GENDER_{it} + B_3EDUCATION_{it} + B_4EXPERIENCE_{it} + B_5FCS*EDUCATION_{it} + B_6SIZE_{it} + B_7GROWTH_{it} + B_8AGE_{it} + B_9PROFIT_{it} + B_{10}LEV_{it} + e_{it} \quad (4$$

$$DISTRESSit = B_0 + B_1FCS_{it} + B_2GENDER_{it} + B_3EDUCATION_{it} + B_4EXPERIENCE_{it} + B_5FCS*EXPERIENCE_{it} + B_6SIZE_{it} + B_7GROWTH_{it} + B_8AGE_{it} + B_9PROFIT_{it} + B_{10}LEV_{it} + e_{it} \quad (5)$$

Where DISTRESSit refers to financial distress in firm i at period t, SIZEit refers to the firm size in firm i at period t, GROWTHit refers to firm sales growth in firm i at period t, AGEit refers to firm age in firm i at period t, PROFITit refers to firm profitability in firm i at period t, LEVit refers to leverage in firm i at period t, FCSit refers to family shareholder in firm i at period t, GENDERit refers to the gender of ownership in firm i at period t, EDUCATIONit refers to the education level of ownership in firm i at period t, EXPERIENCEit refers to ownership experience in firm i at period t, and et represents the error term.

Based on several previous studies, there is a negative and significant between family ownership and financial distress as one of the measurements of financial condition in a company (Farooq et al., 2020; Haji-Seseang et al., 2023; Md-Rus et al., 2013). On the other hand, socioeconomic factors are also important to be considered. Some previous findings stated that variables related to the socio-demographic aspect are one of the crucial factors in determining financial issues in company management (Günay et al., 2019; Loke, 2017). (Rayenda Khresna Brahmana et al., 2023) suggest that companies with high leverage tend to reduce research and development intensity when cash holdings are high and vice versa. This behavior is observed across family-controlling shareholders, potentially impacting the likelihood of financial distress. To create a robust result, this study utilized several variables related to the company characteristics to maintain the nexus between FCS and financial distress, such as firm structure, sales growth, age of the company, and profitability. Smith & Amoako-Adu (1999) asserted that shareholders respond adversely to the nomination of a family member due to increased ambiguity regarding management quality. Thus, the hypothesis of this study could be stated: 1) there is a negative and significant impact from family controlling shareholders towards financial distress, and 2) the socio-demographic aspect, which contains gender, education, and experience, moderates the nexus between family controlling shareholders and financial distress.

This study employs panel regression, which provides the best linear unbiased estimations (BLUE) when the Gauss-Markov assumptions, including non-autocorrelation, are satisfied. However, achieving non-autocorrelation can be challenging when analyzing panel data, potentially leading to parameter estimates that are no longer BLUE. Panel data analysis offers several key advantages compared to time series models, which may overlook cross-sectional variability. First, it allows for a larger sample size and increased degrees of freedom, which enhances statistical power and reduces standard errors. Second, it provides comprehensive information by capturing both cross-sectional and time-series variations. Third, it facilitates the analysis of dynamic changes, enabling researchers to examine temporal trends and long-term effects. Two key tests are conducted to select the most appropriate panel data model. The Chow Test determines whether the common effect (CE) or fixed effect (FE) model is more suitable. The Hausman Test is also applied to choose between fixed and random effect models.

To ensure the validity and reliability of the regression models, classical assumption tests are also conducted, such as follows: The Normality Test assesses whether the residuals follow a normal distribution, and the multicollinearity test

identifies high correlations between independent variables, which could distort the results, The Autocorrelation Test detects serial correlation in the residuals, and The Heteroscedasticity Test examines whether the variance of residuals remains constant across observations. Ensuring these assumptions are met is essential for producing robust and reliable regression estimates.

RESULTS AND DISCUSSION

Table 1 shows the descriptive statistics in our model, containing mean, median, maximum, minimum, Standard deviation, and N. In the mean, the variable with the highest value is AGE, with 26.16, while PROFIT is the lowest value of the mean (0.00). In the median, the variable with the highest value is SIZE, with 28.23, while FCS and GENDER have the lowest value (0.00). By comparing the maximum 508.16 and minimum -15.80 values, this study also found that DISTRESS is the variable with the highest value among the two descriptive statistics. In standard deviation, the variables with the highest and minimum values are DISTRESS (19.42) and GENDER (0.25). The total observations displayed 2276 between variables, referring to the balanced panel regression.

Overall, the results of descriptive statistics indicate that the data for the variables studied exhibit substantial variability, as evidenced by the standard deviation (Std. Dev) values exceeding their respective mean (Mean) values. This pattern is consistently observed across DISTRESSit, FCSsit, GENDERit, GROWTHit, PROFITit, and LEVit. Therefore, the variables within this study reflect considerable heterogeneity in this sample.

Table 1. Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
DISTRESS	0.28	-1.33	508.16	-15.80	19.42	2276
FCS	0.32	0.00	1.00	0.00	0.47	2276
GENDER	0.07	0.00	1.00	0.00	0.25	2276
EDU	1.31	1.00	3.00	0.00	0.63	2276
EXPERIENCE	23.57	24.00	59.00	0.00	11.50	2276
SIZE	25.83	28.23	33.26	0.00	8.30	2276
GROWTH	0.14	0.02	33.13	-1.00	1.04	2276
AGE	26.16	24.00	110.00	-2.00	16.40	2276
PROFIT	0.00	0.01	3.37	-9.25	0.40	2276
LEV	0.77	0.43	86.10	0.00	3.39	2276

Source: Data Processed, 2025

Table 2 revealed the result of the classical assumption test in four tests: normality, multicollinearity, autocorrelation, and heteroskedasticity. All of the classical assumption tests have already passed, except normality. However, the result of the normality test could be ignored if the study sample is above 30 observations (Allende-Alonso et al., 2019). Hence, our regression model could still be conducted.

Table 2. The Classical Assumption Test

Type of Tests	Model 1	Model 2	Model 3
Normality	Not Supported	Not Supported	Not Supported
Multicollinearity	Supported	Supported	Supported
Autocorrelation	Supported	Supported	Supported
Heteroskedasticity	Supported	Supported	Supported

Source: Data Processed, 2025

This study uses panel regression to use the right model selection test. The Chow and Hausman tests are used to determine the best model among CEM, FEM, and REM. Table 3 provides the findings about the selection test model by using Chow and Hausman tests for three regression models. Based on two tests, this study found the appropriate model for this specification, namely the fixed effect model (FEM), with a significant level of 5% in Chow and Hausman tests.

Table 3. Model Selection Test (Chow and Hausmann Test)

Type of Selection	Model 1	Model 2	Model 3
Chow Test	Significant at 5%	Significant at 5%	Significant at 5%
Hausman Test	Significant at 5%	Significant at 5%	Significant at 5%
Conclusion	FEM	FEM	FEM

Source: Data Processed, 2025

Table 4. Moderating Regression Analysis

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	0.389	-0.443***	0.196	0.453	-1.387
SIZEit	-0.176***	-0.150***	-0.183***	-0.183***	-0.185***
GROWTHit	-0.028***	-0.002	-0.050	-0.050	-0.052*
AGEit	0.026	0.013***	-0.042***	-0.049	0.016
PROFITit	-7.175***	-4.566***	-7.079***	-7.080***	-7.067***
LEVit	4.904***	5.522***	4.917***	4.916***	4.913***
FCSit		0.003***	-0.831	-1.319***	1.533***
GENDERit			1.052***	0.963***	0.747
EDUCATION			-0.074	-0.140***	-0.191**
EXPERIENCEit			0.104***	0.105***	0.120***
FCSit x GENDERit			-0.360		
FCSit x EDUCATIONit				0.350	
FCSit x EXPERIENCEit					-0.099**
R-Squared	0.947	0.989	0.948	0.948	0.948
Adjusted R-Squared	0.940	0.988	0.941	0.941	0.941
F-Statistics (Prob)	134.979***	701.235	134.602	134.612	135.026
Durbin-Watson stat	1.317	2.033	1.354	1.353	1.356

Note: The value in the model represents the coefficient value

: *, **, and *** = Significant at level 10%, 5%, and 1%, Respectively

Source: Data Processed, 2025

Table 4 describes the result of moderating regression analysis for five models, examines the nexus between family controlling shareholders and financial distress. In the first model, all of variables have a significant effect, namely the firm size, sales growth, profitability, and

leverage, except the firm's age (Model 1). In addition, firm size, age, and leverage positively and significantly impact financial distress. The increase in these variables could lead to the value of financial distress. On the other hand, sales growth and profitability negatively and significantly affect financial distress. It means that the decrease in these variables could lead to the value of financial distress.

Firm size has a positive and significant effect on financial distress, which means the increase in firm size could lead to the potential of financial distress in the company. This result supports the previous studies by several scholars (Dirman, 2020; Oktasari, 2020; Wangsih et al., 2021). Large companies are more vulnerable to bankruptcy due to operational complexity, higher debt exposure, and slower ability to adapt to market changes. Organizational inertia and agency problems can also potentially create policies that do not support company performance, leading to bankruptcy issues.

Sales growth has a negative and significant influence on financial distress. This result is also similar to previous studies (Pratiwi et al., 2023). The research findings show that companies with strong sales performance are better able to generate cash flow, meet financial obligations, and maintain operational stability. This can prevent companies from bankruptcy, which has a negative impact.

Profitability also has a negative and significant effect on financial distress. This result aligns with the previous study by Dwiantari et al. (2021) and Afrino & Erni (2019). High profitability reflects strong operational performance and efficient cost management, which enhance a firm's ability to meet its financial obligations. Profitable firms also have better access to external funding and are more resilient during economic downturns. Therefore, profitability serves as a key buffer against the risk of financial distress.

Leverage positively and significantly affects the company's financial distress in Indonesia. High leverage, especially from external debt sources, can increase financial risk because the company needs to pay the principal debt obligations. Therefore, high leverage can impact the company's liquidity difficulties along with a decrease in the company's income. In addition, the structure of external leverage can increase the potential for bankruptcy, which can cause the company to have poor financial performance.

By involving FCS, the firm's age positively and significantly impacts the company's financial distress. Age has a positive and significant effect on financial distress. This result also differs from previous research findings by Isayas (2021), which found a negative effect on financial distress. As the company's age increases, its organizational structure will change to adjust to the market it faces. Dynamic market change factors also affect a company's resilience, especially for old companies, due to adaptation factors. However, sales growth has no significant effect after the model includes the FCS factor. This is an interesting result because agency theory is indicated to be proven by the presence of other variables related to governance. Increased sales growth can be divided into several funding allocations and other policies under family share control.

In the case of FCS, this variable positively and significantly impacts financial distress. Increasing family shareholders could lead to a high value in financial distress (Model 2). This result was similar to several previous studies that obtained similar results regarding the relationship between governance and financial distress (Farooq et al., 2020; Younas et al., 2021). This study found results that can be a reference for future researchers regarding this positive influence. This influence can be interpreted as the family's increasing control of shares, which can increase the potential for financial distress by the company. However, governance in a previous study by Faith Amede & Ilaboya (2024) was found to be able to restore the company's finances, which could have an impact on avoiding the company from bankruptcy. Although still rarely found, this study can support previous research by Mahardini et al. (2025), which found that family ownership can be used as a predictor of financial distress in

manufacturing companies but has not discussed the moderation of ownership background, including socio-demographic aspects. Furthermore, models 3, 4, and 5 were conducted by producing the new result of estimation through sosio-demographic variable (gender, education, and experience).

Through moderated regression, this study successfully found three influences of the interaction of FCS and socio-demographics on financial distress. First, FCS negatively and significantly affects financial distress with the interaction experience. With managerial experience, a company can survive well because the owner can use previous references to run the company well. On the other hand, human resource development has been found to reduce the tendency of companies to experience bankruptcy (Alexandre et al., 2021). Investing in human capital enhances the competence and adaptability of managerial actors, equipping them with the skills needed to address complex financial challenges. This includes professional managers and family members who may serve as controlling shareholders, highlighting the importance of continuous learning and leadership development regardless of ownership structure. As managerial experience increases, decision-making becomes more strategic and risk-sensitive, strengthening the company's ability to withstand financial pressure. Therefore, this study confirms that the owner's characteristics, particularly managerial experience, are important in reducing financial distress and supporting long-term business sustainability.

The interaction between Family Controlling Shareholders (FCS) and gender does not significantly affect financial distress, indicating that the control of shares by either male or female family members does not inherently lead to or protect against financial difficulties. In contrast, prior research has highlighted that other characteristics of firm owners or CEOs may play a more critical role in influencing the likelihood of financial distress. For instance, previous studies by Kallunki & Pyykkö (2013) and Zahra et al. (2018) found that characteristics of CEO or Ownership have a more substantial impact on a firm's financial condition. This study is not in line with previous findings by Samudra (2021) regarding the negative and significant impact of gender diversity on financial distress. This means that women tend to be more cautious and risk-averse, leading to more optimal decision-making processes and minimizing impulsive or high-risk financial choices, thus promoting greater stability in corporate governance. In addition, women in leadership positions often bring diverse perspectives and problem-solving styles to the company so financial distress can be controlled. Accordingly, exploring the broader attributes of leadership may offer more valuable insights than focusing solely on gender-related factors.

This research shows that the interaction between family controlling shareholders (FCS) and education level does not significantly affect the likelihood of financial distress, meaning that family owners' education level does not affect the occurrence of financial bankruptcy or vice versa. On the one hand, experience has a significant effect compared to the other two socio-demographic aspects. Tran et al. (2024) also emphasized that the high level of education of the top management team does not affect the achievement of company profits but has an impact on the absence of financial bankruptcy. In addition, governance issues were more important than macroeconomic factors and company fundamentals compared to basic socio-demographic aspects. This is further strengthened by evidence that the interaction between experience and FCS was found to have a significant effect compared to the two interactions from other socio-demographic aspects.

Based on several discussions between the results, the issue of family control can increase the value of financial distress, leading to potential bankruptcy in the future. The role of the family can be negative due to the freedom of control in the company. According to Lohe & Calabrò (2017), a board that provides advisors can improve financial performance, especially during a crisis, while network and control tasks have a

negative impact when an internal crisis occurs, anticipating freedom of control by the family. In addition, these results also contrast with previous research by Haji-Seseang et al. (2023), who also found that family control affects the prediction of financial distress Z-scores and causes a higher probability of companies being in a better financial condition category. This shows that agency theory is proven as there is a conflict of interest between owners and managers in managing the company's finances, either in the form of dividend distribution or retaining existing capital to develop wider company operations. This study also provides empirical support for the Upper Echelons Theory (UET), demonstrating that top management characteristics, specifically the interaction between family controlling shareholders (FCS) and managerial experience, significantly influence financial distress. These findings highlight the importance of considering family-related dynamics within corporate leadership, as such factors play a critical role in shaping financial stability. Accordingly, sustained attention to family involvement in governance is essential to mitigate the risk of financial distress and promote long-term corporate resilience.

This also affects the company's resilience in facing competitive situations, especially related to governance and its indications that can cause zombification (R.K Brahmana & Setiawan, 2025). On the other hand, family involvement in managing the company must be supported by good characteristics, especially in terms of experience. With experience, the FCS response to financial distress can have a negative effect, so family involvement in controlling shares cannot create a tendency for the company to go bankrupt. In addition, the large concentration of the family in the organizational governance structure will affect the company's performance in the future (Detthamrong et al., 2017; Martini et al., 2023). This shows that the role of the family in the company will be crucial in determining the direction of the company's performance, whether positive or negative. Previous research by Dello Sbarba & Marelli (2018) found that family members can act as agents of institutional change that encourage adjustments to the managerial framework and the implementation of financial practices that align with shareholder goals, depending on the quality of the family's ownership character. Even by inviting technocrats into the company, the involvement of directors outside the family does not guarantee the company's success in managing financial distress and has a negative and significant impact (Alam et al., 2024)

Managerial actors within a company must possess a solid foundation of experience to drive optimal organizational performance. Experience shapes leadership capacity and influences the quality of strategic decision-making, especially under financial pressure. In this context, family involvement in company management becomes an important area of consideration. This study's findings suggest that family participation offers stability and long-term vision. However, it may also be linked to increased risks of financial distress if not balanced with professional governance structures. Hence, the presence of non-family directors remains essential to maintain objectivity and strategic discipline in corporate management. Supporting this perspective, Manan & Hasnawati (2022) highlighted that key elements of good corporate governance—such as corporate ownership structure, managerial ownership, and the size of the board of directors—have a positive and significant effect on mitigating financial distress. This underscores that governance-related variables are more decisive in determining financial outcomes than socio-demographic characteristics alone. Fostering a governance environment that balances familial legacy with professional oversight is crucial to ensuring long-term financial resilience.

CONCLUSION

This study offers a novel contribution to comprehending the influence of family on a company's financial condition, particularly concerning financial distress, through a case study in Indonesia. This study uses panel data regression on firms registered on the Indonesia Stock Exchange and discovers that family share

ownership positively and significantly influences the degree of financial hardship. Moreover, socio-demographic factors, namely employment experience, significantly influence financial distress through their relationship with family share control. These findings yield several significant managerial implications. One requirement is to enhance corporate governance by augmenting the ratio of independent board members and establishing an effective supervisory committee to guarantee that strategic choices are made impartially and to prevent familial domination in firm management.

This study also emphasizes the importance of a clear separation between ownership and managerial functions to reduce potential conflicts of interest and encourage management professionalization by involving non-family managers with special expertise in their fields. Furthermore, these results underline the importance of structured succession planning and mature risk mitigation strategies to prepare companies to face future financial pressures. These efforts aim to reduce the negative impact of excessive family involvement in company operations. In addition, the need for a balance between the interests of family and non-family shareholders is also key, which can be achieved through increased transparency and effective communication with all stakeholders. From an investor's perspective, the results of this study indicate that investment in companies with family shareholdings needs to be considered more carefully, considering the proportion of family involvement in management and the extent to which organizational professionalism is applied.

This study offers theoretical contributions by reinforcing the agency theory perspective, emphasizing the conflicts of interest between owners and managers, particularly inside family enterprises. This study has limitations, specifically that it exclusively examines case studies in Indonesia. Consequently, additional research is advised to broaden the geographical scope by investigating analogous occurrences in diverse nations to enhance the generalizability of the findings. Furthermore, studying organizations facing financial difficulties is essential to enhance theoretical contributions and deepen the understanding of financial distress dynamics across diverse organizational contexts.

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