CHAPTER I
INTRODUCTION

1.1. Background to the Research

Family business is a form of business organization that plays a significant role in both global and national economies. Leke et al. (2025) reported in McKinsey & Company that family businesses contributes more than 70% of global GDP and generate around 60% of global employment, this demonstrating its strategic roles in global economic development. Various studies show that family business dominated business structure in many countries, contributing to economic stability and long-term business growth, and conveying strong cultural and social values across generations (Briano-Turrent & Poletti-Hughes, 2017; Fang et al., 2022; Miroshnychenko et al., 2021). This demonstrates that family business existences not only as an economic unit but also as a pillar of societal economic sustainability.

Family businesses are built on strong emotional bonds, trust, and interdependence among family members, distinguishing them from non-family organizations (Ratten, 2023). A key characteristic of family businesses lies in the involvement of family members in ownership, strategic decision-making, and operational management. This involvement fosters a long-term orientation, high loyalty, a strong level of internal trust compared to non-family organizations, and a strong intergenerational organizational commitment (Le Breton-Miller & Miller, 2018). These characteristics enable family businesses to maintain long-term sustainability and build strong relationships with customers and the community. These distinctive characteristics can also be understood through the

Socioemotional Wealth (SEW) perspective, which emphasizes that family businesses pursue not only economic objectives but also non-financial goals related to family identity, control, relationships, and long-term continuity (Berrone et al., 2012). These family-centered considerations can influence strategic decision-making and the willingness of family businesses to undertake organizational and technological changes. However, despite these advantages, family businesses also present unique challenges, particularly in the process of management professionalizaion, data-driven decision-making, resource scalability, and adaptability to increasingly dynamic business environments (Mikušová & Stanovská, 2025; Miller & Le Breton-Miller, 2020). In the context of an increasingly dynamic business environment and the development of new business models such as digital startups, family-based management structures need to continue to adapt in order to improve management professionalism and the effectiveness of decision-making.

Family businesses dominate the SME sector in most economies (Smith, 2024). In Indonesia, family-based business practices are very dominant, especially in the Micro, Small, and Medium Enterprises (MSMEs) sector (Tambunan, 2019). Kementerian Koordinator Bidang Perekonomian Republik Indonesia (2025) states that there are more than 64 million MSMEs in Indonesia that contributing over 60% to the national Gross Domestic Product (GDP) and absorbing nearly 97% workforce. Also, MSMEs contribution to Indonesia’as national exports reaches around 15,7% of total exports. This condition indicates that family businesses are a crucial foundation for local economic stability and job creation, including in developing regions.

However, despite their significant economic contributions, many family businesses still face various structural and managerial limitations that hinder their ability to grow sustainably. Previous studies have shown that family firms often experience slower organizational transformation due to centralized decision-making processes, conservative leadership styles, limited access to technological resources, and limited organizational capabilities to adopt new technologies (R. Bouncken & Schmitt, 2022; Matarazzo et al., 2021; Porfírio et al., 2024). As today's business environment becomes increasingly dynamic and technology-driven, these characteristics can hinder firms' ability to respond quickly to digital transformation and market changes (Rashid & Ratten, 2020). In addition, organizational rigidity, bureaucratic processes, and limited incentives for innovation may further slow down the transformation process in traditional organizations (de Paula Pereira et al., 2024).

The rapid development of digital technology has fundamentally changed the competitive landscape of modern business. Digital platforms, online marketplaces, social media marketing, and digital payment systems have transformed consumer behavior and intensified market competition (Antczak, 2024; Ly & Ly, 2024). Companies no longer compete solely in local markets, but also with various business actors operating within the broader digital ecosystem. In this environment, organizations are required to continuously adapt their strategies, capabilities, and operational processes to maintain competitiveness and sustainable business performance (Warner & Wäger, 2019).

Digital transformation is not merely the use of technology, but a process of organizational change that requires the ability to identify opportunities, leverage technology, and align organizational resources (Soluk et al., 2021). Digitalazation has the potential to enhance family firm performance, but its impact may depend on the family's specific characteristics and objectives (Issah & Calabro, 2024). This perspective is consistent with Dynamic Capability Theory, which emphasizes that firms need to sense changes and opportunities in their environment, seize those opportunities through appropriate actions, and transform or reconfigure their resources and processes in response to change (D. J. Teece, 2018; D. J. Teece et al., 1997). Therefore, digital transformation requires not only access to technology but also organizational capabilities that enable firms to continuously adapt and reconfigure their resources. Adapting to digital transformation presents significant challenges for many family businesses. Research shows that family businesses experience slower digital transformation because the process must align with specific characteristics which heavily dependent on family values and risk-aversion driven by managers or owners as well as digital technologies and transformation concepts that have the consensus of all organizational members (R. B. Bouncken et al., 2026).

This challenge is also highly relevant in the context of local businesses in Padang, one of the main center of economic activity in West Sumatra Province. Padang's economic structure comprises various sectors, including culinary businesses, retail trade, home industries, specialty food industries, and small-scale manufacturing (Badan Pusat Statistik Kota Padang, 2025). These characteristics reflect the region's economic development pattern, which relies heavily on family businesses as the primary drivers of community economic activity. The strong entrepreneurial tradition in Minangkabau culture also encourages many families to run businesses from generation to generation. Many businesses thrive through generations, with family-based ownership and management patterns (Marbun et al., 2025; Mayasari et al., 2024).

Family business in Padang influenced by Minangkabau culture. The characteristics of Minangkabau community are higher tolerance for uncertainty and long-term orientation shaped by their matrilineal culture that influenced the formation of the entrepreneurial culture (Rahman et al., 2019). In family business context the values influence their culture in strong family ties and collective decision-making, that’s make Minangkabau family business differ from other community. Minangkabau community known to have a strong professional entrepreneurship in various sectors, which are restaurant, textile, handicraft, printing, hotel, travel agent, education, media, financial, and even farming (Putra & Falikhatun, 2024). Their restaurant business can be found in every city and also abroad.

Preliminary interviews conducted by researchers with several family business owners in Padang revealed relatively similar phenomena regarding their business performance. The family business owners interviewed by researchers were in the retail trade, food and beverage, and services sectors. Researchers collected data using interviews and Google Forms. The data collected includes the business name, industry, year of establishment, management, key indicators of business success, turnover over the past three years, employee growth, business conditions over the past three years, and family values influencing company operations. These data are recorded in the analysis space in the following table:

Table 1. 1 Preliminary Interview Results

<table>
<tr><th rowspan="2">No.</th><th rowspan="2">Questions</th><th colspan="3">Answer</th></tr>
<tr><th>Respondent 1</th><th>Respondent 2</th><th>Respondent 3</th></tr>
<tr><td rowspan="2">1</td><td rowspan="2">What is the main indicator of your business success?</td><td>Business sustainability, Customer satisfaction, Market share.</td><td>Customer satisfaction, Product/ services innovation, Market share</td><td>Customer satisfaction, Product/ services innovation, Market share</td></tr>
<tr><td colspan="3">Conclusion:
In general, respondents considered family business success primarily measured by customer satisfaction and market share, with product/service innovation a crucial factor in maintaining business sustainability. Sustainability was also considered, although it wasn't the dominant factor.</td></tr>
<tr><td rowspan="2">2</td><td rowspan="2">In the last 3 years, has there been an increase in sales revenue?</td><td>Sales revenue has increased quite steadily, but not too much.</td><td>Sales revenue increased clearly and significantly</td><td>Sales revenue increased clearly and significantly</td></tr>
<tr><td colspan="3">Conclusion:
Overall, the majority of respondents stated that family business sales revenue had increased significantly over the past three years, while one respondent assessed the increase as stable but not significant. This indicates a positive trend in sales performance, although the growth rate may vary between businesses.</td></tr>
<tr><td rowspan="2">3</td><td rowspan="2">In the last 3 years, has there been an increase in number of employees in your company?</td><td>No</td><td>Yes, more than 6 employees.</td><td>Yes, 1-2 employees.</td></tr>
<tr><td colspan="3">Conclusion:
Overall, the majority of respondents indicated an increase in the number of employees over the past three years, albeit at varying scales, ranging from moderate to significant. Meanwhile, one respondent reported no increase in the workforce. This illustrates that workforce growth in family businesses is not uniform, but tends to increase across most companies.</td></tr>
<tr><td rowspan="2">4</td><td rowspan="2">In the last 1-3 years, how has your company's market share been? Has there been any improvement?</td><td>In the last 3 years, sales revenue has experienced increases and decreases.</td><td>Yes, there is an increase in market share.</td><td>Yes, there is a minor increase in market share.</td></tr>
<tr><td colspan="3">Conclusion:
Overall, two out of three respondents indicated an increase in market share over the past 1–3 years, either significantly or slightly. However, one respondent highlighted the continued fluctuations, indicating that despite the growth trend, market stability remains a challenge for some family businesses.</td></tr>
</table>

Source: Preliminary Interview

Respondents are family businesses operates in Padang in various sectors. Respondent 1 is a small-scale retailer that has been operating for 23 years, Respondent 2 is in food and beverages sector that has been operating for 3 years, and Respondent 3 is in services sector that has been operating for 5 years.

Most respondents identified customer satisfaction, product innovation, and market share as key indicators of business success. Although the majority of businesses reported increased sales revenue in the past three years, the growth rate showed significant variation across companies. Some businesses experienced stable growth, while others reported fluctuating revenue and unstable market share.

These findings indicate although some family businesses experienced positive business growth, the level of performance improvement varies considerably across firms. The improvement in the family business may possess different organizational capabilities and capacities to respond changes in business environment and condition. Today businesses undergo the digital business environment, the ability to adapt to technological change and market dynamics has become an important of business sustainability and performance.

The rapid development of digital technologies has transformed the way business operate, compete, and create value. Family businesses are encouraged to adopt digital technologies such as social media, digital payment systems, e-commerce platforms, and online communication. This also applied to respondents, some of respondents, Respondent 2 and Respondent 3 have their own social media to introduce and promote their business, still all respondents have their online communication to help them operates their business. None of the respondents use e-commerce platforms to operates their business to increase performance.

Many family businesses still face challenges in integrating digital technologies into their business process and develop the capabilities to respond to environment changes. In this context, leadership plays a crucial role in guiding organizations to integrate digital technology into business strategies and operational processes especially in family business (Tigre et al., 2025). The importance of leadership in this process can be explained through Upper Echelons Theory, which proposes that organizational outcomes are influenced by the characteristics, experiences, and values of organizational leaders because these characteristics shape strategic choices and decision-making (Hambrick & Mason, 1984). In the context of digital transformation, Digital Leadership therefore represents an important leadership capability through which leaders can provide direction, encourage technology adoption, and guide organizational change (López-Figueroa et al., 2025).

Digital leadership refers to a leader's ability to formulate a digital vision, drive technology-based innovation, and integrate digital technology into organizational strategy. Leaders with strong digital competencies are able to guide organizational transformation, encourage knowledge sharing, and create an organizational culture that supports innovation and technology adoption (Hensellek, 2022; Philip et al., 2023). Various studies have shown that digital leadership can improve organizational performance by increasing innovation, organizational capabilities, and more adaptive decision-making. For example, research shows that digital leadership has a positive influence on organizational performance and innovation capabilities, with innovation acting as a mediating mechanism linking digital leadership to improved organizational performance (Husban et al., 2021).

However, the influence of digital leadership on company performance is often not direct. Organizations need internal capabilities that enable them to effectively utilize digital technology and adapt to environmental changes. From the Resource-Based View (RBV), organizational resources and capabilities can become sources of competitive advantage when they are valuable, rare, difficult to imitate, and non-substitutable (Barney, 1991). In the context of digital transformation, capabilities such as knowledge integration, adaptability, and organizational flexibility can therefore be viewed as strategic organizational resources that help firms convert leadership direction and technological opportunities into improved performance. One important capability in this context is dynamic capability, namely a company's ability to recognize opportunities, capitalize on them, and transform organizational resources to respond to environmental changes (Warner & Wäger, 2019). Previous research has shown that dynamic capability plays a crucial role in enhancing innovation and organizational performance because it enables companies to integrate, reconfigure, and develop resources in response to technological and market changes (Jie et al., 2025; Zhou et al., 2019).

In addition to dynamic capability, organizational flexibility is also considered a crucial factor that enables companies to respond effectively to environmental uncertainty. Organizational flexibility refers to an organization's ability to adapt its structure, processes, and resources to address technological changes and market dynamics. Research shows that organizational flexibility helps companies improve innovation capabilities, organizational agility, and decision-making effectiveness in facing digital transformation (Arsawan et al., 2022). Study by Awais et al. (2023) stated that flexibility improve performance directly and indirectly through innovation.

The development of digital transformation has encouraged organizations to integrate technology into all aspects of their operations to increase competitiveness. In this context, digital leadership is a crucial factor because it plays a role in formulating digital strategies, directing technology utilization, and managing organizational change. Numerous studies have shown that digital leadership contributes to improved organizational performance, but these findings are fragmented and inconsistent, particularly in explaining how this influence operates across different organizational contexts.

On the other hand, strategic management literature emphasizes the importance of dynamic capability, defined as an organization's ability to respond to environmental changes through sensing, seizing, and transforming. Although dynamic capability has been widely linked to competitive advantage and company performance, there is limited research empirically examining its direct impact on performance, particularly in the context of family-based businesses.

Furthermore, organizational flexibility is recognized as a crucial factor in navigating the dynamic business environment, particularly in the uncertain digital era. Organizational flexibility enables companies to quickly adapt structures, processes, and resources. However, research examining the direct impact of organizational flexibility on company performance is still relatively limited, and not much has been studied simultaneously, alongside digital leadership and dynamic capability, in a single, integrated model.

Furthermore, the relationship between digital leadership and dynamic capability and organizational flexibility has not been widely explored empirically. However, theoretically, digital leaders play a crucial role in building organizational capability through strategic decision-making, competency development, and creating an environment that is adaptive to change. This limitation indicates a gap in understanding the causal relationships between variables, particularly how digital leadership influences the formation of dynamic capability and organizational flexibility.

In terms of performance measurement, most previous research has focused on traditional financial indicators, thus not fully reflecting the complexity of organizational performance. According to Shin et al. (2023), organizational performance should be understood as a multidimensional construct encompassing success, market share, growth, profitability, and innovation, thus providing a more comprehensive picture of a company's position relative to its competitors.

In addition to conceptual and empirical limitations, there are also limitations within the research context. Most previous studies have been conducted on large corporations or in the technology sector in developed countries, while research in the context of family businesses in developing countries is still limited. Family businesses possess unique characteristics such as a long-term orientation, a strong attachment to family values, and a tendency to preserve socioemotional wealth, which can influence how organizations respond to technological change and market dynamics.

In this context, the role of digital leadership becomes increasingly complex, serving not only as a driver of digital transformation but also as a bridge between family values and the need for innovation. Therefore, it is crucial to examine how digital leadership, dynamic capability, and organizational flexibility simultaneously influence family business performance.

Furthermore, empirical studies exploring these relationships in a local business environment like Padang are still very limited. Given the unique characteristics of family businesses, such as strong family values, a long-term orientation, and a centralized decision-making structure, the mechanisms by which digital leadership influences business performance are likely different from those in non-family businesses.

Therefore, this study aims to fill the literature gap by empirically testing the influence of digital leadership, dynamic capability, and organizational flexibility on family business performance, and analyzing the relationship between digital leadership, dynamic capability, and organizational flexibility in an integrated research model. This study is expected to contribute to the development of strategic management and family business literature, particularly in understanding how digital leadership can enhance organizational capabilities and improve business performance in family businesses operating in dynamic business environments.

1.2. Research Questions

In conducting this research, the questions of research put forward is as follows:

a. How does Digital Leadership effect on Family Business Performance (financial and non-financial)?
b. How does Dynamic Capability effect on Family Business Performance (financial and non-financial)?
c. How does Organization Flexibility effect on Family Business Performance (financial and non-financial)?
d. How does Digital Leadership effect on Dynamic Capability?
e. How does Digital Leadership effect on Organization Flexibility?
f. How does Dynamic Capability effect on the relationship between Digital Leadership and Family Business Performance?
g. How does Organization Flexibility effect on the relationship between Digital Leadership and Family Business Performance?

1.3. Objectives of the Research

Based on the research questions described above, the purposes of this research are:

a. Analyzing the influence of Digital Leadership on the Family Business Performance.

b. Analyzing the influence of Dynamic Capability on the Family Business Performance.
c. Analyzing the influence of Organization Flexibility on the Family Business Performance.
d. Analyzing the influence of Digital Leadership on the Dynamic Capability.
e. Analyzing the influence of Digital Leadership on the Organization Flexibility.
f. Analyzing the influence of Dynamic Capability on the relationship between Digital Leadership and Family Business Performance.
g. Analyzing the influence of Organization Flexibility on the relationship between Digital Leadership and Family Business Performance.

1.4. Contributions of the Research

Based on the research questions and purposes described above, the benefit of this research:

a. Theoretical Benefits

This research is expected to provide theoretical contributions to the development of literature in the fields of strategic management, digital leadership, dynamic capability, organization flexibility, and family business studies, especially in the context of family business in developing countries. Furthermore, this research is also expected to provide empirical contributions to the family business studies literature, particularly in the context of family business at the local level with unique characteristics.

b. Practical Benefits

Practically, this research is expected to provide benefits to various stakeholders in family business development, particularly family business owners in Padang.

1) Provides an understanding of the importance of digital leadership implementation for family business leaders in facing changes to develop their abilities.
2) Provides insights for family business owners the importance of dynamic capability in enhancing the competitiveness to improve the ability toward technological changes and consumer needs.
3) Raise awareness of organizational structure can more adaptive and responsive to changes in the business environment.
4) Serves as reference for local government in designing programs for developing the capacity of family business.

1.5. Scope of the Research

In order to write this thesis focused and not extensive, the review focus solely on family businesses in Padang that are still actively operating and have been established for at least two years. Empirical evidence shows that the risk of business failure is highest during the first two years of operation, with hazard rates peaking around 24 months (Woldehanna et al., 2018). Additionally, survival statistics indicate that a significant proportion of newly established firms exit the market within the initial years due to financial constraints, lack of market fit, and managerial limitations. Therefore, selecting businesses that have operated for at least two years ensures that the sampled firms have passed the most vulnerable phase of business survival and have achieved a certain level of operational stability.

Furthermore, the variables studied in this research are limited to examines Digital Leadership, Dynamic Capability, Organization Flexibility, and Family Business Performance.

a. Digital Leadership (DL) is the ability of leaders to guide, influence, and support the use of digital technologies within the organization, including raising awareness of technological opportunities and risks, fostering digital culture, and managing change related to digital transformation.
b. Dynamic Capability (DC) is the organization's ability to sense opportunities and threats, seize them through strategic actions, and transform resources and capabilities to adapt to environmental changes and sustain competitiveness.
c. Organizational Flexibility (OF) is the ability of the organization to adapt its structures, processes, resources, and culture in response to changing market conditions, technological developments, and environmental uncertainties.
d. Family Business Performance (FBP) is the extent to which a family business achieves its objectives and maintains competitive advantage relative to competitors, reflected in success, market share, growth, profitability, and innovation.

1.6. Structure of Writing

This research is divided into five chapters, with explanations for each chapter described as follows:

Chapter I: Introduction

This section presents the entire research, comprehensively describing the problem that will be the topic of discussion in this study. The sub-sections include background to the research, research questions, objectives of the research, contributions of the research, scope of the research, and structure of writing that serves as a guide for this research.

Chapter II: Literature Review

This section explains the research theoretically and serves as a basic reference for the analysis of this study. Furthermore, the theoretical basis also discusses the conceptual framework and determines the initial hypothesis to be tested.

Chapter III: Research Methods

In this chapter, the author discusses the type of research conducted and the population and sample used in the study. Furthermore, this chapter explains the data collection, variables, and analysis techniques used.

Chapter IV: Research Results and Discussion

This chapter contains research findings and discussion referring to research questions. Includes discussion of current strategy and drafting future strategy.

CHAPTER V: Final part

This about lines conclusions based on research results, implications, research limitations and suggestions that can be given for research furthermore.