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A Dyadic Analysis of Governance Complexity in Family Firms

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ABSTRACT

Family firm leadership transitions from founding owners (G1 Owners) to next-generation owners (G2 Owners) introduce severe governance friction during professionalization, particularly when integrating non-family managers (NFMs). Using a qualitative multiple-case study design, this research investigates governance complexity across 11 family firms in Indonesia, analyzing verbatim interview data from 44 informants across four distinct actor categories (G1 Owners, G2 Owners, G1 NFMs, and G2 NFMs). Data analysis reveals five main analytical themes across six dyadic relationships: *Legacy Protection vs. Modernization*, *Centralized vs. Decentralized Authority*, *Trust-based vs. Meritocracy Assessment*, *Informal vs. Professional Management*, and *Experience-based vs. Data-driven Work Methods*. Theoretically, this study advances family firm literature by establishing a governance nexus encompassing principal–principal (P-P), principal–agent (P-A), and agent–agent (A-A) configurations, showing that governance friction stems from relationally contingent mechanics rather than uniform owner-manager dynamics. The article highlights context-dependent organizational practices to help firms harmonize founding traditions with modern technocratic standards.

Keywords: family firms, agency theory, socioemotional wealth, bifurcation bias, governance nexus

1. INTRODUCTION

The sustainability of family firms across generations depends on the successful leadership transition. The transfer from the founding generation (G1 Owners) to the second generation (G2 Owners) is recognized as the most critical transition stage (Cabrera-Suarez, 2005; Li et al., 2020), with evidence suggesting fewer than half of family firms successfully navigate this period (Do Paço et al., 2021; Shanine et al., 2023). The complexity is magnified when the firm attempts to professionalize by integrating non-family managers (NFMs). While firms often hire NFMs to overcome family-management capacity constraints by importing valuable managerial resources not available internally (Fang et al., 2022), this integration introduces a volatile layer of friction (Samara & Arenas, 2017).

Existing applications of agency theory to family firms have primarily focused on conflicts arising from differences in ownership, control, and family status (Purkayastha et al., 2022; Rodriguez-Garcia & Menéndez-Requejo, 2023; Zona et al., 2025). However, this approach may not fully capture how agency relationships vary when actors occupy different positions within the firm's governance hierarchy (Ahrens et al., 2018; Blanco-Mazagatos et al., 2016). Therefore, this study introduces the family firm governance nexus as an analytical framework to examine a system of interconnected relationships in which authority, control delegation, loyalty, merit, and organizational change are relationally contingent on the intersection of ownership status and generational role in the succession lifecycle.

The dyadic lens is therefore central to the framework. The unit of theoretical attention is not merely the individual actor, but the relationship between actors occupying different positions within the family firm evolving governance system. This study examines six interconnected dyads: founder-to-next-generation leadership transitions (a principal-principal/P-P relationship); founder oversight of senior and junior NFMs and G2 Owners' oversight of senior and junior NFMs (accounting for four principal-agent/P-A relationships); and interactions between senior and junior NFMs (an agent-agent/A-A relationship). This nexus captures how governance mechanisms and interpretations vary across relationships based on the intersection of family membership status and generational position.

The G1 Owners-G2 Owners relationship represents a principal-principal governance configuration in which both actors possess ownership-based authority but may differ in strategic vision, legitimacy, and willingness to transfer control (Calabrò et al., 2017; Maseda et al., 2019). Further, the G1-to-G2 family firm's succession needs new processes and structures for shared decision-making (Bloemen-Bekx et al., 2023). The founder, having previously operated as a controlling owner who did not need to share key decision authority, must now begin to relinquish operational control.

The subsequent introduction of NFMs, particularly during this succession period, aims to stabilize and professionalize the organization. Non-family executives may bring greater objectivity and managerial expertise, potentially reducing conflicts rooted in personal family issues (Binacci et al., 2016; Sonfield & Lussier, 2009). However, the success of these professionalization efforts depends on how effectively governance mechanisms manage the relationship between the controlling family principal and highly skilled non-family agents (Madison et al., 2018; Purkayastha et al., 2019). This interaction yields four owner-manager relationships representing principal-agent configurations centered on delegation, monitoring, and professionalization.

Further, when family firms are established over a long period and accumulate NFMs, this brings together long-tenured NFMs with junior NFMs. The G1 NFM-G2 NFM relationship represents an agent-agent configuration that may lead to other issues related to knowledge and work-style differences (Rodriguez-Garcia & Menéndez-Requejo, 2023). This distinction clarifies that governance complexity in family firms emerges not only from principal-agent conflicts but also from conflicts among principals and among agents across generations.

Previous studies have shown that family firm conflict is driven by more than economic interests (Diaz-Moriana et al., 2024; Ferrari, 2020). Family firms consistently prioritize preserving Socio-Emotional Wealth (SEW), which encompasses non-economic values such as the family's identity, influence, legacy, and ability to exercise control (Cennamo et al., 2012; Chrisman et al., 2012). Generational position of family firm owners may influence the decisions they make to protect SEW goals. The G1 Owners define SEW primarily by preserving the physical asset, financial security, and personal control that embody their life's work. Conversely, G2 Owners often redefine SEW, emphasizing broader strategic goals such as sustainability, innovation, internationalization, and professional image (Arrondo-García et al., 2016; Herrera & de las Heras-Rosas, 2020). Tension arises when the NFM's mandate clashes with the owner's SEW goals.

Another important concept explaining the relationship between the principal and the non-family agent is Bifurcation Bias. This phenomenon refers to the tendency within family firms to distinguish between family resources (e.g., family members and heritage assets) and non-family resources (e.g., NFMs). While family employees are treated as unique and deserving of nurturing, NFMs are often viewed as replaceable resources or self-serving agents, regardless of their actual competence or commitment (Kang & Kim, 2020; Samara & Arenas, 2017).

These three perspectives in this study are linked through a coherent relational mechanism. Agency theory identifies the fundamental governance issues of delegation, monitoring, control, and goal alignment. SEW explains why these governance mechanisms are emotional and connected to family control and legacy. Bifurcation bias explains why these governance practices may be applied asymmetrically to family and non-family actors. For example, a G1 Owner's expectation of visible dedication versus the NFMs' desire for autonomy or flexibility may be perceived by the principals as self-serving opportunism, thereby justifying less delegation, lower compensation, or exclusion from key strategic discussions. This mechanism transforms a simple cultural difference into an agency cost by eroding trust and fostering severe bounded reliability. To address these theoretical and empirical complexities, this study poses a research question, i.e., *How do governance frictions manifest across principal–principal, principal–agent, and agent–agent configurations in family firms navigating leadership succession and professionalization?*

The theoretical contribution of this study therefore lies in identifying a dyad-specific mechanism of family firm governance, unlike succession research that primarily focuses on leadership and ownership transfer, professionalization research that emphasizes formal managerial systems, and governance research that focuses on structures for coordinating family and business interests. This explains how governance relationships vary by who acts as principal, who acts as agent, their respective generational positions, and whether the relationship crosses the family-nonfamily boundary. By examining these interconnected dyads, this study seeks to identify sources of misalignment among principals, among agents, and between principals and agents, as illustrated in Figure 1. The arrows in Figure 1 indicate the predominant direction of governance influence rather than permanent hierarchical authority. Ownership-based authority generally flows from owners to managers, whereas operational legitimacy and knowledge authority should flow through experience, tacit knowledge, and organizational dependence. This directional interpretation explains why authority can become inverted in specific dyads, particularly when long-tenured G1 non-family managers possess critical organizational knowledge despite lacking formal ownership authority.

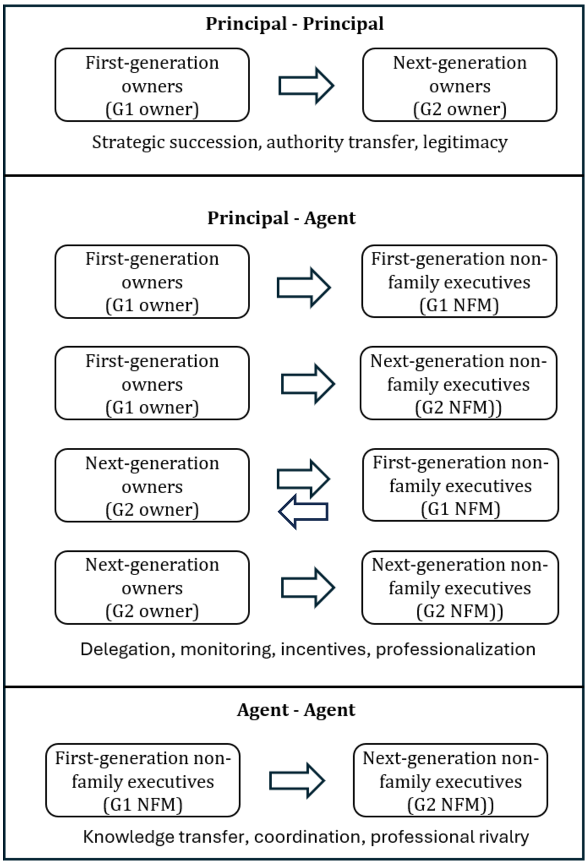

Figure 1. Governance Nexus Across Principal-Principal, Principal-Agent, and Agent-Agent Dyads

2. METHOD

To investigate the friction described in the introduction, this study employs a qualitative multiple-case study design (Halkias et al., 2022; Houghton et al., 2015). This approach is most suitable for exploring "how" and "why" complex relational dynamics, such as those between different generational cohorts, unfold in a real-world family firm context (Cater & Justis, 2010; Gómez Betancourt et al., 2014; Magrelli et al., 2022). The study focuses on the dyad as the primary unit of analysis rather than treating the firm as a homogenous entity. Specifically, it isolates six distinct relational configurations structured across three governance levels: a principal–principal dyad (G1 Owners × G2 Owners), four principal–agent dyads (G1 Owners × G1 NFMs, G1 Owners × G2 NFMs, G2 Owners × G1 NFMs, and G2 Owners × G2 NFMs), and an agent–agent dyad (G1 NFMs × G2 NFMs).

Considering the study's focus on dyad issues, this research selected only family firms that were either currently navigating or had recently completed the G1-to-G2 succession transition while actively integrating non-family managers (NFMs) into executive roles. We consider family firms to be navigating the succession transition if they actively engage in processes of transferring management control from one family member to another (Umans et al., 2024). Family firms are considered to have completed a succession transition when the successor officially takes over leadership, and the predecessor gradually steps back from their role. This transition marks a critical point where the successor assumes full responsibility for the business, and the predecessor adopts new roles outside leadership (Cadieux, 2007).

Data were collected through a network-based sampling design. Thirteen groups of university students enrolled in family business management courses were trained in qualitative research methodologies, interviewing protocols, and research ethics. Each student group leveraged their networks to identify and recruit eligible family business informants. We acknowledge that this method introduces selection bias; therefore, we consistently selected only firm owners, next-generation members, 1st NFMs, and 2nd NFMs who were active in the business. Because students conducted interviews within their networks, informants might have felt inclined to present idealized responses. To mitigate this bias, informants were guaranteed complete anonymity and confidentiality prior to the interviews.

The semi-structured questions for G1 Owners related to motivation for professionalization, succession readiness, SEW priorities, and control mechanisms. The interview questions for G2 Owners concern the evolution of strategic vision, leadership legitimacy, and governance formalization. The questions for G1 NFMs also address organizational justice, role clarity, and workplace psychology. Finally, questions for G2 NFMs concern intervention dynamics by G1 Owners and the bureaucratic complexities arising from overlapping power structures between the two generations of owners. Interviews were conducted in October 2025, averaged 60 minutes, and were transcribed verbatim. The study acquired 13 family firms across diverse sectors, including manufacturing, distribution, and service. Ten firms were established between 9 and 37 years ago, and one firm was established in 1920. Only four firms disclosed the number of employees (80 to 250). Unfortunately, we did not have more detailed firm profile information. We also could not gather complete personal information for all informants. Of the 13 companies, 2 did not have 2nd NFM representation, resulting in only 44 informants. Of these 44 informants, we have age information for 10, executive position for 16 NFMs, and tenure or length of involvement for 24.

To analyze the empirical evidence, this study adopted an abductive, cross-case synthesis approach through a structured thematic analysis procedure (Co et al., 2024; Gioia et al., 2013; Vila-Henninger et al., 2024), as follows. First, we generated an initial pool of raw codes from interviews describing conflict triggers and managerial dynamics. At this stage, each interviewer manually created their own codes. Second, the two primary researchers (the authors) held a consensus meeting to standardize the independent codings. The raw codes were grouped into five broader themes, i.e., Legacy Protection vs Modernization, Centralized vs Decentralized Authority, Trust vs Meritocracy-based Assessment, Informal vs Professional Management, and Experience-based vs Data-driven Work Methods, by clustering similar empirical observations and linking them directly to the theoretical lenses, i.e., Agency Theory, Socioemotional Wealth (SEW), and Bifurcation Bias. Third, we rigorously tracked conceptual data saturation across sequential case evaluations. No new themes or distinct theoretical relationships emerged after analyzing the 11 completed cases, confirming that we had achieved saturation before dropping the two incomplete cases. Finally, we consolidated these five themes into four theoretical dimensions, i.e., SEW Preservation, Agency Alignment and Legitimacy Asymmetry, Asymmetric Governance and Bifurcation Bias, and Tenure Asymmetry.

The study strictly enforced ethical considerations and participant confidentiality throughout data collection. Before each interview, participants were informed of the study's academic purpose, voluntary participation terms, and confidentiality protections, and all informants provided verbal informed consent. For non-clinical, minimal-risk qualitative studies involving anonymized adult participants, we deemed formal institutional ethics review unnecessary. To ensure data confidentiality and protect sensitive organizational information, we fully anonymized all primary firm names, individual identities, and specific brand markers during transcription using standardized alphanumeric pseudonyms (e.g., Case 1–11, G1 Owners, G2 NFM). Audio recordings were captured locally by the assigned interviewers solely for verbatim transcription purposes. To safeguard raw voice data and protect informant privacy, interviewers retained original audio recordings on secure local devices and submitted only anonymized verbatim transcripts to the primary researchers for data analysis.

3. RESULTS AND DISCUSSION

Table 1 summarizes the family business issues in each dyad, as described in raw codes and summarized into five themes. Table 2 presents the number of samples with specific issues in each dyad. The first problems occurred between the G1 Owners and both G1 NFMs and G2 NFMs, while the second ones occurred between the successors and G1 NFMs. Further, trust-based vs meritocracy assessment issues also occurred between owners and NFMs, indicating a bifurcation bias that favors family members. Finally, socioemotional wealth preservation issues seem to arise from disagreements between G1 and G2 Owners over legacy protection versus modernization. Finally, tenure differences seem to cause conflict between agents because of differences in working methods.

By examining the results across the six identified dyads, we map the governance challenges inherent in the transition from founder-led traditions to professionalized and modern systems. Based on these results, this study answers the research questions and offers the following insight. First, the primary tension between the founder and their successors centers on a fundamental disagreement between legacy protection and modernization, which accounts for six of the eight instances observed. This concentration shows that disagreements during leadership transitions mostly stem from different views on how to maintain family continuity. G1 Owners typically see continuity as maintaining established business practices as is, maintaining centralized authority, and ensuring organizational stability. On the other hand, G2 Owners view continuity as requiring modernization, innovation, and organizational renewal. As a result, succession represents not merely a transfer of ownership but a negotiation over competing strategic visions of the firm's future. For instance, G1 Owners tend to reject massive expansion or risky investments in favor of cash-flow stability, creating a bottleneck for G2 Owners who see digitalization as a competitive necessity.

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Table 1. Dyadic issues in family firms

Dyad	Case Identifier	Theoretical Perspective	Raw Codes	Themes	Theoretical Dimensions
G1 Owners x G2 Owners	Case 1, 2, 3, 8, 9, 10	SEW	Socio-Emotional Wealth vs Strategic Modernization, Survival vs. Purpose-driven, Stability vs Innovation & Speed, Founder Trap vs Modernization, Digitalization vs Traditionalism	Legacy Protection vs. Modernization	Socioemotional Wealth Preservation
G1 Owners x G2 NFMs	Case 2, 5	SEW	Conservatism vs Strategic Expansion, Risk Aversion vs Innovation		
G1 Owners x G2 Owners	Case 11	SEW	Centralized Control vs Delegation of Authority		
G1 Owners x G1 NFMs	Case 1, 2, 4, 5, 6, 7, 10	Agency Theory	Control Dominance vs Inhibited Professionalism, Centralistic Control vs Professional Autonomy, Centralized Authority vs Limited Initiative, Micromanagement vs Informal Governance, Trust vs Restricted Authority, Direct Supervision vs Autonomy, Centralization of Authority	Centralized vs. Decentralized Authority	Agency Alignment and Legitimacy Asymmetry
G1 Owners x G2 NFMs	Case 8	Agency Theory	Decision-Making Hierarchy		
G2 Owners x G2 NFMs	Case 10	Agency Theory, SEW	Vision Alignment		
G1 Owners x G2 Owners	Case 5	SEW	Family First vs Business First		
G1 Owners x G1 NFMs	Case 2, 3	SEW, Bifurcation Bias	Trust vs Fairness, Family first vs Objective Appraisal	Trust-based vs. Meritocracy Assessment	Asymmetric Governance and Bifurcation Bias
G1 Owners x G2 NFMs	Case 1, 3, 4, 7	SEW, Bifurcation Bias	Emotional Attachment vs System Objectivity, Absolute Control vs Modern Career Expectations, Traditional Subjectivity vs Professional Expectations, Loyalty vs Competency Expectations		
G2 Owners	Case 3, 4	Bifurcation Bias	Performance pressure vs Work standards, Career		

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Dyad	Case Identifier	Theoretical Perspective	Raw Codes	Themes	Theoretical Dimensions
x G2 NFMs			ceiling vs Meritocracy expectation		
G1 Owners x G2 Owners	Case 4, 6, 7	Agency Theory, SEW	Authoritative vs Cooperative Leadership, Centralized Control, Direct supervision vs Digital system	Informal vs. Professional Management	Agency Alignment and Legitimacy Asymmetry
G1 Owners x G2 NFMs	Case 9, 10, 11		Hierarchy vs Operational Speed, Communication style gap, Professional Standards Gap		
G2 Owners x G1 NFMs	Case 1, 2, 3, 4, 5, 6, 10, 11	Agency Theory	Professionalization vs Old Habits, Cultural Transformation, Modernization vs Loyalty Culture, Professionalization Readiness, Resistance to Change		
G2 Owners x G1 NFMs	Case 2, 7		Technology Gap & Skepticism of Change, Technology Adaptation	Experience-based vs. Data-driven Work Methods	Tenure Asymmetry
G1 NFMs x G2 NFMs	Case 1, 2, 3, 4, 5, 10		Traditionalism vs Technocratic, Transition in Digitized Transparent System, Experience vs Innovation		

Table 2. Frequency distribution of specific dyadic issues across samples

No	Issues	Dyad						Count of Issue
		G1 Owners x G2 Owners	G1 Owners x G1 NFMs	G1 Owners x G2 NFMs	G2 Owners x G1 NFMs	G2 Owners x G2 NFMs	G1 NFMs x G2 NFMs	
1	Legacy Protection vs Modernization	6		2				8
2	Centralized vs Decentralized Authority	1	7	1		1		10
3	Trust-based vs Meritocracy Assessment	1	2	4		2		9
4	Informal vs Professional Management	3		3	8			14
5	Experience-based vs Data-driven Work Methods				2		6	8

In case 1, the founder resisted IoT, cloud systems, and digitalization because they perceived manual systems as more reliable and feared losing control over data. Indeed, many G1 Owners have difficulty relinquishing operational control, leading to micromanagement even after decisions have formally moved to the next generation, as one family business founder said:

"…Yes, I have planned it a long time ago. My son will continue to lead the company. But as long as I'm still healthy, I'll still hold onto all the important decisions. I can't just let go. I don't want the company's work style to change…" (Mr. W – G1 Owners in Case 2)

On the other hand, the G2 Owners said:

"…In recent years, we've focused on strengthening internally, adding to our team, and streamlining our work processes. Previously, much of it was manual, but now we've started using a cloud system to speed up and streamline our team's work. Once we were strong internally, we began targeting overseas markets..."

"…The overall strategy is actually the same. The differences lie in the work methods and technology..." (Mr. P – the G2 Owners in Case 2)

G1 Owners' consistent prioritization of physical control and stability over G2 Owners' digital-first vision represents a classic instance of SEW loss aversion. Founders often view the business as an extension of their identity, leading them to reject potentially lucrative but risky digital investments that could compromise their absolute influence (Gómez-mejía et al., 2007; Gomez-Mejia et al., 2011). This resistance is not merely a technological hurdle but also a defensive mechanism to maintain family control and influence, as digital transparency often threatens idiosyncratic, trust-based authority, as stated by G1 Owners and G2 Owners in case 9.

"…There have been several proposals for major expansion and digitalization, but I've turned them down because I think they're too risky. Right now, I'm more focused on strengthening my business foundation..." (G1 Owners in Case 9)

"…especially regarding digitalizing our inventory system and marketing via social media. Initially, he was hesitant and refused because he felt the old methods were still working well and was worried about the cost and complexity..." (G2 Owners in Case 9)

Furthermore, the persistent micromanagement underscores that the founder's ego is intertwined with the business, so that any shift toward G2 Owners' professionalization ways is perceived as a personal identity threat (Berrone et al., 2012). Ultimately, this creates a strategic bottleneck in which the G1 Owners' focus on perpetuating the business through conservative wealth preservation clashes with the G2 Owners' view of business renewal through technological adaptation. This misalignment suggests that the transition is a psychological negotiation over the meaning of family legacy.

Second, integrating G1 NFMs under G1 Owners often highlights issues of centralized vs. decentralized authority, representing seven of ten instances observed. This dynamic illustrates a broader theoretical dimension of agency alignment and legitimacy asymmetry, where formal authority and managerial competence fail to translate into decision-making influence. Although G1 NFMs possess extensive operational expertise accumulated through years of organizational experience, decision rights remain strictly concentrated in G1 Owners. These findings suggest that authority constraints should not be understood merely as delegation failures, but as a structural expression of agency alignment and legitimacy asymmetry. While G1 NFMs hold substantial organizational knowledge, they lack the legitimate authority to exercise that expertise because governance legitimacy remains tied exclusively to ownership and family status. Consequently, organizational competence becomes decoupled from decision authority. This underlying legitimacy asymmetry deepens agency friction: as founders increase monitoring, restrict delegation, and reduce managerial autonomy to maintain control, they inadvertently raise agency costs and slow professionalization. Thus, our findings indicate that the central issue is sustaining owner authority rather than opposition to modernization itself.

Within this framework of agency alignment and legitimacy asymmetry, professionalization initiatives—such as formal SOPs, digital systems, or performance dashboards—become controversial because they implicitly shift decision rights from owners to non-family agents. Across multiple industries (Cases 1, 2, 4, 5, 6, 7, and 10), G1 NFMs consistently reported that the founder's authoritative style and rigid requirements for verbal sign-offs constrained their operational autonomy, reinforcing ownership as the sole source of governance legitimacy.

"Our business group implements a performance evaluation system that combines financial KPIs, operational KPIs, and direct supervision from the owner." (a G1 NFM executive in Case 7)

"Their authority (NFMs) is clearly limited. They have authority for day-to-day operational decisions. However, for strategic decisions, major expenditures, or changes in business direction, the final decision is mine.

...especially if the decision has a significant financial or operational impact. I feel the need to ensure everything goes according to plan and doesn't incur losses." (G1 Owners in Case 9)

Third, another essential issue is bias in performance assessment. G1 Owners value loyal employees who abide by rules, whereas NFMs often demand clearer professional development and merit-based systems that G1 Owners are reluctant to provide (cases 2 and 9). In addition, family members' failures are treated as learning experiences, while NFMs are evaluated subjectively (cases 1, 2, 3, and 4).

"...for example, if a family member did a less-performed job, it was considered 'part of the learning curve.' However, if the failure is a non-family member, the evaluation is immediately harsher. I understand there is an emotional side to it, but going forward, we want to be more objective." (*a G1 NFM executive in Case 1*)

"As non-family executives, we do notice a subtle differential treatment between family members and non-family employees. However, we view this difference as reasonable. While emotional ties naturally create a degree of family bias, as long as the family leadership have tried to maintain objectivity, potential jealousy and operational friction should be minimized." (*a G2 NFM executive in Case 1*)

Integrating both G1 and G2 NFMs under G1 Owners transforms traditional agency problems into a complex challenge defined by asymmetric governance and bifurcation bias, characterized by high monitoring costs and structural inequality. Within the framework of Agency Theory (Jensen & Meckling, 1976), a founder's insistence on verbal approval represents a fundamental failure to delegate authority, driven by a perception of NFMs as potential threats to the firm's identity rather than value-adding agents (Schulze et al., 2001). This restrictive environment operates as asymmetric governance, creating significant information asymmetry, in which agents are expected to pursue strategic goals without sufficient autonomy, thereby inflating agency costs and hindering operational efficiency. Bifurcation bias further compounds this friction: a form of favoritism in which G1 Owners prioritize family members over NFMs (Verbeke & Kano, 2012). Through asymmetric governance and bifurcation bias, G1 Owners institutionalize a double standard that devalues professional merit. This asymmetric altruism prevents the transition to a merit-based culture, which can create bounded reliability among NFMs, who may withdraw creative effort when faced with inequitable treatment (Lubatkin et al., 2005). Ultimately, this governance style hampers the professionalization family firms need to scale up.

Fourth, significant friction arises when G2 Owners attempt to lead G1 NFMs who have long-standing ties to the founder, especially because governance systems differ between informal and professional management. Unlike G1 Owners, G2 Owners in our cases generally support formal governance systems, standardized operating procedures, and evidence-based managerial practices. However, G1 NFMs often continue to rely on tacit organizational knowledge and long-established informal routines. G1 NFMs often remain skeptical of new SOPs and digital methods introduced by the G2 Owners, as in cases 1, 2, 3, 4, 5, 10, and 11, finding them unnecessarily complicated compared with the founder's informal culture. For instance, in case 2, the G2 Owners' implementation of strict monthly meetings and performance dashboards creates pressure on G1 NFMs, who are accustomed to the relaxed, trust-based old way.

"...when we worked for Mr. W (G1 Owners), everything was more flexible and based on habit and mutual trust. When Mr. P (G2 Owners) came in and started implementing a new, more formal system that used technology, there were some adjustments and a bit of awkwardness at first because we were used to the old way." (*Mrs. Y – a G1 NFM executive in Case 2*)

On the other hand, the G2 Owners said:

"...When I first joined, senior employees (G1 NFMs) were hesitant and resistant when I wanted to create SOPs and digitize inventory. They felt the old method, which didn't require complicated record-keeping, was still working well and were worried the new system would make things more complicated..." (Mr. P – the G2 Owners in Case 2)

In this way, G1 NFMs often find themselves caught in conflicts between the father (G1) and the son (G2), particularly over financial decisions.

"...I often encounter situations where direction comes from more than one family member. For example, the founder gives one instruction, while the next generation of children has a different perspective. In such situations, we in the middle have to be careful—keeping operations running smoothly without giving the impression of favoring one party over the other.
So, the lines of responsibility are formally clear, but in the context of a family business, we often have to balance the dynamics between the owners to avoid friction..." (*Mrs. M – a G1 NFM executive in Case 5*)

The friction between G2 Owners and G1 NFMs is not merely a rejection of technology, such as SOPs or digital dashboards, but a structural manifestation of agency alignment and legitimacy asymmetry. In this governance gap, formal authority and managerial competence fail to translate into decision-making influence. This tension reflects a deeper defense of the informal and trust-based social contract established by the founder, which G1 NFMs perceive as the primary source of their organizational value and status (Hall & Nordqvist, 2008). When G2 Owners introduce rigid performance metrics, this legitimate asymmetry becomes an acute agency issue, as formalization effectively invalidates the tacit knowledge and loyalty-based authority that the G1 NFMs have cultivated over decades (Kaye, 1996). Consequently, the G1 NFMs are often squeezed into psychological role conflict, serving as unwilling mediators between the father's legacy and the son's modernization efforts. These circumstances create a cultural drag where the G1 NFMs' deep-seated ties to the founder act as a barrier to innovation, as they view the G2 Owners' new systems as unnecessarily complex compared to the relaxed old way (Miller et al., 2003). Ultimately, resolving this agency alignment and legitimacy asymmetry reveals that the success of professionalization depends less on the efficiency of the digital tools themselves and more on G2 Owners' ability to navigate the complex emotional landscape of legacy loyalty, ensuring that long-standing agents feel their historical contributions and authority are respected even as the firm transitions toward a technocratic management style (Danes et al., 1999).

Fifth, the conflict also manifests within the NFMs themselves as a clash between experience-based and data-driven work methods, as happened in cases 1, 2, 3, 4, 5, and 10. G1 NFMs rely on years of feeling and instinct, while G2 NFMs drive proactive, data-driven efficiency and standardization. Notable tension arises when manual data is synchronized into digital systems, often causing duplicated work and temporary inefficiencies during the transition. Indeed, G1 NFMs' work style focuses on maintaining stability and family values, while G2 NFMs push for information disclosure. This finding reflects a managerial conflict. While G1 NFMs rely primarily on accumulated experiential knowledge, G2 NFMs emphasize analytical tools, digital technologies, and measurable performance indicators.

"...especially during the leadership transition stage, some old managers were a bit skeptical about new systems such as cloud computing and computerization. They were used to the old manual methods. After it evidently completed several projects faster and more efficiently, they finally trusted it. So, the solution was based on evidence, not debate." (Mr E – a G2 NFM executive in Case 2)

The operational friction between G1 and G2 NFMs reflects a profound divide between experience-based stewardship and data-driven technocracy, anchored in the theoretical dimension of tenure asymmetry. This Agent–Agent dynamic stems from significant discrepancies in organizational tenure and accumulated firm-specific human capital between long-tenured G1 NFMs and short-tenured G2 NFMs (Chikunda et al., 2025; Harris et al., 2012; Henderson et al., 2006). Under tenure asymmetry, long organizational tenure fosters cognitive inertia, where senior executives rely heavily on tacit knowledge, historical instinct, and informal routines refined over decades of service to the founder (Graf-Vlachy et al., 2020). G1 NFMs rely on tacit knowledge developed through years of instinct and feeling, which they perceive as the essential foundation for maintaining organizational stability and core family values. In contrast, G2 NFMs operate through the lens of explicit knowledge, driving proactive information disclosure, standardization, and digital efficiency that align with the transparency and meritocracy values common among younger professional generations. The resulting tension in synchronizing manual data with digital systems reflects a major organizational hurdle in digital transformation, as tenure asymmetry creates a transition phase that often triggers duplicated work and temporary inefficiencies. Furthermore, this friction is often exacerbated by the perception that technocratic systems may devalue G1 NFMs' years of accumulated experience, leading to defensive adherence to traditional work styles rather than objective, data-driven standards (Arrondo-García et al., 2016). Ultimately, bridging the gap created by tenure asymmetry requires a governance approach that harmonizes the legacy loyalty and historical insight of long-tenured staff with the systematic objectivity needed to ensure long-term competitive survival in a digitized economy.

Sixth, the G2 Owners vs. G2 NFMs dyad shows the lowest frequency of governance friction, present only in Cases 3, 4, and 10. This phenomenon may stem from complementary operational orientations. G2 Owners act as incoming principals seeking modern execution capabilities, while G2 NFMs serve as technocratic agents equipped with professional management standards. In this dynamic, G2 Owners leverage G2 NFMs as catalytic partners to establish systemic infrastructure, such as digital integrations, unified financial reporting, and data transparency, to reduce reliance on the informal, founder-centric control mechanisms of the past. Conversely, G2 NFMs view G2

Owners as progressive leaders who grant them the legitimacy and operational autonomy necessary to overhaul legacy workflows.

"...Since Mr. P took over, the reporting structure has been clear. We report to the manager, who reports to Mr. P. Mr. Pandu's direction is professional and doesn't create confusion.

Mr. P is very open. Every month, there's an evaluation meeting where all employees can share anything, including criticism or suggestions. I once gave him input on the efficiency of a project, and he even asked me to help implement it. So there's no fear. He values the content of the opinion, not who said it. That makes us feel valued and appreciated..." (Mr E – a G2 NFM executive in Case 2)

Nevertheless, potential governance friction between G2 principal and agent may surface under bifurcation bias. As professional agents, G2 NFMs expect clear career progression pathways, objective KPI-driven performance evaluations, and merit-based compensation. Friction arises when G2 NFMs perceive a "career ceiling" or notice that special privileges are still reserved exclusively for family members, thereby compromising the meritocratic standards they are tasked with enforcing.

The findings from the 11 case studies offer practical insights for family business owners and NFMs to navigate leadership succession and professionalization. First, G1 Owners should not be framed as obstacles to modernization, nor should their conservative stance be viewed as driven by a singular motive. Rather, founder control reflects a multifaceted governance stance that simultaneously seeks to protect organizational continuity, preserve private authority, respond to legitimate business risks, and mitigate perceived threats to family socioemotional wealth (SEW). While this conservatism serves as a vital strategic resource for enterprise resilience and risk management, it can concurrently constrain operational delegation and slow necessary professionalization. Conversely, while G2 modernization improves operational efficiency, it can also induce significant cultural disruption if introduced abruptly. Thus, G2 Owners should present modernization efforts, such as IoT integration or cloud reporting, not as a rejection of the G1 Owners' legacy, but as a necessary evolution to protect the firm's competitive standing in a digitized economy. Involving G1 Owners in high-level strategic oversight while delegating operational data management can help G1 Owners maintain influence without creating an operational bottleneck.

Second, excessive centralized authority increases monitoring costs and creates information asymmetry; owners should establish written delegation-of-authority matrices (DoA) and clearly define financial threshold limits where NFMs and G2 Owners can make independent decisions without needing founder sign-off. To avoid operational paralysis from conflicting instructions from G1 and G2 Owners, NFMs should request formal, written documentation or structured cross-generational alignment meetings when directives conflict. Frame requests around business efficiency rather than taking personal sides between family members.

Third, to address governance tensions stemming from perceived double standards in performance evaluation, family firms navigating professionalization may consider transitioning to hybrid appraisal frameworks. Rather than viewing trust-based monitoring and objective systems as mutually exclusive, our qualitative findings suggest that formalizing objective Key Performance Indicators (KPIs) alongside clear role specifications offers a potential pathway to mitigate perceived bifurcation bias and align non-family managers (NFMs). However, the efficacy of such meritocratic mechanisms is relationally contingent. In contexts where informal trust and family identity remain central to firm stability, abruptly imposing rigid metrics risks eroding stewardship commitment. Thus, practices such as KPI-driven incentives are context-dependent organizational options that warrant careful internal evaluation rather than universal prescriptions.

Fourth, rather than imposing new SOPs as a disruption, G2 Owners should leverage the tacit knowledge and experience of G1 NFMs by involving them in designing new workflows. This approach transforms long-tenured managers from skeptical observers into mentors who can bridge the gap between conventional well-proven workflows and modern technocratic standards.

Finally, the friction between experience-based G1 and data-driven G2 NFMs requires a governance approach that harmonizes distinct ways of knowing. They should be encouraged to synchronize manual data with digital systems through collaborative phases to avoid duplication of work. By fostering a culture of information disclosure and meritocracy, firms can ensure that senior staff's instincts complement the efficiency of younger professionals.

4. CONCLUSIONS AND SUGGESTIONS

This study investigates the governance complexities inherent in family firm leadership transitions and professionalization through the lens of SEW, Agency Theory, and Bifurcation Bias. By analyzing multi-dyadic relationships between first- and second-generation owners and non-family managers (NFMs), the findings show that governance friction extends beyond conventional agency costs to include a psychological negotiation over control, trust, and socioemotional wealth (SEW) preservation. Transitioning from informal oversight to formal governance requires recognizing that complexity stems both from the protective value of founding traditions—such as stability, legacy, and trust—and the strategic necessity of modernization.

Theoretically, this study advances family business governance by conceptualizing the governance nexus as a relational architecture composed of principal-principal, principal-agent, and agent-agent configurations across six dyads. Rather than treating all governance relationships as homogeneous owner-manager interactions, the framework shows that authority, legitimacy, delegation, and knowledge coordination operate through different governance mechanisms depending on the combination of ownership position, family status, and structural role. This study illustrates how agency alignment and legitimacy asymmetry decouple managerial competence from decision-making rights. It also exposes how asymmetric governance and bifurcation bias institutionalize structural double standards that favor family members over non-family managers, inflating monitoring costs and inducing bounded reliability. In successor-led relationships, this framework unpacks the paradox of inverted authority, where formal ownership power held by next-generation principals collides with the tacit, experience-based legitimacy anchored in legacy non-family managers. Finally, the model demonstrates how tenure asymmetry drives agent–agent friction between long-tenured and short-tenured non-family executives, contrasting tacit stewardship with technocratic efficiency. By integrating these four theoretical dimensions, the study highlights why formal control mechanisms—such as standardized SOPs or digital dashboards—can inadvertently exacerbate agency costs if they threaten trust-based legitimacy, invalidate accumulated tacit knowledge, or disrupt established social contracts during professionalization.

Despite these insights, several methodological limitations remain. The study relies on a qualitative multiple-case design of 11 Indonesian family firms (44 informants), which limits the immediate generalizability of the findings to different macroeconomic environments. Additionally, the findings are shaped by the specific sectoral and cultural context of Indonesian family firms—characterized by high collectivism, relational trust, and paternalistic norms—and may be subject to potential recall and social desirability biases inherent in retrospective interviews. We also recommend future research to collect information on informants' age, ownership status, managerial position, length of involvement, and tenure to cleanly isolate biological cohort effects from structural firm roles and quantitatively test how accumulated human capital and ownership authority moderate agency costs, professionalization outcomes, and firm performance.

To build upon this study's empirical foundation, future research should test the proposed dyadic framework quantitatively across larger, representative samples to measure the statistical impact of dyadic misalignments on firm performance. Scholars should also compare G1-to-G2 transitions with later-generation successions (e.g., G2-to-G3 or cousin consortiums) where ownership dispersion increases. Finally, further work is needed to examine how formal governance structures—such as family constitutions, independent advisory boards, and professional councils—moderate dyadic friction and facilitate knowledge transfer.

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