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Analysis of the Causes of Company Performance in Family Companies in the Manufacturing Industry

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ABSTRACT
The purpose of this study was to obtain empirical evidence on the effect of family ownership, firm size, firm age, family involvement on the board of commissioners, and family involvement on the board of directors on firm performance. In this study, secondary data was used tested using SPSS version 21. This study used data on manufacturing companies listed on the Indonesia Stock Exchange from the period 2017-2019, as many as 28 family companies engaged in the manufacturing sector that has been selected using the purposive sampling method with a total of 84 data for three years. The results showed that family ownership and firm size had a significant positive effect on firm performance. In contrast, firm age, family involvement on the board of commissioners, and family involvement on the board of directors had no effect on firm performance.

***Keywords**: family ownership, firm size, firm age, family involvement on the board, firm performance*

1. INTRODUCTION

Family companies still dominate most companies in Indonesia, where this family company has advantages and disadvantages that have an impact on company performance [1]. Previous research on family firms often focus on the negative effects of family ownership and view family firms as a relatively inefficient and unprofitable form of organization [1]. However, according to research by [2], family ownership has a positive and significant effect, while institutional ownership has a negative effect on company performance.

The founder of a company in a family company certainly plays an essential role in the sustainability of the performance of a family company to be able to pass on his legacy to the next generation. Of course, the road to surviving in business is not easy, so with the existence of a family business, efforts have been made to improve governance, leadership transition, and even sustainability for the next generation. The need for early education carried out in the family such as fostering concern for others, entrepreneurship, integrity, and courtesy so that the successor of the company can run the company well [3].

The number of board directors involved in this family relationship is usually held in family companies [4]. This raises the issue of researching boards of directors and commissioners in family companies. High family ownership can affect the company's operations in relation to decision making where the presence of family shareholders is the highest in the company. Therefore, they can get the benefits and advantages of the shares they own by increasing the value and performance of the company [5].

However, according to [6], family companies emphasize or focus on the stability of a large corporate network rather than increasing profits or increasing share prices for them. Therefore, this study aims to examine whether there is an effect of family ownership, firm size, firm age, family involvement in the board of commissioners as proxied by a dummy

variable, family involvement in the board of directors as proxied by a dummy variable on company performance as proxied by Return On. Assets (ROA).

Based on the explanation of the problems and discrepancies and the lack of reference data, this research will be conducted on the influence of family ownership structure, firm size, age, family involvement in the board of directors, and family involvement in the board commissioners on company performance.

2. BACKGROUND

Agency Theory

[7] defines agency theory as an agreement made between the principal and the agent in a company where the principal is the owner in the company, and the agent is the representative of management who performs a service on behalf of the principal, which includes the delegation of decision-making rights to the agent.

Therefore, a conflict of interest can arise between the principal and the agent because the agent does not carry out decisions in accordance with the principal.

Stewardship Theory

Stewardship theory uses a different approach model, where the approach refines than agency theory for the agent concerned [8]. Managers act as stewards, not agents, thereby obtaining higher utility from the organization. Stewardship theory prioritizes common interests over personal interests. In agency theory, it prioritizes self-interested behavior.

Family Ownership

Companies that are purely publicly owned only exist in a few large countries, whereas in developing countries, including Indonesia, most companies are family-owned [9] in [10] Family ownership is an essential factor that increases business efficiency and allows family firms to survive over time [11].

This family ownership affects the company's performance because family members are in control of the company. Therefore there is less conflict of interest where managerial and the owner are on one side, namely fellow family members. So with fellow family members play an essential role in the company and automatically influence the company's decision-making in the short and long term.
H1: Family Ownership has a positive and significant effect on company performance.

Firm Size

Firm size is the level of the size of the company. Various indicators can be used to measure the size of a company, namely the value of assets and the amount of capital [12]. Company size shows how many total assets are owned in a company. The larger the company, the greater the funds managed and the more complex the management [13].

Firm size describes the level of the size of a company based on the total assets owned by the company. However, large companies are easier to get funding and have grown their

businesses to be much more complex. Firm size refers to the level of achievement attained by a business; if a business is larger, it has generated a significant amount of profit to expand.
H2: Company size has a positive and significant effect on company performance.

Firm Age

The age of the company describes the length of time a company has been established [14]. The company's age reflects that a company can compete with competitors and survive in the industrial sector, which illustrates the company's high performance because the company can maintain an existence that still exists today [15].

With the increasing age of the company, it will gain the experience that is owned to continue to survive so that its business can develop because it has passed the challenges faced such as facing competitors both new companies and old companies, knowing market conditions, getting a competitive advantage to be able to maintain its business.
H3: The age of the company has a positive and significant effect on the company's performance.

Family Involvement in the Board of Commissioners

The board of commissioners is one of the control functions contained in a company. The control function performed by the board of commissioners is a practical form of agency theory [13]. The 2007 Company Law regulates the role of the Board of Commissioners, who is responsible for monitoring and providing advice on the decisions of the Board of Directors [5].

The existence of a relationship between the commissioner and the owner of the company in the form of many familial relationships in Indonesia makes the board of commissioners be able to supervise the directors better (control function works well). So with the supervision carried out by the board of commissioners, it can reduce agency costs and improve company performance.
H4: Family involvement in the board of commissioners has a positive and significant effect on company performance.

Family Involvement in the Board of Directors

The board of directors is a party in a corporate entity in charge of carrying out the operations and management of the company [13]. The 2007 Company Law regulates the function of the board of directors as the authority responsible for the company's operations. Each member of the board of directors must be responsible for the company's strategic decisions, and the achievement of the company's corporate vision and mission as well as carry out tasks and make decisions in accordance with the division of tasks and authorities. [5].

With the involvement of the family in the board of directors, the directors will prioritize the interests of their families rather than the interests of the company. Therefore, it can cause losses for the company. In addition, if the family members who are on the board of directors are less competent, it will cause the company's performance to be bad.
H5: Family involvement in the board of directors has a negative and significant effect on company performance.

3. METHODS

The research in this study uses quantitative data. The data in this study were obtained from financial reports through the Indonesian Stock Exchange website in terms of shareholder composition, financial ratios, profiles of the board of commissioners, a profile of the board of directors, and the company's history. The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2019.

This study uses the purposive sampling method, a technique in taking samples with the aim or based on several conditions or criteria that the researcher 2017-2019 period, 2) Family companies in manufacturing that present financial statements per year on December 31, 3) Companies have complete data related to the dependent and independent variables used in this study, and 4) Companies that do not experience losses in the 2017-2019 period, respectively.

While the object of this study is the independent variable in the form of family ownership, firm size, firm age, family involvement on BOC, family involvement on BOD, and the dependent variable in the form of firm performance, this study measured company performance using return on assets (ROA), namely net income divided by total company assets [16]. Return on assets is one of the best indicators to measure company performance. Return on assets is a comprehensive measurement indicator to see the company's state based on existing financial statements. It includes elements in the Statement of Financial Position and Income Statement. A high level of company profitability can indicate that the company's managerial performance is good [17]. The higher the Return on Assets ratio, the company has high profitability and vice versa [19]. From this explanation, it can be calculated as follows:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

In this study, family ownership is measured by the percentage of family ownership in the company [5]. According to [18] in [5], family ownership can be measured as the ratio of equity shares owned by each owner of the issued share capital so that it refers to the identity of equity shareholders and the size of family ownership in the company.

$$FO = \%\ \text{shares owned by a family member}$$

In this study, firm size can be proxied using the natural logarithm of total assets. The use of natural logarithms aims to minimize fluctuations in absolute values and prevent heteroscedasticity, and the data will tend to be normally distributed [19]. The company's size can describe how much assets are owned when measured by the company's total assets. Companies classified as large will get maximum profits because they can optimize existing resources and vice versa. If a small company such as MSME can undoubtedly generate profits, it is relatively small according to its assets [17]. Company size can be measured using the following calculation formula:

$$FS = Ln\ (\text{Total Assets})$$

In this study, firm age can be measured by subtracting the year understudy from the company's founding [20]. This study also measures the age of the company in line Apriliani & Dewayanto uses the total years the company operates, namely from the company's establishment to the year the observations were made. The age of the company describes the length of time a company has been established [14]. Company age can be measured as follows:

FA = Age understudy – Age of establishment of the company

As a determination of the actual ownership of the company, the existence of family involvement is measured by the involvement of one or more family members based on family relationships with company owners and controlling shareholders. The presence of family members on the Board of Commissioners is measured using a dummy variable, where a value of 1 is given if there is a family member on the Board of Commissioners and vice versa, a value of 0 is given if there is no family on the Board of Commissioners [5].

Family involvement as a board of directors, according to [21], is measured using a dummy variable based on its ownership structure where a value of 1 is given if a family company owns the company, while a value of 0 is given if the company is non-family owned, such as BUMN, and MNC. In this study, the presence of family members on the Board of Directors is measured using a dummy variable, where a value of 1 is given if there is a family member on the Board of Directors and vice versa, a value of 0 is given if there is no family on the Board of Directors [5].

4. FINDINGS AND DISCUSSIONS

Multiple Regression Analysis

Table 1 Testing the Regression Coefficient Simultaneously (F-Test)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.039	5	.008	7.338	.000[b]
	Residual	.084	78	.001		
	Total	.123	83			

a. Dependent Variable: ROA
b. Predictors: (Constant), FI on BOD, FA, FS, FI on BOC, FO

Based on the Anova Table, the F-value of 7.338 is obtained with a significant level (sig) of 0.000. Because the significant level is much less than 0.05, it can be concluded that there is an effect of family ownership, company age, company size, family involvement in the board of directors, and family involvement in the board of commissioners together on the company performance

Table 2 Multiple Linear Regression Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	-.289	.070		-4.141	.000	-.427	-.150		
	FO	.045	.022	.231	2.066	.042	.002	.089	.696	1.437
	FS	.011	.003	.428	4.292	.000	.006	.016	.876	1.141
	FA	-.001	.000	-.166	-1.661	.101	-.001	.000	.869	1.150
	FI on BOC	.002	.013	.014	.135	.893	-.023	.027	.841	1.190
	FI on BOD	.020	.017	.138	1.212	.229	-.013	.054	.677	1.478

a. Dependent Variable: ROA

Based on the regression equation in Table 6, it can be concluded that the constant value for company performance as a proxy for ROA (Y) is -0.289. Next, the coefficient value of family ownership (X1) is 0.045. Furthermore, the coefficient value of company size (X2) is 0.011. Then the coefficient value in the company age variable (X3) is -0.001. The coefficient value of family involvement in the board of commissioners (X4) is 0.002. Finally, the coefficient value of family involvement in the board of directors (X5) is 0.020.

Based on the coefficient table above, the sig value of each independent variable is more than 0.05 except for family ownership (X1) and company size (X2), where the sig values are 0.042 and 0.000, respectively. So it can be concluded that there is a significant effect of family ownership and firm size on firm performance separately. There is no influence of company age, family involvement in the board of commissioners, and family involvement in the board of directors on the company's performance separately.

Family ownership can improve company performance. Family members who control the company can reduce conflicts of interest where managers and owners are on one side, namely fellow family members. Therefore, it can influence the company's decision-making both in the short and long term. Firm size can improve company performance. Firm size describes a level of achievement achieved by the company where if the company is bigger, the company has generated a lot of profits to expand the company to be bigger. Firm age has no effect on the company's performance. Although the company has a long life with a diverse history and experience, it cannot generate continuous profits every year. New companies can also generate profits even though they do not have great experience running their business. Family involvement in the board of commissioners has no effect on the company's performance. With the existence of this board of commissioners having a family relationship or not, if someone who serves as the board of commissioners is competent in supervising and can provide advice to the board of directors, it can improve performance in the company regardless of whether the person has a family relationship or not. Family involvement in the board of directors does not affect the company's performance. Regardless of whether a director has a family relationship or not, if the person is competent in managing and

compiling strategic plans and making the best decisions for the company, it can improve performance within the company.

5. CONCLUSIONS

Family ownership has a positive influence on company performance, and company size has a positive influence on company performance. In addition, the age of the company has no effect on the company's performance; family involvement in the board of commissioners has no effect on the company's performance. Even family involvement in the board of directors has no effect on firm performance.

This research is far from perfect and has limitations. The limitation is that the dependent variable used is firm performance only measured using ROA. Then the independent variables used do not represent the overall factors that cause firm performance in family companies. However, it is hoped that this research can benefit future researchers and contribute to education.

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