Analysis of Influence of Family Ownership Towards Performance of The Company

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ABSTRACT

This study aims to examine the effect of family ownership on company performance. The independent variable in this study is family ownership. The dependent variable in this study is company performance which is reflected by return on assets (ROA). This study uses control variables where the control variables are leverage and company size (size). The sample selected in this study amounted to 39 property, real estate, and building construction companies with the observation year 2011-2013, so the total sample observed was 117. The data were analyzed using Statistical Package for Social Science (SPSS) with linear regression analysis method multiple. Hypothesis testing results indicate that family ownership has a positive effect on company performance.

Keywords: *family ownership,* company performance, a performance company the property, real estate, and building construction

INTRODUCTION

In the face of competitive business competition, the company tries to improve performance and develop the business to develop the company. The company was founded to increase the value of the company by increasing the prosperity of the owners or shareholders. The composition of ownership in a family-owned company is a common form that is now often found in many countries. As many as 68% of the total companies *going public* in the world are *family-owned companies*. In Indonesia alone, the average family ownership is 26%, where this ownership is enough to give the family authority to regulate the performance of the company.

It can be seen that family ownership is closely related to the performance of the company itself. Family ownership can bring a positive influence on company performance because the dominance of ownership by the family causes a reduction in *agency problems* that occur in the company. But with family ownership, there is a tendency that companies will employ relationships within families that do not have enough competence so that it can also negatively affect the performance of the company.

This research was conducted because it was motivated by the diversity of the results of the research on the ownership structure of the company conducted by previous researchers. Not many studies have focused on *family ownership*. Even though there are very many companies in Indonesia adopting system *family ownership* in their company.

This study focuses on the Market Ratio with *Return On Assets* (ROA) as an indicator, ROA can show the benefits of the company, because this ratio describes the return on assets owned by the company (Hernitra, 2011). By using the Market Ratio, the company can provide an indication for management regarding investors' assessments of the company's past performance and prospects.

Based on the background of the problems outlined earlier, the formulation of the problem to be examined in this study is whether *family ownership* affects company performance.

THEORETICAL AND DEVELOPMENT HYPOTHESIS

Agency theory

A perspective agency relationship is a basis used to understand *corporate* governance.Managers must maximize the welfare of shareholders. But on the other hand, managers also have an interest in maximizing their welfare. Such a pooling of interests often leads to conflicts called agency conflicts (Jensen and Meckling, 1976).

The existence of a shift in the business environment resulted in companies that used to have only one person, namely(*owner-manager owner-manager) is* now a company whose ownership is spread with shareholders owned by various groups. This transition resulted in a separation between ownership and management, where ownership was in the hands of the shareholders while management was in the hands of the management team. This agency relationship as a contract in which one or more parties (*principal*) gives the task to other parties (*agents*) to carry out services and delegation of authority in decision making (Jensen and Meckling, 1976). This relationship is called agency theory, with the performance of management itself.

Ownership Structure

Theory of Management The company is increasingly separated from company ownership is one of the characteristics of the modern economy, this is in accordance with *agency theory* that wants company owners (*principals*) to submit management of the company to professionals (*agents*) who understand more in running a business. The purpose of separating the management and ownership of the company is so that the owner gets the maximum profit with efficient costs.

Family ownership is the ownership of individuals and owners of private companies (above 5%) that are not public, state, or financial institutions. Based on this definition, companies with family ownership are not limited to companies that place their family members in CEO, commissioner, or other management positions. Companies with family ownership constitute the majority of types of companies in Indonesia.

This company is generally owned in the majority by certain families or the ownership of its shares is concentrated in certain families (Job, 2008).

A company can be said to be *family-owned* if the family is *controlling shareholders*, or has a share of at least 20% of *voting rights* and is the highest compared to *shareholder shareholders* other(Kamaliah, 2013). Public companies in Indonesia have characteristics that are no different from companies in Asia in general. Companies in Asia are historically and sociologically money companies owned or controlled by families (Claessens, 1999). Even though these companies grew and became public companies, the family still held significant control.

Company Performance

Performance measurements are broadly grouped into two, namely non-financial and financial measurements. Non-financial performance is a measurement of performance using non-financial information that is more emphasized in terms of service quality to customers. While financial performance measurement is the use of financial information in measuring a company's performance. Financial information that is commonly used is the income statement and balance sheet (Sari, 2012).

Performance is a reflection of a company's ability to manage and allocate its resources. The purpose of performance appraisal is to motivate employees in achieving organizational goals and in meeting predetermined standards of behavior in order to different desired outcomes and actions. Standards of behavior can be in the form of management policies or formal plans as outlined in the budget.

This study uses *Return on Assets* (ROA) as a basis for measuring financial performance. The reason researchers use ROA as a *proxy* for company performance is that ROA is more comprehensive in measuring the overall rate of return both from debt and capital.

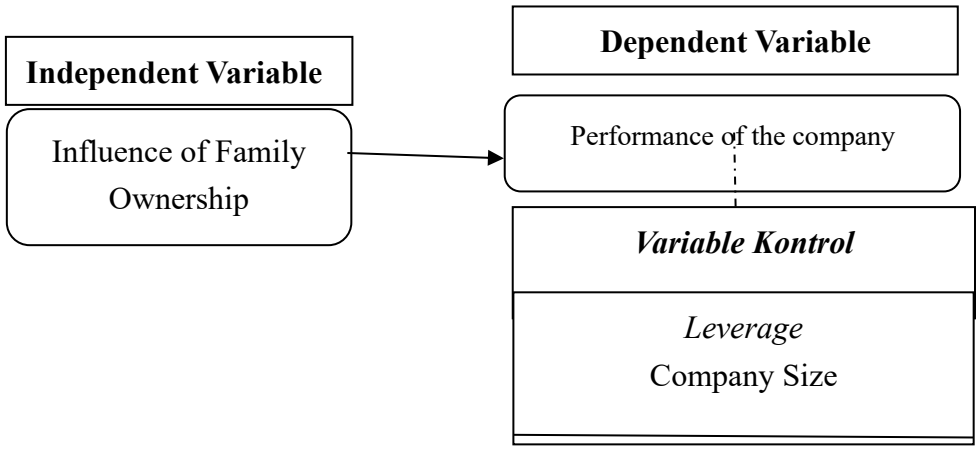
Return on Assets

The profitability of a company can be measured by linking the profits or profits derived from the company's main activities with the wealth or assets owned to produce company profits (*operating assets*). *Operating Assets* are all assets except long-term investments and other assets that are not used in activities or businesses to obtain regular income or the main business of the company.

Measurement of the company's financial performance with ROA shows the ability of capital invested in overall assets held to generate profits. *Return On Assets (ROA),* which is the ratio between *Net Income After Tax* to assets as a whole shows the size of asset productivity in providing returns on investment (Sawir, 2001).

Framework

Based on the description presented earlier, the variables involved in this study can be formulated through a framework as follows:



Hypothesis Development Research

Based on the above framework, the hypothesis of this study consisted of:

Influence of Family Ownership *(family ownership)* on the Company's Performance Against

According to agency theory, the ownership structure of a company can influence agency problems in a company. Companies whose shares are mostly controlled by families show a tendency to have management that is a member of the family so that it will reduce agency conflicts that will occur. But when the management is not controlled by the family by the family, there will tend to be agency problems that can interfere with the company's performance. According to Cucculelli (2006) states that large family stock ownership has a negative influence on company performance.

But the authors assume the risk of negative influences will not significantly influence the company's performance due to a high sense of ownership to the company. Because the facts prove that many family companies have become business giants, let alone companies in Indonesia. Family-owned companies generally tend to have a long-term perspective on their business. With a high sense of belonging to the company, the family placed on the board of directors and managerial structure of the company will have a high sense of responsibility and dedication to do the best for the company. This is what the authors consider can have a positive impact that can affect company performance. Therefore the writer can give a hypothesis is as follows:

H: Family ownership has a positive effect on company performance.

METHODS

Population and Sample

The population in this study are all property, real estate, and building construction companies listed on the Indonesia Stock Exchange (IDX) in 2011-2013. In this study, the sample company was selected based on *Purposive Sampling* (desired criteria). The sample criteria in this study are as follows:

1. The property, real estate, and building construction companies listed on the Indonesia Stock Exchange in 2011-2013.

2. The company is a company that experienced a profit in the 2011-2013 period. And provide information about the structure of the company's directors.
3. The company published an annual report for the period 2011-2013.
4. Having complete data related to the variables used.

Table 1. Sample Selection Procedure

DESCRIPTION OF	AMOUNT
Number of property, real estate, and building construction companies listed on the IDX in 2011-2013	54
Number of property, real estate, and building construction companies that did not publish an annual report during the period 2011-2013	(15)
Total samples according to criteria	39

Source: Processed data (2019)

The Data Test

Descriptive this study is used to provide descriptive or research variables. Descriptive statistics will provide a general description or description of the research variable regarding the mean (mean), standard deviation, maximum, minimum, sum. This test is done to make it easier to understand the variables used in research.

The regression method was performed on the model proposed by the researcher using the SPSS program to predict the relationship between the independent variable and the dependent variable. Based on the problem formulation and theoretical framework that has been described previously, the research model formed is as follows:

$$\mathbf{ROA = \alpha + \beta_1 FO + \beta_2 SIZE + \beta_3 LEV + e_t}$$

Description:

ROA: *Return On Assets* as a measure of company performance

FO: Family ownership structure,

family ownership = 1, *no family ownership* = 0

SIZE: Size of the company measured by total assets

LEV: The ratio between debt and equity

e_t: *Error term*

α: Constants of the regression equation

β: Coefficient of the regression equation

DISCUSSION AND ANALYSIS

Data used in this study are secondary data, namely the company's annual report for the period 2011-2013. This study uses the property sector, real estate, and building construction as objects to be studied. Sampling

uses *purposive sampling*, with a total of 39 companies.

Variable Description

Table 2. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
ROA	0.00	1.73	0.0876	0.18481
Family ownership	0	1	0.46	0.501
SIZE	25.49	30.84	28.5748	1.19840
LEVERAGE	0.07	5.67	1.1080	1.03369

Source: Processed Data, 2019.Source

Independent Variable

Independent Variable is the variables that affect or are the cause of the change or the occurrence of dependent or dependent variables (Suwito, 2005).

Family ownership

Family ownership is a company whose ownership is owned by the family. The company is said to have family ownership if the leader or family has more than 20% of the voting rights (Anderson and Reeb, 2003). According to Perdana (2011) to find out the family-owned the first step taken is to trace the ownership structure of the IDX (*Indonesian Stock Exchanges*) of the Indonesia Stock Exchange in 2011-2013 and also the company structure data can be obtained from information in the *annual report* company'sand *company profile*. Then the ownership structure verification process is carried out to determine which companies are family or non-family.

One way is seen from the name of the board of commissioners and the board of directors of the company. Because the tendency of family ownership will place the family on the board of commissioners of the company and the board of directors, as well as structural positions in the subsidiary. In order to properly monitor the business of his family's company and can have an important position in determining the direction of company policy. If the name of the board of directors and the board of commissioners tend to be the same in a few years and has a stake in the ownership of the company, the company could be included in the ownership by the family.

If the owner is the name of the company, then the company is traced to its ownership, in several ways, namely by pyramid ownership, ownership without a mechanism, and cross-ownership structure. This can be seen and equated with the company's share ownership information. After tracing, it can be analyzed if the controlling shareholder of the company is there is an individual or a person's name, it can be categorized as family ownership.

It can also be traced from the company's website and the *annual report* in the notes section of the financial report will be shown regarding the shareholders of the company. Family ownership is measured using available *dummy*, namely by using scale 1 for companies that have family ownership in the *annual report*, and scale 0 for companies that do not have family ownership in the *annual report* that can be seen in the corporate ownership structure section.

Dependent Variable

Return On Assets

The dependent variable in this study is the variable that is explained or influenced by the independent variable. The dependent variable in this study is the growth of company performance (*profitability)* as measured by *Return On Assets.*

$$\textbf{ROA} = \frac{\textbf{Net Profit}}{\textbf{Total Assets}}$$

Dependent Variable

Company Size

Research firm size can use asset benchmarks. Because the total assets of the company are large, this can be simplified by transforming into natural logarithms (Ghozali, 2013) so that they can be calculated by:

Company Size = (Ln) Total Asset

Leverage

In this study, *leverage is* measured from the ratio of debt to equity where *Debt to Equity Ratio* (DER) is a comparison of the total debt held by a company with its own capital (equity) (Ghozali, 2013). The formula often used in the measurement of DER (*Debt to Equity Ratio*) is as follows:

$$\textbf{\textit{Debt to Equity Ratio}} = \frac{\textbf{Total Liabilities}}{\textbf{Equity}}$$

Analysis of data

Classical Assumption Test

The requirement to be able to use multiple regression equations is the fulfillment of classical assumptions. To get an efficient and unbiased value or *Best Linear Unbias Estimator* (BLUE) from one multiple regression equation, it is necessary to test to determine the resulting regression model meets the classical assumption requirements (Ghozali, 2013)**.**

Normality Test

Table 3.Normality Test Results

Kolmogorov-Smirnov One-Sample

		Unstandardized Residual
N		112
Normal Parameters	Mean	.0000000

	Std. Deviation	.36773286
Most Extreme Differences	Absolute	.070
	Positive	.070
	Negative	-.055
Kolmogorov-Smirnov Z		.740
Asymp. Sig. (2-tailed)		.644

Source: SPSS output, 2019

Multicollinearity Test

Test Results Table 4Multicollinearity

Model		collinearity Statistics	
		Tolerance	VIP
1	Family Ownership	0889	1124
	SIZE	0894	1118
	DER.	0863	1159

a Dependent Variable: ROA

Source: SPSS Output Results, 2019

Autocorrelation Test

Table 5 Autocorrelation

Runs Test

	Unstandardized Residual
Test Value	-.01816
Cases <Test Value	58
Cases> = Test Value	59
Total Cases	117
Number of Runs	54
Z	-1,021
Asymp. Sig. (2-tailed)	.307

a. Median

Source: Secondary data processed (2019)

Multiple Linear Regression Analysis Multiple

Regression methods are performed on the model proposed by researchers using *software* SPSS to predict the relationship between the independent variable and the dependent variable

Determination Coefficient Test

Results Table 6 Coefficient Determination Test (Test R2)

Model	*R*	R^2
1	0.26135	0.0435

The test results indicate that the value Adj R^2 of 0.0435 or 4.35%. These results indicate that the independent variables in research *family ownership* and the control variables are the *size* and *leverage*able to explain the variability of the dependent variable *Return On Asset* by 4.35%. Meanwhile, the remaining 95.65% is explained by other variables outside this research model.

Feasibility Test Model

Results Table 7 Test Statistics F

$F_{arithmetic}$	F_{table}	Sig
2.761	2.25	0.045

From the results of this test, the value of F calculated is 2.761 with a significance level of 0.045. Because the significance is less than 0.05, it can be said that in the regression model all independent variables and control variables (LEVERAGE, and SIZE) jointly influence the dependent variable (ROA).

Hypothesis Testing

Hypothesis testing in this study uses the t statistical test, the t statistical test basically shows how far the influence of one independent variable individually in explaining the variation of the dependent variable. Hypothesis test results using the t statistical test as follows:

Table 8 Hypothesis Test Results

variable	Coefficients	t-count	sig
(Constant)	1.0236	2.4664	0.015
Family ownership	0.0721	2.0295	0.044
SIZE	-0.034	-2.304	0.023
LEVERAGE	0.0051	0.2942	0.769

Based on the results of these calculations we get the following regression equation:

ROA = 1.0236 + 0.0721 Familyownership + 0.0051Leverage - 0.034Size + e

From the results of the formed regression equation, the constant value of 1.0236 means that the value of the company's *Cumulative Abnormal Return* will be worth 1.0236 if all independent variables and control variables are worth 0.

Research

Hypothesis	Beta	ResultsTest Results Significance of	Decision
H: Family Ownership positive effect on company performance (ROA)	0.0721	0.044> 0.05	Supported

The hypothesis in this study is to test that there is a positive influence between *family ownership* on *return on assets* (ROA). The second hypothesis testing uses two control variables namely *firm size* and *leverage*. The results of tests using multiple regression analysis showed that the coefficient of *family ownership* was positive and significant with a significance level of 0.0447 (sig> 0.05). Thus, it can be concluded that there is an influence between *family ownership* on *return on assets* (ROA) so that the hypothesis (Positive influence of *family ownership* on company performance) is ***accepted***.

Discussion

Based on the results of this study it was found that the regression model is in accordance with the observational results of the study. Where this shows that the dependent variable used in research is related to the independent variable. Furthermore, the influence of each of these variables can be seen in the table discussion can be made as follows:

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The Influence of *Family Ownership on* Company Performance (ROA)

Based on the results of multiple linear regression testing on the hypothesis with independent variables namely *family ownership*, and control variables *size*, and *leverage* shows a significant positive effect of the dependent variable.

From the results of this study, it can be concluded that family ownership shows a positive influence on the company. In addition, companies with family ownership place families in the ranks of managerial directors

who have good company profits. Sense of responsibility and sense of ownership owned by the family. So the family-owned company has a long-term perspective on its business so that the company can be more advanced and bigger. And with a high sense of belonging to the company, the family placed on the board of directors and managerial structure of the company will have a high sense of responsibility and dedication to do the best for the company. The hybridization of family values is able to improve the company's performance from year to year.

The results support the resultsDwipoyono (2012) which showed that the positive relationship between *family ownership* against *firm* performance. The results of this study are also consistent with Wahidahwati's research (2002) which shows that ownership structure has a positive and significant effect on the performance of manufacturing companies. Positive influence means more family ownership (family-owned shares) in a company, it will affect the company's performance which in this case is the company's profit.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study was conducted to examine the effect of family ownership on the performance of the company *(Returnon*Assets). *Family Ownership is* measured using available *dummy*, namely using a scale of 1 for companies that have family ownership in the *annual report*, and a scale of 0 for companies that do not have family ownership in the *annual report* that can be seen in the ownership structure section of the company. And the company's performance is proxied through *Return On Assets* (ROA).

This study uses multiple regression as a hypothesis analysis tool because to see and calculate ROA for independent variables must be the company's annual financial statement. Based on the results of hypothesis testing, it can be concluded that the ownership of the family proved to have a positive significant effect on the financial performance of the company. This can be caused because in companies with family ownership arises *agency problem* another, namely between majority shareholders and minority shareholders. Information risk becomes greater when the majority of shareholders have control of the company. Therefore, the *return* desired by investors is higher and increases the cost of company performance.

So that the positive influence of family ownership on company performance *(return on* assets) means more ownership of the family (family-owned shares) in a company, it will be significantly associated with the company's performance in this regard is the company's profit.

ADVICE

1. Subsequent research can expand the test to examine the influence of family ownership to other variables within the *company.* Researchers suggest using independent variables other than *Return On Assets* (ROE), such as *Price Earning Ratio* (PER) or *Return On Equity* (ROE) to represent the proxy of company performance to be more precise and accurate in measuring performance, because it involves the company's ownership structure.

2. Conduct future research with a wider and representative sample and extend the observation period so that the number of research samples also increases. This can improve data distribution and increase the level of information accuracy. And to make it more visible the consistency of the variables used.
3. Further Research can examine the company sector on other BEI and has not been studied from previous research, so as to enrich the results of research on family ownership in companies in Indonesia. Such as the agricultural company sector, the mining sector, or the transportation and infrastructure sector which have never done research on family ownership.

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