

FAMILY GOVERNANCE AND FIRM VALUE: EVIDENCE FROM INDONESIA

Hadi Sumarsono, Economic Faculty, Muhammadiyah University of Ponorogo,
Indonesia. Bonaiponorogo@gmail.com

Abstract

Using a sample of non-bank and non-finance companies, on the Indonesia Stock Exchange in 2010, this study gives an overview of how the internal mechanisms of corporate governance in Indonesian family firm. This study also discusses how the combination of ownership, supervisory (commissioners) and management (directors) has consequences on the different types of agency problem. The results provide evidence that differences between family firms value with non-family firms value is not determined solely on the ownership component, but also depends on how the family is involved in the board of commissioners and/or directors. Conflict between family owners with non-family owners is more costly than the conflict between family owners with outside management. Increasingly dominant role family members in board of commissioners and/or board of director potential to cause expropriation of minority stakeholders.

Keyword: Firm Value, Agency Problem, Family Firm, Family Governance.

1. Introduction

Family firms is an interesting object for study. Most of the big companies in the world came from a family firm (Anderson and Reeb, 2003; Dyer, 2010). Family firms has more complex problems than nonfamily firms. Complexity of the problem indicated by considerations of family in business. In addition, family firm also consider the needs and wishes of the family, and bear the risk for the long-term interest (Ward, 2002).

Some research linking family firm on its value still gives mixed results. Several studies have found that family firms are better than non-family firms. (Anderson and Reeb, 2003; Mc Connaughy et al. 1998; and Maury, 2006). Instead, Perez-Gonzales (2006), Bennedsen et al. (2007), and Bertland et al., (2008) proved that family firms are worse than non-family firms.

Differences in the results of the study one due to differences in the definition of family firms (Villalonga & Amit, 2006). Difference in definition leads to different outcomes. Westhead and Cowling (1998) in

Allouche et al. (2009) reveals how different definitions affect the research results of the comparison between family and non family firms. Definition of family firms should be based on the role of family members in internal governance. Defining the family business should consider the purpose of the study, and the relation with the legal context from different country (Allouche et al., 2009). Models of governance system that is applied in a country can not necessarily be applied to different institutional environments.

The public company in Indonesia adopts a two-board system that ranks the board of commissioners (board of commissioner) acting supervisory roles (control) and the role of guidance (advisory) while the board of directors (the board of directions) includes work management executive function. Law of the Republic of Indonesia Number 40. In 2007 stated that the board of directors and board of commissioners similarly elected and accountable to the General Meeting of Shareholders. This governance system is different from the other countries (Lukviarman, 2004).

This study combines three important elements in the family firm namely ownership, directors (managerial) and commissioner (control). This combination produce 8 types of firms, 7 type of family firm and 1 type of nonfamily firm. Taking into account the involvement of family members in the ownership, and/or the board of commissioners and/or board of directors, this study is expected to provide an overview of the internal mechanisms of corporate governance in Indonesian family firm. This study also aims to determine whether there are differences in performance between the type of the family company so as to know whether the differences in the performance of family and non family firms due to the involvement of family members in the company.

2. Definition and literature review

2.1. Agency Problems in Family Firm

Separation between the principals (owners) and agents (managers) causes the difference in interest. Managers do not always act in the interests of the owners. Manager's interest to improve private safety, big salary, a fancy office, car facilities, and other personal benefits. These conditions will create a difference between the interests of company managers with the interests of shareholders (owners). This will lead to conflict agency (agency problems) between managers and shareholders. Villalonga and Amit (2006) calls this type of agency conflict as Agency Problem I.

Some countries showed that the agency problem comes from the conflict between the supervisor-owners and minority owners. Conflict between the majority owner with a minority owner is named Villalonga and Amit (2006) with the Agency Problem II. In Indonesia, Arifin on Siregar and Utama (2008) found that the conflict in the family firm is a conflict of interest between the owners of a family with nonfamily owner (Agency Problem II). There are indications expropriation family owners to the minority owners.

Expropriation to minority owner in the family business going to be strong because of the dominance of family members in the company. Dominance can be a direct ownership (voting rights), management (family CEO) and control (through the commissioner or control right). Expropriation can be reduced if there is a governance mechanism to reduce the dominance of family owner.

Research shows that the role of internal mechanisms (internal governance mechanism) can play a role in the country is weak legal protection for investors and therefore contributes to the value of the company. Kim, et al. (2007) found that in Western European countries whose legal protection for minority investors is still low, have the protection of minority owners better when internal governance mechanisms is good.

2.2. Definition of Family Firm

Until now there has been no accepted definition of family firms in general. Researchers use different ways of defining the family firm. Definitions related to the family business environments vary from one country to another (Allouche et al., 2009). Defining the family business is important to understand the many different perspectives of a variety of literature. Defining the family business should demonstrate the challenges in corporate governance (Bennedsen et al., 2010).

Family firms can be defined narrowly or widely. Narrowly defined as a family firm attachment to the family in daily management of the company. Shanker and Astrachan in Chrisman et al. (2003), broadly define family firm as corporate strategic direction of the company was affected by a particular family. Arosa (2010) defines a family company as a company policy company's strategy is influenced by family, personal issues and so forth through the ownership and composition of the top management. Family company is a company that is influenced by certain family members (Sharma, 2004). This definition implies

there are levels of family engagement in the company.

Definition of family firms also can be classified in component-based and essence-based. Component-based emphasis on components of family ties in firm while essence-based emphasizing the essence or the consequences of attachment behavior in the family firm. Defining company based on component (component-based) are generally easier to operate (Garcia-Castro and Casasola, 2011).

Most researchers (Villalonga & Amit, 2004; Chrisman et al., 2005; Allouche et al., 2009) defines a family company based on family engagement component of the company such as ownership, control, succession management and next generations. However, if the components in the definition is done separately, it can be made to be less precise definition (Chrisman et al., 2003). For example, if a family has a 100 percent ownership of the company, including effective supervision or oversight? Does family ownership represented enough of supervision or management? In this regard, it is necessary to approach combines several aspects in defining the family firm.

2.3. Type of Family Firm

Different types of family firms is important because it can be used to understand the governance mechanisms that could explain the differences family firms value (Sharma, 2002). Different types of family firms can be seen from the role of family members in the company who can be identified through the ownership, management and supervision (Villalonga and Amit, 2006). The combination of ownership, supervision and management of the company will produce different level of dominance of family in the corporate.

Modifying components proposed by Bennedsen et al. (2010), this study classifies families based company through a combination of family engagement component ownership, commissioners (control-governance) and management (directors). The combination of these three components produces 8 types of firm consisting of 7 family firm and a non-family firm. This classification is based on the combination of components company ownership, commissioners and management (directors) can be seen in table 1.

Tabel 1. Type of firm

Ownership	Commissioner (control governance)	Management (Directors)	Firm type	Potential of agency problem
Y	Y	Y	FOCM	Agency problem II
		N	FOC	No Agency Problem
	N	Y	FOM	Agency Problem II
		N	FO	Agency Problem I
N	Y	Y	FCM	Agency Problem I
		N	FC	Agency Problem I
	N	Y	FM	Agency Problem I
		N	NF	Agency Problem I

Description:

1. FOCM: It is a company that is owned, controlled and managed by a particular family. Families have a significant ownership stake and putting family members on the board of commissioners and top management. Type FOCM is a type of family firm's most powerful families against corporate domination. This type of family firm maybe didn't have a conflict between supervision and management, but is potentially causing expropriations against minority owners. This type of company is a potential trigger agency problem II
2. FOC: It is a company owned and controlled by certain families. The family had a considerable share in the control of the company as well as putting family members on the position of commissioner (supervision and advisory), but do not put family members in positions of directors (management). Company management is left entirely to the management of professional (non-family). The role of the family perform a supervisory role in the board of commissioners may reduce the agency conflict between management and the owner's family. This type of company is not much family raises agency problems I. Dominance supervisory by family commissioners may potential arise conflict of interest between family owners and minority owners but independent commissioners from outside the ranks of the family members provide the demand for management to further improve transparency, so as to give confidence to the owner who is not actively involved in the company. The potential emergence of agency problem II depends on the role of independent commissioners.
3. FOM: The company is owned and managed by the family but do not put family members on the position of commissioner. Potential conflict between management with the owner (agency problem I) does not exist as part of the family so that the directors of professionalism, talent and the ability to determine the performance of the management of the family firm. In the family firm type FOM is a family surveillance formally handed over to outsiders (non-family) so that commissioners are expected to provide insight and leads objective but if it is filled by the family crony then become less objectivity. More commissioner roles serves as a director (advisor) rather than supervisors. In this case, the possibility of conflict between family owner-minority owner (agency problem II) is very large.
4. FO: The company is owned by the family without involving a family member in the board of commissioners and management. This type of company type is a passive type of family firms. Oversight and management functions delivered by non family. Type a company like this is very rare because of the family (the owners) can be greatly harmed. Agency problem type II does not occur in this type of company, but the company is included in the family of this type has the potential to have a conflict between the owner and the management (agency problem I).
5. FCM: Company that its ultimate ownership is not owned by a particular family, but two or more family members or positions of commissioners and directors (managerial). Families may not have a dominant stock but very dominant in managing and overseeing the company. Type a company like this might be very rare. There is a

possibility once the company was originally owned by the family but later sold their stock is owned by another party. Family only became minority owners. Another possibility is that there is a strong element of nepotism within the company. In this type of company like this, management has the potential to act opportunist. Based on agency theory, this type of company is likely to raise agency problems I.

6. FC: Company that its ultimate ownership is not owned by the family, but two or more members of the family occupy the position of commissioner alone. Family only plays a minor role in the ownership of the company, but many provide a role in oversight. Type of company FC is probably a lot going on when the company is widely dispersed ownership structure. Enhancing control mechanism is done formally through the role of the family in the board of commissioners. Almost the same as the type of company FCM, the family has the potential to benefit personally through oversight role.
7. FM: Company that its ultimate ownership is not owned by a particular family but put two or more family members in the managerial position (board of directors). Element of nepotism within the company may be very thick. If directors cannot do better than the supervisory function, it is potentially detrimental to the interests of the owners. Agency problems type I prevalent in this type of family companies.
8. NF: non-family companies. The family was not involved in the ultimate ownership, the commissioner or the management company. This types of companies are include foreign firm and governments firms.

2.4. Hypothesis Development

Based on the previous description, it can be seen that the differences in family engagement in corporate governance types produce different type of agency problem. Each type has a corporate governance agency, so that different types have different effects on firm value. Villalonga and Amit (2006), proving that family engagement in the company have an influence on the firm value. Family firm which has control mechanism enhance and managed by the family (family CEO) has a lower performance than non-family firms. But the company's performance to be better when the family managed (family CEO) without the enhance control mechanism. Family firm with no control enhance mechanism have lower agency conflict than most other types of companies.

Furthermore Villalonga and Amit (2006) explains that the agency conflict between managers with owners (agency type I) have a higher cost than the conflict between family owners with non-family owners (agency type II) when the company's founder is still the CEO. Conversely, when the founder had not served as CEO, the conflict between family owners with non-family owners (agency type II) have higher agency costs. While Allouche, et al, (2009) proved that there are differences firm value between the strong control family business (family members involved in the management and major shareholders) with weak control family business (family members only involved in the management course or as a main course shareholders). Family of companies (strong control) in Japan have higher performance than companies that have family that weak supervision (weak control).

Based on these explanations, it can be an alternative hypothesis as follows:
H1: There are a difference firm value between 8 type of firm

3. Methodology

3.1. Samples and Data

The sample used in this study are all companies listed on the Indonesia Stock Exchange is actively traded in 2010. The use of only one year of data is done with the reason that families usually owned company in the long term so that the ownership structure and corporate governance mechanisms remains relatively stable from year to year. The sample used should have data available which includes:

- The owner's full name firms.
- Full name board of commissioners.
- Full name of the board of directors.
- The financial statements of 2010.

Such data can be obtained from the Indonesian Capital Market Directory 2011 and as additional information of data, annual report, prospectus or other sources from internet.

3.2. The procedure of extracting data type family company.

Data to develop the type of family firm conducted several stages. The steps were carried out following the procedure as follows:

- Identify "Controlling Family Name". Name of company controllers can be identified by the names of the owners of the company or the name of the founder of the company, the name or names on the board of directors in the board of commissioners. Name search is done by knowing the level of family attachment relationship full name or the name of the possible repetition (Garcia-Castro and Casasola, 2011). If more than one name is obtained relating the name is set as "Controlling Family Name"¹. The full

name of all shareholders, directors and commissioners of each company can be found in the Indonesian Capital Market Directory.

- Determine the company "Family Owned". Based on the name of the controlling family is then seen the proportion of ownership in the company. If the proportion of ultimate family ownership is greater than 25% then immediately set as a corporate "Family Owned"². Faccio and Lang (2003) states that the ownership of the company is classified as a family-owned company if the company is owned by individuals, and or a few individuals and or unlisted companies (owned indirectly). Information unlisted company ownership structure (indirect ownership) can be traced through a prospectus the company in the "Brief Description of Legal Entity Form Owner"
- Looking for "Family Commissioner". Family commissioner determined by repetition name of "Controlling Family Name" which entered the ranks of its commissioners. If there is a repetition of "Controlling Family Name" on the board of commissioners then directly determined as "Family Commissioner".
- Look for "Family Management". The family management is based on the repetition "Controlling Family Name" on the company's board of directors. If there is a repetition of the name of the company designated as "Family Management"
- This procedure should not be performed in sequence but have

¹ Identification of a family relationship that is based on the full name may not be able to provide excellent results in the data mining process. However, this method still remains relevant and justifiable given the lack of

regulation regarding disclosure in Indonesia (Tabalujan, 2002).

² Decision of the Capital Market Supervisory Board No. Kep/PM/2002 of Company Takeover controller defines public companies as having more than 25% of shares or has control of the company either directly or indirectly

mutual cross-check. If there is a "Controlling Family Name" who still doubt that the name of the data traced through "history of ownership" in the company's prospectus. The author also check potential family names through various sources on the Internet which may not be based on the relationship name.

- After the criteria of "Family Owned", "Family Commissioner" and "Family Management" can be identified, then these three components are combined as in Table 1 to determine which type of company.

3.3. Variables Measurement

Type of Family Firm

Based on the opinion of Villalonga and Amit (2006), this study classifies the type of family firms in three dimensions, namely ownership (family ownership), control governance (family commissioner) and management (family directors). Then these components are combined into 8 types of firms (see table 1). Number 7 company is a family firm type (F_ALL), namely: FOCM, FOC, FOM, FO, FCM, FC, FM and 1 of non-family firm are denoted by NF.

Firm Value

In this study, the company's value is measured by using the company's market performance measure Tobin's

Q. Tobin's Q indicates whether the company's market value is higher or lower than the replacement value of the company's assets. According Bunkanwanicha et al (2008) Tobin's Q is calculated using the ratio of book value of total assets minus book value of equity plus the market value of equity to book value of total assets.

4. Result and Discussion

4.1. Sample and Data Description

As of December 2010 the number of companies listed on the Indonesia Stock Exchange 428 companies. The company registered in various industrial sectors. Listed companies in the banking industry and other financial institutions are not included in the sample because the financial industry has different rules than non-financial firms. Number of population until the period of December 2010 as many as 348 companies. Of these, there were 33 companies which does not fulfill the data to be used in research. Most of the missing data is due ownership structures (especially information incorporated owners) can not be identified. Finally the number of samples used in this study were 315 companies. In summary statement number of the samples in this study can be seen in table 2

Tabel 2.
Number of samples

Information	Number of companies
The total number of companies listed on the Stock Exchange	428
Registered in the banking sector, credit agency, securities and other investment institutions	(80)
Non Bank and non Financial Institutions listed on the Stock Exchange by December 2010	348
Companies cannot be identified	(33)
Number of Samples	315

Table 3 shows the number of types of companies by industry sector. In 2010 the number of non-family firms (NF) is known to many as 101 companies or by 32.06% of the 315 firms used in the sample. The rest as many as 214 companies or 67.9%, is a family company. This amount is not much different from the results of the study Claessens et al. (2000) and Ahmad et al. (2009). Based on 1997 data, Claessens et al. (2000) noted that about 67 percent of companies listed on the Indonesia Stock Exchange (BEI) is a family company. It also expressed by Ahmad (2008) who showed that 63.81 percent of companies listed on the Indonesia Stock Exchange in 2006, is classified as a family firm. Not surprise if the South China Morning Post in 2002 reported that Indonesia has the highest percentage of family firms in companies listed on the exchange, over Malaysia and Hong Kong (Jaggi et al., 2009).

Tabel 3
The number of firms type by industry sector.

Industry	Number of firms											F (ALL)	F (ALL)
	Firm Type*												
	Total	NA	A	FC	FCM	FM	FO	FOC	FOCM	FOM	NF		
Adhesive	4	0	4	0	1	0	0	0	2	1	0	4	100,00%
Agriculture	13	1	12	0	0	0	1	6	1	1	3	9	75,00%
Animal Feed	6	0	6	0	0	1	0	0	3	0	2	4	66,67%
Apparel	11	0	11	0	2	1	2	0	1	3	2	9	81,82%
Automotive	17	4	13	0	0	1	3	0	3	0	5	8	61,54%
Cable	6	3	3	0	0	1	0	0	0	0	2	1	33,33%
Cement	3	0	3	0	0	0	0	0	0	0	3	0	0,00%
Chemical	9	0	9	1	0	0	0	0	6	0	2	7	77,78%
Construction	9	1	8	0	0	0	2	0	1	0	5	3	37,50%
Consumer	4	0	4	0	0	0	0	0	2	0	2	2	50,00%
Electronic	5	0	5	0	0	0	0	1	1	1	2	3	60,00%
Fabricate Metal	2	1	1	0	0	0	1	0	0	0	0	1	100,00%
Food and Bavera	18	0	18	0	2	1	0	0	6	2	7	11	61,11%
Hotel and Trave	13	1	12	0	0	0	3	3	3	0	3	9	75,00%
Lumber and Wood	3	0	3	0	0	0	0	0	2	1	0	3	100,00%
Metal	14	2	12	0	1	2	1	1	4	0	3	9	75,00%
Mining	26	0	26	0	0	2	3	3	4	0	14	12	46,15%
Others	27	5	22	1	3	2	5	0	4	2	5	17	77,27%
Paper an allied	7	1	6	0	0	0	0	0	2	1	3	3	50,00%
Pharmaceutical	9	1	8	0	0	0	0	1	1	1	5	3	37,50%
Photographic	3	1	2	0	0	1	0	0	0	0	1	1	50,00%
Plastics and gl	15	1	14	0	1	1	1	4	3	2	2	14	83,33%
Real Estate	52	8	44	2	4	3	4	4	12	5	10	34	77,27%
Stone Clay, Gla	6	2	4	0	0	2	0	0	1	0	1	3	75,00%
Telecomunicatio	9	0	9	0	0	1	0	2	0	1	5	4	50,00%
Textile	9	0	9	0	3	0	0	1	3	0	1	8	88,89%
Tombacco	3	0	3	0	0	0	0	0	1	0	2	1	33,33%
Transportation	18	0	18	0	1	0	3	4	3	3	4	14	77,78%
Wholesale and R	27	1	26	0	1	0	6	4	8	0	7	19	76,00%
Total	348	33	315	4	21	19	35	34	78	24	101	214	67,93%
Prosentase (%)				100	1,269	6.66	6.03	11.11	10.79	24.44	7.619	32.06	67.93

NA : Not Available

A : Companies identified (Available data)

FC : Family Commissioner

FCM : Family Commissioner-Management

FM : Family Management

FO : Family Ownership

FOC : Family Ownership-Commissioner

FOCM : Family Ownership-Commissioner-Management

NF : Non Family Firm

F(ALL) : All type of family firm

Based on the industry sector, the real estate industry is the sector most companies entered categorized as a family company. A total of 34 of the 44 companies in the real estate industry sector is classified as a family firm. While no family firm in the cement industry sector. There are three companies in the cement industry and all are categorized as nonfamily firms. Companies in the industry sector Adhesive, Metal Fabricate and Lumber and Wood is dominated by family firms. Likewise, the textile industry sector, from 9 companies engaged in the industry, 8 of whom are family firms. Proficiency level of discussion it can be said that this type of family firms scattered in almost all sectors of industry. Based on the type of governance, the family company has most of the characteristics of ultimate ownership. Most of the ultimate owners put family members on the position of commissioners and directors. A total of 76 companies not only have more than 25% shares of the company but also put his family members in positions of commissioners and directors. Only some 35 firms or 11.29% that have more than 25% the proportion of shares but not put family members in both the board of directors and commissioners. This result is in accordance with the opinion Lukviarman (2004) which states that the majority of family firms listed on the Indonesia Stock Exchange puts the family members to get involved in the company.

Another thing that needs to be noted is, there are a number of 21 companies, although not dominant in the possession of the company but can put a family member in a position of commissioners and directors. Although not significant

voting rights at the ownership, family can control firm by management and supervision. Almost the same number shown in the type of family firm FM (Family Management). Identification of data indicated that there are 19 companies that put two or more family members in management positions.

The average proportion of ownership of family firms is quite high. From table 4. it is known that the average proportion of family ownership of 48.714 % . While the average proportion of family ownership that cannot be categorized as a family company by 3 % . Average proportion of family ownership of all types of companies (including non- family firm) amounted to 34.115 % .

Table 4. shows that the average performance of family firms is lower than non- family firm. The average value of the Tobin's Q family of companies actually experienced overvalued or greater than 1, is equal to 2,317 but the average is still below the average Tobin's Q non- family firm. Overall, the average performance of family firms is lower than non- family companies. But, not all types of family firms on average have lower performance than non- family companies.

Based on Table 5. it is known that the type of family firm FOC has average Tobin's Q is higher than other types of companies, including non- family firm types (Type NF). Type FOC company has an average of 4.543 above Tobin's Q non family-type company was 3,166. Type FC and FM companies are two types of companies that have an average of Tobin's Q is equal to 1.199 and the lowest type FM firm slightly above it is equal to 1.300 .

Table 4.
Summary statistics for family and non family firms

Description	Family Firm		Non Family Firm		All Firm	
	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev
Tobin's Q	2,317	5,962	3,125	6,950	2,575	6,294
Age	26,658	1,410	33,555	2,012	28,861	16,555
DER	0,849	4,471	2,134	6,365	1,259	5,176
Growth	4,700	6,332	2,669	2,180	4,056	53,721
Ln Asset	13,913	1,722	14,209	2,046	14,007	1,834
Total Asset	4,258	11,316	6,925	14,600	5,110	12,497
Ownership (%)	48,714	2,423	3,000	1,049	34,115	29,832
Board of commissioner (%)	0,227	0,204	0	0		
Board of direction (%)	0,224	0,223	0	0		

Table 5.
Summary statistics for all type of firms

Description	FC		FCM		FM		FO		FOC		FOCM		FOM		NF	
	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev
Tobin's Q	1,199	0,812	1,545	1,504	1,300	0,522	2,612	3,434	4,543	1,334	1,852	3,342	1,515	0,824	3,166	7,016
ROA	0,105	0,081	0,069	0,108	0,083	0,075	0,261	0,210	0,171	0,319	0,089	0,094	0,056	0,13.1	0,148	0,341
Age	19,20	2,774	32,10	1,068	27,27	1,024	21,37	1,24	30,735	2,012	27,72	1,258	17,47	1,111	33,74	2,029
DER	-0,12	2,029	1,381	3,428	0,664	2,853	1,401	2,427	1,522	1,742	0,717	4,984	-0,64	8,835	2,158	6,427
Growth	0,278	1,110	0,340	0,741	1,072	3,410	0,423	2,173	0,194	0,469	12,24	1,049	0,133	0,426	2,669	2,188
Ln Asset	13,97	1,117	13,80	1,145	13,723	1,414	13,50	2,49	14,04	1,50	14,01	1,67	14,41	1,479	14,25	2,008
Total Asset (billion rupiah)	2,164	2,942	1,744	1,913	1,874	2,859	7,830	22,239	3,682	6,342	4,066	8,662	4,990	10,168	6,926	14,600
Proportion of Family Ownership (%)	9,114	7,83	16,17	1,006	24,99	2,46	53,85	2,53	58,58	1,48	56,44	1,72	59,22	2,09	3,06	1,059
Proportion of Family commissioner (%)	0,400	0,136	0,316	0,130	-	-	-	-	0,332	0,147	0,369	0,141	-	-	-	-
Proportion of Family director (%)	-	-	0,306	0,162	0,418	0,240	-	-	-	-	0,337	0,168	0,334	0,215	-	-

4.2. Dominance of family members in the company

Table 6 shows that numbers of family members who are placed in the position of commissioner-directors are quite varied among companies. Number of family members who are placed in the position of commissioner is between 1 to 4 family members. There are 95 companies that put 1 family member in board of commissioner. While 37 companies put 2 family members and 4 companies put 3 family members. Only one (1) company put 4 members of his family in the position of commissioner.

The number of companies that put members in the position of directors of the company as much as 139. This amount is much less than the number of companies to place a family member in the position of commissioner. There are 3 companies that put 4 family members and 3 companies that put 5 family members on the board of directors position. Compared to the position of commissioners, directors position seems more likely to be occupied family members.

Most companies put 2 or more family members in positions of commissioners and directors. Only some 53 companies

that put a family member in a position of commissioners or directors only. There are 6 companies that put the 6 members of his family in the position of commissioners and directors. This suggests that the placement of a family member in the position of commissioners or directors are common in family firms that go public in Indonesia, but the dominance of the family members or the board of commissioners and directors are quite varied among companies.

Placement of a number of family members in the board of commissioners may provide benefits for companies can play a role in the oversight of nonfamily managers or directors, thereby reducing agency conflict. However, the dominant member of the family in the board of commissioners and directors can make a less independent board role. Family supervision by the board of commissioners may provide benefits to a minority owner, but on the other hand, the dominance of the strong potential to lead to conflict of interest between the family and non-family owners (Anderson and Reeb, 2003).

Table 6
Sum of Family members involved in board of commissioner and/or board of direction

Positions	Sum of family members						Number of firms
	1	2	3	4	5	6	
Board of Commissioners	95	37	4	1	0	0	137
Board of Directors	87	39	7	3	3	0	139
Board of Commissioners and directors	53	70	34	13	3	6	179

The large number of family members in the board of directors and commissioners can increase conflict between family members themselves. Minichilli et al. (2010) proved that the increase in the proportion of families in the ranks of top management team can degrade the performance of the company. Friction from the number of family members in the top management team has the potential to create discord itself so that family members can reduce the performance of the company.

4.3. Performance Differences Between Firm Types

Table 7 shows that the average performance of family firms is lower than non-family firms. The means of the Tobin's Q on family firm (F_ALL) is equal to 1.8173, still below the means of Tobin's Q on nonfamily firms (NF) is equal to 2.1894. Although the means Tobin's Q on family firm lower than non-family firms, but the results shows statistically no significant.

Not all types of family firms have lower performance than non family firms. The means of Tobin's Q on FOC type (4.543) is higher than means of Tobin's Q on nonfamily firm types (3,166). While the company types of FC and FM are two types of firm that have lowest performance across all types. An average, type FC firm have Tobin's Q is equal to 1.199 and type FM firm slightly above, it is equal to 1.300.

The results between the across firm type with independent t-test showed that the means of Tobin's Q on FCM, FC and FM types is no different than the means of Tobin's Q on another types of company. Statistically significant difference in performance of the company only occurs across firms involving family members on ownership (FOCM, FOC, FOM and FO).

Table 7
Performance differences between firm types

Firm Types		NF	FOCM	FOC	FOM	FO	FCM	FC
Average Performance		2,1894	1,4669	2,3302	1,4788	2,6121	1,5536	1,2301
F ALL		1,8173	-1,363 (0,174)					
FOCM	1,4669	-2,766 (0,006)*						
FOC	2,3302	0,269 (0,788)	1,406 (0,168)					
FOM	1,4788	-2,544 (0,012)*	0,57 (0,955)	-1,184 (0,241)				
FO	2,6121	0,823 (0,412)	1,926 (0,062)*	0,338 (0,737)	1,880 (0,068)*			
FCM	1,5536	-1,174 (0,243)	0,277 (0,782)	-0,927 (0,358)	0,205 (0,838)	-1,556 (0,209)		
FC	1,2301	-1,033 (0,304)	-0,505 (0,615)	-0,770 (0,446)	-0,693 (0,494)	-0,972 (0,337)	-0,490 (0,628)	
FM	1,7409	-0,807 (0,421)	0,799 (0,427)	-0,681 (499)	0,590 (0,558)	-1,015 (0,315)	0,325 (0,747)	

Description:

FC : Family Commissioner

FCM : Family Commissioner-Management

FM : Family Management

FO : Family Ownership

FOC : Family Ownership-Commissioner

FOCM : Family Ownership-Commissioner-Management

NF : Non Family Firm

F ALL : All of family firm types (FC, FCM, FM, FO, FOC., FOCM, FM)

The means Tobin's Q type FOCM company and FOM are lower than the average Tobin's Q of nonfamily firms. While type FO and FOC companies have better performance than non-family firms, but this difference is not significant. It could be argued that the strong dominance of the owner's family by putting family members on the board of directors (type FOM) or the owner's family who put family members on the board of directors and commissioners (FOCM) had lower performance of the company. Type of FOCM and FOM has a high potential to expropriate to minority owners. According to Young et al (2008), expropriation to minority owners can occurs when family put

members of family on the key positions of firm without consider of their competences.

There is interesting to be delivered from this study. When the family is not active in direction or commissioner, it has a positive impact on the market performance of the company. The performance difference was seen between Tobin's Q of firm type (FO) with the type of company FOCM and FOM. Although firm (FO) has the potential to increase agency problem I, however this type have a better performance compared to company FOCM and FOM, which could increase agency problem II. In the case of companies in Indonesia, Agency

problem II conflict have a higher cost than the agency problem I.

These findings are contrary with Allouche et al. (2009) and Maury (2006) at the family firm in Western Europe. Allouche et al. (2009) proved that the family as the primary owners and family members that are involved in the managerial position or directors (strong control) have higher performance than companies that do not put family members in top manager or directors (weak control). Maury (2006) showed that companies that involve the active participation of the families have higher profitability than non-family firms but not the passive role of the family that have an impact on profitability.

Although contrary to the findings of Maury (2006) and Allouche et al (2009), but these results support the findings from Mannarino et al. (2011) which examines the role of the management team of the company's family in Italy. Mannarino et al. (2011) proved that family firms are not more productive when managed by their families member rather than be managed by professionals. It also expressed by Bart et al (2005) which proved that the management of the owner is not more productive than non-family management. This happens because the outside manager has management oversight more effective than family. The differences are also due to differences between family management expertise with professional management.

In general it can be said that the performance differences between family firms with non-family firms is not determined solely on the ownership structure, but also determined how the role of family members in the company. Results of this study support the idea Villalonga and Amit (2006) which states that the family firm performance affected the interaction between ownership, control and management of

the family. The combination between ownership control families, commissioners and directors of the company producing the performance differences.

5. Conclusions and Suggestions

This study provides evidence that family firm performance is better or worse than non-family firms depends not only on the components of family ownership, but also depends on how the control system or component attachment to the family in the company. Internal mechanisms of corporate governance affect family firm value.

This study also proves that the agency conflict between owners of families with non-family owners have a more several impact than the agency conflict between owners of a family with the manager. The more active involvement of the family in the board of commissioners and board of directors led to even more potential agency conflict between owners of families with non-family owners. Expropriation family owners (majority) to the non-family owners (minority) depend on the placement of family members in key positions of the company (the commissioners and/or directors).

Using independent t-test in this study isn't considered other variables as a control to influence of firm value. Future studies are advised to use regression analysis as a means of testing the effect of ownership, commissioners and directors of the family on the company's performance. Future studies also suggested to include components founder because Villalonga and Amit (2006) prove that the cost of agency problems I higher or lower than the cost of agency problem II depends role the company's founder.

References

- Achmad T., Rusmin, Neilson J., Tower G., 2009. The Iniquitous Influence of Family Ownership Structures on Corporate Performance. *The Journal of Global Business Issues* 3, Issues 1, 41-48.
- Allouche, J., Amann, B., Jaussaud, J., Kurashina, T., 2008. Impact Family Control on The Performance and Financial Characteristics of Family Versus Nonfamily Businesses in Japan: A Matched-Pair Investigation. *Family Business Review* 21: 315-329
- Anderson, R. Reeb, D., 2003. Founding family Ownership and Performance. Evidence From The S& P 500. *Journal of Finance* 58, 1301-1327.
- Andres, C. 2008. Large Shareholders and Firm Performance-An Empirical Examination of Founding-Family Ownership. *Journal of Corporate Finance* 14, 431-445
- Arosa, B., Iturralde, T., Maseda, A., 2010, Ownership Structure and Firm Performance in Non-Listed Firms: Evidence From Spain, *Journal of Family Business Strategy* 1, 88-96.
- Barth, E., Gulbrandsen, T., Schonea, P., 2005. Family Ownership and Productivity: The Role of Owner-Management. *Journal of Corporate Finance* 11, 107-127
- Bennedsen, M., Nielsen, K., Perez-Gonzalez, F., Wolfenzon, D., 2007. Inside the Family Firm: The Role of Families in Succession Decisions and Performance. *Quantitative Journal Economics* 122, 647-691.
- Bennedsen, M., Nielsen, Kasper, M., 2010. Incentive and Entrenchment Effects in European Ownership, *Journal of Banking and Finance* 34: 2212-2229.
- Bertland, M., Schoar, A., 2006. The role of Family in Family Firms. *Journal of Economics Perspective* 20, 73-96.
- Bunkanwanicha, P. Gupta, J. Rokhim, R., 2008, Debt and entrenchment: Evidence from Thailand and Indonesia, *European Journal of Operational Research* 185, 1578-1595
- Chrisman, James J., Chua, Jess H., Sharma, P., 2003. Current Trends and Future Directions in Family Business Management Studies: Toward a Theory of The Family Firm. Coleman White Paper Series.
- Claessens, S., Djankov, S., Lang, L.P.H., 2000. The Separation of Ownership and Control in East Asian Corporations. *Journal of Financial Economics* 58, 81-112.
- Dyer Jr, W. Gibb, 2010. Are You the Right Type of Family Business?, *Organizational Dynamics* 39 No. 3, 269-278.
- Faccio, M., Lang, L., 2002. The Ultimate Ownership of Western European Corporations. *Journal of Financial Economics* 65, 365- 395.
- García-Castro R.; Casasola, M.J., 2011. A Set-Theoretic Analysis of The Components of Family Involvement in Publicly Listed and Major Unlisted Firms, *Journal of*

- Family Business Strategy*, 2 (1), 15-25.
- Jaggi B., Leung S., Gul F., 2009. Family Control, Board Independence and Earnings Management: Evidence Based on Hong Kong Firms. *Journal Accounting Public Policy* 28. 281-300
- Jensen, M.C. and Meckling, W., 1976. Theory of The Firm: Managerial Behavior, Agency Cost and Ownership Structure. *Journal of Financial Economic* 3, 305-360.
- Kim, Kenneth A., Kitsabunnarat, P., and Nofsinger, J. R., 2007, Large Shareholders, Board Independence, and Minority Shareholder Rights: Evidence from Europe, *Journal of Corporate Finance* 13, 859-880
- La Porta, R., Lopez De Silanes, f., Shleifer, A., 1999. Corporate Ownership Araund The World. *Journal of Finance* 54, 471-517
- Lukviarman, N., 2004, *Ownership Structure and Firm Performance: The Case of Indonesia*, DBA Thesis, Curtin University of Technology (available on-line through the Australian Digital Thesis/ADT)
- Mannarino, L., Pupo, Valeria and Ricotta, F. 2011, *Family Involvement in Management and Firm Performance: Evidence from Italy*. University of Calabria, Department of Economics and Statistics, Working Paper.
- Maury, B., 2006. Family Ownership and Firm Performance: Empirical Evidence From Western European corporations. *Journal of Corporate Finance* 12, 321–341.
- McConnaughy, D., Walker, M., Henderson, G., Chandra, M., 1998. Founding family Controlled Firms: Efficiency and Value. *Review of Financial Economics* 7, 1–19.
- Minichilli, A., Cobetta, F., & MacMillan, I. C., 2010. Top Management Teams in Family-Controlled Companies: Familiness, Faultlines, and Their Impact on Financial Performance. *Journal of Management Studies* 47: 2
- Perez-Gonzalez, F., 2006. Inherited Control and Firm Performance. *American Economic Review* 96, 1559–1588.
- Sharma, P. 2002. *Stakeholder Mapping Technique: Toward the Development of a Family Firm Typology*. Paper presented at the 62nd meeting of the Academy of Management, Denver, August. (available on-line through <https://www.wlu.ca>)
- Sharma, P. 2004. An Overview of the Field of Family Business Studies: Current Status and Directions for The Future. *Family Business Review*, Vol XVII, No 1
- Siregar, Veronica S and Utama, S., 2008. Type of Earnings Management and The Effect of Ownership Structure, Firm Size, and Corporate-Governance Practices: Evidence from Indonesia, *The International Journal of Accounting* 43, 1–27
- Sraer, D., Thesmar, D., 2007. Performance and Behavior of Family Firms: Evidence From the

French Stock Market. *J. Europ. Econ. Assoc.* 5, 709–751.

Tabalujan, Beny S., 2002. Family Capitalism and Corporate Governance of Family-Controlled Listed Companies in Indonesia. *University of New South Wales Law Journal* 25 (2).

Villalonga, B., and Amit, R., 2006. How Do Family Ownership, Control and Management Affect Firm Value? *Journal of Financial Economics.* 80, 385–417.

Ward John. 2002. The Role of The Board in Family Business Strategy. *Family Business Know-How.*

Westhead, P., and Cowling, M. 1998. Family firm Research: The Need for Methodology rethink. *Entrepreneurship Theory and Practice, Fall*, 31-56.

Young, Michael N., Peng, Mike W., Ahlstrom D., Bruton, Garry D., dan Jiang Y., 2008, Review Paper. Corporate Governance in Emerging Economies: A Riview of Principal-Principal Perspective, *Journal of Management Studies* 45:1 January.