

Family controlled firm, governance mechanisms and corporate performance: Evidence from Indonesia

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ABSTRACT

This study investigates, firstly, the influence of family-controlled firm on corporate performance, and secondly, the influences of corporate governance mechanisms including control variable on corporate performance in the companies listed on the Indonesian Stock Exchange. By using five years (2009-2013) company data, this study used Ordinary Least Square (OLS) regression to test the hypotheses. The results based on OLS, indicate that family controlled firms tend to have better performance than non family controlled firms. Moreover, in regard to the link between governance variables and corporate performance, only managerial ownership exhibits a positive relation with corporate performance, for both proxies, i.e. Tobin's Q and ROA. Yet, the rests of governance variables (i.e. institutional ownership, audit committee, board of directors and independent board of commissioners) do not confirm the relationship with corporate performance. These findings have significant policy implications for the government, regulatory bodies, companies and other stakeholders including the investors in Indonesia to shape and implement an optimal governance system that can improve corporate performance.

ABSTRAK

Penelitian ini mencoba untuk menginvestigasi, (1) pengaruh perusahaan yang dikendalikan keluarga terhadap kinerja perusahaan, dan (2) pengaruh mekanisme-mekanisme tata kelola perusahaan termasuk variabel kontrolnya terhadap kinerja perusahaan pada perusahaan-perusahaan yang tercatat di Bursa Efek Indonesia. Berbasis pada data perusahaan selama periode lima tahun (2009-2013), penelitian ini menggunakan regresi Ordinary Least Square (OLS) untuk menguji hipotesis-hipotesis yang dikembangkan. Temuan dari hasil OLS mengindikasikan bahwa perusahaan yang dikendalikan keluarga mempunyai kinerja yang lebih baik dibandingkan dengan perusahaan yang tidak dikendalikan keluarga. Selanjutnya, terkait hubungan antara variabel-variabel tata kelola perusahaan dan kinerja perusahaan, hanya kepemilikan manajerial yang menunjukkan pengaruh positif terhadap kinerja perusahaan, baik yang diukur dengan Tobin's Q maupun ROA. Sedangkan variabel mekanisme tata kelola perusahaan yang lain (yaitu kepemilikan institusional, komite audit, dewan direksi, dan dewan komisaris indepen) tidak berhubungan dengan kinerja perusahaan. Temuan-temuan ini berimplikasi penting pada kebijakan pemerintah, badan pembuat peraturan, perusahaan dan pemangku kepentingan yang lainnya, termasuk para investor supaya bisa menguatkan dan mengimplementasikan sistem tata kelola perusahaan yang optimal supaya bisa meningkatkan kinerja perusahaan.

1. INTRODUCTION

Literature related to the link between family controlled firms and their performance tries to understand whether the existence of family members contributes to firm success in achieving its goals. For example, Anderson and Reeb (2003) argued

that family firms tend to have better performance than non-family firms either measured by accounting or market basis. It indicated that active participation by family members in the governance structure of the company promotes better performance. Maury (2006) also stated that active participation

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by family members in the family-controlled firms makes the firms have higher profitability than non-family controlled firms. Another research by Chu (2011) found that the rise of family ownership triggers firms to get better performance in Taiwan. Last of all, Martinez et al. (2007) evaluated the impact of family ownership on firm performance and found that the family-controlled firms have better performance than the nonfamily controlled firms.

Within the agency theory context, founding family ownership has an important role in reducing agency problems between managers and owners due to the interests of both parties move toward the same group of individuals (Fama & Jensen 1983; James 1999; McConaughy 2000). Generally, large shareholders tend to have stronger incentives and greater power to directly monitor managers' activities than the small shareholders by restraining the conventional agent problems between managers and shareholders. However, the concentrated ownership in the hands of large shareholders or block holders could also bring out another kind of agency problem between the controlling/majority shareholders and non-controlling/minority shareholders that so-called type 2 of agency problem. Deep involvement by family members in this relationship rises certain agency costs, such as nepotism, free riding, adverse selection, and so-forth (Schulze et al. 2003; Hadani 2007).

To solve the above problems, the corporate governance, as significant monitoring mechanisms, should be implemented within the firm. Shleifer and Vishny (1997) explained that corporate governance is a set of mechanisms that can protect minority parties (outside investors) of expropriation carried out by managers and controlling shareholders (insider) with an emphasis on legal mechanisms. Moreover, Curveo (2002) argued that the effective implementation of governance mechanisms consisting of institutional ownership, managerial ownership, audit committee, board of directors, and independent board of commissioners can mitigate those problems. In other word, fail implementation of those governance mechanism triggers to create a weak corporate governance system within the firm that causes the firm suffers with more agency problems.

The weak corporate governance system is often referred as one of the causes of the financial crisis in Asian countries, including Indonesia, in 1997s (Johnson et al. 2000). Moreover, Johnson et al. (2000) documented that the corporate governance variables applied in a country better able to describe the extent of currency depreciation and de-

clining performance of capital markets in developing countries compared with macro economics variables during the period of crisis. It means that the more effective the firm implements corporate governance system, the better firm performance.

This study aims to empirically analyze the relation between family controlled firm, governance mechanisms, and performance of firms listed in The Indonesian Stock Exchange with size of the firm as a control variable. Indonesian firms can provide evidence to investigate each of agency problems due to: (1) Indonesia is a developing country where the level and quality of corporate governance and legal rules protecting both shareholders and creditors are weak, (2) the majority of firms in Indonesian Stock Exchange exhibit highly concentrated ownership structures indicating the high existence of family firms (Claessens et al. 2002).

Considering the above discussion, this study is to examine firstly, the link between family-controlled firm and corporate performance, and secondly, the influence of governance mechanisms including a control variable on corporate performance. This study is expected to contribute to the body of literature on the link between family controlled firm, governance mechanism and corporate performance, particularly in emerging market context i.e. Indonesia.

This study is organized into five sections with the introduction as the first section. Section 2 highlights the literature review and hypotheses development and Section 3 provides details of research methodology. Section 4 elaborates on the empirical findings and discussion. Finally, Section 5 makes conclusions.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Theoretical Framework

The existing literature suggest that family deep involvement in the family firms makes the firms suffer with unique agency problems where the problems are no longer between principal and managers. However, it is more predominantly by the problems between controlling/majority shareholders and non-controlling/minority shareholders (e.g. Chrisman et al. 2004; Schulze et al. 2003). Again, other studies found different results indicating that the existence of family members inside the firm governance structure can improve company performance when they can serve more effective control mechanism to the managers' activities. In this regard, Anderson and Reeb (2003) evaluated an

effect of family ownership on firm performance. Contrary to their perception, surprising result shows that family controlled firms have better performance than non-family controlled firms.

Both stream of research findings discussed above indicate that there are mix findings with regard to the relationship between ownership concentration and firm performance. Many studies (e.g. Claessens et al. 2000; Chen et al. 2005) found a positive relation between concentrated ownership structure and firm value. Furthermore, similar findings also document this positive relationship (McConaughy et al. 1998; Martinez et al. 2007; Maury 2006). However, several studies did not confirm a positive link between firm performance and ownership concentration (e.g. Demsetz & Lehn 1985; Himmelberg et al. 1999, Demsetz & Villalonga 2001).

Since the findings from previous studies as discussed on the introduction section exhibit that family firms suffer with type 2 of agency problem between controlling and non-controlling shareholders, this study also evaluates the relation between governance mechanisms (i.e. institutional ownership, managerial ownership, audit committee, board of directors, and independent board of commissioners) as instruments to mitigate that problem and corporate performance by using firm size measured by the natural log of the book value of total assets as a control variable.

Hypotheses

Family Ownership and Corporate Performance

The previous studies about the link between family ownership and firm performance have produced mixed results. Some researchers argue that large shareholders improve corporate performance due to the manager are better aligned with those of other shareholders (e.g., Anderson and Reeb 2003; Isik & Soykan 2013). Accordingly, the desire of maintaining a company in order to be passed on to the next family generations has led into long-term investment horizon (Demsetz 1983, James 1999). Moreover, Andres (2008) contended that family members usually have stronger power to supervise manager's activities than non-family members. Generally, family members will create a conducive working environment; therefore they can foster trust and loyalty from all employees (Ward 1988). In other word, with this more conducive working environment in family firms than non-family firms triggers better firm performance. However, Onder (2003) did not confirm such significant relation between ownership concentration by family and prof-

itability measured by ROA in Turkey. Moreover, Chen et al. (2005) concluded similar finding with Onder (2003) in Hongkong.

Other researchers argued that the presence of family ownership can ultimately result in lower economic growth when the family controlled firms remain in hold their private benefits of control at the cost of minority shareholders (Shleifer & Vishny 1997). Several researchers have already proved this hypothesis such Pervan et al. (2012) who found that ownership concentration influences negatively on company performance in Croatian listed firms. Again, Claessens et al. (2002) showed a similar finding when documented a link between family ownership and firm performance in Asia (including Indonesia). Considering above previous studies which generated mix findings on the relation between family ownership and corporate performance, our first hypothesis is formulated as follow: H1 : The presence of family controlled firms have significant influence on firm performance.

Governance Mechanisms and Corporate Performance

1. Institutional Ownership and Corporate Performance

With the growing volume of institutional shareholdings, the companies are more likely to exploit their privilege rights on share's ownership to push down managers to serve the shareholders' interest by monitoring, disciplining, and influencing of corporate managers (Cornett et al. 2007). Moreover, Shleifer and Vishny (1986) contended that large shareholders tend to hold more incentive in overseeing managers than other members of the board.

Previous studies testing the link between institutional ownership and corporate performance have resulted mixed findings. Lowenstein (1991) as well as Chaganti and Damanpour (1991) did not confirm the correlation between institutional ownership and firm performance. Another study by Agrawal and Knoeber (1996) found similar finding that institutional ownership does not correlate with firm performance. Again, Craswell et al. (1997) also documented that institutional ownership has no influence on corporate performance in Australian firms. In other hand, McConnell and Servaes (1990) documented evidence consistently that the presence of institutional investors with more effective monitoring function causes managers put their resources to focus on corporate performance rather than on opportunistic behavior. Moreover, Bruggen et al. (2007) found similar evidence that institutional and foreign ownership have positive relation

with firm performance in Swedish listed firms. In other side, Charveddine and Elmarzougui (2010) found different finding where institutional ownership has negative influence on firm performance measured by Tobin's Q in the French listed firms.

Based on all findings on previous studies at above, it could be understood that almost findings are consistent with the monitoring concept under agency theory where the existence of institutional investors play more effective monitoring function on managers' duties, thus the next hypothesis is formulated as:

H2a : The presence of institutional ownership has positive influence on firm performance.

2. Managerial Ownership and Corporate Performance

Several studies provide evidence that the interests of managers and shareholders are not always inline. Therefore, the rise of managerial ownership creates a condition that enables it's more capable to align the insiders' and other shareholders' interests. Nevertheless, when the proportion of managerial ownership gains a particular level, managers may get sufficient ownership level strengthening their own position regardless to decreasing firm value (Ruan et al. 2011). Accordingly, managers may exploit the opportunity to take over certain amount of corporate funds on their own interest by the expense of other shareholders.

Generally, the presence of agency problems in emerging markets, including Indonesia, are more severe than those in developed market due to the lack of appropriate legal protection (LaPorta et al. 1999; Wei et al. 2005). Demsetz (2003) argued that the growing volume of managerial ownership can be expected to result in reduced corporate performance. Therefore, when insiders hold large voting right to pursue their own interest and exploit it to take over significant amount of corporate fund will not improve the corporate performance.

Several previous studies have shown above expropriation hypothesis. Mork et al. (1988) found that firm performance measured by Tobin's Q increase up to 5% level of managerial ownership, then falls up to the 25% level. Similarly, McConnell and Servaes (1990) found the performance rises when insider ownership up to 37% level, and decreases when the managerial ownership on the level of 37% to 50%. Again, similar finding by Himmelberg et al. (1999) documented that corporate performance rises in the quadratic form up to 58% level of managerial ownership. Mueller and Oener (2006) reported that the corporate perfor-

mance increases when managerial ownership up to 80%, and when it reaches more than 80% the company performance decreases.

The expropriations of corporate fund proportional with the growing volume of managerial shareholdings tend to result a negative relationship between managerial ownership and firm performance. Wright et al. (2002) documented that managerial turnover and efficiency are lower in the firms with higher managerial ownership than the firms with more equal ownership structure between insiders and outsiders. Simonetic and Gregoric (2004) found a positive and significant relation between managerial ownership and firm performance in Slovenian unlisted firms while they found insignificant relation on similar issue within Slovenian listed firms. Ruan et al. (2011) examined the influence of managerial ownership on firm performance through capital-structure choices. The findings documented a nonlinear relationship between managerial ownership and firm value. Palia and Lichtenberg (1999) found that the level of managerial ownership associates positively with productivity. Furthermore, the changes of productivity positively correlated with Tobin's Q as a proxy of corporate performance. Hu and Zhou (2008) examined a sample of non-listed firms in China and found that firms with greater managerial ownership have better performance than those firms which managers do not own equity shares. This positive relation remains up to 50% level of managerial ownership and the relation becomes negative when the level of managerial ownership reaches more than 50%.

Considering the findings of previous studies at above discussion, it could be concluded that the influence of managerial ownership on corporate performance is location specific. The relation is positive when the portion of managerial ownership is relatively low supporting incentive arguments. Nevertheless, such relation will be negative if the portion of managerial shareholding is relatively high strengthening entrenchment arguments. Based on our prior research on this issue (Suyono et al. 2014), it could be concluded that managerial ownership in Indonesian listed firms is relatively low indicating closer support of incentive arguments, thus the following hypothesis is developed:

H2b : The presence of managerial ownership positively influence on firm performance.

3. Audit Committee and Corporate Performance

The main function of an audit committee (hereafter AC) is monitoring and reviewing the accounting, audit and firm's financial reporting process

(Klein 2002). When AC can optimize its function, it will provide stakeholders a better quality of financial reporting and more likely to improve firm performance. Accordingly, it implies that a qualified, independent, and professional AC serves as a reliable guardian of public interest (Abbott et al. 2004). Moreover, Abbott et al. (2004) clarified that an AC involving of independent members with at least twice a year of meeting decreases the possibility of fraudulent reporting. Ultimately, this condition will improve the quality of the financial reporting process and market value. Similar finding by Kirkpatrick (2009) documented that independent members of AC contribute to a higher market value.

Some studies document that increased reporting quality contributes to better corporate performance. Gompers et al. (2003) contended that AC contributes to a better firm performance by mitigating earnings management. Chan and Li (2008) note a positive influence of the independence of AC on firm performance. Moreover, Aldamen et al. (2012) compared the worst and best performing Australia's S&P300 firms and found that the size of AC positively influence on market performance. Based on the above discussion, the next hypothesis is:

H2c : The size of audit committee positively influence on firm performance.

4. Board of Directors and Corporate Performance

The Board of directors (hereafter BOD) has a significant role to guard an effective corporate governance practice, particularly for large firm where there is a separation of ownership and control, by mitigating agency conflicts within the firm. Boards can play crucial role in monitoring of management activities to reduce agency costs and maintain managerial accountability to achieve good performance (Eisenhardt 1989; Shleifer & Vishny 1997). However, when the board members are oversized, it makes its monitoring function less effective. Accordingly, a high number of board members may reduce their effort to maximize its function. Yermack (1996) proved this hypothesis empirically by using a sample of U.S. firms and found that having small boards improves performance.

The previous studies about the link between board of directors and firm performance had mixed findings result. Chaganti et al. (1985) documented empirical evidence that successful firms tend to have bigger boards after they compared board size between failed and successful firms. However, Hermalin and Weisbach (1991) found no significant

relationship between board composition and performance. Fauzi and Locke (2012) analyzed the influence of various aspects of board composition on firm performance measured by Tobin's Q and ROA. They found that all variables have a significant effect on firms' financial performance measured by both proxies.

There are some previous studies considering the number of board members as one of factors affecting firm performance though there is no one concluding certain number on the optimal board size (e.g. Prevost et al. 2002). In order to be effective, it is suggested that a board should have a maximum of seven or eight members (Jensen 1993). Lipton and Lorsch (1992) argued that large boards are less effective. Similarly, Yermack (1996) found negative correlation between board size and profitability. Moreover, Eisenberg et al. (1998) also found that small size boards are positively related with firm performance.

In other hand, Adams and Mehran (2003) did not confirm a negative relation between board size and firm performance in US banking companies. Surprisingly, they documented empirical evidence showing a positive relation between board size and banks' performance measured by Tobin's Q. Considering the above conflicting findings from prior studies, the next hypothesis is:

H2d : The board size has significant influence on firm performance.

5. Independent Board of Commissioners and Corporate Performance

According to Indonesian context which runs two tier boards system, i.e. board of directors and board of commissioners, where the independent board of commissioners (hereafter IBC) is the Indonesian term for independent boards. Several prior studies have reported that the presence of such independent party inside the firm can provide effective monitoring function on manager's activities and ultimately improve firm performance. Fama and Jensen (1983) argued that the firm value will improve when outside board of directors could optimize its monitoring function on manager activities which can protect shareholder's interest. Beasley (1996) contended that independent directors hold better judgment and fair representation of shareholders' interest, and ensure the maximization of shareholder value.

Some researchers, such as Carter et al. (2003) believed that outside directors are better representatives of shareholder's interests than inside directors. Therefore, several studies have found outside

Table 1
Sample Selection with Purposive Sampling Method

1. Listed companies in The Indonesian Stock Exchange (IDX) during the 2009 to 2013 periods.	534
2. The delisted companies from IDX during the 2009 to 2013 periods.	(40)
3. Excluding financial companies (i.e., Insurance, Bank, etc) listed in IDX during the 2009 to 2013 periods.	(91)
4. Listed companies with uncompleted financial report during the 2009-2013 periods.	(291)
Total samples (number of firms)	112
Total samples for 5 years = 5 × 112	560

directors relationship to be stronger with overall corporate performance (Pearce & Zahra 1992; Perry & Shivdasani 2005) and larger shareholder returns (Shivdasani & Yermack 1999). Beasley (1996) found that the firms having higher portion of outside director tend to have less fraudulent issues on their financial statements than firms with higher portion of inside directors. Moreover, Bhagat and Black (2002) documented that outside directors are more likely to be more effective in monitoring the behavior of managers.

Klein (1998) contended that the presence of outside directors on the board of directors will increase shareholder returns as well as corporate performance. Moreover, Chan and Li (2008) found evidence that the proportion of independent and expert members on boards of directors improves value of the firms. Again, Erickson et al. (2005) contended that the presence of independent directors have greater power in mitigating agency problems between principal and managers as well as between controlling shareholders and non-controlling shareholders, so it increases firm performance. Similarly, Ness et al. (2010) found the rise of independent board number increases firm performance. Francis et al. (2012) found that the presence of outside directors who are less connected with current CEOs, positively related with firm performance measured by cumulative stock performance during financial crisis periods. However, another study by Horvath and Spirollari (2012) documented that the rise of outside directors decreases firm performance particularly during the financial crisis period. They argued that outside directors tend to implement more conservative business strategies in order to protect shareholders triggering the decrease of firm's performance.

Considering almost findings on the link between independent boards of director and firm performance on above discussion, the next hypothesis is developed as:

H2e : The proportion of independent board of commissioners positively influence on firm performance.

3. RESEARCH METHOD

Sample of the Study

The data used in this study are available on www.idx.co.id and/or on every company web-site. Applying the purposive sampling method, the following criteria are followed to carry out the sample selection from the population of 534 Indonesian listed companies for 2009-2013) periods as presented in Table 1.

Regression Model

This study used ordinary least squares (OLS) model to analyze the link between family controlled firm (FAM), corporate governance variables {i.e. institutional ownership (IO), managerial ownership (MO), audit committee (AC), board of directors (BOD), and independent board of commissioner (IBC)} along with control variable (i.e. firm size/SIZE) and corporate performance (CP). We formulate a regression model as follow:

$$CP = a + \beta_1FAM + \beta_2IO + \beta_3MO + \beta_4AC + \beta_5BOD + \beta_6IBC + \beta_6SIZE + \varepsilon \quad (1)$$

Before running the regression, this study performed descriptive statistics and classical assumption tests of regression consisting normality, autocorrelation, heteroscedasticity and multicollinearity tests. Then it run the regression with two proxies of corporate performance, i.e. Tobin's Q as a proxy of market based performance and return on assets (ROA) as a proxy of accounting based performance.

Variables Definition and Measurement

1. Family Controlled Firm (X_1)

This study defines family controlled firm and non-family controlled firm based on criteria developed by previous studies (e.g. Anderson & Reeb 2003; Wang 2006; Suyono 2015) wherein the family controlled firm is a firm having family ownership structure equal or more than 10% and non family controlled firm is a firm having family ownership structure less than 10%. Then It was encoded by dummy variable with 1 for family controlled firm and 0 for non-family controlled firm.

Table 2
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CP_ROA	560	.00	248.35	3.17	13.68
IBC	560	.00	.66	.42	.15
MO	560	.00	.56	.11	.14
AC	560	2.00	5.00	3.18	.48
BOD	560	2.00	11.00	4.47	2.00
IO	560	.02	.98	.52	.31
SIZE	560	21.81	33.60	28.16	1.90
FAM	560	.00	1.00	.49	.50
CP_TOBINSQ	560	-.31	2.87	1.10	.35
Valid N (listwise)	560				

2. Corporate Governance

In this study, the good corporate governance mechanism is proxied to the following factors:

(i) Institutional Ownership (X₂)

Institutional ownership is a percentage of voting right by institutions in the company's outstanding stock (Shleifer & Vishny 1997; Farooque et al. 2014). Therefore :

$$\text{Institutional Ownership} = \frac{\text{Number of shares owned by institutions}}{\text{Total outstanding shares}} \times 100\% \quad (2)$$

(ii) Managerial Ownership (X₃)

Managerial ownership is the number of shareholdings held by the management who are actively involved in the decision-making process over the total shares outstanding (e.g. Mueller and Oener 2006; Farooque et al. 2014). Thus :

$$\text{Managerial Ownership} = \frac{\text{Number of shares owned by managers}}{\text{Total outstanding shares}} \times 100\% \quad (3)$$

(iii) Audit Committee (X₄)

The audit committee is calculated based on the number of audit committee members (e.g. Aldamen et al. 2012; Suyono et al. 2014).

(iv) Board of Directors (X₅)

The board of directors' is measured by the number of board of directors in the company (e.g. Yermack 1996; Suyono et al. 2014).

(v) Independent Board of Commissioners (X₆)

The independent board of commissioners' is measured by percentage of independent commissioners over the total number of commissioners, such on the following formula (Beasley 1996; Suyono et al. 2014) :

$$\text{Independent Board of Commissioners} =$$

$$\frac{\text{The number of independent commissioners}}{\text{Total number of commissioners}} \times 100\% \quad (4)$$

3. Firm Size

Firm size is measured by the natural log of the book value of total assets (e.g. Bhagat & Black 2002; Anderson & Reeb 2003).

4. Corporate Performance

This study uses two proxies in measuring the corporate performance, i.e. Tobin's Q and ROA. Tobin q developed by J Tobin is measured with formula as follow (Lang & Stulz 1994):

$$\text{Tobin's Q} = \frac{EMV + LBV}{EBV + LBV} \quad (5)$$

Where :

Tobin's Q = market based performance

EMV = Equity market value

EBV = Equity book value

LBV = Liability book value.

The return on assets (ROA) is a profitability ratio measured by comparing net income to total assets with formula as follow (Anderson & Reeb 2003):

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \quad (6)$$

4. DATA ANALYSIS AND DISCUSSION

Descriptive Statistics and Classical Assumptions of Regression

Table 2 provides information about the characteristics of the variables on final sample 112 companies or 560 firm years. Descriptive statistics shows relatively high proportion of family controlled firm with mean value 49% in Indonesian listed firm. It also documents high institutional ownership while relatively low managerial ownership, with mean values, respectively, 52% and 11%. Average size of

Table 3
Results of Regression Analysis for Both Models

Coefficients^a

Model	Unstd. Coefficients		Std. Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.72	.24		2.98	.00
IBC	.06	.10	.03	.64	.52
MO	.14	.10	.06	2.38	.02
AC	-.05	.03	-.06	-1.44	.15
BOD	-.00	.01	-.04	-.84	.40
IO	-.05	.05	-.05	-1.09	.28
SIZE	.02	.01	.10	2.37	.02
FAM	.01	.03	.02	2.47	.04

a. Dependent Variable: CP_TOBINSQ

Coefficients^a

Model	Unstd. Coefficients		Std. Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	68.82	9.08		11.59	.00
IBC	6.51	3.69	.07	1.77	.12
MO	.41	3.99	.00	2.14	.01
AC	-.28	1.18	-.01	-.28	.41
BOD	-.12	.29	-.02	-.42	.16
IO	-2.52	1.80	-.06	-1.39	.12
SIZE	-2.37	.30	-.33	-7.86	.00
FAM	2.25	1.15	.08	4.95	.03

a. Dependent Variable: CP_ROA

the board of directors is 5, which is fairly small size ranging between 2 to 11 members, as well as the audit committee size is 3, ranging between 2 to 5 members. However, the mean value of independent board of commissioners is 42% indicating relatively high independent members to the executives of the company. In regards to corporate performance, both proxies (i.e. ROA and Tobin's Q) have the mean value 317% and 110% respectively.

Then, this study run the classical assumption of regression¹ for both models (i.e. with Tobin's Q and ROA as performance proxies). The normality test with asymp sig for both models are 0.230 and 0.154 respectively, which are higher than 0.05. It means that all data on both models are normal. Again, The VIF and tolerance value for both models indicate no problem with multicollinearity. Moreo-

ver, the results also show that heteroscedasticity and autocorrelation tests for both models met.

Results of Regression Analysis

Table 3 presents the relationship between corporate performances (CP) either measured by Tobin's Q or ROA as the dependent variable and the independent variables consisting of family controlled firm (FAM) and corporate governance variables including firm size as control. The finding reveals that FAM positively influences on CP either measured by Tobin's Q or ROA. Moreover, the evidence shows that only one governance variable, namely MO, has positive significant effect on CP as per expectation on both models. While other governance variables, i.e. IO, BOD, AC and IBC show no significant influence on CP either measured by Tobin's Q and ROA. Therefore, H1 is accepted and H2 is partly accepted only for MO, rejected for the rests (i.e. IO, BOD, AC and IBC). In regards to control variable, firm size (SIZE) has a significant positive

¹ This paper does not show the complete result here for brevity, but it will be available from the author if requested.

influence on CP measured by Tobin's Q and negative influence on CP measured by ROA.

Discussion

The first hypothesis relates to the link between family controlled firm and corporate performance. The finding concludes that H₁ is accepted for both corporate performance proxies, i.e. Tobin's Q and ROA. This finding confirms the notion of agency theory which argues that founding family ownership helps to mitigate agency problems between managers and owners due to similar groups of individual merge in firm's managerial position to achieve firm's goals. Therefore they can align their effort to promote firm success and ultimately improve firm performance, either market based (i.e. Tobin's Q) or accounting based (ROA). This result is in-line with Anderson and Reeb (2003) who found that family firms tend to have better performance than non-family controlled firms measured by both accounting (i.e. ROA) and market value basis (i.e. Tobin's Q) when family members actively involve in the governance structure of the firm. It also supports Maury (2006) who documented that active family controlled is associated with higher profitability compared to nonfamily controlled firms when the presence of family members within the firm board structure can create more conducive control environment.

This study is also consistent with other previous studies such as: Ward (1988), Chen et al. (2005), Martinez et al. (2007), Andres (2008), Ibrahim and Samad (2011) and Chu (2011) who found a positive relationship between family ownership and corporate performance. However, the finding on this study is not in-line with several studies which did not confirm a positive link between firm performance and ownership concentration (e.g. Demsetz & Lehn 1985; Demsetz & Villalonga 2001; Onder 2003; Chen et al. 2005; and Latif et al. 2014). The acceptance of first hypothesis provides empirical evidence in emerging market context, i.e. Indonesia where the presence of family controlled firms are relatively high, i.e. 49 percent as discussed in the result of descriptive statistics on Table 2 at previous section, where the rise number of family members inside the firm can effectively improve corporate performance by curbing the agency problem between principal and managers. In other word, active involvement of family members in the firm creates more conducive working environment enabling managers to maximize firm's resources to achieve its goals.

Yet, the second hypothesis relates to the rela-

tionship between governance variables (i.e. IO, MO, AC, BOD and IBC) and corporate performance. For those governance variables, only MO positively significant influence on corporate performance, while the rests have no significant influence on corporate performance. It could be concluded that the second hypothesis is partly accepted only for MO, indicating that other governance variables (i.e. IO, AC, BOD, and IBC) implemented in Indonesian listed firms still cannot optimize their main function to oversee managers' activities in order to utilize firm resources in achieving better performance rather than opportunistic behavior. With the partly acceptance of second hypothesis showing a positive influence of MO on corporate performance by using market based (Tobin's Q) and accounting based (ROA) performance supports the argument of agency theory stating that the rise of managerial ownership creates a condition that enables it more capable to align the interests of insiders and other shareholders.

The alignment effect above enables managers to focus in using company resources to achieve firm's goals which ultimately improve firm performance. This condition happens when the managerial ownership is on the relatively low level supporting the "incentive argument" rather than "entrenchment" as in Indonesian listed firm with 11% mean value of MO. This finding is consistent with Mork et al. (1988) who found that firm performance measured with the Tobin's Q rises when insider ownership increases up to 5% and decreases on the higher level. Similarly, It is also consistent with McConnell and Servaes (1990) who found that firm performance rises when the level of insider ownership reaches up to 37% and decreases when reaches higher level.

Again, It is also in-line with Himmelberg et al. (1999), Mueller and Oener (2006), Ruan et al. (2011), Palia and Lichtenberg (1999) and Hu and Zhou (2008) who documented that the relation between firm performance and managerial ownership is positive on the relatively low level of insider ownership. However, the finding on this study is not consistent with prior studies which argued that the growing volume of managerial ownership can be expected to result in reduced corporate performance (e.g. Demsetz 1983; Claessens et al. 2002; Wright et al. 2002; Simonetic & Gregoric 2004). It is because those studies were conducted in countries where the managerial ownership is relatively high, while in Indonesia such ownership is relatively low.

The finding of IO on CP cannot confirm a sig-

nificant relationship between both variables. This finding does not support the notion of agency theory which states that large ownership are more likely to use their ownership rights to give pressure on managers in order to act in the best interest of all shareholders (Cornett et al. 2007). It means that with relatively high level of IO in Indonesian listed firms still cannot optimize its function to monitor and pressure managers in order to act in-line with the shareholders' interests. However, the result is still consistent with several prior studies such as Chaganti and Damanpour (1991) and Lowenstein (1991) who found no evidence that institutional ownership is correlated with firm performance. Moreover, it is also consistent with Agrawal and Knoeber (1996), Craswell et al (1997) and Charvudine and Elmarzougui (2010) who failed to prove such significant relation. In other hand, the finding is not in-line with McConnell and Servaes (1990), Cornett et al (2007), who documented a positive relation between institutional ownership and firm value measured by Tobin's Q. Again, it is not consistent with Shleifer and Vishny (1986) and Bjuggren et al (2007) who confirmed a positive relation between institutional ownership and firm performance.

The finding of AC on CP does not support the concept of agency theory, which argues that the existence of such committee is for monitoring function not only on firm financial performance but also on firm financial reporting. It means that the presence of audit committee in Indonesian listed firms still cannot optimize its function to monitor managers in order to act in the best interest of shareholders to improve firm financial performance as well as firm financial reporting. The optimum monitoring function conducted by AC will prevent managers from opportunistic behavior such as hiding their fraud activities by presenting fraudulent financial statements. Unfortunately, this ideal condition does not happen in Indonesian listed firms where the finding of descriptive statistics shows that the number of AC members has mean value relatively low, that is 3, ranging from 2 to 5 alarming that the presence of this committee only to comply with the regulations of the authorities in the capital market. Therefore, AC is powerless in front of managers to monitor and control their activities and ultimately cannot improve corporate performance. This finding is not consistent with previous major studies on this issue in other countries which found a positive relationship between AC and CP (e.g. Klein 1998; Chan and Li 2008; Abbott et al. 2004; Kirkpatrick 2009; Aldamen et al.

2012).

Again, the finding of board of directors on corporate performance does not support the argument of agency theory explaining that board can play crucial role in monitoring of management activities to reduce agency costs and maintaining managerial accountability to achieve good performance (Eisenhardt 1989; Shleifer & Vishny 1997). It means that the presence of BOD in Indonesian listed firms with relatively small size (i.e. 5) as explained in descriptive statistics section still cannot optimize its function in monitoring managers' activities. It also indicates that the presence of BOD does not have strong power to run its function in reducing agency cost in the firms. However, this finding is consistent with Hermalin and Weisbach (1991) who found no significant relationship between board number and performance. In other side this finding is not in accordance with several previous studies such as : Chaganti et al. (1985), Fauzi and Locke (2012), Prevost et al. (2002), Adams and Mehran (2003) and Horvath and Spirollari (2012).

Moreover, in regard to the link between IBC and CP, this study does not support the notion of agency theory arguing that outside board of directors could improve the firm value by monitoring services which can protect shareholder's interest. It means that the relatively high proportion of IBC (i.e. 42%) as explained in descriptive statistics section within Indonesian listed firm still can not optimize its function particularly in monitoring of managers' activities and protecting shareholders' interests. It indicates that the level of independence of IBC members is very doubtful when they can not optimize their function to monitor managers. Therefore, IBC high proportion cannot corporate performance. This finding is not consistent with some researchers who believe that outside directors are better representatives of shareholder's interests than inside directors such as : Pearce and Zahra (1992), Perry and Shivdasani (2005), Shivdasani and Yermack (1999), Beasley (1996), Bhagat and Black (2002), Klein (1998), Chan and Li (2008), Ness et al. (2010), Francis et al. (2012) and Horvath and Spirollari (2012).

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

In general, it can be concluded as follows. The OLS regression analysis findings document that: (i) family controlled firm has positive significant effect on improving corporate performance either with Tobin's Q or ROA as expected (ii) unlike the expectation, only managerial ownership has positive sig-

nificant influence on corporate performance, while the rests of governance variables do not have significant influence on corporate performance neither for Tobin's Q nor ROA.

Besides the above findings, this study has limitations as it used only 112 companies from the total population of 534 (only 21%) companies. With this apparent data availability, this study contributes to the literature in the Indonesian context in identifying the influence of family controlled firm on corporate performance and governance mechanisms that is effective in improving corporate performance (i.e. MO). More importantly, it reveals the fact that governance mechanisms (i.e. IO, AC, BOD and IBC) in Indonesian listed firm still cannot optimize their function.

This study suggests that the existence of those mechanisms still merely comply with existing regulations in the capital market thus do not have strong role in monitoring and pressuring managers in order to act in the best interest of all shareholders. The managerial implication from the results of this study is how the firm can maintain the family ownership on certain level where it can improve firm performance by aligning the interests of outside and inside shareholders. Moreover, it is very important to keep the MO in low level in order to convince that it presence supports incentive argument rather than entrenchment. It is also important to give stronger role for IO, AC, BOD, and IBC, so these governance mechanisms can optimize their main function and ultimately improve firm performance. It is also suggested to all Indonesian listed firm to add the number of AC due to its limited number, i.e. 3 indicating only to comply with Indonesian capital market regulations, thus AC still cannot optimize its function. Again, it is also very important to appoint the IBC members having high level of independence thus their presence are powerful in monitoring manager activities and protecting shareholders' interests.

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