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Family and Non-Family Firm: Overview From Aspects of Financial Performance

Tyara Dwi Putri[1*], Purbo Jadmiko[2], Neva Novianti[3]

[1]Management / Faculty of Economic and Business, Bung Hatta University, Padang
[2] Management / Faculty of Economic and Business, Bung Hatta University, Padang
[3]Accounting / Faculty of Economic and Business, Bung Hatta University, Padang

Author's email: tyaradwiputri@bunghatta.ac.id; purbojadmiko@bunghatta.ac.id; nevanovianti@bunghatta.ac.id
*Corresponding author : *tyaradwiputri@bunghatta.ac.id*

Abstract. The purpose of this study is to empirically examine the differences in performance between family firms and non-family firms. The proxy used to measure the company's performance is Return on Assets (ROA). The population used in this study is a manufacturing company for the 2016-2019 period. The sampling method used the purposive sampling method. The sample used is 11 family companies and 30 non-family companies. The results showed that there was no difference in the performance of family firms and non-family firms.

Keywords: performance; ROA, family firms, non family firms

1. INTRODUCTION

Firm performance is the main criterion in determining success in achieving firm goals. The financial performance of a firm is a very important factor to be considered by an investor in investing. Investors can see the financial performance of a firm from the financial statements it issues. The firm's financial performance cannot be improved if there is a conflict of interest between the agent and the principal which is often referred to as an agency conflict (Brigham and Ehrhardt, 2011:8). Agency problems in the firm can occur because of asymmetric information between managers and shareholders, namely when one party has information that is not owned by the other party. (Brigham and Ehrhardt, 2011:614)

The management of a firm in operating is expected to prioritize the interests of the firm. Agency problems in a firm can also occur when managers have interests that are no longer aligned with shareholders. Managers will take actions that only benefit themselves, thereby harming shareholders. Claessens and Fan (2002) researched on corporate governance in Asia and found that agency problem that occur in firms arise

because of a concentrated ownership structure within the firm. This happens because there is no protection of the rights of minority shareholders so that agency conflicts occur between majority and minority shareholders.

Claessens (1999) conducted research in nine countries in East Asia, namely Hong Kong, Indonesia, the Philippines, Taiwan, Japan, Korea, Malaysia, Singapore, and Thailand found that the ownership structure in these nine countries tends to be 60% owned by families. The presence of the family as a controlling shareholder can affect the company in several aspects, one of which is the financial aspect. This is because the controlling shareholder has the power to be able to give his opinion to the directors, management, and minority shareholders. In a dispersed ownership structure, the majority of the firm's shares are owned by many people, most of whom are the general public. Putri (2018) explains that share ownership by institutions is able to supervise management. This will provide encouragement for the company to be able to optimize the value of the firm so that the firm's performance will also increase.

Because ownership represents a source of power that can be used to support or vice versa for the existence of management, the concentration or distribution of power becomes a relevant matter. With the concentration of ownership, shareholders can monitor managers better (Shleifer and Vishny, 1986). Managerial ownership is one of the elements of good corporate governance that influences management to do the best for the shareholders as shareholders. Managerial ownership in a firm, can lead to allegations that the value of the company increases as a result of increased management ownership. Managers as owners of the company will act in the interests of the firm (Jensen dan Meckilng, 1976). Putri, (2020) found that family ownership doest not effect on the performance of family firms.

The existence of family control in a company provides several advantages for the firm in terms of the effectiveness of firm management control. The existence of effective control of the family over management will lead to an increase in profitability and firm value. However, poor family control will hurt the value of the firm because it can cause a conflict. With the number of firms in Indonesia that are by families, and with the inconsistency of research results, researchers are motivated to examine how the performance differences between family firms and non-family firms in Indonesia are.

2. LITERATURE REVIEW

2.1. Agency Theory

Agency theory discusses the relationship between agents and principals. Where the agent is the management of the firm while the principal is the shareholder. The agent and principal are bound by a contract that states their respective rights and obligations. The principal provides facilities and funds to run the company. This agency theory arises because of asymmetric information between principal and agent, asymmetric interest between principal and agent, and due to unobservable behavior or bounded rationality. With these three things, the principal and agent will prioritize their respective welfare. The agent will try to maximize his prosperity by expecting a large compensation. Meanwhile, shareholders will maximize welfare through a maximum dividend distribution.

Agency problems can also occur due to asymmetric information between managers and investors, when one party has information that the other party does not have. Usually, a manager will have more information than the firm's investors. The manager will have a very important influence on the optimal firm capital structure (Brigham and Ehrhardt, 2011)

There are three agency problems, namely agency problems between company managers and shareholders (agency problem type 1). This problem occurs because management acts more concerned with personal interests than the interests of the company. Or in other words, managers in the company tend to expropriate in the form of asset misallocation (Jerzemowska, 2006). Agency problems also occur between controlling shareholders and non-controlling shareholders (agency problem type 2). Agency problem between creditors and company managers (agency problem type 3). Shleifer and Vishny (1997) explained that concentrated ownership that exceeds a certain level, will cause these owners to use their rights for personal gain, which will lead to agency conflicts.

2.2 Financial Performance

The firm's financial performance can be illustrated from the financial statements issued by the firm. Financial statements report both the position of the firm at a certain time and its operations over several past periods. However, the real value of a financial statement is the fact that it can be used to help predict future earnings and dividends (Brigham and Houston, 2011). From an investor's point of view, financial statement analysis is used to predict the future whereas, from a management point of view, financial statement analysis is used to anticipate future conditions and more importantly as a starting point for planning actions that will affect future events.

2.3 Previous Research and Hypothesis Development

In a family firm, there is a synergy between the agent and the principal in the company. The family company creates synergies in the form of common goals to be achieved to maintain the survival of the firm. Meanwhile, non-family firms are more concerned with fulfilling short-term performance than long-term performance. Low bureaucracy in a firm makes agency costs lower and profitability higher. Kusumawati and Charitas 2020 found that there are differences in the performance of family and non-family firms. Based on the theory and explanation of the results of previous research, the proposed hypothesis is:

H_1 : there are differences performance of a family firms and non-family firms.

3. METHODOLOGY

The population in this study are manufacturing firms listed on the Indonesia Stock Exchange for the 2016-2019 period. The sampling method used the purposive sampling method. The criteria used are:

1. Manufacturing firms listed on the IDX for the years 2016 to 2019.
2. Provide a complete annual report for 2016 to 2019.
3. Have complete data related to the variables used in the study.
4. Does not involve firms conducting delisting during the observation period.
5. Does not involve firms whose data are incomplete and have data outliers (having very different data from other firms).

The type of data used is secondary data, namely quantitative data taken from the Indonesia Stock Exchange website. The data used is the annual report of manufacturing companies listed on the IDX for the period 2016 to 2019. The data

analysis technique used in this study is an independent sample difference test. The variable used in this study is a return on assets (ROA). firms show their performance through the firm's annual financial reports.

$$\textbf{Return on assets} = \frac{Laba\ Bersih}{Total\ Assets}$$

4. RESULT AND DISCUSSION

Based on the results of data collection on research variables obtained, the statistics of research variables are as follows:

Table 1. Statistic Descriptive

	ROA (Family Firm)	ROA (Non-Family Firm)
Mean	2.584958E1	2.185435E1
Maximum	205.8896	264.6796
Minimum	3.9577	1.8986

From the statistical descriptive table above, it can be seen that the average ROA of family firms is greater than that of non-family firms. The maximum ROA value for family firms is 205.8896 and the minimum value is 3.9577. Meanwhile, the maximum ROA of non-family companies is 264.6796 and the minimum value is 1.8986.

Hypothesis testing in this research uses Mann Whitney U. Based on the tests that have been carried out, it can be seen the results obtained are as follows:

Table 2. Hypothesis Testing Results

	ROA
Mann-Whitney U **Asymptotic Sig. (2-tailed)**	0,074

Based on the results of the Mann Whitney U test, comparing the profitability performance (ROA) between family and non-family firms obtained a significance value of 0.074> 0.05. Thus H1 is rejected which means there is no difference in the performance of family firms and non-family firms.

Family and non-family firms strive to show good performance for their companies. Family and non-family firms try to maintain the trust of stakeholders in the firm. This good performance will have an impact on the sustainability of the firms going

forward. These results are in line with research conducted by Kusumawati and Charitas (2020).

CONCLUSION

This study separates the research sample into groups of family firms and non-family firms. Based on the results of the study, it was found that there was no difference in performance between family and non-family firms. The two groups of companies are trying to provide good performance for their firms.

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