

THE DIFFERENCES BETWEEN FAMILY FIRM AND NON-FAMILY FIRM PERFORMANCE: STUDY ON PEFINDO25 INDEX

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ABSTRACT

Family firms are companies that are controlled by family members through ownership and management. This study aims to observe the existence of cash holding, gender diversity, and performance in family and non-family firms. Purposive sampling in this study resulted in 47 samples of companies listed on the PEFINDO25 Index. The selection of these samples found 26 family firms and 21 non-family firms. Test results in this study prove that there is a significant difference in cash holding. Cash holding at the family firm is larger, but variables other than cash holding do not show a significant difference. The implications of this study are for investors, governments, and corporate power holders as a reference for decision making.

Keywords: Cash holding, Family firm, Gender Diversity, Leverage

INTRODUCTION

The company has grown a lot in Indonesia, both family companies and non-family companies. Family-owned companies (family firms) and companies that are not owned by families (non-family firms) have differences which until now have been debated. Debates that occur are company profits, decision making, and leadership structures that can determine the company's stock price. Companies can be family firm if that are approved by major shareholders and leadership of the family (Bertrand & Schoar, 2006). Family members usually become owners, CEOs, and managers. Research conducted by Glaeser et al. (2007) found many companies in the world developed by the founder family or founder of the company itself.

Family firms in Indonesia have more gender diversity than non-family firms (Kristanti, Hendrawan, Eka, & Alrasidi, 2019). Rhode & Packel (2012) research, shows that female directors have different leadership aspects from men so that they can increase the value of corporate leadership. In addition, Kang et al. (2007) study show that women can also increase company value. Therefore the presence of women in a company can be very influential.

In a company, cash holding is also important because the company will definitely maintain an optimal level of cash holding (Ozkan & Ozkan, 2004). At Agency Theory the manager would prefer to retain cash rather than distribute it to shareholders. In the research of Ozkan & Ozkan (2004) family firms have more cash holding than non-family firms. But a large amount of cash holding can also cause agency problems as in the research of Cheryta et al. (2018).

Research on the family firm and the non-family firm has been done as in the research of Bambang & Hermawan (2013) found that family firm has a worse performance compared to non-family firm besides that Singapurwoko (2013) study also found that non-family firm produces better performance than family firms. But in Japan family firm is superior to the non-family firm (Allouche, Amann, Jaussaud, & Kurashina, 2008). The results are different from the research of Afza Amran & Che Ahmad (2009) who found that there was no difference between family firm and non-family firm.

The company's performance may decline because large shareholders remain active even though the holder is no longer competent, it will have an impact on the performance of the company both family and non-family firm (Kristanti et al., 2019). In the research that has been done, only a few of them have included gender diversity in their research, so this study uses gender diversity as one of its variables. The importance of women is evident in the study of Rhode & Packel (2012), Kang et al. (2007), Adams & Ferreira (2009) which states that women have different characteristics from men and the presence of women can change the performance of the company.

This study uses the PEFINDO25 index compiled by the “*Pemeringkat Efek Indonesia*” with 25 selected public companies. Most of the companies included in PEFINDO25 are small companies. From the PEFINDO25 index, five years of data will be taken for the period 2014-2018. This research can be used to see what factors give effect to family and non-family firms. Furthermore, the estimation results will be strengthened by a different test that will check whether there are differences in each variable, and the size variable in this study will be used as a control variable. The results of this study are expected to provide literature to academics about the differences between family and non-family firms in Indonesia. The problem in this study is whether family firms have differences in performance with the non-family firm? After that does

the family firm have a performance that is superior to non-family-firm? In addition, this research is also expected to benefit investors in Indonesia to choose between family and non-family firms to invest.

HYPOTHESES DEVELOPMENT

Both family firms and the non-family firm often have internal problems, which is an agency problem. Agency problem theory according to Jensen & Meckling (1976), is that there are differences in interests between shareholders and managers, where managers will be more concerned with their own benefits than those of shareholders. This Agency Problem can be reduced by increasing the value of company management. If the holder of power in the company is a family, it will be able to create a superior management value. When the founder of the company can control his family members in making corporate decisions, the Agency problem can be minimized. In the research of Chrisman, Chua, & Pearson (2012) it was found that family firms can be superior because they do not pursue economic goals but to improve social status and family harmony. So if the conflict at the company gets lower, then the company's performance will also be higher.

Companies can be said family firm varies in several studies. As in the research, Barontini & Caprio (2006) said that the company is said to be a family firm if the individual has a minimum of 50 percent rights of share ownership. Research conducted by Faccio, Lang H.P., & Leslie (2001) the company is said to be a family firm if individuals have share ownership of only 20 percent. Companies can also be categorized as a family firm if there are two generations involved in decision making (Robert, 1988). Research Andres (2008) classifies a family firm if the company has a minimum of 25 percent share ownership owned by the founder or family members of the founding family occupies a good position in the company.

Gender Diversity

Gender is all the social attributes of men and women. Gender differences that exist in corporate leadership can cause different things. Men, in general, have strong, rational, manly, and masculine traits. Meanwhile, women have a subtle, sensitive, weak, polite, and feminine nature (Hermawati, 2007). The diversity that occurs can have positive effects, one of which is in the research of Ali, Chen, & Radhakrishnan (2007),

it is proven that having a woman in the corporate leadership environment can have a better relationship with female stakeholders. Men and women have different perspectives, knowledge and skills that can produce effective decision making. Gender differences in the family firm can be said to be better than non-family firms if gender differences increase along with company performance. Research conducted by Lückerath-Rovers (2013) proves that female directors have a positive impact on company performance. Therefore the following hypothesis can be taken:

H1: gender diversity is more dominant in the family firm

Cash Holding

In cash holding in companies generally adheres to three theories, free cash flow theory, and trade-off theory. According to the free cash flow theory, the problem will be even greater if the company has a large amount of free cash flow. Trade-off theory states that the optimal level of corporate cash equals the balance of benefits and sacrifices arising from the combined use of debt and capital (M. C. Jensen, 2005). The role of cash holding in the company is needed, cash holding itself is cash or physical investment assets that are stored by the company or jointly owned by the investor (Gill, 2012). In the company implied agency problem where family members get more benefit from the cash saved by the company rather than distributed with shareholders. According to the research of Faccio et al. (2001) state that families control a large part of a company's cash policy and incentives for distribution to low minority shareholders. Then the hypothesis can be formulated as follows:

H2: cash holding is more in the family firm

Performance

The company is said to be good or not determined through the performance. Performance in a company can be seen from several sides, the most important thing is the profit and debt of the company. Some studies show differences in company performance. In the study of Allouche et al. (2008) found that family firms performed better than non-family firms. In addition, Miller & Breton-miller (2006) also states that family firms have better performance. Better family firm performance may also be supported by incentives to reduce the existing agency costs (Anderson & Reeb, 2003). In a family firm company welfare is the same as family welfare, therefore incompetent management and free-rider problems can be minimized. From some of the things done,

it can be seen that the family firm is superior, the hypothesis can be formulated as follows:

H3: Family firm performance is superior

METHOD, DATA, AND ANALYSIS

This study uses financial data on all companies that have been listed on the PEFINDO25 index, both companies are family firm or non-family firm. This study aims to assess the performance of the family firm and non-family firm with the independent variables used are GD (Gender Diversity), CH (Cash Holding), Size, ROE (Return on Equity), and DER (Debt to Equity Ratio). Gender Diversity will show the ratio of the presence of women in the corporate leadership section. Cash holding is cash and cash equivalents divided by total assets (Ozkan & Ozkan, 2004). Size is the size of the company calculated using the natural logarithm of total assets (Gill, 2012). Return on Equity is the ratio between net income after tax divided by total equity. Debt to Equity Ratio is total debt divided by total equity.

Sampling is done by purposive sampling on companies listed on the PEFINDO25 index for the period 2014-2018, then companies must have complete data for 5 years. Of a total population of 66 companies, around 47 companies passed and 19 companies did not meet the selection requirements. The independent variable used is the company listed on the PEFINDO25 index, which will be coded 1 if it falls into the category of the family firm and 0 if it falls into the category of the non-family firm. Andres's (2008) research categorizes a company as a family firm if the founder or family member has more than 25 percent share ownership and occupies executive and supervisory positions.

The type of regression used in this study is Logistic regression. The model for logistic regression for all samples used is as follows:

$$\ln \frac{p}{1-p} = X_0 + X_1GD + X_2CH + X_3ROE + X_4DER + X_5Sz$$

X_0	: Constant
GD	: <i>Gender Diversity</i>
CH	: <i>Cash Holding</i>
ROE	: <i>Return on Equity</i>
DER	: <i>Debt to Equity Ratio</i>
Sz	: <i>Size</i>

RESULTS & DISCUSSION

The results of the statistical description of Table 1 show that the Debt to Equity Ratio or DER on 235 data has an average of 118.13 with a standard deviation of 165.7. A standard deviation that is higher than the average indicates that the DER variable has a high gap between the maximum value and the minimum value, this is also found in the Return on Equity or ROE variable which the average value is smaller than the standard deviation. (See Table 1 & 2)

Based on the probability of the Hosmer & Lemeshow test (Table 3) a significant model test result of 0.077 indicates that the model is right.

The Nagelke R Square value (Table 4) shows a percentage of 31 percent indicating the variability of the independent variable is 31 percent. The remaining 69 percent is explained by other variables, not in the model. The accuracy of the model in this study can be seen in the classification table. Perfect model accuracy is 100 percent but the accuracy of the model in this study is only 63.4 percent (Table 5). The estimation results produce the following models:

$$\text{Ln} \frac{p}{1-p} = 1,164 - 0,12GD + 0,035CH + 0,004ROE - 0,0001DER + - 0,2Sz$$

After that, logistic regression testing is done and the results are shown in the table 6.

From the test results (Table 6) it can be seen that only cash holding has a significant effect with a significance level of 0.077 with an alpha level of 10%. Then it can be concluded that the cash holding in the family firm is more than the non-family firm. But gender diversity, size, DER, and ROE variables do not have a significant effect.

High cash holding in the family firm is in line with the agency problem theory where the family firm will save more money than it is distributed to shareholders. In line with research Kristanti et al. (2019) which states that greater cash holding is in the family firm. Research Faccio et al. (2001) also states that family firms tend to have greater cash control compared to distributing cash to minimal shareholders.

Gender diversity in companies in the PEFINDO25 index is not too much. Some companies in the PEFINDO25 index still use women as leaders both directors and commissioners. This result is not in line with the research of Kristanti et al. (2019) which states that the family firm has a higher gender diversity compared to a non-family firm in the KOMPAS100 index. When viewed from the mean (Table 2) shows that

gender diversity in the non-family firm more than the family firm, but the number is also still in the small category.

Company performance on the PEFINDO 25 index both family and the non-family firm is not affected by the size, DER, and ROE. The size of the family firm and a non-family firm are not different, but for DER and ROE family firm is on average superior. These results are the same as the research of Afza Amran & Che Ahmad (2009) which states that there is no difference in performance between a family firm and a non-family firm.

For companies, the results of this study can be used as a basis for managerial decision making. This proves that gender diversity in companies in the PEFINDO25 index is still minimal so that the role of women can be considered to be their board of directors. For the government, these results can be taken into consideration for making regulations on gender diversity in companies. For investors investing in the family firm and non-family firm in the PEFINDO25 index has no difference. For readers to be able to add insight into the differences in the family firm and non-family firm in companies contained in the PEFINDO25 index.

CONCLUSION

Companies listed in the PEFINDO25 index are mostly family firms. The family firm contained in the PEFINDO25 index has a greater cash holding compared to non-family firms. Gender diversity in the PEFINDO25 index company is still quite small. For family-size firm and the non-family firm have the same size. On ROE and DER family firm has a superior average. The test results show that the family firm is proven to have more cash holding compared to the non-family firm. But for gender diversity, size, DER, and ROE were not significant in this study. But the hypothesis is proven that the family firm has a higher cash holding but not for gender diversity, size, DER, and ROE.

IMPLICATIONS

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index is still minimal so that the role of women can be considered to be their board of directors. For the government, these results can be taken into consideration for making regulations on gender diversity in companies. For investors investing in the family firm and non-family firm in the PEFINDO25 index has no difference. For readers to be able to add insight into the differences in the family firm and non-family firm in companies contained in the PEFINDO25 index.

LIMITATIONS AND SUGGESTIONS

Limitations of this study 1) Company description of family ownership or not less clearly illustrated in the financial statements. 2) The scope of research only focuses on financial ratios. 3) The object of research is only targeted companies that are on the PEFINDO25 index. 4) Not all companies can survive on the PEFINDO25 index.

Suggestions in this study 1) Future studies need to use sources other than financial reports and annual reports to assess family companies, especially for groups of companies from a prospectus of a corporation. 2) Using more variable variables apart from cash holding variables, gender diversity, size, DER, and ROE.

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TABLE

Tabel 1. Statistic Descriptive

	N	Minimum	Maximum	Mean	Std.Deviation
CH	235	0.21	70.19	10.5603	9.65830
GD	235	0.00	44.44	12.1592	11.82376
SIZE	235	4.00	7.00	5.6809	0.78191
DER	235	-317.08	1819.00	118.1301	165.70051
ROE	235	-199.63	799.10	15.0587	57.07314

Tabel 2. Descriptive Table Family Firm and Non-Family Firm

	FAMILY FIRM (=1), NON-FAMILY FIRM (=0)	N	Mean	Std. Deviation	Std. Error Mean
CH	0	105	9.5776	10.75243	1.04933
	1	130	11.3541	8.63602	0.75743
GD	0	105	12.9173	12.16144	1.18684
	1	130	11.5468	11.55464	1.01341
SIZE	0	105	5.6667	0.81650	0.07968
	1	130	5.6923	0.75582	0.06629

DER	0	105	125.9503	197.80162	19.30336
	1	130	111.8138	134.80513	11.82319
ROE	0	105	19.1701	83.56120	8.15474
	1	130	11.7378	15.95355	1.39922

Tabel 3. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	14.192	8	0.077

Tabel 4. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	317.547 ^a	0.23	0.031

Tabel 5. Classification Table

	Observed		Predicted		
			KODE		Percentage Correct
			NON FAMILY FIRM	FAMILY FIRM	
Step 1	KODE	NON FAMILY FIRM	33	72	31.4
		FAMILY FIRM	14	116	89.2
	Overall Percentage				63.4

Table 6. Regression Logistic Table

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	CH	0.035	0.020	3.132	1	0.077	1.036
	GD	-0.012	0.011	1.016	1	0.313	0.989
	SIZE	-0.200	0.224	0.796	1	0.372	0.819
	DER	0.0001	0.001	0.024	1	0.876	1.000
	ROE	-0.004	0.004	1.348	1	0.246	0.996
	Constant	1.164	1.189	0.959	1	0.327	3.204

a. Variable(s) entered on step 1: CH, GD, SIZE, DER, ROE.