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# The differences between family firms and non-family firms: Evidence in Indonesia

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**Abstract**

A family firm is a firm controlled by members of a family through their ownership in the management. This study aimed to observe the presence of differences in gender diversity, cash holding, and financial performance on Family Firms (FFs) and Non-Family Firms (NFFs). The purposive sampling conducted in this study produced 67 samples of companies listed on the Compass 100 Index. They mostly belong to the FF criteria. They also have gender diversity, non-conservative capital structure, medium-size, and low cash holding. The results of difference tests proved the presence of significant differences between the FFs and the NFFs on the variables of firm size, leverage, and gender diversity. Although ROE did not show significant differences, the FFs had higher ROE than the NFFs. Furthermore, the practical implication of this study is the need to consider the presence of women on the board and their share in the firms' decision making.

***Abstrak***

*Perusahaan keluarga adalah perusahaan dimana sebuah keluarga mengendalikan perusahaan melalui kepemilikannya dalam manajemen. Penelitian ini bertujuan untuk melihat apakah ada perbedaan keragaman gender, kas perusahaan, dan kinerja keuangan pada perusahaan keluarga dan perusahaan bukan keluarga.* Purposive sampling *menghasilkan 67 sampel atas perusahaan Indeks* kompas *100. Uji beda yang digunakan menunjukkan bukti bahwa ada perbedaan yang signifikan antara perusahaan keluarga dan perusahaan bukan keluarga untuk variabel ukuran perusahaan, rasio utang, dan keragaman gender. Walaupun ROE tidak menunjukkan perbedaan yang signifikan, namun perusahaan keluarga memiliki ROE yang lebih tinggi dibandingkan perusahaan bukan keluarga. Implikasi praktisnya adalah perlunya mempertimbangkan kehadiran wanita dalam dewan dan mempertimbangkan porsi mereka dalam pengambilan keputusan perusahaan.*

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## 1. Introduction

The characteristics of Family Firms (FFs) are different from those of Non-Family Firms (NFFs), and they still become the topic of debate until now. The involvement of the family in companies covers four things: ownership, board, family CEOs and family managers. The family business is a company that has a family as the main stakeholder, and the majority of the management is their family, and their children are expected to follow their path of managing the company. This means that members of the family get involved in running the business. The family involvement in ownership is usually measured by the percentage of their ownership in shares (Sciascia & Mazzola, 2008). The family ownership reflects the share of the company owned by the family. The FFs get a lot of attention from economic literature and finances because many ongoing studies show that the majority of companies in the world are controlled by founders or their founders' descendants (Bennedsen, Nielsen, Perez-Gonzales, & Wolfenzon, 2007). The founding families own and control one-third of the large companies in the US (Anderson & Reeb, 2003). In many Asian countries including Indonesia, family-controlled firms are common (Kuan, Li, & Chu, 2011).

The family business survey conducted by PWC in 2014 found that more than 95 percent of businesses in Indonesia were family firms. Barlian (2016) explained in SWA Magazine that 8 percent of family businesses in Indonesia had their next generations working in their firms. The percentage was higher than the global average of 69 percent. The majority of family businesses in Indonesia were entrepreneurial, streamlined, and have a faster decision-making process. Almost all family businesses in Indonesia (97 percent) had at least one mechanism to deal with family conflicts. It was higher than the global average of 82 percent. In contrast, only 14 percent of family businesses have already had documented and communicated inheritance plans, which was quite similar to the global average percentage of 15 percent.

From 2013 to 2016 the average cash holding in the firms listed on the Kompas 100 Index decreased (Figure 1), and it similarly happened to gender diversity. After 2013 became the year with the highest proportion of women on the board of di-

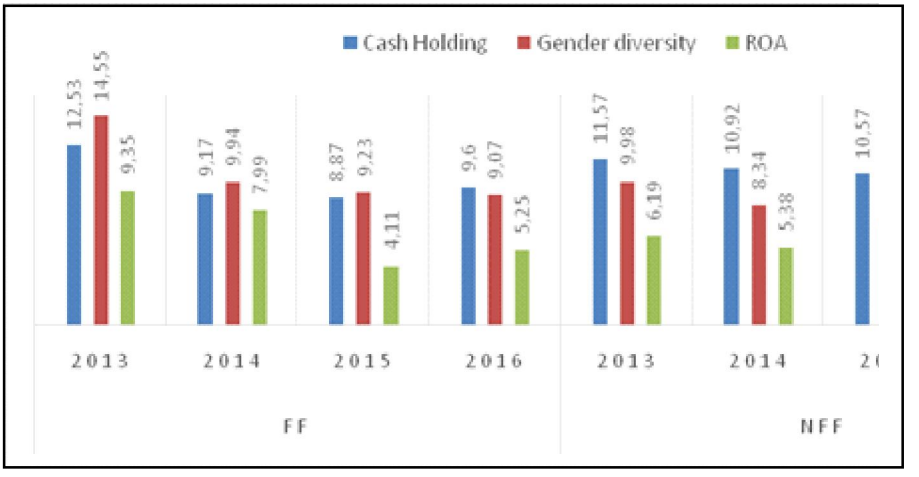


**Figure 1**. Cash holding, gender diversity & ROA of FFs & NFFs in the Kompas 100 index
(Source: Processed Data from IDX)

rectors (14.55 percent for FFs and 9.98 percent for NFFs), the gender diversity declined until 2016 for both FFs and NFFs. On the other hand, FFs 'ROA declined from 2013 until 2015 but then started to increase in 2015. Even though ROA of NFFs declined from 2013 until 2015, the numbers climbed to 6.98 percent in 2016.

Gender diversity on board is important because women have different behaviors from men. They also have different skills, knowledge, and perspectives, as well as integration that result in effective decision making. The need of gender diversity on board is primarily motivated by the fact that female directors are women who have different strengths and experiences from men, which can enhance the value of board (Adams & Ferreira, 2009; Rhode & Packel, 2014). The presence of women on boards might improve shareholder performance and welfare (Ripley, 2003) as well as increase the company value (Kang, Cheng, & Gray, 2007). Other studies have found evidence of the positive impact of female directors on performance (Carter, Simkins, & Simpson, 2003; Campbell & Minguez-Vera, 2008; Adams & Ferreira, 2009; Lukerath-Rovers, 2013). It is in line with the results found in Mittal & Lavina (2018) study on family firms in India, which concluded that the percentage of women on board has a significantly negative effect on financial distress. This finding indicates that higher gender diversity helps to decrease financial distress.

The policy of cash holding is also important in firms' finances. The firms will maintain their optimal level of cash (Ozkan & Ozkan, 2004, Chen & Chuang, 2009). Based on the Agency Theory, there is an incentive for managers to maintain cash rather than distribute it to shareholders. The firms with members of the family to be the primary controllers tend to hold more cash than the non-family-controlled firms in the UK (Ozkan & Ozkan, 2004). Similarly, in Taiwan, Kuan et al. (2011) found that there were differences in the cash policy between the family-controlled and the non-family-controlled firms. In Indonesia, Cheryta, Moeljadi, & Indrawati (2018) state that cash holdings can trigger asymmetry information, and finally, it can cause agency conflict

There were many studies conducted on the performance of the FFs and the NFFs. According to Singapurwoko (2013), the NFFs in Indonesia performed and sustained more rather than the FFs. On the contrary, the study of Bambang & Hermawan (2012) in Indonesia (found that family firms have lower financial performance than that of non-family. The study of Allouche, Amann, Jaussaud, & Kurashina (2008) in Japan showed that the family businesses had a better performance than the NFFs. In India, Sindhuja (2009) conducted his research by using the variables of Tobin's Q ratio, compound annual growth rate of total assets, return on assets, return on net worth, return on capital employed, profit margin, sales turnover, earnings per share, market capitalization, net operating profit after tax, debt to equity ratio, and net worth. The study results showed that some variables were dominant on the FFs, and some others are on the NFFs. It is different from Amran & Ahmad (2009) study, which found that there were no differences between the family-controlled businesses and the non-family-controlled businesses. However, the performance of a firm actually decreases because the large shareholders remain active in management even though they are no longer competent or qualified to run the firm. Consequently, the firm's performance becomes even worse for older family firms than non-family firms.

This study was conducted in the Kompas 100 Index. The Kompas 100 index is a stock index consisting of 100 shares of public companies traded on the Indonesia Stock Exchange representing around 70-80 percent of market capitalization value of all shares listed on the IDX. Accordingly, the index tendency could be observed through the movement of Kompas 100 index. On the other hand, the data indicated that in the index, the number of FFs was higher than NFFs (Table 1, Panel B)

Previous researches on the preceding paragraphs indicated the presence of inconsistency on the empirical results in term of gender diversity variable, cash holding variable, and performance variable. However, there are only a few studies towards the family firms in Indonesia. Otherwise, the phenomenon in Figure 1 was important to be analyzed as well. Accordingly, this study aimed to analyze various determinants that have effects on the FFs and the NFFs. Furthermore, to strengthen the estimation results, the difference test was applied to check whether there were differences in each variable on the FFs and the NFFs. In this study, the variable of size was used as the control variable even the size could affect the dependent variable; the writer neglects its effect. The control variable is a variable that is controlled for its influence on the dependent variable. This control is done by using the same value (used as a constant). The results of this study were expected to contribute to the existing literature on determinant factors of the family firms in Indonesia. Also, the study intended to give fundamental for finance scholars and academics in term of thoroughly investigating the FFs and NFFs phenomenon.

## 2. Hypotheses Development

Agency problems can be reduced by enhancing the value of management. If the CEO or chairman employed is the founder of the firm, family ownership can create value. This could happen because the founder is able to control the family member in making a decision of the company so that the value of management can be increased. This way, the agency problem can be minimized. The Agency Theory appeared based on the idea of the separation between ownership and control. The maximization of the firm value by the FFs may not pursue the economic goals, but rather to build family harmony or enhance their social status (Chrisman, Chua, Perason, & Barnett, 2012). This means that agency conflict in FFs is lower than NFFs. The lower the conflict means the higher firms performance.

A family firm is generally defined Faccio & Lang (2002) as a firm where individuals or constellation of related individuals control at least 20 percent of the right to make decisions in the firm. In a more conservative theory, it is stated that the firm is a family firm if individuals control at least 50 percent of the right to make decisions (Barontini & Caprio (2006) and Classen, Carree, Van Gils, & Peters (2014)). Another definition explains that a firm belongs to the category of the FF if at least two generations get involved in decision power affecting the firm policy (Donnelley, 2004). According to Andres (2008), the firm is a family firm if it meets one of the following requirements: the founder and/or the family member holds more than 25 percent of the voting rights, or the founding family occupies a position in either the executive or the supervisory board.

### Gender diversity

There are two types of diversity: generic diversity (sex, age, ethnicity, and geography) and specific diversity (education, work experience, social class, and marital status). Generic diversity tends to reduce cohesion, interaction, and satisfaction in the team and will strengthen the formation of homogeneous groups. Meanwhile, the specific diversity brings different knowledge and skills into groups that will improve the decision-making process. Without the presence of women on the board, firms may have little connection with female stakeholders (Ali, Chen, & Radhakrishnan, 2014). Men and women have different skills, knowledge, perspectives, and integration. All of which will result in effective decision making. Gender diversity on board is not a big issue in the FFs. Because families may include men or women members, the FFs are considered having greater gender diversity than the NFFs. When gender diversity increases, the perfor-

mance of the company increases. Studies Adams & Ferreira (2009) and Lukerath-Rovers (2013) have found evidence of the positive impact of female directors on performance

$H_1$: the more gender diversity on family firms

## Cash holding

Trade-off theory states that the optimal level of cash is in such a way by choosing how much debt finance and equity finance will be used by balancing costs and benefits. This theory basically requires a balance between the cost of debt and its benefits. The next is Pecking order theory stating the opposite that there is no optimal cash level. Cash is used as a buffer between retained earnings and investment needs. Firms tend to look for funding sources with minimal risk. There is no optimal capital structure because the selection of company funding is based on the order of preferences (hierarchy) of risk. Firms finance their investments primarily from internal funds, then from debt, and finally from equity. According to the free cash flow theory, problems will arise if the firm has a large amount of free cash flow. In general, managers prefer to hold large amounts of cash to increase the total volume of assets in their control.

Cash holding is defined as cash that is kept by the company or is available for physical assets investment and is shared with investors (Gill & Shah, 2012). The agency conflict implies that family members benefit more by holding the cash in the company than paying it to shareholders. Faccio, Larry, & Young (2001) stated that because the family controls almost all the firm policies on the use of corporate cash, the incentives to implement other usages such as distributing it to minority shareholders become low. Therefore, the FFs retain more cash holdings. So, there is a suspicion that the FFs will hold cash in a greater amount than the NFFs.

$H_2$: the more cash holding on family firms

## Performance

Miller & Breton-Miller (2006) also provided evidence that family firms have better performance than non-family firms. Similarly, McConaughy, Matthews, & Fialko (2001) also found evidence that Tobin's Q of the FFs is greater than the NFF. In the opinion of Anderson & Reeb (2003)], family firms have several incentives to reduce agency costs. Because the family welfare closely relates to the well-being of the company, there is a strong incentive to monitor managers and minimize the free-rider problems inherent in atomistic small shareholders.

$H_3$: the more performance on family firms

## 3. Method, Data, and Analysis

The purpose of the study was to assess which ratio variables were able to distinguish firms listed on the Kompas 100 Index, whether they belonged to the family firms or the non-family firms. Logistic regression was used because the assumption of multivariate normal distribution was not fulfilled for the reason that the independent variable was a mixture of continuous and categorical variables (Ghozali, 2009).

The first step in logistic regression was to assess the overall fit model using the likelihood function. If -2LogL for a model with constants and independent variables turns out to be insignificant, it means that the model fits the data. The Hosmer & Lemeshow goodness fit test can be used to test the fit model. If the probability of significance is above 0.05, it can be concluded that the model is fit and acceptable. After that, the parameter estimation can be performed.

Purposive sampling was carried out on the firms on the Kompas 100 Index that listed on the Indonesia Stock Exchange in the period of 2013-2016. Furthermore, the criterion used was the firms should have complete data during the study period. From 135 of total populations, roughly 68 firms did

not possess complete data. Then, purposive sampling produced 67 samples.

The independent variables are the firms listed on Kompas 100 index, which would be coded 1 if the firm belongs to the family firm criteria, and 0 (zero) if it is not the FF. According to Andres (2008), the firm is a family firm if it meets one of the following requirements: the founder and/or the family member holds more than 25 percent of the voting rights, or the founding family occupies a position in either the executive or the supervisory board.

The predictor variables used in this study were Cash Holding (CH), Size (Sz), Return on Equity (ROE), Leverage as measured by Debt Equity Ratio (DER) and Gender Diversity (GD). GD represents diversity in CEOs showing the percentage of women on the board of directors. CH is cash and cash equivalents divided by Total Asset (Ozkan & Ozkan, 2004). Sz is the size of the firm that is calculated using natural logarithms of total assets (Gill & Shah, 2012). ROE is the earnings after the tax is divided by equity. LEV is the total debt divided by the equity. The logistic regression model for all samples used is as follows:

$$Ln\ \frac{p}{1-p} = B_0 + B_1 GD + B_2 CH + B_3 ROE + B_4 LEV + B_5 Sz \quad (1)$$

Furthermore, the independent t-test was applied to observe whether there were significant differences between FF and NFF for the variables used as predictors in this study. The Independent t-test was chosen because the FF group and NFF come from different populations.

## 4. Results

The descriptive statistic result (Table 1, Panel A) shows that gender diversity among the 268 data has averaged around 49 percent with 50.10 percent of the standard deviation. Higher standard deviation compared to the mean indicated that gender diversity variable possesses high gap between the maximum and the minimum value. Similar finding occurs on ROE and LEV variable, however, the phenomenon on the cash holding variable and size found to be the other way around.

Based on the probability of the Hosmer & Lemeshow Test, the model test results of significant 0.051 indicated that the model is fit. The value

**Table 1**. Descriptive statistics

| Panel A. Descriptive for all samples | | | | | |
|---|---|---|---|---|---|
| | **N** | **Minimum** | **Maximum** | **Mean** | **Std. Deviation** |
| GD | 268 | 0 | 1 | 0.4900 | 0.501 |
| CH | 268 | 0.2501 | 47.3374 | 10.4817 | 8.2832 |
| ROE | 268 | -64.3900 | 135.8500 | 14.7198 | 18.7874 |
| LEV | 268 | -24.1183 | 13.5432 | 1.8208 | 3.0014 |
| SIZE | 268 | 14.7233 | 20.7612 | 17.1484 | 1.2616 |
| FF | 268 | 0 | 1 | 0.6400 | 0.4800 |
| **Panel B. Descriptive to FFs and NFFs** | | | | | |
| | **FF (=1), NFFs (=0)** | **N** | **Mean** | **Std. Deviation** | **Std. Error Mean** |
| CH | 1 | 172 | 10.391852 | 7.4444008 | 0.5676302 |
| | 0 | 96 | 10.642678 | 9.6458246 | 0.9844728 |
| SIZE | 1 | 172 | 16.839976 | 1.1001681 | 0.0838870 |
| | 0 | 96 | 17.701150 | 1.3467416 | 0.1374512 |
| LEV | 1 | 172 | 0.949375 | 2.4312468 | 0.1853808 |
| | 0 | 96 | 3.382338 | 3.2923436 | 0.3360234 |
| GD | 1 | 172 | 0.158758 | 0.1673982 | 0.0127640 |
| | 0 | 96 | 0.058655 | 0.1178191 | 0.0120249 |
| ROE | 1 | 172 | 14.973605 | 20.8999659 | 1.5936075 |
| | 0 | 96 | 14.265313 | 14.3332251 | 1.4628787 |

of Nagelkerke R Square showed the percentage of 42.20 percent indicated the variability of the dependent variables, which can be explained by the variability of the independent variables is 42.20 percent. The rest were explained by other variables that were not in the model.

The accuracy of the model in this study can be seen in the classification table (Table 2). The perfect accuracy of the model is 100 percent but the accuracy of the model in this study is only 78.7%.

The estimation results produce the model as follow:

$$Ln\ \frac{p}{1-p} = 4.880 + 5.400GD - 0.065CH - 0.579LEV + 0.019ROE - 0.190Sz \quad (2)$$

Afterward, the difference tests were conducted by using the Independent-samples t-test and the results are shown in Table 4.

## 5. Discussion

The statistical estimation results can be seen in Table 3. All these independent variables have a significant effect on probability 0,000 for gender

**Table 2**. Classification table

| Observed | | | Predicted | | |
|---|---|---|---|---|---|
| | | | FF | | Percentage Correct |
| | | | 0 | 1 | |
| Step 1 | FF | 0 | 52 | 44 | 54.2 |
| | | 1 | 13 | 159 | 92.4 |
| | Overall Percentage | | | | 78.7 |

**Table 3**. Results of statistical test

| Variable | B | S.E. | Wald | Sig. | Exp(B) |
|---|---|---|---|---|---|
| GD | 5.400 | 1.364 | 15,660 | 0.000 | 221.304 |
| CH | -0.065 | 0.021 | 9.694 | 0.003 | 0.938 |
| LEV | -0.579 | 0.114 | 25.635 | 0.000 | 0.560 |
| ROE | 0.019 | 0.016 | 1.542 | 0.045 | 1.020 |
| Size | -0.190 | 0.152 | 1.564 | 0.214 | 0.827 |
| Constant | 4.880 | 2.559 | 3.638 | 0.056 | 131.682 |

**Table 4**. Results of independent t-test

| | | Levene's Test for Equality of Variances | | t-test for Equality of Means | | |
|---|---|---|---|---|---|---|
| | | F | Sig. | t | df | Sig. (2-tailed) |
| CH | Equal variances assumed | 5.481 | 0.020 | -0.237 | 266 | 0.813 |
| | Equal variances not assumed | | | -0.221 | 158.908 | 0.826 |
| SIZE | Equal variances assumed | 7.022 | 0.009 | -5.661 | 266 | 0.000 |
| | Equal variances not assumed | | | -5.348 | 166.144 | 0.000 |
| LEV | Equal variances assumed | 42.874 | 0.000 | -6.895 | 266 | 0.000 |
| | Equal variances not assumed | | | -6.340 | 153.718 | 0.000 |
| GD | Equal variances assumed | 17.724 | 0.000 | 5.184 | 266 | 0.000 |
| | Equal variances not assumed | | | 5.708 | 251.970 | 0.000 |
| ROE | Equal variances assumed | 0.674 | 0.412 | 0.295 | 266 | 0.768 |
| | Equal variances not assumed | | | 0.327 | 254.863 | 0.744 |

diversity, prob. 0.003 for cash holding, probability 0.000 for leverage, and probability 0.045 for size; on contrast, the company performance variable of ROE does not have a significant effect due to the probability of 0.214.

If other variables are considered constant, the family firms odds increase to 0.07 on the firms with low cash holding compared to the firms with high cash holding. The firms listed on the Kompas 100 index have low cash holding on average. This is contrary to the Agency Theory stating that the FFs prefer to hold the cash than share it to their shareholders. This might be due to the management of the FFs that are managed by professional management. Therefore, they use optimum cash size in determining cash holding as stated in the Trade-off Theory.

The family firm odds will rise by a factor of 0.560 ($e^{0.579}$) for each unit of change in leverage if other variables are considered constant. In other words, it could also be said that the family firm odds would rise to 0.56 for low leverage firms than high leverage firms. On average, the firms listed on the Kompas 100 Index were medium in size.

For the gender diversity variable, the family firm odds rose to 5.40 for firms with high gender diversity. Consequently, the gender diversity of the FFs is higher than the NFFs. The assumption testing results asking the similarity and the difference of the population variances of the two samples showed that the variances of the CH, Size, DER, and GD are different. This is because the F count of Lavene's test shows the probability below 0.05. In consequence, the results to be used are equal variances not assumed. On the contrary, ROA must use the results of equal variances assumed because it has a probability above 0.05.

The results of difference tests (Table 4) show that there are differences in DER and GD between the FFs and the NFFs. Meanwhile, the variables of holding cash and ROE do not show significant differences.

Family firms have smaller DER than the NFFs (Mean of FFs=0.95 compare mean NFFs=3.38, see Table 1-Panel B). It may be because the FFs are more conservative in managing their capital structure than the NFFs. The FFs are also more interested in using their own capital than foreign capital due to their carefulness. Besides, the FFs may also have greater capital capacity than the NFFs. Furthermore, the decision to use internal financing is also easier because they are a family.

The FFs also have diversity on their CEO compared to the NFFs. The average gender diversity in the FFs is greater than the NFFs. This is very understandable because the CEO position will be filled by family members who have diversity including male and female members. The CEO diversity allows the FFs to have a better financial performance than the NFFs. The condition is in accordance with the agency theory stating that the heterogeneity of the board of directors becomes the power to monitor managers (Anderson, Reeb, Upadhyay, & Zhao, 2009). In addition, diversity will also improve performance (Rhode & Packel, 2014). As the results of the study of Christiansen et al. (2016) which stated that the presence of females' leaders would benefit the profitability of the company. Adams & Funk (2012) state that women in directors are more objective in monitoring companies so that they will make a positive influence on FFs performance

Although it was not significantly different, Table 4 showed that the ROE of the FFs was higher (14.97 percent) than the NFF (14.26 percent). ROE shows the ability of own capital to generate profits. Because the CEO's members of the FFs are members of the family, then they will work for hand in hand to get the big return. The welfare of the firms is the welfare of their families. Therefore, they will monitor the manager to act for the interests of their firm. It is in line with the study of Miller & Breton-Miller (2006) and McConaughy, Matthews, & Fialko (2001) who found that the family firms performed better than the non-family firms. Similar results were

also shown in the study conducted by Singapurwoko (2013) in Indonesia. This is contrary to the results of Suyono (2018) which states that family managers are less productive than professional managers.

The firms listed on the Kompas 100 Index are decent performing companies. The results of this study revealed the condition that in the firms listed on the Kompas 100 Index, the performance of the FFs is better than the NFFs even though it was not statistically significant. Although their capital structures are unconservative, the FFs have smaller average cash holding and debt than the NFFs. In addition, gender diversity in the FFs is also higher than the NFF. This fact shows that although they are FFs, they were able to prove that they have better performance compared to NFFs. This might be caused by the bond they have as a family makes them a better team than those who are not. Besides, they tend to also have great ownership of the company. It should also be easier to manage family member inside the company. With all of those points, they create a certain value for the company. The value is obtained by the financial performance that is relatively better than NFFs. This research shows that harmony-making inside the family can potentially minimize agency conflict that might happen in the company.

For companies, the result of the study can be used as a basis of managerial decision-making. It is proven that gender diversity in FFs can result in better performance, so the firms can consider the share of women on their board of directors. For the government, this result can be used as a consideration for making a regulation regarding gender diversity in the board director of the company. The government can give suggestion to companies about the minimum requirement of gender diversity in the board director and leverage for the company. The presence of women on the board makes the firms able to maintain their cash holding and have lower debts. Women have proved to be able to make a better performance in family firms.

## 6. Conclusion, Limitations, and Suggestions

### Conclusion

The firms listed on the Kompas 100 index mostly belong to the FF criteria, have gender diversity, and tend to have a medium in size. Although they have average low cash holding and non-conservative capital structures (relatively high debt ratio), the firms are still able to earn a positive profit. The test results showed that there were significant negative effects on the variables of cash holding, size, leverage, and profitability in the family firms, but not significant for size. This shows that the hypothesis is proven. The more gender diversity, cash holding, and profitability on FFs. Although different tests show only gender diversity and leverage that are significantly different between FFs and NFFS.

### Limitations and suggestions

The weakness of this study lies upon the used definition, regarding numerous definition were used on the previous research. The scope of the study was the use of variables which only focused on financial ratios and the study objects which only targeted firms that indexed in Kompas 100. Therefore, the researcher suggests utilizing family firm definition which has been adapted to a nation characteristics and uses a larger unit of analysis for further studies. Hence, the results can be more general. In addition, other predictors that are thought to be related to the FFs can also be used.

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