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The Indirect Impact of Busy Directors on the Relationship of Family Structure and Cash Flow Sensitivity of Cash (Empirical Research in Indonesia's Manufacturing Sector 2013-2017)

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Abstract:

Research aims: This research aimed to determine the impact of family structure on the cash flow sensitivity of cash (CFSC) in the manufacturing sector. It also investigates the indirect impact of busy directors as a moderating effect.

Design/Methodology/Approach: Based on a sample of Indonesia's manufacturing companies from 2013 to 2017, the researcher uses GLS regression models on this panel data calculated with robustness fit test at the firm's level.

Research findings: It indicated that family structure has a impact positively on cash flow sensitivity of cash and statistically significant. Meanwhile, the indirect impact of busy directors found to have a impact negatively and weakened on the relationship of family structure and CFSC, it also indicated that quality of busy directors is an tool of corporate governance that is effectively to monitor of every family firm's decisions.

Theoretical contribution: This article enriches previous literature by justifying the impact of busy directors on the relation between every each of family's firm decision and CFSC. Furthermore, it showed us a metric for agency problems that is the sensitivity of cash to corporate cash flows.

Implication policy: Based on POJK regulations, the context of busy directors in this research refers to the roles and duties of the Board of Commissioners (BOC) which concurrently hold positions for other public companies.

Research Limitation/Implication: The implications suggest that almost most of Indonesian family corporation are tend to expropriate minority by extracting rents through coporate cash flow sensitivity of cash behavior.

Keywords: Family Structure; Cash Flow Sensitivity of Cash; Busy Directors; Free Cash Flow Agency Theory

Introduction

Various studies and literature show that there has been a significant increase in the corporate cash or CFSC in recent years. In this research context, CFSC is the primary indicator of the company's short-term operating performance in the form of cash reserves.

Corporate cash is the most liquid form of asset and can be used to meet various daily operational needs of the company. Therefore, corporate cash is a crucial consideration for the company. If the company has excess cash, the company's policy that can be adopted is first to pay dividend obligations to shareholders, secondly to invest in profitable projects, and finally to pay interest on the debt and the principal of the end of period debt to third parties (Guizani, Lakhali, & Lakhali, 2018).

Furthermore, if the company has too little corporate cash reserves, the company will tend to face financial distress to meet its short-term needs so that it will cause doubts from various relevant parties (stakeholders). Two perspectives assume that the behavior in holding some corporate cash is a big motivation for many companies. First, corporate cash reserves support when companies face unpredicted liquidity shortages (Bates, Kahle, & Stulz, 2009). The next one, based on the theory of free corporate cash flow, hoarding of large amounts of corporate cash is considered opportunistic behavior by company management to take personal benefits and benefits at the expense of the interests of stockholder, particularly minority stockholder (Jensen, 2005).

The following is the cycle of excess cash according to Ross, Westerfield, and Bradford in his book:

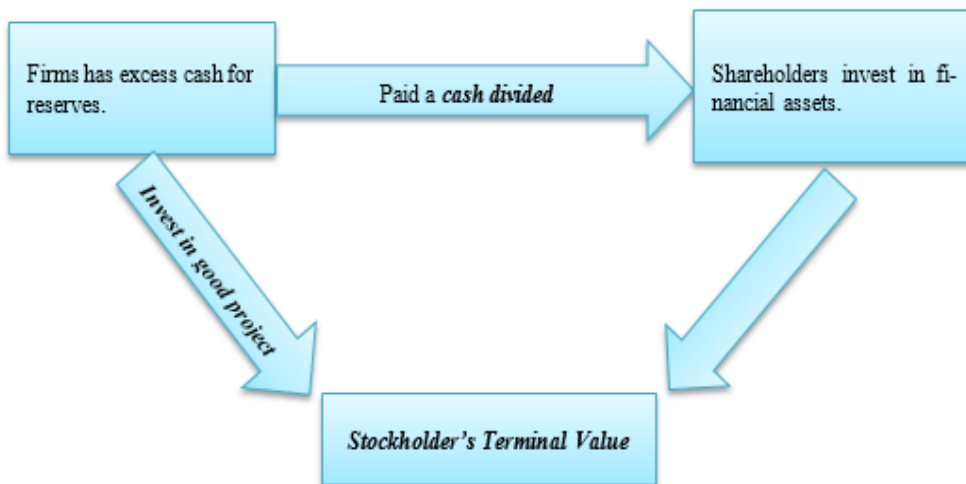


Figure 1 The Cycle of Excess Cash

Source: Fundamentals of Corporate Finance, Ross et al., 2012

Infographics of Corporate Cash Growth in Indonesia

Based on infographic data from S&P Financial Services from 2006 to 2017 above, the growth of corporate cash, especially on the non-financial sector in Indonesia, has increased quite significantly. From these data recorded in 2016 and 2017, the company's cash and investment growth in this sector has increased to \$ 1.9 Trillion. Cash/asset growth since 2013 increased significantly to the level of 11% and then closed at the level of 11.8% at the end of 2017. Furthermore, this research will look at the further influence of the form of financial constraints on the problem of family ownership structure within the company.

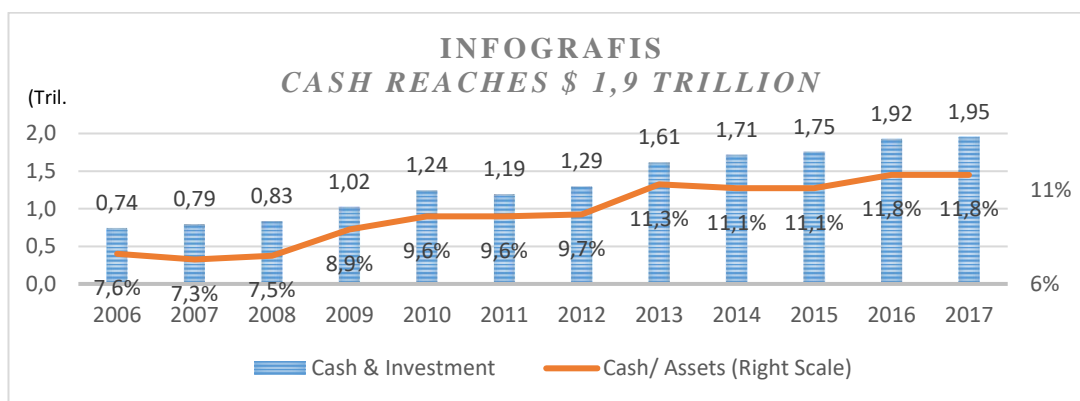


Figure 2 Cash Growth in Indonesia

Source: Standard & Poor’s Financial Services, Indonesia (2017)

In previous studies and literatures, the family ownership structure is the main indication of the majority shareholders who control all the main activities of the and based on that companies with the majority of family shareholders have faced agency problems in the forms of expropriation and entrenchment. Several approaches can be adopted to solve these frequent occurrence of agency problems, one of which is through a practical supervisory and control function on the company's board. Company board characteristics such as busy directors are a useful mechanism that is remotely to monitor all of the family financial decisions.

Based on the description above, the novelty of this research is that it will conduct a more in-depth study on aspects of the company's busy directors as an indirect impact in solving agency problems in cash flow sensitivity of cash. These “busy directors” can be defined as members of the (BOC) board of commissioners who hold more than one position simultaneously at many companies as a member of the board. It is an expectation that the characteristics of the board of commissioners (busy directors) can indirectly impact the relationship of family ownership structure and CFSC. So that the board's tool or oversight function of busy directors can help protect external investors and help in reducing the problem of expropriation on external shareholders and entrenchment of management, especially on behalf of minority shareholders (Guizani et al., 2018).

The Phenomenon of Family Ownership Concentrations in Various Sectors in Indonesia

The family company means a company whose majority shareholders and company management positions are controlled and filled by families including their offspring. Furthermore, the definition of family in this context is people who are related to the family due to marriage and descent. The phenomenon of development in Indonesia currently shows that family businesses is quite dominant rather than to non-family firms in the control of company management. Research and surveys in Indonesia found that there was a dominance of these family companies. PWC research and survey in 2016 showed that almost 95% of corporate business in Indonesia is a family business and contributes to 29% of Gross Domestic Product (GDP).

Table 1 Survei PWC 2016

Sector Distribution	Percentage
Manufacture	50%
Transportation	13%
General	13%
Construction	7%
Rest	5% or less

Source : PWC Family Business Survey in Indonesia (2016)

Based on the 2016 PWC survey above, it was found that the family company consisted of various sectors of the company which were listed on the Stock Exchange. These sectors include manufacturing (50%), transportation (13%), general (13%), construction (7%), and others (5%). Thus, based on the distribution of the sector above the manufacturing sector contributes the largest weight and percentage to the number of family ownership. Based on this, the urgency of this research is limited and emphasized in the public manufacturing sector in Indonesia alone.

From the 2016 PWC survey above also found that the position and role of the family in the company, especially in public companies in Indonesia is very dominant. The PWC survey through this interview was conducted in Indonesia. The survey found that in public companies 47% held the position of CEO / MD, 7% held the position as owner / partner, 23% held the position of director of finance, and 23% held the position as a fellow of the board of firm. While the role of family in business, 87% held the positions of owner and management, and 13% have only and not management.

Based on the description above, agency problems in the structure of family ownership in various sectors are able to cause other problems in terms of the company's cash flow sensitivity of cash. The characteristics of the board of commissionaires (busy directors) are expected to be able to provide an indirect influence on the relationship of family ownership structure and the sensitivity of the company's cash flow. So that the board's control or oversight function can help protect external investors and help in reducing the expropriation problem of external shareholders, especially minority shareholders.

Research Contribution

This empirical research is expected to be able to provide benefits and influences for the parties concerned both in terms of conceptual and practical.

From the conceptual point of view this empirical research is expected to be able to analyze: i) How the role of the family as a form of corporate ownership structure towards CFSC or corporate cash is influenced by the role of busy directors in terms of corporate governance practices. This empirical study is also the first to explore the possibility of further interaction on the role of busy directors as a characteristic of corporate boards to the relationship between family structure and agency problems that arise in the form of CFSC. A review of the existing literature explains the separate influence of conglomerates on companies, investment decisions, ownership concentration on corporate behavior in cash trading without looking at how the role and influence of busy directors on ownership structures together impacts the CFSC of the firm. ii) What is the type of company, ownership structure and characteristics of the board (busy directors) and their interactions with the behavior of holding cash.

While contributions to the field of practice are: first, this empirical study is expected to be able to add and enrich knowledge in the fields of family company governance and corporate finance. The results of the study are expected to increase the deeper understanding of how to deal with agency problems in the form of holding cash reserves. The resulting empirical evidence provides an example of the complexity of the concentration of family ownership in companies that involve many parties. Therefore, it is expected that research results can provide further solutions to effectively improve company performance in the Indonesian bourse in the future.

Secondly, for the Capital Market, it is expected that the results of this study will become the basis for monitoring so that agency problems between controlling shareholders and minority shareholders can be minimized and corrected through governance at the company. Furthermore, it is expected that the rules and regulations stipulated by the OJK can be more effective and efficient in minimizing the expropriation minority stockholder from the majority.

Literature Review and Hypotheses Development

The Free Cash Flow Agency Theory

Based on previous literature, many studies have examined the relationship between agency problems and family ownership structure. La Porta, Lopez-De-Silanes, and Shleifer (1999) and (Masulis & Mobbs, 2011) family companies often face agency problems, especially in countries that have weak protection of investor rights. The phenomenon of companies keeping amounts of cash (cash flow sensitivity of cash) currently increases. Boubaker and Labégorre (2012) explains a significant increase in the company's cash flow ratio in many European countries and developing countries in the last decade. However,

a significant increase in the company's operating cash flow was not followed by the increase in investments made. At present, many large companies in developed and developing countries are adopting policies in keeping large amounts of cash (cash flow sensitivity of cash). This raises many questions as to why large companies in the world prefer to save a large amount of their cash compared to investing or paying cash dividends to shareholders.

There are two perspectives on the behavior of many companies in holding large amounts of cash. First, cash is support when companies face unpredicted liquidity shortages (Bates et al., 2009). Second, based on the theory of corporate free of cash flow, the hoarding of large amounts of cash is considered opportunistic behavior by company management to take personal benefits of the minority stockholder (Jensen & Meckling, 1976).

Almeida, Campello, and Weisbach (2004) the tendency of companies to keep cash from their cash flows. Companies are tend to save some cash from their operating cash flow while faced with problems of external financing for investments. Furthermore, (Almeida et al., 2004) suggested that the cash holding or CFSC is a parameter from the financial constraints. Thus, this research would like to examine further the influence of agency relationships on the ownership of most cash funds through the influence on family control within the company on CFSC.

Cash Flow Sensitivity of Cash Theory

According to (Miller, Le Breton-Miller, Lester, & Cannella, 2007) CFSC is cash available at the firm's level and available to be used to invest in physical assets and then distributed to shareholders. The CFSC is convertible cash and cash equivalents. Thus, determining the company's cash flow sensitivity level of cash is a critical decision for firm's management. The level of cash flow sensitivity of cash that is maintained can be devoted to carrying out a series of corporate financial activities such as share purchase activities, distribution of dividends for the company's shareholders, productive investment activities, and storing them for the benefit of the company.

Research Conceptual Frameworks

The establishment of conceptual frameworks in this research aims to understand the busy director's indirect influence through the directional direction on the relationship of family structure and CFSC.

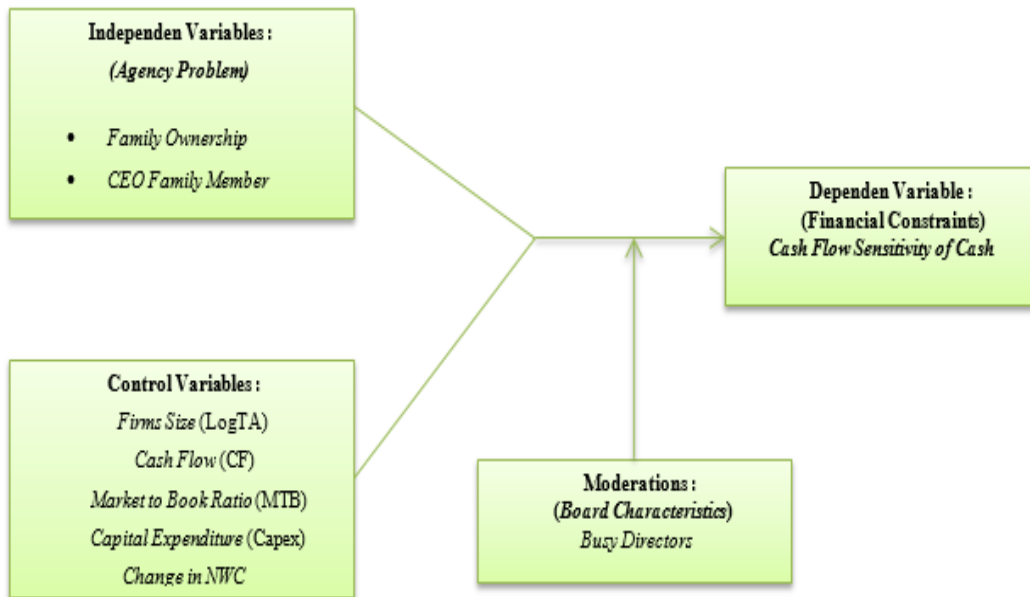


Figure 3 Conceptual Framework
 Source: Researcher Conceptual (2019)

Hypothesis Development

Family Ownership on Cash Flow Sensitivity of Cash

Conflicts of interest that occur between minority stockholders and corporate family tend corporate family to divert the company's wealth, including liquid assets, to increase their benefits. From an agency theory side, an increase in corporate cash and cash funds showed the opportunistic behavior of management (Jensen & Meckling, 1976). The tendency is that it is easier to convert these assets into personal gain. For example, immediate investment of the assets in the form of cash reserves in projects that are more beneficial for families in the company. Then, based on the theory of corporate free cash flow, investigated the relationship between agency costs and also corporate cash reserved. (Dittmar & Mahrt-Smith, 2007) indicated that firms with the high agency problems tend to hold large amounts of cash.

Furthermore, high financial constraints on CFSC can be caused by serious agency problems in the structure of family ownership in the company. For example, the size parameter in cash flow sensitivity of cash (CFSC), each increase of 1 point from the total assets of the company will be followed by an increase of 10 points from the delta changes in cash and cash equivalents owned. Thus, each figure from the increase in cash and cash equivalents causes the tendency of companies, especially in the family group to hoard it as cash reserve funds, making these companies difficult to obtain external financing and allocate investment in stock and bond instruments.

H₁: Family Ownership has a positive impact on the Cash Flow Sensitivity of Cash (CFSC).

CEO Family Member on Cash Flow Sensitivity of Cash

Families can increase their strength in the company by appointing family members as a Chief Executive position. Agency costs are increasing because there is no separation between management and control. In this case, (Sitthipongpanich, 2017) and (Burkart, Fausto, & Shleifer, 2006) show that family members run most family companies around the world. The family-owned companies where CEOs are family members are more concerned with expropriation risk. The behavior of holding some cash from these companies enables them to extract personal benefits at the expense of the interests of minority shareholders. (Kalcheva & Lins, 2007) argues that the company in which the CEO is the controlling shareholder owns and holds more cash than the others, given the high agency costs and financial problems caused by these companies.

H₂: Family members who become company CEOs have a positive impact on the Cash Flow Sensitivity of Cash (CFSC).

Busy Directors on The Relationship of Family Structure and Cash Flow Sensitivity of Cash

In this research, busy directors as a board's characteristics used the form of dummy commissioners, with a value of 1 if the concurrent positions of commissioners exist in the company and 0 if not. In the context of the Indonesian firm structure, where the ownership structure is concentrated, each decision will still be controlled by most of the conglomerate group as the majority shareholder. So that expropriation also still might continue to occur within the company. However, through strong quality characteristics on the board such as busy directors, the relationship between family ownership structure and behavior in holding cash becomes negative in the country, this shows that the quality on the board is a form of corporate governance tool in overseeing family decisions in the company. The definition of busy directors are boards of commissioners who hold positions or hold more than two commissioner positions simultaneously.

Based on OJK 33 / POJK Regulation No. 04/2014 Article 6, it is explained that members of the board of companies in particular in the non-financial sector may hold concurrent positions in the boards of other companies or in concurrent positions: a) Members of the Board of Directors may concurrently hold positions for at most 1 (one) Other Public Companies; b) Members of the Commissioners (BOC) can concurrently be a maximum of 3 (three) other Public Companies; and / or c) Committee members may concurrently serve up to 5 (five) committees in a Public Company where they are also members of the Board of Directors or the BOC. Based on these regulations, this study limits the context of busy directors to the roles and duties of the Board of Commissioners (BOC) which concurrently hold positions for other public companies. This was done considering the role and contribution of commissioners as a non-executive function in the two-tier structure was very significant in overseeing company activities. While in the financial sector such as the banking industry, the OJK rearranges rule number 18 / POJK.03 / 2014 in concurrent positions of directors and commissioners, and there are certain criteria which will then be adjusted to the size of the financial industry.

Based on previous studies, the implications that will emerge in large countries such as France where ownership concentration is spread is that family companies in that country have a tendency to expropriate minority shareholders with the power of political expropriation held in the form of investment decision making through the manifestation of behaviors of holding company cash. While in the context of the Indonesian where the ownership concentration structure is concentrated, each decision will still be controlled by the majority of the conglomerate group as the majority shareholder. So that expropriation also still might continue to occur within the company. However, through strong quality characteristics on the board such as busy directors, the relationship between family ownership structure and behavior in holding cash becomes negative in the country, this shows that the quality on the board seen as one of efficient corporate governance tools in overseeing decisions family in the company. On the other hand, there are negative things that can happen, concurrently commissioner positions can cause concern for the company's performance because it is considered that concurrent positions will make commissioners become too busy elsewhere so that the quality of supervision is less than optimal.

H₃: Busy directors have weakened the relationship between the Family Structure and Cash Flow Sensitivity of Cash (CFSC).

Research Methods

Model Specifications

Equation model 1 reflects hypothesis 1 and hypothesis 2 of this research and uses the following linear equation regression:

$$CFSC_{it} = \alpha_0 + \alpha_1 CF_{it} + \alpha_2 FamilyOwn_{it} + \alpha_3 CEOFamMemb_{it} + \alpha_4 LogTA_{it} + \alpha_5 MTB_{it} + \alpha_6 Capex_{it} + \alpha_7 NWC_{it} + \varepsilon_{it}$$

The equation model 2 reflects the hypothesis 3 of this research and uses the following linear equation regression:

$$CFSC_{it} = \alpha_0 + \alpha_1 CF_{it} + \alpha_2 BusyDir_{it} + \alpha_3 FamilyOwn_{it} + \alpha_4 CEOFamMemb_{it} + \alpha_5 FamilyOwn_{it} * BusyDir_{it} + \alpha_6 CEOFamMemb_{it} * BusyDir_{it} + \alpha_7 LogTA_{it} + \alpha_8 MTB_{it} + \alpha_9 Capex_{it} + \alpha_{10} NWC_{it} + \varepsilon_{it}$$

Sample Selection and Data

The data units compiled in this research are secondary data from a reliable sources such as Annual Report, IDX Financial Report, Eikons Thomson Reuters, PDEB. In this panel data research, the sample used is all publicly listed companies in the manufacturing sector period 2013 to 2017. The final sample includes 134 firms (cross-sections) over six years, i.e., 668 observations.

Main Variables

1. Cash Flow Sensitivity of Cash (CFSC): Is the change that occurs in cash and cash equivalents to total assets in the company *i* in period *t*.
2. Family Ownership (FamOwn): This is the form of family controlling rights that comes from the percentage of ownership concentration of family members.
3. CEO Family Member (CEOFam): This is the form of a dummy variable of the firm's CEO, with a value of 1 if the CEO is a family member and 0 if not.
4. Busy Directors (BusyDir): It is the board's characteristics in the form of dummy commissioners, with a value of 1 if the concurrent positions of commissioners exist in the company and 0 if not.
5. Firm Size (LogTA): This is the total assets in the company *i* between periods *t*. The value of total assets will be transformed into natural logarithms.
6. The Market to Book Ratio (MTB): It is a parameter for a firm's growth prospects and investment opportunities.
7. Capital Expenditure (CaPex): The ratio of net investment expenditure to total assets in company *i* between periods *t*.
8. The Change in Net Working Capital (NWC): Is a cash substitute and is then negatively associated with cash flow sensitivity of cash (Opler et al., 1999).

Results and Discussion

Regarding on Guizani et.al. (2018) research showed the effects moderating effect of board attributes (busy directors) on the sensitivity of cash (CFSC) by family firms. The results showed that the double interaction term between board independence, the excess of family control and cash flows has a negative and statistically significant coefficient. The result provided evidence on the moderating impact of busy directors on the relationship between family control and CFSC. Thus, as the board characteristics becomes more independent, family power in the firm is mitigated and also minority stockholders interests are better protected. The effectiveness of control is likely to lead families member in the firm to act in the interests of all stakeholders to benefit from better firm valuation. This results shows that the added value of busy directors is a guarantee of security for minority stockholders against family opportunistic tendencies when the the risk expropriation increases.

Overall, our results and discussions support the agency theory framework and could help investors to better understand cash holding (CFSC) activities. They may better anticipate the existence of agency problems in Indonesia family listed firms. Then, for further discussions futures research may examine the CFSC among other stockholders, multiple, controlling, and institutional stockholders.

Table 2 below shows that the mean value of the CFSC is 0.01051, which means the average manufacturing firms sector in Indonesia can increase cash reserve funds by 1 percent per year. The average value of cash flow from operating activities in the manufacturing sector in Indonesia is around 6.84 percent of the total assets owned so that the average cash

flow is comparable to the proportion of 6.37 percent from the research of Boubaker, Derouiche, and Saffar (2013) in France. The average value (mean) of busy directors is 0.568862, or 56 percent of all commissioners of existing companies that are proven to have completed their positions as commissioners in various other companies. The average value of the percentage of family ownership in manufacturing companies in Indonesia reaches 15.31 percent and from the perspective of ownership control, it is under the category of a conglomerate or family company. Then, the average of ownership by CEO Family Members is 16,167 percent. Therefore, a family member acts as the owner/CEO of the firm and assumes the position of the CEO of a manufacturing firm.

Table 2 Descriptive Analysis

Variable	Mean	Kurtosis	Maximum	Minimum	Standard Deviation
Cash Flow Sensitivity of Cash	0.010501	3.7522	0.35221	-0.421	0.02332
Cash Flow	0.06840	2.89960	0.34856	0.0678	0.04338
Busy Directors	0.568862	1.077339	1.00000	0.00000	0.495606
Family Ownership	0.15318	3.99916	1.00000	0.00000	0.26997
CEO Family Member	0.161677	3.378042	1.00000	0.00000	0.36843
Firms Size	28.2662	3.26715	33.2	22.22	1.61299
Market to Book Ratio	1.642333	3.679	9.002656	0.010561	5.933238
Capital Expenditure	0.365152	3.543376	1.77751	-0.2786	5.898973
Changes in NWC	-1.080609	1.295145	5.172385	-1.605802	4.49564
	Proportion (1) (%)		Proportion (0) (%)		
FamDummy	51.85			48.15	
FamCEO	71.43			28.57	
BusyDir	61.73			38.27	

Note: Cash Flow Sensitivity of Cash, changes in cash and cash equivalents to total assets; Cash Flow, cash flow originating from operational activities; Busy Directors, is a dummy variable of the board of commissioners who jointly / concurrently serves on many companies; Family Ownership, percentage of family control rights in the company; CEO Family Member, dummy variable CEO / owner is a family member in the company.

Table 3 Regression Equation Model 1 (Fixed Effect Model)

$CFSC_{it} = \alpha_0 + \alpha_1 CF_{it} + \alpha_2 Family Own_{it} + \alpha_3 CEOFamMemb_{it} + \alpha_4 Log TA_{it} + \alpha_5 MTB_{it} + \alpha_6 Capex_{it} + \alpha_7 NWC_{it} + \varepsilon_{it}$					
Variable	Hypothesis	Coefficient	Std.Error	t-Statistic	Probability
C		-0.139119**	0.336329	-0.41364	
CashFlow		0.55620***	1.59E-02	3.498928	
FamOwnership	(+)	0.0257**	0.03323	0.773388	
CEOFamilyMember	(+)	0.015299*	0.02645	0.578412	
FirmsSize		-0.005816*	0.011864	-0.49022	
MTB		0.000416**	6.37E-04	0.652694	
CapitalExpenditure		-0.113045	2.46E-02	-4.58658	
ChangesInNWC		0.007549***	1.19E-03	6.351769	
R-Squared			0.7231		
Adjusted R-Squared			0.6779		

From the Table 3, the coefficient resulting from the percentage of family ownership structure (% Family Ownership) is positive at 0.0257 and consistent with hypothesis 1 of this research. It indicates that the percentage of family ownership (% Family Ownership) in the company has a positive effect on the CFSC. This percentage of family ownership has a probability of 0.0440 at a 5% confidence level. Furthermore, the coefficient resulting from the presence of family members who serve as CEOs of the company (CEO Family Member) is positive at 0.0153 or consistent with hypothesis 2 of this research. It indicates that the presence of family members who serve as CEOs of the company (CEO Family Member) has a positive impact on the CFSC. The CEO Family Member has a probability of 0.0563 at a 10% confidence level.

Table 4 Regression Equation Model 2 – Busy Directors As a Moderating Variable (Random Effect Model)

$CFSC_{it} = \alpha_0 + \alpha_1 CF_{it} + \alpha_2 BusyDir_{it} + \alpha_3 FamilyOwn_{it} + \alpha_4 CEOFamMemb_{it} + \alpha_5 FamilyOwn_{it} * BusyDir_{it} + \alpha_6 CEOFamMemb_{it} * BusyDir_{it} + \alpha_7 LogTA_{it} + \alpha_8 MTB_{it} + \alpha_9 Capex_{it} + \alpha_{10} NWC_{it} + \varepsilon_{it}$					
Variable	Hypothesis	Coefficient	Std.Error	t-Statistic	Probability
C		0.024414*	0.112312	0.217375	0.082
CashFlow		-0.182706***	0.03379	-5.407125	0.0000
FamOwnership		0.055696***	0.036679	1.518459	0.0129
CEOFamilyMember		0.00897*	0.026088	0.343833	0.0731
FirmsSize		0.000497	0.003944	0.125921	0.8998
MTB		0.001383**	0.000639	2.163204	0.0309
CapitalExpenditure		-0.212065***	0.016037	-13.22348	0.0000
ChangesInNWC		0.000189	0.000656	0.288738	0.7729
FamOwn X Busy Directors	(-)	-0.092517**	0.045902	-2.015562	0.0443
CEOFamilyMember X Busy Directors	(-)	-0.044808**	0.031977	-1.401244	0.0161
R-Squared				0.7318	
Adjusted R-Squared				0.7301	

From the Table 4, the coefficient sign on the moderating variable (busy directors) is align with previously prepared Hypothesis 3. The coefficient figure resulting from the indirect impact of busy directors on the relationship of the percentage of family ownership structure is negative of -0.09252 or align with hypothesis 3 of this research. The indirect impact of busy directors on the relationship of the percentage of this family ownership structure has a probability of 0.0443 at a 5% confidence level. Second, the coefficient number generated from the indirect impact of busy directors on the relationship of CEO family member is negative of -0.044808, align with hypothesis 3 of this research. It indicates the indirect impact of busy directors on the relationship of CEO family members and CFSC is negative, or busy directors have weakened the relationships of these two. The indirect impact of busy directors on the relationship of the CEO family members has a probability of 0.0161 at the level of the confidence level of 5%.

Conclusion

First, the results of this research show that the structure of family ownership has a positive influence on the cash flow sensitivity of cash in various manufacturing sectors and sub-sectors. The family ownership structure has consists of the percentage of rights control ownership and the presence of the CEO Family Member in the company. It indicates that the agency problem in the family ownership structure faced has an impact on the difficulty of the company to gain external funding (Almeida et al., 2004).

Second, it also show us that there is a significant negative relationship of the indirect impact of busy directors on the relationship of family structure and CFSC in various manufacturing sectors and sub-sectors, indicating the role of busy directors as a form of moderation weakens the relationship between this two. It indicates that the roles and characteristics of the concurrent positions of the board of commissioners can be a tool and instrument for corporate governance in dealing with agency problems in concentrated ownership and the financial constraints of the company in obtaining external funding. Busy directors can play as an active, efficient, and useful role in overseeing every strategic decision made by the family within the company, and this attribute enables the company to expand its political connections (Boubaker & Labégorre, 2012).

Agency problems on expropriation and entrenchment and its influence on financial constraints to obtain external financing or access to the capital market need to be a common concern. This research proves that the role of family groups still has considerable strength to make every strategic decision in the company. The higher control of family groups in the company has an impact on increasing agency costs.

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