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Family Control and Firm Financial Performance Listed on Indonesia Stock Exchange: The Moderating Role of Foreign Ownership

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Abstract: This study aims to examine whether foreign ownership moderates the relationship between family control and financial performance. Based on the purposive sampling technique, this study uses 16 large family companies listed on the Indonesia Stock Exchange (BEI), during 2012-2017. Hypothesis testing using Moderated Regression Analysis (MRA). The results of this study reveal several important things. First, foreign ownership positively moderates the relationship between family control and dividend payments. Second, foreign ownership positively moderates the relationship between family control and profitability. These results suggest that foreign ownership can mitigate the level of expropriation of the wealth of minority shareholders by family owners. In this case, foreign owners are able to suppress the negative effect of family control on profitability and dividend payments.

Keywords: foreign ownership; family control; financial performance.



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Introduction

Conflicts between principals are generally problems arising from controlling owners such as dominant family owners and minority owners (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Dominant family control is one of the triggers of conflict between principal-principal. The dominant family owner might lead to the expropriation of the minority owner's wealth (Maseda, Iturralde, Aparicio, Boulkeroua, & Cooper 2019; Yoshikawa & Rasheed, 2010). Dominant family owners can engage in activities that fit their best interests and ignore the interests of minority shareholders. Family owners can harm the wealth of minority shareholders in several ways, such as determining higher salaries and benefits for family executives, and investing in other family-owned companies. Although the involvement of publicly controlled family companies is an important issue for investors, however, existing studies have not yet intensively explored this issue on the Indonesian stock exchange. Given the potential for principal-principal conflicts in family-controlled companies, our focus in this study is to empirically examine the extent to which conflicts arising can be reduced to increase company value.

In relation to efforts to mitigate the impact of dominant family control, it is important to explore the role of external governance mechanisms to reduce conflicts between dominant and minority owners. One way is through strong principal groups, especially the presence of foreign shareholders to monitor family owners. Yoshikawa and Rasheed (2010) suggest why this mechanism is effective. First, family-owned companies are publicly open and the presence of outside shareholders gives the possibility of the company to comply with outside influences. Second, the existence of external blockholders can reduce conflicts between principals. Foreign shareholders have capacity to influence managerial policies and decisions, thereby reducing the possibility of expropriation by dominant family owners. The results of research by Yoshikawa and Rasheed (2010) suggest that foreign ownership as majority shareholder can weaken the negative impact of family control on the company's financial performance. Likewise, the results of a recent study by Ahmadjian and Robbins (2005) show that foreign shareholders often influence director's decision making. Thus, that foreign ownership might weaken the negative effects of family control on corporate profits and dividend payments. Indeed, there may be conflicts between principals and it is important to investigate whether the presence of foreign blockholders can reduce this conflict problem on the Indonesian Stock Exchange.

A healthy company's financial performance and willingness to pay dividends will indicate no expropriation, which is detrimental to the wealth of minority shareholders. In other words, if family ownership has higher profits and dividends, clearly the family owner acts as a good steward and there are no majority-minority shareholder issues. On the other hand, if family ownership has lower profits or lower dividends, the role of the family owner is not indicated as a good steward and there are likely majority-minority problems. Meanwhile, Yoshikawa and Rasheed's (2010) research results show that family control has a positive effect on dividend payments. In addition, they found that the presence of foreign ownership reduced dividend payments and increased profitability. Therefore, this study focuses more on the moderating role of foreign ownership on the effect of family control on financial performance, namely dividend payments and profitability.

Following theoretical explanations and support from empirical studies, this study aims to examine the moderating effect of foreign ownership on the relationship between family control and financial performance. This research was conducted at a number of large companies that involve family owners on the board of directors. The family company is listed on the Indonesian stock exchange during 2012-2017. This research would be expected to provide insights for family companies in Indonesia, particularly regarding the role of foreign owners in mitigating the negative effects on dominant family owners. Thus, family owners can play a role in pushing board policies to increase the company's financial performance. Such information is feedback or discourse for the family firms to improve their financial performance.

Literature Review and Hypotheses Development

Moderating Role of Foreign Ownership on Relationships between Family Control and Dividend Payment

The debate about the theoretical relationship between family control and dividend policy has not come to a conclusion. The difficulty in explaining this relationship, according to the perspective of agency theory, is related to the existence of two types of agency problems that coexist in the family company (Wei, Wu, Li, & Chen 2011). Therefore, this study will discuss the role of family control on dividend policy. Wei et al. (2011) reviewed existing studies regarding these two types of agency problems. First, the agency problem of type I, family control plays two different roles. Family owners have a strong incentive to monitor managers to work effectively and efficiently. This type of agency problem is always referred to as the convergence effect. Family owners have a long-term investment time horizon and diversified investment risks.

On the other hand, family control can also exacerbate the conflict of interest between owners and managers, this accounting issue is referred to as an entrenchment effect. As a result of the lack of effective oversight, family shareholders as parties involved in the company's board of directors can take advantage of access to company resources. This will increase agency costs and decrease dividend payments. Incompetent family board members who hold key positions can affect company performance. In this case, family control has a negative impact on dividend policy.

Second, type II agency problem, in which family shareholders can abuse their dominant position for personal gain at the expense of minority shareholders. Thus, the type of conflict that arises is a conflict between controlling shareholders and minority shareholders. The source of this conflict occurs because of excessive compensation for family executives, dilutive stock issues, and insider trading. Such detrimental behavior, by Johnson, La Porta, Lopez-de Silanes, and Shleifer (2000) is called "tunneling". There is a transfer of resources for the benefit of controlling owners. This behavior is detrimental to the interests of minority shareholders. This behavior ultimately results in low dividend payments because the management board uses company resources for other purposes. This behavior is confirmed by the study results of Wei et al. (2011) suggest that family firms are less likely to pay dividends, as reflected in lower cash dividend payout ratios. Several extant studies also support the perspective of the second agency problem, that family control has a negative effect on dividend payments (Attig, Boubakri, El Ghouli, & Guedhami, 2016), family companies pay lower dividends than non-family companies (Yousaf, Ali, & Hassan, 2019).

Given the negative impact of family control, other principal roles from outside the company are needed. The presence of outside institutions is expected to monitor family owners so that they are motivated by economic incentives to increase dividend payments. In this case, the role of foreign ownership becomes relevant. This foreign role is supported by Sakawa and Watanabel, (2018) suggesting that foreign ownership can affect increased dividend payments. The role of foreigners can eliminate the negative

effect of family control on the company's dividend payout policy. Foreign shareholders can be a mechanism to improve family corporate governance, especially in emerging markets. Chen, Chiou, Chou, and Syue (2009) suggest that foreign ownership has a positive effect on the company's long-term performance. This is because foreign owners have the capacity to monitor independently and effectively. Thus, the role of foreign ownership can reduce the negative effects of family control, such as the appropriation of the wealth of minority shareholders.

As previously explained, foreign investors seem to need high dividend payments. Empirical support for the role of foreign ownership to increase dividend payments is supported in a case study of Japanese manufacturing companies (Gedajlovic, Yoshikawa, & Hashimoto, 2005). Foreign investors invest more in family-controlled companies and it is therefore natural that they expect higher dividends in line with the high risk they bear. In addition, relatively large foreign institutional investors can also influence board decision-making. Research by Ahmadjian and Robbins (2005) shows that the proportion of shares of foreign institutions continues to increase. Several other studies (Akhtar, Chishtie, & Ali Shah, 2019; Cao, Du, & Hansen, 2017; Chiang & Lai, 2015; Zygula, 2017) suggest that foreign ownership encourages companies to pay dividends. The role of foreign institutions greatly influences the executive board in making strategic decisions. The results suggest that foreign ownership encourages family firms to pay higher dividends (Sakawa & Watanabel, 2018). Thus, foreign ownership is likely to reduce the negative impact of family controls on dividend payments. Based on theoretical explanations and the results of previous studies, the hypothesis can be derived as follows:

H₁ : Foreign ownership positively moderates the relationship between family control and dividend payout

Moderating Role of Foreign Ownership on the Relationship between Family Control and Profitability

The impact of family control on company performance is still an issue of ongoing debate in the financial field. The debate is whether family control has a positive or negative effect on company performance. Several perspectives and study results support this view of the pros and cons. From an agency perspective, family owners have assumed a strong incentive to increase firm value. The reason is that the increase in wealth of family owners is closely related to company performance. Besides being a shareholder, family owner may be active in managing the company. Because of their role as both owner and board member, it is hoped that there will be no conflict of interest between management and family owners. The alignment of the interests of shareholders and management means that agency problems can be minimized effectively.

The sources of conflict that arise between management and family owners can come from several sources. Conflicts due to differences in time horizons, time horizon agency conflicts. The family owner wants a long-term investment with a positive NPV. Le

Breton-Miller and Miller (2006) shows that long tenure and business skills incentivize family owners to invest more in the long term in the company. In the long term, as an asset, family owners hope to successfully deliver their company from generation to generation, (Maseda et al., 2019). Meanwhile, hired board members or managers tend to invest for the short term. Managers are associated with cash flow during their tenure. Such conditions can encourage managers to manipulate the short-term project accounting system. They seek to pursue short investment targets that can sacrifice long-term investments with higher NPVs. In this case, the manager's interest is to pursue short-term performance-based bonuses.

Meanwhile, there is an equally strong argument that family owners will reduce the company's performance. Yoshikawa and Rasheed (2010) explain the mechanism of these adverse effects based on three fundamental factors, namely non-economic goals, opportunities to expropriate wealth, and incapacity. The first mechanism, the motivation of family owners not only to pursue profit, but also on non-economic considerations (Klein & Kellermanns, 2008). Second, the family owner can expropriate the company's wealth through means such as excessive executive compensation for the family manager. Third, family owners who are involved in the board do not have sufficient competence and there is no strong motivation to achieve long-term performance. In this case, the family owner experiences a professional shortage. Inadequate access to capital has a negative impact on company performance. In addition, the practice of nepotism is also ongoing (Sugundan, Raja, & Jaganathan 2018), succession decisions are based on personal or group desires instead of competencies (Le Breton-Miller, Miller, & Steir, 2004), and skepticism by financial markets (Claessens, Djankov, Fan, & Lang, 2002). Thus, large family ownership weakens the role of other large shareholders in management (Maseda et al., 2019).

Huang and Zhu (2015) suggest that involving foreign institutional investors in corporate governance practices can significantly reduce expropriation by controlling shareholders in emerging markets. To strengthen the explanation of existing theories, the support of recent research results on the moderating role of foreign investors is discussed. Research result of Sakawa and Watanabel, (2018) show that foreign shareholders moderate the effect of family control to increase firm profitability. The research results of Vo (2015) show that foreign investors tend to force corporate managers to pay less dividends and maintain higher income to take advantage of emerging market opportunities in future.

Their results indicate that foreign shareholders increase the role of family board members as stewards. Therefore, it is expected that foreign ownership is positively associated with profitability. Thus, the role of foreign owners which is more likely to monitor managers, will weaken the negative effects of family control over the company's profitability. Based on the above explanation, the hypothesis can be formulated as follows:

H₂ : Foreign Ownership Positively Moderates The Relationship Between Family Control and Profitability.

Theoretical Model

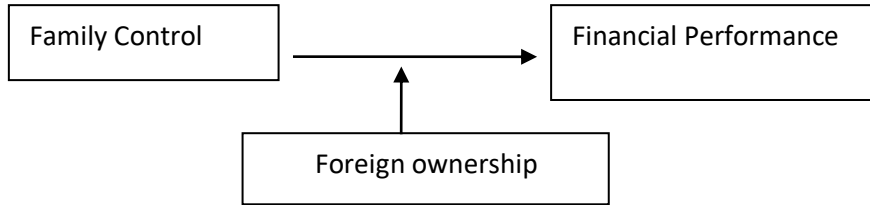


Figure 1 Theoretical Model

Based on Figure 1, it is explained that foreign institutional ownership can moderate the negative effect of family control on dividend payments. The dominant role of foreign owners is increasingly effective in monitoring board parties in family companies. Foreign owners can suppress the negative effects of family controls on dividend payout policies. Foreign ownership can encourage family company management to increase high dividend payments. In addition, foreign ownership can also moderate the effect of family control on company profitability. The dominant foreign owner in the family company can encourage management to optimize the use of assets so that the company's profitability increases. Thus, the role of foreign ownership is more effective in supervising managers, and can mitigate the negative impacts of dominant family owners, such as expropriation of company resources for their own interests.

Research Method

Sample

This research used a sample of family company. The sampling method of family companies comes from a number of companies listed on the Indonesian stock exchange, based on certain criteria as follows: 1) family companies listed on the Indonesia Stock Exchange from the period 2012 to 2017. 2) family company shares are actively traded on the Indonesia Stock Exchange. 3) members of the board of directors consist of at least 2 members from the family. 4) The family board of directors also has family shares. 5) the family owner has the same last name. 6) The family company has complete financial statement documents. 7) family companies pay dividends for the period, 2012-2017. 9) These family companies had foreign ownership during the period 2012-2017. From these criteria, the sample size in this study was 16 family companies. Here is the result of the selection of the analyzed company.

The data used in this study was secondary data obtained from several sources, that the financial statements were obtained from the Indonesian Capital Market Directory, Factbook, IQ + software, reports or other data that have been published.

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1	The amount of the firm listed on the Stock Exchange (2012-2017)	:	452
2	The amount of Non-family firm	:	(404)
3	The amount of the Company with Family Controls	:	48
4	The family company with incomplete data	:	(32)
5	Family Company with complete data	:	16

Operational Definitions Of Variables

This study used several types of variables. Dependent variable is the performance of the family company. The performance of family companies is proxied by the Divident Payout Ratio (DPR) and Return On Assets (ROA). Independent variable is family control. Family control is a family-controlled company that has one or more members of the largest family shareholder on the board of directors. This is consistent with previous research (Yoshikawa & Rasheed, 2010) that active family features are family members involved in family company management. Thus, the measure of family control is the number of family directors on the board. The number of directors is identified based on the same last surname. The moderator variable is foreign ownership. Foreign Ownership is the amount of ownership of foreign investors in a family company. Data on foreign ownership in family companies were obtained from the Indonesian Capital Market Directory (ICMD) from period 2012 to 2017. Return on Assets (ROA), this ratio indicates the company's ability to generate net income below a certain asset level. Asset returns are defined as net income divided by total assets. Dividend Payment Ratio, this ratio is part of the income paid as dividends to investors. Undistributed income will be reinvested into the company. Dividend payout reflects dividend policy. This ratio is calculated by dividing dividend per share by earnings per share.

Empirical Model

Testing the moderating effects and the main effects in this study were conducted using Moderated Regression Analysis (MRA). Moderator variables are variables that might strengthen or weaken the influence of independent variables on the dependent variable. In this study, the moderator variable is foreign ownership. Meanwhile, the independent variable is family control while the dependent variable is family financial performance. Family financial performance is proxied by Divident Payout Ratio (DPR) and Return On Total Assets (ROA). This study will compared three regression equations for each empirical model, to determine the type of moderator (Ghozali, 2016). Moderator variables can be classified into three groups, namely pure moderator, quasy moderator, and homoglogizer. The two empirical models of this study are derived in the following mathematical equation:

Empirical Model 1.

$$\text{Model 1.1, } \text{DPR} = \alpha + \beta_1 \text{FCT} + e$$

$$\text{Model 1.2, } \text{DPR} = \alpha + \beta_1 \text{FCT} + \beta_2 \text{FRG} + e$$

$$\text{Model 1.3, } \text{DPR} = \alpha + \beta_1 \text{FC} + \beta_2 \text{FRG} + \beta_3 \text{FC} * \text{FRG} + e$$

Where DPR is deviden payout ratio, FCT is family control, FRG is foreign ownership.

Empirical Model 2.

Model 2.1, $ROA = \alpha + \beta_1 FCT + e$

Model 2.2, $ROA = \alpha + \beta_1 FCT + \beta_2 FRO + e$

Model 2.3, $ROA = \alpha + \beta_1 FCT + \beta_2 FRO + \beta_3 FCT * FRG + e$

Where ROA is return on asset, FCT is family control, FRG is foreign ownership.

In addition, this study also tested the classical assumptions associated with empirical research models: heteroscedasticity, multicollinearity, residual normality, autocorrelation. Heteroscedasticity test aims to detect whether a model has the same distribution of variants. The multicollinearity test aims to test whether the regression model found a high or perfect correlation between variables. The normality test aims to test whether the residual variable has a normal distribution. The autocorrelation test detects whether the linear regression model has a correlation with residues in period t with errors in period t-1.

Result and Discussion

Descriptive Statistics

An overview of descriptive data can be seen in table 1. It can be seen in table 1, the mean value of the control family, 7.981. This figure indicates that the number of directors on the board is 8%. The family control variable has a deviation of 4.678. The mean value of the foreign ownership variable is 23.898 or 24%, this figure shows that the role of foreign parties along with family control in influencing management decisions. Foreign ownership has a deviation of 5.896 or 5.896%. Meanwhile, the mean value of return on assets (ROA) in family companies is 5.751, which indicates that family companies in Indonesia have the ability to optimize the utilization of company assets. Return on Assets (ROA) has a standard deviation of 6.756. The mean value of the Dividend Payout variable, 7.242, which indicates that the family firm distributes large enough profits to shareholders, as dividends.

Table 1 Descriptive Statistics

Variable	n	Minimum	Maximum	Mean	Std. Deviation
Family Control (FCT)	80	5.12	24.92	7.981	4.678
Foreign ownership (FRG)	80	3.62	36.12	23.898	5.896
Profitabilty (ROA)	80	-4.53	49.89	5.751	6.756
Dividend (DPR)	80	0.05	48.73	7.242	11.434

Hypothesis Testing

This research examined the moderating role of foreign ownership on the effect of family control on corporate financial performance. The company's financial performance uses two proxies, Return on Asset, ROA and Dividend Payout Ratio, DPR. In testing

hypotheses, the first step was to test the assumptions of the empirical model. Based on the results of testing the residual normality in equation model, 1, the DPR variable showed that the residuals are normally distributed. This indication is based on the Kolmogorov-Smirnov Z test results, p-value = 0.764 > 5%. Likewise, based on the results of detection of residual normality in equation 2, the profitability variable, with ROA proxy, showed that residuals are normally distributed (Kolmogorov-Smirnov Z, p-value, 0.257 > 5%).

The results of the heteroscedasticity test, glejser test, in the equation model 1 provide p-value for the Family Control, FCT (0.311) and Foreign Ownership variables, FRG (0.085) is not significant at alpha, 5% which means no heteroscedasticity occur. Likewise, the results of the heteroscedasticity test in equation model 2 showed that the coefficient for the control variable family, FCT (0.473) and foreign ownership, FRG (0.567), was not significant at 1% alpha, meaning that there was no heteroscedasticity. The results of heteroscedasticity test are presented in table 2.

Table 2 The Result of Heteroscedasticity Test

Variabel	Model 1 (DPR)		Model 2 (ROA)	
	β	Sig	β	Sig
FCT	0.480	0.311	0.680	0.473
FRG	0.416	0.085	0.265	0.567
FCT*FRG	0.416	0.145	0.265	0.662

Next, the Breusch-Godfrey test results in model 1 show that the parameter coefficient for the residual variable, 0.751 > 5% is greater than the p-value. Likewise, the Breusch-Godfrey test results in model 2, show that the coefficient parameter for the residual variable, 0.636 > 5%, is greater than the p-value. The autocorrelation test results are presented in Table 3. Likewise, both models indicate no autocorrelation.

Table 3 The Result of Autocorrelation Test

Variable	Model 1 (DPR)		Model 2 (ROA)	
	β	Sig	β	Sig
FCT	0.034	0.983	0.005	0.983
FRG	0.013	0.977	0,031	0.977
FCT*FRG	0,161	0,532	0,276	0,782
Residual 3	0.023	0.751	0.026	0.636

For multicollinearity test, based on tolerance and VIF values, it can be seen that there is no tolerance value below 0.10, (range 0.322 to 0.634), as well as no VIF value above 10 (VIF values range from 4.136 to 8.691). So, the multicolenearity test results showed no serious multicollinearity. The multcholinearity test results are presented in Table 4.

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Table 4 The Result of Multicolnearity Test

Variable	Model 1 (DPR)		Model 2 (ROA)	
	Tolerance	VIF	Tolerance	VIF
FCT	0.322	4.322	0.214	4.136
FRG	0.469	5.735	0.335	5.285
FCT*FRG	0.533	8.436	0.634	8.691

Table 5 Result of Moderated Regression Analysis

Model 1.1, $DPR = \alpha + \beta_1 FCT + e$

Model 1.2, $DPR = \alpha + \beta_1 FCT + \beta_2 FRG + e$

*Model 1.3, $DPR = \alpha + \beta_1 FC + \beta_2 FRG + \beta_3 FC*FRG + e$*

Where DPR is dividend payout ratio, FCT is family control, FRG is foreign ownership

Variabel	Model 1.1		Model 1.2		Model 1.3	
	β	Sig	β	Sig	β	Sig
Constant		0.506		0.762		0.762
FCT	-0.821	0.039	-0.470	0.321	1.808	0.002
FRG			-0.436	0.735	7.337	0.000
FCT*FRG					2.776	0.000

Notes: dependent variable, dividend payout ratio (DPR)

By comparing the three regressions (table 5), information is obtained that the moderator variable, foreign ownership, p-value = 0.00 ($\alpha = 5\%$) and interaction variables, family control and foreign ownership (FCT * FRG), p-value = 0.00 ($\alpha = 5\%$). Thus, these results indicate that the foreign ownership variable (FRG) is a quasi moderator variable. Furthermore, based on the results of hypothesis testing as shown in table 5, it shows that the interaction coefficient is positive and significant. The coefficient of interaction of family control and foreign ownership (FCT * FRG) is positive (2.776) and significant (p-value = 0,000 $< \alpha = 5\%$). The results of this study support the first hypothesis (H1) which states that foreign ownership positively moderates the effect of family control on dividend payments.

Table 6 Result of Moderated Regression Analysis

Model 2.1, $ROA = \alpha + \beta_1 FCT + e$

Model 2.2, $ROA = \alpha + \beta_1 FCT + \beta_2 FRO + e$

*Model 2.3, $ROA = \alpha + \beta_1 FCT + \beta_2 FRO + \beta_3 FCT*FRG + e$*

Where ROA is Return on Asset, FCT is family control, FRG is foreign ownership

Variabel	Model 2.1		Model 2.2		Model 2.3	
	β	Sig	β	Sig	β	Sig
constant		0.678		0.554		0.053
FCT	-0.385	0.178	-0.213	0.571	0.571	0.263
FRG			-0.146	0.398	2.602	0.055
FCT*FRG					0.988	0.031

Notes: dependent variable, ROA

Likewise, in model 2, by comparing the three regressions as shown in table 6, information is obtained that the moderator variable, foreign ownership, p-value = 0.00 ($\alpha = 5\%$) and the interaction variable, family control and foreign ownership (FCT * FRG), p-value = 0.00 ($\alpha = 5\%$). Thus, the results of this study indicate that the foreign

ownership variable (FRG) is a quasi moderator variable. Furthermore, based on the results of hypothesis testing as shown in Table 6, it shows that the interaction coefficient of family control and foreign ownership (FCT * FRG) is positive (0,988) and significant ($p\text{-value} = 0.031 < \alpha = 5\%$). The results of this study support the second hypothesis (H_2), foreign ownership positively moderates the effect of family control on dividend payments.

Discussion

The Moderating Role of Foreign Ownership on Dividend Payment

The results suggested that foreign ownership positively moderates the effect of family control on dividend payments. These results support the first hypothesis (H_1). This result indicates that foreign ownership will weaken the negative effect of family control on the dividend payout. This result indicates that foreign shareholders have the capacity to influence managerial policies and decisions, thereby reducing the possibility of expropriation by the dominant family owner.

This may occur because foreign ownership is quite large, namely the average value is 24%. This figure shows that the role of foreign parties along with family control in influencing management decisions. Furthermore, active trading by foreign investors affects the performance of family firms. Increased foreign ownership will influence the family to increase dividend payments. This result is in line with previous findings (Chiang & Lai, 2015; Wei et al., 2011), but it is not consistent with the results of research by Yoshikawa and Rasheed (2010). This study focuses on dividend payments as an outcome variable, because dividend payments address the problem of wealth creation and wealth distribution. Family ownership causes higher dividends, obviously family owners act well and there are no internal conflicts. Thus, in summary, majority ownership which is dominated by foreigners will be able to reduce conflicts between the majority and the minority in the family firm. In addition, foreign ownership can mitigate the level of expropriation of the wealth of minority shareholders by family shareholders.

Moderating role of Foreign Ownership on Control Family and profitability of the Company

Likewise, the results of hypothesis testing suggested that foreign ownership positively moderates the effect of family control toward return on assets (ROA). When foreign investors are blockholders, they have the same capacity to influence managerial policy, thereby reducing the possibility of an expropriation by the family owner. These results indicate that the higher the foreign ownership in family companies, the higher the company's ability to increase profitability. The existence of foreign investors as owners can sufficiently influence management decisions to optimize asset utilization. This study is in line with the findings of Maury (2010) and Yoshikawa and Rasheed (2010). This study also focuses on profitability as an outcome variable, due to discussing the issue of wealth creation and wealth distribution. If the family has the ability to produce higher profits, then it is clear that there is no problem. The results of this study suggest that the

presence of foreign parties as owners is able to positively control family management to increase the company's efficiency and profitability.

Conclusion

In accordance with the results of hypothesis testing and previous discussion, this study concludes several important things. First, foreign ownership positively moderates the effect of family control on dividend payments. These results suggest that if a family company has a majority of foreign ownership, then the foreign investor has the capacity to control management in policy making. Foreign investors are able to encourage management to optimize the use of assets to increase company profits. High profits will be distributed as dividend payments. Second, the results of testing the second hypothesis suggest that foreign ownership positively moderates the effect of family control on profitability. This result strengthens the role of foreign ownership in controlling the family company. The results of the study reveal that the dominant foreign ownership will affect the family company management to increase profitability. The result of this study is consistent with the perspective of agency theory, type II agency problem.

This research uses a relatively small sample size of family company. Unlike other research before, this study do not distinguish between the size and type of company. Second, This study only measures the dominant role of the family based on family involvement in the board of directors, therefore future studies will also include family ownership variables. Third, this study is limited to family company listed in Indonesia Stock Exchange during 2012-2017. Future studies should extend the length of the study period so that it may increase the sample size. Future research should expand the range of other variables that can support this research, including control variables, mediating variables, and moderating variable.

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