GOOD CORPORATE GOVERNANCE MODERATION ROLE: THE EFFECT FAMILY OWNERSHIP ON FIRM PERFORMANCE AND CAPITAL STRUCTURE

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ABSTRACT

Family firms have unique characteristics that are different from firms in general. The uniqueness of these characteristics makes the family firms have management and performance difference from the company at large. This study aims to examine the performance of family ownership and capital structure by implementing a good corporate governance mechanism in firm management. This study analyses 68 non-financial families owned firms from the Indonesia Stock Exchange from the 2016 to 2018 period. This study also uses indicators of good corporate governance published by the Forum for Corporate Governance in Indonesia. This study adopts the Structural Equation Modelling-Partial Least Square analysis method. The results indicate that there is a positive influence between family ownership on firm performance. Further, this study revealed a negative influence between family ownership on capital structure and a positive influence between good corporate governance and firm performance. However, there is an indication that there is no influence between good corporate governance on capital structure. Good corporate governance weakens either the positive effect of family ownership on firm performance or negative influence on family ownership on capital structure.

Keywords: Family Ownership, Firm Performance, Capital Structure, Good Corporate Governance.

INTRODUCTION

Firm performance is an important thing that becomes a benchmark for a company. Companies that have good performance are affected to maximize firm value. Managers are expected to be able to produce targeted returns by empowering existing resources in the company. So that the dividends to be received by shareholders will increase (Febriyanto, 2013). This condition will attract investors to invest their capital in the company. The same thing happened to family firms. In Indonesia, the majority of companies are owned by the family. Price Waterhouse Cooper (PwC) conducted a survey in Indonesia that resulted in 95% of companies in Indonesia being a family business. Generally, a family firm is a firm that is founded, owned, controlled, and run by a group of people who are related by blood or marriage and have a majority stake in a company (Komalasari & Nor, 2014).

There are several unique characteristics of the family firm which are not found in other firms, such as terms of management supervision and managerial decision-making preferences. There are differences in the composition of the board of directors, the board of commissioners, and ownership structure. Therefore, a family firm tends to be concentrated and not diversified (Komalasari & Nor, 2014). Although there are workers who do not have family ties, family members usually occupy the top positions in the company (Cahyani & Sanjaya, 2016). Placing the family in the top management of the company makes the family have a tremendous control dominance. Loyalty and high dedication owned by the family become a driver for the company to develop rapidly. This great sense of ownership is also one of the keys to the progress of the family firm (Komalasari & Nor, 2014).

In a family firm, managers and majority shareholders have the authority to manage their capital structure. Capital structure is the mix proportion of the company's long-term permanent funding represented by debt, preferred stock, and common stock equity (Horne & Wachowicz, 2010). Managers who are family members will act wisely in managing capital so that they can achieve optimal capital structure. Tanzil & Juniarti (2017) proved that family ownership has a significant influence on the decisions made by management and the board of directors to influence and monitor the company.

Family ownership can also reduce the occurrence of agency problems caused by the interests of the principal and agent. It can occur between the principal (authority) and agent (manager) if the agent is no longer consistent with the primary goal, which is to prosper the owner. It has also occurred between the controlling shareholder and the non-controlling shareholders, where the controlling shareholder makes decisions and sets policies without regard to the non-controlling shareholders. This agency conflict is what happens in companies with concentrated ownership, such as family firms (Savitri et al., 2016). Family firms are still reluctant to employ professional people outside the family. It will reduce and endanger firm performance (Cahyani & Sanjaya, 2016). Management policies influence funding policies in determining capital structure. In family businesses, management tends to be placed by family members is feared to make decisions based on personal interests. It is necessary to control management activities to avoid these problems (Septianty, 2013). Thus, the implementation of good corporate governance in family firms will protect the interests of minority parties from conflicts of interest by the controlling managers and making the company more objective in determining its capital structure.

Good corporate governance creates mechanisms and control device to ensure that firms have a fair profit and wealth sharing mechanism toward their stakeholders and increase their efficiency (Nuswandari, 2009). According to the Organization of Economic Cooperation and Development (OECD) (2004), good corporate governance (GCG) is a set of relationships between the company management, board, shareholders, and other parties who have an interest in the company to generate competitive performance and eventually to achieve corporate objectives. GCG means that the processes of disclosure and transparency are followed so as to provide regulators and shareholders as well as the general public with precise and accurate information about the financial, operational and other aspects of the company. The principles of transparency, accountability, responsibility, independence, and fairness in good corporate governance can reduce agency conflicts that often occur in family firms, especially in terms of controlling the top management as well as the majority shareholder. The implementation of GCG clearly on the company is expected to effectively control the company so that conflicts within the company can be minimized.

Previous studies have revealed the effect of family ownership on firm performance. Komalasari & Nor (2014), Limantoro & Juniarti (2017), Chu (2011), and San et al. (2015) proved that companies with family ownership have a positive effect on firm performance. While research conducted by Mathova et al. (2017), Pannya & Juniarti (2017), and Rahmawati & Handayani (2017) proved that family ownership does not affect firm performance.

This study examines the effect of family ownership on firm performance and capital structure. Good corporate governance is also tested for its effect on firm performance, capital structure, and role in moderating the relationships between variables. The results show that family businesses are positively related to firm performance and negatively related to capital structure. The implementation of good corporate governance in family firms can improve firm performance, but the existence of the application of GCG has no relationship with capital structure. Whereas in terms of moderating, GCG's role is to weaken the relationship of family ownership to firm performance as well as to weaken the negative influence of the relationship of family ownership on capital structure.

The remainder of this paper is organized as follows. Section 2 describes the data and analysis methods utilized. In section 3, we report the empirical results, and Section 4 presents the results. Section 5 provides a conclusion. Last but not least, section 6 limitations and recommendations.

METHOD

The simple random sampling method used to select the sample. Calculated by the Slovin formula, we analyze 94 samples from 123 companies as population. However, 16 companies report their financial performance in foreign currencies and 10 companies have incomplete data in their annual report so that only 68 companies could be analyzed. All data have been collected from the annual report of non-financial family firms listed in the Indonesia Stock Exchange from 2016 to 2018 period. Data analysis uses Structural Equation Modeling-Partial Least Square (SEM-PLS) with a formative construct that is used for family ownership, capital structure, and firm performance variables. Whereas a reflective construct is only used for good corporate governance variable.
To measure firm performance, this study uses return on assets, return on equity and Tobin's Q. The formulas are as follows.

Table 1: Measurement of Firm Performance

Indicators	Formula
Return on Asset	$\text{ROA} = \frac{\text{Net Income}}{\text{Average Total Assets}}$
Return on Equity	$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$
Tobin'sQ	$Tobin's\ Q = \frac{EMV + D}{EBV + D}$

Furthermore, the debt to equity ratio is used to measure the company's capital structure. The formula is:

$$\text{DER} = \frac{\text{Debt}}{\text{Equity}}$$

The proportion of family ownership is calculated by:

$$\text{Family Ownership} = \frac{\text{Total of family's share holdings}}{\text{Total number of shares}}$$

The moderating variable good corporate governance is measured using indicators issued by the Forum for Corporate Governance in Indonesia which consists of five aspects, including shareholder rights (GCG1), corporate governance policies (GCG2), corporate governance practices (GCG3), disclosure (GCG4), and audit functions (GCG5).

RESULT

Descriptive Statistics

The descriptive statistic result of each variable is presented in the following table.

Table 2: Descriptive statistics results

	N	Minimum	Maximum	Mean	Std. Deviation
FO	204	.077	.976	.585	.236
ROA	204	-.392	.416	.034	.096
ROE	204	-2.540	1.052	.002	.414
TOBIN Q	204	.002	1109.568	11.397	98.639
DER	204	-10.188	162.192	2.211	11.517
GCG1	204	.000	1.000	.675	.241
GCG2	204	.000	1.000	.848	.207
GCG3	204	.200	1.000	.863	.168
GCG4	204	.333	1.000	.913	.118
GCG5	204	.167	1.000	.974	.108
Valid N (listwise)	204				

Outer Model (Before Modification)
The outer model determines the specification of the relationship between latent constructs and their indicators. The results for this research are presented in the following table.

Table 3: Indicator Weight Before Modification

	FAMOWN	**PRFORM**	**CAPSTRCT**	**GCG**	**GCG*FAMOWN**	**Type**	**SE**	**P value**	**VIF**	**WLS**	**ES**
FO	1.000	0	0	0	0	Formative	0.058	**<0.001**	**0.000**	1	1.000
ROA	0	0.557	0	0	0	Formative	0.058	**<0.001**	**1.578**	1	0.499
ROE	0	0.558	0	0	0	Formative	0.058	**<0.001**	**1.579**	1	0.500
TOBIN_Q	0	0.031	0	0	0	Formative	0.058	**0.298**	**1.001**	1	0.001
DER	0	0	1.000	0	0	Formative	0.058	**<0.001**	**0.000**	1	1.000

Based on table 3, it can be seen that one of the company's performance indicators, Tobin's Q, doesn't qualify as an indicator. This is because the p-value of Tobin's Q is 0.298 which exceeds the provisions as an indicator of a variable (p-value <0.05). Therefore, the researchers decided not to include Tobin's Q as an indicator of firm performance variables.

Outer Model (After Modification)
After modification, the result of the outer model can be seen below.

Table 4: Indicator Weight After Modification

	FAMOWN	PRFORM	CAPSTRCT	GCG	GCG*FAMOWN	Type	SE	P value	VIF	WLS	ES
FO	1.000	0	0	0	0	Formatif	0.058	**<0.001**	**0.000**	1	1.000
ROA	0	0.558	0	0	0	Formatif	0.058	**<0.001**	**1.578**	1	0.500
ROE	0	0.558	0	0	0	Formatif	0.058	**<0.001**	**1.578**	1	0.500
DER	0	0	1.000	0	0	Formatif	0.058	**<0.001**	**0.000**	1	1.000

Based on table 4. shows the p-value of all indicators <0.05 and VIF value <2.5 which indicates that both criteria for formative constructs are acceptable. It can be concluded from the table above that the formative construct measurement has been assessed as feasible in this study.

In the variable good corporate governance, this study uses a reflective construct. Reflective constructs are measured through 3 criteria: convergent validity, discriminant validity, and composite reliability. The result of each criterion is presented below.

Convergent Validity
Convergent validity is to find out how far the measuring instrument can be used to measure a construct. The result is presented in the following table.

Table 5: Combined Loading and Cross-Loadings

	GCG	GCG*FAMOWN	Type	SE	P value
GCG1	**(0.710)**	-0.114	Reflective	0.058	**<0.001**
GCG2	**(0.788)**	-0.225	Reflective	0.058	**<0.001**
GCG3	**(0.691)**	-0.149	Reflective	0.058	**<0.001**
GCG4	**(0.648)**	-0.193	Reflective	0.058	**<0.001**
GCG5	**(0.628)**	-0.434	Reflective	0.058	**<0.001**
GCG1*FO	-0.147	**(0.699)**	Reflective	0.058	**<0.001**
GCG2*FO	-0.315	**(0.841)**	Reflective	0.058	**<0.001**
GCG3*FO	-0.162	**(0.752)**	Reflective	0.058	**<0.001**
GCG4*FO	-0.207	**(0.739)**	Reflective	0.058	**<0.001**
GCG5*FO	-0.380	**(0.631)**	Reflective	0.058	**<0.001**

The output results in table 5, show the loading factor value of each construct is above 0.70 with a p- value<0.05. The loading factor values of the GCG4, GCG5 and GCG5*FO are 0.648, 0.628, and 0.631 also declared as valid with p-values <0.05. From the results of the Latent Variable Coefficients output, the AVE value of the GCG variable is 0.483 and the moderating variable (GCG*FAMOWN) is 0.541 (AVE>0.05), thus the output results indicate the criteria have been met.

Discriminant Validity
Discriminant validity determines whether the constructs in the model are highly correlated among them or not. It compares the Square Root of AVE of a particular construct with the correlation between that construct with other constructs. The value of Square Roof of AVE should be higher than the correlation. The result is in the following table.

Table 6: Correlations among l.vs. with sq. rts. of AVEs

	FAMOWN	PRFORM	CAPSTRCT	GCG	GCG*FAMOWN
GCG	-0.009	0.111	0.058	**(0.695)**	-0.331
GCG*FAMOWN	0.163	-0.157	-0.106	-0.331	**(0.736)**

The output results in table 6 illustrate that the square root of AVE for GCG is 0.695 and GCG*FAMOWN is 0.736. It means each construct is higher than the correlation value between constructs and other constructs so that the model has sufficient discriminant validity.

Composite Reliability

In structural equation modeling, composite reliability used to measure the extent to which the set of constructs represented in the model relates to a given latent variable. The result is reflected in the table below.

Table 7: Composite reliability

Criteria	GCG	GCG*FAMOWN
Composite reliability coefficients	0.823	0.854
Cronbach's alpha coefficients	0.729	0.784

Based on the table above each construct has fulfilled the reliable criteria. This is indicated by the value of composite reliability and Cronbach's alpha for each construct above 0.70.

Inner Model

The inner model test is carried out to test the relationship between exogenous and endogenous constructs. The result is in the following table.

Table 8: Model fit Indices

	Index	P-*Value*	Criteria	Information
APC	0.152	0.002	<0.05	Accepted
ARS	0.085	0.036	<0.05	Accepted
AVIF	1.231		AVIF≤5, ideal≤ 3.3	Accepted

Tabel above shows that the APC has an index of 0.152, with a p-value of 0.002, while ARS has an index of 0.085, with a p-value of 0.036. Based on the criteria, the APC and ARS have been fulfilled (p-value <0.05). Furthermore, AVIF has a value of 1.231. Thus, the inner model can be accepted.

Table 9: R-squared Coefficients

FAMOWN	PRFORM	CAPSTRCT	GCG	GCG*FAMOWN
	0.089	0.081		

Table 9 shows that the value of R-Squared for the influence of family ownership and good corporate governance variables on corporate performance variables is 0.089. This result shows that 8.9% of the company's performance variable is influenced by family ownership and good corporate governance, while the rest is influenced by other variables. Furthermore, the R-squared value for the capital structure variable is 0.081, which illustrates that the family ownership and good corporate governance variables affect the capital structure variable by 8.1% while the rest is influenced by other variables.

The Results of Structural Model

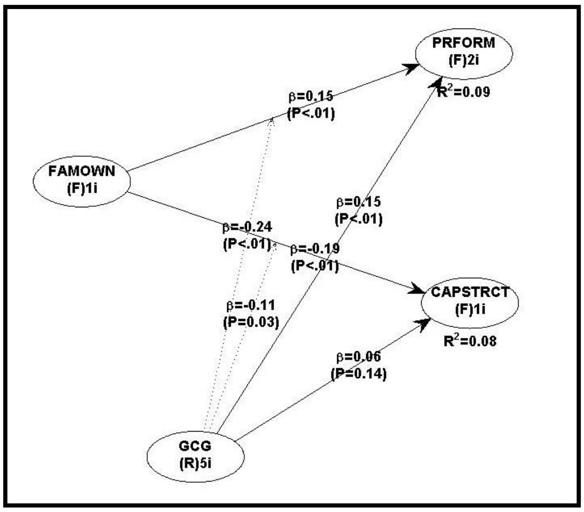

Figure 1. Structural Model

From the picture above, we explained the result in the following table.

Table 10: The Effect of Independent Variables on Firm Performance

	Path Coefficient	P-*Value*	*Effect sizes for path*
FAMWON	0.151	0.005	0.009
GCG	0.154	0.004	0.026
GCG*FAM	-0.245	<0.001	0.054

Tabel 11: The Effect of Independent Variables on Capital Structure

	Path Coefficient	P-*Value*	*Effect sizes for path*
FAMWON	-0.194	<0.001	0.050
GCG	0.063	0.138	0.006
GCG*FAM	-0.108	0.032	0.025

Tables 10 and 11 explain that family ownership is positively affected firm performance, and significantly negatively affected capital structure. Good corporate governance is positively affected firm performance and not affected capital structure. Good corporate governance as a moderating role weakens the relationship of family ownership on corporate performance and weakens the negative influence of the family ownership relationship on capital structure.

DISCUSSION

The Effect of Family Ownership on Firm Performance

The results showed that companies with family ownership tended to have good firm performance. Generally, it has high loyalty and dedication so they can push the company in a better direction. This is due to the dominance of the family in the company where the family usually occupies top management positions, as well as the majority shareholder, makes them always try to make decisions with careful consideration and make investments efficiently.

The involvement of family members in top management encourages monitoring and control activities in the company to run directly to the company's managerial activities. That way, management works more effectively and efficiently. The family's desire to inherit the company to the next generation is also a strong reason for management to do so.

In agency theory, the differences in interests between shareholders (principal) and managers (agents) can lead to agency costs. Agency cost is useful to reduce the conflict of interest. In a family firm, family members as the principal shareholders and occupying management positions can reduce the conflict of interests between principals and agents to minimize agency costs in the company.

According to Komalasari & Nor (2014), the performance of family firms is better than non-family firms. Decision-making usually takes months in a professional company that can be done on the spot by the owner of the family firm. Such speed and agility can only be found in family-owned companies.

This research is in line with research conducted by Limantoro & Juniarti (2017), Chu (2011), and San et al. (2015), which states that companies with family ownership have a positive effect on firm performance.

The Effect of Family Ownership Structure on Capital Structure.
The results of this study indicate that the higher the portion of family ownership in a company, the DER of the company will decrease. This finding reveals that family businesses tend to use small debts in determining company funding policies.

The involvement of a large family in a company practically makes the family have greater control over the company. Families with majority share ownership can have significant voting rights in corporate funding decisions. So, companies with substantial ownership tend not to use external sources of capital in enormous numbers because, according to González et al. (2013), in Prananda et al. (2019), family firms can also to be risk-averse and debt avoidance. They assume that debt can threaten the company's existence and increase the risk of bankruptcy.

The family's desire to maintain the company is to continue ownership to the next generation, making the family very careful in making funding decisions, including determining the amount of debt (Al-Fayoumi & Abuzayed, 2009 in Kuo et al., 2012).

The results of this study are in line with research conducted by Prananda et al. (2019) and Wijayanti (2014), which state that family-controlled companies will use smaller debts.

The Effect of Good Corporate Governance on Firm Performance
The existence of good corporate governance principles can encourage management to perform its function correctly, thus creating an excellent performance.

The implementation of GCG assumes that the company has carried out transparency so the company will have good credibility. This can increase investor confidence and provide a guarantee of profits, and the security of the funds will not be embezzled by the company manager (Nurcahya et al. 2018).

This research is in line with research by Veno (2015) and Purwani (2010). According to Xiaonian, et al. (2000) in Purwani (2010) states that the application of good corporate governance that focuses on effective risk management and internal control processes will improve performance and competitiveness as well as the creativity of corporate values that can achieve desired goals.

The Effects of Good Corporate Governance on Capital Structure.
Debt management in determining capital structure must be done well by implementing good corporate governance (GCG) in the company. Thus, companies are required to apply the principles of good corporate governance, including transparency, accountability, responsibility, independence, equality, and fairness, so that in determining the capital structure of management and controlling shareholders do not make decisions based on personal interests. Nevertheless, this is contrary to the results of this study.

This study explains that the implementation of GCG does not affect the company's decision to use debt as a source of funding. This can occur because the GCG indicators used in this study, such as shareholder rights, corporate governance policies, corporate governance practices, disclosure, and audit functions, cannot influence the company in choosing its funding sources. From the perspective of agency theory, the independent commissioner has the authority to oversee policies and activities undertaken by directors and provide advice in terms of making decisions and policies relating to the company's capital structure. Through the role of the board of commissioners in carrying out the oversight function of the company's operations, the composition of the board of commissioners can also provide a useful contribution to preparing quality financial statements from avoiding the possibility of fraud. So, it can be concluded that the role of the independent commissioner is to assist the board of commissioners in terms of oversight, so the independent commissioner in this study is not able to influence the company to take debt policy in its capital structure (Kelana, 2015). Likewise, with other GCG indicators, it has not influenced companies to use debt in determining their capital structure.

This research is in line with research conducted by Subing (2017), Abobakr et al. (2015), Uwuigbe (2014), and Budiman & Helena (2017)

The Effect of Family Ownership on Firm Performance by moderating Good Corporate Governance.
This study indicates that good corporate governance (GCG) as a moderating variable plays a role in weakening the relationship between family ownership and firm performance. The importance of GCG seems to be different for a family-owned company compared to a global company. The obligation of the company to place an independent board is not needed in the family firm. It

is because, in family businesses, ownership alignment and control are more stringent by eliminating the need for outside directors. Importantly, outside directors with less knowledge about the company and with less ownership, in this case, can reduce company efficiency because managers' attention is diverted by their focus on short-term goals (Klein et al., 2005).

Corbetta & Salvato (2004) explain that all family businesses cannot be treated equally. Differences in company culture, ownership structure, and managerial experience have different governance effects among family firms, so GCG measurement indicators for family firms may differ.

This study is in line with research conducted by Sutejo & Juniarti (2017), Klein, et al. (2005) and Corbetta & Salvato (2004).

The Effect of Family Ownership on Capital Structure by moderating Good Corporate Governance.
The results of this study indicate the involvement of good corporate governance (GCG) in the use of debt in the capital structure of family firms makes companies tend to consider debt in their funding.

In this study, it was previously found that the greater family-owned, the less possibility to use debt in determining the composition of company capital structure. It is because the family firm is very concerned about the sustainability and existence of the company so that it can be passed on to the next generation. Therefore, companies avoid the risk of bankruptcy due to the use of debt. However, by implementing GCG in the company automatically, the principles contained in GCG make the company slowly consider using debt in its capital structure because, according to Wijayanti (2014), the family does not want to reduce the control they have. The family prefers debt rather than issuing new shares, which causes a change in share ownership. This can be seen from the highest loading value found in the GCG2 indicator, which is a corporate governance policy, which means that the policy on GCG is the most influential in consideration of the use of debt for family firm funding.

Kuo et al., (2012) stated in their research that the more significant portion of family ownership in a company, make the company choose short-term debt in its capital structure if there is the active involvement of corporate governance. The oversight function of GCG increases corporate confidence in the optimal use of debt in determining capital structure.
Thus, this research is in line with research conducted by Kuo et al. (2012) and Nudaraja et al. (2011).

Implication and Contribution

The implications of this study can be used in terms of corporate funding. A company with family ownership could use liabilities (debt) on their financial decision with functional consideration. If the company can manage the liabilities well, it will increase the firm value and investor’s confidence to the company as well, and automatically increase the company's stock price.

This study also contributes to the literature on family firms. This study can be used as a reference for family firms in emerging countries, such as Indonesia, to pay more attention to the firm performance by applying good corporate governance principles efficiently and effectively in terms of getting a higher firm value.

CONCLUSIONS

Companies with family ownership are proven to have good firm performance, but implementing good corporate governance (GCG) can weaken firm performance; it also tends to use small debts in determining their capital structure. The existence of a GCG will increase firm performance, but the determination of capital structure is not influenced by the mechanism of GCG in the company. However, the application of GCG mechanisms can make family firms consider using debt as a source of external funding.

LIMITATIONS AND RECOMMENDATIONS

The sample used in the study only 3 years, so the implications may have different results if the sample period is extended. For further research, it is advisable to use earnings management and agency costs as independent variables to find out more about the performance of the family firms.

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