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Analysis of the Impact of Family Ownership and Family Control on Firm Performance during the Periods Before and After the 2008 Crisis: Evidence from Indonesia

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Analysis of the Impact of Family Ownership and Family Control on Firm Performance during the Periods Before and After the 2008 Crisis: Evidence from Indonesia

Miranda TANJUNG *

Abstract

The article observes the relationships among families concentrated ownership, control and firm-level performance during the periods before and after 2008 financial crisis in Indonesia, where the structures of business entities are different from those in the developed market. Employing various econometric analyses, including a more robust model of the GMM estimator, results of the test are mixed for the two observation periods. This study reveals that family firm, ownership and founding family control positively affect firm performance before the financial crisis. However, these positive influences battered in the post-crisis period, hence, signifying the poor performance of family-controlled firms during the after crisis years. Family generations, represented by the second and third generations of the firms' founders, also are part of the reasons for the underperformances, since higher agency costs are borne by the firms. This study also confirms previous research which finds a negative impact of family ownership on performance after financial crisis time. These findings can be seen as an empirical example of the principal-principal problem (agency conflict II) when the firm's largest shareholders deteriorate the wealth of minority shareowners in a weak corporate governance and legal environment.

Keywords: Corporate Governance, Family Firm, Family Ownership, Family Control, Firm Performance, Indonesia

1. Introduction

An emerging body of corporate governance literature has attempted to identify and examine the relations between family ownerships, family controls, and firm performances. Prior studies have analysed these relationships using firm-level data in the U.S. (Lee 2006; Villalonga and Amit 2006), Europe (Andres 2008; Maury 2006), and Asia (Saito 2008; Yeh et al. 2001). However, with a mixture of positive, negative, and null results, findings are inconclusive. This inconsistency can be explained by several factors: samples (firm or country level), methodologies, time period of the study, or differences in family firm definitions. This study aims to compare results of inconclusive findings by testing them

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in the Indonesian context, an emerging Asian economy where family-controlled firms are rampant and good governance practices are still in the early stages of development.

Here, focusing on Indonesia, I argue that there could be significant differences in the relationships between ownerships, family control, and performance after considering the impact of the adoption of corporate governance codes in 2006 and the subsequent 2008 financial crisis. During 2006–2007, the Indonesian government introduced new corporate governance codes to the market and amended the Corporation Law to enforce ethical business practices. With this development and the subsequent 2008 financial shocks, this research aims to compare the results of the two observation periods. A study by Johnson et al. (2000) sheds some light on the impact of corporate governance by providing evidence that poor governance and minority shareholder protection had a serious impact on the 1997–1998 stock market decline leading to massive depreciation in exchange rates.

This article contributes to the inconclusive previous studies of the connection between family firms and performance at least in four aspects. First, this study examines different thresholds for ownerships to address various family firm definitions previously used by the other studies. Second, this study analyses different family control criterion by assessing the founders, second and third family generations and their roles in the firm's boards. Third, all the examination are constructed within two observation periods: during the pre-crisis and after crisis year in 2008. Fourth, to address the ongoing concern of endogeneity issue, this study employs different econometric models to observe various results of the regressions. The article has five main sections. Section 2 presents literature review and the hypotheses of family firm and performance. Next, section 3 provides data samples, variables and econometric models. The findings of the test are reported in Section 4. Finally, Section 5 provides a summary and conclusion of this empirical study of Indonesia.

2. Literature Review and Hypothesis

2.1. Corporate Governance (CG) and Financial Crises

In two decades, Indonesia has experienced two economic crises. The first major crisis was the Asian economic crisis which hit the region from mid–1997 until 1998. The second crisis was the global financial shocks in the second half of 2007 to 2008. Many economists considered the global crisis of 2008 as the most serious crisis since the Great Depression that lasted from the end of 1920 to 1930s (Erkens et al. 2012: 392). The impacts were massive and detrimental to many countries as financial institutions collapsed, while the level of foreign trading and exports, investment, and foreign exchange volatility were sharply decreased (ibid; Tambunan 2010). As for Indonesia, nothing like the first crisis, the 2008 crisis was considered as export market crisis with the steep plunge of demand (Tambunan 2010: 157–158). These two major economic disruptions were shaping the country's economic conditions including the real sector. For that reason, the article expects to find some changes of the

Table 1 Ownership Structures of the Indonesian Firms

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Largest Ownership*)	90.02 (49.12)	90.02 (47.78)	97.95 (48.76)	98.00 (48.732)	98.00 (49.12)	98.18 (49.54)	99.74 (51.22)	99.14 (50.56)	99.00 (51.05)	99.00 (49.59)	98.67 (51.49)
Family Ownership*)	96.319 (30.35)	96.32 (29.62)	96.32 (29.84)	96.32 (29.85)	96.32 (29.57)	96.47 (30.47)	98.0 (31.27)	96.48 (29.71)	96.48 (29.69)	96.48 (30.23)	96.48 (30.43)

Note: *) represents the largest shares ownerships while data in parentheses are means.
Source: Author estimation

Table 2 Growth and Financial Indicators

N: 135	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Growth Indicator (%)											
Revenue	15.46	21.23	19.59	9.12	23.96	23.45	−1.23	16.03	19.09	12.22	11.17
Asset	12.71	13.62	10.28	9.27	18.49	17.85	2.76	13.44	16.49	15.44	19.51
Total Equity	9.12	18.12	14.12	8.51	18.18	15.99	11.68	18.80	28.13	13.78	17.66
Financial Indicator (%)											
Debt to Equity	9.11	26.90	−38.71	−3.31	6.01	149.89	−62.54	−10.14	−11.22	7.22	27.00
ROE	−1.01	−3.75	8.81	8.89	11.58	−40.80	9.47	14.61	16.43	14.57	8.19
ROA	6.88	4.09	10.01	−7.87	41.67	1.74	−1.21	26.52	8.99	−0.87	−14.18
Asset Turnover	4.89	6.46	7.96	−0.92	1.97	−84.53	561.65	1.97	1.18	−2.14	−4.09

Source: Author estimation

Indonesian firm's governance quality including the performance of family firms in 2003 to 2013.

Firm-level studies from emerging economies which examine corporate governance mechanisms within a specific timeframe, such as during and after the economic crisis, are still limited. Hence, this paper will provide evidence of specific CG elements and its impact on performance by investigating the characteristics of the Indonesian family firms. According to Zhuang et al. (2001: 17), structure of ownership is one of the determinants of CG quality, and the critical elements of ownership structure are composition and concentration. Concentrations are generally calculated by accumulating the percentages of voting rights owned by the top one to ten controlling owners, such as individuals, families, holding companies, or financial institutions. Table 1 and 2 present the ownership structures of the firms including firms' financial indicators in 2003 to 2013. According to Husnan in Zhuang et al. (2001: 18), the first largest shareholders ownerships are 48–50% in 1993–1997, while this study finds the figures rose to 90–99% in 2003–2013.

2.2. Family Firms and Firm Performance

Prior studies tried to answer the debate whether family-owned firms outperform widely held firms. However, before analysing this intriguing question, there is concern about the definition of family-

owned firm as we can find no generally accepted definition. Littunen and Hyrsky (2000) document that starting from the beginning of the nineteenth century; family businesses have been dominated the world's economic activity. However, there was no specific identity given to this entity to separate family firms from the other legal forms. A narrow definition of family firm is an entity with at least the second generation of the founder's family occupying a position in the executive board and the management. A broader definition is when a family holds enough voting rights to secure their interests and control and also be actively involved in the firm's management or boards (Anderson and Reeb 2003; Chua et al. 2004).

The dominance of family firms in Asian economies contributes to the ongoing debate of whether or not family-controlled firm is a more effective business entity than the widely held firm. Earlier empirical studies offer mixed conclusions as a result of mixed definition of the family firms, the empirical models implied, and institutional backgrounds. Previous literature suggests the dominance of family-owned firms in developing economies (Maury 2006; Isakov and Weisskopf 2014: Navarro and Ansón 2009). Other studies find that family control may harm minority shareholders when: (1) transparency and disclosure are poor (Prabowo and Simpson 2011; Suehiro 2001), and (2) corporate governance, law enforcement and inferior shareholder protection are weak (La Porta et al. 2000; 2002). In the context of Indonesia, Claessens et al. (2002) document the severe entrenchment effects of largely concentrated ownership in the hands of family together with sluggish governance environment. La Porta et al. (1999) posit that Indonesia is considered as an economy with weak legal enforcement where ownerships are mostly concentrated in the hands of founding families and also a less active corporate control mechanisms that functions well in the US and UK. Considering these findings, this research will test the following hypothesis:

H_1: Higher family ownership negatively affects firm performance during the periods before and after the 2008 financial crisis

2.3. Founding Family Control and Firm Performance

To address the impact of founding family active control on firm performance in emerging economies, I examine how family firms organize management and the board. This paper explores the level of this control mechanism and the degree of control using firm samples. In the context of Indonesia, we can find only limited empirical studies observe the question of whether a firm's founder control creates or decreases the value of firm performance including the involvement of family members. To shed some light on this topic, an analysis of founding family control over firm's CG and performance is undertaken. One paper investigating Asian firms is a piece of research into Japanese firms by Allouche et al. (2008) which find the superiority of family firm performance under the leadership of family founders. Other research by Mishra, Randøy, and Jenssen (2001) which examines the impact of family

Table 3 Family Members by Generations in Firm's Boards

Generation	Number of Firms		
	2003	2008	2013
Founder	63	65	57
Second Generation	33	43	51
Third Generation	3	5	6
Average Ownership (%)	30.66	30.86	30.56

Source: Author estimation

firm control in Norwegian firms suggests that family firms with a 10% controlling shares generate positive impact on firm performance. Differing from findings of positive impacts of family control on performance, Indonesian research conducted by Prabowo and Simpson (2011) concludes that family firms and active involvement in the board see firm performances deteriorate due to high agency costs, low transparency and poor governance reforms. Table 3 summarizes family members' involvement and active control in the firm's boards. This study differentiates control by three family generations starting from the founders until the third generations (either descendants or close family members by marriage). In 2003, there are 63 firm's founders or the first family generations, though only 57 stay in business due to retirement. Second and third family generations are growing in numbers as the firm expand its business and survive the challenging transition phase from the first to the younger generations.

To contribute to the present governance literature, the study's objective is to identify the effects of family generations control on firm values. Founding-family control variables are represented by the existence of the first generation (founder), second and third generation (by marriage or family ties) in the boards. Anderson and Reeb (2003) only test the connection among founding family and firm performance without identifying the impact on performance from the active involvement of the second and third generations in the management. This study's contribution to the existing research is by examining the impact of family's controls on the firm by identifying and classifying the level of such control into the first, second and third generations who hold positions in the board. According to Law No. 40/2007 on Corporations Law, Indonesia adopts the two-tier system of corporate governance, different from common-law countries like the US and UK (La Porta et al. 2002). The law requires publicly listed firms to separate their functions. Under this system, there are corporate board of directors and the supervisory board whose functions and authorities in corporate management are separated from the company's administrative board. The board of directors is headed by the CEO and a President Commissioner (Chairman) who led the board of commissioners. Following the first hypothesis, the second hypothesis to be examined is as follows:

H_2: Active family control negatively affects firm performance during the periods before and after the 2008 financial crisis

3. Research Design

3.1. Data Sample

Data used in this article is secondary data that had been published by companies and the Indonesia Stock Exchanges (ISX). By the end of February 2016, based on the Indonesia Stock Exchange Fact Book 2016, there were 533 companies listed on the ISX. A firm's financial ratios are calculated using the firm's audited financial statements and annual reports retrieved from the ISX, Mergent Online database, the Indonesia Capital Market Institute (TICMI) and the company's website. Firms' data of family control and share ownership are collected manually from each firm's reports. Other controlling variables are obtained from the central bank and Central Bureau of Statistics. Consistent with previous methodology, financial companies (banks, multi-finance, insurance) will not be taken as samples since these companies have different financial reporting structures (Anderson and Reeb 2003), including firms with negative equity and incomplete data. The observation periods consist of 11 consecutive years ranging from 2003 to 2013. This paper examines any significant differences in firm profitability before and after the financial crisis in Indonesia: hence, research is focused on five-year observation periods before and after 2008. Besides, periods after the year 2003 are considered a stable period after the severe economic crisis in 1998–1999, bearing in mind the growth period and restructuring of the economy that took place before that time and the impact of CG regulation announced in 2006.

3.2. Measuring Family Ownership and Control, Corporate Governance, and Performance

3.2.1. Definition of Family Firm

To get more comprehensive information of the relationships between family ownerships and firm performances, the following model will be employed:

$$Performance_{it} = \alpha_i + \beta_1(Ownership)_{it} + \beta_2(CG)_{it} + \beta_3(Controlling\ Variables)_{it} + u_{it} + e_{it} \quad (1)$$

where y_{it} measures firm's Tobin's q, β_1 represents family firm dummy and β_2 the set of firm-control variables. To test the model, this paper employs a panel data fixed-effect model (with robust clustered standard error) to address the heterogeneity issue and possible correlations between non-observable firm characteristics. Prior research provides limited evidence of Indonesian family firms while there is also concern about how to identify and classify family firms separately from other firm types. This paper follows the previous research of Anderson and Reeb (2003) and Yeh et al. (2001) to examine family firm using the proportion of equity ownership held by the founding family. In this case, since disclosures of ultimate beneficiary ownership data are unavailable in Indonesia, this paper only

identifies and takes into account family shares ownership based on publicly available data obtained from the ISX and companies' reported documents. To separate family firms from non-family ones, most previous research reported using cut-off criteria of 20% (Yeh et al. 2001; Anderson and Reeb 2003) and 10% (La Porta et al. 1999; Maury 2006) to identify the controlling investors and firm types. This study differs from other studies as it examines the 10% level including higher ratios. The rationale of testing various ownerships ratios are: (1) to compare the results from the previous studies and (2) to examine which level of ownerships that significantly influence performance.

3.2.2. Definition of Family Control

This research use dummy to test the influence of family control to performance by regressing the following model:

$$Performance_{it} = \alpha_i + \beta_1(\text{Family Control})_{it} + \beta_2(CG)_{it} + \beta_3(Controlling\ Variables)_{it} + u_{it} + e_{it} \quad (2)$$

where family control dummy variables are represented by the total number of family representatives including the founder to the second and third generation (descendants or close family member either by blood or marriage ties). Anderson and Reeb (2003) only test the relations between the founders and firm performance without identifying impact on performance from the involvement of younger generations. This study examines three family generations and their roles in the supervisory board (BoC) or board of director (BoD). Furthermore, this firm-level research also defines family-control variables into six dummies (GEN1DIR, GEN1COM, GEN2DIR, GEN2COM, GEN3DIR, GEN3COM) to provide deeper analysis of different family-representative roles in the corporate structure. The result of the fixed effect regression is represented in Table 8.

3.2.3. Corporate Governance

As prior studies provide evidence that CG mechanisms may correlate with performance and the level of family control, this study incorporates two corporate governance proxies extracted from annual corporate statements. I utilize the existence of independent director and commissioner. Indonesian law requires a dual-tier system with listed company should be governed by the executive and supervisory board (board of commissioner). According to the regulation, independent commissioner and director should have no close relationships or connection with the controlling shareholders, the other boards' members, and not to hold any position in other company associated with or in partnership with the firm. Following previous literature (Prabowo and Simpson 2009), the study expects a positive impact from the independent director and commissioner on performance.

3.3. Firm Performances and Controlling Variables

Detailed descriptions of main variables are presented in Table 4. To measure performance as the

Table 4 List of Variables

Variables	Description
Dependent Variable:	
Tobin's q	Market value of common equity plus the book value of total assets minus common equity and deferred taxes divided by book value of total assets (market valuation of a firm's assets)
Independent Variables:	
FF	Dummy variable that equals one if the family has at least 10% (30%) voting rights and has the founder and any member of the family acting as director and/or commissioner, and zero otherwise
FAMSH	Ratio of shares held by a controlling family
GEN1	Dummy variable that equals one if the founding family held the position either as director or commissioner, and zero otherwise
GEN2	Dummy variable that equals one if founding family descendant (second generation) held the position either as director or commissioner, and zero otherwise
GEN3	Dummy variable that equals one if founding family descendant (third generation) held the position either as director or commissioner, and zero otherwise
INDPDIR	The fraction of total independent directors to total board of directors members
INDPCOM	The fraction of total independent directors to total board of commissioners members
LTQ	Tobin's q lag value (prior year)
SIZE	Book value of total assets (IDRbillion)
SGROWTH	Growth of the annual sales
DER	The ratio of total debt to equity
AGE	The observation period minus the date of the establishment of the firm
OPEX	Ratio of total operating expenses to sales
TATO	Ratio of sales to total assets
INFL	Annual inflation rate
ERATE	Change of the annual exchange rates of IDR to USD

dependent variable, the paper estimates Tobin's q. Consistent with Bhagat and Bolton (2013), Tobin's q is calculated as the market value of firm's assets divided by assets' replacement cost. However, since market data of the firm's debts and assets are unavailable, the paper estimates the reporting book value of debts and assets. Several control variables are tested to control for firm characteristics, including the first lag of Tobin's q, sales growth, debt-to-equity ratio, total assets, age, operating expense and asset turnover ratio. Employing lagged values will allow a better adjustment for the firm's size and minimize biases and autocorrelation which could weaken the regression results (Yermack 1996).

4. Empirical Results

The following section presents results of the statistics descriptive, means test, and the regression results. Consistent with Anderson and Reeb (2003) and Sacristán-Navarro et al. (2011), this study

Table 5 Summary Statistics

Variables (number of observation: 1485)	Mean	Std. Dev.	Min.	Max.
TQ	1.45	1.48	0.18	15.54
DGEN1	0.46	0.49	0	1
DGEN2	0.31	0.46	0	1
DGEN3	0.03	0.18	0	1
INDPDIR	0.02	0.08	0	1
INDPCOM	0.34	0.16	0	1
DER	1.88	9.18	0.00	322.27
SGROWTH	0.24	2.50	−0.86	95.38
OPEX	0.25	2.33	0.00	89.40
TATO	1.02	0.73	0.00	5.80
AGE	33.98	19.45	4.00	154.00
SIZE	5.57	14.95	0.02	213.99
FAMSH	30.25	31.21	0	98.00
INFL	4.28	2.75	4.28	13.34
ERATE	0.02	0.13	−0.12	0.33

Source: Author estimation

employs comparable methodology. Taking into account the characteristics of the data and results from the Hausman test, fixed effect regression employed in this research to test all variables. Table 5 presents descriptive information of firm samples for all periods. Based on Indonesia Stock Exchange Decree *No. Kep–315/BEJ/062000* and Circular No. *SE–00001/BEI/02–2014*, a public company should have at least 30% independent commissioners from the total board size, and a minimum of one outside director. Consistent with these results, the study concludes that minimum requirements for independent director have not been fulfilled yet; however, the required thresholds for independent commissioner are adequately met. More specifically, the firm samples' age range from 4 to 154 years, providing evidence of the dynamics of the nation's equity market taking into account the fact that a newly established small capital firm could also enter the market.

4.1. Regression Results and Analysis

4.1.1. Family Firm and Performance

The criterion for the family-firm dummy in this study is every firm with at least 10% ownerships and active family control either in the supervising or executive teams. With this criterion, family firms with ownership at more than 10% and active family control on their boards have higher performance than non-family firms in the pre-crisis period. Hypothesis one predicts a harmful effect of concentrated ownership on performance, however, this study result shows a positive evidence of family firm superiority. This positive relationship did not last after the crisis period. Table 6

displays an insignificant negative relation between these variables. FAMSHARE represents voting rights owned by the family, and it negatively correlates with performance in Period 2. As variable of independent commissioners are consistently insignificant, these imply that this governance mechanism seems fail to manage their roles and functions. Variable of INDPDIR correlates positively with performance, especially in the pre-crisis period. Based on these findings, the author argues that CG reform in Indonesia is likely to take a while to materialize and deliver significant influence to performance. Following Claessens and Yurtoglu (2013: 28) argument, CG reform requires changes in ownership structure and power distribution amongst owners and managers, and sometimes this may cause a economic loss suffer by the controlling owners. This slow reform progress and impact is associated with higher ownership concentration, in which the authors argue that CG reforms require a structural change in the ownerships and control of the firms. In this case, reform can be guaranteed with the occurrence of significant event or shocks, such as financial crisis, through legal change and intervention by government or foreign institutions. In the case of Indonesia, governance reforms are slow in progress might be due to a minor shift in ownership structures as controlling families are hesitant to give up the level of control and private benefits they have over the companies. Moreover, these findings also are consistent with previous study on the Indonesian business groups where the author, Sato (2004), stressed the harmful impact of concentrated ownerships by the controlling families on firm governance compliance.

4.1.2. Family Control and Firm Performance

Hypothesis 2 aims to obtain a negative effect of active family control on firm performance. Table 6 provides the results of positive influence of family founders on the firms, even though the impacts weaken in Period2. DGEN2 and DGEN3, which measures the involvement of the founders' descendants in the executive board, present a negative relationship to performance. These results are consistent with Filatotchev et al. (2005) and Villalonga and Amit (2006) since: (i) family ownership variable is found to be insignificant while only in period 1 it generates a positive effect on firm values; and (ii) firm's founder positions on the firm boards improve performance in period 1. The results differ from prior research (Adams et al. 2009; Anderson and Reeb 2003; Allouche et al. 2008; Maury 2006) which find significant positive relationships of performance and family-firm control. This article suggests that, in the context of CG mechanisms, INDPDIR and INDPCOM are expected to positively impact performance. With these findings, we may cast doubt on the appointment of independent commissioners by firms which might not be based on expertise and performance but mostly due to their previous occupation positions and links to bureaucrats and political parties (Daniel 2003; Worang and Holloway 2007; Rosser 2003). By examining firm documents, this study also finds that many appointed independent commissioners have military backgrounds, which trigger concerns about fulfilment of the required skills as the supervisory entities of the firm. Daniel (2003) provides

Table 6 Panel Data Regression Analysis for Family Ownership, Family Control, and Performance

Dependent Variable: Tobin's Q										
Variable	Model (1)		Model (2)		Model (3)		Model (4)		Model (5)	
	Period 1	Period 2	Period I	Period 2	Period 1	Period 2	Period 1	Period 2	All Sample	All Sample
Intercept	−0.765	0.514	−0.449	0.458	0.00168	0.329	0.399	−0.526	−1.541***	−1.347**
	(1.236)	(0.816)	(1.757)	(0.815)	(1.779)	(0.819)	(0.808)	(1.397)	(0.552)	(0.626)
FAMSH	0.0226	−0.00395**					0.00575	−0.0274	0.00729	
	(0.0167)	(0.00172)					(0.00706)	(0.0447)	(0.00482)	
FF10			1.323**	−0.200						
			(0.585)	(0.205)						
FAMSH2							−0.913	5.862		
							(0.723)	(6.648)		
DGEN1					0.436**	−0.0555				0.0238
					(0.187)	(0.0855)				(0.160)
DGEN2					−0.168*	0.302				−0.0378
					(0.0953)	(0.236)				(0.149)
DGEN3					−0.362**	−0.854***				−0.333
					(0.177)	(0.0273)				(0.251)
INDPDIR	−0.267	0.777*	0.0328	0.780*	0.0110	0.760*	0.761*	−0.600	0.280	0.238
	(0.650)	(0.434)	(0.372)	(0.434)	(0.360)	(0.431)	(0.436)	(0.953)	(0.308)	(0.304)
INDPCOM	0.776*	0.207	0.828	0.209	0.819	0.229	0.206	0.698*	0.351	0.343
	(0.449)	(0.290)	(0.508)	(0.292)	(0.511)	(0.293)	(0.290)	(0.363)	(0.259)	(0.269)
LTQ	0.0660**	0.697***	0.0628*	0.698***	0.0649*	0.694***	0.696***	0.0689**	0.362***	0.362***
	(0.0330)	(0.0660)	(0.0340)	(0.0665)	(0.0341)	(0.0646)	(0.0657)	(0.0308)	(0.0950)	(0.0949)
DER	−0.0114	−0.0155	−0.00194	−0.0154	−0.00297	−0.0155	−0.0155	−0.00601	0.0101	0.00940
	(0.0156)	(0.0162)	(0.0139)	(0.0164)	(0.0149)	(0.0168)	(0.0162)	(0.0160)	(0.00808)	(0.00889)
SGROWTH	0.0107	−0.0137	0.0111	−0.0177	0.00791	−0.0260	−0.0101	0.00650	0.00915	0.00556
	(0.0106)	(0.0745)	(0.00994)	(0.0722)	(0.00867)	(0.0732)	(0.0758)	(0.00662)	(0.0105)	(0.00906)
OPEX	0.00727	−0.227	0.00743	−0.235	0.00367	−0.285	−0.211	0.00248	0.000300	−0.00440*
	(0.00630)	(0.265)	(0.00479)	(0.269)	(0.00310)	(0.275)	(0.265)	(0.00337)	(0.00425)	(0.00228)
TATO	0.0347	0.367***	0.0442	0.362***	0.0321	0.363***	0.369***	0.0538	0.297***	0.297***
	(0.0533)	(0.0866)	(0.0527)	(0.0863)	(0.0515)	(0.0867)	(0.0870)	(0.0609)	(0.0761)	(0.0740)
AGE	0.0312	−0.000294	0.0190	0.00123	0.0228	0.00138	−0.000350	0.0372	0.0545***	0.0558***
	(0.0539)	(0.0223)	(0.0616)	(0.0220)	(0.0625)	(0.0222)	(0.0223)	(0.0456)	(0.0152)	(0.0162)
SIZE	0.0389**	−0.0157**	0.0366**	−0.0158**	0.0353**	−0.0157**	−0.0156**	0.0412**	−0.00288	−0.00308
	(0.0162)	(0.00692)	(0.0145)	(0.00695)	(0.0144)	(0.00693)	(0.00690)	(0.0177)	(0.00333)	(0.00336)
INFL	−0.0100	−0.0219	−0.00827	−0.0231	−0.00756	−0.0273	−0.0231	−0.0121	−0.00510	−0.00501
	(0.00739)	(0.0407)	(0.00735)	(0.0407)	(0.00733)	(0.0407)	(0.0406)	(0.00752)	(0.00592)	(0.00589)
ERATE	1.173**	−0.151	1.221**	−0.160	1.333**	−0.155	−0.150	1.056**	−0.126	−0.115
	(0.580)	(0.145)	(0.613)	(0.145)	(0.620)	(0.149)	(0.145)	(0.482)	(0.121)	(0.123)
Observations	674	675	674	675	674	675	675	674	1,484	1,484
R-squared	0.183	0.512	0.152	0.511	0.146	0.514	0.512	0.213	0.307	0.300
Number of firms	135	135	135	135	135	135	135	135	135	135

Note: Dependent variable is Tobin's q (equity market value and book value of debt divided by firm's assets). FAMSH represents total percentage of shares owned by the family. FF is a dummy variable that equals one if the controlling shareholder is a family with voting rights of 10% or more and family members serve as either director and/or supervisory board member. DGEN1, DGEN2 and DGEN3 represent dummy for the presence of family members in the boards. The sample periods are divided into period 1 (2003–2007), period 2 (2009–2013), and all year data (2003–2013). Regressions include the following control variables: PBV (market value of equity/book value of equity), DER (total debt/total equity), SGROWTH (annual sales growth), OPEX (operating expense/sales), TATO (total asset turnover), AGE (age of the firm since inception) and SIZE. In parentheses are robust standard errors corrected for clustering at the firm-level. Asteriks denote significance at the 1% (***), 5% (**), or 10% (*).

Table 7 Regression Analysis: Dynamic Panel Difference GMM

Dependent Variable: Tobin's Q									
Variable	Model (1)		Model (2)		Model (3)		Model (4)	Model (5)	Model (6)
	Period 1	Period 2	Period 1	Period 2	Period 1	Period 2	All Sample	All Sample	All Sample
FAMSH	0.0428**	−0.0129					0.00948		
	(0.0214)	(0.0211)					(0.00854)		
FF10			0.605	0.157				0.599	
			(1.430)	(2.535)				(0.665)	
DGEN1					0.517	0.101			1.293**
					(0.546)	(0.415)			(0.556)
DGEN2					−1.269	−0.427			−1.510
					(0.869)	(1.034)			(1.226)
DGEN3					0.313	−0.970***			−2.228
					(0.778)	(0.350)			(2.080)
INDPDIR	1.097	−0.298	−0.449	0.166	−0.213	1.076	0.127	0.709	0.666
	(1.175)	(0.916)	(26.78)	(1.610)	(0.742)	(1.139)	(0.722)	(0.687)	(0.714)
INDPCOM	0.372	−1.047	−0.432	0.295	0.0474	−1.410*	−0.923	−0.210	−0.394
	(0.301)	(1.354)	(8.764)	(1.291)	(0.525)	(0.793)	(0.559)	(0.531)	(0.670)
LTQ	0.0327	−0.303**	1.114*	−0.307**	−0.0624	−0.0126	0.178	0.289**	0.280*
	(0.0822)	(0.132)	(0.623)	(0.141)	(0.156)	(0.130)	(0.139)	(0.130)	(0.146)
DER	−0.0101	0.0255	0.351	0.0244	−0.00204	0.0255	0.0174	0.0336	0.0319
	(0.0147)	(0.0435)	(1.751)	(0.0333)	(0.0276)	(0.017)	(0.0570)	(0.0434)	(0.0393)
SGROWTH	0.00724*	0.317**	0.0138	0.280**	−0.00034	0.108	0.205**	−0.00338	0.00432
	(0.00391)	(0.139)	(0.0200)	(0.135)	(0.00289)	(0.129)	(0.0982)	(0.00761)	(0.00468)
OPEX	0.00769	−0.751	0.848	−0.283	−0.00902	−0.536	0.212	0.107	0.0817
	(0.00565)	(1.245)	(0.999)	(1.111)	(0.00802)	(0.683)	(0.220)	(0.214)	(0.168)
TATO	0.130	0.107	−0.881	0.113	0.496	0.0335	0.274***	0.402***	0.410***
	(0.198)	(0.125)	(1.795)	(0.117)	(0.418)	(0.128)	(0.0748)	(0.0980)	(0.104)
AGE	0.0470	0.110**	0.476	0.109**	−0.0245	0.0907***	0.0571**	0.0647***	0.0986***
	(0.0342)	(0.0461)	(0.421)	(0.0486)	(0.0508)	(0.0289)	(0.0233)	(0.0190)	(0.0234)
SIZE	0.0468**	−0.0178	0.00891	−0.0160	0.0772	−0.0103	−0.0171*	−0.0121	−0.0163*
	(0.0209)	(0.0112)	(0.0908)	(0.0112)	(0.0470)	(0.00982)	(0.00989)	(0.00757)	(0.00850)
INFL	−0.0113	0.00303	0.0116	0.0110	−0.000998	−0.0198	−0.00683	−0.00449	−0.00673
	(0.00732)	(0.0300)	(0.0912)	(0.0255)	(0.00762)	(0.0244)	(0.00701)	(0.00826)	(0.00734)
ERATE	0.572	−0.140	−3.016	−0.184	1.231**	−0.382***	−0.0121	−0.0694	−0.0841
	(0.398)	(0.144)	(2.472)	(0.177)	(0.581)	(0.133)	(0.119)	(0.122)	(0.156)
No. of firm	135	135	135	135	135	135	135	135	135
z_1	0.083	0.025	0.211	0.025	0.376	0.146	0.681	0.200	0.088
z_2	0.331	0.143	0.116	0.139	0.543	0.504	0.347	0.120	0.236
Difference in Hansen test	0.171	0.182		0.335	0.113	0.472	0.605	0.166	0.219
Hansen Test	0.16	0.310	0.322	0.426	0.182	0.544	0.102	0.201	0.185
Observation	539	675	539	675	539	539	1349	1349	1349

Note: The dependent variable is Tobin's q. FAMSH represents total percentage of shares owned by the family. FF is a dummy variable that equals one if the controlling shareholder is a family with voting rights of 10% or more and family members serve as either director and/or supervisory board member. DGEN1, DGEN2 and DGEN3 represent dummy for the presence of founder and family members in the boards. All regressions include the following control variables: DER, SGROWTH, OPEX, TATO, AGE and SIZE. In parentheses are robust standard errors corrected for clustering at the firm-level. z_1 and z_2 are the first and second-order correlation in the regression residual, under the null of no serial correlation. The Hansen test is the test for over-identification, under the null that all instruments are valid. Difference-in-Hansen test is a test of exogeneity of the instrument used in the equations. Asteriks denote statistical significance at the 1% (***), 5% (**), or 10% (*).

Table 8 Family Generations and Firm-Level Performances

Dependent Variable: Tobin's Q									
Variable	(1) Fixed Effect		(2) Random Effect		(3) OLS		(4) Fixed Effect		(5) Fixed Effect
	Period 1	Period 2	Period 1	Period 2	Period 1	Period 2	Period 1	Period 2	Full Year
Intercept	0.0162	0.481	0.428	0.175	6.240	0.128	−0.695	0.370	−1.411**
	(1.845)	(0.829)	(0.279)	(0.223)	(4.593)	(0.522)	(1.254)	(0.821)	(0.548)
GEN1DIR	0.304	−0.153	−0.0548	0.0143	0.0328	0.0607			
	(0.205)	(0.141)	(0.0865)	(0.0605)	(0.0882)	(0.0619)			
GEN1COM	0.273*	−0.243	−0.00854	−0.166***	−0.149*	−0.151**			
	(0.164)	(0.160)	(0.0798)	(0.0551)	(0.0851)	(0.0608)			
GEN2DIR	−0.112	0.350	−0.217***	0.0684	−0.0162	0.0490			
	(0.0870)	(0.264)	(0.0806)	(0.0501)	(0.0788)	(0.0653)			
GEN2COM	−0.117	0.184*	−0.0941	−0.0643	−0.0407	−0.0401			
	(0.104)	(0.0957)	(0.0815)	(0.0419)	(0.0884)	(0.0619)			
GEN3DIR	0.181	0.445	−0.171	0.0977	−0.174*	0.00739			
	(0.201)	(0.278)	(0.105)	(0.0856)	(0.0941)	(0.140)			
GEN3COM	−0.481***	0.186	−0.258***	−0.115	−0.0780	−0.0612			
	(0.0771)	(0.374)	(0.0691)	(0.152)	(0.207)	(0.230)			
FAMSH							−0.00435	0.00423	0.00801
							(0.00311)	(0.00411)	(0.00497)
CRISIS									−0.483***
									(0.130)
INSIDER							−0.494	0.383	−0.371
							(0.463)	(0.345)	(0.229)
INSIDER* FAMSH							0.0323*	−0.00907*	
							(0.0187)	(0.00487)	
FAMSH* CRISIS									0.00101
									(0.00236)
INSIDER* CRISIS									0.337**
									(0.170)
INDPDIR	0.0910	0.782*	−0.00601	0.251	−0.641	0.349	−0.313	0.809*	0.239
	(0.350)	(0.457)	(0.291)	(0.270)	(0.541)	(0.264)	(0.730)	(0.438)	(0.310)
INDPCOM	0.805	0.215	0.594**	0.399**	0.520*	0.346*	0.739*	0.219	0.386
	(0.520)	(0.294)	(0.303)	(0.181)	(0.286)	(0.206)	(0.430)	(0.290)	(0.262)
LTQ	0.0627*	0.694***	0.163**	1.012***	0.299***	1.029***	0.0618*	0.697***	0.366***
	(0.0342)	(0.0636)	(0.0722)	(0.0281)	(0.0943)	(0.0369)	(0.0340)	(0.0658)	(0.0957)
DER	−0.00428	−0.0169	−0.0148	−0.00965	−0.00547	−0.0102	−0.0141	−0.0171	0.0105
	(0.0157)	(0.0170)	(0.0129)	(0.0146)	(0.00906)	(0.0116)	(0.0172)	(0.0164)	(0.00847)
SGROWTH	0.00734	−0.0143	0.00463	0.0533	0.00279	0.121	0.00969	−0.0180	0.00714
	(0.00841)	(0.0766)	(0.00804)	(0.0781)	(0.00738)	(0.100)	(0.0102)	(0.0755)	(0.0105)
OPEX	0.00300	−0.250	−0.00146	0.237*	−0.00418**	0.258*	0.00617	−0.301	−0.00148
	(0.00274)	(0.258)	(0.00232)	(0.134)	(0.00201)	(0.151)	(0.00592)	(0.307)	(0.00439)
TATO	0.0203	0.361***	0.113	0.141**	0.156*	0.122*	0.0390	0.365***	0.207**
	(0.0518)	(0.0876)	(0.101)	(0.0555)	(0.0886)	(0.0631)	(0.0533)	(0.0867)	(0.0803)
AGE	0.0233	−0.00313	0.0136***	0.00449	0.00689	0.00739**	0.0363	−0.00206	0.0576***
	(0.0632)	(0.0229)	(0.00519)	(0.00323)	(0.00471)	(0.00369)	(0.0507)	(0.0225)	(0.0153)
SIZE	0.0345**	−0.0155**	0.0158***	−0.00333**	0.0127***	−0.00295***	0.0381**	−0.0158**	−0.00354
	(0.0141)	(0.00690)	(0.00546)	(0.00135)	(0.00272)	(0.00108)	(0.0156)	(0.00700)	(0.00349)
INFL	−0.00842	−0.0239	−0.00106	−0.0984**	−0.737	−0.159***	−0.0107	−0.0191	0.00163
	(0.00724)	(0.0408)	(0.00773)	(0.0401)	(0.653)	(0.0520)	(0.00743)	(0.0416)	(0.00551)
ERATE	1.338**	−0.157	1.637***	−0.227	1.121	−0.269	1.066**	−0.160	−0.0281
	(0.614)	(0.147)	(0.352)	(0.150)	(1.011)	(0.208)	(0.530)	(0.146)	(0.121)
Observations	674	675	674	675	674	675	674	675	1,484
R-squared	0.150	0.513	0.1150	0.4844	0.433	0.888	0.194	0.513	0.313
Number of firms	135	135	135	135	135	135	135	135	135

Note: The table reports the incorporation of interaction terms between ownerships, controls and crisis. The dependent variable is firm's Tobin's q. CRISIS is dummy variables that equals 1 for 2009 when the crisis hit the country. INSIDER is a dummy variable equals "1" for any family member involvement in the boards. In parentheses are robust standard errors corrected for clustering at the firm-level. Asteriks denote statistical significance at the 1% (***), 5% (**), or 10% (*).

Table 9 Different Ownership Levels Impact on Performance using Fixed Effect Model

Observation	Period 1 (2003–2007)		Period 2 (2008–2013)	
Family Ownership (%)	Coefficient Sign	Significance	Coefficient Sign	Significance
5	+	Yes	−	No
10	+	Yes	−	No
20	+	No	−	No
30	+	No	−	No
40	+	No	−	Yes
50	+	No	−	Yes
60	+	No	−	Yes
70	+	No	−	Yes
80	+	No	−	Yes

Source: Author estimation

the argument that Indonesian firms' boards are still not effective since there is no clear separation of power between the firm and the executives. There is also a tendency for serious conflicts of interest as family-related directors and commissioners only serve for and act in the best interests of the controlling shareholders, their closed family members and relatives (Claessens et al. 2000).

Table 8 summarizes sensitivity analysis results which compare regression results by employing the random effect and OLS model for family controls. This study introduces six dummies of active family controls which represent the first, second and third family generation roles as directors and commissioners. Coefficients of these six variables are inconclusive and mostly statistically insignificant. The founder and descendant's roles as directors do not display any strong correlation with firm higher values. The presence of family members in the supervisory boards, surprisingly, exhibit negative coefficients although remain insignificant. In accordance with these findings, the author assumes high inefficiency and conflicting interests within family firm operation.

4.2. Dynamic Panel Data Analysis

Taking into account endogeneity issue in the relationships of firm ownership, control and firm values, the Arrelano-Bond Generalized Method of Moments (GMM) are employed after running the fixed effect panel analysis (Sacristán-Navarro et al. 2011). The relationship between ownerships and performances might be the outcome of a reverse causality as family owners will keep their shares when the firm performs well but might be willing to give up control during the poor performance (Andres 2008; Demsetz and Lehn 1985; Demsetz and Villalonga 2001; Maury 2006). In Table 7, the regression indicates that family firms are not significantly related to better firm performances. The positive correlation between family firms and performance in period I changes after controlling endogeneity. This also applies to family control variables in the tested periods. Under the GMM, it

appears that the firm's founder cannot improve performance after the crisis periods similar with results as shown in Table 6. DGEN2 and DGEN3 coefficients remain insignificant during all observations. However, consistent with the fixed effect result, the DGEN displays a negative coefficient for the GMM regression result in Period 2.

4.3. Robustness of Model Specifications

The study provides some robustness checks to give a more clear analysis of the Indonesian firm settings and its implication to results. First, this study employs various econometric methods including a dynamic GMM estimator and a robust static panel data model (Maury 2006; Sacristán-Navarro et al. 2011). By employing a robust fixed-effect model, we can control heteroskedasticity and autocorrelation within the data. To control for the endogeneity problem arises in the relationships between ownerships and performance, this study employs a dynamic GMM estimator for all observation. Results from GMM estimation (Table 7) does not support the first hypothesis that ownership improves firm-level performance during all the tested periods. Following previous literature (Kowalewski et al. 2010), this study also deals with the non-linear relations between firm profitability and ownerships and also impacts from different family ownership levels and family generations to performance. By employing a quadratic term for family ownership (FAMSHARE2), this research does not discover any evidence of the nonlinear relations among family firm ownership and the quadratic term of that ownership (Table 6). Second, to cater to problems related to various definitions of family firms, this study using 10% level and percentage of the equity owned by the founding families. In Table 9, there are also results from the regression using various ownership thresholds.

Third, we investigate various possible impacts of family generation control on firm performance by testing nine variables that represent three family generations who held a position in the firm's boards. Prior literature suggests that the most important subject in family-owned business is the family succession and business continuation. Previous research provides two intriguing results of the influence of insiders to firm performance. Several studies report that: (1) insiders improve performance with their participation in the management (Adams et al. 2009; Saito 2008) or (2) insiders weaken performance (Bennedsen et al. 2007; Lins et al. 2013). Fourth, the paper investigates the relationships between ownerships, control, and crisis by employing the interaction terms as presented in Table 8. To our knowledge, this is the first article analyzing the moderation or interaction effect of firm ownerships, family control and crisis on firm-level performance.

5. Conclusion

Although family firms have played an important role in corporate governance studies, this topic has received relatively little attention in Indonesia partly because of the difficulty in gathering valid

and complete company's historical data and filings. This study collected and employed a panel data set of publicly traded firms during the period of 2003–2013. Using data from 135 firms, this study examines the impacts of ownerships and controls on firm performance during two observation periods. The article aims to investigate whether there are major changes of impact of family control and shares ownership on performance in the periods before and after the Indonesian crisis and the adoption of good corporate governance provisions. This study focuses on two key hypotheses in governance literature: the relations between family firm and control on performance. This study discovers significant influence of family ownership on performance by employing a 10% voting-rights level and family control in the period before the crisis. This positive impact disappears in the post-crisis period followed by the negative impact of firm-founder control on performance. This research posits that these findings are essentially affected by the high entrenchment of family owners to the minority shareholders coupled with the country's weak governance and limited market transparency. To conclude, this study presents some limitations as it does not examine the ultimate shareholder ownerships due to data unavailability. This research also has limitation in identifying all family members since data collection were completed by manual checks using firm's publicly available documents, which give us no further information to be able to identify all the firms' family shareholders.

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