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EFFECT FAMILY OWNERSHIP ON FINANCIAL PERFORMANCE WITH BUSINESS STRATEGY AS MODERATION AND *AGENCY COST* AS MEDIATION IN NON-FINANCIAL COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE IN 2016-2018

By
M. Budi Widiyo Iryanto[1], Sisilia Devina Permatasari[2], Abdulah Rakhman[3]
[1,2,3]Institut Bisnis dan Informatika Kwik Kian Gie
Email: [3]abdulah.rakhman14@gmail.com

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ABSTRACT
This research aims to analyze some hypotheses provided. First, the effect of family ownership on financial performance. Second, the effect of family ownership on agency cost. Third, the effect of agency cost on financial performance. Forth, the effect of business strategies in moderating the relationship between family ownership and financial performance. Lastly, the effect of agency cost as a moderating variable between family ownership relationships and financial performance. The object of this research is to analyze the non-financial companies listed on the Indonesia Stock Exchange by looking at the Annual Reports in 2016-2018. The sampling method is by using purposive sampling, which obtained 117 of company or 351 units of analysis. Those sample tested by PLS-SEM through Smart PLS Version 3. The results of this research are found in the following sentences. First, family ownership has a direct and having significant positive effect on financial performance. Second, family ownership has a positive but not having significant effect on agency cost. Third, agency cost has a negative and having significant effect on financial performance. Forth, business strategy is moderating the relationship between family ownership and financial performance. Lastly, the indirectly agency cost is not moderating the relationship between family ownership and financial performance

Corresponding Author:
M. Budi Widiyo Iryanto, Sisilia Devina Permatasari, Abdulah Rahman
Institut Bisnis dan Informatika Kwik Kian Gie
Email: abdulah.rakhman14@gmail.com

1. INTRODUCTION

Recently, more and more family companies have listed their shares on the stock exchange. A survey conducted by Pricewaterhouse Coopers (2014) shows that in 2014 60% of companies went public in Southeast Asia and more than 95% of companies in Indonesia were companies with family share ownership.

At the beginning of a company, the family has an important role to support the progress of the company with ownership and management carried out directly by the family. Every policy carried out requires approval from the family where the family is part of the management and is actively involved in all operational activities of the company. The company will find it easier to achieve its goals because the owner and manager are the same party, namely the family so that the vision and mission are in line with the company's goals (Iryanto, 2011). The companies with family ownership that are successful and able to survive in Indonesia are the Indofood Group, Ciputra Group, Sinar Mas Group, and Sidomuncul Group. However, many companies failed to survive, one of which was Mrs Meneer's company. Based on Family Business Consulting (2009), only 30% of family companies survive in the second generation, 12%

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survive until the third generation and only 3% are still able to survive in the fourth generation. Basically, family companies want their business to going concern and can be passed on to the next generation.

Along with the progress and development of the company, of course the company needs additional capital, so the company needs external funding. When funding from outside parties exceeds that of the family, the impact on the management of the company is no longer held by the family and handed over to professionals. This resulted in the direction and purpose of the company being different from the interests of the family and a conflict of interest arose between the family as the owner of the company and the manager, namely the manager.

Financial experts have conducted many studies relevant to the resolution of agency problems, such as Herawaty (2008), Ahmad and Septriani (2008), and Iryanto (2011) who have developed various mechanisms to resolve agency problems. However, until now there is still little research that examines how family companies develop mechanisms for solving agency problems. According to Fama and Jensen (1983), family ownership is one solution to minimize agency problems because agency monitoring costs can be reduced. Therefore, this study focuses on companies with family ownership in order to maintain their existence and maintain the achievement of their goals even though the management is controlled by non-family parties.

Generally, companies with family ownership involve family members to have positions in top management and there is a transfer of knowledge and experience from generation to generation (Komalasari and Nor, 2014). This can happen because the family still wants to be in control of company policies so that family members contribute to management positions so that the goals between the family as owners and managers have a harmonious vision and in the end the agency problem does not occur. In addition, family members have a strong sense of responsibility and a desire to be able to survive in the midst of intense competition so that it has an impact on the company's performance. Therefore, it is suspected that companies with family ownership have a positive effect on financial performance. This statement is reinforced by research by Laismono (2015), Warsini and Rossieta (2013), Kausari (2014), Komalasari and Nor (2014), Astuti et al (2015), Anita, Kirmizi and Savitri (2016), Limantoro and Juniarti (2017). and Wang and Shailer (2017). However, the results of research by Laely and Yana (2018), Tanzil and Juniarti (2017) state that family ownership has a negative effect on financial performance. There is a tendency to prosper the family itself compared to the company's financial performance.

In principle, family companies involve family members in top management with the aim of being able to participate in controlling and making strategic decisions of the company so that agency problems are not expected to occur. With the involvement of family members, they are able to supervise and control the actions of managers to work seriously and are able to limit the opportunistic behavior of managers so that agency costs can be minimized. The above statement is in line with research by Jensen and Meckling (1976), Singh and Davidson (2003) and Fleming et al (2005), namely family ownership reduces the agency cost of the company. However, the results of research by Rahmadiyani (2012) and Kurnia (2014) state that family ownership is not significant to reduce agency costs.

In running its business, the company tries to minimize the costs incurred as a result of monitoring owner of the manager (Jensen and Meckling, 1976). With the expenditure of large operational costs for supervision, it will reduce company profits and decrease company performance. Research conducted by Layyinaturrobaniyah (2014) proves that agency costs have a negative effect on company performance with the agency cost being the expense ratio. The results of the research by Layyinaturrobaniyah (2014) are strengthened by the research of Lin (2006), Wright et al (2008), and Fu'adah (2013). However, the results of Layyinaturrobaniyah's (2014) research prove that agency costs proxied by the asset utilization ratio have a positive effect on company performance. It occurs when management manages company assets efficiently to create value for shareholders. This result is in line with Fachrudin's research (2011).

In the midst of digital disruption , the Global Family Business Survey (2018) encourages companies to maximize competitiveness with a mature business strategy. According to Moores (2009), family-owned companies not only aim to achieve financial goals, but also focus more on reputation and long-term sustainability. Generally, companies focus more on strategic planning and choosing the right business strategy so that company performance can increase. This explanation is in line with the results of research conducted by Warsini and Rossieta (2013), Nurbaiti and Gunawan (2015), and Anita et al (2016), namely that companies with family ownership on financial performance are influenced by the business strategy of the company. However, the results of research by Kausari (2014), Laismono (2015) and Wijaya (2017) prove the opposite results.

phenomenon gap research gap that occurred, the problem in this study is how the influence of family ownership on financial performance with business strategies as moderation and agency costs as mediation in non-financial companies listed on the Indonesia Stock Exchange in 2016-2018.

This study aims to analyze (1) the effect of family ownership on financial performance, (2) the effect of family ownership onagency cost, (3) the effect ofagency cost on financial performance, (4) business strategy strengthens the

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influence of family ownership on financial performance and (5) knowing agency costs mediate the effect of family ownership on financial performance.

This research contributes to financial research so that it enriches knowledge, strengthens the results of previous research and finds new results that can be used as references in further research. In addition, this research can provide information and descriptions for stakeholders regarding companies with family ownership with various advantages and disadvantages they have and identify companies that are healthy, perform well and can be trusted.

2. LITERATURE REVIEW

This research is based onagency theory and behavioral agency theory. Agency theory by Jensen and Meckling (1976) explains the relationship/contract between shareholders as principals and managers as agents where there is a concept of separation of ownership, duties and company management. principal is the party who employs the agent, while agent is the party who carries out the interests of the principal in accordance with the authority given. With the separation of ownership and management of the company, the owner cannot maximize his business. This is due to a conflict of interest and information asymmetry between shareholders and managers (agents) causing agency problems. The information asymmetry that occurs according to Scott (2012) is areverse selection , namely when the agent knows more information about the state and potential of the company than the principal and moral hazard when the agent are not all known by the principal. Meanwhile, according to Jensen and Meckling (1976), there are 3 types of agency problems, namely conflicts between managers and shareholders, majority and minority shareholders, and conflicts between shareholders and debt holders.

Several mechanisms for controlling agency problems (Jensen and Meckling, 1976) are internal and external mechanisms. The internal mechanism is a control mechanism through the company's internal policies with the aim of binding managers to work sincerely for the interests of shareholders (Iryanto, 2011). Internal mechanisms include remuneration, dividend payments, funding through debt and managerial ownership. While the external mechanism is a control mechanism carried out by shareholders with the aim of controlling the behavior of agents (Iryanto, 2011). External mechanisms include ownership structure and board size.

Behavioral agency theory focuses on agent and work motivation, assuming the interests of shareholders and agents can be aligned if executives / management are motivated to do the best of their abilities and are given the available opportunities (Pepper and Gore, 2012).

Family ownership is ownership of company shares by the family where the family has a role and takes part in making decisions in the company (Anderson and Reeb, 2003). Family is a group of people with ties of marriage, birth and adoption which aims to create, maintain a culture and enhance the physical, mental, emotional and social development of each family member (Friedman, 2012). Family classification can be seen from a person's last name which is usually a family name (Machek, Kolouchova and Hnilica, 2015).

Financial performance is the achievement of management in managing the company's operational activities in utilizing its resources (Nuswandari, 2009). There are 2 approaches to measure the company's financial performance according to Fernandez and Anson (2006), namely the accounting approach and the market approach. The accounting approach describes the company's internal conditions, while the market approach describes the conditions from the perceptions of external parties (Ariani and Fitdiarini, 2014). Measurement of accounting approach in the form of accounting data using financial ratios. Financial performance with an accounting approach is seen as more relevant than the market approach in measuring financial performance in family-owned companies (Laely and Yana, 2018). This is because companies with family ownership want to maintain the sustainability of the company and not be sold so that the accounting approach is relevant to reviewing management performance in managing company assets based on existing accounting data. The company's goal is to maximize the value of the company which is indicated by the ability to generate profits from the resources owned by the company. Therefore, the financial performance in this study is based on an accounting approach using profitability to measure the effectiveness of management performance in generating profits from the company's resources (Laely and Yana, 2018).

Business strategy is an ideal organizational direction for the long term by adapting resources to changing markets, customers and environments to meet shareholder expectations (Warsini and Rossieta, 2013). The strategy is divided into three according to Porter (2008), namely:

a) Differentiation Strategy (Differentiation Strategy)

characteristic is that the company makes a decision to build a potential market perception of a superior product or service so that it looks different from other products.

b) Overall Cost Leadership Strategy characteristic is that the company takes into account competitors rather than customers by focusing on low product selling prices, so that production, promotion and research costs can be reduced.

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c) Strategy Focus (Focus Strategy)

characteristic is that the company concentrates on a small market share to avoid competitors who use a comprehensive cost leadership strategy or differentiation.

Agency costs are costs that must be incurred by the company because the manager's actions are not in accordance with the wishes of shareholders in maximizing the welfare of shareholders (Komalasari and Nor, 2014). According to Jensen and Meckling (1976), agency costs are the sum of monitoring costs, bonding costs and residual losses. Examples monitoring costs are compensation policies and insurance premiums to protect company assets. Examples bonding costs are the costs of providing financial reports to shareholders and the smoothness of paying debts. Examples of residual losses are expenses for business travel and first-class accommodation, as well as luxury official cars.

One way to reduce agency problems is by family ownership. According to agency theory , with a contract between the principal and agent's vision and mission agent not being in line with the principal's wishes. With family ownership , agency problems can be minimized because the owner also acts as a manager so that there is no information asymmetry and has a vision that is in line with the company. Usually, the family places their family members to take positions as top management in the company so that the family can still control the company with its majority share ownership. In addition, when the company is in trouble, the party who works the most to solve the problem is the family. The family has a high fighting spirit and never gives up to improve the condition of the company for the sake of the good name of the family and pass the company on to the next generation. With the same vision and mission as well as high fighting power for the company, family companies are able to manage and utilize their assets optimally so that the company's financial performance can increase. The explanation above is in line with the research of Warsini and Rossieta (2013), Kausari (2014), Komalasari and Nor (2014), Astuti et al (2015), Anita et al (2016), Limantoro and Juniarti (2017) and Wang and Shailer (2017).

Based on agency theory, separate ownership and management will have the opportunity for actions that benefit the agent and harm principle because it is not in line with company goals. With the emergence conflict of interest , the company tries to supervise and control agent so that the actions taken do not harm the principle. Efforts made by this company cause agency costs. One of the ways taken is to place family members in one position in management because decision making and control are carried out by the same party, namely the family so that they have the same alignment of goals. In the end, the company will be able to minimize unnecessary costs such as costs for supervising agents so that agency costs incurred by the company can be reduced. This explanation is supported by research conducted by Singh and Davidson (2003) and Fleming et al (2005).

A family company that was initially able to be managed by the family as the owner, but eventually the company needed a party outside the family who had expertise in their field to help manage the company as the company grew. It is possible that the wishes and actions of parties outside the family are not in line with the interests of the owner and the company's goals so that these differences in interests can cause agency problems. In order to supervise the actions of agents and ensure that the existing mechanisms are in accordance with the interests of the principal, the company incurs additional costs, namely agency costs. If the company is able to reduce agency costs, then financial performance will increase as indicated by increased profits. This statement is in line with the research of Layyinaturrobaniyah (2014), Lin (2006), Wright et al (2008), and Fu'adah (2013).

In the era of disruption, all companies are trying and competing to maintain their existence in order to survive in the business world. In the midst of the uncertainty of the current situation, companies must be able to have short-term planning and long-term strategies in order to gain competitive advantage. Generally, companies with family ownership do not only focus on financial goals, but also focus on long-term sustainability with various strategies that have been considered to achieve going concern so that they can be passed on to the next generation. The business strategy is the main focus on companies with family ownership to ensure the sustainability of the company and family business in the long term. Therefore, the company is very careful in determining the strategy and expenses so that the company's financial performance can be controlled and there is a possibility of increasing. This statement is in line with the research results of Warsini and Rossieta (2013), Kausari (2014), Nurbaiti and Gunawan (2015), and Anita et al (2016).

Family companies whose management is not handed over to other parties will make it easier to control and achieve company goals. However, when the company requires additional funds obtained from the sale of shares on the Stock Exchange, the manager who previously owned 100% of the shares is reduced so that the motivation in managing it decreases as well. Thus, there is a possibility that the interests of the manager and the owner will be different. This condition is called the agency problem. According to agency theory, there are several ways to eliminate agency problems, one of which is through bonding and monitoring. One of them is with family ownership. With share ownership by the family, the family can participate in controlling the company by placing their family members in the top management of the company so that the goals of the family and the company are aligned. In addition, the placement

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of family members in the company can assist in supervising and controlling the actions of managers so that agency costs incurred to ensure the actions of managers are in accordance with the interests of shareholders can be reduced. By reducing agency costs for the actions of managers, it will improve the company's financial performance. This hypothesis is the development of a new model based on the statement of Jensen and Meckling (1976) which states that the mechanism for solving agency problems is with family ownership of shares. With share ownership by the family, financial performance increases because there is no agency cost generated. This is because the family participates in monitoring and controlling the manager 's actions so that the manager 's opportunistic behavior can be limited and the cost of controlling the manager can be minimized.

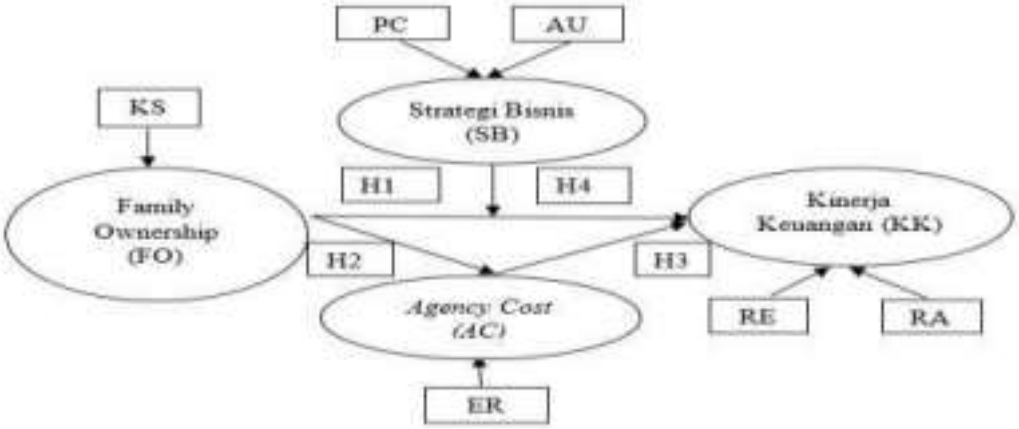
The hypothesis of this research is:

H1 = There is a positive effect of family ownership on financial performance. H2 = There is a negative effect of family ownership on agency cost. H3 = There is a negative effect of agency cost on financial performance. H4 = Business strategy strengthens the positive influence of family ownership on financial performance.

H5 = Agency cost mediates the effect of family ownership on financial performance.

Based on the above ideas as outlined in the research hypothesis, the empirical model of this research is presented in Figure 1.

Figure 1. Thinking Framework for Research Objects



Source: The research framework developed.

Description of Figure 1 is:

KS = % of total family shares

RA = *Return on Assets* / ROA

RE = *Return on Equity* / ROE

PC = *Price Premium Capability*

AU = *Asset Turnover Ratio*

ER = *Discretionary Operating Ratio*

3. RESEARCH METHOD

The object of this research is a non-financial company that listed on the Indonesia Stock Exchange which was active in 2016-2018. These non-financial companies include the type of agricultural industry (*agriculture),* various industries, basic and chemical industry (*chemical industry),* industry (*consumer goods),* mining industry (*mining),* infrastructure industry, utilities and transportation *(infrastructure, utilities, transportation),* the property industry, *real estate* and building construction (*property, real estate, and building construction),* and the trade, service and investment industry *(trade, service and investment).* Operationalization of variables in this study are:

a) Financial

Performance The company's financial performance is measured by *Return on Assets* (ROA) and *Return on Equity* (ROE).

1) *Return on Assets* / ROA

In this study, ROA is formulated as follows (Fahmi, 2017):

$$ROA = \frac{\textit{Net Income After Tax}}{\textit{Total Assets}}$$

Net income after tax is derived from profit for the year that can be distributed to owners of the parent entity and non-controlling interests. Meanwhile, total assets are obtained from total current assets and total

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non-current assets. 2) *Return on Equity* / ROE

In this study, ROE is formulated as follows (Fahmi, 2017):

$$ROE = \frac{\textit{Net Income After Tax}}{\textit{Total Equity}}$$

Net income after tax is obtained from profit for the year that can be distributed to owners of the parent entity and non-controlling interests. Meanwhile, total *equity* is obtained from equity which can be distributed to owners and non-controlling interests.

b) *Family Ownership*

Family ownership in this study is based on PSAK 15 of 2013 namely:

$$\text{Presentase } \textit{Family Ownership} = \frac{\text{Number of Family Ownership}}{\text{Outstanding share}} \times 100\%$$

c) Business

Strategy The business strategy in this study was measured using Porter's (2008) strategy, namely the differentiation strategy (innovation) measured by *Price Premium Capability* and *low cost* measured by the *Asset Turnover Ratio* with the following formula:

$$\textit{Price Premium Capability} = \frac{\textit{Gross margin}}{\text{Total Sales}}$$

$$\textit{Asset Turnover Ratio} = \frac{\text{Total Sales}}{\text{Total Assets}}$$

c) Business

Strategy The business strategy in this study was measured using Porter's (2008) strategy, namely the differentiation strategy (innovation) measured by *Price Premium Capability* and *low cost* measured by the *Asset Turnover Ratio* with the following formula:

$$\textit{Price Premium Capability} = \frac{\textit{Gross margin}}{\text{Sales}}$$

$$\textit{Asset Turnover Ratio} = \frac{\text{Total Sales}}{\text{Total Assets}}$$

d) Agency Cost

Agency cost in this study uses an efficiency ratio based on Ang (2000), namely *discretionary operating ratio* with the following formula:

$$\textit{Discretionary operating ratio} = \frac{\text{Operating expenses}}{\text{Total Sales}}$$

The sampling technique in this research is non-probability by *purposive sampling* / *judgmental sampling*. Some of the sampling considerations are as follows:

Table 1. Sampling

No	Sampling Criteria	Total
1.	Non-financial companies listed on the IDX and publishing Annual Reports for 2016-2018	398
2.	The company has % family ownership > 20% in the 2016-2018 Annual Report on the IDX	249
3.	Companies that use rupiah units	186
4.	Companies with total equity, positive retained earnings and % ROA and ROE > 1% in 2016-2018.	120
	Total Sample	117

Companies with positive retained earnings are included in the sample criteria with the assumption that companies with negative earnings balances indicate that the company is unable to meet the *going concern* in the future. The number of samples in this study were 117 companies, where the period studied was 3 years so that the sample unit was 117 companies x 3 years amounting to 351 samples.

This study uses secondary data in the form of *cross section* and *time series data*. The data is in the form of annual reports of non-financial companies listed on the Indonesia Stock Exchange in 2016-2018. The data comes from the official website at http://www.idx.co.id, ICMD *(Indonesian Capital Market Directory)*, and other supporting materials. This study uses *Partial Least Squares Structural Equation Modeling* (PLS-SEM) through *Smart PLS Software Version 3*. This research is *causal predictive* and the indicator model is formative. Hypothesis testing is explained by a mathematical model for *the inner model* as follows:

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$AC_i = {}_{1.1}$. FO + e1
$KK_i = {}_{2.1.}$ FO $+ {}_{2.1}$. SB $+ {}_{2.2}$. FO. SB $+ {}_{2.3}$. AC + e2

Information:
FO = *Family Ownership* KK = Financial Performance SB = Business Strategy AC = *Agency Cost*

8

RESULTS AND DISCUSSION

Descriptive analysis

The following are the results of descriptive statistical data in Table 2.

Table 2. ***Descriptive Statistics***

Indicator	N	Max	Min	Mean	Standard Deviation
KS	351	0.97	0.23	0.61	0.19
RA	351	0.36	0.0003	0.06	0.05
RE	351	0.73	0.0004	0.11	0.09
PC	351	0.92	0.013	0.36	0.22
AU	351	25.02	0.02	0.99	1.68
ER	351	0.73	0.004	0.19	0.15

Source: Researcher's Data Processing Results, 2020

Based on Table 2 it can be explained asfollowing:

a. *Family Ownership*

In this study, *family ownership* measured by the indicator of the number of shares owned by the family. Based on Table 2, it can be seen that the largest number of shares owned by families (KS) is 0.97 (PT. SMART in 2016) and the lowest is 0.23 (PT. Radiant Utama Interinsco in 2016). Total shares of PT. SMART is 97% owned by the family of Mr. Eka Tjipta Widjaja. This proportion shows that the influence of the Widjaja family to control and control the company is very large. This can be seen from the part of family members who serve as commissioners and directors, making it easier to make policies and control according to the wishes of the family.

The smallest number of family shares is PT. Radiant Utama Interinsco is 23%, the rest is owned by parties outside the family. Even though the ownership of the Ganis family is less than 50%, the family has significant control both directly and indirectly according to PSAK 15 of 2013 which states a minimum ownership of 20%. In addition, Ahmad Ganis as the founder of Radiant Group took part in the company as the main commissioner and appointed his son as the president director. This aims to facilitate the family in controlling and actively participating in determining strategic and tactical policies in the company.

The composition of companies with family ownership has an average of 0.61 or 61% which consists of 46% above the average of 162 units of analysis and 54% below the average of 189 units of analysis. The size of the composition of the company which is below the average indicates that the family is starting to reduce its shareholding in the company and the rest is owned by the public. Companies with above-average family ownership place their family members on the board of commissioners at 81% and the board of directors at 70%. Meanwhile, companies with below-average family ownership place their family members on the board of commissioners by 76% and the board of directors by 64%. This shows that even though family ownership is reduced, family members are still actively involved in making policies and controlling the company, which can be seen from the large number of family members occupying the positions of the board of commissioners and the board of directors.

b. Financial Performance

In this study, financial performance was measured using the *Return On Assets* (ROA) and *Return On Equity* (ROE) indicators. In Table 2 it can be seen that the largest ROA value is 0.36 or 36% (PT. Fortune Mate Indonesia in 2016) and the smallest ROA value is 0.0003 or 0.03% (PT. Star Petrochem in 2018). ROA value of PT. FMII in 2016 was 36% due to an increase in sales from 2015 which was 68.33%. With a significant increase in sales, it can be seen that the total assets of PT. FMII experienced an increase of 32% and the company's profit increased by 74% from 2015.

On the other hand, PT. Star Petrochem has the smallest ROA value of 0.0003 or 0.03% in 2018. The small

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ROA value of 0.03% shows the management of PT. Star has not been able to carry out its operational activities effectively in generating company profits. The small ROA value is due to the profit for the year 2018 which has decreased significantly by 70.76%. The decrease in profit was caused by an increase in the *cost of goods sold* by 20.20% which was not comparable to the increase in sales, which was only 15.14% and had tried to make operating expenses efficiency so that it decreased by 97.58%.

In Table 2. it can be seen that the largest ROE value is 0.73 or 73% (PT. Tower Bersama Infrastructure in 2017) and the smallest ROE value is 0.0004 or 0.04% (PT. Star Petrochem in 2018). TBIG had an ROE of 73% in 2017 due to an 8.4% increase in sales and the company received a deferred tax benefit of Rp. 1,431.4 billion for the implementation of PP No. 34 and in accordance with PSAK 46, resulting in an increase in profit for the year by 220.68%. In addition, there was an increase in the amount of equity in 2017 by 98%, so it is reasonable that the ROE value increased to 73%.

PT. Star Petrochem as previously explained, in 2018 there was an increase in sales of 15.14%, a decrease in operating expenses by 97.58%, but *cost of good sold* increased by 20.20% resulting in a significant decrease in current year's profit of 70.76%. If traced further, the increase in COGS value was caused by an increase in raw materials by 57.42%, production costs for repairs and maintenance by 366.5% and electricity costs by 42.85%. Some of these significant cost increases indicate that the management is less efficient and less precise in making the company's operational policies so that the COGS value increases sharply.

It can also be seen, that total equity has increased but not significantly by 0.22%, resulting in the ROE value in 2018 decreasing to 0.04%

The average value of the sample for the ROA indicator is 0.11 or 11% and the ROE indicator is 0.06 or 6%. Samples that have an ROA value above the average are 141 units of analysis or 40% of the total sample, while 60% are below the average. The ROE value above the average is 147 units of analysis or 42% of the total sample, while 58% is below the sample average. So the most compositions are companies whose ROA and ROE values are below the average.

There are indications that there is a positive relationship between *family ownership* and financial performance. This can be seen from the composition of *family ownership* below the average, which is 54% greater than the value above the average, so that the composition of financial performance below the average is also greater than the value above the average, namely the ROA value of 60% and the ROE value of 58%. . The composition that is aligned / directly proportional to *family ownership* and financial performance as seen from the composition of ROA and ROE shows that there is a positive relationship for these two variables.

c. Business Strategy

In this study, business strategy is measured using the indicators of *Price Premium Capability* (PC) and *Asset Turnover Ratio* (AC). In Table 2 it can be seen that the largest PC value is 0.92 or 92% (PT. Mega Manunggal Property in 2018) and the smallest PC value is 0.013 or 1.3% (PT. M Cash Integration in 2016). MMLP has a PC value of 92% due to an increase in revenue of 43% which comes from the addition of NLA from the operation of Block AE and Cileungsi warehouses as well as an adjustment in rental rates of 2-4% per year for *existing tenants.*

However, the cost of revenue rose 26.1% due to a 32.9% increase in utility expenses and a 24.7% increase in repair and maintenance expenses. Although the cost of revenue increased, gross profit continued to increase by 45% so that the PC value was high. A high PC value indicates that MMLP uses a differentiation strategy and does not apply a *low cost* because *asset turnover* generated is only 0.05 times.

PC value for PT. M Cash Integration in 2016 was 0.013 or 1.3%. The low PC value is due to the fact that the cost of goods sold is almost equal to the amount of revenue so that the gross profit generated is relatively small. A low PC value means PT. M Cash Integration does not use a differentiation strategy. However, the AU value at PT. M Cash Integration in 2016 was the largest among all samples, namely 25.02 times. This shows the company is able to use its assets efficiently to generate sales. With a high AU value, it indicates that PT. M Cash Integration implements a *low cost*.

In Table 2 the smallest AU value is PT. Sitara Propertindo in 2018 was 0.02 times. This shows the company has not been able to efficiently use its assets to generate sales where the total assets of Rp. 1.1 trillion, can only generate sales of Rp. 24 billion. With a small AU value, it can be said that the company does not use a *low cost*. However, PT. Sitara Propertindo uses a differentiation strategy because of the high PC value of 65.4%.

The average value of the sample for the PC indicator is 0.36 or 36% and the AU indicator is 0.99 times. Samples that have a PC value above the average are 152 units of analysis or 43% of the total sample. This shows that 57% of the units of analysis have PC values below the average, which means that management is less efficient in managing the *cost of good sold* , resulting in *gross margin* . Meanwhile, the AU value above the average is 127 units of analysis or 36% of the total sample. This means that 64% of the units of analysis have an AU value below the average, which means that asset turnover for the 64% sample is less effective because it is below 1 timeSo the composition that mostly consists of companies whose PC and AU values are below the average.

In addition, there are indications that business strategy strengthens the relationship between *family ownership* and financial performance. This can be seen from the composition of PC and AU values that are in line with the composition of *family ownership* and financial performance in terms of ROA and ROE. The composition of PC and AU values below the

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average is 57% and 64% with a *family ownership* 54% and financial performance in ROA is 60% and ROE is 58% which is below average.

d. *Agency Cost*

In this study, *agency costs* were measured using the *Discretionary Operating Ratio* (ER) indicator. Table 2 shows that the largest ER value is 0.73 or 73% (PT. Hotel Sahid Jaya International in 2016) and the smallest ER value is 0.004 or 0.4% (PT. M Cash Integration in 2016). ER value at PT. Sahid in 2016 amounted to 73% which was caused by the amount of operating expenses which was almost the same as the total

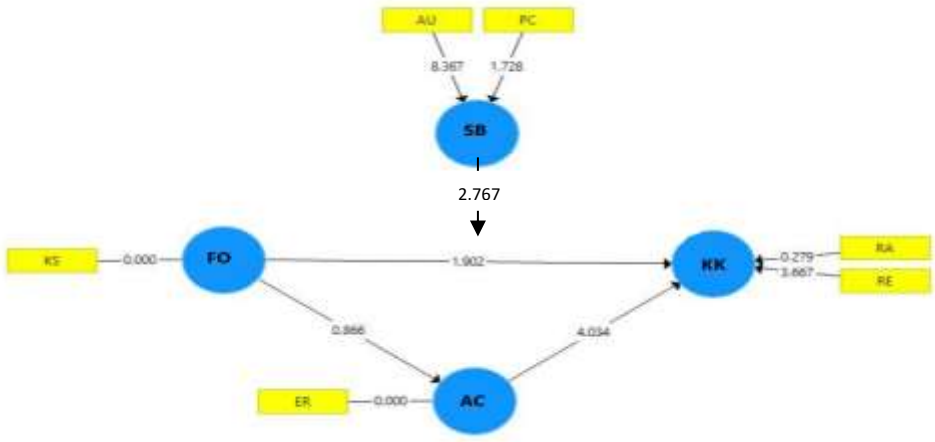
income, causing a high ER value. This high ER value indicates PT. Sahid spent a lot of money but not worth the income generated. This certainly shows that there are inefficient actions so that the resulting costs are large. PT. M Cash Integration in 2016 had the smallest ER value of 0.4%. Small ER value indicates that PT. M Cash is able to minimize operational costs but still be able to increase revenue. This shows that the management's actions and policies on operational costs are appropriate and efficient. The average value of the ER indicator is 0.19 or 19%. The sample that is above the average is 37%, while 63% is below the average. This shows that about 63% of the sample is efficient enough in managing resources so that operational costs can be minimized.

There is an indication of a positive relationship between *family ownership* and *agency costs* as measured by ER (*Discretionary operating ratio).* The composition *family ownership* which is below the average of 54% is in line with / is directly proportional to the composition of ER which is below the average of 63%. In addition, there is an indication of a positive relationship between *agency costs* and financial performance. The composition of ER values below the average of 63% is in line with / directly proportional to the composition of ROA and ROE which are below the average of 60% and 58%, respectively.

Evaluation of the Measurement Model / *Outer Model*

At this stage, the indicators are evaluated to determine the validity and reliability using a *significant weight* because the indicators in this study are formative. Below is a picture *of the outer model* in this study. 12

Figure 2.*Outer Model*



Source: Data Processing Results through Smart PLS 3

Based on Figure 2. Financial performance (KK) is measured by the *Return On Assets* (RA) and *Return On Equity* (RE) indicators where the RA indicator has a statistical value of 0.279 < t table 1.408, it can be concluded that the *Return On Asset* (RA) indicator is not significant and invalid so it must be excluded from the test. Meanwhile, the *Return On Equity* (RE) indicator has a statistical value of 3,667 > t table 1,408, so it can be concluded that the *Return On Equity* (RE) indicator is significant and valid so that it meets the recommended requirements.

Business strategy (SB) is measured by the *Price Premium Capability* (PC) and *Assets Turnover Ratio* (AU) indicators, where the PC indicator has a *t statistic* 1.728 > t table 1.408 which means that the *Price Premium Capability* (PC) indicator is significant and valid so that it meets the requirements. recommended. While the *Assets Turnover Ratio* (AU) indicator has a *t-statistic* 8.367 > t-table 1.408, which means it is significant and valid so that it meets the recommended requirements.

Evaluation of the Structural Model / *Inner Model* and Research Hypothesis Testing *Goodness of Fit* (GoF) Test based on *R-square*

Table 3. *R-square*

Tabel 3. Nilai *R-square*

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Variabel	*R Square*
Financial Performance (KK)	0.214
Agency Cost (AC)	0.003

Source: Results of Data Processing through Smart PLS 3

In Table 3 it can be seen that the *R-square* between *Family Ownership* (FO) and Financial Performance (KK) is 0.214, which means the contribution *family ownership* to financial performance is 21.4% and the remaining 78.6% is influenced by other variables outside the model. .value *R-square* 0.214 0.33 so it can be interpreted that the model is *moderate.*

In Table 3 it can be seen that the *R-square* between *Family Ownership* (FO) and *Agency Cost* (AC) is 0.003 which means that the contribution *family ownership* to *agency cost* 0.3% and the remaining 99.7% is influenced by other variables outside the model. The value of *R square* is 0.003 0.19 so it can be interpreted that the model is weak.

Hypothesis Testing with Regression Test

Table 4. *Path Coefficients (Mean, STDEV, T-Values)*

Direction Relationship Indicator Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
AC -> KK	-0.351	-0.349	0.064	5.476	**0.000**
FO*SB -> KK	0.155	0.133	0.115	1.353	**0.177**
FO_ -> AC	0.052	0.051	0.056	0.930	**0.353**
FO_ -> KK	0.084	0.080	0.042	1.992	**0.047**
SB -> KK	0.547	0.548	0.195	2.802	**0.005**

Source: Data Processing Results through Smart PLS 3

Hypothesis Testing 1

Based on Table 4, it can be seen that *family ownership* on the company's financial performance has a positive regression coefficient value of 0.084 and a *p value* 0.047 <0.16 (alpha 16%). The regression coefficient is positive indicating a directly proportional relationship between *family ownership* and the company's financial performance. The greater the *family ownership* in a company, the company's financial performance increases. The *p value* 0.084 < 0.16 (alpha 16%) indicates that *family ownership* has a significant effect on the company's financial performance. So it is proven that *family ownership* has a direct and significant positive effect on financial performance so that H0 is rejected and hypothesis 1 is accepted. Usually the family places family members to occupy *top management* in the company so that any policies and regulations that will be applied can be *reviewed* beforehand whether they are in accordance with the interests and progress of the company. In addition, with the family being in *top management,* it can make it easier to supervise and encourage *team* together to advance the company. *Transfer of knowledge* and *sharing* of family culture into the company is an added value for family companies. The culture, way of working, fighting spirit, and experience of the *founders* the company are the keys to success and are valuable things to learn and apply to the next generation. In addition, family owned companies are able to survive and have high fighting power in facing various challenges for the survival of the company and pass the company on to the next generation. The company tries to manage the use of assets effectively and manage the costs incurred efficiently so that the company's financial performance increases.

Testing Hypothesis 2

Based on Table 4, it can be seen that *family ownership* on *agency cost* has a positive regression coefficient value of 0.052 and *p value* 0.353> 0.16 (alpha 16%). The regression coefficient is positive indicating a directly proportional relationship between *family ownership* and *agency costs*. The greater the *family ownership* in a company, the higher the *agency cost* . The *p value* 0.353 > 0.16 (alpha 16%) indicates that *family ownership* has a positive but not significant effect on *agency costs* so that hypothesis 2 is not proven.

There is a possibility that *family ownership* can cause *agency costs* so that the relationship between the two is positive although not significant. The family places their family members in the company as commissioners and directors, so there are indications that the salaries of family members are higher than those of professionals because the family feels they own the company and have great control and responsibility in the company. Because of the high salary and remuneration costs in companies with family ownership, it causes *agency costs* to increase.

Testing Hypothesis 3

Based on Table 4, it can be seen that the *agency cost* of the company's financial performance has a negative regression coefficient value, namely -0.351 and *p value* 0.000 <0.16 (alpha 16%). The regression coefficient is negative, indicating an inverse relationship between *agency costs* and the company's financial performance. The greater the *agency cost* in a company, the company's financial performance decreases and vice versa. The *p value* 0.000 < 0.16 (alpha 16%) indicates that *agency costs* have a significant effect on the company's financial performance. So it is proven that *agency costs* have a negative and significant effect on the company's financial performance so that H0 is rejected and hypothesis 3 is

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accepted.

With the problems that arise between the owner and the *agent*, the company must pay extra for *monitoring, bonding* and ensuring that the actions taken by the *agent* in line with the company's interests. The extra costs incurred by the company can affect the decline in the company's financial performance. Examples are the cost of first-class official travel, the cost of luxury official cars and the exorbitant salary costs are examples of forms of enjoyment that are not really needed and not for increasing company performance, but for the personal benefit of management.

Hypothesis Testing 4

Based on Table 4, it can be seen that the FO*SB interaction on the company's financial performance has a positive regression coefficient value of 0.155 and a *p value* 0.177 > 0.16 (alpha 16%). The regression coefficient is positive on the FO*SB interaction, indicating that business strategy as a moderating variable is able to strengthen the relationship between *family ownership* and company financial performance. The better and more mature the business strategy run by the family company, the better the company's financial performance will be. The *p value* 0.177 > 0.16 (significance level 16%) indicates that the business strategy is able to moderate *family ownership* and financial performance but is not significant. Furthermore, in Table 11 it can be seen that the *p value* of business strategy (SB) is <0.005 and *p value* of the FO*SB interaction is 0.177. This shows that the *p value* of the business strategy is significant because the *p value* is smaller than 16% (alpha). While the FO*SB interaction is not significant because the *p value* is greater than 16% (*alpha*). Because the business strategy is significant, but the FO*SB interaction is not significant, it is included in the category of moderating predictors. So, the business strategy is able to moderate by strengthening the relationship between *family ownership* and financial performance with a coefficient value so that H0 is rejected and hypothesis 4 is accepted.

With the right business strategy, companies with family ownership are able to produce high financial performance. By selecting and implementing the right strategies, the company is able to create *value* for *customers* , resulting in outstanding performance and *competitive advantage* a sustainable. The role of the family is quite important in the company, where the family has dedication, fighting power and high loyalty to the company. The family will make mature decisions, including the business strategy implemented for the survival of the company which is planned to be passed on to the next generation. Companies with family ownership tend to be more innovative and more adaptive in the face of change because decisions are made faster and without complicated procedures. Selection of a good and innovative business strategy is needed to gain market share so as to improve the company's financial performance.

Hypothesis Testing 5

Table 5. *Indirect Effect*

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
FO_ -> KK	-0.018	-0.018	0.020	0.909	**0.364**

Source: Data Processed Results through Smart PLS 3

Based on Table 5, it can be seen that the coefficient of *Family Ownership* on Financial Performance through *Agency Cost* is -0.018 or -1.8% and the value *p value* of 0.364 > 0.16 (alpha). The *p-value* of 0.364 is greater than 16% alpha, indicating that the result is not significant. This means that *agency costs* cannot mediate the relationship between *family ownership* and financial performance so that hypothesis 5 is rejected. This is because *family ownership* can cause *agency costs* , although it is not significant as in the discussion of hypothesis 2. The higher *family ownership*, agency costs also increase in the form of increased costs. salary and remuneration for family members who hold positions in the company. *family ownership* can cause agency costs, the effect is not significant so that financial performance continues to improve with efficient use of resources and innovative strategies that are dared to be applied by family companies. *Agency costs* cannot be a mediation because in a family company there are other factors that have a greater influence that can affect financial performance such as the business strategy implemented, efficiency, innovation, reduced information gaps, and good control by the family.

Based on the above test results, the model equation can be written, namely: AC = 0.052. FO KK = 0.084. FO + 0.547. SB + 0.155. FO.SB - 0.351. AC

CONCLUSION

Model Conclusion

Results of the *Goodness of Fit* (GoF) test based on *R-square*, the model category is *moderate* with an *R-square* between *Family Ownership (*FO) and Financial Performance (KK) of 21.4%, which means that the contribution *family ownership* to performance finance is 21.4% and the remaining 78.6% is influenced by other variables outside the model. In addition, the weak model category is between *Family Ownership* (FO) and *Agency Cost* (AC) with an *R square* of 0.3%, which means that the contribution *family ownership* to *agency costs is* 0.3% and the remaining 99.7% is influenced by other variables. outside the model.

Conclusion Indicator

a. Indicator *Return on Equity* has a significant positive effect on the Financial Performance (KK) variable and is

declared valid. While the *Return on Assets* / (RA) indicator is not significant so it is not valid in measuring Financial Performance (KK).

b. indicators *Price Premium Capability* (PC) and *Asset Turnover Ratio* have a positive and significant effect on the Business Strategy (SB) variable and are declared valid.

Conclusion Hypothesis

a. *Family ownership* has a direct and significant positive effect on financial performance.
b. *Family ownership* has a positive but not significant effect on *agency costs*. This shows that *family ownership* can cause *agency costs* so that the relationship is positive although not significant. There are indications that the salaries, facilities and remuneration of family members are higher than those of professionals.
c. *Agency costs* have a negative and significant effect on financial performance.
d. Business strategy is able to moderate by strengthening the relationship between *family ownership* and financial performance. With the right and innovative business strategy developed by the family, the company is able to generate *added value* for *customers* so as to produce extraordinary performance and achieve *competitive advantage* a sustainable
e. Indirectly *agency costs* are not able to mediate the relationship between *family ownership* and financial performance. This means that there are other factors that have a greater influence that can affect financial performance such as the business strategy implemented, efficiency, innovation, reduced information gaps, and good control by the family.

SUGGESTIONS

a. The research period should be longer, about 5-10 years. This is because the impact of the business strategy that is implemented can only be felt in the long term.
b. Further research can use Managerial Opportunistic Behavior as a mediating variable between *family ownership* and financial performance. There is a possibility that managerial opportunistic behavior can be limited by the size of the *family ownership* and the involvement of family members in *top management*.
c. Future research is expected to explore more deeply about the cost of salaries and remuneration for family members who serve as the board of commissioners and the board of directors in the company.

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