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Family control and corporate performance: the role of independent commissioners in reducing agency problems

Controle familiar e desempenho corporativo: o papel dos comissários independentes na redução de problemas de agência

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Abstract: This study examines the influence of family control on firm performance, taking into consideration the moderating variable of the proportion of independent commissioners. The sample for this research consists of manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2012-2018, with 477 observations. Ordinary Least Squares (OLS) regression analysis and Moderated Regression Analysis (MRA) techniques were employed to test the hypotheses. The findings of this research indicate that family control has a significant negative impact on firm performance. Additionally, it was found that the proportion of independent commissioners significantly weakens the negative influence of family control on firm performance.

Keywords: Family control; Corporate performance; Independent commissioners; Agency problems; Corporate governance; Family business.

Resumo: Esta pesquisa analisa o efeito do controle familiar no desempenho corporativo tendo a proporção de conselheiros independentes como variável moderadora. A amostra desta pesquisa são empresas do setor manufatureiro listadas na Bolsa de Valores da Indonésia para o período 2012-2018, com 477 observações. Este estudo utiliza técnicas de mínimos quadrados ordinários (OLS) e análise de regressão moderada (MRA) para chegar aos resultados. Esta pesquisa descobriu que o controle familiar tem um efeito negativo significativo no desempenho corporativo. O outro resultado concluiu que a proporção de comissários independentes enfraquece significativamente o efeito negativo do controle familiar no desempenho empresarial.

Palavras-chave: Controle familiar; Desempenho corporativo; Comissários independentes; Problemas de agência; Governança corporativa; Empresa familiar.

1 Introduction

The prevalence of family control is a notable characteristic observed in public companies (De Massis et al., 2018; Patuelli et al., 2022). Family control over a

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company can be achieved by possessing a significant proportion of shares in the company (Shleifer & Vishny, 1997), as well as by appointing family members to key positions within the company's management, including the board of directors and the board of commissioners (Jaggi et al., 2009; Sacristán-Navarro et al., 2023; Villalonga & Amit, 2006). Family ownership is one of the world's most prevalent forms of ownership (Chirico et al., 2020), prompting ongoing debate regarding its impact on companies (Burkart et al., 2003).

The concentration of public company shares within a family's ownership results in the retention of significant control over the company's controlling power, even though it is a public company. In this case, the family assumes the role of the controlling shareholder, possessing a significant proportion of ownership, and consequently has the capacity to influence company policies and actions (Ng, 2015; Sacristán-Navarro et al., 2023). Excessive family control can give rise to a conflict of interest between the family, acting as the controlling shareholder, and the minority shareholders.

The presence of families as controlling shareholders grants them the authority to select managers who will run the company in the family's interests, which will ultimately have adverse consequences for minority shareholders (Jackling & Johl, 2009; Hasan et al., 2023). The diversion of company resources by controlling shareholders, such as the family in this case, can potentially diminish the company's value and hinder its optimal performance (Li et al., 2015).

An effective approach to overcoming conflicts of interest, particularly those arising from the divergence of interests between controlling shareholders from families and minority shareholders, is to implement good corporate governance within the company (Arteaga & Escribá-Esteve, 2021; Scherer & Voegtlin, 2020). Corporate governance is the process and structure used to direct and manage the company's business affairs towards increasing business prosperity and corporate accountability in order to realize long-term shareholder value while considering other stakeholders' interests (Davila et al., 2023). Corporate governance mechanisms include board composition, debt financing, equity ownership by insiders and outsiders, and markets for corporate control (Haniffa & Hudaib, 2006).

This study employs a proxy variable to measure corporate governance using the board's composition, specifically focusing on the proportion of independent commissioners. Independent commissioners can be defined as commissioners who are external to the issuer and have no affiliations with the directors, other members of the board of commissioners, or controlling shareholders who also do not own shares either directly or indirectly in the company and are free from business or other relationships that may affect their abilities to act independently. Therefore, a higher proportion of independent commissioners is associated with improved corporate governance, which in turn mitigates agency conflicts and weakens family control's negative effect on corporate performance. The following research questions guide this study:

RQ 1: Does family control have a negative effect on corporate performance?

RQ 2: Does the proportion of independent commissioners moderate the effect of family control on corporate performance?

The questions are answered using manufacturing company data from a research period spanning from 2012 to 2018. Companies in the manufacturing sector were used due to the desire for data homogeneity. Furthermore, manufacturing companies have a long-standing presence; however, scant findings exist regarding the influence of family control in the Indonesian manufacturing sector (Achmad et al., 2005). These findings are expected to make a significant contribution to understanding how family firms should structure their corporate governance to enhance shareholder trust. Additionally, this paper extends observations to the manufacturing industry, as there is limited research in developing Asian markets focusing on this sector, which is the largest industry in Indonesia (Hatane et al., 2019). The results of our study provide robust evidence indicating that firms under family control exhibit inferior performance compared to firms not under family control. This finding demonstrates the presence of type II agency problems in family-controlled public companies in Indonesia. On the other hand, our empirical findings indicate that the proportion of independent commissioners moderates (weakens) the negative relationship between family control and firm performance. This provides evidence that a greater proportion of independent commissioners can contribute to effective corporate governance practices that overcome type II agency problems in the context of Indonesia.

This research makes a valuable contribution to the existing body of literature on corporate performance within family firms in several ways. First, it examines the issue of the moderating effect of the proportion of independent commissioners on the relationship between family control and corporate performance. This issue has received limited attention in prior research within the domain of financial management. Second, prior research examining the impact of family control on corporate performance has yielded varying outcomes. Some studies found that family ownership negatively impacts corporate performance (Arosa et al., 2010; Besim, 2023; Beuren et al., 2016; Chahal & Sharma, 2022; Moolchandani & Kar, 2022). On the other hand, others found that family ownership positively impacts corporate performance (Arteaga & Escribá-Esteve, 2021; Hasan et al., 2023; Jarchow et al., 2023; Pukthuanthong et al., 2013; Sacristán-Navarro et al., 2023; Shyu, 2011). Therefore, these varying outcomes necessitated further research. Third, prior studies that have examined corporate governance in a broader context have solely focused on the direct impact of corporate governance on corporate performance.

Research has demonstrated that corporate governance has a significant positive impact on corporate performance in a number of previous studies (Al-Saidi & Al-Shammari, 2015; Detthamrong et al., 2017; Leung et al., 2014; Ng, 2015; Vu et al., 2018). However, some research has also shown that corporate governance has no significant impact on corporate performance. Thus, corporate governance does not always directly impact corporate performance but could potentially have a moderating effect (Sharma et al., 1981). This study examines the moderating effect of corporate governance on the relationship between family control and corporate performance, considering the prevalence of family-owned companies in Indonesia.

2 Literature review

2.1 Ownership structure and agency problems in Indonesia

The ownership structure of a company has implications for the occurrence of agency problems between managers (agents) and principal shareholders, known as type I agency problems, and between controlling shareholders and minority shareholders, known as type II agency problems (Achmad et al., 2005). Agency problem I arises because there is a difference in interests between the principal and the agent.

Principals generally seek management decisions that aim to optimize their wealth, which is reflected in the value of the shares. However, it is common for an agent to prioritize their own interests, specifically by leveraging their authority to allocate company resources toward projects that are not feasible to maximize personal profit rather than increasing the company's overall value. The classic owner-manager conflict, as described by Jensen & Meckling (1976) and Fama (1980), occurs in countries with dispersed ownership. Type I agency problems can be mitigated by the concentration of ownership, as it engenders stronger incentives for large shareholders to engage in managerial monitoring. However, this will give rise to another agency problem, specifically the type II agency problem.

Companies with concentrated ownership, i.e., controlled by individuals and families, are prime examples of companies modeled by Shleifer & Vishny (1997) and Stijin et al. (1999), which exhibit a significant presence of major shareholders and a limited number of minor shareholders. Agency problem II occurs between controlling (majority) shareholders and minority shareholders (Stijin et al., 1999). This phenomenon is observed in countries with concentrated ownership structures, such as Indonesia. According to DayaQarsa, a consulting firm based in Indonesia, 95% of companies in Indonesia are characterized by concentrated ownership within specific families.

In a concentrated ownership structure, the ability of controlling shareholders to appoint managers is facilitated by their possession of majority voting rights, and these managers are inclined to act in the best interests of the controlling shareholders, while other shareholders have little or no authority in selecting managers (Borralho et al., 2020). In companies with concentrated ownership, shareholders can control management or, in some cases, may even assume managerial roles (Villalonga & Amit, 2006). Controlling shareholders can even transfer company resources, resulting in losses to minority shareholders. Thus, the agency problem observed in companies of this nature pertains to the inherent conflict of interest between controlling and non-controlling (minority) shareholders.

2.2 The effect of family control on company performance

In countries with concentrated ownership structures or majority ownership in the hands of families, such as Indonesia, the agency conflict that occurs is type II agency conflict (Boshnak, 2023; Stijin et al., 1999). This type of conflict happens because the family, as the controlling shareholder, can choose their own managers who will work in the family's best interests or place the family in the company's management through their voting rights.

A concentrated shareholding structure can lead to the risk of expropriation for minority shareholders (Arouri et al., 2014). Expropriation is the process of using control to maximize one's own welfare by distributing wealth from other parties (La Porta et al., 2000). Controlling shareholders can deliberately take over from minority shareholders by transferring assets or capital to wholly-owned subsidiaries (Friedman et al., 2003). For example, a controlling owner may arrange transactions related to affiliated entities that are inconsistent with the interests of minority shareholders.

Management also tends to provide high salaries to family members and a preference to appoint relatives to the detriment of more qualified professionals (Morck et al., 1988). Equal alignments between managers and families, who serve as the controlling shareholders, can also cause family members to try to satisfy their personal interests at the expense of corporate performance (Shyu, 2011). Therefore, an excessive amount of familial influence will result in a decrease in company performance. Specifically, family control negatively impacts corporate performance. Thus, it was hypothesized that:

H1: Family control negatively impacts corporate performance.

2.3 The moderating effect of the proportion of independent commissioners on the effect of family control on corporate performance

The presence of an independent commissioner in the company has the potential to mitigate agency conflicts between the family, serving as the controlling shareholder, and the minority shareholder. Independent commissioners are characterized by their lack of ownership of shares in the company, which results in their absence of personal interest in the company. As a result, independent commissioners are able to offer an impartial evaluation of management practices and ensure equitable treatment of shareholder rights. The independence of corporate boards is also supported on the basis that it enables them to perform their decision-control function effectively.

Independent company boards provide increased monitoring of managerial decisions and activities (Dahya & McConnell, 2005). In addition, independent commissioners have strong incentives to monitor and control the opportunistic behavior of managers in order to enhance their reputation and image in the labor market (Borokhovich et al., 2005). Independent boards provide more effective monitoring and better advice to management, which in turn improve the quality of reported information and company performance (Leung et al., 2014). Therefore, a greater proportion of independent commissioners will weaken the negative effect of family control on corporate performance. Thus, it was hypothesized that:

H2: The proportion of independent commissioners weakens the negative effect of family control on corporate performance.

3 Methodology

3.1 Data source and samples

The sample used in this study is limited to manufacturing companies to ensure data homogeneity. Manufacturing companies were chosen because they comprise Asia's largest sector, especially in Indonesia (Achmad et al., 2005). The sample used in this study consisted of all manufacturing companies listed on the IDX for the 2012-2018 period, with 477 company-year observations. The year 2018 was chosen as the end of the study period because it was pre-COVID-19, and adding more observation periods could make the results less generalizable. COVID-19 entered Indonesia in early 2020, and the year 2019 was also excluded due to the unfavorable conditions in the manufacturing sector in Indonesia, with a Purchasing Manager Index below 50 (BPS, 2024). The data was obtained from the official website of the Indonesia Stock Exchange (IDX, 2024).

This study employed the OLS regression technique to test the hypotheses and the MRA technique to analyze the data. Previous studies (Claessens et al., 2006; Masulis et al., 2011; Ng, 2015) also employed the OLS regression in their analysis. The OLS regression is suitable due to its simplicity and reliability in estimating regression models, provided that common issues encountered in regression analysis are taken into account. The data used in this study passed the classic assumption test, which is the initial requirement for conducting panel data regression analysis (Gujarati & Porter, 2009). This research addresses the common issues typically associated with regression, such as normality, multicollinearity, autocorrelation, and heteroscedasticity, through the implementation of appropriate steps or measures. In addition, moderated regression analysis was used to analyze the data, as it incorporated a moderating variable (Ghozali, 2011).

3.2 Variable measurement

3.2.1 Dependent variable

Company performance refers to the level of achievement attained by effectively managing its resources within a specific time frame. Return on assets (ROA) is a frequently employed metric in empirical research conducted on prior studies to assess company performance. It is defined as the ratio of net income to total assets (Al-Saidi & Al-Shammari, 2015; Arouri et al., 2014; Beuren et al., 2016; Hidayatulloh & Setiawan, 2020; Leung et al., 2014; Ng, 2015; Pukthuanthong et al., 2013; Rashid, 2018; Setiawan & Gestanti, 2022; Setiawan & Rachmansyah, 2019; Shyu, 2011; Singh et al., 2021; Vu et al., 2018; Wijaya et al., 2021, 2022). In addition to the utilization of ROA, other measurements to measure performance, such as return on equity (ROE), were also used during the robustness test. Return on equity is the ratio of net income to shareholder equity.

3.2.2 Independent variable

According to Anderson & Reeb (2003), the concept of family control refers to the extent to which a family exercises control over a company, either through family ownership of company shares or through the placement of family members on the company's board. Villalonga & Amit (2006) posit that family control includes the following dimensions: 1) The family owns the majority of company shares; 2) family members have significant control over the company; 3) family members hold top management positions. Therefore, it can be inferred that family control refers to the family's ability to control or influence company policies and actions through family ownership of company shares in large numbers and by placing family members in the company's management.

The previously mentioned studies define a family control primarily on the bases of percentage of ownership and (or) occupancy of board positions. Therefore, this study defines a family control as a company that meets at least one of the following two conditions:

(1) The family owns a minimum of 20% of shares in a company (La Porta et al., 1999);

(2) The family owns at least 5% of shares in a company when there are family members within the management structure, either in the board of commissioners or in the board of directors (Shyu, 2011).

3.2.3 Moderating variable

According to Financial Services Authority Regulation Number 33/POJK.04/2014 concerning the directors and board of commissioners of issuers or companies, an independent board of commissioners can be defined as a board of commissioners from outside the issuer that is not affiliated with the directors, other members of the board of commissioners, and controlling shareholders who also do not own shares either directly or indirectly in the company and is free from business or other relationships that may affect his ability to act independently.

Independent commissioners are measured based on the proportion of independent commissioners on the board to the total board of commissioners. In addition to using the proportion of independent commissioners as a measure, we also incorporated a dummy independent commissioner (D_IND) for the robustness test. The measurement of the D_IND variable involved the classification of independent commissioners into two categories based on the proportion of their presence. A value of 1 was assigned if the proportion of independent commissioners exceeded the average value. In contrast, a value of 0 was assigned if the proportion of independent commissioners fell below the average value.

3.2.4 Control variable

To control for the effect of combining cross-sectional factors, this study included institutional ownership (INSOWN), firm age (AGE), and leverage (LEV) as control variables in the regression analysis. In the context of regression analysis, it is customary to incorporate several control variables frequently utilized in existing literature (Table 1). The findings of Shyu (2011), Pound (1991), and Chen & Chen (2012) showed that institutional ownership is positively related to performance since it acts as an external monitoring mechanism for the organization. Institutional ownership is measured by the proportion of shares owned by non-family institutional investors in a company.

The longer a company is established, the better its performance becomes. With the passage of time, the company learns to improve and become more efficient, thereby acquiring a competitive advantage in its operations. This, in turn, contributes to the success and prosperity of the organization (Arrow, 1962). Therefore, a positive correlation of this variable with company performance is anticipated in this study. Firm age (AGE) is measured by the log of firm age.

According to Demsetz & Villalonga (2001) and Chen & Chen (2012), high debt levels can lead to increased costs and a heightened risk of bankruptcy. Such high debt levels also tend to foster robust external monitoring and weaken internal monitoring. Therefore, a negative correlation of this variable with company performance is anticipated in the present study. Leverage is measured by the ratio of total debt to total assets.

Table 1. Summary of abbreviations, variables, operationalization, and expected sign.

Abbreviations	Variable	Operationalization	Expected Sign
DFAM	Family Control	Dummy variable: 1 if the family owns a minimum of 20% of shares in a company or if the family owns at least 5% of shares in a company when there are family members within the management structure, either in the board of commissioners or in the board of directors, and 0 otherwise.	Negative
IND	Proportion of Independent commissioners	The number of independent commissioners on the board of commissioners to the total board of commissioners.	Positive
D_IND	Dummy independent commissioner	Categorizing independent commissioners based on the size of the proportion, wherein a value of 1 is assigned if the proportion of independent commissioners is above the average value and a value of 0 is assigned if the proportion of independent commissioners is below the average value.	Positive
INSOWN	Non-family institutional ownership	The proportion of shares owned by non-family institutional investors in a company	Positive
AGE	Firm Age	The log of firm age	Positive
LEV	Leverage	The ratio of total debt to total assets	Negative
Year Effect	Particular Year	Control year fixed effect	

3.3 Econometric models

$$ROA_{i.t} = \beta_0 + \beta_1\, DFAM_{i.t} + \varepsilon_{i.t} \tag{1}$$

$$ROA_{i.t} = \beta_0 + \beta_1\, DFAM_{i.t} + \beta_2\, INSOWN_{i.t} + \beta_3\, AGE_{i.t} + \beta_4 LEV_{i.t} + \sum year + \varepsilon_{i.t} \tag{2}$$

$$ROA_{i.t} = \beta_0 + \beta_1\, DFAM_{i.t} + \beta_2 IND_{i.t} + \beta_3\, DFAM^{*}IND_{i.t} + \varepsilon_{i.t} \tag{3}$$

$$ROA_{i.t} = \beta_0 + \beta_1\, DFAM_{i.t} + \beta_2 IND_{i.t} + \beta_3\, DFAM^{*}IND_{i.t} + \beta_4\, INSOWN_{i.t} + \beta_5\, AGE_{i.t} + \beta_6 LEV_{i.t} + \sum year + \varepsilon_{i.t} \tag{4}$$

4 Result and discussion

4.1 Descriptive statistics

Table 2 presents the descriptive statistics of this study. As an independent variable, DFAM (family control) has an average value of 0.78. This indicates that more manufacturing companies in Indonesia are owned by families. The average ROA and ROE in this study are 0.0548 and 0.0828, respectively, indicating that the performance of Indonesian manufacturing companies from 2012 to 2018 is quite good.

Table 2. Descriptive statistics.

	N	Minimum	Maximum	Mean	Std. Deviation
DFAM	477	0	1	0.78	0.418
ROA	477	-0.39	0.92	0.0548	0.0969
ROE	477	-2.54	2.24	0.0828	0.3057
IND	477	0.20	1	0.4054	0.1174
D_IND	477	0	1	0.4507	0.4981
AGE	477	0.60	1.95	1.5526	0.1633
INSOWN	477	0	100	28.63	33.221
LEV	477	0.04	2.83	0.4528	0.2277

The average proportion of independent commissioners (IND) in manufacturing companies in Indonesia is 0.4054, with a minimum value of 0.20 and a maximum value of 1. This shows that several public companies have failed to adhere to regulatory requirements pertaining to the appointment of independent commissioners. Specifically, the regulations stipulate that public companies must have a minimum of 0.30. The dummy average proportion of independent commissioners (D_IND) was 0.45, indicating that there are more proportions of independent commissioners in Indonesia who are below average than above average. The control variables INSOWN, AGE, and LEV have an average value of 28.63, 1.5526, and 0.4528, respectively. Table 3 presents the Pearson correlation coefficients of all variables. It was found to be less than 0.90, indicating no multicollinearity problem between variables (Hair et al., 2010).

Table 3. Pearson correlation coefficients.

	ROA	ROE	DFAM	ENG	AGE	INSOWN	Lev
ROA	1						
ROE	0.721**	1					
DFAM	-0.213**	- 0.164**	1				
IND	0.21	0.008	0.092	1			
AGE	0.132*	0.068	- 0.191**	- 0.108	1		
INSOWN	0.57	0.045	- 0.742**	- 0.134*	.173**	1	
LEV	-0.337**	- 0.272**	0.109	- 0.097	-.042	039	1

**Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed).

4.2 Family control and corporate performance

The results of this research employ regression analyses of models 1, 2, 3, and 4, support hypothesis 1 (H1), which states that family control negatively impacts company performance, as seen in Table 4. These results indicate that companies controlled by the family have lower performance than those not controlled by the family. This is consistent with the findings of Besim (2023) on Turkish companies, Beuren et al. (2016) on companies in Brazil, and Chahal & Sharma (2022) and Moolchandani & Kar (2022) on companies in India. However, it contradicts the findings of Jarchow et al. (2023) on companies in Germany, Pukthuanthong et al. (2013) on companies in Canada, Shyu (2011) on companies in Taiwan, and Arteaga & Escribá-Esteve (2021) and Sacristán-

Navarro et al. (2023) on companies in Spain, all of which found that family ownership had a positive effect on company performance.

The results of this research are in accordance with agency theory that in countries with dispersed ownership structures (e.g., Germany, Canada, Taiwan, and Spain), the agency problems that occur are type I agency problems – conflicts between managers (agents) and principal shareholders. In these countries, agency problems can be mitigated by the concentration of ownership because of the greater incentives of large shareholders to monitor managers. On the other hand, in countries with a concentrated ownership structure (e.g., companies in India, Turkey, Brazil, and India), where a company is controlled by individuals and families with several small shareholders, the agency problem that occurs is a type II agency problem – conflicts between the majority shareholder (controlling) and minority shareholders.

This phenomenon occurs due to the dominant ownership position held by the family, which enables them to engage in expropriation by appointing individuals who align with their personal interests to key managerial positions within the company. The family, serving as controlling shareholders, enrich themselves by transferring company profits to other companies they control (Stijin et al., 1999). Equal alignments between managers and families, serving as controlling shareholders, cause family members to try to satisfy their personal interests at the expense of company performance (Shyu, 2011). Management tends to provide high salaries to family members and prefers to appoint relatives over more qualified professionals (Morck et al., 1988). Therefore, excessive family control results in a decrease in corporate performance.

Table 4. Hypothesis testing and result (Dependent variable (ROA)).

	(1)	**(2)**	**(3)**	**(4)**
Constant	0.072	-0.060	0.123	-0.047
	(7.716)	(-1.316)	(3.761)	(-0.879)
DFAM	-0.022**	-0.041**	-0.175***	-0.167***
	(-2.092)	(-2.470)	(-4.717)	(-4.654)
IND			-0.127	-0.079
			(-1.623)	(-1.084)
DFAMxIND			0.376***	0.325***
			(4.274)	(3.966)
AGE		0.153***		0.159***
		(5.503)		(6.283)
INSOWN		-0.001***		-0.001***
		(-2.914)		(-2.609)
LEV		-0.104***		-0.096***
		(-5.584)		(-5.367)
Year Effect	No	Yes	No	Yes
Obs	477	477	477	477
R^2	0.009	0.153	0.086	0.224

** and *** significant at the 5 and 1 percent levels. (): t-statistics values.

4.3 Moderating effect of the proportion of independent commissioners on the relationship between family control and corporate performance

The results of the regression test using models 1, 2, 3, and 4, support hypothesis 2 (H2), wherein the proportion of independent commissioners moderates the negative effect of family control on corporate performance, as shown in Table 4. This indicates that the proportion of independent commissioners weakens the negative effect of family control on firm performance. The negative effect of family control becomes weaker because of the supervision carried out by independent commissioners on management, thus increasing corporate performance.

Companies with a higher proportion of independent commissioners have better corporate governance. The higher the proportion of independent commissioners, the greater the number of independent commissioners on the company's board of commissioners, resulting in more objective and better oversight by the board of commissioners and the board of directors (Borokhovich et al., 2005; Dahya & McConnell, 2005; Leung et al., 2014). Thus, a higher proportion of independent commissioners can reduce the agency problem between the family, serving as the controlling shareholders, and minority shareholders.

Furthermore, since independent commissioners do not own shares in the company, they provide objective assessments for controlling management. Independent commissioners have strong incentives to monitor and control the opportunistic behavior of managers to enhance their reputation and image in the labor market (Borokhovich et al., 2005). Independent boards also provide more effective monitoring and better advice to management, which will improve the quality of reported information and improve corporate performance (Leung et al., 2014).

4.4 Control variable and firm performance

Table 4 shows that company age is positively correlated with company performance, while the long-term debt ratio is negatively correlated. Both signs fulfilled our expectations. The relationship between institutional ownership and performance has a statistically significant negative effect, which contradicts our expectations. This shows that institutional investors do not carry out active external monitoring. The efficient monitoring hypothesis does not exist in family firms in Indonesia. This can occur due to the prevailing ownership structures in certain countries, such as Indonesia, where concentrated ownership is common. In such cases, non-family institutional investors typically hold relatively small shares, which limits their ability to exert significant control over the company. Moreover, they may also be subject to the influence and control of the family owning the majority shares.

4.5 Robustness test

Table 5 presents the regression results using different corporate performance and moderating variable measurements. Regression analysis was employed to conduct robustness tests using various measurements. The regression outcomes remain consistent across various measurements.

Table 5. Robustness test.

	ROA	ROE	
	(D_IND)	(IND)	(D_IND)
Constant	-0.080*	-0.168	-0.213
	(-1.852)	(-0.950)	(-1.478)
DFAM	-0.044**	-0.439***	-0.191***
	(-2.489)	(-3.692)	(-3.211)
IND		-0.185	
		(-0.770)	
DFAMxIND		0.775***	
		(2.855)	
D_IND	0.038*		0.004
	(2.291)		(0.074)
DFAMxD_IND	0.035*		0.181***
	(1.880)		(2.883)
AGE	0.142***	0.413***	0.381***
	(5.751)	(4.926)	(4.598)
INSOWN	-0.000**	-0.002***	-0.002**
	(-2.246)	(-2.740)	(-2.376)
LEV	-0.095***	-0.199***	-0.200***
	(-5.446)	(-3.366)	(-3.423)
Year Effect	Yes	Yes	Yes
Obs	477	477	477
R^2	0.266	0.143	0.164

*, **, *** significant at the 10, 5, and 1 percent levels. (): t-statistics values.

5 Conclusion

This study examines the effect of family control on the performance of manufacturing companies in Indonesia. It also examines the role of the proportion of independent commissioners in moderating the relationship between family control and firm performance. This study found that, due to agency problems, the performance of firms controlled by families was lower than that of firms not controlled by families. In addition, a larger proportion of independent commissioners can contribute to the establishment of effective corporate governance mechanisms. This, in turn, can mitigate the adverse effects of agency problems, ultimately leading to a notable reduction in the negative influence of family control on corporate performance. This study provides empirical evidence that companies controlled by families have lower performance than companies that are not controlled by families. Investors may take this into account when making investment decisions in manufacturing company shares listed on the IDX.

The findings of this study may also be of relevance to corporate stakeholders, particularly those of family-owned enterprises, in their decision-making process regarding the proportion of independent commissioners on the company's board of commissioners. Although this research significantly contributes to the existing body of literature on family business and corporate performance, it still has some limitations. This research is limited to manufacturing companies, thereby preventing its generalizability to other sectors. Future research can include other non-financial sectors, such as agriculture, mining, or property. Furthermore, future research may consider incorporating alternative measures of company performance variables, such as Tobin's Q, in addition to utilizing ROA. This would provide a comprehensive assessment of company performance from a market value perspective.

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Authors contribution

Rosmiati Jafar is responsible for designing and writing this research. Basuki Basuki, Windijarto Windijarto and Rahmat Setiawan supervised the research.