

Entrenchment Effect and Financial Performance in Indonesia Family Listed Companies

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ABSTRACT

The goal of this study is to investigate the impact of family ownership and control in non financial family listed companies in Indonesia. The conceptual framework derived from agency theory which have consequences in making agency problems. The rights of controlling shareholders supported to expropriate minority interest and created agency problem II. We analyzed 375 family listed firms using panel data method. The result shows that family ownership have negative effect on financial performance. The negative effect reflected controlling shareholders' entrenchment effect. The entrenchment effect and the practice of combined two tier system reflect the implication of agency problem II, which explained why family control have no impact on financial performance. The implication of agency problem II also represent in the negative impact of leverage as control variable. It is captured the debt covenant incentive opportunities, which is not controlling shareholders' interest. Our findings can be useful for investment decision making for minority investors. It also can be interpreted how agency theory works in Indonesia family listed companies dealing with exchange rate depreciation. A key finding of this research is controlling shareholders' behavior in the low of monetary condition that tend to do entrenchment.

Keywords: piramidal ownership, family involvement, ROA, currency crisis.

1. INTRODUCTION

Family business is the largest form of business in the world. Previous studies interested in family business were conducted in USA (e.g. Anderson & Reeb, 2003; Villalonga & Amit, 2006), Europe (Bennedsen & Nielsen, 2010), Western Europe (Faccio and Lang, 2002), UK (Poutziouris, et al., 2015), Denmark (Bennedsen, et al., 2007), Spain (Navarro, et al., 2011), Italy (e.g. Maury, 2006; Sciascia & Mazzola, 2008; Bernini, 2010), Germany (Audretsch, et al., 2013), Czech (Zapletalová, 2018), Lebanon (Charbel, et al., 2013), India (Gill & Kaur,

2015); Saudi Arabia (Al Dubai, et al., 2014); East Asia (e.g. Claessens, et al., 2000, 2002a, 2002b; Laporta et al., 1999, 2000); Fan & Wong, 2002; Lemmon & Lins, 2003), Taiwan (e.g. Yeh, et al., 2001, Yeh & Woitdke, 2005; Chu, 2009); and Indonesia (e.g. Tabalujan, 2002; Prabowo & Simpson, 2009, 2011; Ahmad, et al., 2009; and Sanjaya, 2010, 2012).

Previous researchers concluded that Indonesia family are dominating in listed firms' ownership as a normal condition (Ahmad, et al., 2009). Family firms in Indonesia consisted of approximately 51 % of listed companies (PWC, 2014) and contributed at least 25% GDP (PWC, 2014). The contribution and performance of family business in Indonesia on GDP motivate us to study this field. In 2014-2015, Indonesia economic performance became decreased. For example, since the start of 2015, the depreciation of Indonesia Rupiah (IDR) for approximately 9 percent against the US Dollar (USD) as documented by Indonesia central Bank (Bank Indonesia). According to Lemmon and Lins (2003), crisis period is captured as exogenous factor which make significantly lowered to get return of investment opportunities. This is also motivate us to study how was family ownership encountered the uncertainty in currency crisis. The next motivation is how family ownership combined with their control behavior in these economic condition.

Preliminary survey that conducted by Price Waterhouse Coopers (PWC) Indonesia (2014) found that Indonesia family business were targeting to increase 13 percent growth-greater than previous years. Their target was lesser than world average but they were occurred increasing in their growth. In the term of family ownership, many previous studies were mentioned that Indonesia family business have the most pyramidal-concentrated ownership form (Laporta, et al., 1999, 2000). Claessens, et al. (2000) found that Indonesia was the highest pyramidal ownership in their survey, amounted up to 67 percent.

Berle and Means (1932), Gross and Hart (1980), Demzet and Lehn (1983), and Shleifer and Vishny (1997) argue that the concept of concentrated ownership is a better way to suffer from agency problem. Their argument do not be supported by several studies. Their idea were according to the conflict of both agent and principal. Wolfenzon (1999), Lemmon and Lins (2003), Ahmad, et al. (2009), Prabowo and Simpson (2009), Audretsch, et al. (2013) find in contrast to previous concept. Their findings showed that concentrated ownership contributes agency problem both controlling and minority shareholders.

This study investigates family ownership and control on financial performance. Family ownership is a percentage of family members' ownership in the firm (Claessens, et al, 2002a, 2002b; Lemmon & Lins, 2003; Ahmad, et al., 2009; Bernini, 2010; Navarro, et al., 2011; Charbel, et al., 2013; Al Dubai, et al, 2014; Poutziouris, et al., 2015). We mean family control as the presence of family members in management structure (Navarro et al., 2011; Audretsch, et al., 2013; Al Dubai, et al., 2014, Poutziouris, et al., 2015). This project also backgrounded by Poutziouris, et al.(2015). They suggested that the next research should consider any other multiple firm or family ownership or involvement in specific variables, such as other kinds of the level of ownership concentration, differences in terms of family involvement in management. Therefore, we design in this research is using immediate ownership and family involvement in director structure which can represent both involvement in management and governance.

We adjust the previous method to the other method in calculating family ownership based on Indonesia setting and rules. We apply direct and indirect family ownership to count family ownership, which was not applied by previous studies. Indonesia governance system is using two-tier system, which separates both board committee and board director (Prabowo & Simpson, 2009, 2011). We define family control as the presence of family members in management who has position as director (top management). It was in order to get the generalization of the meaning family involvement in management and despite of the previous

studies design, result and suggestion. Al Dubai et al. (2014) suggested to apply family involvement in management. We also incline to using return on assets (ROA) as financial performance proxy, since ROA more represent to be applied in emerging countries, despite of the governance mechanism weakness (Prabowo & Simpson, 2009, 2011).

The purpose of this study is to understand the impact of family ownership and control on financial performance in family business. Using 375 Indonesia family listed companies, we find that family ownership has negative impact on financial performance. The second finding is insignificant effect of family control on financial performance. This result infers that controlling shareholders tend to do entrenchment to minority interests in currency crisis period and do not to focus on profit maximalization. Hence, controlling shareholders have no interest to control their management profitability achievement. Our work also related to several previous works that observed Indonesia family business, such as Ahmad, et al. (2009), Prabowo and Simpson (2009) and Sanjaya (2010, 2012). We support their research findings in order to get general finding in Indonesia family business research.

Our study contributes to explain the practice of the agency theory in family business in currency crisis period. The results also inform to minority shareholder about controlling shareholders behavior in facing exchange rate depreciation. This study also gives empirical reference to academic environment and help Indonesia government to set up the regulation to follow up the findings.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

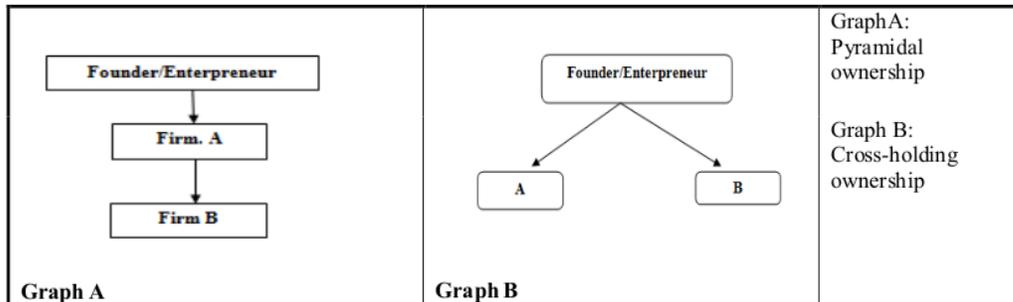
2.1 Agency theory

Jensen and Meckling (1976) argued that agency theory explains the difference of agents and principal interests. It drives agent and principal conflict. It is called as agency problems. Berle and Means (1932) said that in modern corporation, the raise of that conflict will be greater than previous period. It is supported by the dispersion of ownership structure. Agency problem by Berle and Means (1932) means that the more disperse of ownership creates larger number of interests in their voting rights. Berle and Means (1932) argued that agency problem by dispersed ownership is greater than concentrated. Gross and Hart (1980) said that concentrated ownership help agent and principal to fixed their agency problems despite of it ability to drive management incentives. Demzet and Lehn (1985) also argued that contrated ownership has advantages to make easy to control. Shleifer and Vishny (1997) also said that concentrated ownership will create a better governance and reduce the variety of interests. Agency problem in the dispersed ownership is wellknown as agency problem I.

Wolfenzon (1999) debated their idea and mentioned that agency problem I is not greater than agency problem in concentrated ownership. In Wolfenzon' (1999) perspectives, dispersed ownership creates many kinds of interests but can not influence individually as great as in concentrated ones. When one man hold dispersed ownership, his/her interest might be accepted and might be not. If his ownership is only less than 1 percent, he might be hard to reach his/her interest in voting right. The argument of Wolfenzon (1999) purposed to protect minority shareholders in concentrated ownership system. This agency problem called agency problems II. In agency problem II, conflicts both agent and principal are minimalizing by reducing the variety of interests. In the other hands, the greater problems that happened in this model is expropriation by controlling shareholders. The conflict of both controlling and minority shareholders raised when voting rights implied. I signed the weakness of concentrated ownership system. So do this research object, the ownership characteristic of family business tend to concentrated model. It creates several opportunities to make agency problems II.

2.2 Family ownership

Many researches in family business have conducted in previous studies. Laporta et al. (1999, 2000), Claessens, et al. (2000, 2002a, 2002b), Lemmon and Lins (2003), Boubakri, et al. (2010), they investigated East Asian family business. Claessens et al. (2002a, 2002b) and Lemmons and Lins (2003) observed East Asian family business in the crisis period. Boubakri et al. (2010) also have same research object. They observed three periods of time crisis: before, while, and after. Claessens, et al. (2002a, 2002b) classified family ownership in East Asian mostly in the pyramid and cross-holding form, sometimes mixed. The following figure illustrated the most dominant form of ownership in the world.



Source: Wolfenzon (1999)

Figure 1. Ownership Framework

Graph A demonstrates pyramidal ownership. The founder controls the Firm A and Firm B by using Firm A's control. Based on Wolfenzon (1999), founder will be easy to maximize private benefit by his/her controls in firm A and firm B. The maximum control by founder as controlling shareholder often called as expropriation (Claessens, et al, 2000, 2002a, 2002b). In this model, minority shareholders with weak protection, will be expropriated easily by controlling shareholders' control rights.

Graph B illustrates cross-holding ownership system. In this form, founder build firm A and firm B separately. The advantage of founder who takes that form is the ability to keep positive firm value (Wolfenzon, 1999) despite of distribution of firm value only to the founder. This model regularly happened in the strong investor protection' countries (Almeida & Wolfenzon, 2006).

Pyramidal ownership gives many opportunities to controlling shareholders to optimize their private benefit. In pyramidal ownership, the ownership structure is concentrated. Based on the agency theory in concentrated ownership, the agency problem II easily occurred. When agency problem II happened, controlling shareholders have power to control to the management in many ways. Concentration in ownership drives controlling shareholders to focus to maximize private benefit. It also to make to them expropriate minority shareholders easier (Claessens, et al., 2002a, 2002b). Claessens, et al. (2000, 2002a, 2002b) mentioned that pyramidal and concentrated ownership mostly occur in the weak investor protection' countries. In Indonesia, such as mentioned by Tabalujan (2002) and Sya'bani (2014) stated that in Indonesia was absence in the strength of legal for market control. The weakness of investor protection is a factor which make agency problem II increase. Claessens, et al. (2000, 2002a, 2002b), Lemmon and Lins (2003), Boubakri, et al. (2010) are found that in the crisis period, controlling shareholders' entrenchment occurred in the emerging countries in East Asia. In Indonesia, the similar findings also founded by Ahmad, et al. (2009) and Prabowo and Simpson (2009). Their findings are found negative effect of family ownership on financial performance.

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Several previous studies also found negative impact of family ownership on financial performance. Several previous studies also found that family concentrated ownership was negative effect on financial performance are Claessens, et al.(2002a, 2002b), Lemmon & Lins (2003); Anderson & Reeb (2003), Ahmad, et al. (2009), Prabowo & Simpson (2009), Boubakri, et al. (2010) and Sanjaya (2010, 2012). They found that negative effect of ownership concentration in ultimate ownership form, pictured as the practice of entrenchment effect.

Based on the agency theory and several previous empirical findings, we proposed first hypothesis as followed.

H₁: there is negative impact of family ownership on financial performance

2.3 Family control

The ability of controlling shareholders in making decision because of the implication of agency problem II. They influence management in their corporate strategies. The ability to influence corporate management is backgrounded by the minimal conflict of both shareholders and management since the shareholders form is concentrated. Tabalujan (2002) documented that concentrated in ownership of Indonesia family business supports family members to achieve management position. The decision in positioning family members in management structure is another form of expropriation by controlling shareholders. Another factor that decrease family firm performance is the family behavior. It will make them easy to choose family managers than non family ones. Even they were not more competence than others. Their behavior might resist the firm to reach the growth and income. Jensen and Meckling (1976) also argued that opportunistic behavior by family managers will increase their opportunity to get private incentives. Yeh, et al. (2001) implied that the higher family controlled management, the higher conflict occurred both controlling and minority shareholders.

Several empirical findings were conducted to analyze family control and financial performance. Yeh, et al. (2001), Yeh and Woidtke (2005), Sciascia and Mazzola (2008), Bernini, et al. (2010), and Al Dubai, et al. (2014). Yeh et al. (2001) argued that the lower family-controlled firm have lower relative performance, *visé versa*. Yeh and Woidtke (2005) found that the family business governance will be poor when the board was dominated by affiliated family members. Sciascia and Mazzola (2008) argued that the family involvement in management often followed by inadequate to pay their compensation when they focus to non monetary goal orientation. Bernini, et al. (2010) stated that family controlled in management influenced several performance indicators, since it was the consequence of the risk averse manner of family managers. They often more ensured firm's going concern than focused to expand their business. Al Dubai, et al. (2014) also concluded that relationship both family involvement in management and performance suggest that family firms must be cautious about CEO positions and the individuals they appoint. Based on that theory and several previous results, we developed the next hypothesis below.

H₂: there is negative impact of family control on financial performance

3. RESEARCH METHOD

3.1 Population, Sample, and Sampling Technique

We observed Indonesia family business that listed on Indonesia Stock Exchange (BEI). We apply purposive sampling method to find out the samples. In this study, we finally observed 532 family listed firms ($n=260$, for 2014; $n=272$, for 2015). We deduced 118 negative income firms ($n=43$, for 2014; $n=75$, for 2015) because of going concern

assumption. We also found 39 incomplete data firms ($n=14$, for 2014; $n=25$, for 2015). Finally, we found 375 family listed companies ($n=203$ for 2014, $n=172$ for 2015). Table 2 below are the fields of our samples.

Table 2. Fields of Samples

Description	2014		2015	
	Amount	%	Amount	%
Agricultures	17	8.38	11	6.40
Manufactures	79	38.92	65	37.80
Whole trade and retail	18	8.87	16	9.30
Real estate and property	44	21.67	40	23.25
Services	24	11.82	22	12.79
Others	21	10.34	18	10.46
Total	203	100.00	172	100.00

Source: Data observed

Note: (1) Agricultures contain several business fields such as agriculture, forestry and fishing; animal and husbandry; and; lumber and wood product. (2) manufactures consist of industries in the field of adhesive; apparel and other textile products; automotive and allied products; cables; chemical and allied products; consumer goods; electronic and office equipment; fabricated metal products; food and beverages; machinery; metal and allied products; mining and mining services; paper and allied product; pharmaceuticals; photographic equipment; plastics and glass products; stone, clay, glass, & concrete products; textile mill products; and tobacco manufactures (3) Real estate and property is the field of business consist of real estate, property, and construction. (4). Services mean several business in the fields of transportation, hotel, travel, and telecommunication.

3.2 Data and Data Collection Method

In order to obtain the data, we collected family listed companies' annual report manually by downloading them in Indonesia Stock Exchange' website (www.idx.go.id). We applied 2014 and 2015 as observation years. First, we classified all data to both non financial and financial companies. Second, we computed only non financial firms that owned by Indonesian families. It was according to Lemmon and Lins (2003) who argued that financial companies have special governance system. Family firms can be identified by their ownership structures in their annual reports.

Family ownership was defined as the shareholder(s) who are included as family members both vertically (by blood) and horizontally (by marriage). Fan and Wong (2002) defined ultimate ownership as controlling shareholder(s) who is not controlled by another shareholder(s). Claessens, et al. (2000, 2002a, 2002b), Faccio and Lang (2002), and Fan and Wong (2002) also applied ultimate ownership to collect their data. They inferred that ultimate ownership might be more represent to describe family ownership. Their research consisted several countries. In our work, we concern to analyze Indonesia family business, a smaller but deeper scope than previous researches. Ahmad, et al., (2009), Prabowo and Simpson (2009, 2011), and Sanjaya (2010, 2012) also observed Indonesia Family listed companies. Although, we use immediate ownership to represent definition of family ownership, different with theirs which use ultimate ownership.

In this observation, we found family ownership in Indonesia family ownership mostly indirect ownership. For example, Family of Adikoesoemo e.g Soegiharto Adikoesoemo owned 51% and Haryanto Adikoesoemo owned 49% of PT. Arthakencana Rayatama (holding company of AKR Corporindo, Tbk., an Indonesia family listed firm). *Tbk* in Indonesia setting is the abbreviation of "terbuka" in Indonesia language that means listed

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company. It informs that family of Adikoesoemo have indirect ownership in AKR Corporindo, Tbk.

Claessens, et al. (2002a, 2002b); Faccio and Lang (2002) and Laporta, et al. (1999, 2000) also classified family ownership as pyramidal ownership. They defined pyramidal as ultimate chain of ownership of intermediate corporations; and cross-holdings that refers to horizontal and vertical ownership links among corporations. It means that one company, directly or indirectly, controls its own stocks. In Indonesia setting, Regulation of OJK (Financial Services Authority) (2016) in article 1 is mentioned that controlling shareholders are someone who took place direct or indirect ownership at least 20 percent or less than 20 percent but they can control directly or indirectly. For example, Prof. Dr. Sukamdani Sahid Gitosardjono owned 3.26 % and Hj. Juliah Sukamdani hold 3.002 % of Hotel Sahid Jaya Tbk. Although they were not hold more than 20%, they were controlling shareholders as disclosed as in its Annual Report. They were founder of Sahid Family business group. They directly controlled Hotel Sahid Jaya, Tbk by their direct ownership. They also control this firm by indirect ownership via PT Empu Sahid International and PT Sahid Insanadi. PT is the abbreviation of *Perusahaan Terbuka*, means listed company. According to OJK (2016), research goal and observation data, we lean to immediate ownership in amounting family ownership. The number of family ownership is gathered based on Chu (2009) that suggested to compute if there are more than 5 percent ownership of family members.

Third, we counted family control as percentage of family involvement in management (e.g. CEO and directors). In Indonesia setting, governance system is using two tier system. Based on it, we mean director as a person who serve for directing executive manager but not serve as board committee. As suggested by Tabalujan (2002) and Ahmad, et al. (2009), we identified family members by their surnames. To search their family affiliation, we checked the director profile and affiliation disclosure in annual report. From that sources, we find information about family and/or controlling shareholder affiliation to each board and management. We amounted only family members who served in management by looking for information in that data. Mostly Indonesia family listed companies provided a table or paragraph describing affiliation of each management name. If there is no table displayed in Annual Reports, we searched by the last name and other sources, e.g biography of companies founder, Forbes magazine, etc. For example, PT Sido Muncul, Tbk in 2015 have 5 directors include an independent director. We find that family name of group is Hidayat. We find directors who have surname "Hidayat" are Irwan Hidayat, Sofyan Hidayat, and David Hidayat. In this case, there was no paragraph which disclosed family affiliation but it can be identified by their surname.

Forth, We excluded all companies which have negative income and incomplete data firms. The next step is transform total assets to natural logarithm. The last step is analyzing all data using panel data and Eviews software 9.0 version.

3.3 Method of Analysis

In this research design, we also use control variables consist of firm size and leverage in order to help us to analyze. Figure 2 below shows our conceptual framework.

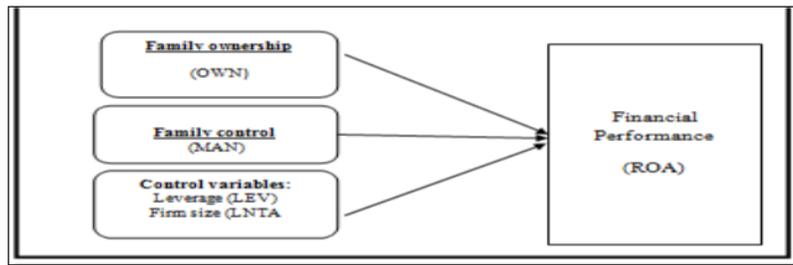


Figure 2. Conceptual Framework

Figure 2 describes the conceptual framework in this research. Dependent variable in this study is financial performance. Its independent variables are family ownership and family control. We employ control variables e.g leverage and firm size. Based on the conceptual framework, we set up the econometrics model as followed.

$$ROA = \alpha + \beta_1 OWN_{it} + \beta_2 MAN_{it} + \beta_3 LNTA_{it} + \beta_4 LEV_{it} + \varepsilon_i$$

Table 1 below describes operational variables in this research.

Table 1. Variables Description

Variables	Code	Description	Source(s)
Financial performance	ROA	Percentage of earning before interest and tax decided by total assets	FR, ICMD
Family ownership	OWN	Percentage of ownership occurred by family members	AR, ICMD
Family control	MAN	Percentage of family members who serves as top management (e.g. CEO and directors)	AR
Firm size	LNTA	Natural logarithm of total assets	FR
Leverage	LEV	Ratio of total debt and total assets	FR

FR: Financial Report, ICMD: Indonesia Capital Market Directory, AR: Annual Report

4. RESULTS AND DISCUSSION

4.1 Description of Data

Using panel data for 2014-2015 observation years, we analyzed 375 Indonesia family listed companies. We used Eviews 9.0 version to compute multivariate regression using panel data method. First, we examined Chow test and Hausman test to select the model which will use to be analyzed. We find Chow and Hausman tests show that our model prefer fixed effect model to others (common and random effect) (Gujarati & Porter, 2015). The next table displays our Chow test and Hausman test results.

Panel A describes result of Chow test, a selecting both common and fixed effect model. Probability of Chi-square 0,0000 (below α value 0,005) indicates that equation rejects null hypothesis (common effect model) (Gujarati & Porter, 2015). It suggests us to choose fixed effect model. Panel B displays output of Hausman test which examines to select both fixed and random effect.

Panel B shows us probability value is 0,0000 (below α value 0,005). It is implied that null hypothesis (random effect model) is also rejected (Gujarati & Porter, 2015). It suggests us to choose fixed effect model. Because both Panel A and Panel B accept fixed model for

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following analysis, so we do not examine Lagrange Multiplier test to choose both common and random effect model (Gujarati & Porter, 2015).

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Table 3. Output of Chow and Hausman tests

Panel A			
Redundant Fixed Effects Tests			
Equation: EQ01			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.034188	(215,155)	0.0000
Cross-section Chi-square	839.067537	215	0.0000
Panel B			
Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	349.716791	4	0.0000

Source: output of statistical analysis using Eviews 9.0 version.

Table 4. Descriptive statistics

Panel C					
	Mean	Median	Standard deviation	Minimum	Maximum
ROA (%)	9.056750	6.390654	15.17231	0.027605	255.7029
OWN (%)	53.77639	56.05000	22.01982	5.400000	97.20000
MAN (%)	22.53156	20.00000	23.03817	0.000000	85.71429
LNTA (Ln)	28.53987	28.71193	1.686715	20.80527	34.41869
LEV (%)	48.49477	47.44602	32.67635	0.031998	324.5121
Samples	375				

Source: output of statistical analysis using Eviews 9.0 version.

Panel C tell us that financial performance (acronymed as ROA) have mean value as 9.056750 percent. The maximum value of ROA is 255.7029 percent. Family business who raises maximum in ROA is Berlian Laju Tanker Tbk, one of business group of Surya family. In contrast, Metro Realty Tbk has minimum ROA in our observation.

In the term of ownership structure (signed as OWN) has mean value as 53.77639 percent. Family business who has the most ownership is SMART Tbk, one of business group of Eka Tjipta Widjaja family. Champion Pacific Indonesia Tbk has the least of family ownership is one of firm in Kalbe Group. Family control (coded as MAN) has mean value as 22.53156 percent. The strongest family control in our observation is PT Dharma Satya Nusantara Tbk, which owned by family of Oetomo, Theodore P. Rachmat, Subianto, and Liana Salim Lim. The weakest family control are held in 145 family business observation. There are no (zero) family members served in their management structures.

Firm size (abbreviated as LNTA) has mean value (after natural logarithma) is 28.53987. In our data can be clarified that the largest firm size in our data is Jasuindo Tiga Perkasa Tbk., a business group of Yongki Wijaya, OeiMelinda Poerwanto, and Oei Allan Wibisono families. The smallest firm size in our study is Cardig Aero Services Tbk, one of CAS Group.

Leverage (coded as LEV) has mean value of 48.49477 percent. The most leveraged firm in this case is Arpeni Pratama Ocean Line Tbk, a transportation business, one of Oentara Surya family business group. The smallest leveraged firm is PT Indoritel Makmur Internasional Tbk., one of Salim family business group.

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4.2 Panel data Analysis

Table 5 below shows descriptive statistics and multivariate regression using panel data method.

Table 5. multivariate regression using panel data method

PANEL D				
Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	115.7135	22.57740	5.125192	0.0000
OWN	-0.748826	0.220174	-3.401060	0.0009
MAN	-0.040900	0.087505	-0.467399	0.6409
LNTA	-0.777124	0.680776	-1.141527	0.2554
LEV	-0.892613	0.047642	-18.73591	0.0000
1				
R-squared	0.894776		Adjusted R-squared	0.746104
F-statistic	6.018462		S.E. of regression	7.645040
Prob(F-statistic)	0.000000		Sum squared resid	9059.230
Log likelihood	-1129.217			

Source: output of statistical analysis using Eviews 9.0 version.

Panel D is our multivariate regression using panel data method. We find that adjusted R-square is 0.746104 percent. It also shows that model in this study is reliable by having 74,61 percent capability of dependent variable in explaining its independent.

We also find that only family ownership (OWN) has significant effect on financial performance. It is can be pointed by probability value 0,0009 (less than α 0,005). *T*-statistic informs that OWN has negatif sign. It can be inferred that the raise of family ownership will decrease their financial performance. Family control (MAN) find insignificant effect with probability value is 0.6409 (more than α 0,005) and has negatif *t*-statistics value. Our control variables are firm size (LNTA) and Leverage (LEV), both of them also have negatif *t*-statistics valued as -1.141527 and -18.73591. But only LEV have significant effect (probability value less than α 0,005).

4.3 Discussion

Our work find significant and negative relationship family ownership on financial performance. Our result in line with Claessens, et al. (2002a, 2002b), Lemmon and Lins (2003), Prabowo and Simpson (2009), Ahmad, et al. (2009), Bennedsen and Nielsen (2010) and Boubakri, et al. (2010). But our finding is in contrast to Navarro et al. (2011) and Poutziouris, et al. (2015). We argue that our finding is represent an entrenchment effect by controlling shareholders. According to the work of Wolfenzon (1999), pyramidal owners concern in optimizing private benefit in many ways. Pyramidal ownership support controlling shareholders to expropriate minority shareholder by their voting rights. If economic condition does not support managerial control to get optimal income and firm value, they can not obtain profit maximalization. There are many ways to control management activities e.g. decision for transfer pricing, many contracts to related suppliers, paying salaries, bonuses, compensations, etc. They decline when currency crisis occurred, force their business units face the increasing cost of production. They have to address that tradeoff and choose the most beneficial ones based on their opportunity costs.

As illustrated in our background, in our year, there was "currency crisis" shown as fluactive in IDR to USD exchange rates among the 2 years. In Altin (2014) viewed, if shareholders againts exchange rate changing, they tend to invest their money to foreign currency. Flota (2014) also argued that in non financial companies in Mexico, currency rates

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changing also has negative significant on financial performance. In the case of Indonesia, Ahmad, et al. (2009) have same idea that in worse economic condition creates entrenchment effect by controlling shareholders. Almeida and Wolfenzon (2006) also stated that entrenchment effect can be implied by reducing security cost, and bent of diverssion-a such optimal way to get private benefit that have to be paid by minority shareholders-before looking for the external financing. Sanjaya (2010, 2012) concluded that entrenchment effect behavior does not make controlling shareholder concerns much more to profit maximalization.

In the context of behavioral studies, entrenchment effect is one of the way to apply risk averse manner. Mostly people in the world tend to be risk averser, consistent with the study of Eisenhart (1989). How controlling shareholders act to be risk averser are making entrenchment. A possible reason why they have opportunity to do entrenchment to the minority shareholders is the low of investor protection. Claessens, et al. (2002a, 2002b), Lemmon and Lins (2003), and Villalonga and Amit (2006) also argued that lower investor protection will make more entrenchment by expropriation. Indonesia is one of the countries who have in investor protection weakness (Sya'bani, 2014). He stated that in Indonesia was weak in implementation of corporate governance in public listed companies. It was backgrounded by the lack of awareness of how to implement corporate governance. Another important reason was the opportunistic behaviour of public listed companies' investors. They used to using loopholes in the regulations of capital markets law.

What happened in the family ownership also reflected why family control has no significant effect on financial performance. Controlling shareholders do not concern to profit maximization because of currency crisis and decreasing opportunity to get it. Controlling shareholders' ability to control the decision making of management is the implication of agency problem II. In the agency problem II concept, management –which are mostly dominated by family- will have minimal conflict to the controlling shareholders because of family goal. This concept can explain why management mostly supported by controlling shareholders interest. When controlling shareholders do not focus on financial performance- because the want to get another private benefit- management will act something to realize that goal. In the two tier system, Both board and management were separately do their work. Although Prabowo and Simpson (2009) found that there was combined leadership in two tier system, both board and management family member were not separate.

This result do not in line with Yeh, et al. (2001), Yeh and Woidke (2005) Andres (2007), Navarro, et al.(2011), Poutziouris, et al. (2015). Different with Poutziouris, et al. (2015), our findings can explain linear relationship both family ownership and performance. Contrastly, it is consistent to the work of Maury (2006) and Audretsch, et al. (2013). Maury (2006) found that insignificant impact of family control was related to minimum family control held in the firm. They were passive to control their business. Audretsch, et al. (2013) also found no relationship both family management and performance. Sciascia and Mazzola (2008) argued that insignificant of family involvement on performance caused by orientation of family to tent on pursuing a satisfactory financial performance. Their analysis was in line with our work that currency crisis forces controlling shareholders to choose the way to make their private benefit raises.

Two control variables were not have the same result. Firm size (LNTA) is found no impact on financial performance. Statistically, it does not support the findings of Prabow and Simpson (2009), Ahmad, et al. (2009) and Al Dubai, et al. (2014). Almeida and Wolfenzon (2006) argued that in pyramidal ownership, controlling shareholders only have main concern to raise their private benefit. Their argument support our work that family business size in this study is not related to its performance. The second control variable is leverage (LEV).

Our findings of LEV is consistent to previous research, such as Ahmad, et al. (2009) and Al Dubai, et al. (2014). They also found negative significant of leverage and financial performance. Leverage help us to understand family firm' controlling shareholders who do not interest in debt covenant incentives, since when in crisis, it is more costly. In the other words, debt covenant incentives is often occurred when controlling shareholders doing incentive effect (Laporta, 1999). Incentive effect can be realized when economic condition is proper for reaching firm income and several private benefit. By its condition, controlling shareholders tend to choose the other way to get private benefit than by doing incentive effect.

5. CONCLUSION, LIMITATION, AND SUGGESTION

We investigate the effect of family ownership and family control on financial performance. Using non financial family listed companies in Indonesia. We find that family ownership have negative significant impact on financial performance. Negative significant impact is supported by currency crisis shown by exchange rate depreciation. Different method with the work Ahmad, et al. (2009) and Sanjaya (2010, 2012) which calculate family ownership as ultimate ownership does not show different result compared to immediate ownership. Among of research show that in currency crisis, family controlling shareholders intend to entrench minority shareholders. Our findings in line with previous studies who found that pyramidal ownership lead to create agency problem II, which expropriate minority shareholders by their control and create combined leadership in two tier sytem (Prabowo and Simpson, 2009).

We capture that family control is not have impact on financial performance. There was because of the practice of agency problem II and combined leadership in two tier system by controlling shareholders. They also do not to concern in profit maximalizing in currency crisis. In order to obtain their privatee benefit, entrenchment is more interesting than incentive effect. It explains why family control is not significant in this model. Control variable, firm size, also help us to understand how family business notice in optimalizing privatee benefit. Insignificant of this variable displays that the most important one of being controlling shareholders is having optimal private benefit by many ways. Finally, the next control variable, leverage, show that controlling shareholders also do not interest in debt covenant incentives. Leverage is found negative significant on financial performance. It means at these period, incentive effect is not more interest that entrenchment effect. They can get more private benefit by entrenchment than debt covenant incentives.

We have limitation in studying this field. We do not classified family ownership as direct and indirect ownership. Hence, we can not explain the difference of controlling shareholder' behavior both in direct and indirect ownership model. We wish the future research can deeply investigate the controlling shareholders' behavior in entrenching minority interest. Does it always backgrounded by currency crisis or by any other determinant? Do they can obtain an optimal private benefit by using entrenchment effect as much as using incentive effect? The next research may investigate other field, such as in financial firms. Do controlling shareholders' behavior in entrenching minority shareholders while currency crisis also happened in the financial firms?

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