IMPACT OF FAMILY OWNERSHIP AND INTERNAL CAPITAL MARKET TOWARDS COMPANY PERFORMANCE

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ABSTRACT

Diversification has emerged as a strategic approach used by multinational organizations, particularly in light of the fact that 95% of Indonesian firms are predominantly family-owned. This study examines the influence of family ownership on internal capital market in Southeast Asia, namely in Indonesia and the Philippines. This study investigates the impact of family ownership, segment transfer, and segment subsidy. Applying multiple linear regression analysis to data from 77 companies listed on the Indonesian and Philippines stock exchanges.

The results suggest that only ownership by the Family has a favorable influence on the performance of the company. However, it is important to note that both segment transfer and segment subsidy have no impact on the overall performance of the organization.

The research emphasizes the intricacy of diversity in terms of subsidy and transfer in order to maximize value. The study is constrained in its concentration on publicly traded companies and its narrow geographic coverage. Future researchers are encouraged to investigate other regions.
Keywords: Internal Capital Market, Family ownership, Firm Performance

PENDAHULUAN

More than 95 percent of firms in Indonesia are owned by family members (Price Waterhouse Coopers, 2014). The term "family company" refers to a company in which the founder or person who acquired the company (or spouse, parent, child, or heir) holds the majority of votes; there is at least one family representative involved in the management or administration of the company; and for a public company (Tbk), the founder or person who acquired the company (or spouse, parent, child, or heir) holds the majority of votes (board).

Family firms beat non-family enterprises in terms of value and profitability in the United States, as evidenced by data from S&P 500 companies from 1992 to 1999 (Anderson and Reeb, 2003). It is supported by another study that was conducted by Shyu (2011), family ownership affects firm performance due to family members have more internal information and can foresee the prospects of a given firm more easily. This advantage allows family members to make sound decisions on whether to reduce or increase their holdings.

Kuncoro (2006) identified three key motivations for diversification: asset sharing, risk sharing, and fund sharing. Internal capital market facilitates fund pooling within an organization. Erdorf and Matz (2012) Stated that Internal Capital Market is a crucial driver for diversification. There are both advantages and disadvantages for companies when utilizing the internal capital market, as predicted in theory. One advantage of the internal capital market is that it enables companies to secure allocations within the organization, avoiding the need to rely on external capital markets. This helps to reduce costs and eliminates the need to constantly adapt to market conditions. This reallocation involves shifting capital from less profitable business segments with high cash flows to more profitable business segments with capital constraints.

This research is aimed to gain empirical evidence whether family ownership positively influence company performance, whether segment transfer positively influence company performance, and whether segment subsidy positively influence company performance. This research also aims to contribute on the matter of how family ownership and internal capital market practices and it’s uses to boost company performance.

THEORETICAL FRAMEWORK AND HYPOTHESIS FORMULATION

According to the agency theory and the corporate governance theory, it is the duty of a corporate executive to increase the value of the interests of the company's shareholders. This responsibility falls under the purview of the corporate executive. Based on the theory, one can make the assumption that a larger family ownership would imply that the corporation in question would have a higher level of control in the company from the perspective of management. This is an assumption that may be made after the theory has been established.

Studies from (Pacheco, 2019; Shyu. 2011; Enache et.al, 2017; Bauren, 2016; Wan et.al, 2012; Andres, 2008) shows that Family Ownership plays a crucial role on how good said companies performs. Then, it can be concluded into a hypothesis:

H1 : Family Ownership positively influenced Company Performance

If the parent company sector is declining and the subsidiaries corporation sector is growing, segment subsidy could be beneficial for the corporation. This is supported by the transaction costs of internal capital and external funds hypothesis and the corporate refocusing theory.

Studies from (Ratna, 2018; Retno, 2014; Teresa, 2019) shows that an efficient internal market practice by efficient segment transfer proved to have a positive effect on firm performance measured by Excess Value. Thus, it can be concluded that:

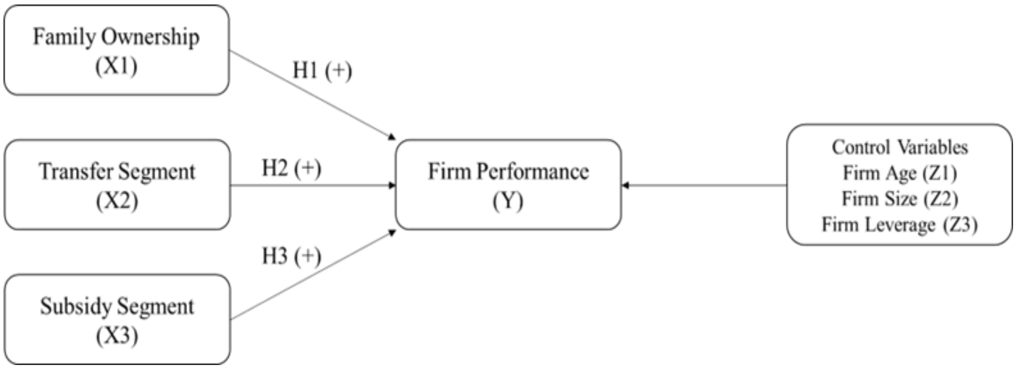
H2 : Segment Transfer positively influenced Company Performance

If the parent company sector is declining and the subsidiaries corporation sector is growing, segment subsidy could be beneficial for the corporation. This is supported by the transaction costs of internal capital and external funds hypothesis and the corporate refocusing theory.

Studies from (Ratna, 2018; Retno, 2014; Teresa, 2019) shows that an efficient internal market practice by efficient segment subsidy proved to have a positive effect on firm performance measured by Excess Value. Thus, it can be concluded that:

H3 : Segment Subsidy positively influenced Company Performance

RESEARCH FRAMEWORK



RESEARCH METHOD

In this research, the researcher uses dummy variable for the family ownership. If a family controls the corporation (more than 5%) it is counted as a family ownership. For the internal capital market, the researcher use two components namely Transfer segment and Subsidy Segment. How the researcher calculate for each components will be explained below:

Transfer, if OCF $\geq$ CAPEX

Subsidy, if OCF $\leq$ CAPEX

To calculate the value of OCF and CAPEX will be explained below:

OCF = EBIT + Depriciation

CAPEX = Fixed Assets – Fixed Assets from the year prior

EBIT = Segment's Profit Before tax

Depriciation = Segment's depreciation expenditure

Population and Sample

Population that is used for this research are corporations that are a part of some sort of conglomeration that are listed in Indonesian Stock Exchange (IDX) and Philippines Stock Exchange (PSE). The choosing of the sample in this research determined with purposive sampling method.

The criteria of corporations that is used as a sample in this research are:

a) corporations must have full annual report for the timeframe in this research

b) corporations subsidiaries must be listen in their respective countries stock exchange.

This research analysis was done with regression and data panel, in accordance with the best model selection it can be concluded that this research is best suited using Random Effect Model. Attached below is the equation for this research using Random Effect Model:

$Y=\alpha+\beta 1X1+ \beta 2X2+ \beta 3X3+\beta 4Z1+ \beta 5Z2+\beta 6Z3$

Explanation:

Y= Tobin's Q

A= Constant

X1= Family Ownership

X2= Segment Transfer

X3= Segment Subsidy

Z1= Firm's Age

Z2= Firm's Size

Z3= Firm's Leverage

RESEARCH RESULTS AND DISCUSSION

Corporations that fit the criteria consists of 77 from both Indonesia and Philippines. Considering this research is using data from 2018 – 2023, there are 462 observations done in this research.

First step of determining the appropriate method of regression is to conduct three test namely, Chow Test, Lagrange Multiplier Test, and Hausman Test. Based on the result of the test it can be concluded that this research is best with Random Effect Model than Fixed Effect Model and Common Effect Model.

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Date: 06/12/24 Time: 23:35
Sample: 2017 2023
Periods included: 7
Cross-sections included: 66
Total panel (balanced) observations: 462
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.602142	0.806767	4.464910	0.0000
X1	0.340664	0.115395	2.952152	0.0033
X2	0.001175	0.002825	0.415733	0.6778
X3	-0.009505	0.005327	-1.784245	0.0751
Z1	-0.001586	0.001653	-0.959071	0.3380
Z2	-0.078161	0.025990	-3.007332	0.0028
Z3	0.004418	0.002400	1.840946	0.0663

Effects Specification

	S.D.	Rho
Cross-section random	0.501540	0.3569
Idiosyncratic random	0.673263	0.6431

Weighted Statistics

R-squared	0.068030	Mean dependent var	0.610832
Adjusted R-squared	0.055740	S.D. dependent var	0.691696
S.E. of regression	0.672142	Sum squared resid	205.5577
F-statistic	5.535539	Durbin-Watson stat	1.089852
Prob(F-statistic)	0.000015		

Unweighted Statistics

R-squared	0.110475	Mean dependent var	1.350000
Sum squared resid	313.9496	Durbin-Watson stat	0.713578

Based on the calculation above, the researcher will attach the equation below:

Y=α+β1X1+ β2X2+ β3X3+β4Z1+ β5Z2+β6Z3

Y=α+0.341X1+ -0.001X2+ -0.009X3+-0.001Z1+ -0.078Z2+0.004Z3

The coefficient of determination value shows the percentage of the dependent variable that can be explained by the independent variables. This research gets value adjusted R^2 obtained is 0.056 which means that 5.6% of the company's performance can be explained by family ownership, segment transfer and segment subsidy.

The test results regarding the effect of family ownership on company performance shows that it has a t value of 2.95 with a significance of 0.003 ($p < 0.05$) this means that family ownership has a positive effect on company performance. Thus Hypothesis 1 is Accepted

The test results regarding the effect of segment transfer on company performance shows that it has a t value of 0.41 with a significance of 0.6 ($p>0.05$) this means that segment transfer does not affect on company performance. Thus hypothesis 2 is rejected

The test results regarding the effect of segment subsidy on company performance shows that it has a t value of -1.78 with a significance of 0.075 ($p>0.05$) this means that segment subsidies do not effect on company performance. Thus hypothesis 3 is rejected

CONCLUSION

The sample in this research are corporations that are listed in IDX and PSE with complete annual report and have a subsidiary or is a subsidiary from 2018 – 2023. There are 77 companies that fit the criteria to be used for the sample in this research. After doing steps such as data collecting, data processing, data analysing, and data interpretation on the variables, the researcher obtained various conclusions:

1. The research found that Family ownership has a positive impact on Tobin's Q with a significance of 0.003 (p< 0.05) thus, hypothesis 1 one of this research is accepted. The results are consistent with the findings of earlier study. The researchers determine that increased family ownership leads to greater profitability as family members generally share aligned objectives for the company's future.
2. The research found that Segment Transfer has no impact on Tobin's Q with a significance of 0.6 (p>0.05) thus hypothesis two of this research is rejected. The results are not aligned with previous studies. This could be because the researcher in this paper is using transfer and subsidy value instead of the efficiency and the inefficiency of both transfer and subsidy from the previous research.
3. The research found that Segment Subsidy has no impact on Tobin's Q with a significance of 0.075 (p>0.05) thus hypothesis three of this research is rejected. The results are not aligned with previous studies. This could be because the researcher in this paper is using transfer and subsidy value instead of the efficiency and the inefficiency of both transfer and subsidy from the previous research.

Limitation

The study has the following limitations:

1. This research focuses solely on firms that are publicly traded in Indonesia and Philippines which has a complete annual report from 2015 – 2023. Thus, this finding cannot be generalized to other countries
2. Previous research regarding segment transfer and segment subsidies are rather limited since previous researches usually used Efficiency of transfer, Efficiency of subsidy, Inefficiency of transfer and Inefficiency of subsidy. There are a lot of work that could be done in order to improve this particular study.
3. This study only looked at 77 companies listed on Indonesian stock exchange and Philippines stock exchange, as a result the data may not be accurate to asses conditions throughout ASEAN.

Suggestion

1. Subsequent research endeavours may investigate the determinants of corporate performance by scrutinizing the indirect correlation and mutual reliance of variables pertaining to firm performance.
2. Future research endeavours could employ larger and more diverse samples, as well as extend the observation duration, in order to collect a wider range of data. The influence of the independent variable on the dependent variable is observable over an extended period of time.

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