CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

In general, this study tries to analyze the influence of ownership structure, concentrated on family business, to firm performance using listed companies from consumer goods industry in Indonesia Stock Exchange (IDX) in period 2005-2009 as sample data and conducted by SPSS multiple regression analysis to reveal the relationship between variables.

Q1. ***Is family firms' performance stronger than non-family firms' performance?***

No.

Family firms' performance in Indonesia is lower compared to non-family firms' performance by looking from its accounting profitability and market valuation. Therefore, this evidence further confirms that family firms basically invest high share of their assets in a certain firm, which is lower risk and lower return businesses where the return is less profitable. Furthermore, family ownership basically concerned with family interest and the survival of the firm as family firms tend to be risk averse (Rahman, 2005). The other most probability explanation is because family firms in Indonesia are not purely family organization. Most family in family business in Indonesia is controlled under foundation or '*yayasan*' which easily occurs various acts of corruption and collusion.

Q2. Is there any significant influence of family ownership to firm performance?

Yes.

The results of multiple regression analysis suggest that founding family ownership negatively contributes to market valuation of firm performance, but accounting indexes of performance did not detect any significant influence of ownership structure to firm performance.

Negative influences arising from the family ownership structure to firm performance can probably caused by several things: The management condition of companies, where there is entrenchment problem happened between family owners and other members inside the company. Entrenchment problem is the condition, which corporate governance and control do not run optimally, hence detriment the company performance (Facio, 2002). This problem can be caused by the dominance of family control the company and the composition of the board of directors and management of family-controlled. According to Morck et al (2000), the entrenchment effect in the company will increase when there is a dominant role of families in recruiting directors and commissioners in the company and a tendency to select their family members to manage in company which ownership is controlled by themselves. (Demsetz and Lehn, 1985).

Another highly probable explanation might be that the legal protection in Indonesia against minority shareholders' rights are weak, therefore majority shareholders can easily take over the rights of minority shareholders. (Muslimin, 2009). There might be possibility of an expropriation of wealth to the majority and family shareholders while disadvantaging the minority and non-family shareholders (Achmad, 2008).

5.2 Limitation

Some limitation that encountered during the research process is as following:

- The author does not accurately differentiate different types of family ownership, such as parents (first or second generation), siblings partnership, etc.
- There is limited information about family lineage from the first founding generation until the last generation who has a role in the company.
- There are very limited resources related to the topic of this research in Indonesia. Most of the resources are taken from overseas studies and may or may not support the findings.
- The research is conducted using purposive sample design in which the sample limited only on consumer goods industry publicly listed in Indonesia Stock Exchange (IDX). This sample selection consequently limited the application of the result in which there is a possibility that the result may not be applicable for other industries in Indonesia
- There are only three control variables applied for two research models in this study. Conducting only few control variables might be one probable reason why adjusted R-square for two models is low (13.7% and 16.9%).

5.3 Recommendation

Based on the findings made in this study, the author would like to offer recommendations as follows:

- One avenue for future research is to extend the investigation to other emerging sampling design and expand time horizon. Further research can cover more sample periods to more than five years and if possible use all listed public firms from seven different industries as sample data in order to gain more relevance findings on the family business performance. This will help the further research to develop a better model.
- As this study only includes leverage, firm age, and firm size as the control variables. Future research can include more or other variables, such as debt in capital structure, industry classification, duality, growth into the research model. Villalonga and Amit (2006), Adams (2009) also recommends future researchers to include industry classification in research model.
- Different proxies for the same variable may be considered to compare with previous research. Numerous measurements of Tobin's Q and leverage may document different result.
- Further researchers could make more specific differentiation of different types of family ownership and role, such as: first generation, second generation, as controller, as shareholders, or as controller and share) and different types of non-family ownership structure in Indonesia, such as government (State) block holder, financial institution, strategic block holder, individual block holder, etc.