CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

This study assembles a uniquely detailed panel data set on a sample of 100 Kompas firms that are listed in Indonesia Stock Exchange at least one year during the period 2012-2014. Using these data, this study examines the impact of family ownership, control, and management on firm value under different corporate governance conditions. This study results highlight the differential contribution to value of each of these elements, both individually and in combination with one another. This study shows which forms of family ownership, control, and management under various corporate governance indicators make family firms more or less valuable. The overall conclusion is that whether family firms are on average more or less valuable than nonfamily firms depends on how these three elements enter the definition of a family firm. This study provides evidence that family firm value is more or less valuable than non-family firms depends not only on the components of family ownership, but also depends on how the control system or component attachment to the family in the company. Internal mechanisms of corporate governance affect family firm value. The first finding is, board size had positive significant relationship on firm value with smaller board size (six or less than six members) which means positive performance effect found when varying at below six directors, the typical range of board size in small and medium-sized firms. The second finding is, size of audit committee had fairly significant relationship on firm value with smaller size of audit committee (three members) which means the smaller the size of audit committee the better the firm performance. The third finding is, family involvement in concentrated ownership improves firm value. Meanwhile, family involvement in management and control reduce firm value which suggests the presence of family members in manager or director and CEO position creates less value and has a negative impact on firm value of family firms. This also means family manager/ director and family CEO create additional agency costs (agency problems type II) and impairs performance.

Company performance has a negatively significant correlation with leverage. The higher the performance, the lower the costs of debt. It is believed that high performance gives creditors better certainty that companies can repay their debt. Family-owned companies in Indonesia do not normally have the same operational age. In other words, the different cycles existing in the different companies cause performance measurements and analyses to vary. This finding is similar with Anderson (2002) further believes that this long-term feature of family ownership allows a family firm to have access to debt at a lower cost.

5.2 MANAGERIAL IMPLICATION

This empirical study aims to provide empirical evidence for listed firms in enhancing their understanding in relation to the development of a corporate governance mechanism. As a result, listed companies are now provided with evidence to set up a flexible, dynamic and efficient. Some specific lessons can be summarized as below:

1. Family involvement in management and control create less value on firm value and negative reaction from market. Hence, this study suggests family CEO and family managers/ directors shall be assisted and supported by independent and competent board of directors, board of commissioners and managers.

2. This study also suggests smaller boards and smaller size of audit committee can help to make decisions more quickly and more flexible. Smaller boards might also help to manage the interrelationship between board members more effectively.

3. The outcomes from this study also indicate that corporate governance will positively contribute to firm's value. As a result, it is necessary for listed family firms to consider appropriate and competitive audit committee members, managers, board of directors and board of commissioners. This action will provide a better link between shareholders and firm's management and this link will enhance firm's performance to maximize shareholders' value.

5.3 LIMITATIONS

There are number of limitations as well such as in this study only used quantitative measures of corporate governance mechanism which limit the discussion about the quality of corporate governance. Therefore, for the further research is suggested to employ corporate governance measures that describe the quality.

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