THE EFFECT OF FAMILY OWNERSHIP ON PROFIT AND PERFORMANCE COMPANY MANAGEMENT: BASED ON THE THEORY OF STEWARDSHIP

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Abstract: This study examines the relationship between family ownership of a company and its implications for earnings quality. In the family ownership, the family can affect the quality of earnings that are reported in two ways, namely through the entrenchment and the alignment effect. Earnings are managed opportunistically shows a low earnings quality. Whereas the influence of alignment shows a high quality where earnings are not managed opportunistically. The study also examines if the family ownership has a positive effect on company performance. There are five factors that affect innate accruals quality, namely the company size, the standard deviation of operating cash flows, the standard deviation of sales, duration of operating cycles, and negative earnings. Quality of accruals consists of accruals that reflect economic conditions and accruals that reflect managerial choices. This study shows that family-owned companies in Indonesia do not perform earnings management opportunistically. Earnings management used is the one that is in line with the company's business model, company industrial environment and economic conditions as represented by innate accruals. This suggests that family ownership has an earnings quality and shows an alignment of interest between the company management and the owners. Thus the alignment of the interests lends support to the stewardship theory.

Keywords: family ownership, earnings management, efficient profit management (innate accruals), opportunistic profit management (discretionary accruals)

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Berle and Means (1932), state that the characteristics of public companies in the US (United States) are that they are scattered owned, there is no involvement of the owner, and his power is in the hands of the manager (Attig and Gadhoum, 2003). While the ownership of companies in various countries outside the US tends to be concentrated and controlled by the ultimate owner through the chain of ownership of the pyramid, cross, or a combination of both (La Porta, et al., 1999, Claessens, et al., 2000; Bukart, 2003). Research Claessens, et al. (2000), showed the form of ownership of public companies in Hong Kong, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand are mostly concentrated, owned by the family. In Indonesia, the majority concentrated own-

ership is owned by the family. Claessens, et al., (2000), found in 1996, as many as 68.6% of public companies in Indonesia are controlled by the family. In 2009, the amount reached 79.20%. The company is a company which is run by the family and is controlled by the founding family; the family members are involved in the management of the company as the chief executives (CEO) and involved on the board of the company. This study uses the definition of the family enterprise if the founding family has at least 50% ownership and family members as CEO and Board of Commissioners. The phenomenon of the family company in Indonesia is that they do not abdicate assurance, therefore control is not necessary. In Indonesia, the family is more concerned to maintain the reputation of the company in the long term; this is in line with the theory of stewardship. The family company can affect the quality of accounting earnings and performance of the company in two ways entrenchment and alignment (Wang, 2004). In entrenchment, profit is managed in an opportunistic manner and the earnings have low quality. In contrast; in the alignment, profit is not managed opportunistically and profit has high quality. So far, research on family firms and corporate performance has been carried out by using two views of the theory i.e. the theory of agency and stewardship theory. Research on family firms using agency theory has been carried out by Demsetz (1983), Shleifer and Vishny (1997), Anderson and Reeb (2003), Fan and Wong (2002), and Wang (2004). In another hand, research has been conducted using stewardship theory by Davis, et al. (1997), Fox and Hamilton (1994), Lee and O'Neil (2003), and Chu (2009). Stewardship theory is in line with the alignment argument in a way that profit is not managed opportunistically and no act of expropriation takes place. Based on the stewardship theory, family members which are seen as stewards has the first advantages where the family is willing to put personal interests for the interests of the company (Corbetta and Salvato, 2004 and Eddleston and Kellermanns, 2007). Secondly, the family put common interest, pro organization and confidence in the first place (Davis, et al., 1997).

This study separates innate accruals into discretionary for identifying the one that is dominating the earnings management due to opportunistic actions or economic conditions. Based on national culture in Hofstede (1980, 1991), that is individualism/collectivism and power distance in research Lee and O'Neil (2003), it is possible to dominate the stewardship theory of agency theory, thus supporting the alignment compared with entrenchment. This research is expected to fill the gap that has not been a consistent research on the influence of family on profits and firm performance.

LITERATURE REVIEW AND HYPOTHESIS

Efficient Profit Management (Accrual innate) and Opportunistic Earnings Management (Discretionary)

Profit can be manipulated by managers in making misleading financial statements for interested parties (stakeholders). Earnings manipulation is also committed to influencing the outcome of the contract based on the number of accounting reports (Healy and Wahlen, 1999 and Ducharme, et al., 2000). Fan and Wong (2002), stated that the earnings reported by the company in its financial statements include the actual cash flows and accruals. Accrual accounting makes reported earnings reflect the company's economic performance more accurately because the accrual has important information for the company's profit in the future. Previous studies showed that accrual accounting is affected by agency problems, information asymmetry and is a subject to manipulation. Components of innate and discretionary accruals use models Francis, et al. (2005), which states that the quality of accruals which is triggered by economic fundamentals are accrual innate (innate accruals quality) and those which are managed by the management are called discretionary (discretionary accrual quality).

The company concentrated on Family and Quality of Earnings

Families can affect the quality of accounting earnings in two ways (Wang, 2006), first, through the entrenchment, in which profit is managed opportunistically and has low quality. Secondly, through the alignment, i.e. earnings are not managed opportunistically and profits have high quality. The effect

of entrenchment is consistent with the traditional view which believes that family ownership is less efficient because the concentration of ownership creates incentives for managers or majority shareholders to take action against wealth expropriation of minority shareholders (Fama and Jensen, 1983, Morck, et al., 1988, Shleifer and Vishny, 1997, and Claessens, et al., 2002). Alignment argument states that the owner of the controller creates higher monitoring (Demsetz and Lehn, 1985, Shleifer and Vishny, 1997, and Wang, 2004). It shows that the controlling family can effectively monitor the company and can make decisions more quickly and create employee loyalty in a long-term (Weber, et al., 2003 and Wang, 2004). This influence of alignment is consistent with the theory of stewardship. In another hand, the results of the study on the influence of family companies over the quality of earnings are still being debated. First, the results showed a negative correlation between the control and the ultimate owner earnings informativeness (Fan and Wong, 2002). The evidence is consistent with the entrenchment argument. Research Francis, et al. (2005), showed that the asymmetry of information lowers transparency of accounting disclosure. It shows that family members have the opportunity to manipulate the accounting profit for the private benefit and have low earnings quality. Second, there is a positive relationship between family ownership and quality of earnings made by (Wang, 2006 and Sanchez et al., 2008). Wang (2006) found the research results are consistent with the influence of alignment that family ownership is positively related to the quality of earnings, associated with low abnormal accruals, small income leveling, and small profit management. Wang (2006) and Sanchez, et al. (2008), shows a family company has high-quality earnings because the controlling family maintain a reputation for long-term goals of the company, and does not perform opportunistic earnings management in the reported accounting profit. Positive incentive effect argument by Silva and Leal (2004), showed that the controlling family has incentives and earnings quality and a commitment to not expropriate. These findings are consistent with Jensen and Meckling (1976) and La Porta, et al. (2002).

This finding is also consistent with Anderson and Reeb (2003) and Gomes (2000), that the family company runs the company better and has better performance than non-family companies. Based on these descriptions, the hypothesis is derived as follows:

H1   : family ownership has a positive effect on the quality of corporate profits.

The company concentrated on Family and Corporate Performance

In alignment, argument stated that the profit is not managed opportunistically so good performance of the company in line with the stewardship theory. Controlling owner has committed to building a reputation for not expropriate against minority shareholders (Gomes, 2000 and Fan and Wong, 2002). The owner controllers have effective controls to improve alignment with the interests of minority shareholders and reduce the entrenchment (Fan and Wong, 2002). The research of the family company and firm performance has been conducted based on the perspective of agency theory and stewardship theory (Chu, 2009). Agency theory perspective has been conducted by Demsetz, (1983), and Shleifer and Vishny (1997) while stewardship theory perspective has carried out by Davis, et al. (1997) and Fox and Hamilton (1994). The results of the study by Chu (2009), supports the theory of stewardship further, when management control is active in the hands of the family and there is some family control, interests between owners and managers are aligned so that the performance of the company increased. Controlling owner doesn't have any incentive to expropriate minority shareholders if it has a high cash flow rights. Controlling owner has committed to creating a reputation for not expropriating against minority shareholders (Gomes, 2000 and Fan and Wong, 2002) and has effective control to fix the improved alignment with the interests of minority shareholders and reduce the influence of entrenchment (Fan and Wong, 2002).

H2a : family ownership has a positive effect on firm performance.

H2b : family ownership has a positive effect on firm value.

The company concentrated on the Family and the Board of Directors

The board of directors has the incentive from the inside to maximize shareholders' wealth in decision making which increases the value of the company. Members of the founding family involved in the family enterprise management (CEO) and the board of directors, therefore it will be positively related to accounting profit and will be able to maximize long-term corporate wealth to produce quality earnings (Anderson and Reeb, 2003). The family founder who puts his family members involved in the board of directors can improve the performance of the company and the value of the company. Therefore, based on the foregoing, the research hypothesis can be stated as follows:

H3a : The family members involved as the Board of Directors (Kel_DD) has a positive effect on firm performance.

H3b : The family members involved as the Board of Directors (Kel_DD) has a positive effect on firm value.

H3c : The portion of the family members involved in the Board of Directors (Jab_DD) positively affected firm performance.

H3D: The portion of the family members involved in the Board of Directors (Jab_DD) positively affected the firm value.

The company concentrated on family and Cost Monitoring

In concentrated ownership, the controlling family can effectively monitor the firm (Demsetz and Lehn, 1985, Shleifer and Vishny, 1997, and Wang, 2004). The controlling family can make decisions more quickly and have an incentive to create employee loyalty in the long term (Weber et al., 2003 and Wang, 2004). Founding family who puts his family members involved in the Board of Directors can monitor the company better so that it can improve the performance of the company and the value of the company. Therefore, based on the explanation, the research hypothesis can be stated as follows:

H4a : Monitoring will have a positive effect on firm performance.

H4b : Monitoring will have a positive effect on firm value.

The Family Concentrated Company and Company Characteristics

Some characteristics of the company, such as the level of debt, asset growth, age and size of the company are also considered to be able to improve the alignment (alignment). Research on the characteristics of the company related to the size of the company shows that small-sized companies prefer to finance the company's growth and investment fund internally. Large companies do not have any difficulty in an investment fund that could improve the performance of the company. Leverage has the effect of positive incentives and negative incentives. Jensen and Meckling (1976) and Holthausen, et al. (1996), showed that leverage has a positive incentive such as the control of the organization and discipline mechanism to generate sufficient cash. While the influence of negative incentive is for instance conflicts of interest between shareholders which lead the managers to choose companies that can reduce the value of the company. Leverage can be devastating for managers in selecting the project because the manager tends to avoid risk.

High leverage ratio can reduce the value of the company because the high debt ratio indicates the failure of the company (Ting and Huang, 2009). Furthermore, Ting and Huang (2009), also stated that larger companies or companies who have a higher rate of growth assets can improve the performance of the company. Based on the arguments above, the research hypothesis can be stated as follows:

H5a : Leverage has a negative effect on the performance of the company.

H5B : Leverage has a negative effect on firm value.

H5c : Size (size of the company) has a positive effect on firm performance.

H5d : Size (size of the company) has a positive effect on firm value.

H5e : The age of the firm has a positive effect on firm performance.

H5f : The age of the firm has a positive effect on firm value.

RESEARCH METHODS

Sample Selection and Data Collection

The research sample is a public company listed on the Indonesia Stock Exchange (BEI) for a period of 6 (six) years, ie from 2005 to 2010. The populations in this study are all companies listed on the Indonesia Stock Exchange.

Model Research

1. The first research equation used to find the total accruals are as follows:

$$TCA_{j,t} = \varphi_{0,j} + \varphi_{1,j} \, CFO_{j,t-1} + \varphi_{2,j} \, CFO_{j,t} + \varphi_{3,j} \, CFO_{j,t+1} + \varphi_{4,j} \, \Delta Rev_{j,t} + \varphi_{5,j} \, PPE_{j,t} + \upsilon_{j,t} \ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

2. The second study equation is used to search for discretionary accruals are as follows:

$$\text{Total Accruals } j,t = \alpha0 + \alpha1 \, SIZEj,t + \alpha2\sigma (AKO) \, j,t + \alpha3\sigma (Sales) \, j,t + \alpha4 \, S\_Operasi \, j,t + \alpha5 Laba\_Negj,t + ì \, j,t \ldots\ldots (2)$$

3. The third study equation is used to search for innate accruals are as follows:

$$Innate \, AQ j,t = \acute{\alpha}0 + \acute{\alpha}1 \, SIZEj,t + \acute{\alpha}2ó (AKO) \, j,t + \acute{\alpha}3ó (Sales) \, j,t + \acute{\alpha}4 \, S\_Operasi \, j,t + 5 Laba\_Neg \, j,t \ldots\ldots\ldots.. (3)$$

In this case:

Value prediction (predicted value) of the equation is the total accrual estimation results of the innate part of the quality of accruals of firm j, s in t.

Efficient Profit Management (Accrual innate) and Opportunistic Income Management (Discretionary Accrual)

To test the first hypothesis, separation of the innate quality of accruals and accruals into discretionary accruals is carried out. The size of discretionary accruals is using models from Dechow and Dichev (2002) and Francis, et al. (2005). Dechow and Dichev (2002), identified five (5) the innate factors as those which affect the quality of accruals i.e. firm size (size), as measured by the logarithm of total assets, the standard deviation of operating cash flow, standard deviation of sales, long operating cycle (measured by the number of days of trade credit and inventory days) and negative earnings. Quality accrual is based on the model Dechow and Dichev (2002), which is obtained from the modified Jones model that is PPE and changes in income are scaled by average assets) (Francis, et al., 2005).

EMPIRICAL RESULTS AND DISCUSSION

Descriptive Statistics Analysis

Family ownership variable has an average of 67.71%. Furthermore, variable Size is the size of the company that was obtained from the number of total assets of the company by using the true value that is the logarithm of the total assets of the lowest of the other variables. Variable Age which is the length of time since the establishment of the IPO firm until this research is being carried out has an average value of 14 years.

Dependent Variables

Table 1 Dependent Variables and Measurement

Dependent Variable	Measurement
Tobin's Q	(Market value of equity + book value of shares and debt / total assets), used by Morck et al. (1988) and Villalonga and Amit (2006).
ROA	(Net income / total assets)
Efficient Profit Management (innate Accrual Quality / IAQ)	Using size DD (2002), Francis et al. (2005).
Opportunistic Earnings Management (Discretionary Accrual Quality / DAQ)	Using size DD (2002), Francis et al. (2005).

Independent Variables

Table 2 Independent Variables and Measurement

Independent Variable	Measurement
Family ownership	The percentage ownership of shares owned by the family. Chu (2009) uses the size of the family holdings as a percentage of equity held by family members.
Age (age company / investment age)	Firm age is calculated from the date of the IPO until the time of the study.
Penddk board of commissioners and board of directors	A value of 1 if the commissioners and board of directors have a Doctoral degree (S3), Master degree (S2), Bachelor degree (S1), or Diploma. A value of 0 (null) if it is doesn't have any Bachelor degree and the educational background is unknown.
JAB_DD	The portion of the family members involved in the management of the company as a member of the board of directors divided by the total number of board of directors.
T_MON (Level Monitoring)	Family ownership (representing the level of monitoring in research Holdernes and Sheehan, 1988). Variable rate monitoring using a dummy variable, the value of 1 if the firm has a high ownership and 0 otherwise.
Kel_DD	A dummy variable, 1 if the Board of Directors involved is the family member of the owner of the company and 0 if it is otherwise
Firm Size	Log total asset (Chu, 2009; Ting dan Huang, 2009)
PMA_PMDN	Using a dummy variable 0 if capital is obtained from foreign (PMA) and 1 if the capital obtained from the Interior (PMDN).
Leverage	(Total debt: total assets) x 100%
Asset_Grow	(Total assets this year - the total assets of the previous year): total assets of the previous year.
Negative earnings	Using a dummy variable, a value of 1 for negative earnings and the value 0 for the otherwise.

Analysis Descriptive Statistics for Testing H2a up to H5f

ROA has an average of 3:48% and variable Tobins Q has an average value of 31.89%. Variable of ownership in the company has an average of 67.71%. Furthermore, variable Size is the size of the company that was obtained from the number of total assets of the company by using the true value that is the logarithm of the total assets of 11:42. Variable Age which is the length of time since the establishment of the IPO firm until this research is being carried out has an average value of 14 years. The average value of Leverage variable is 42.90%.

RESEARCH HYPOTHESIS TESTING

Tests using the Model Common Effect

The first research hypothesis is family ownership has a positive effect on earnings quality of the family-based manufacturing company.

Innate Accrual Dependent Variable

In common effect method, the results of the regression analysis are considered equal in all objects at all times. In the fixed effect regression model, the result of the regression analysis is considered to have a constant magnitude for various periods of time. While the random effect models,

using the residual which is suspected of having a relationship between time and between objects. To select a good model between the common effect and fixed effect Chi-Square test is used. In the model the common effect, there are four (4) significant variables that are the variable of family ownership, ROA, firm age, and size. Family ownership adversely affects the efficient management earnings (accrual innate) significantly (at alpha 0.0002). It shows that low family ownership causes innate accruals due to economic conditions and the business model of the company. In other words, a large family ownership can degrade the quality of earnings. Size variable (the size of the company) negatively affects innate accruals significantly (at alpha 0.0000). Furthermore, firm age variable is significant at alpha 0.0000 and ROA significant at alpha 0.0180. This shows the smaller the company, the greater the innate accruals occur due to economic conditions and the business model of the company. Furthermore, firm age variable positively influences innate accruals. This shows that the longer the company was established, the greater innate accruals occurs. These results indicate that family ownership has a positive effect on the quality of earnings.

Discretionary Accrual Dependent Variables

On the dependent variable, discretionary accruals, model selection is not necessary because the three models i.e. common effect, the fixed effect, and random effect, all show a consistency that opportunistically earnings management does not take place.

Analysis of First Hypothesis Testing

H1 research results indicate that family firms do not carry out profit management. These results support the research hypothesis that there is a positive effect of family ownership towards the quality of earnings. The results of the analysis of the data shows that discretionary accruals doesn't take place, in which it reflects the existence of opportunistic earnings management (earnings management which is conducted deliberately by the company management) and there are innate accruals (earnings management triggered by the business model of the company and the company's operating environment). These results indicate that family ownership is associated with innate accruals and significant (at the level of 0.0001). The innate accruals are not deliberately conducted by the company management, but they are influenced by the business model of the company and the company's operating environment, such as company size, the standard deviation of cash flows, the standard deviation of income and long operating cycle (Francis, et al., 2005). The results of this study indicate that family ownership has a positive influence on the quality of earnings. These results support the argument alignment effect, consistent with the findings of Lee and O'Neil (2003), Davis, et al. (1997), and Fox and Hamilton (1994).

The results of this study are consistent with Dechow and Dichev (2002), and Francis, et al. (2005), which argue that large-sized companies have better earnings quality than the small-sized companies. Dechow and Dichev (2002) and Francis, et al. (2005), showed that smaller firms and firms with higher cash flow volatility, longer operating cycles, and higher losses, has a low accrual quality. Furthermore, the results of this study also support the argument on the influence of the alignment (alignment effect) which stated that family ownership can effectively monitor the firm (Demsetz and Lehn, 1985, Shleifer and Vishny, 1997, and Wang, 2004), monitor the company better, make decisions faster and have an incentive to create employee loyalty in the long term (Weber, et al., 2003 and Wang, 2004). These results also support the findings of Francis, et al. (2005), that the absence of discretionary accruals shows that managers do not act opportunistically, so the quality of the company's financial information can be assured.

This study supports the stewardship theory, that is to say, the presence of alignment of interests between the owners of the company manager (Davis, et al., 1997), Fox and Hamilton (1994) and Caldwell, et al. (2008). Davis, et al. (1997) and Caldwell, et al. (2008), showed that the concept of stewardship ethic has its basis in the stakeholder theory. The theory is a theory of corporate governance (theory of governance) where managers act as stewards who are motivating to align with the goals of all parties

Table 3 Estimation Results for the First Research Hypotheses with Accrual Dependent Variable Innate (Model Common Effect)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HAK	-10700	2830	-3.804	0.0002***
Leverage	1540	1840	0.837	0.4026
Size	-403000	36200	-11.130	0.0000***
Age	23800	11400	2.095	0.0365**
ROA	-12000	5060	-2.37	0.0180**
R-squared			0.190341	
Adjusted R-squared			0.183801	
F-statistic			29.10393	
Prob (F-Statistic)			0.000000	

Variable IAQ is an efficient earnings management which occurs as triggered by economic fundamentals such as the company's business model and industrial environments. HAK variable is the percentage shareholding family, and leverage is measured by total debt divided by total assets multiplied by 100%. Moreover, size variable is the logarithm of total asset and ROA is a variable which is measured by dividing net income by total assets.

Signs *** indicates significant at the 0.001 level; ** Indicates significant at the level of 0:05; * Indicates significant at the level of 0:10

Table 4 Estimation Results for the First Research Hypotheses with Accrual Dependent Variable diskresioner (DAQ) (Model *Common Effect*)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HAK	-6010	360000	-0.0167	0.9867
Leverage	-11000	233000	-0.0470	0.9625
Size	401000	1430000	0.2807	0.7790
Age	58600	4690000	0.0124	0.9900
ROA	-144000	642000	-0.2240	0.8228
R-squared			0.000181	
Adjusted R-squared			-0.008151	
F-statistic			0.021754	
Prob (F-Statistic)			0.999799	

Variable DAQ is an opportunistic earnings management which occurs because of the discretionary management. Variable HAK is the percentage shareholding family, *leverage* is measured by total debt divided by total assets multiplied by 100%. Variable *size* is a logarithm of total assets and ROA is a measured variable of net income divided by total assets.

Signs *** indicates significant at the 0.001 level; ** Indicates significant at the level of 0:05; * Indicates significant at the level of 0:10

Table 5 *Chi Square* **Test for Accrual Dependent Variable** *Innate*

Effect Test	Statistic	d.f.	Prob.
Cross-section F	27.014	(106.513)	0.0000
Cross-section Chi-square	1177.704	106	0.0000
R-squared	0.190341		
Adjusted R-squared	0.183801		
F-statistic	29.10393		
Prob (F-statistic)	0.000000		

H2A and H2B Research Hypothesis

H2a and H2b in Hausman test are not conducted, to choose between the fixed effect model and random effect. Therefore, in Table 6, the model chosen is a common effect model; it can be seen that the family ownership variables have a positive effect on ROA firm performance and significant (at the level of 0.0489), the test common effect. It shows that family ownership can improve the performance of the ROA company which supports the findings of Anderson and Reeb (2003), Gedajlovic and Shapiro (1998), Kang and Shivadasani (1995), and Shleifer and Vishny (1986).

The results of this study support the argument of alignment effect. Wang's research results (2004), are consistent with Anderson and Reeb (2003), that family firms have better performance. The results of this study support the stewardship theory, in line with the view of the influence of the alignment argument that family firms do not carry out profit management, do not act opportunistically, is more efficient and effective, and do not conduct expropriation act. Thus, the company's performance can be improved.

Table 6 **Estimation Results for the research Hypothesis 2a with the Dependent Variable ROA (Model** *Common Effect*)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HAK	0.066768	0.033836	1.973297	0.0489**
R-squared			0.047783	
Adjusted R-squared			0.033983	
F-statistic			3.462500	
Prob (F-Statistic)			0.000350	

Variable HAK is the percentage of family company ownership. Variable ROA is measured of net income divided by total assets. Signs *** indicates significant at the 0.001 level; ** Indicates significant at the level of 0:05; * Indicates significant at the level of 0:10

Variable HAK is the percentage of shareholding family. variable TobinsQ is measured by the market value of equity plus book value of shares and debt divided by total assets, this measure is used by Morck *et al*. (1988) and Villalonga and Amit (2006). Signs *** indicates significant at the 0.001 level; **

Table 7 Estimation Results for the Research Hypothesis with the Dependent Variable TobinsQ (Model *Common Effect*)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HAK	-0.020265	0.082065	-0.246937	0.8050
R-squared			0.042723	
Adjusted R-squared			0.028850	
F-statistic			3.079479	
Prob (F-Statistic)			0.001263	

Indicates significant at the level of 0:05; * Indicates significant at the level of 0:10

Research Hypothesis H3A and H3D

The involvement of family members in the management of the company (variable Kel_DD) has a positive effect on firm performance related to the test of common effect and significant (at the level of 0.0051). It shows that the family enterprise involving family members in the company's management can improve the performance of the company. The empirical findings also indicate that managers can harmonize interests (alignment) with various stakeholders, so as to improve the performance of the company. Families can monitor the company more effectively, able to make decisions more quickly and can be improved the long-term performance of the company.

Table 8 Estimation Results for the Research Hypothesis 3a with the Dependent Variable ROA (Model *Common Effect*)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Kel_DD	3.398471	1.603195	2.119811	0.0344**
Jab_DD	-6.129620	3.220811	-1.903129	0.0575**
R-squared			0.047783	
Adjusted R-squared			0.033983	
F-statistic			3.462500	
Prob (F-Statistic)			0.000350	

Variable Jab_DD is a portion of the family members involved in the management of the company as a member of the board of directors is divided by the number of board directors. Variable Kel_DD is a dummy variable, the value of 1 if the board of directors involved is members of the family owners of the company and a value of zero if otherwise. Variable ROA is measured by net income divided by total assets. Signs *** indicates significant at the 0.001 level; ** Indicates significant at the level of 0:05; * Indicates significant at the level of 0:10

Table 9 Estimation Results for the Research Hypothesis 3b with the Dependent Variable TobinsQ (Model *Common Effect*)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Kel_DD	9.201340	3.888362	2.366379	0.0183
Jab_DD	-13.42344	7.811699	-1.718377	0.0862
R-squared			0.042723	
Adjusted R-squared			0.028850	
F-statistic			3.079479	
Prob (F-Statistic)			0.001263	

Variable Jab_DD is a portion of the family members involved in the management of the company as a member of the board of directors divided by the total number of board of directors. Variable Kel_DD is a dummy variable, the value 1 if the board of directors which involved a family member of the owner of the company and zero otherwise. Variable TobinsQ is measured by the market value of equity plus the book value of shares and debt divided by total assets, this measure is used by Morck *et al*. (1988) and Villalonga dan Amit (2006).

Signs *** indicates significant at the 0.001 level; ** Indicates significant at the level of 0:05; * Indicates significant at the level of 0:10

H4A and H4B Research Hypothesis

The level of family monitoring does not affect the performance of the company and the value of the company both in the common effect test and the random effect test. The results of this study are not supported, might be due to the use of dummy variables, the value of 1 goes for firms with more than 50% ownership and the value 0 goes for possession of less than 50%. The use of dummy variables is based on research Holderness, et al. (1988) and Sun (2005). Holderness, et al. (1988), showed that the majority shareholders in corporate can monitor more effectively than the majority shareholder individually. Sun (2005), showed that the activity of the company's M & A (management discussion and analysis) to support a finding that an effective monitoring by shareholders has a positive effect on firm performance.

Variable T_MON is the percentage of ownership of a family company to represent the level of monitoring in research of Holdernes and Sheehan (1988). Variable T_Mon is a dummy variable, the value 1 if the company has a stake of 50% upwards and zero if otherwise. Variable ROA is measured by net income divided by total assets.

Signs *** indicates significant at the 0.001 level; ** Indicates significant at the level of 0:05; * Indicates significant at the level of 0:10

Table 10 Estimation Results for the Research Hypothesis 4a with Dependent Variable ROA (Model *Common Effect*)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
T_Mon	-2.359132	1.888740	-1.249051	0.2121
R-squared	0.047783			
Adjusted R-squared	0.033983			
F-statistic	3.462500			
Prob (F-Statistic)	0.000350			

Table 11 Estimation Results for the Research Hypothesis 4b with Dependent Variable TobinsQ (Model *Common Effect*)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
T_MON	-12.61408	4.580918	-2.753615	0.0061
R-squared	0.042723			
Adjusted R-squared	0.028850			
F-statistic	3.079479			
Prob (F-Statistic)	0.001263			

Variable T_MON is the percentage of ownership of a family company to represent the level of monitoring in research of Holdernes and Sheehan (1988). Variable T_Mon is a dummy variable, the value 1 if the company has a stake of 50% upwards and zero if otherwise. Variable TobinsQ is measured by the market value of equity plus the book value and debt divided by total assets, this measure is used by Morck *et al.* (1988) and Villalonga dan Amit (2006).

Signs *** indicates significant at the 0.001 level; ** Indicates significant at the level of 0:05; * Indicates significant at the level of 0:10

Research Hypothesis H5A up with H5F

Leverage variable doesn't affect the performance of the company but has a negative effect on TobinsQ firm value in the common effect test and significant (at the level of 0.0843). It shows that a family company has a low leverage ratio, and has a high value of the company. Low leverage ratio shows the company has a low debt. In contrast, a high debt ratio shows the company's financial pressure. The ratio of debt to total assets (leverage) is getting smaller and can increase the value of the company which supports the findings of Ting and Huang (2009).

Variable Size has a positive effect on the performance of the company and significant at the level of 0.0002 and affect positively on TobinsQ firm value in the common effect test and significant (at the level of 0.0352). Small companies which are experiencing financial constraints have not been able to fund investment that can improve the performance of the company. In contrast, large-sized enterprises do not have any difficulty in an investment fund that could improve the performance of the company. These results also support the research Carpenter and Petersen (2002). Firm age variable has a positive effect in improving the ROA company's performance in the common effect test and significant (at the level of 0.020). Therefore, the longer the company was established, the company's performance is getting better. Firm age variable brings positive effect on TobinsQ firm value in common effect test. In a common effect test, variable leverage has a significant effect (at the level of 0.0352). Variable AssetGrow has a positive effect on the performance of the company and significant at the level of 0.0037 and brings a positive effect on the value of the company and significant at the 0.0153 level. This finding supports Cabral and Mata's research (2003), which argues that the growth of the company can improve the performance of the company and the value of the company

Variable *leverage* is measured by total debt divided by total assets multiplied by 100%. Variable *AssetGrow* is measured by total assets minus by total assets the previous year. Variable Age is measured from IPO date until the time of this research. Variable Size is measured by a logarithm of total assets. Variable ROA is measured by net income divided by total assets.

Signs *** indicates significant at the 0.001 level; ** Indicates significant at the level of 0:05; * Indicates significant at the level of 0:10

Table 12 Estimation Results for the Research Hypothesis 5a until 5f with Dependent Variable ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Leverage	-0.022929	0.017317	-1.324048	0.1860
Age	0.397193	0.104932	3.785253	0.0002***
Size	-0.494753	0.415304	-1.191304	0.2340
Asset Grow	0.052485	0.017989	2.917596	0.0037***
R-squared			0.047783	
Adjusted R-squared			0.033983	
F-statistic			3.462500	
Prob (F-Statistic)			0.000350	

Table 13 Estimation Results of the Research Hypothesis from 5b to 5f with Dependent Variable TobinsQ (Model Common Effect)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Size	-2.126406	1.007270	-2.111058	0.0352**
Age	0.079304	0.254500	0.311606	0.7554
Leverage	-0.072615	0.042000	-1.728915	0.0843*
AssetGrow	0.106096	0.043630	2.431705	0.0153**
R-squared			0.042723	
Adjusted R-squared			0.028850	
F-statistic			3.079479	
Prob (F-Statistic)			0.001263	

Variable *leverage* is measured by total debt divided by total assets multiplied by 100%. Variable *AssetGrow* is measured by total assets of this year minus by total assets of the previous year divided by total assets of the previous year. Variable age is measured from IPO date to the time of this research. Variable Size is measured by a logarithm of total assets. Variable TobinsQ is measured by the market value of equity plus the book value of shares and debt divided by total assets, this measure is used by Morck *et al*. (1988) and Villalonga dan Amit (2006).

Signs *** indicates significant at the 0.001 level; ** Indicates significant at the level of 0:05; * Indicates significant at the level of 0:10

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The results of this study support Lee and O'Neil (2003), Davis, et al. (1997), and Fox and Hamilton (1994). Research findings from Fox and Hamilton (1994), showed an alignment of interests (alignment) between the company management and the company owned by the family. The results of this study support the argument of the alignment influence (alignment effect). Moreover, the results of this study also support the finding that the absence of discretionary accruals shows that managers do not act opportunistically, so the quality of the company's financial information can be assured (Francis, et al.,

2005). The results of the analysis also showed the positive effect of family ownership on firm performance. It shows that family ownership can improve the performance of the company. The results of this study support the findings of Anderson and Reeb (2003), Gedajlovic and Shapiro (1998), Kang and Shivadasani, (1995), and Shleifer and Vishny (1986). The results of this study also support the argument of alignment effect. Characteristics of the company include leverage, firm size and firm age which also affect the performance of the company and the value of the company.

Suggestion

Future studies should associate with the family company culture as well as the index of shareholder protection. Shareholder protection index can be carried out by tracing the financial statements and annual reports. Shareholder protection index can also be conducted by using a questionnaire study to shareholders. Future studies could also be associated with good corporate governance (GCG).

Implication

Based on the empirical findings of the results of this research provide three implications i.e. theoretical implications, methodological implications, implications for policy and practice implications.

Theoretical Implications

The results of this study could explain the earnings quality. The findings in this study have important implications regarding the quality of accruals that are triggered by economic fundamentals (accrual innate) compared to the accrual of management options (discretionary accruals). Components of the innate accruals reflect economic fundamentals driven by the company's business model and the company's operating environment. In contrast, discretionary accruals are triggered by the intervention of the company's management. The indicator of the company's operating environment or business model includes firm size, the standard deviation of cash flows, the standard deviation of income,

and long operating cycle (Dechow and Dichev, 2002, and Francis, et al., 2005). The implications which are not less important are that family ownership affects the quality of accounting earnings and supports the argument of alignment effect. In the alignment effect argument, profit is not managed opportunistically and has high earnings quality. The family company may affect the quality of accounting earnings in two ways, namely through the entrenchment effect and influence of alignment. In the entrenchment effect, profit is not managed opportunistically and the earnings quality is low. In contrast, in the influence of alignment, profit is not managed opportunistically and the profit has high quality. The effect of entrenchment is consistent with the traditional view that the family company creates incentives to expropriate against minority shareholders, as found by Fama and Jensen (1983), Morck, et al. (1988), Shleifer and Vishny (1997), and Wang (2004).

The results of this study support the argument of alignment effect and show that family companies are not bound by the opportunistic behavior in the reported accounting profit. The family company believes that reporting accounting profit opportunistically could damage the reputation of the family, the family wealth and long-term performance of the company as stated by Wang, (2004). Therefore, the family company conducts opportunistically earnings management to maintain the reputation of the company. Arguments of alignment effect are consistent with the view that the family- ownership firm creates incentives for managers to not expropriate the wealth of outside shareholders. In arguments alignment effect there is an alignment of interests between owners and managers and between majority shareholders with minority shareholders.

The alignment of interests is also supporting the stewardship theory. The stewardship theory provides an alternative view that the essential argument of this theory is about the presence of alignment of interests between the owners of the company managers as stated by Davis, et al. (1997), and Fox and Hamilton (1994).

Implications Methodology

This research is expected to contribute to the methodology that gives input on innate and discretionary accruals measurement used in the study of earnings management. During this time, accrual is not separated into innate accruals and discretionary accruals, whereas Francis, et al. (2005), separate it into innate and discretionary accruals.

Dechow and Dichev (2002), measure directly and develop accruals which reflect actual cash flows to determine the accrual earnings. Dechow and Dichev (2002) and Francis, et al. (2005), identified five (5) innate factors that affect the quality of accruals are the firm size (size), operating cash flow, sales, long operating cycle (measured by the number of days accounts receivable and inventory days) and negative earnings. Innate accruals are unintentional mistakes (unintentional error) arising from failure and uncertainty management for the environment, while the deliberate estimation error (intentional estimation error) arise from the management incentives to manipulate earnings (Francis, et al., 2005).

Policy Implications

This study is expected to give a contribution to the government that the concentration of ownership can reduce the conflict between managers and various parties. The concentration of ownership with family dominance over the high cash flow rights is able to create the alignment of interests (alignment) between managers with various interested parties. The concentration of ownership with family dominance often involves family members to take part in the board of directors and monitor the running of the company involved. The concentration of family-dominant ownership is able to create better monitoring, because the company can make decisions quickly, effectively and efficiently. In addition to this, the family is also capable of aligning the interests of the various parties, so that it makes quality earnings and improve corporate performance better.

The government also has an important role to maintain economic stability and good economic conditions, economic conditions could lead to the occurrence of earnings management. In identifying the quality of accruals, there are five (5) factors that affect the innate accruals are a firm size (size), operating cash flow, revenue turnover, operating cycle accounts receivable and inventory and negative earnings. Smaller companies have greater cash flow volatility, longer operating cycles and higher losses would have accrued poor quality.

Implications Practice

Although the ownership is concentrated with family dominance, it does not conduct profit management. The government in practice must maintain economic stability and economic conditions and still oversee public companies in Indonesia. In practice, there should be a supervision of capital markets and better legal protection to investors from outside. In practice, the government should continue to provide legal protection and good law enforcement so as to create favorable conditions for investors. The company concentrated with family domination must remain supervised in order to keep creating their alignment of interests (alignment). Besides, it also needs to be given an understanding and information about the importance of maintaining the company's reputation in the long run.

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