GENERATIONAL OWNERSHIP INFLUENCE ON FAMILY FIRM PERFORMANCE IN INDONESIA

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Eva Mufidah, Heri Cahyo Bagus Setiawan, Yusmiaty Sabang
Universitas Negeri Surabaya
Jl. Rektorat Unesa, Lidah Wetan, Kec. Lakarsantri, 60213
evamufidah@unesa.ac.id*

Abstract

This study aims to determine the sustainability of generations in family firms in Indonesia. The effect of generational ownership on firm performance using ROA and ROE. Using agency theory and there are 522 observations and using unbalanced panel data in 2016-2020 in companies listed on the Indonesia Stock Exchange. Hypothesis testing uses unbalanced panel data regression tests. The test results for the 1st generation show that go1 has a positive and significant effect on firm performance using ROA and ROE. For the 2nd generation, it shows that go2 has a negative and significant effect on firm performance using ROA and ROE. While the 3rd generation shows that go3 does not have a significant effect on firm performance using ROA and ROE.
Keywords: generational ownership; firm performance; ROA; ROE

Abstrak

Penelitian ini bertujuan untuk mengetahui keberlanjutan generasi pada perusahaan keluarga di Indonesia. Pengaruh generational ownership terhadap kinerja perusahaan yaitu ROA dan ROE. Menggunakan Agency Theory dan terdapat 522 observasi dengan unbalance data panel pada tahun 2016-2020 perusahaan yang terdaftar di Bursa Efek Indonesia. Pengujian hipotesis menggunakan uji regresi data panel unbalanced. Hasil pengujian pada generasi ke 1 menunjukkan bahwa go1 berpengaruh positif dan signifikan terhadap kinerja perusahaan yaitu ROA dan ROE. Untuk generasi ke 2 menunjukkan hasil bahwa go2 berpengaruh negatif dan signifikan terhadap kinerja perusahaan yaitu ROA dan ROE. Sedangkan pada generasi ke 3 menunjukkan hasil bahwa go3 tidak berpengaruh signifikan terhadap kinerja perusahaan yaitu ROA dan ROE.
Kata kunci: generational ownership; kinerja perusahaan; ROA; ROE

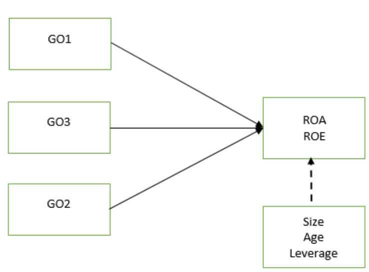
INTRODUCTION

Family firms that have special and unique characteristics that are different from other companies. The existence of different characteristics can be seen from family culture, management systems and regeneration of firm ownership (Martínez-Alonso et al., 2020) . The existence of loyalty and close family relationships are factors in the success of this firm (Kowalewski et al., 2010) . The development of family firms is also inseparable from the existence of leadership succession. This succession will provide a new color for the leadership of each generation. The occurrence of leadership succession will affect the sustainability of life in family firms (Arifai et al., 2018) . Differences in views or leadership styles will determine how the firm will survive in the future (Rosen et al., 2019) . Family firms in Indonesia have entered generation 1, generation 2 and generation 3. Family generations are calculated based on the age of the firm in the year of establishment and are calculated for 25 years of its running period (Bansal, 2021) . So that generation 1 starts from the age of 1-25 years, generation 2 from the age of 26-50 years running and generation 3 is over 50 years old.

The growth of family firms in Indonesia in 2016-2020 has experienced increasing growth (Arifai et al., 2018) . The growth of family firms will create a new generation and create sustainability of corporate leadership. Based on data from *Global Guide Indonesia* (2016), it explains that 30% of companies can survive from generation 1 to generation 2, while around 12% can survive from generation 2 to generation 3. Some examples of family firms such as; Djarum and Bakrie are family firms that have been able to survive until the 3rd generation. Family firms are defined by two criteria, namely; 1. Share ownership from the founding family generation, 2. The existence of a family generation that is the leader of the firm and owns at least 5% of shares (Kang & Kim, 2020; Zhou et al., 2017) . The involvement of the founding family in firm management will have a positive effect on firm performance (Hillebrand, 2019) . The better the performance of the firm, the better the growth of the family firm (Kowalewski et al., 2010) . Firm performance is measured using ROE and ROA. ROE is used to consider the selection of stocks that have the potential to increase profits. ROE makes it easier for investors to influence their decisions in investing in stocks in the firm (Kowalewski et al., 2010) . While ROA is used to measure the firm's ability to manage its assets to generate profits for the firm (Kowalewski et al., 2010) .

Generational ownership (Kellermanns & Eddleston, 2007) is the ratio of stock ownership in family generations. Generational ownership is an important factor to support the sustainability of generations in family companies. The existence of family generations will enable the firm to continue the baton of family firm leadership. Failure will occur when generations in the family firm are involved in conflict and the firm fails to manage the conflict, causing the family firm to be unable to survive (Basco, 2013; Molly et al., 2010) This study attempts to determine the sustainability of generations in family firms in Indonesia. Many phenomena indicate that many family firms fail to make the transition to the 3rd generation. So that the role of leadership succession is needed to maintain the sustainability of family firms. The purpose of this study is to analyze and test the effect of generational ownership on the performance of family firms in Indonesia.. Agency theory is the basis for understanding the relationship between the principle and the agent. Agency theory explains the interaction that occurs between the principle and the agent. The principle is the party that gives the agent the authority to carry out activities on behalf of the principle (Meckling and Jensen, 1976) . Agents must have expertise and wisdom in managing the firm. High agency costs will cause the firm's value to decrease. This condition can occur because the agent tries to protect himself and does not carry out orders from the principle who gives the authority to manage the firm (Jensen & Meckling, 2019).

Generational ownership (Kellermanns & Eddleston, 2007) is the ratio of ownership of shares in a firm's generation. When ownership is spread across generations, the firm is expected to continue to grow, conversely, if ownership is still concentrated in one generation, it will only involve the founders who lead the firm (Hiebl & Li, 2020) . Return on assets (Kowalewski et al., 2010) explains how effectively a firm manages total assets to generate net income. ROA shows the management's ability to manage assets owned by the firm that are used to generate profits. ROA will help the firm assess how efficient the firm is in using assets to generate profits. Investors play a role in determining the feasibility of investing in the firm. Return on Equity (Kowalewski et al., 2010) explains the extent to which a firm uses resources to generate returns on equity. Companies need to know the results of financial performance in order to see the condition of the firm and the level of success of the firm in managing its management. In this study to determine the effect of generational ownership on the firm's financial performance using ROA and ROE. Based on the description of the background, problem formulation, research objectives and literature review, the conceptual framework of the study is described as follows:



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Research Hypothesis

The research hypotheses include:

1. The effect of generational ownership of generation 1 on ROA
2. The effect of generational ownership of generation 1 on ROE
3. The effect of generational ownership of generation 2 on ROA
4. The effect of generational ownership of generation 2 on ROE
5. The effect of generational ownership of generation 3 on ROA
6. The effect of generational ownership of generation 3 on ROE

METHODS

The research method uses a quantitative approach. This study aims to test the hypothesis using measurable data. The sample data from this study is secondary data using unbalanced panel data. Panel data is a combination of cross-section and time series data. The sample used in family companies listed on the IDX is 113 companies in the period 2016-2020. Hypothesis testing uses unbalanced panel data regression tests. The regression test is used to test the effect of independent variables on dependent variables. Data sources come from ICMD and OSIRIS. Sampling in this study uses purposive sampling criteria.

RESULTS AND DISCUSSION

Descriptive Statistics

Tabel 1. Descriptive Statistics

Variable	Mean	Std. dev.	Min	Max
go1	.2855896	.2034403	.055	.926
go2	.3266262	.2461686	.05	1.075
go3	.3767222	.2336259	.071	.698
roa	.0142356	.0984497	-.583	.456
roe	.0025843	.4719448	-5.596	5.174
size	27.98075	1.576343	24.409	32.317
age	33.82184	19.05878	2	119
lev	.4777969	.2785568	.013	2.147

Source: STATA data processing

Based on the table above, it shows that there are 522 observations on family firms in Indonesia in generations 1, 2 and 3. The ROA value obtained a mean of 0.0142356 and a standard deviation value of 0.0984497. These results explain that the mean firm performance (ROA) is 0.0142356. The maximum value obtained is 0.456 and the minimum value is -0.583. For the ROE value, the mean value obtained is 0.0025843 and the standard deviation value is 0.4719448. These results explain that the average firm performance (ROE) is 0.0025843. The maximum value obtained is 5.174 and the minimum value obtained is -5.596.

In the 1st generation of family companies, there are 173 observations. In the generational ownership variable (go1), the mean value is 0.2855896 and the standard deviation value is 0.2034403. These results indicate that the amount of stock ownership (go1) has a mean value of 0.2855896. The maximum value is 0.926 and the minimum value is 0.055. While in the 2nd generation of family companies, there are 313 observations. In the variable (go2), the mean value is 0.3266262 and the standard deviation value is 0.2461686. These results indicate that the amount of stock ownership in (go2) is on average 0.3266262. The maximum value of stock ownership (go2) is 1.075 and the minimum value is 0.05. In addition, in the 3rd generation, there are 36 observations. In the generational ownership variable (go3), the mean value is 0.3767222 and the standard deviation value is 0.2336259. These results indicate that the amount of stock ownership in the 3rd generation is on average 0.3767222. The maximum value obtained is 0.698 and the minimum value obtained is 0.071.

In the control variable, the value for firm size (zise) is obtained with a mean value of 27.98075 and a standard deviation value of 1.576343. This result explains that the average size is 27.98075. The maximum value obtained is 32.317 and the minimum value is 24.409. While the age of the firm (age) shows a mean value of 33.82184 and a standard deviation value of 19.05878. This result explains that the average value of the firm's age is 33.82184. The maximum value obtained is 119 and the minimum value is 2. For the leverage variable (lev) shows a mean value obtained is 0.4777969 and a standard deviation value of 0.2785568. This result means that the average leverage value obtained is 0.4777969. For the maximum value obtained is 2.147 and the minimum value is 0.013.

Table 2. Family firm Performance

	(1) roa	(2) roe	(3) roa	(4) roe	(5) roa	(6) roe
go1	0.064**	0.187**				
	(2,159)	(2,238)				
size	0.010*	0.018	0.017***	0.046***	0.004	-0.005
	(1,847)	(1,339)	(7,600)	(5,706)	(0.372)	(-0.102)
age	-0.001	-0.000	-0.000	0.003	0.001**	0.003
	(-0.559)	(-0.165)	(-0.083)	(1,484)	(2,207)	(1,561)
Lev	-0.143***	-0.475***	-0.135***	-0.167*	-0.226***	0.265
	(-5.738)	(-3.307)	(-7,701)	(-1.833)	(-3.725)	(1,181)
go2			-0.038**	-0.214***		
			(-2.503)	(-3.455)		
go3					0.014	-0.094
					(0.349)	(-0.353)
_cons	-0.207	-0.322	-0.395***	-1.271***	-0.043	-0.122
	(-1.309)	(-0.896)	(-6.110)	(-4.984)	(-0.154)	(-0.092)
r2	0.124	0.137	0.322	0.161	0.600	0.226
N	173	173	313	313	36	36

Source: STATA data processing

The Effect of Generational ownership (go1) on ROA

The results of the study show that go1 has a positive and significant effect on firm performance (ROA). These results show a coefficient value of 0.064, which means that the higher the share ownership in the 1st generation, the higher the firm's performance (ROA). The results of this study agree with the study (Chen et al., 2020) which explains that when share ownership increases, the firm's performance will increase. Companies. Companies in the 1st generation are the founding generation who are in the pioneering phase and still dominate the management of the firm's management.

The Effect of Generational ownership (go1) on ROE

The results of the study showed that go1 had a positive effect on firm performance (ROE). These results show a firm coefficient value of 0.187, which means that the higher the share ownership in the 1st generation, the higher the firm's performance will be. A 1st generation family firm is a firm that has a clear vision and mission and is highly motivated to make the firm grow and develop (Arifai et al., 2018) . In addition to being the owner, the 1st generation firm is also the controller in determining all decisions in the firm. Decisions can be taken quickly because they dominate and have the sole authority to make decisions (Monterrey & Ramirez-solis, 2019) .

The Effect of Generational ownership (go2) on ROA

The results of the study show that go2 has a negative and significant effect on firm performance (ROA). These results show a coefficient value of -0.038, which means that the higher the share ownership in the 2nd generation, the lower the firm's performance (ROA) (Chen et al., 2020) . This happens because the involvement of the 2nd generation will result in two different interests, namely the involvement of the 1st generation as the founder and the involvement of the 2nd generation as the successor. The involvement of two generations will result in two interests, each of which has different goals and intentions. Although their goals are the same for the growth of the firm, not all understand these interests so that it will cause differences of opinion and can lead to disputes.

The Effect of Generational ownership (go2) on ROE

The results of the study indicate that go2 has a negative and significant effect on firm performance (ROE). These results show a coefficient value of -0.214, which means that the higher the share ownership in the 2nd generation, the lower the firm's performance (ROE). The results of this study agree with research (Kellermanns et al., 2012; Kellermanns & Eddleston, 2007) explaining that the involvement of the 2nd generation in firm share ownership will affect firm management. In the 2nd generation, changes in leadership style will begin to occur, which will shift the leadership culture in the 1st generation, which will cause differences in interests and disputes that will affect firm performance.

The Effect of Generational ownership (go3) on ROA

The results of the study showed that go3 did not have a significant effect on firm performance (ROA). These results indicate that the higher the share ownership in the 3rd generation, the more potential there will be for a conflict of interest due to differences across generations, namely the 1st generation and the 2nd generation, so that the differences in each interest of each generation will have a negative impact on firm performance (Anderson & Reeb, 2003) .

The Effect of Generational ownership (go3) on ROE

The results of the study showed that go3 did not have a significant effect on firm performance (ROE). These results indicate that there are problems that arise due to cross-generational interference in firm management. In the 3rd generation firm, there has been a leadership transition phase that continues the leadership relay from the 2nd and 3rd generations. The existence of leadership succession is a strategic plan that must be prepared by the firm in the 3rd generation. This is because the 3rd generation will continue the leadership relay and maintain the sustainability of the firm (La Porta et al., 1999) .

CONCLUSION AND SUGGESTIONS

Conclusion

Based on the results of research on generational ownership of family firms in Indonesia, the following conclusions can be drawn:

1. Generational ownership (go1) has a positive and significant effect on firm performance (ROA). The higher the share ownership in the 1st generation, the higher the firm performance (ROA).
2. Generational ownership (go1) has a positive and significant effect on firm performance (ROE). The higher the share ownership in the 1st generation, the higher the firm performance (ROE).
3. Generational ownership (go2) has a negative and significant effect on firm performance (ROA). The higher the share ownership in the 2nd generation, the lower the firm performance (ROA).
4. Generational ownership (go2) has a negative and significant effect on firm performance (ROE). The higher the share ownership in the 2nd generation, the lower the firm performance (ROE).
5. Generational ownership (go3) does not have a significant effect on firm performance (ROA).
6. Generational ownership (go3) does not have a significant effect on firm performance (ROE).

Suggestion

Suggestions that can be used for further research are as follows:

1. The results of this study can be a reference or information for researching family firms and can be used as information for investors to obtain information related to firm characteristics.
2. In this family firms research, research data from 5 years was used, and it is hoped that a longer period of time can be used to obtain even better results.

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