The effect of family ownership on company values mediated by financial performance and corporate governance

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ABSTRACT

High family ownership in East Asia creates conflicts of interest between shareholders and minorities that affect the likelihood of value. This study was conducted to examine the effect of family ownership on firm value. In addition, this study also examines the mediating role of financial performance and corporate governance in the relationship between family ownership and firm value. This research includes explanatory research with a quantitative method approach. Path analysis test is used to test the research hypothesis. The object used in this research is the basic and chemical industry sector in 2016-2019. The population in this study found 72 companies using 19 companies as research samples. This study uses a purposive sample method. The data collected is secondary data and analyzed by descriptive statistics. The results of the study prove that family ownership has a significant positive effect on firm value. Family ownership has a significant positive effect on financial performance, family ownership has a significant positive effect on corporate governance, financial performance has a significant positive effect on firm value, corporate governance has a significant positive effect on firm value. Financial performance and corporate governance mediate the relationship of family ownership to firm value in the basic and chemical industry sector in 2016-2019. It should be emphasized that improving financial performance and implementing a good corporate governance system are the main keys to increasing company value.

INTRODUCTION

The monetary crisis that occurred in Indonesia in 2008 had an impact on the growth of companies, one of which was manufacturing companies listed on the Indonesia Stock Exchange, represented by the basic and chemical industrial sectors, this sector continued to grow positively when experiencing the financial crisis which was reaching its peak in 2009 (Bappenas. go.id), despite the 2008 global crisis that hit Indonesia and in the midst of increasing business competition, basic and chemical industry companies were still able to maintain and optimize good and positive corporate values. Firm value is an investor's perception of the level of success of a company associated with stock prices, in general the company's goal is to increase the value of the company which is characterized by the level of prosperity of the shareholders, and company value is an important concept for investors (Gamayuni, 2015). The higher the stock price, the higher the value of the company (Suhadak, et al. 2018) An increase in the value of the company can convince investors that investing in the company is very profitable.

Optimizing the value of the company is the main goal of the company can be achieved through the implementation of the financial management function, one financial decision taken will affect other decisions which will have an impact on the value of the company, besides that the value of the company is also influenced by the ownership structure of Kao, et al. (2018). Ownership structure is the composition of ownership in a company that will affect the performance of a company. The ownership structure will have different motivations for monitoring the company and its management and board of directors. The ownership structure is believed to have the...
ability to influence the running of the company which in turn can affect the company's performance and have an impact on the value of the company (Pujiningish, 2011). Companies that go public both inside and outside the majority of shareholding are concentrated by the family of the company's founders, in line with Sarbah & Xiao (2015) which states that many multinational companies are family owned. The majority of large companies that dominate the Indonesian economy are controlled by families. According to Sugianto (2009), as of the official activation of the capital market in Indonesia in 1977, until 2005 it was known that the status of companies controlled by family was 79.20% more dominant than companies controlled by non-family. In 2016 around 80% of public companies listed on the Indonesia Stock Exchange (IDX) are controlled by families (http://konfrontasi.com-29 August 2016).

Companies with the majority of shares owned by families often find problems, one of which is in making decisions that are still less objective, nepotism is often found, where a company when all lines in the company structure are driven by family members who are not competent in their fields are maintained when making mistakes due to factors “family” and this will have an impact on the company's reputation and decrease the value of the company. In line with research conducted by Wagner, et al. (2015). The next problem that often occurs in the majority family ownership company is the conflict between the principal and the agent, the agency conflict arises because a person tends to be selfish and conflicts arise when these interests meet in an activity with Jensen (1986).

According to Syu (2011), complicated relationships between family members can also lead to conflicts in the company's reputation both in the eyes of consumers and shareholders so that it will have a negative impact on the company's reputation.

Family ownership in the company also has advantages, to be able to control the overall management performance and the alignment of goals between the principal and agent because the family acts as the principal and also the agent, this will reduce the risk of conflict of interest (agency problem) so as to increase the value of the company. In line with the opinion of Wang & Shailer (2017), family ownership besides being able to reduce conflicts of interest also has advantages over non-family companies because family companies will make more efforts for long-term company expansion. One of the motivations is to pass it on to the next generation. In line with research conducted by Wagner, et al. (2015). Therefore, family control can eliminate and eliminate agency problems stemming from conflicts between shareholders and company managers. Family wealth is closely related to firm performance; thus, family members have strong incentives to supervise managers and seek to increase firm value.

Financial performance is a factor that affects firm value Meivinia (2018), Gultom et al. (2013) and Gamayuni (2015). Mayang and Noerlaili (2020) which state that the company's performance is the company's ability to explain its operational activities. Wang & Shailer (2017) state that the measurement of company performance can be measured in terms of financial performance which can be done through the calculation of financial ratios and market performance. Measurement of financial performance in this study uses a profitability ratio that describes how much the company's ability to generate profits, there are several assets that investors use in investment activities, one of which is to look at the company's profitability and become one of the main aspects, the higher the level of profitability generated by the company, the higher the level of profitability generated by the company the higher the chance to steal the attention of outside investors towards the company and the higher the chance to maximize the value of the company. The same research has been conducted by Marsha & Muttaqi (2017), Gamayuni (2015) and Ayuba, et al. (2019) which shows the results, that there is a positive influence between return on assets on firm value. Different things were found in the research of Majane (2021) and Asiri (2015) which showed the results of a negative influence between return on assets on firm value.

Utama, et al. (2017) measuring corporate governance using the instrument used by the IICD (Indonesian Institute for Corporate Directorship) using the CG Scorecard developed by the Thai Institute of Directors. The instrument consists of five, namely: shareholder rights, fair treatment of shareholders, stakeholder roles, disclosure and transparency, board responsibilities. Good governance supports the development of the capital market and economic development. In addition, the implementation of GCG reduces the cost of capital so as to increase the performance and value of the company, in line with the opinion of Ahmad, et al. (2014), Sarbah & Xiao (2015) state that good governance not only increases company profits but also improves overall company performance and Johl, et al. (2016) believe that corporate governance can increase firm value.

Based on the background that has been disclosed above that there is a gap between the results of previous studies, the purpose of this study is to overcome the gaps indicated above, so that this study requires a more in-depth study to determine whether family ownership has an effect on firm value. mediated by financial performance and corporate governance. The reason this researcher uses family ownership is because it is strengthened by research conducted by Bauran, et al. (2016) which states that, in developing a study on family companies, one of the factors analyzed is ownership, namely its participation in the capital structure of the organization's company and the reason for making corporate governance a mediating variable is because, it is predicted that when the company implements corporate governance, it will able to make the company have a good value in other words the corporate governance system that directs and controls the company, by conducting supervision that is directed at the behavior of managers and in general the implementation of corporate governance according to Patrisia, et al. (2018) is believed to be able to increase the value of the company and the reason why researchers use financial performance as a mediating variable is because, it is predicted that when family ownership performs well, it will have an impact on better company value.

This study aims to further investigate financial performance and corporate governance in mediating the effect of family ownership on firm value.
Literature Review

Theoretical and Conceptual Background

Family Ownership

Ownership structure is the composition of ownership in a company that will affect the performance of a company. Yaseer & Hook (2017) state that ownership structure plays a key role in company performance and provides or creates policy insights to improve the corporate governance system. Ownership, in general, is determined by equity participation in the company. Family ownership is a company owned by one or more family members and has control over the company and participates in managing the company (Anderson & Reeb, 2003). Ward and Aronoff in Susanto et al. (2007) explain that a company is called a family company if it consists of two or more family members who oversee the company's finances.

Shyu (2011) states that family companies can be seen through two dimensions, namely: with a concentration of family ownership, or with family participation in board members, in line with Bauren, et al. (2016) the characteristics of family companies are maintained despite changes in the capital structure. Several studies have set a minimum number of participations to consider family-owned companies. La Porta, et al. (1999) defines family ownership as ownership of individuals (above 5%) and is not only limited to companies that place their family members in CEO positions, commissioner positions or other management positions. Claessens, et al. (2000) in Bauren, et al. (2016) studied the separation of ownership and control in East Asian family firms, setting 5% as the minimum ownership interest to characterize family firms. Syu (2011) defines a company that is said to be a family company if: family ownership exceeds 10%, with family members serving on the board or more than half of the board seats are held by family members. According to Mohammed (2018), the company is widely held if an individual owns more than 10%. In the context of Indonesia, the research by Villalonga & Amit (2006) was also carried out by Komalsari & Nor (2014) which stated that the founding family or institutions owned by the founding family owned 20% or more shares of the company and there were representatives of family members who served as CEO or board of directors of the company. This 20% percentage is also said to be significant because it is supported by PSAK 15 in paragraph 4 which says "If an investor owns either directly or indirectly through a subsidiary, 20% or more of the voting rights in the invest company, then the investor is considered to have significant influence, on the other hand, if the investor owns, directly or indirectly through a subsidiary, less than 20% of the voting rights, the investor is considered to have no significant influence" (PSAK 15 Paragraph 4). From this explanation, it can be concluded that ownership below 20% is not significant or lacks control in the company. Gonzalez, et al. (2019) proposes a broad definition of a family company by operationalizing 5 concepts, namely: ownership, management, governance, succession and the presence of founders in the company. In this study, the measurement of family ownership uses a ratio that refers to the research conducted by Dakhalah, et al (2019), Bauren, et al. (2016), Rouyer (2016) and Syu (2011) by comparing the number of family ownership achievements to the total number of shares issued.

\[
\left(\frac{\text{Family ownership shares}}{\text{Total shares outstanding}}\right) \times 100
\]

Good Corporate Governance (GCG)

International Finance Corporation (2014) corporate governance is the structure and process to direct and supervise the running of the company and Corporate Governance is one of the important factors that affect the company's performance, both financial and market performance (Sarbah & Xiao, 2015) and From the perspective of the agency theory, CG provides mechanism to oversee the agent and emphasizes the importance of transparency to reduce the asymmetric information between the principal and the agent (Utama, et al. 2017). Aktan, et al. (2018) defines corporate governance as a means to regulate and control the company. This aims to encourage companies based on sound and professional governance. Based on these definitions, corporate governance can be briefly defined as a set of systems that regulate and control companies to create added value for stakeholders. Firms possessing good corporate governance practices may outperform their counterparts due to two main reasons. Firstly, better governed firms utilize their financial and human resources in an efficient manner to make profitable investments. Investors feel secure while investing in these types of firms as they believe that less cash flows will be diverted due to mitigated agency problem and expect higher payouts which ultimately leads to increased stock price and enhanced firm value (Nazir & Afza, 2018) and Utama, et al. (2017) GCG can also be used to protect shareholders including non-controlling shareholders from expropriation by managers or controlling shareholders. From the perspective of the agency theory, GCG provides mechanism to oversee the agent and emphasizes the importance of transparency to reduce the asymmetric information between the principal and the agent.

This variable is measured through scores and rankings based on the reference that has been made, which is called the corporate governance perception index (CGPI). given by an independent corporate governance institution in Indonesia, namely the Forum for corporate governance in Indonesia (FCGI).

Financial Performance

In general, the company's performance is calculated using financial ratios. Financial ratios are analytical techniques in the field of financial management that are used as a measuring tool for the financial condition of a company in a certain period. Kasmir (2012:104), Financial ratios are activities to compare the numbers in the financial statements by dividing one number by another. financial ratio indicator used in this study is the profitability ratio. Profitability is the company's ability to generate profits within a
certain period by using assets (Horne & Wachowicz, 1997). This study uses a return on asset (ROA) proxy where, this ROA is the return on net worth. According to Aktan, et al. (2018) ROA is the return on assets calculated from net income divided by total assets. It represents the return generated by the use of the company’s assets. Yasser & Hook (2017) define ROA as the profit generated by a company in relation to its asset base.

The greater the ROA, the greater the efficiency of the use of company assets or in other words, with the same number of assets, greater profits can be generated. larger, and vice versa. Return on assets formula:

\[
\text{Return on assets (ROA)} = \frac{\text{net income}}{\text{net worth (assets)}} \quad (\text{Yasser & Hook, 2017})
\]

**Firm Value**

Firm value is an investor's perception of the level of success of a company associated with stock prices, in general the company's goal is to increase the value of the company which is characterized by the level of prosperity of the shareholders (Gamayuni, 2015) and Marsa & Murtaqi (2017) define company value as a concept developed to take into account the real value of a company that is realistic by considering the concept of market value. Firm value in this study is defined as market value. Because the value of the company can provide maximum shareholder prosperity if the company's share price increases. One alternative used in assessing the firm's value is to use Tobin's Q. Rouyer (2016) defines Tobin's Q as the ratio of the company's market value to the cost of capital replacement proxied by its book value. Tobin’s Q on the other hand is a ratio that, by comparing the market to book value of the firm, in effect gives an idea of the company’s growth prospects. A Q ratio of less than 1 does not really indicate that the company is undervalued, meaning that the company’s future prospects are not promising and the higher the Q ratio, the better the prospects. This is why Tobin's Q is a good proxy measure of a company's long-term performance.

Tobin's Q formula:

\[
\text{Tobin's Q} = \frac{\text{(EMV+D)}}{\text{(EBV+D)}}
\]

**Research and Methodology**

The research approach used is a quantitative approach and the type of research is explanatory. The type of data used in this study is secondary data obtained from the Indonesia Stock Exchange (IDX) for the 2016-2019 period. The population in this study used 72 companies in the basic and chemical industrial sectors listed on the Indonesia Stock Exchange (IDX) 2016-2019 and the sampling technique was purposive sampling.

The dependent variable of this research is firm value. measurement of company value by adding up market capitalization and liabilities divided by total assets and multiplied by 100%. The independent variable in this study is family ownership. Measurement of family ownership is measured by dividing the shares of family ownership by the total outstanding shares and multiplied by 100%. The mediating variables used in this study are financial performance and corporate governance. the measurement of financial performance is measured by dividing the company's net income by the company's assets and the measurement of corporate governance is measured by using the CGPI index rating score.

The data analysis method in this study begins with descriptive analysis, testing classical assumptions, and path analysis. In this study using SPSS version 16. Path analysis or path analysis is used to analyze the pattern of relationships between variables. The forms of statistical equations in this study are:

\[
GCG = \beta 1OWN + \varepsilon 1 \\
ROA = \beta 1OWN + \varepsilon 2 \\
Tobin's Q = \beta 1OWN + GCG + \beta 3ROA + \varepsilon 3
\]

**Findings and Discussions**

Results are the main part of scientific articles, containing: final results without data analysis process, hypothesis testing results. Results can be presented with tables or graphs, to clarify the results verbally.
Table 1: Statistic Descriptive

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Ownership</td>
<td>76</td>
<td>37.32</td>
<td>78.87</td>
<td>58.2226</td>
<td>11.49431</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>76</td>
<td>.10</td>
<td>10.00</td>
<td>5.0845</td>
<td>2.77786</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>76</td>
<td>40.75</td>
<td>85.31</td>
<td>62.6982</td>
<td>9.61025</td>
</tr>
<tr>
<td>Company Value</td>
<td>76</td>
<td>.28</td>
<td>3.50</td>
<td>1.7314</td>
<td>.97757</td>
</tr>
</tbody>
</table>

Table 1 shows the results of the description of family ownership obtained by an average of 58.223 with a standard deviation of 11.494, financial performance obtained an average of 5.084 with a standard deviation of 2.778, corporate governance obtained an average of 62.698 with a standard deviation of 9.610, and the company obtained an average of 1.731 with a standard deviation of 0.977.

Hypothesis testing results

Based on the results of path analysis, this study has met the classical assumption test. The normality test using the Kolmogorov-Smirnov test on the three equations obtained a significance value of more than 0.05 (sig > 0.05) so it was stated that the residuals were normally distributed and the assumption of normality was met. Multicollinearity test by looking at the value of centered VIF obtained a value below 10 (no multicollinearity occurs). Heteroscedasticity test with Spearman Rank correlation test obtained a significance value of each independent variable more than 0.05 (p > 0.05) meaning that there was no heteroscedasticity problem in the model so that the heteroscedasticity assumption was met. The autocorrelation test used the Durbin-Watson (DW) test, it was found that the DW value was close to the dU value range and the 4-dU value (dU < DW < 4-dU) meaning that no autocorrelation problem was found so that the autocorrelation assumption was met. And the linearity test obtained the significance value of each relationship between variables less than 0.05 (sig < 0.05) so it was stated that the relationship between variables was linear.

Table 2: Path Analysis Test Results (Direct Effect)

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Ownership -&gt; Firm Value</td>
<td>0.441</td>
<td>4.229</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Family Ownership -&gt; Financial Performance</td>
<td>0.321</td>
<td>2.913</td>
<td>0.005</td>
<td>Significant</td>
</tr>
<tr>
<td>Family Ownership -&gt; Corporate Governance</td>
<td>0.305</td>
<td>2.753</td>
<td>0.007</td>
<td>Significant</td>
</tr>
<tr>
<td>Financial Performance -&gt; Firm Value</td>
<td>0.423</td>
<td>4.016</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Corporate Governance -&gt; Firm Value</td>
<td>0.405</td>
<td>3.813</td>
<td>0.000</td>
<td>Significant</td>
</tr>
</tbody>
</table>

The results of the path analysis obtained a path coefficient of 0.441 with a t-count value of 4.229 and a significance value of 0.000. These results show the t-count value is more than t-table (t-hit > t-table) and the significance value is less than 0.05 (sig < 0.05), so it is stated that there is a significant positive effect between family ownership on firm value.

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The results of the path analysis obtained a path coefficient of 0.305 with a t-count value of 2.753 and a significance value of 0.007. These results show the t-count value is more than t-table (t-hit > t-table) and the significance value is less than 0.05 (sig < 0.05) so that it is stated that there is a significant positive effect between family ownership on corporate governance.

The results of the path analysis obtained a path coefficient of 0.423 with a t-count value of 4.016 and a significance value of 0.000. These results show the t arithmetic value is more than t table (t hit > t table) and a significance value is less than 0.05 (sig < 0.05) so it is stated that there is a significant positive effect between corporate governance on financial performance.

The results of the path analysis obtained a path coefficient of 0.405 with a t-count value of 3.813 and a significance value of 0.000. These results show the t-count value is more than t-table (t-hit > t-table) and the significance value is less than 0.05 (sig < 0.05), so it is stated that there is a significant positive effect between corporate governance on firm value.

Table 3: Mediation Test Results (Indirect Effect)

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Ownership -&gt; Financial Performance -&gt; Firm Value</td>
<td>0.136</td>
<td>2.217</td>
<td>0.023</td>
<td>Significant</td>
</tr>
<tr>
<td>Family Ownership -&gt; Corporate Governance -&gt; Firm Value</td>
<td>0.124</td>
<td>2.182</td>
<td>0.032</td>
<td>Significant</td>
</tr>
</tbody>
</table>
The results of the path analysis obtained a path coefficient of 0.136 with a t-count value of 2.317 and a significance value of 0.023. These results show the t-count value is more than t-table (t-hit > t-table) and the significance value is less than 0.05 (sig < 0.05), so it is stated that there is a significant positive effect between family ownership on firm value by mediating financial performance.

The results of the path analysis obtained a path coefficient of 0.124 with a t-count value of 2.182 and a significance value of 0.032. These results show the t-count value is more than t-table (t-hit > t-table) and the significance value is less than 0.05 (sig < 0.05) so that it is stated that there is a significant positive effect between family ownership on firm value by mediating corporate governance.

**Discussions**

This research will answer as many as seven research hypotheses that have been proposed. Where the seven hypotheses consist of five direct effects and two mediating roles. In more detail, the results of hypothesis testing and discussion are explained as follows:

**The Direct Effect of Family Ownership on Firm Value**

The results of this study found that there is a significant positive effect between family ownership on firm value. Family ownership strives to maximize performance and has a strong motivation to monitor overall management performance because family wealth is closely related to company performance and can harmonize goals between principal and agent because the family acts as both principal and agent, this can reduce the risk of conflict, interest in the company so that it can indirectly increase the value of the company.

Companies with family ownership can minimize agency conflicts (Anderson & Reeb, 2003). This is due to strict supervision by the shareholders, concentrated by the family that occurs in the company, the conflict between the agent and the principal can be reduced so as to reduce the company's agency costs in the long term and will result in cost savings which are expected to increase profits which have an impact on the value of the company. Wang & Shailer (2017) state that family ownership can better monitor managers or better align the interests of majority and minority shareholders to increase firm value in emerging markets. This study is in line with research conducted by Al Ghamdi & Rodes (2017), Bauren, et al. (2016), Andayani, et al. (2018) and Mao-Feng, et al. (2018) which shows positive results between family ownership and firm value.

**The Direct Effect of Family Ownership on Financial Performance**

The results of this study found that the basic and chemical industry in 2016-2019 the majority of share ownership is owned by families and members take part in the management of the company so that the company has intense supervision such as the alignment of interests between the principal and agent and direct family supervision in the basic and chemical industry sector companies in 2016. 2016-2019 observations have an impact on management being more focused in managing the company and also being committed to improving financial performance.

Ownership structure is a determining factor for a company's financial performance (Saleh, et al., 2017) and family ownership has several advantages for companies, one of which is being able to emphasize agency problems, this is supported by research conducted by Komalasari & Nor (2014). Shleifer & Vishny (1986) family ownership has several advantages, one of which is the alignment of the goals of the principal and agent because the family acts as both the principal and agent. The existence of an alignment of interests between the principal and agent and direct family supervision in the company will have an impact on management which will focus more on managing the company and is also committed to improving the company's performance so that it will result in an increase in company profitability. In line with the research of Al Ghamdi & Rodes (2017), Bauren, et al. (2016), Andayani, et al. (2018) and Mao-Feng, et al. (2018).

**The Direct Effect of Family Ownership on Corporate Governance**

The results of this study found that the implementation of good corporate governance can provide a level of trust and provide effective protection for minority shareholders and creditors so that they believe that the company with the majority of share ownership owned by the founder's family is really safe and reliable so that there is no doubt that they will invest more in company, the higher the share ownership by the family will have a significant effect on the higher the value of corporate governance. This is in line with the research conducted by Sarbah & Xiao, (2015) which states that there is an effect of family ownership on corporate governance.

Family ownership and corporate governance influence each other to reduce agency costs, the size of share ownership by controlling shareholders will improve the quality of corporate governance. Main, et al. (2017) the mechanism of corporate governance is urgently needed by the second largest shareholder in controlling and mitigating agency costs, thereby being able to offset the controlling shareholder by strengthening corporate governance practices, making it difficult for controlling shareholders to take over the company's assets. The relationship of family ownership to corporate governance is in line with research conducted by Muawanah (2014) and Sarbah & Xiao (2015) which shows that there is a positive relationship between family ownership and corporate governance.

**The Direct Effect of Financial Performance on Firm Value**

The results of this study found that financial performance is a factor that affects Meivinia's company value (2018) in line with Gamayuni (2015) which states that company value is determined by the strength of earnings from company assets, so it can be
interpreted that financial performance is one of the factors that affect company value. The higher the financial performance theoretically, the better the company's performance, resulting in an increase in stock prices. The increase in stock prices and the large number of outstanding shares will affect the increase in the value of the company, because the value of the company is reflected in the company's performance and the share price is formed from the demand and supply of the capital market which reflects the assessment of outsiders on the company's performance.

Financial performance is one of the factors that affect the value of the company. The main goal of the company is to maximize profits or wealth, especially for its shareholders, manifested in the form of efforts to increase or maximize the market value of the share price of the company concerned. In line with research conducted by Marsha & Muttaqi (2017), Gamayuni (2015) and Ayuba, et al. (2019) shows the results, the company's performance as proxied by ROA has a significant influence on the value of the company as proxied by Tobin's Q.

**The Direct Effect of Corporate Governance on Firm Value**

The results of this study found that the success of a company is driven by the implementation of a good corporate governance system, therefore good corporate governance will increase the value of a company, therefore corporate governance is a system that needs to be applied in the company because indirectly investors will feel safe when doing business. investing in companies that have implemented a good corporate governance system, in this case investors believe that the company is able to minimize conflicts that occur in the company so that it is able to erode agency costs so that the company will be able to increase the value of its shares which is marked by an increase in company value.

This is in line with research conducted by Zayed (2017), Nazir & Afza (2018), and Farooque (2019) which stated that corporate governance has an effect on company value. The implementation of good corporate governance makes the possibility of information asymmetry smaller, because there is better monitoring and there is more control so that managers make the best decisions for company and shareholder policies. This helps to clarify and direct the agency relationship in a positive direction and does not become a conflict of interest between each party so that the company will be well managed and encourage an increase in company value that is getting better.

**The Indirect Effect of Family Ownership on Firm Value, Through Financial Performance**

The results of testing the hypothesis prove empirically that family ownership can increase the value of the company if it is supported by financial performance. Share ownership by members of the founder's family tends to minimize the risk of agency conflict and can increase company efficiency. Company efficiency occurs because of lower monitoring costs, this is because, in general, company owners also act as company managers, so there is no conflict of interest between management and owners so that there is an alignment between the company's vision and mission which results in reduced agency costs so that it will increase profits.

Alignment of opinion between the principal and agent as well as supervision carried out by family members, the management will focus more on improving financial performance optimally. In line with research conducted by Al Ghamdi & Rodes (2017), Bauren, et al. (2016), Andayani, et al. (2018) and Mao-Feng, et al. (2018) shows the results that there is a significant effect between family ownership on company performance as proxied by Return on Assets (ROA). The better the company's performance in terms of profitability growth, it can be interpreted that the company's prospects in the future will be judged to be getting better, meaning that the better the company's profitability growth will affect the increase in company value. Increasing profits can encourage an increase in firm value. in line with research conducted by Al Ghamdi & Rodes (2017), Bauren, et al. (2016), Andayani, et al. (2018) and Mao-Feng, et al. (2018) which states that there is a significant effect between family ownership on financial performance and Marsha & Muttaqi (2017), Gamayuni (2015) and Ayuba, et al. (2019) which shows that financial performance has a positive effect on firm value.

**The Indirect Effect of Family Ownership on Firm Value, Through Corporate Governance**

The results of testing the hypothesis prove empirically that the higher family ownership will have a significant effect on the high value of corporate governance, and indirectly have a significant effect on firm value. family wealth is closely related to the company so that family members are motivated to always maximize the company's performance with the corridors of law, ethics, accountability, responsibility and transparency in all business facilities so as to realize good corporate governance. Family ownership in the basic and chemical industry sectors has implemented a corporate governance system in accordance with the principles of implementing Good Corporate Governance that apply internationally. Although the basic and chemical industry sectors are majority owned by families, they are able to implement a good corporate governance system so that it indirectly affects the increase in company value.

The occurrence of conflicts in companies which are mostly managed by families, these conflicts occur when making decisions that tend to be non-objective, nepotism is often found where a company when all lines in the company structure are ridden by families who are not competent in their fields are maintained when making mistakes because the “family” factor which will have a negative impact on investors' assessments related to the value of the company. The implementation and improvement of the quality of good corporate governance can help the company's operations run smoothly and can minimize problems that occur within the company. Companies that have implemented good governance will have a higher valuation in the eyes of investors than companies that have
not implemented it. The results of this study are in line with previous research conducted by Sarbah & Xiao, (2015) which states that family ownership has an effect on corporate governance. The results of this study are also supported by research conducted by Zayed (2017), Nazir & Afza (2018), and Farooque (2019) which state that corporate governance has an effect on firm value.

**Conclusions**

Based on the results of research and discussion on the effect of family ownership on firm value mediated by financial performance and corporate governance, the following conclusions can be drawn: Family ownership has a significant positive effect on firm value in the basic and chemical industry sectors in 2016-2019. This shows that family ownership is able to increase supervision and make the right decisions to increase firm value. Family ownership has a significant positive effect on financial performance in the basic and chemical industry sectors in 2016-2019. This shows that family ownership is able to minimize agency conflict and reduce agency costs which can reduce so that it will increase company profits. Family ownership has a significant positive effect on corporate governance in the basic and chemical industry sectors in 2016-2019. This shows that the financial performance of the basic and chemical industry sectors showed good performance in the research period so as to encourage an increase in company value. Corporate governance has a significant positive effect on company value in the basic and chemical industry sectors in 2016-2019. This shows that the implementation of good corporate governance can increase the value of the company. Financial performance mediates the effect of family ownership on firm value in the basic and chemical industry sectors in 2016-2019. This shows that the existence of family ownership in the company can improve the company's financial performance so that it affects the increase in company value and corporate governance mediates the effect of family ownership on company value in the basic and chemical industry sectors in 2016-2019. This shows that family ownership is able to implement a good corporate governance system so that it indirectly affects the increase in company value and the survival of the company.

This research has suggestions for further research, namely the object of research can be expanded not limited to the basic industrial sector and chemical, so that the latest research can generalize to all sectors listed on the IDX. Can add variables that are not studied in the research, such as agency costs and focus on agency problems in companies owned by families, because ownership is vulnerable to agency problems that lead to public losses and researchers only focus on family ownership variables to examine the relationship with the value of the company, then there is potential for future researchers related to the value of the company with other ownership such as managerial, government and foreign ownership.

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