

Measurement of Company Performance and Market Value as Measured by Family Involvement of Founders in Family Business in Indonesia

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Abstract. Family businesses dominate Indonesia's economic landscape, contributing over 80% of GDP and 96% of employment; yet the extent to which founding family involvement translates into superior firm performance and market value remains empirically contested. This study examines the relationship between founding family involvement and two performance dimensions — financial performance, proxied by Return on Investment (ROI), and market value, proxied by Tobin's Q, while controlling for firm size, firm age, and investment risk. Using an unbalanced panel dataset of 40 family firms listed on the Indonesia Stock Exchange (IDX) over the 2021–2024 period (157 observations), this study employs panel data regression with a Random Effects Model (REM), selected through the Chow, Hausman, and Lagrange Multiplier (Breusch-Pagan) tests. The results reveal that ROI has no significant effect on Tobin's Q ($p = 0.483$), suggesting that internal profitability does not automatically translate into higher market valuation. Firm size exerts a significant negative effect on Tobin's Q ($p = 0.000$), consistent with agency cost theory, as larger firms tend to face greater bureaucratic inefficiencies and overinvestment risks. Investment risk significantly and negatively affects Tobin's Q ($p = 0.000$), aligning with agency theory arguments that higher risk raises the cost of capital and depresses investor confidence. Firm age has no significant effect on market value ($p = 0.404$), indicating that industry dynamics and strategic focus outweigh organizational longevity in driving market valuation. These findings contribute to the family business literature by highlighting a systematic divergence between internal performance metrics and external market perceptions in the Indonesian context, and suggest that founding family involvement per se is insufficient to guarantee market value creation without complementary professional governance mechanisms.

Keywords. family business; founding family involvement; financial performance; Return on Investment; market value; Tobin's Q; panel data regression; Indonesia Stock Exchange; agency theory; corporate governance.

1. Introduction

Family businesses play a crucial role in the global economy, including in Indonesia. Data shows their significant contribution to Gross Domestic Product (GDP). Based on research conducted by Daya Qarsa, approximately 95% of businesses in Indonesia fall into the family business category. In Indonesia itself, family businesses have had a significant impact on the economy. Their presence has contributed approximately 82% to the country's Gross Domestic Product (GDP), even supporting national economic recovery during the crisis. This makes the role of family businesses vital to the Indonesian economy. Furthermore, as quoted from www.idxchannel.com, Family Business Summit 2024 with the theme Longevity of Family Business Amid The Challenge of Continuous Disruption which was held again at the Grand Hyatt Jakarta in 2024 noted that family businesses contributed 96.16% to employment and 53.28% to Indonesia's GDP, where what must be considered is the challenge of family businesses where only 30% can pass from generation 1 to generation 2. Only 13% from generation 2 to 3. And the rest is only 3%. (Family Businesses Contribute 80 Percent to Global GDP - Part 2 Another unique characteristic of family businesses lies in the close integration between ownership and management, often with family members holding key positions. In the business context, there are three forms of family businesses in Indonesia, including: Family-Owned Business (FOE), Family Owned and Managed Business (FOMB) or Family Business (FB), and Business Family (BF). However, this type of Family Owned and Managed Business (FOMB) is common in Indonesia, where this type of family business is characterized by strategic positions held by family members. Furthermore, family businesses also have diverse management models. According to Gimeno's complexity theory, family business models can be grouped into five types: captain model, emperor model, family team model, professional family model, and the highest incorporate model Studies by Anderson and Reeb (2003) and Campbell and Minguez-Vera (2008) indicate that delegation of top management positions to family members is common, strengthening family influence in the board structure.

This phenomenon indicates that strategic decisions in family firms often rely heavily on the policies and approval of the founding family. Susanto et al. (2007:182) asserted that the majority of family firms (82%) require non-family leaders to obtain approval from the family members involved. This direct family involvement in management can potentially reduce agency costs. When management is a member of the founding family, the interests of management and owners tend to be aligned, minimizing conflicts of interest that may arise between shareholders and managers.

In family businesses, success is measured not only by profitability but also by family harmony. A family business is considered successful if it is able to grow and generate profits while maintaining harmonious relationships among family members. The psychological attachment and strong commitment of the founding family to the organization contribute significantly to value creation and improved company performance, as noted by Arthurs and Busenitz (2003). Founders, with their high achievement drive, tend to drive the company towards better performance. Conversely, non-founder owners may not have the same level of commitment and track record.

Despite their strengths, family businesses also face the dynamics of ownership transitions. There are cases where family businesses are sold to non-family parties. The reasons behind these sales vary, ranging from the desire to expand other businesses, the company's threat of bankruptcy, to the lack of family members willing to continue the business after the founder's death. When a company transfers ownership to a non-founder, the founding family's

involvement in ownership, the board of commissioners, and the board of directors automatically disappears.

This ownership transition raises concerns about declining firm performance and value. Increased agency costs and a potential lack of commitment from new owners who may not fully understand the intricacies of the firm are key issues. Research by Hamberg et al. (2013) supports these concerns, finding that the performance and value of family firms managed by non-founders are significantly lower than those of founding family firms, and are not significantly different from those of other non-family firms.

Although many studies, such as Reyna et al. (2025), show a positive impact of founding family involvement on financial performance (measured by Return on Investment/ROI) and company market value (measured by Tobin's Q), this does not rule out the possibility of negative impacts. Anderson and Reeb (2003) and Villalonga and Amit (2006) highlight that although founding families may be sincerely devoted to the company and tend towards concentrated ownership, there is a risk that they may extract personal benefits or make economic decisions that are detrimental to minority shareholders.

It's important to distinguish between a company's financial performance and its market value. Financial performance reflects the company's internal conditions, while its market value reflects the perception of external parties, namely investors. A company with good financial performance doesn't necessarily have a good market value. However, if a company has a good market value, its financial performance is almost certainly also good, as investors will not value a company with poor financial performance highly. Therefore, research often separates these two aspects to understand the extent of the founding family's influence on each.

2. Literature Review

2.1. The Family Businesses and the Role of the Founding Family

A family firm is a business entity owned and often managed by one or more family members. According to contemporary definitions, a family firm encompasses three main dimensions: family share ownership, managerial control by family members, and active involvement in strategic decision-making (Miller & Le Breton-Miller, 2021). In Indonesia, this structure is common, where managerial positions are often inherited through generations, rather than based on professional competence (Susanto et al., 2007). The founding family often has an emotional attachment and long-term commitment to the firm. However, their involvement can also create conflicts of interest, particularly when business decisions are based more on family ties than rational or professional considerations (Villalonga & Amit, 2006).

2.2. Financial Performance (ROI) and Market Value (Tobin's Q)

A company's financial performance is typically measured by Return on Investment (ROI), which reflects the company's ability to generate profits from its total investment. Meanwhile, a company's market value, often measured using the Tobin's Q ratio, reflects investors' perceptions of the company's value relative to the replacement value of its assets (Ross et al., 2013). Empirical research shows that ROI positively influences Tobin's Q, as the higher the ROI, the greater the company's market value (Mitra, 2005; Chen & Zhao, 2006). However, recent research also highlights that the involvement of the founding family is not always positive. In some cases, companies managed by the founding family actually show lower financial performance and market value, caused by a lack of professionalism in management and potential internal conflicts (Gómez-Mejía et al., 2019).

2.3. Agency Theory and Conflict of Interest

Agency theory explains the potential for conflict between owners and managers, as well as between majority and minority shareholders. In the context of family firms, this conflict often arises when incompetent family members occupy strategic positions, thereby neglecting the interests of minority shareholders (Shleifer & Vishny, 1997; Chu, 2009). However, several studies also show that the involvement of the founding family can reduce agency costs due to the alignment between ownership and management (Anderson & Reeb, 2003). This effect is highly dependent on the governance structure and level of professionalism within the firm.

2.4. Founding Family

A person who creates a business from an opportunity is called a company founder. According to Susanto et al, (2007) family businesses in Indonesia were initially founded by single founder. The rest is collaborating with partners who are still included in close-circle family or immediate family, such as husband/wife, siblings, and close friends. In this study, the founder is proxied by Found. Found can be calculated using a dummy variable that distinguishes between family firms managed by the founding family and family firms managed by non-founding families. It has a value of 1 if managed by the founding family and a value of 0 if managed by non-founding families.

2.5. Size

Company size is used because it indicates a company's capacity and ability to manage all its operational and financial activities to achieve its goals. Company size can be calculated using Ln (total company assets).

2.6. Age.

Age This is used to determine the company's age from its inception until the time of this research. This is also a determining factor for investors in making investment decisions.

2.7. Risk.

The risk variable in this study is used to determine the level of risk investors will accept. Risk can be measured using the standard deviation of a company's stock returns.

2.8. Financial performance

Financial performance is used by management to monitor and assess a company's financial condition and performance in terms of profitability. There are several profitability ratios, one of which is Return on Investment (ROI). According to Brigham & Houston (2019), ROI indicates a company's ability to generate net profit from total investments. A higher ratio indicates a more effective use of invested capital to generate profits. This study only measures financial performance using ROI, as ROI reflects a company's effectiveness and efficiency in managing its investments. Return on Investment is expressed by the following ratio:

$$ROI = \frac{\text{Net Profit After Tax}}{\text{Total Investment}}$$

Market value reflects the high or low market value of outstanding shares. According to Ross (2013), there are several ratios to measure a company's market value. Two relevant ratios are: market to book ratio And Tobins Q ratio. Conceptually, Tobins Q better to measure the market value of a company than market to book ratio Because Tobins Q focuses on the current value of a company compared to how much it would cost to replace its current assets. The larger

this variable, the greater the market value of a company. Tobins Q expressed by the following ratio:

$$\text{Tobins Q} = \frac{\text{Market Value of Equity} + \text{Total Debt}}{\text{Total Assets}}$$

Market Value of Equity = (Year-end share price X Number of shares outstanding)

3. Research Methodology

In this study, panel data analysis techniques were used. According to (Yusniati et al., 2019), panel data is a combination of data. cross section and time series (time series) namely a number of variables observed across a number of categories and collected over a certain period of time. This panel regression test is used to determine the relationship between independent variables and dependent variables. And the testing that will be carried out in this study goes through the following stages: panel data regression test, selection of panel data regression model, classical assumption test and hypothesis test. This test is carried out with the help of software Microsoft Excel and software Eviews 9. Generally, panel data applications use model one-way error component for error-nya. Therefore, the equation can be formulated as follows (Suwardi, 2012):

$$\text{Andit} = \alpha + b \text{xit} + \text{uit}$$

Where:

i = 1,2, N (Symbols for individuals, companies, etc.) (cross-section)

t = 1,2, T (Symbol for time-series)

b = Coefficientslope

a = Constant coefficient

Andit = Dependent variable for the individual uniti and chronological ordert

xit = Independent variable for the individual uniti and chronological ordert

According to (Nurapiah & Qosim, 2020), in panel data there are several types of approaches, including the approach common effect, fixed effect and random effect.

This research uses a quantitative approach to answer the problem formulation that has been formulated. The analyzed data is sourced from secondary data in the form of annual reports and financial statements of companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2024 period, which can be accessed through the IDX's official website.

The data collection procedure is carried out in several stages, namely:

1. Literature study, by reviewing literature in the form of books, journals, and previous research that is relevant to the research topic.
2. Utilization of internet media, used if the required data is not available through library sources or official company documents.

The study population included family-owned companies listed on the Indonesia Stock Exchange (IDX) during the period 2021-2024. The sample was selected using a purposive sampling method, based on specific criteria aligned with the research objectives. The sample criteria included:

1. Family companies listed on the IDX in the 2021-2024 period.
2. Not operating in the financial or funding sector (e.g. banking, insurance, leasing and securities).
3. Have complete data according to research needs throughout the observation period.
4. Have clear status as a founding or non-founding company, including the history of its establishment.

The classification of family businesses in this study refers to Andres (2008), which defines a minimum of 25% share ownership by family members or family groups. If share ownership

is less than 25%, the company is still categorized as a family business if there is involvement of family members in the management structure, such as holding positions on the board of commissioners or directors. Family relationships can be identified through the similarity of last names or surnames between shareholders and members of the board of commissioners or directors. Based on this, and based on data tabulation that has complete data according to the chosen topic, a sample of 40 companies was selected.

4. Result

4.1. Model Analysis

Table 1. Descriptive Statistics

	TOBINS Q	ROI	SIZE	RISK	AGE
Mean	1.519934	7.822225	31.27673	0.096519	48.45860
Median	1.015416	4.053328	31.36636	-0.069444	46.00000
Maximum	6.524448	38.99795	34.90986	6.678571	116.0000
Minimum	0.360674	-25.22832	27.81093	-0.867194	18.00000
Std. Dev.	1.211444	10.87840	1.287889	0.819978	18.22174
Skewness	2.015177	0.766483	0.072508	4.916362	1.196801
Kurtosis	6.846107	3.717519	3.847613	33.69791	5.431990
Jarque-Bera	203.0291	18.74067	4.837416	6797.080	76.17052
Probability	0.000000	0.000085	0.089037	0.000000	0.000000
Sum	238.6297	1228.089	4910.446	15.15349	7608.000
Sum Sq. Dev.	228.9450	18460.97	258.7506	104.8887	51796.98
Observations	157	157	157	157	157

After tabulating the data, and checking the completeness of the data both in terms of Time Series (research time period) and Crossectional (many companies), and taking into account outlier existing, then panel data regression can be carried out in the conditions unbalanced panel (the number of observations per unit is different) and it is valid to remove data detected as outliers to make the estimate more accurate. Robust This is confirmed in the latest research by Yuniarti, Rosadi, and Abdurakhman (2023) who developed a method robust for unbalanced panel regression. Therefore, the processed data set is 157 instead of 160 (4 years, with 40 selected companies).

A. Chow Test

Redundant Fixed Effects Tests
 Equation: FEM
 Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	10.341094	(39,113)	0.0000
Cross-section Chi-square	238.530934	39	0.0000

By using the criteria for drawing conclusions If the Cross-section Chi-square Prob. value is < 0.05 then the model that will be selected is fixed effect and conversely if the value is > 0.05 then the model that will be selected is common effect. So the selected model is fixed effect model.

B. Hausman Test

Correlated Random Effects - Hausman Test
 Equation: REM
 Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.691681	4	0.2234

By using the conclusion drawing criteria if the random cross-section probability is < 0.05 then the selected model is fixed effect. If the probability of random cross-section > 0.05 then the selected model is random effect. So the selected model is random effect model. Because the results of the Chow and Hausman tests showed different results, the following test was carried out:

C. Uji Lagrange Multiplier (LM Test – Breusch-Pagan)

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	90.45093 (0.0000)	1.841530 (0.1748)	92.29246 (0.0000)

By using the conclusion drawing criteria based on the cross-section Breusch-Pagan Value, indicated by the figure below, which is 0.000, which is less than 0.05. So this Lagrange Multiplier Test shows that the best estimation method is random effect. If the Breusch-Pagan cross-section value is greater than 0.05 then the best estimation method is common effect. So the selected model is random effect model. If based on the selection of the appropriate estimation method for the regression equation is random effect, then there is no need to carry out a classical assumption test. On the other hand, if the regression equation is more suitable using common effect or fixed effect (OLS), it is necessary to conduct a classical assumption test, the results must meet BLUE. Therefore, in the following discussion, we will not use the classical assumption test, because the selected model is random effect model.

4.2. Hypothesis Testing

After knowing the selected model, the model will be used to answer the hypothesis that was previously put forward.

Dependent Variable: TOBINS_Q
 Method: Panel EGLS (Cross-section random effects)
 Date: 03/04/26 Time: 12:35
 Sample: 2021 2024
 Periods included: 4
 Cross-sections included: 40
 Total panel (unbalanced) observations: 157
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROI	0.005208	0.007406	0.703216	0.4830
SIZE	-0.479917	0.115683	-4.148565	0.0001
RISK	0.243993	0.065483	3.726031	0.0003
AGE	0.006983	0.008349	0.836431	0.4042
C	16.15660	3.556651	4.542644	0.0000

Effects Specification		S.D.	Rho
Cross-section random		0.903990	0.7109
Idiosyncratic random		0.576498	0.2891

Weighted Statistics			
R-squared	0.165111	Mean dependent var	0.469456
Adjusted R-squared	0.143141	S.D. dependent var	0.638051
S.E. of regression	0.586313	Sum squared resid	52.25202
F-statistic	7.515049	Durbin-Watson stat	1.145581
Prob(F-statistic)	0.000015		

Unweighted Statistics			
R-squared	0.230351	Mean dependent var	1.519934
Sum squared resid	176.2074	Durbin-Watson stat	0.339707

Based on model output random effect model above, it can be seen that the hypothesis states that:

Table 2. Hypothesis Test

	Prob	Significance	Description
H ₁ : ROI affects company value.	0.4830	0.05	Hhypothesis rejected
H ₂ : Size influences company value.	0.0001	0.05	Hhypothesis accepted
H ₃ : Risk affects the company's value.	0.0003	0.05	Hhypothesis accepted
H ₄ : Age influences company value.	0.4042	0.05	Hhypothesis rejected

The results of the study show that ROI does not affect the company value as measured by Tobin's Q, this result is inversely proportional to the results of research conducted by San Martin Reyna et al. (2025) in emerging markets showed that family involvement in ownership and management can increase ROI due to stronger control and a long-term orientation. However,

this finding aligns with other literature highlighting the differences between internal performance indicators (such as ROI) and external market-based indicators (such as Tobin's Q). Anderson & Reeb (2003) and Villalonga & Amit (2006) emphasized that concentrated family ownership can result in decisions that benefit the family, but does not necessarily improve investors' perceptions of firm value.

The results of the study show that size influence on the value of the company as measured by Tobin's Q with a negative relationship direction, this is possible because large companies tend to have a more dispersed ownership structure, so that managers can make decisions that do not always maximize shareholder value, Growth in company size is often followed by longer bureaucracy, which can slow down strategic decision making, Large companies with abundant resources sometimes over-invest in less profitable projects, thereby reducing capital efficiency And Investors may judge that large companies have reached a saturation point of growth, so that the prospects for increasing market value are limited. These results are in line with those conducted by Myers (1977) in the structure literature, the results of his research show that large companies with high leverage can face the risk of distress, so that even though they are large, market value (Tobin's Q) can fall due to investor skepticism.

The results of the study show that risk influences the company's value as measured by Tobin's Q. Some literature shows that the influence of risk on company value as measured by Tobin's Q can vary: some studies find a significant effect, while others show no effect. In general, high risk often lowers Tobin's Q because investors are more cautious, but in some contexts the risk is insignificant because other factors are more dominant. These results are in line with research conducted by Myers, 1977; Jensen & Meckling, 1976. Agency theory explains that high risk increases the cost of capital and reduces investor confidence, so that Tobin's Q can decrease.

The results of the study show that age does not affect the company value as measured by Tobin's Q. The results of this study are in line with the results of research conducted by Wernerfelt & Montgomery (JSTOR, Tobin's Q and Firm Performance), where research emphasizes that industry factors and business focus are more dominant than company age in explaining Tobin's Q. Several studies show that company age (firm age) can have a positive, negative, or insignificant effect on company value as measured by Tobin's Q. In general, older companies face the risk of organizational rigidity and decreased innovation, so that research results often find a significant negative direction.

5. Conclusion

Based on the research results and data analysis results referring to the problem formulation and hypothesis, it can be concluded that:

- A. ROI has no effect on company value as measured by Tobin's Q, indicating a difference between internal performance and market perception.
- B. Size has a significant negative effect on Tobin's Q, indicating that large companies face bureaucracy, agency costs, and the risk of overinvestment which reduces market value.
- C. Risk has a significant effect on Tobin's Q, in line with agency theory which emphasizes that high risk increases the cost of capital and reduces investor confidence.
- D. Age has no effect on Tobin's Q, confirming that industry factors and business focus are more dominant than company age in determining market value.

Based on the research results that have been discussed, the author can conclude several suggestions as follows:

- A. For family businesses: it is necessary to increase management professionalism so that the involvement of the founding family does not reduce market value.
- B. For investors: it is advisable to consider risk factors and company size more critically when assessing investment prospects in family businesses.
- C. For academics: further research can expand control variables, such as ownership structure, corporate governance, and industry factors, to enrich the understanding of the relationship between financial performance and market value.
- D. For regulators: it is important to promote transparency and good governance in family businesses to increase investor confidence.

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