

THE EFFECT OF CORPORATE GOVERNANCE, CASH FLOW, AND DIVIDEND POLICY ON COMPANY PERFORMANCE WITH FAMILY OWNERSHIP AS MODERATING VARIABLES ON MANUFACTURING COMPANIES LISTED ON INDONESIA STOCK EXCHANGE

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ABSTRACT

The purpose of this research is to examine the effect of corporate governance, cash flow, and dividend policy on firm performance in manufacturing companies listed on Indonesia Stock Exchange period of 2016 – 2020. This research uses firm age as a control variable and family ownership as a moderating variable. The technique for the quantitative data uses a statistical tool, i.e. Moderated Regression Analysis (MRA). The results shows that cash flow has a positive effect on firm performance. Meanwhile, corporate governance, and dividend policy have no effect on firm performance the implication is the members of corporate governance may come from non-family members or majority are non-family member so the family can not force regulation as well as dividend policy. Then family ownership is able to strengthen the relationship between corporate governance on firm performance since family members can enforce regulations and procedures. However, family ownership is not able to strengthen or weaken the relationship between cash flow, and dividend policy on firm performance because cash flow and dividend policy are based on company's daily operation.

Keywords: Corporate Governance, Cash Flow, Dividend Policy, Firm Age, Family Ownership

INTRODUCTION

Business dynamics are in line with the dynamics of the capital market which continues to develop from year to year in accordance with the phenomena of market trends and technological transformation. The main purpose of establishing a company in general is to improve the welfare of the stakeholders and most importantly (in particular) the welfare of the shareholders. Firm performance can be increased through good company performance. Good company performance will also benefit consumers, communities, employees, and suppliers of funds (creditors). The company's performance shows the company's ability to provide a return on company ownership in the form of assets, capital, and debt. Company performance is the company's work performance. To obtain company performance, it is necessary to have good control and synergy between the management functions, namely management and ownership functions.

Many companies in the world are dominated by family-owned companies (Porta, Lopez-Silanes, and Shleifer, 1999; Anderson and Reeb, 2003). According to survey data conducted by Price Waterhouse Cooper (PwC) in 2014 shows that more than 95% of publicly listed companies in Indonesia are family companies (www.pwc.com, 2014). Theoretically, family firms have better performance than non-family firms (Anderson and Reeb, 2003). The advantages of family companies occur when family management in the company plays an active role in controlling the company so that internal conflicts between shareholders and management (agency problems) can be minimized and improve company performance (Chu, 2011; Pukthuanthong, Walker, Thiengtham, and Du, 2013). Besides being able to reduce agency problems, family-owned companies have higher motivation in running the company because of the desire to pass down the company to the next generation (Shleiver and Vishny, 1986) so that they continue to strive to maintain the company's long-term sustainability. Related to company performance, several researchers have discussed influencing factors such as corporate governance, operating cash flow and dividend policy. But here the author wants to try to do

further testing by adding family ownership as a moderating variable to see whether family ownership can strengthen or weaken the results of previous studies that examine the relationship between corporate governance, operating cash flow and dividend policy on company performance.

This study is important for investors to value the company's performance because investors can select whether to buy or sell the shares. The stock prices is linked to company's performance.

Theory used in this research is Agency Theory from Jensen and Meckling 1976. This theory is discussing conflict of interest between the managers and stakeholders. The managers represent corporate governance boards who regulate policies in the company and the stakeholders consists of investors and creditors. Both are trying to maximize their wealth. Agency cost occurs because the conflict of interest. Family ownerships trying to maximize their wealth and restricted the amount of dividend. On the other hand the investors want big dividend on their investment. Good Corporate Governance is mediator between the family ownership and investors.

The Influence of Corporate Governance on Company Performance

Companies with high CG scores have a proportional ownership structure consisting of institutional and managerial ownership structures, independent commissioners, and a competent and adequate audit committee that can work effectively to carry out more optimal supervision. This can reduce the opportunity for management to take inefficient actions or actions that are detrimental to the company and aims to make management act in accordance with the interests of the company owner (principal) so that it can encourage management to always show good performance in increasing the company's profitability compared to companies that have low score CG.

The results of research conducted by Kurniawan & Juniarti (2017) and (Kartika & Payana, 2021) state that good corporate governance has a positive effect on company value/performance. Meanwhile, research conducted by Fadillah (2017) states that good corporate governance has a negative effect on company performance. Showing the differences from result, the authors want to propose hypothesis below:

H1= Corporate governance has a positive effect on company performance

Effect of Cash Flow on Company Performance

The operating cash flow of the company shows the ability of the company's management to carry out operational activities. Effective cash flow management will facilitate the company's cash flow so that it can eliminate obstacles to a company's operational business and also become an indicator/consideration for investors in making investment decisions, namely in assessing the company's performance whether the company is managed by competent management so that the company's operating activities can generate revenue. adequate cash flow and able to carry out operational business activities which in the end is expected to increase the company's performance. The results of research conducted by (Kusumaningtyas & Mildawati, 2016) state that operating cash flow has a positive effect on company performance as measured by Return on Equity (ROE). However, this research is not supported by research conducted by (Christanty & Asyik, 2019) which states that operating cash flow has no effect on the value/performance of the company. Showing the differences from result, the authors want to propose hypothesis below:

H2= Cash flow has a positive effect on company performance

The Effect of Dividend Policy on Company Performance

Dividend policy is basically a company policy that can affect stock prices. This can happen because if the company issues an announcement regarding the distribution of dividends, the public will respond positively to the announcement. The response from the community is based on the opinion of the community that the company has a large profit so that it is able to distribute dividends and still has sufficient profit to increase operational capital to support business expansion and growth in the future. With such a view, investors in addition to benefiting from an increase in stock prices, can also get additional benefits from dividends on their shares and in the end there is a potential increase in share prices. If the stock price increases, the company's performance is getting better.

The results of research conducted by (Putra & Lestari, 2016) state that dividend policy has a positive effect on company performance. While research conducted by (Clementin & Priyadi, 2016) states that dividend policy has a negative effect on company performance. Showing the differences from result, the authors want to propose hypothesis below:

H3= Dividend policy has a positive effect on company performance

The Effect of Family Ownership in Moderating Corporate Governance Relationships on Company Performance

Family companies have a high motivation to directly control and supervise company management activities through the involvement of family members in company management. The involvement of family representatives can synergize with each other and produce equality of goals or interests between the owner (principal) and management (agent) so as to reduce conflicts of interest in the company and reduce agency costs (Fama and Jensen, 1983; Anderson and Reeb, 2003). Agency costs can be minimized if the company has good governance.

A company that has good governance means that the company is able to apply the principles of corporate governance correctly. This can minimize the opportunity for management to take actions that can harm the company and encourage management to act in accordance with the interests of the company owner (principal) so that management works more effectively and efficiently in improving company performance (Limantoro and Juniarti, 2017).

The results of research conducted by Astuti et al., (2015), Juwita (2019) and Kurniawan & Juniarti (2017) state that family ownership and good corporate governance have a positive effect on company performance. Showing the differences from result, the authors want to propose hypothesis below:

H4= Family ownership strengthens the relationship of Corporate Governance to company performance.

The Effect of Family Ownership in Moderating Cash Flow Relationships on Company Performance

Companies with high family ownership have high attention and commitment to the continuity of the company's performance. When companies face cash flow difficulties which may be caused by the company's operating expenses, companies with family ownership have strong support in obtaining short-term funding from shareholders with family ownership, for example in obtaining subordinated loans with a certain period of time. The company's strong level of trust with family ownership and high control makes the company able to survive when the company is experiencing cash flow difficulties.

The results of research conducted by Astuti et al., (2015) and Limantoro & Juniarti, (2017) state that family ownership has a positive effect on company performance. Then this research is also supported by research conducted by Kusumaningtyas & Mildawati (2016) which states that operating cash flow has a positive effect on the company's financial performance. Showing the differences from result, the authors want to propose hypothesis below:

H5= Family ownership strengthens the relationship between cash flow and company performance

The Effect of Family Ownership in Moderating the Relationship of Dividend Policy on Company Performance

In a company with high family ownership, the family as the controlling shareholder has strong control over the company including the managers which it can reduce agency problems. The lower the family ownership, the higher the dividend rate to overcome agency problems. Conversely, the higher the family ownership, the lower the dividend due to the control and belief that manager will act in the interests of shareholders. However, according to Shleifer et al. (1997) and Claessens et al. (2002) explained that very high family ownership causes entrenchment, which is an action aimed at protecting the interests of the controlling shareholder (the majority) and exploiting the non-controlling shareholders (the minority) so that it will reduce the company's overall performance.

The results of research conducted by Setianto & Sari (2017) state that family ownership has a positive effect on dividend policy. This research are supported by the research conducted by Putra and Lestari (2016) and by Clementin and Priyadi (2016) which states that dividend policy affects company performance. Showing the differences from result, the authors want to propose hypothesis below:

H6= Family ownership strengthens or weakens the relationship between dividend policy and company performance

RESEARCH METHOD

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange during the 2016-2020 period. The type of data used in this study is secondary data with a quantitative approach. The secondary data collection method were done by observing the data sources obtained from the Indonesia Stock Exchange website (www.idx.co.id), yahoo finance website (www.finance.yahoo.com) and company websites. The selection of research samples were using by purposive sampling method, namely the method of selecting samples based on predetermined criteria or considerations. Criteria used for sample are manufacturing company listed in idx.co.id, the company has completed financial statements from year 2016-2020, using rupiah currency, has minimum 10% family ownership or institution owned by family, and provide the name of the directors and commisioners in financial statements for corporate governance data.

This study aims to determine the effect of corporate governance, operating cash flow, and dividend policy on company performance with family ownership as the moderating variable. Analysis of the relationship between these variables is shown through the following multiple linear regression model.

$$Tobin's\ Q_{it} = \alpha + \beta_1\ CG_{it} + \beta_2\ AKO_{it} + \beta_3\ DPR_{it} + \beta_4\ AGE_{it} + \beta_5\ CG*FOWN_{it} + \beta_6\ AKO*FOWN_{it} + \beta_7\ DPR*FOWN_{it} + e$$

Informations:

Tobin's Q	= Company Performance
α	= Constant
β	= Regression Coefficient
CG	= <i>Corporate Governance</i>
AKO	= <i>Operating Cash Flow</i>
DPR	= <i>Dividend Payout Ratio</i>
FOWN	= <i>Family Ownership</i>
e	= Standard error

ANALYSIS

In this study, the authors chose to use a sample of manufacturing companies listed on the Indonesia Stock Exchange during the 2016-2020 period. From a total of 195 manufacturing companies listed on the Indonesia Stock Exchange, 31 companies that meet the sample selection criteria with a period of 5 years so that the number of observations in this study is 155. The data analysis method used is descriptive statistical analysis, using panel data regression test, and hypothesis testing (t test, F test, coefficient of determination test).

Descriptive statistical analysis aims to provide an overview of each variable to be explained. This analysis was conduct by looking at the average value (mean), minimum value, maximum value and standard deviation of each variable. In this study, the authors will look at the description of statistical data from the independent variables (GCG, cash flow and dividend policy), control variables (firm age), moderating variables (family ownership), and the dependent variable (company performance). The results of descriptive statistical analysis in this study are presented in the following table:

Table 1 Results of Descriptive Statistics

Variable	N	Maximum	Minimum	Mean	Median	Std.Dev
Tobin's Q	155	6.44	0.30	1.56	1.08	1.12
CG	155	3.51	0.44	1.48	1.49	0.73
Operating Cash Flow	155	0.39	-0.26	0.08	0.07	0.09
DPR (Dividend Payout Ratio)	155	8.03	0.00	0.32	0.18	0.74
Firm Age	155	31.00	2.00	20.03	24.00	8.96
Family Ownership	155	0.93	0.15	0.61	0.65	0.22
CG*Family Ownership	155	1.43	0.07	0.84	0.92	0.38
Operating Cash Flow*Family Ownership	155	0.36	-0.24	0.05	0.04	0.06
DPR*Family Ownership	155	5.74	0.00	0.21	0.07	0.53

Source: Data processed using the Eviews 10 application

Panel data regression test was conducted to determine whether or not the influence of the independent variable on the dependent variable. Panel data combines time series data (between time) and cross-sectional data (between individuals or spaces), where the same cross-sectional unit is measured at different times. Before performing the panel data regression test, there are three estimation models that can be used, namely Common Effect, Fixed Effect, and Random Effect. To find out the appropriate estimation model to use, there are three stages in panel data regression testing, namely the Chow test, Hausman test, and the Lagrange Multiplier test.

The Chow test aims to determine the most appropriate model between Common Effects and Fixed Effects. If the probability value > the significance level (0.05) then the regression model used is the Common Effect. On the other hand, if the probability value is < significance level (0.05), the regression model used is Fixed Effect. The following is a table of Chow test results:

Table 2 Chow Test Results

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

Effects Test	Statistic	d.f.	Prob.
Cross-section F	18.398292	(30,117)	0.0000
Cross-section Chi-square	270.247696	30	0.0000

Cross-section fixed effects test equation:
Dependent Variable: Y
Method: Panel Least Squares
Date: 09/03/21 Time: 07:45
Sample: 2016 2020
Periods included: 5
Cross-sections included: 31
Total panel (balanced) observations: 155

Based on the results of the Chow test, it can be seen that the Chi-square cross-section probability value is less than 0.05 so that the model that is suitable for use is Fixed Effect.

Hausman test aims to determine the most appropriate model between Fixed Effect and Random Effect. If the probability value > the significance level (0.05) then the regression model used is Random Effect. On the other hand, if the probability value is < significance level (0.05), the regression model used is Fixed Effect. The following is a table of Hausman test results:

Table 3 Hausman Test Results

Correlated Random Effects - Hausman Test				
Equation: Untitled				
Test cross-section random effects				
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	
Cross-section random	24.756898	7	0.0008	
Cross-section random effects test comparisons:				
Variable	Fixed	Random	Var(Diff.)	Prob.
CG	0.266016	0.135673	0.007685	0.1371
AKO	3.339019	4.614803	0.301006	0.0201
DPR	-0.347138	-0.217445	0.024207	0.4045
AGE	0.012758	-0.015693	0.000596	0.2438
CG*FOWN	0.723389	0.684503	0.030425	0.8236
AKO*FOWN	-3.293113	-4.185137	0.418720	0.1680
DPR*FOWN	0.494696	0.333266	0.048749	0.4647
Cross-section random effects test equation:				
Dependent Variable: TOBIN'S Q				
Method: Panel Least Squares				
Date: 09/03/21 Time: 07:45				
Sample: 2016 2020				
Periods included: 5				
Cross-sections included: 31				
Total panel (balanced) observations: 155				

Source: Data processed using the Eviews 10 application

Based on the results of the Hausman test, it can be seen that the random cross-section probability value is less than 0.05 so that the model that is suitable for use is Fixed Effect. Based on the results of the Chow test and Hausman test, it can be concluded that the best regression model to be used in this study is the Fixed Effect Model. Because there is no difference in the results of the Chow test and the Hausman test, it is not necessary to carry out the Lagrange Multiplier test.

Multiple linear regression analysis aims to analyze the linear relationship between two or more independent variables with the dependent variable which aims to determine the direction of the relationship and predict the value of the two variables (Ghozali, 2013; 120). In multiple linear regression there are hypothesis tests (t test, F test and coefficient of determination test). The following is a table of results of multiple linear regression analysis:

Table 4 Results of Multiple Linear Regression

Dependent Variable: TOBIN'S Q				
Method: Panel Least Squares				
Date: 09/03/21 Time: 07:44				
Sample: 2016 2020				
Periods included: 5				
Cross-sections included: 31				
Total panel (balanced) observations: 155				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.208314	0.602000	0.346036	0.7299
CG	0.266016	0.152901	1.739798	0.0845
AKO	3.339019	1.624833	2.054993	0.0421
DPR	-0.347138	0.514035	-0.675319	0.5008
AGE	0.012758	0.028029	0.455175	0.6498
CG*FOWN	0.723389	0.308639	2.343801	0.0208
AKO*FOWN	-3.293113	2.186576	-1.506059	0.1347
DPR*FOWN	0.494696	0.730191	0.677488	0.4994
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.873965	Mean dependent var	1.563553	
Adjusted R-squared	0.834108	S.D. dependent var	1.121234	
S.E. of regression	0.456677	Akaike info criterion	1.479391	
Sum squared resid	24.40081	Schwarz criterion	2.225521	
Log likelihood	-76.65279	Hannan-Quinn criter.	1.782452	
F-statistic	21.92739	Durbin-Watson stat	1.348818	
Prob(F-statistic)	0.000000			

Source: Data processed using the Eviews 10

Equation:

$$Y = 0.208314 + 0.266016 CG + 3.339019 AKO - 0.347138 DPR + 0.012758 AGE + 0.723389 CG*FOWN - 3.293113 AKO*FOWN + 0.494696 DPR*FOWN + e$$

The coefficient of determination test aims to measure how far the ability of the independent variable to explain the dependent variable. Based on the table above, it can be seen that the value of the coefficient of determination (adjusted R-squared) is 0.834108 or 83.41%. This shows that the independent variable can explain the dependent variable by 83.41%, while the remaining 16.59% is explained by other variables outside this study. The result from regression for variable CG meaning every 1% increasing CG, it will increase 0.266016% company performance, variable AKO meaning every 1% increasing AKO, it will increase 3.339019% company performance. Variable DPR meaning every 1% increasing DPR, it will decrease 0.347138 company performance. Variable AGE meaning every 1% increasing AGE, it will decrease 0.012758 company performance. Variable CG*FOWN meaning every 1% increasing CG*FOWN, it will increase 0.723389% company performance. Variable AKO*FOWN meaning every 1% increasing AKO*FOWN, it will decrease 3.293113 company performance. Variable DPR*FOWN meaning every 1% increasing DPR*FOWN, it will increase 0,494696 company performance.

F statistical test aims to test how the influence of the independent variable on the dependent variable simultaneously (simultaneously). If the probability value of F statistic < 0.05 , the independent variable simultaneously affects the dependent variable. On the other hand, if the probability value of the F statistic is > 0.05 , the independent variable simultaneously has no effect on the dependent variable. Based on the table above, it can be seen that the probability value of the F statistic is less than 0.05 so it can be concluded that the independent variable simultaneously affects the dependent variable.

The t statistic test aims to test the effect of the independent variable on the dependent variable individually (partial). Based on the table above, it can be seen that the operating cash flow variable and the moderating variable (corporate governance*family ownership) have a positive t-statistic value and the probability is smaller than the significance level (0.05) so that the operating cash flow variable and the moderating variable (corporate governance*family ownership) has a positive effect on company performance. Meanwhile for corporate governance variables, dividend payout ratio, firm age, and moderating variables (operating cash flow*family ownership, dividend payout ratio*family ownership) have a probability value of t-statistic greater than the significance level (0.05) so that the corporate variable governance, dividend payout ratio, firm age, and moderating variables (operating cash flow*family ownership, dividend payout ratio*family ownership) have no effect on company performance.

The results of the first hypothesis test prove that corporate governance has no effect on company performance. This is due to the existence of a CG oversight component that does not affect the company's performance, such as the board of commissioners. The more the number of the board of commissioners in the company will cause problems of difference of opinion among the members of the board of commissioners so that the board of commissioners will find it increasingly difficult to supervise and control management actions in making decisions that are useful for the company. Another reason is the members of corporate governance are not come from family members and this situation makes difficult to enforce regulation. The results of this study are in line with the research conducted by Ariantini et al. (2017), Yuniarti & Syaichu (2018) which state that corporate governance has no effect on company performance.

The results of the second hypothesis test prove that operating cash flow has a positive effect on company performance. Cash flows from operating activities are source company's main revenue-generating activities, generally from transactions and other events that affect the determination of the company's net profit or loss. If the operating cash flow is greater, the net profit generated by the company will be greater so that the profits available to shareholders will also be greater. The results of this study are also in line with research conducted by Shinta & Laksito (2014), and Kusumaningtyas (2016) which states that operating cash flow has a positive effect on company performance.

The results of the third hypothesis test prove that dividend policy has no effect on company performance. The results of this study are in accordance with the dividend irrelevant theory proposed by Modigliani and Miller (1958) which states that the company's ability to pay dividends is not the main consideration for investors in buying shares but is the company's ability to generate income and contribute income to increase its operational activities or provide it to shareholders. If many investors are interested in buying shares, the share price will increase, and in the end will improve the company's performance. The results of this study are also in line with research conducted by Muhazir (2014), and Puspaningsih (2013) which states that dividend policy has no effect on company performance.

The results of the fourth hypothesis test prove that family ownership is able to strengthen the relationship between Corporate Governance (CG) on company performance. This is because family companies have a higher motivation in exercising direct control and supervision of the company's management activities. In addition, the involvement of family members can synergize with each other and align of goals or interests between the owner (principal) and management (agent) so as to reduce conflicts of interest in the company. Thus, family companies are able to apply the principles of good corporate governance and will improve company performance.

The results of the fifth hypothesis test prove that family ownership is not able to strengthen or weaken the relationship between operating cash flow and company performance. This is because family-owned companies still see that the company's cash flow should be managed by managers

without any interference from the company owner. This is to provide an opportunity for the company to be independent (independent) in order to contribute/good performance to the company's shareholders. The results of the sixth hypothesis test prove that family ownership is not able to strengthen or weaken the relationship between dividend policy and company performance. Dividend distribution is based on company performance and instruction from corporate governance, this result is agree with hypothesis number one which mention the composition of corporate governance are mainly from outside family members.

CONCLUSION

Based on the results of research testing that has been done, the authors can conclude that:

1. Corporate Governance (CG) has no effect on company performance as measured by Tobin's Q.
2. Operating cash flow has a positive effect on company performance as measured by Tobin's Q.
3. Dividend policy has no effect on company performance as measured by Tobin's Q.
4. Family ownership is able to strengthen the relationship between corporate governance and company performance as measured by Tobin's Q.
5. Family ownership is not able to strengthen or weaken the relationship between operating cash flow and company performance as measured by Tobin's Q.
6. Family ownership is not able to strengthen or weaken the relationship between dividend policy and company performance as measured by Tobin's Q.

Based on the phenomenon, framework, results and discussion, the suggestions in this study are as follows:

1. Companies are expected to pay attention to number of corporate governance from family member in order to be able to advice and regulate of the company's operations and enforce proper dividend distribution so both family and shareholders can have equality and fairness.
2. For further research, it is suggest using different variabels such as leverage and sales growth and it can use different type of industries such as financial services, property and real estate and add different performance measurement indicators such as ROA, ROE, EPS.

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