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THE EFFECT OF FAMILY OWNERSHIP AND CEO DUALITY ON COMPANY PERFORMANCE WITH POLITICAL CONNECTIONS AS MODERATOR VARIABLES

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Abstract - *This study aims to examine and analyze the effect of family ownership and CEO duality on firm performance with political connection as a moderation variable in manufacture companies listed in Indonesia Stock Exchange. This research uses purposive sampling model with multiple linier regressions method and moderated regressions. Research sample was 274 manufacture companies listed on Indonesia Stock Exchange. The research period is 2016-2020. The results of the study explain that family ownership has significant effect on the performance of manufacture companies. The results also explain that CEO duality has significant effect on the performance of manufacture companies. On the effect of mediation, the results of the study explain that political connection significantly strengthens the positive effect of family ownership dan CEO duality on firm performance.*
***Keywords:* family ownership, CEO duality, political connection, firm performance, and manufacture companies**

1. INTRODUCTION

Companies operating in developing countries, including in Indonesia, are identical with family ownership. Based on research from Claessens at al. (2000) found that 68% of companies in Indonesia are family owned companies. The development of an increasingly fast era also makes business competition tougher which requires companies to innovate and respond to changes in various aspects of the business to be able to compete with competitors. It is necessary to increase the company's performance to be able to survive in the tight business competition. One of the problems that arise in good corporate governance is the duality of CEO/CEO duality. Family companies are generally an indication of CEO duality because there is a kinship relationship in the leadership structure (Lam & Lee, 2008). CEO duality is a term that refers to a person who has two positions/positions at the same time, namely i as a board of directors (Chief Executive Officer) and as a board of commissioners (Chairman) . of Board) companies (Hsu et al., 2021).

CEO duality is not used in all corporate leadership structures, one of which is because several cases show that CEOs who also serve as commissioners can abuse their power for personal gain and have a negative impact on the performance of the company and shareholders (Finkelstein & D'aveni) . , 1994). The emergence of the global crisis in 2008 brought its own impact among professionals, who began to question the corporate governance system, especially regarding the structure of the roles and responsibilities of executives and company board members. At the same time, in the United States and several other countries, there are signs of abuse of power and authority that can harm business and is

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considered one of the causes of the economic crisis so that the general public is starting to pay attention to this practice of CEO duality (Carty & Weiss, 2003). 2012). News i Editor (2009) reported that 63% of i companies listed on the S&P 500 had CEO duality i in company i in 2008 which is a significant decrease from i which was previously 84% in the last decade (Abels & Martelli, 2013). In 2010 in the United States , there was a lot of pressure from the public to separate the roles of the board of directors and commissioners , but 54% of companies still used CEO duality in their leadership structure (Hsu et al., 2021).

One of the reasons for the success of a business is the existence of political connections that are believed to be beneficial for a company, for example in the form of subsidies from the government, market power , tax breaks, etc. which can affect the company's performance (Al-dhamari & Ku Ismail, 2016) . A company i is said to have political ties if one of the board of directors or CEO is a member of parliament , minister or someone who is closely related to a political party or politician (Faccio , 2006).

Several studies have proven that there is a relationship between political connections and company performance. Research by Li, Jin (2020) examines the impact of political connection i on company performance By analyzing data from public companies from 2013 to 2020, the results show that the influence of political connection to i firm performance is more large i in i company located i in i an area i that has i coverage area i small market. Saeed's research at. al, (2016) who examined the effect of political connection on firm performance showed that there was a negative relationship between political connection and firm performance . Research (Maaloul et al., 2018) uses a sample of non-financial companies in Tunisia in the period i 2012-2014 to investigate the effect of i political connection on firm's performance and value . The results showed that i political connection had a positive effect on i firm's performance and value .

Political connection is one of the factors that affects the relationship between family ownership and CEO duality on firm i performance , because political connections reduce competition between companies i in market competition (Wang, 2017). If a family company with CEO duality takes advantage of political connections and can use a given position as a valuable asset to access factors of production, finance and resources, then i political connections can reduce competition between companies, so companies with i political connections i have a competitive advantage over I another company. A study from Muttakin et al. (2016) show that family-owned companies that have political connections show better performance than family- owned companies that do not have political connections. Research i conducted by Wang (2017) which examines the effect of political connections on CEO duality and Post-IPO performance in China shows that CEO duality has a positive effect on Post-IPO performance , but weakened by the political connection that the CEO has in the company. In Indonesia with the majority the company is a family company, the members of the board of commissioners i generally have a close relationship with the shareholders.

This study uses a sample i of manufacturing companies i listed on the Indonesia Stock Exchange (IDX) in the 2016-2020 period. The choice of manufacturing company i is because 50% of family companies in Indonesia are in that sector (PwC, 2014). The election for the 2016-2020 period is because it is the latest data. The government's involvement in the development of the manufacturing industry is another interesting factor to study, so this study also adds political connection as a moderating variable.

The purpose of this study was to examine and analyze the effect of family ownership and CEO duality on firm performance with political connection as a moderating variable.

2. RESEARCH PROCEDURE

Based on the method, research on the relationship between family ownership and CEO duality on company performance with political connection as a moderating variable uses a quantitative approach. The data source is secondary data sourced from the company's annual report i obtained from manufacturing company i listed on the Indonesia Stock Exchange (IDX) (http://www.idx.co.id) in the 2016-2020 period. The data analysis technique used is SPSS analysis.

3. RESULTS AND DISCUSSION

Based on the results of descriptive analysis regarding the effect of family ownership and CEO duality on company performance using moderated regression analysis with SPSS.

Table 1

Hypothesis Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	21.825	3.278		6.659	.000
	FO	1.458	.413	.248	3.530	.000
	CEODu	1.061	.395	.184	2.687	.008
	FP	2.192	.495	.369	4.425	.000
	X1Z	.195	.065	.271	2.991	.003
	X2Z	.245	.068	.266	3.605	.000

It is known that Family Ownership (FO) has a sig value. 0.000 which means that it has a significant effect on the Company's Performance variable. Thus, family ownership has a significant effect on the company's performance in manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 to 2020. This study proves that the existence of a family company has a significant influence on the company's financial performance.

This study is in line with previous research conducted by Bodnaruk et al. (2017) conducted research in the Western European region on family ownership, country governance, and foreign portfolio investment." The results show that family companies have a positive and significant impact on firm value in the eyes of foreign investors. Walker et al. (2013) through his research also revealed that family companies are superior to non-family companies based on Tobin's Q. If the proportion of family ownership increases, it will decrease the value of the company.

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It is known that CEO Duality has a sig value. 0.000 which means that it has a significant effect on the Company's Performance variable. Thus, CEO Duality has a significant effect on the company's performance in manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 to 2020.

Thus this study proves that with the existence of a family relationship between the board of commissioners and the board of directors, the value of the company will increase. This is because CEO Duality in the company can be used to reduce decision-making costs, especially in relation to speed in making and implementing decisions. Companies that apply a duality leadership structure tend to influence earnings management practices. The existence of a family relationship between the board of commissioners and the board of directors will create an alignment of interests, where the board of commissioners is also responsible for the company's performance to the shareholders so they tend to want to protect the company from being seen as bad so that companies with this leadership structure have earnings management practices.

The results of the study show conformity with the Stewardship Theory which explains that CEO Duality can effectively reduce the imbalance of information (asymmetrical information) and information costs due to kinship (spouse, parents, siblings, children in law, grandchildren, nephews) on the board of directors and the board of directors. commissioners, especially if the two individuals in the position also have a relationship with the shareholders. The existence of kinship also supports the assumption in Stewardship Theory which states that top management's behavior is in line with the interests of shareholders (Daily et. al, 2003).

In contrast to previous research from Duru et. al (2016) and Hsu et. Al (2019) which states that CEO Duality has a negative effect on company performance, the results of this study are in line with other research conducted by Arifai et. al (2018), namely the existence of family relationships in the board of directors and the board of commissioners has a positive effect on company performance. The board of commissioners and the board of directors who have kinship relationships can help balance the supervisory and management functions, resulting in more effective supervision in the company's management.

It is also known that political connections moderate the influence of family ownership, the value of sig. 0.003, thus the existence of a moderating variable has a significant effect on the Company's Performance variable. Thus, Family Ownership has a significant effect on the moderation of Political Connection on the Company's Performance in Manufacturing Companies Listed on the Indonesia Stock Exchange for the period 2016 to 2020.

This study proves that the existence of a family company with additional political connections has a significant influence on the company's financial performance

Political connections within the scope of the company's leadership structure can provide benefits to the company, for example in the form of subsidies from the government, tax breaks, market power, and so on, so that if the company is able to take advantage of the benefits of having these political connections, the company can improve its performance.

Thus, this study proves that with a family relationship between the board of commissioners and the board of directors, then the existence of a political network will increase the value of the company, where political relations make investment funds more secure. Political closeness makes the company more secure from bullies.

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The results of the study show conformity with the Resource Dependence Theory which states that it is important for companies to build relationships with external parties, such as those associated with the government or political parties to reduce dependence on scarce resources (Pfeffer & Salancik, 1978).

4. CONCLUSION

The conclusion of this study is that family ownership has a significant effect on company performance in manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 to 2020. This study proves that the existence of family companies has a significant influence on the company's financial performance.

CEO Duality has a significant effect on firm performance in manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 to 2020. Thus, this study proves that with a family relationship between the board of commissioners and the board of directors, the value of the company will increase.

Political Connection strengthens the significant positive relationship between family ownership and CEO deuality on firm performance in manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 to 2020. Companies that have political connections get various benefits, namely, tax cuts, subsidies, market power, so that companies can survive in market competition. The kinship relationship between the board of directors and the board of commissioners in a company with family ownership is supported by political connections that can improve company performance.

Limitations and recommendations for further research

There are limitations during the research, namely, researchers only conducted research with a sample of manufacturing companies with a time span of 2016-2020. Future research is expected to use a longer time period. In addition, the next research is expected to be able to develop the results of this research in non-manufacturing industries and to focus again on the phenomena of agency problems in companies owned by families, CEO duality and also political connections. It is hoped that further research can add other variables that are not used in this study, either independent, control, or moderating variables.

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