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Does debt moderate the impact of family commissioner boards (FCBs) on company performance in Indonesia?

¿La deuda modera el impacto de los comités de comisionados familiares (FCB) en el desempeño de las empresas en Indonesia?

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Abstract

The aim of this study is to investigate the impact of the Family Commissioners Board (FCBs) on the performance of Indonesian companies that utilize debt as a control mechanism. Both bank and non-bank debt are among the aspects investigated. The GMM-First Difference two-step estimation method was used to examine 121 family-owned companies with unbalanced panel data between 2009 and 2018. Several findings resulted from this study. Firstly, it revealed that having family representatives on commissioner boards had a negative effect on company performance. This demonstrated that FCBs used company assets to favor family shareholders at the expense of minority shareholders, thereby indicating entrenchment behavior. Secondly, in this study, debt was found to moderate the impact of the FCB on company performance. Debt prevents the FCB from becoming entrenched which improves the company's performance. The study's final finding proved that the FCB's entrenchment behavior toward non-family shareholders does not differ in relation to groups of companies with bank debt and those with non-bank debt. The conclusions of this study have policy implications for the relevant authorities within Indonesia in terms of family-owned company governance mechanisms. It is vital to identify an adequate mechanism for appointing family members to the board of commissioners that would protect all shareholders' interests.

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Resumen

El objetivo de este estudio es investigar el impacto de la Junta de Comisionados de Familia (FCB) en el desempeño de las empresas indonesias que utilizan la deuda como mecanismo de control. Entre los aspectos investigados se encuentran tanto la deuda bancaria como la no bancaria. Se utilizó el método de estimación en dos pasos GMM-First Difference para examinar 121 empresas familiares con datos de panel desequilibrados entre 2009 y 2018. De este estudio se obtuvieron varios hallazgos. En primer lugar, reveló que tener representantes de la familia en las juntas de comisionados tenía un efecto negativo en el desempeño de la empresa. Esto demostró que los BFC utilizaron los activos de la empresa para favorecer a los accionistas familiares a expensas de los accionistas minoritarios, indicando así un comportamiento de atrincheramiento. En segundo lugar, en este estudio se encontró que la deuda modera el impacto del FCB en el desempeño de las empresas. La deuda evita que el FCB se afiance, lo que mejora el rendimiento de la empresa. El resultado final del estudio demostró que el comportamiento de atrincheramiento del FCB hacia los accionistas no familiares no difiere en relación con los grupos de empresas con deuda bancaria y aquellos con deuda no bancaria. Las conclusiones de este estudio tienen implicaciones políticas para las autoridades pertinentes de Indonesia en términos de mecanismos de gobernanza de las empresas familiares. Es vital identificar un mecanismo adecuado para nombrar miembros de la familia a la junta de comisionados que proteja los intereses de todos los accionistas.

Código JEL: L, L2, L25
Palabras clave: desempeño de la empresa; consejo de comisarios familiares; deuda; arraigo y empresas familiares

Introduction

More than 50% of companies with significant market capitalization on the Indonesia Stock Exchange are family-owned (Mahardhika & Ariyanti, 2020) and differ from other types of commercial enterprises in several ways. They are owned and managed by families, each with their own set of principles, values, history, and communication methods (Robin & Amran, 2016).Family-owned companies often appoint relatives to their boards of directors. Within a two-tier board system, family members are typically appointed to the board of directors, as commissioners, or both. Commissioners and directors execute contrasting roles. According to the Financial Services Authority's regulations(2017), a Board of Directors is fully accountable for the company's management in pursuit of its commercial objectives. Aboard of commissioners, on the other hand, assumes responsibility for both general and specific supervision and acts in an advisory capacity to the directors. A board of commissioners plays a vital role in the supervision of family companies, increasing families' power as shareholders (Hidayat & Utama, 2015; and Sumarsono, 2014) which results in agency problems among both majority and minority shareholders. This problem is frequently caused by a lack of legal protection for investors. Majority shareholders are more

heavily involved in activities that disadvantage minority shareholders in countries with in adequate forms of investor protection (Anderson & Reeb, 2003; and Claessens &Yurtoglu, 2013). Therefore, from the perspective of Type II agency theory, it is interesting to re-assess the performance of companies that appoint family members to commissioner boards in countries such as Indonesia with weak legal protection for investors.

The empirical evidence regarding the influence of a majority shareholder board or management on company performance remains inconsistent. For example, a UK-based study by Poutziouris, Savva, and Hadjielias (2015) showed that family share holders have a positive effect on company performance. Contrastingly, family management significantly undermined the performance of US S&P 500 companies(Block et al., 2011). Research undertaken by Li and Zhu (2015) in China showed that family management improves company performance, while Peng and Jiang (2010) found that it reduces it in developing countries. In their study, Audretsch, Hülsbeck, and Lehmann (2013) documented that FCBs positively influence company performance in Germany. Other findings showed that family influence compromises it (Hu, Tam, & Tan, 2010). Studies on this topic have produced contradictory results in relation to Indonesia. For instance, Hidayat and Utama (2015) showed that the FCB positively affects company performance, where as Prabowo & Simpson (2011) argued that it is negatively affected by this body. Since the FCB controls the company's assets, the involvement of the family in the board of commissioners' activities exacerbates any dispute between majority and minority shareholders(Hu et al., 2010).

Within the Indonesian context, this agency relationship has been strictly regulated by the Financial Services Authority (OJK) act number 57/POJK.04/2017 regarding the transparency, accountability, responsibility, independence, and fairness of corporate governance, especially where conflicts of interest between parties or affiliates exist. Previous studies examining the conflict control mechanism relating to majority share holders present on the board of commissioners and minority shareholders have been rare. This present study fills the gap sin previous investigations by examining the role of debt as a mechanism that can overcome expropriation or the entrenchment of the FCB in relation to minority shareholders. This study also contributes to the expansion of the literature on several important points. Firstly, previous findings have shown that debt can limit companies' tendency to over-invest (Jiang & Kim, 2015) and instill discipline in managers in their use of free cash flow (Yafeh &Yosha, 2003). Ultimately, this study examines the role of debt as a tool for overcoming agency conflict within family-owned companies.

Secondly, this study empirically examines the effect of the FCB on the performance of companies with both bank debt and non-bank debt. Non-bank institutions have experienced quite significant growth globally and particularly in Indonesia. The use of non-bank debt is becoming more

prevalent among both individuals and companies, in the latter case driven by banking regulations requiring financial institutions to provide loans to commercially sound companies. On the other hand, non-bank institutions demonstrate a greater degree of leniency on these fundamental criteria, providing greater access to funds fort hese companies and individuals. The consequence of using non-bank debt is that of incurring higher interest rates than are applicable to bank debt (Chernenko et al., 2021). Research on this phenomenon is extremely limited, and the present investigation seeks to explore further the comparison of resorting toeither form of debt on company performance. Decisions on the type of funding source resorted to are also influenced by company ownership through the board of commissioners who provide advice to its directors(Yin & Liu, 2017).Empirical evidence indicated that bank debt has a different monitoring function to that of non-bank debt (Datta, Iskandar-Datta, & Patel, 2000; and Davydov &Vähämaa, 2013).

As a result, the family board of directors' expropriation or entrenchment is prejudicial to minority shareholders within the two debt groups in different ways. Therefore, assessing the contrasting effects of FCBs on company performance between those with bank debt and non-bank debt will enrich the existing empirical findings from the perspective of an Asian emerging market such as Indonesia. More specifically, this study examines the effect of these entities on company performance by increasing debt as a mechanism for preventing entrenchment behavior. Debt renders excessive investment problematic for companies and limits managers use of free cash flow(Jiang & Kim, 2015; and Yafeh & Yosha, 2003). This study examines the effect of FCBs on the performance of companies with or without bank debts. Empirical evidence shows that bank debt functions as a controller for non-bank debt (Datta, Iskandar-Datta, & Patel, 2000; and Davydov & Vähämaa, 2013). Consequently, an FCB develops different types of entrenchment behavior in relation to their debt.

The findings of this study revealed that the entrenchment conduct of family members serving on the board of commissioners, as well as the agency problems existing between majority and minority shareholders, are aligned with Type II agency theory. However, a company's debt precludes such entrenchment behavior. This investigation identified the difference in bank debt-based family committee entrenchment behavior on the part of Indonesian companies. It also found that an FCB negatively affected a company's performance. Therefore, its conclusions are expected to provide new evidence of an FCB's influence on company performance and the role of debt as an agency problem mitigation mechanism among family-owned companies in Indonesia. Moreover, it is hoped that they shed light on the experiences of family-owned companies in managing debt to mitigate agency problems.

The remaining sections of this article are organized as follows. Section 2 reviews previous studies and develops hypotheses on FCBs, debt, and the effects of company performance. Section 3

focuses on the research methodologies employed, while Section 4 includes the findings and discussions. Finally, Section 5 summarizes the findings, implications, and limitations of the research conducted.

Literature review

Family commissioners board and company performance

FCBs play an essential role in family companies, including controlling the board of directors and company operations. Family-managed companies often demonstrate entrenchment behavior (Shigeru, 2017). The majority of shareholders use company resources for their own purposes to the detriment of non-family shareholders(Haron & Ismail, 2016; Filatotchev et al., 2011). Meanwhile, excessive control by the family causes information asymmetry that leads to exploitation of the company's resources by majority shareholders (Miller & Breton-Miller, 2006).

According to agency theory, an FCB works for the family's benefit which is detrimental to minority shareholders. Hachana & Hajri (2008)demonstrated that the increase in supervisory boards affiliated to the majority shareholder under mines company performance. Previous studies have shown that FCBs have hadanadverse effect on company performance(Giovannini, 2009; Hu et al., 2010;and Sumarsono, 2014). Majority shareholders undertake entrenchment initiatives for more personal benefits at the expense of minority shareholders (Claessens & Fan, 2002; and Salas, 2010). The concentration of power in the family's hands leads to poor performance on the part of the company (Giovannini, 2009).

Family commissioner, debt, and company performance

FCBs compromise company performance due to entrenchment behavior (Sumarsono, 2014), thereby disadvantaging minority shareholders (Claessens & Fan, 2002; and Salas, 2010). Debt prevents company executives from pursuing personal gain to the detriment of minority shareholders and limits management access to free cash flow (Nüesch, 2015; and Yafeh & Yosha, 2003). Debt forces management to invest significant time and effort in generating cash sustainably and avoiding over-investment in order to avoid bankruptcy (Jiang & Kim, 2015). It also protects managers from moral dilemmas (Haniffa & Hudaib, 2006), in stils discipline and obliges them to execute their duties in an appropriate manner (Yafeh and Yosha, 2003; Haniffa & Hudaib, 2006; and Dahya, Karbhari, Xiao, & Yang, 2003). Therefore, debt serves to limit entrenchment behavior on the part of the FCB which is detrimental to minority shareholders, while

bank monitoring can reduce agency conflict (Ariyono & Setiyono, 2020). Debt also improves company performance, thereby benefitting all parties.

Family commissioner and company performance based on bank debt and non-bank debt

The sources of bank funding which finance a company's operations have attracted the attention of numerous researchers who have established that the need for loan funds is not only the result of bank debt since non-bank loans also constitute a source of finance for companies. Non-bank debt and bank debt classifications are often referred to, respectively, as formal finance and informal finance (Ayyagari et al., 2010). Decisions on funding sources through bank debt and non-bank debt are also influenced by company ownership through the board of commissioners whose members advise the board of directors (Yin & Liu, 2017).

An FCB impedes company performance due to its entrenchment activity(Salas, 2010; Hu et al., 2010;Giovannini, 2009; andSumarsono, 2014). Commissioners usually prioritize family welfare, while prejudicing that of minority shareholders. To address this problem, bank debt enables the monitoring of company performance more effectively than non-bank debt. As a result, the entrenchment of FCBs as shareholders differs from one company to another depending on its level of bank debt.

Banks exercise more control over debtors than bondholders and they encourage companies to gain a competitive advantage by monitoring these commercial enterprises (Yen, Lin, Chen, & Huang, 2015; and Nam & Nam, 2004). Furthermore, banks exert formal influence on companies through loan contracts that require them to refrain from engaging in activities detrimental to the formers' interests (Claessens & Yurtoglu, 2013). When banks expand their role in overseeing a company, managers also strive to improve internal monitoring, thus enhancing its performance (Ghosh, 2007). On the other hand, monitoring debt can increase the operational costs of banks which, in turn, raise their interest rates on loans(Yin & Liu, 2017). An interest rate rise will significantly influence the decision of a company management to use bank debt or non-bank debt. An FCB's impact on company performance will differ according to which form of debt the company in question resorts to.

Research methods

Population and sample

This study examined companies that are at least 20% family-owned and have family members serving on their boards of commissioners. With this minimum ownership threshold, families exert significant influence over these companies, as highlighted in previous research (Vieira, 2014; Muttakin, Khan, & Subramaniam, 2014). The research focused on family-owned companies in Indonesia's non-financial sector, operating between 2009 and 2018, totaling 121 companies with unbalanced data. Financial sector companies were excluded due to their distinctive characteristics in both management and regulation, as noted in previous studies (Makhlouf et al., 2018).

Family members of an FCB were traced by confirming the full names of all individuals related to the family (Garcia-Castro & Casasola, 2011). These names were sub sequently cross-referenced with the commissioner's profile board contained in the annual report or the commissioner board member's biography obtained from reliable sources.

The study examined the market value of equity, the proportion of family members on the board of commissioners, their debts and assets, as well as the length of time that the company had been commercially active. Data on FCB members' family backgrounds, their debts and assets, and the duration of the company’s commercial activity was collected from annual reports, whereas data on the market value of equity was acquired from Data stream.

Measurements of variables

The company's performance, as assessed by TOBIN'S Q, represented the dependent variable in this investigation. The company’s market capitalization ratio represents its value from a market perspective and constitutes an indicator of growth over time. TOBIN'S Q is derived by dividing total assets by total debt plus the market value of equity(Hu et al., 2010; and Muchtar et al., 2018).

An FCB constitutes an independent variable. The number of family commissioners appointed to it divided by the number of company commissioners is used to measure this variable (Audretsch et al., 2013; Hidayat & Utama, 2015).

Debt (DEBT) represents the moderating variable which is calculated as the ratio of total long-term debt to total assets (Peng & Jiang, 2010; andChu, 2011). This study also used categorical/dummy variables for companies carrying bank debt and those without. Companies with bank debt (DBDEBT) are

measured by Dummy = 1, while those without by Dummy = 0. Testing for these two categories was conducted because bank loans have different company monitoring capabilities to non-bank debts.

Finally, the study included company size and age as control variables. The natural logarithm based on total assets was employed to measure company size (Hu et al., 2010; and Muchtar et al., 2018), while its age was calculated using the relevant natural logarithm(Block et al., 2011; and Muttakin et al., 2014).

Research model

Board structure and first lagged company performance are endogenous variables (Wintoki, Linck, & Netter, 2012; and Muchtar et al., 2018). Current performance represents a function of past company performance. Endogeneity is a condition that describes the correlation between the independent variable and the error term (Ullah et al., 2018). According to Roodman (2009), the independent variable is endogenous or not, at least, notstrictly exogenous when the independent variable correlates with that of the previous year and the error term. The Ordinary Least Square (OLS) or static estimation method is unsuitable for investigating an endogeneity problem because the results are biased and inconsistent (Muchtar et al., 2018). Testing the effect of an FCB on performance by ignoring the problem of endogeneity produced unpredictable results, leading to incorrect conclusions and theoretical interpretations. The Generalized Method of Moments (GMM) estimate in the family board structure solves endogeneity problems such as unobservable heterogeneity, simultaneity, and dynamic endogeneity. This renders the estimated results consistent and unbiased (Wintoki et al., 2012; and Ullah et al., 2018).

This study employed the GMM-First Difference two-step estimation method to examine the effect of an FCB on company performance. In panel data research with a short period (T) and extensive observations (N), the use of the GMM-First Difference two-step estimation method is more accurate than the one-step alternative (Arellano & Bond, 1991). The effect of an FCB on company performance (TOBIN'S Q) is tested using the model equation below:

$$TOBINS\ \ Q\ \ = \delta_{1_0} + \delta_{1_1} TOBINS\ \ Q(-1) + \delta_{1_2} FCB + \delta_{1_3} FSIZE + \delta_{1_4} FAGE + \varepsilon_i \quad (1)$$

Where TOBIN'S Q represents company performance, TOBIN'S Q(-1)signifies the first lag in company performance, FCBs tands for the family commissioners board, FSIZE for the size of the company, FAGE for the age of the company, δ is the estimated content term and coefficient, and εfor the error term.

Equations 2 and 3 are used to test the debt effect (DEBT) and the interaction of FCB with DEBT using a tiered regression based on the study by Osazuwa & Che-Ahmad (2016), as follows:

$$TOBINS\ \ Q\ \ = \delta_{1_0} + \delta_{1_1} TOBINS\ \ Q(-1) + \delta_{1_2} FCB + \delta_{1_3} DEBT + \delta_{1_4} FSIZE + \delta_{1_5} FAGE + \varepsilon_i \quad (2)$$

$$OBINS\ \ Q\ \ = \delta_{1_0} + \delta_{1_1} TOBINS\ \ Q(-1) + \delta_{1_2} FCB + \delta_{1_3} DEBT\ + \delta_{1_4} FCB * DEBT\ + \delta_{1_5} FSIZE + \delta_{1_6} FAGE + \varepsilon_i \quad (3)$$

Where TOBIN'S Q represents company performance, TOBIN'S Q(-1) is the first lag in company performance; FCB the Family Commissioners Board; DEBT the firm debt; FSIZE the size of the firm, FAGE the age of the firm;δ the estimated content term and coefficient; and ε the error term.

Finally, Equation 4 is used to test the difference in the effect of the FCB on the performance of companies (TOBIN'S Q) with bank debt (DBDEBT = 1) and non-bank debt (DBDEBT = 0), as follows:

$$TOBINS\ \ Q\ \ = \delta_{1_0} + \delta_{1_1} TOBINS\ \ Q(-1) + \delta_{1_2} (DBDEBT = 1) + \delta_{1_3} FCB\ + \delta_{1_4} FCB * (DBDEBT = 1) + \delta_{1_5} FSIZE + \delta_{1_6} FAGE + \varepsilon_i \quad (4)$$

Where TOBIN'S Q represents company performance, TOBIN'S Q(-1) is the first short fall in company performance; DBDEBT the dummy for companies with bank debt (DBDEBT = 1);FCB the Family Commissioners Board; FSIZE is the size of the company; FAGE the age of the firm;δ is the estimated content term and coefficient; and ε is the error term.

Research hypothesis

H1: An FCB negatively affects company performance

H2: Debt under pins a FCB's positive attitude towards company performance

H3: A FCB's influence on company performance differs depending on the use of "bank debt" or "non-bank debt".

Findings and discussion

Descriptive statistics

The descriptive statistics of research variables and company performance (TOBIN'S Q) are contained in Table 1.The average company performance (TOBIN'S Q) was 1.5033 with a maximum value of 13.0385 and a minimum of 0.0061. The average proportion of family commissioners was 0.3333, with a maximum of 0.7500. Debt (DEBT) had an average value of 0.1958, while company size (FSIZE) and age (FAGE) had average values of 28.4135 and 3.4054 respectively.

Table 1
Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev
TOBIN'S Q	1.5033	1.0347	13.0385	0.0061	1.3620
FCB	0.3369	0.3333	0.7500	0.1000	0.1373
DEBT	0.1958	0.1481	2.1477	0.0000	0.1819
SIZE	28.4135	28.4156	34.3406	22.7577	1.7813
FAGE	3.4054	3.4965	4.7184	1.6094	0.4440

Note: TOBIN'S Q is the market value of equity plus total debt value divided by total asset value. FCB represents the family commissioners' board. DEBT is the total long-term debt divided by assets. SIZE is the size of the company. Finally, FAGE is the age of the company.

According to the contents of Table I, 33.69% of family companies in Indonesia appointed family members to their FCBs. Non-family members were appointed as independent and non-in dependent commissioners. The findings of this study diverge from those of previous ones that employed a two-tier board system and found that the average proportion of family members appointed to a company's board of commissioners is higher in Indonesia than in Germany, where it is only 9% (Audretsch et al., 2013). This result also differs from those of earlier studies conducted in Indonesia which showed that the average proportion of family commissioners active in family companies was 18.7% between 2008 and 2012 (Hidayat & Utama, 2015). This difference occurred because the study included only family-owned companies that appoint family members to their board of commissioners as research samples.

Correlation coefficient

The correlation between independent variables and company performance is shown in Table 2. With the exception of family commissioners (FCB), all variables were found to be significantly correlated to company performance. Debt has a significant correlation with company performance. On the other hand,

company size (FSIZE) and company age (FAGE) were found to have a negative correlation with company performance.

Table 2
Correlation Matrix

Variable	Correlation	t-Statistic
FCB	-0.0281	-0.9538
DEBT	0.1280	4.3672***
SIZE	-0.0801	-2.7209***
FAGE	-0.1250	-4.2620***

Note: TOBIN'S Q is the market value of equity plus total debt value divided by total assets value. FCB is the Family Commissioners Board. DEBT is the total long-term debt divided by assets. SIZE is the size of the company. FAGE is the company's age. ***, **, * represent significance at the respectivelevels of1%, 5%, and 10%.

Family commissioners board and company performance

Table 3 depicts the direct effect of an FCB on company performance, as well as the moderating effect of debt. According to the contents of Table 3, lags in company performance (TOBIN'S Q (-1)) have a significant positive impact on TOBIN'S Q. (Models1, 2, and 3). This finding shows that company performance is dynamic or endogenous to the lagged company performance.

The FCB exhibits a coefficient of -0.6554, coupled with a p-value below 0.05. This signifies a significant adverse impact on company performance, attaining statistical significance at the 5% level. The results affirm Hypothesis 1 (H1), asserting that FCBs engage in entrenchment activities, negatively affecting minority shareholders. This is attributed to their disproportionate influence, leading to biased treatment of non-family shareholders. The root cause lies in the FCB's pursuit of excessive control and a prioritization of personal gain, thereby disadvantaging minority shareholders. This perspective aligns with studies by Claessens and Fan (2002) and Salas (2010).

Table 3
Estimated Findings for Models 1, 2 and 3

Variable	Model 1	Model 2	Model 3
	Coefficient (t-statistic)	Coefficient (t-statistic)	Coefficient (t-statistic)
TOBINS_Q(-1)	0.3144 (15.6272)***	0.3607 (20.9476)***	0.3729 (12.4089)***
FCB	-0.6554 (-2.5226)**	-0.6943 (-3.2989)***	-1.5578 (-1.8691)*

DEBT	--	0.6919 (3.8449)***	-4.5313 (-4.3122)***
FCB*DEBT	--	--	4.7042 (1.6554)*
SIZE	-0.6667 (-8.7913)***	-0.3868 (-7.0610)***	-0.5761 (-7.3242)***
FAGE	1.0769 (3.3659)***	0.3774 (1.6536)*	1.5235 (3.6856)***
Hansen test (*p-value)*	0.4076	0.1805	0.1670
Instrument	39	40	39
Observation	909	909	773
AR(1)	0.0030	0.0055	0.0044
AR(2)	0.2098	0.1045	0.1102

Note: TOBIN'S q is the market value of equity plus the total value of debt divided by the total value of assets. The FCB is the family commissioner's board. DEBT is the ratio of long-term debt to total assets. SIZE is the company size. FAGE is the age of the company. ***, **, * are significant at the respective levels of 1%, 5% and 10%. Hansen's p-value > 0.05 proved that the model used was over-identifying restrictions. AR (2)> 0.05 proved that the model used was from the second-order serial correlation.

The proportion of family-owned companies in Indonesia now exceeds 50 percent of the total number. Conflicts assume even greater significance when family members who manage commercial enterprises are not professional entrepreneurs. Moreover, the typical highly concentrated company ownership structure in Indonesia can cause conflicts of interest between majority and minority share holders. An independent board is, therefore, required to resolve such conflicts.

These findings are consistent with those of previous research demonstrating that the majority of shareholders utilize company resources to further their own interests to the detriment of minority shareholders (Miller & Breton-Miller, 2006; Haron & Ismail, 2016; and Filatotchev et al., 2011). This finding is also consistent with those of Hu et al. (2010), Giovannini (2009), andSumarsono (2014), who all found that FCBs negatively affect company performance. The conclusions of this research are in line with Type II agency theory which asserts that an FCB undertakes entrenchment actions for its own benefit by prejudicing minority shareholders (Hu et al., 2010).

Another argument concerning the performance of companies with highly concentrated ownership is based on the notion of agency theory which is positive in character (Janadi, 2021; Shleifer & Vishny, 1986). The concentration of ownership within the company can reduce agency problems between shareholders and management by directly influencing the latter to protect the formers' interests, thereby reducing agency conflict costs (Eisenhardt, 2011). Shareholders will have more authority to supervise management decisions if a high concentration of ownership exists (Zeckhauser & Pound, 1990).

FCB, debt and company performance

The interaction coefficient value of an FCB with debt (FCB*DEBT) is 4.7042 with a p-value <0.1 (Table 3, Model 3). This research reveals that at a significance level of 10% debt moderates the effect of an FCB on company performance. The positive coefficient shows that debt prevents entrenchment behavior towards non-family shareholders. Hence, H2 is accepted. Debt acts as a quasi-moderator because the debt coefficient (DEBT) is significant (Model 2) at a level of 1%. The coefficient interaction of the FCB with debt is also significant at a level of 1% (Model 3) (Sharma et al., 1981). This evidence shows that debt has a direct impact on company performance. However, it moderates the effect of an FCB on that performance.

These findings imply that debt could act as a company's governance mechanism to overcome the moral danger of an FCB in relation to minority shareholders. This discovery is consistent with Jensen's (1986) control hypothesis which holds that debt commits a company to preparing funds to repay it, while also limiting management's ability to use free cash flow for other purposes or over-investment(Jiang & Kim, 2015). This finding is also consistent with that of Dahya et al.(2003) proving that the proportion of debt forces company board members to execute their roles and functions in a professional manner. Therefore, company performance improves and management increases in competence(Yen et al., 2015). Debt plays a vital role in reducing company managers' moral hazard behavior (Yafeh & Yosha, 2003) and preventing agency problems between family and minority shareholders (Type II agency theory).

From these results it can be interpreted that debt, as a governance mechanism, has helped to protect minority shareholders. Furthermore, the existence of debt will encourage the board of directors to manage the company competently by enhancing its performance. The board of directors also serves as a link between majority and minority shareholders, as well as management. Family-owned companies usually appoint a board of directors from among family members making it easier to harmonize the competing interests of the parties involved. Corporate governance has also been regulated in the Indonesian Financial Services Authority Regulations which must be implemented to ensure rigorous corporate governance demonstrating transparency, accountability, responsibility, independence, and fairness.

FCBs and company performance based on bank debts and non-bank debts

Table 4 shows the different effects of an FCB on company performance (TOBIN'S Q) when comparing companies with bank debts and non-bank debts. As illustrated in Table 4, the coefficient interaction of an FCB with companies having incurred bank debt (FCB*(DBDEBT = 1)) is 0.5029 with a p-value >0.1.

Therefore, this result is insignificant at a significance level of 10%. This finding proves that their effect on company performance is insignificant when comparing family-owned concerns with bank debt and non-bank debts. Given the rejection of H3, there is no discernible distinction in outcomes between the variables due to entrenchment. The impact of a Foreign Currency Borrowing (FCB) is notably adverse on the performance of companies, irrespective of whether they have bank debt or non-bank debt. Specifically, for companies with non-bank debt (DBDEBT = 0), the negative effect is -1.1294 with a high significance level of 1% (p-value < 0.01). Similarly, in companies with bank debt (DBDEBT = 1), there is a negative effect of -0.6265 on performance with a significance level of 5%. This value of -2.0844 with a p-value < 0.05 is derived from Wald's t-statistic test. Although the effect is not deemed statistically significant, this observation underscores the detrimental influence of an FCB on company performance, particularly pronounced in enterprises with bank debt compared to those with non-bank debts.

Table 4
Estimated Findings for Model 4

Variable	Coefficient	t-statistic
TOBINS_Q (-1)	0.3081	15.5186***
DBDEBT=1	-0.2279	-1.4304
FCB	-1.1294	-2.9040***
FCB*(DBDEBT=1)	0.5029	1.3365
SIZE	-0.6463	-8.0155***
FAGE	0.8859	2.4091**
Wald test ($\delta_{13} + \delta_{14}$)	-2.0844**	
Hansen test (*p-value)*	0.2935	
Instruments number	41	
Observations number	909	
AR(1)	0.0038	
AR(2)	0.1855	

Note: TOBIN'S Q is the market value equity plus total debt value divided by total assets value. DBDEBT = 1 is a company group in receipt of bank loans. The FCB is the board of commissioners of the family. SIZE is the size of the company. FAGE is the age of the company. ***, **, * are significant at the respective levels of 1%, 5%, and 10%.

These findings indicate that bank debts do not lead to enhanced company monitoring ability when compared to non-bank debts. This occurs because FCB's entrenchment behavior is the same in both debt groups. Bank debt does not represent a monitoring tool because it is attributed to weak bank supervision (Pomerleano, 1999) and that of affiliated companies (Chavarín, 2016). Companies that have unique relationships with banks undermine their own competence. Moreover, with companies receiving credit from them, the competition between banks is intense. Such rivalry precipitates greater bank dependency on companies.

Companies securing credit from various banks has led to monitoring responsibilities shifting from one lender to another. This behavior weakens their financial monitoring function, particularly if all creditor banks act in the same manner. These results align with those of Marinč, 2009; and Dina & Hermawan, 2012 which indicated that the monitoring function deteriorates when the debtor company secures loans from several banks. However, this result contradicts the findings of the study by Yen et al. (2015) which stated that banks monitor companies more effectively than do other creditors.

Finally, the use of bank and non-bank debt is largely determined by the financial health of the company in question. Financially sound commercial enterprises tend to resort to bank debt. Poorly financed companies, on the other hand, are more likely to rely on non-bank debt for funding. In addition, companies use bank and non-bank debt as complementary to, rather than as a substitute for, the company's source of funding (Yu et al., 2009).

Conclusions

The focus of this research was to examine further the impact of an FCB on company performance, as well as the role of debt in moderating it. It also investigated how the FCB impacted company performance in both the presence and absence of bank debt. According to the findings, the FCB had a negative impact on company performance. The commissioners undertook entrenchment activities by exploiting company resources and disadvantaging minority shareholders. Furthermore, debt moderates an FCB's influence by helping to prevent their entrenchment behavior, thereby improving company performance. The final effect on company performance is to demonstrate that there are insignificant differences between companies with bank debt and non-bank debt. This means that the monitoring function of bank debt within family companies does not differ from that of non-bank debt.

These findings provide empirical evidence that an FCB takes entrenchment action against non-family shareholders, although debt plays an essential role in preventing it. This study also provides empirical evidence of an FCBs entrenchment behavior in family companies with and without bank debt. Practically, this study provides policy implications for relevant authorities regarding the governance mechanism for Indonesia's family enterprises. It is important to identify the optimum manner through which to appoint family members to the board of commissioners since this will protect all shareholders' interests.

This research focuses on analyzing the impact of Family-Controlled Boards (FCBs) on company performance. However, this study does not investigate variations between companies that have high or low FCB numbers, which is a limitation of this study. Future research, which could use experimental methods, should explore the influence of these proportions on performance. Additionally, this study did

not consider the impact of multiple generations of the same family participating in FCB. Future research could investigate how the involvement of the next generation of a family on the board influences outcomes. Family-owned businesses, managed by the founding and subsequent generations, may have mixed performance outcomes, as previous research suggests (González, Guzmán, Pombo, & Trujillo, 2012; and Muttakin et al., 2014).

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