www.bircu-journal.com/index.php/birci
Budapest International Research and Critics Institute-Journal (BIRCI-Journal)
Humanities and Social Sciences
ISSN 2615-3076 Online)
ISSN 2615-1715 (Print)
Budapest Institute

Effect of Family Ownership, Leverage and Net Profit Margin on Profitability Case Study on Listed Company on BEI

Sri Rahayu[1], Ali Farhan[2], Wulandari Harjanti[3], Parwita[4]
[1,2,3,4] *Sekolah Tinggi Ilmu Ekonomi Mahardhika, Indonesia*
Rahayu.mahardhika@gmail.com, Ali.farhan@stiemahardhika.ac.id, Ali.farhan@stiemahardhika.ac.id, parwita@stiemahardhika.ac.id

Abstract

This research aims to analyze the effect of family ownership, leverage, and net income on company profitability. By using a sample of 33 companies listed on the Indonesia Stock Exchange and a quantitative approach with multiple linear regression analysis on SPSS v.16, the results show that only the net income variable has a significant effect on company profitability, while family ownership and leverage have no significant effect.

Keywords
Family ownership; management; profitability.

I. Introduction

The company is an entity that is managed to acquire profits and increase the welfare of the owners of its capital. Most companies are independent, founded by individual or family ownership, European Family Business (2012) at least mentions that 70 – 95% of businesses in the world are family businesses. In line with this, the Indonesian Institute for Corporation and Directorship said that 95% of businesses are family businesses (Simanjuntak (2011) in Yudastio (2016), and Pranoto et al, 2019). Pranata et al (2019) also stated that 60% of businesses in Asia are controlled by families. Research conducted by Daily and Dollinger (1992) found that family businesses performed better than non-family businesses. Anderson and Reeb (2003), Hoffmann et al. (2016) found that family-run businesses tend to be more competitive than non-family businesses. Different from Anderson and Reeb (2003a) and Daily and Dollinger (1992) the findings of Faccio, Lang, and Young (2001) suggest that family businesses tend to be inefficient, full of conflict, and have poor performance. For Michiels and Molly (2017) family businesses tend to experience challenges to grow their business through external funding, the same thing was said by Croce and Martí (2016) and Koropp et al. (2014) and have poor performance. For Michiels and Molly (2017) family businesses tend to experience challenges to grow their business through external funding, the same thing was said by Croce and Martí (2016) and Koropp et al. (2014) and have poor performance. For Michiels and Molly (2017) family businesses tend to experience challenges to grow their business through external funding, the same thing was said by Croce and Martí (2016) and Koropp et al. (2014).

The company cannot always determine the selling price of the product as desired, because several competitors offer a certain price. To produce products that have competitive prices and maintain good product quality to earn a profit, they must be able to sort out, workaround, or even reduce costs or activities that are not needed in the production process so that the profits to be obtained are more optimal. Therefore, a target costing. (Palulun, Y. et al. 2021)

The findings of Croce and Marti (2016) and Koropp et al (2014) which look at the ability of family businesses to access third-party funding with profitability are relevant to the findings of Kauser et al (2011) and Kartikasari and Merianti (2016) who suggest that the level of leverage has a positive effect to profitability. However, this finding contradicts

DOI: https://doi.org/10.33258/birci.v5i1.4285

Agrawal and Nagarajan (1990) who found the opposite, that family businesses tend to have lower levels of leverage, although this trend tends to decrease in subsequent years (Coleman and Carsky, 1999; Anderson and Reeb, 2003b; and King and Santor, 2008).

In addition to the level of leverage and business ownership, the ability of a business to generate profits is one of the variables used as an indicator of the level of profitability of a company. Heikal et al (2014) in their research in the Indonesian automotive industry argue that Net Profit Margin (NPM) has a significant and positive influence on company profitability, Fitriyani (2019) found in her research on transportation companies in Indonesia. Based on the various findings on the variables that can affect profitability described inReturn on Assetthis is why this article was written. Furthermore, this article will review how the influence of family ownership, leverage and Net Profit Margin on the profitability of companies listed on the Indonesian stock exchange.

Hypothesis Formulation

In the previous paragraph it has been disclosed that there are four variables being studied in this article. One dependent variable and 3 independent variables. The dependent variable is Return on Assets (Y), while the independent variables are Leverage (X1), Net Profit Margin (X2) and Family Ownership (X3). Thus, the hypotheses developed are as follows;

H0: Leverage (X1), Net Profit Margin (X2) and Family Ownership (X3) simultaneously affect Profitability (Return on Assets)
H1: Leverage (X1), Net Profit Margin (X2) and Family Ownership (X3) simultaneously have no effect on Profitability (Return on Assets)
H2: Leverage (X1) partially affects Profitability (Return on Assets)
H3: Net Profit Margin (X2) partially affects Profitability (Return on Assets)
H4: Family Ownership (X3) partially affects Profitability (Return on Assets)

II. Review of Literature

Net Profit Margin (NPM) is a comparison of net profit after tax with net sales (Kasmir, 2016). The result of this ratio reflects the net profit per rupiah of sales. This ratio shows the remaining sales proposition after deducting all related costs. For investors, net profit margin can describe the level of management efficiency in managing the company and predict future profitability based on sales forecasting made by management. By comparing net profit with total sales, investors can find out the percentage of income used to pay operational costs and also non-operational costs and what percentage is left that will be distributed as dividends to shareholders or reinvest in the company.

$$\text{Net Profit Margin} = \frac{\text{net profit}}{\text{Operational profit}} \times 100\%$$

Return on Assets (ROA) is a measure of the effectiveness of management in managing its investments. In addition, the return on investment shows the productivity of all company funds, both loan capital and own capital. The lower (smaller) this ratio is, the less good it is, and vice versa. This means that this ratio is used to measure the effectiveness of the company's overall operations (Kasmir, 2016). High profits will attract investors, because it indicates the company has a high rate of return on investment. In other words, the higher this ratio, the better the productivity of assets in obtaining net profits.

The increase in the attractiveness of the company makes the company investors are increasingly trusted and interested in investing, so that they can boost the company's capital. ROA measurement can be done by the following methods:

$$ROA = \frac{\text{Profit before tax}}{\text{Total assets}} x\ 100\%$$

Leverage is a financial risk that exists within the company where the risk is used to fund company assets. Companies that have a high level of leverage indicate that the sustainability of a company is funded using large amounts of debt. Meanwhile, companies that have a low level of leverage indicate that the sustainability of a company is not bound by large debts. Leverage can be measured using the following formula (Kasmir, 2016):

$$\text{Leverage (Debt Ratio)} = \frac{\text{Total Amoun of debt}}{\text{Total Assets}} x\ 100\%$$

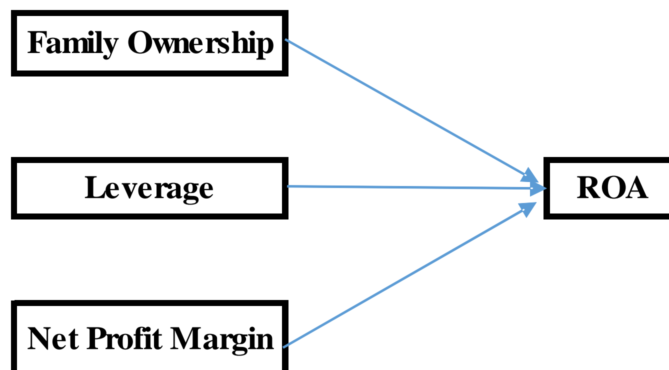
2.1 Family Ownership

Family ownership is a company whose ownership is owned by the family having more than 20% of the voting rights (Tonggano and Christiawan, 2017). Family ownership can also be measured through an annual report in the company's Notes to Financial Statements (CALK). From there, information about the company's shareholders can be seen. Family ownership is measured using a dummy variable whose measurement uses a scale of 1 for companies that have family ownership in the company's annual report and uses a scale of 0 for companies that are not classified as family owned companies.

III. Research Method

Inferential analysis (often called statistics) is a statistical analysis that is applied in statistical methods to analyze sample data and apply these results to the population (Sugiyono, 2014). Based on the previous hypothesis, the research model is as follows:

This study uses the dependent variable (Y) namely ROA, while the independent



variable (X) used is Family Ownership, Debt to Asset Ratio and et Profit Margin. This research was conducted using a sample of 33 companies listed on the Indonesia Stock Exchange with the year of observation being January 201 - - . The method of collecting data is through literature study, namely by looking for literature sources regarding relevant theories by reading, reviewing and reviewing literature in the form of journals. The type of

data used is secondary data and data sources that will later be processed are obtained from the official website of the Indonesia Stock Exchange (IDX).

The analytical technique used to test the hypothesis is using multiple linear regression analysis with SPSS v.16 software tools. Classical assumption test consists of normality test, multicollinearity test, autocorrelation test and heteroscedasticity test. So, if the classical assumption test is not a problem, the research can be carried out. The following regression equation in this study is as follows:

$$\mathbf{Y = \alpha + \beta 1.X1 + \beta 2.X2 + \beta 3.X3 + e...}$$

Description:

Y = ROA
α = Constant
β = Regression coefficient
X1 = Leverage
X2 = Net Profit Margin
X3 = Family Ownership
e = Residual

IV. Result and Discussion

4.1 Normality test

Based on the classical assumption test of Kolmogorov-Smirnov normality, it was found that the value of Sig. 0.200 > 0.005, thus indicating that the data has been normally distributed. This can be seen in the normality test table

Table 1. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		89
Normal Parameters	mean	0.000
	Std. Deviation	7,167
Most Extreme Differences	Absolute	0.114
	Positive	0.114
	negative	-0.053
Kolmogorov-Smirnov Z		1.073
asymp. Sig. (2-tailed)		0.200

a. Test distribution is Normal.

4.2 Multicollinearity Test

Based on the results of the multicollinearity test, it was found that for the three independent variables there were no symptoms of multicollinearity as indicated by the table numbers.*internal factor variance*which is not more than 10 and the number in the tolerance table is more than 0.1. In the leverage variable the tolerance table shows the

number 0.97 > 0.1 while the VIF table is 1.02 > 1.00. Variable Net Profit Margin (NPM) tolerance table shows the number 0.96 > 0.1 while the VIF table is 1.03 > 1.00. Variable Family Ownership tolerance table shows the number 0.98 > 0.1 while the VIF table is 1.01 > 1.00

Table 2. Multicollinearity Test

Coefficientsa					
Model		**Unstandardized Coefficients**		**Collinearity Statistics**	
			Std. Error	**Tolerance**	**VIF**
1	(Constant)	13.04906	6.286999		
	Leverage	-0.01324	0.043677	0.978543	1.021928
	NPM	0.278091	0.09701	0.969823	1.031116
	FamilyOwnership	0.424483	0.461887	0.985851	1.014352

a. Dependent Variable: ROA

4.3. Regression Test

After fulfilling the classical assumptions, it is possible to do an analysis of the effect of the test using multiple regression on the data, the multiple regression analysis that was tested resulted in:

Table 3. Annova F Test

Model Summaryb										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.33	0.11	0.08	7.29	0.11	3.40	3.00	85.00	0.02	1.47

a. Predictors: (Constant), FamilyOwnership, Leverage, NPM
b.Depedent Variable: ROA

Based on the F test table where Sig 0.02 <0.05 indicates that the variables Leverage, net profit margin, and Family Ownership simultaneously have a significant effect on Return on Assets. Thus, H0 is accepted.

Table 4. Partial Test

Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
1	(Constant)	13.05	6.29		2.08	0.04		
	Leverage	-0.01	0.04	-0.03	-0.30	0.76	0.98	1.02
	NPM	0.28	0.10	0.30	2.87	0.01	0.97	1.03
	Family Ownership	0.42	0.46	0.09	0.92	0.36	0.99	1.01

Coefficientsa

a. Dependnt Variable: ROA

$$Y = 13.05 - 0.01 X1 + 0.28 X2 + 0.42 X3 + e...$$

Based on the multiple linear regression test that has been carried out using SPSS v.16, it was found that the significance value of the Leverage variable is 0.30 > 0.05, which means that the Leverage variable has an insignificant effect on bank profitability (return on assets), while the Net Profit Margin variable has a significance value of 0.01 < 0.05, which means that the net profit margin variable has a significant influence on the company's profitability, while the family ownership variable has a Sig value of 0.36 > 0.05. In contrast to the Family Ownership and Net Profit Margin variables whose coefficients are positive, the leverage variable, although not significant, has a negative coefficient, which means that the higher the debt value, the lower the level of profitability.

4.4. Leverage

With sig 0.76 > 0.05, it shows that leverage does not have a significant effect on return on assets, the coefficient of -0.01 means that leverage has a negative effect on return on assets. So this finding indicates that the second hypothesis (H2) that Leverage has a significant effect on return on assets is rejected. This finding is in line with several previous studies which also stated that leverage had a negative effect on profitability or company profit growth (Kuswadi, 2005), Heikal et al (2014), Irawan (2011), and Princess (2010) stated the same thing, as for the differences The findings in this study compared to these researchers are the findings in this article indicate that the effect of leverage is not significant, while previous research shows the significant effect of leverage on company profits. Different from previous findings, also in the research in this article, Kartikasari and Merianti (2016) suggest different things, that leverage has a positive and significant effect on company profitability.

4.5. Net Profit Margin

With sig 0.01 < 0.05, it shows that net profit margin has a significant effect on return on assets, a positive coefficient of 0.28 means that net profit margin has a positive effect on return on assets. So this finding indicates that the third hypothesis (H3) that net profit margin has a significant effect on return on assets is accepted. The results of this research are in line with previous findings which found similar things. Fitriyani (2019), Irawan (2011), Heikal et al (2014) have written similar things in their articles that net profit margin has a positive and significant effect on company profitability.

4.6. Family Ownership

With sig 0.36 > 0.05, it shows that family ownership has no significant effect on return on assets, a positive coefficient of 0.42 means that family ownership has a positive effect on return on assets. This is in line with the findings of Pranata et al (2019) which states that family ownership does not have a significant effect on company profitability.

The positive effect of family ownership on profitability can be read from the findings of several previous studies, Sciascia and Mazzola (2009) and Jim Lee (2004) suggest that family ownership has a positive impact on company profitability. This is because family companies have unique characteristics (Jim Lee, 2004). Several things that cause family companies or companies with a high level of family ownership to have better performance than those without are as follows; 1. Strong organizational commitment, because management is a member of the family, 2. Reduce agency costs, 3. With strong family ownership, it is easier to create goodwill (Dyer, 2006). However, family ownership can also have a negative impact on financial performance.

V. Conclusion

1. Simultaneously, leverage, net profit margin and family ownership have a significant effect on company profitability. Thus, H0 is accepted.
2. Partially, it has a negative and insignificant effect on the company's profitability. Thus, H2 is accepted.
3. Partially, net profit margin has a positive and significant effect on the company's profitability. Thus, H3 is accepted.
4. Partially, family ownership has a positive and insignificant effect on company profitability. Thus, H4 is accepted.

References

Agrawal A and Nagarajan, NJ. (1990). corporate capital structure, agency costs, and ownership control: the case of all-equity firms. Journal of Finance 45(4): 1325-1331.

Anderson RC and Reeb DM. (2003b). Founding-family ownership, corporate diversification, and firm leverage. Journal of Law and Economics 46(2): 653-684.

Anderson, R. C., & Reeb, D. M. (2003a). Founding-family ownership and firm performance: Evidence from the S&P 500, Journal of Finance, 58, 1301–1328.

Coleman S and Carsky M. (1999). Sources of capital for small family-owned businesses: evidence from the national survey of small business finances. Family Business Review 12(1): 73-86.

Croce A and Martí J. (2016). Productivity Growth in Private-Equity-Backed Family Firms. Entrepreneurship: Theory and Practice 40(3): 657-683.

Daily, C. M., & Dollinger, M. J. (1992). An empirical examination of ownership structure in family and professionally managed firms, Family Business Review, 5(2), 117–136.

Dyer, W. Gibb. (2004). Examining the “Family Effect” on Firm Performance. Family Business Review, vol. XIX, no. 4, December 2006 © Family Firm Institute, Inc.

European Family Businesses. (2012). EFB Position Paper: Family Business Statistics. Available at: http://www.europeanfamilybusinesses.eu/uploads/Modules/Publications/pp---

family business-statisticsv2.pdf.

Faccio, M., Lang, L. P. H., & Young, L. (2001). Dividends and expropriation, American Economic Review, 91, 54–78.

Fitriyani, Heny Afrilia. (2019). Pengaruh Net Profit Margin (Npm) Dan Biaya Operasional Pendapatan Operasional (Bopo) Terhadap Return On Assets (Roa) (Pada Perusahaan Transportasi Yang Terdaftar Di Bursa Efek Indonesia Tahun 2013-2015). Jurnal Bisnis dan Akuntansi Unsurya Vol. 4, No. 2, Juni 2019.

Heikal, Mohd. Khaddafi, Muammar. Ummah, Ainatul. (2014). Influence Analysis of Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Debt To Equity Ratio (DER), and current ratio (CR), Against Corporate Profit Growth In Automotive In Indonesia Stock Exchange. International Journal of Academic Research in Business and Social Sciences December 2014, Vol. 4, No. 12. ISSN: 2222-6990.

Hoffmann C, Wulf T and Stubner S. (2016). Understanding the performance consequences of family involvement in the top management team: The role of long-term orientation. International Small Business Journal 34(3): 345-368

Irawan, Dedy. (2013). Pengaruh CAR, NPL, NPM, BOPO Dan LDR terhadap ROA (Studi Empiris pada Bank yang Terdaftar di BEI periode 2008 – 2011). Jurnal Bisnis Strategi Vol. 14 No.1 Januari 2013.

Jim Lee. (2004). the Effects of Family Ownership and Management on Firm Performance. S.A.M. Advanced Management Journal; autumn 2004; 69, 4; ABI/INFORM Global. Page 46.

Kartikasari, Dwi. Merianti, Marisa. (2016). the Effect of Leverage and Firm Size to Proitability of Public Manufacturing Companies in Indonesia. International Journal of Economics and Financial Issues, 2016, 6(2), 409-413.

Kasmir. (2016). Analisis Laporan Keuangan (edisi ke-9). Jakarta: PT. Raja Grafindo Persada.

King MR and Santor E. (2008). Family values: ownership structure, performance and capital structure of Canadian firms. Journal of Banking and Finance 32(11): 2423-2432.

Koropp C, Kellermanns FW, Grichnik D and Stanley L .2014. Financial decision making in family firms. Family Business Review 27(4): 307–327.

Michiels A and Molly V.(2017). Financing decisions in family businesses: a review and suggestions for developing the field. Family Business Review 30(4): 369–399.

Palulun, Y. et al. (2021). Analysis of Readiness to Use Target Costing Method in Production Cost Efficiency Efforts at Risha Bakery. Budapest International Research and Critics Institute-Journal (BIRCI-Journal). P. 6385-6395.

Pranata, Jimmy. Purwanto, Marini. Lindrawati. (2019). Pengaruh Family Ownership dan Direktur Independen Terhadap Kinerja Perusahaan. Seminar Nasional Ilmu Terapan (SNITER) 2019 – Universitas Widya Kartika. .

Siascia, Salvatore. Mazzola, Pietro. (2009). Exploring Non-Linear Effects Of Family Ownership And Involvement On Profitability: A Longitudinal Study On Non-Listed Companies. Frontiers of Entrepreneurship Research. Volume 29 | Issue 14. CHAPTER XIV. FAMILY ENTERPRISE.

Sugiyono. (2014). Metode Penelitian Kuantitatif Kualitatif dan R&D. Edisi 21. Bandung: Alfabeta

Tonggano, S., dan Christiawan, Y. J. (2017). Pengaruh Kepemilikan Keluarga terhadap Profitabilitas Perusahaan pada Perusahaan menggunakan Firm Size, Firm Age dan Sales Growth sebagai Variabel Kontrol. Jurnal Business Accounting Review, 5(2),

397-408.
Yudastio. (2016). Pengaruh Family Ownership terhadap Kinerja Perusahaan (Skripsi, Program Sarjana Universitas Lampung, Bandar Lampung, Indonesia).