CHAPTER I
INTRODUCTION

A. Research Background

Family-owned companies are a common phenomenon in developing countries such as Indonesia (Muttakin et al., 2015). Family businesses cited in the Indonesian Brand Forum also make a very strategic contribution to the Indonesian economy. Around 95% of Indonesian companies are family-owned, with sales of around $5–10 million and total assets of $134 billion, or around 25% of Indonesia's gross domestic product (PWC, 2015; PWC, 2014).

Family firms play a significant role in the Indonesian economy. Historically, many companies have been founded and owned by families in various industry sectors, including manufacturing, trading, and services. The characteristics of family firms involve ownership and control held by family members, often to preserve the legacy and ensure business continuity for the next generation. The interconnectedness of governance and family firms is particularly important in the context of maintaining business sustainability and growth. In an increasingly complex business environment, family companies in Indonesia need to implement good governance practices to ensure transparency, accountability, and a balance of interests between owners, management, and other stakeholders. Cash holding, in particular, is one aspect of financial policy that is relevant for family companies. This policy is closely related to investment decisions, dividends, and financial risk management. In the context of family firms in Indonesia, some of the factors that can affect cash-holding policies include:

1. Family considerations, long-term thinking and family commitments can influence decisions related to the level of cash savings. These policies may reflect family needs, such as financial security, preservation of wealth, and succession plans.
2. Business characteristics, Business types and industry sectors in which family companies operate can affect cash holding policies. Businesses operating in more volatile sectors may require larger cash reserves to address economic uncertainty.
3. Shareholders and ownership relationships, Ownership structures and relationships between family members and external shareholders can play a role in determining cash holding policies. Family companies with external shareholders may need to consider their expectations and interests.
4. Challenges and opportunities, Family companies in Indonesia face unique challenges and opportunities related to governance and cash holding. Challenges involve internal family dynamics, such as succession conflicts and the management of personal and business relationships. On the other hand, opportunities arise from prudent cash-holding policies, which can provide financial flexibility and resilience to economic turmoil.

5. The growing role of regulations and governance guidelines in Indonesia can help family companies build good governance practices. Adoption of effective corporate governance principles can help mitigate risk and increase shareholder and business partner confidence.

This study found that the existence of family share ownership affects increasing cash-holding ownership in the company. Family-controlled companies are generally more efficient than public companies due to low agency conflicts and centralized ownership. This can prevent tunneling activities with strong supervision. In other words, assets and profits can be transferred outside the company for the benefit of major shareholders.

In improving the system of good corporate governance (GCG), attention is paid not only to the management of companies that are attractive to the interests of stakeholders but also to the use of resources founded on the ideas of accountability, efficiency, transparency, and fairness. It is important for its existence for two reasons. The first is the rapidly changing environment that affects the rapid pace of global competition. The second reason is because of the increasing number and complexity of stakeholders, including the company's ownership structure. Two factors have been mentioned: stress, tribulation, business risks that require predictable opportunities, and threats to strategy, including the company's cash holding system. A cash holding policy is a company's policy to hold cash, which is a measure to protect the company from cash shortages. The more uncertain or volatile a company's cash flow is, the more likely it is that an operating cash flow shortfall will cause financial difficulties. This is a situation where the company is in financial trouble before going bankrupt. Therefore, companies are encouraged to hold more money. (Dittmar and Mahrt-Smith, 2007).

Cash holding policy plays an important role in the financial management and business growth of a company. Cash holdings can be used for a variety of purposes, such as day-to-day business, maintaining a business credit rating, investing, or retained for the company's future benefit. Cash can be a profit or a curse for a business. Previous studies have shown that companies that have more cash holdings will face high uncertainty as well, and that increased cash holdings also increase the risk of agency problems.

Given this, companies must improve economic efficiency by improving corporate governance, including a series of relationships between company management, shareholders, the board of directors, and other stakeholders. Corporate governance also provides a work structure that helps define company goals and serves as a means to determine performance monitoring techniques for holding cash that are closely related to corporate governance. Kusnadi's research from 2011 found that companies with lower governance efficiency tend to have more cash holdings than companies with effective governance. Large amounts of cash holdings will have an impact on the emergence of agency conflicts, thereby reducing the value of the company. After the period, a well-managed corporation will have less cash. This is because the cash owned by the company is used for investment rather than accumulated until the end of the year (Dittmar & Mahrt-Smith, 2007).

Within a company, cash is the company's most liquid asset and acts as the company's blood to power its day-to-day operations. The principle of accountability relates to the existence of a system that regulates the relationship between the supervisory departments of a company. Responsibility is carried out by the existence of a board of commissioners, a board of directors, and an audit committee. Accountability is needed as a solution to overcome agency problems that occur between shareholders and directors, as well as supervision by the board of commissioners. Practices expected to emerge in the exercise of responsibilities include empowering the board of commissioners to monitor, evaluate, and manage management to ensure shareholder protection and clear limits on the powers of the board of directors.

The degree to which family businesses own cash is impacted by the conflict between cash holdings and corporate governance. One of the problems often faced by family-owned companies is related to the amount of cash ownership. According to Liu et al.'s research in 2014, more family-owned companies have more control over cash holdings, and higher cash holdings allow shareholders to self-manage rather than be invested or given to shareholders as dividends. In family-owned companies, the heir

CEO seeks to hold more cash than the founding CEO, and the cash holding will be greater if the CEO is held by an outside (non-family) party than the CEO of the family.

Based on previous findings, There are two main reasons for this study's motivation to connect cash ownership with corporate governance. The first of which is an interesting topic to examine because this study examines the relationship between governance systems in companies and cash holdings in family companies. Moreover, the setting in Indonesia also found a large number of family companies, so this result is important for stakeholders and investors in the assessment of whether to invest in family companies.

Second, family businesses across the globe share important and similar business traits. (Bunkanwanicha et al., 2013). (Villalonga & Amit, 2006). The question of whether family ownership adds value to the business is still debatable, though. Family firms are a common sight in many industrialized and developing nations. (Chrisman et al., 2012) claims that family relationships have an impact on the business through ownership and management, causing it to adopt family plans and goals and allocate corporate resources to family agendas that may have an impact on shareholder wealth.(Carney, 2005) (Chen & Chuang, 2009), thus generating disputes between shareholders who are not family and those that are (Madison et al., 2016). Furthermore, family businesses implement rules that serve their own interests, which has an impact on minority shareholders. (Yeh & Woidtke, 2005). Similarly, (Q. Liu et al., 2015) (Y.

Liu, 2011)and (Ozkan & Ozkan, 2004) Note that the family business has greater cash on hand at the expense of the company's worth. Likewise, (Kuan et al., 2011) suggest that corporate governance has an impact on the cash holdings of both family-owned and non-family businesses. The reason behind managers' decision to retain capital in these kinds of businesses, however, is yet unknown. Family members' divergent worldviews and objectives can cause disputes and concessions in business governance.

Yeh and Woidtke (2005) Record the fact that family-owned businesses develop or implement policies that serve their own interests at the expense of minority shareholders. We refer to this as a Type-II agency dilemma (Ali et al., 2007), Claessens et al., 2000). In a recent study conducted by (Alim & Khan, 2016) It was discovered that, in comparison to non-family-controlled enterprises, family-controlled companies store more extra capital. A more favourable climate for testing corporate influence is created by low institutional engagement, a deficient judicial system, and a lack of incentive for institutional owners to keep an eye on corporate financial actions that result in agency difficulties. In both family-run and non-family businesses, governance is important.

This research is supported by research conducted by Rauf Gul, Sabeeh Ullah, Ajid your Rehman, Shahzad Hussain &; Mehtab Alam (2020) on corporate governance and cash holdings: Family versus non-family control firms where board size, board independence, board meetings, institution shareholders and CEO duality are taken from corporate governance proxies as independent variables and cash holding as dependent variables. The results of the study concluded that corporate governance has a statistical impact on the Company's cash holding. Therefore, this study will focus on the impact of corporate governance (board size, board independence, board meeting, institution shareholder and CEO duality) on the Company's cash holding with the research title, "The effect of corporate governance and cash holding: family firm and non-family firm in Indonesia"

B. Research Problem

Based on the background that has been described, the following problems can be identified:

1. Does Corporate Governance proxied by board size, board independence, board meetings, institution shareholders and CEO duality affect cash holding in family firms?
2. Does Corporate Governance proxied by board size, board independence, board meetings, institution shareholders and CEO duality affect cash holding in non-family firms?
3. Does family ownership affect cash holding in family firms?
4. Does Corporate Governance proxied by board size, board independence, board meetings, institution shareholders and CEO duality moderated with family ownership affect cash holding in family firms?

C. Research Objectives

Based on the formulation of the problem above, the objectives of this study are as follows:

1. Examine the impact of the effect of Corporate Governance proxied by board size, board independence, board meetings, institution shareholders, and CEO duality on cash holding in family companies.

2. Examine the impact of the effect of Corporate Governance proxied by board size, board independence, board meetings, institution shareholders, and CEO duality on cash holding in non-family companies.
3. Examine effect of family ownership on cash holdings in family companies.
4. Examine the impact of the effect of Corporate Governance proxied by board size, board independence, board meetings, institution shareholders, and CEO duality with family ownership moderation on cash holding in family companies.

D. Research Benefit

By achieving these goals, it is hoped that this research will provide the following benefits:

1. Theoretical Benefits

a. This research is expected to add insight for academics, especially on the influence of corporate governance on cash holding.

b. It is expected that this paper serves to provide information and as a reference for upcoming studies looking into how corporate governance affects cash.

2. Practical Benefits

a. For relevant regulators, it will help as a relationship in solving problems and can be used as material for correction and deciding on the right solution in making decisions.

b. For regulators, it serves to control companies to avoid fraudulent practices within the company due to misuse of cash holding, for example for personal interests.
c. For investors, it can provide information in considering investors to make investment decisions in good and appropriate companies.