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CAPITAL STRUCTURE CONSTRUCT AND FAMILY CONTROL AS STIMULUS ON FAMILY BUSINESS PERFORMANCE: EVIDENCE FROM INDONESIA

Abstract

The aim of this study is to find out and reproduce how the decision-making process of the capital structure in a family-owned company, and how the family control task serves as a kind of mediation in order to improve the business performance of the company. The target population of this research is the entire family company especially UMKM that is located in Bandung, whose company age is 1 to more than 30 years. Sampling techniques using probability techniques. The total respondents used were 140 respondents who were CEOs or directors and representatives of the family business. The analysis used is using track analysis using Partial Least Square (PLS) The findings of this study show that the process of improving the business performance of a family company is heavily influenced by the accuracy of decision-making in the capital structure and control of the family members themselves.

Keywords: **Capital Structure, Family Control, Business Performance**

INTRODUCTION

Family business is a commercial enterprise where the ownership and management are under the control of members of a single family or several generations of family ownership (de Groote et al., 2022) Family members frequently hold important positions in leadership, operations, and decision-making in family businesses (Signori & Yassin, 2023). Family companies can be found in a variety of sectors and sizes, ranging from local mom-and-pop stores to huge international conglomerates (Steier, 2009). One or more family members' substantial involvement and influence in the company's operations and governance is what distinguishes a family business (Venturelli et al., 2021) The distinctive fusion of personal relationships, family dynamics, and business considerations that characterizes family businesses (Jansen et al., 2023) While this may result in close-knit, cooperative work environments (Romijn, 2022), it may also present difficulties with succession planning, communication, and

settling disputes resulting from both private and professional matters (Tinh et al., 2022).

The majority of family businesses in Indonesia are MSMEs (Tambunan, 2019); MSMEs are the companies that power the country's economy (Tumiwa & Nagy, 2021). The Ministry of Cooperatives and SMEs reports that 65.47 million Micro, Small, and Medium-Sized Enterprises (MSMEs) were registered in the Department of Cooperatives and Micro, Small, and Medium Enterprises in 2022, accounting for 99.99% of all businesses in Indonesia. This number puts Indonesia among the nations with the highest concentration of MSMEs. In contrast, there were only 5,637 large-scale businesses, or 0.01% of all businesses. The Ministry of Cooperatives and SMEs states that the MSME sector contributes to Indonesia's Gross Domestic Product, making MSMEs one of the cornerstones of the Indonesian economy. Apart from that, MSME or family business capital structure for being decision making is simpler than large companies (Maulina & Fordian, 2018)

A company's capital structure is the combination of debt and equity used to fund its operations and expansion (Ngoc et al., 2021). While equity refers to ownership stakes in the business, debt is made up of borrowed funds that must be returned, frequently with interest (Olusola et al., 2022). Risk tolerance is one of many factors that businesses consider when determining the best capital structure. Businesses that have a higher risk tolerance may be more willing to take on debt because, in the event that the business performs well, this can increase their returns (Nosita et al., 2020). But in the event that the company does poorly, it also raises the possibility of bankruptcy (Carpenter, 2000) as well as cost of capital, where debt is riskier but usually less expensive than equity (Klein et al., 2002). To choose the best combination for their company, businesses must consider the costs of debt and equity (Ghouma et al., 2018).

The financial success of a firm can be greatly influenced by its capital structure (Ayuba et al., 2019). For instance, businesses with large debt loads could find it harder to pay off their debts during a recession and be more vulnerable to interest rate risk (Stiglitz & Rashid, 2020). Conversely, businesses with high equity levels might be

more financially flexible, but because equity has a greater cost, they might also see a poorer return on equity (Wu et al., 2023)

Capital Structucture Construct

1. **Debt**

   This comprises money raised through borrowing from outside sources, including financial institutions, banks, bond sales, and other debt instruments (Mosley et al., 2022). Regular interest payments and principal repayment are common aspects of debt (Stiglight & Rashid, 2019).

2. **Equity**

   Equity is the term used to describe shareholders' ownership stake in the business (Raimo et al., 2020). The corporation raises money by issuing stock or shares (Abdullah & Tursoy, 2020). In addition to having ownership rights, equity holders could get dividends in return for their investment (Moin et al., 2020).

3. **Retained Earning**

   The total net income that a company has accumulated and held at a specific moment in time, like the conclusion of a reporting quarter, is known as retained earnings (Ball et al., 2020). This component is made up of earnings that the company has kept for internal reinvestment in the company as opposed to disbursing dividends (Kinikar, 2021). It comes from an internal funding source (Kliestik et al., 2020)

4. **Short-Term and Long-Term Capital**

   The maturity of the capital sources can also be used to categorize capital structures. According to Amato (2020), short-term capital consists of loans and other financial instruments with a one-year maturity period, and long-term capital is made up of funding sources with a one-year maturity period or longer (Wang et al., 2021).

Impact on the Business Performance

Whether family businesses perform better than non-family businesses and, if so, under what circumstances and factors, are topics of debate. O'Boyle et al. made the

initial attempt to condense the unclear results of earlier empirical investigations (2012). A meta-analysis of 78 papers on the effect of family influence on business performance was carried out by the authors. Interestingly, they did not find any evidence of a substantial effect of family participation on business performance. Many more meta-analyses have examined the details of family firm performance in the years that followed, although they have mostly focused on particular nations or areas.

Williams (2018) concentrated on measuring corporate performance. He also took into account the non-financial family firm aims, which is in contrast to the current tendency of evaluating family business performance using financial criteria. The meta-analyses on family firm performance carried out by O'Boyle et al. (2012) were reproduced and expanded upon by Hansen and Block (2020). The authors discovered an economically tiny but statistically significant positive influence from family influence on enterprises' financial success based on empirical data in 1095 main research from 61 nations. Large, publicly traded companies are more likely to exhibit this outperformance, and accounting performance metrics surpass market performance metrics. The most recent empirical data, presented by Leopizzi et al. (2021), shows that family businesses outperform non-family businesses in the tourism sector.

Impact of Business Sector

Hategan et al. (2019) investigated a sample of Romanian family businesses. They came to the conclusion that there were considerable differences in the debt ratios of enterprises in different sectors, with the rental industry having the lowest debt ratio at 2.7% and the pharmaceutical product retail sector having the highest at 97.4%. Pacheco (2022) based his empirical analysis on a sample of Portuguese wine enterprises, which constituted a commercial sector in which family firms constituted a sizable share of the industry. From 2010 to 2018, he employed an unbalanced panel dataset of 460 companies. His findings do not demonstrate a discernible difference between family-owned and non-family-owned businesses' ownership and financial structures.

Family Control

Family control, independence, and business ownership all have an impact on owners' financing choices (Poletti-Hughes & Martinez, 2022) entrepreneurs with a high propensity for independence are more likely to use retained earnings or equity as a source of funding—as long as it doesn't require outside participation (Embi et al., 2019) (1994) said that small business owners typically employ short-term loan financing due to their adamant opposition to ownership sharing (Faas, 2023)

Venture capital as a funding source increases concerns about control loss (Lerner & Leamon, 2023. Owner-managers who adamantly want to keep running the company "may actively place limits on the use and growth of equity," (Abonil et al., 2023) decisions about capital structure and financing are influenced by concerns about control and risk aversion (Garcia & Herrero, 2021) According to Modigliani and Miller (1958), creditors impose severe conditions on capital structure, which limits the flexibility and prerogatives of senior management (Gelpern et al., 2021) As a result of these covenants, business owners are now concerned about losing control (Babajida et al., 2023) Despite this, a large proportion of company failures can be linked to poor financing choices, such as undercapitalization and improper capital structures, like the wrong ratio of debt to equity financing (Kramolis & Dobes, 2020)

METHOD

The technique is a method that can be applied to achieve an objective. On the other hand, the research technique can also be seen of as a collection of methods for gathering data and exposing phenomena that are already well-known (Zulrkarnaen & Amin, 2018). This study tries to explain respondents' replies to latent variables and investigate the relationships between latent variables and indicators. It is descriptive in nature and involves verification. This study employs a quantitative, causal research model. Primary data for this study is gathered by personally distributing questionnaires to the appropriate respondents. The data for the study is derived from individual analysis units and is obtained directly from individuals who serve as representative samples of the community (Sugiyono, 2019).

The participants in this study were a sample of Bandung City locals with family businesses. The technique used is probability sampling, where each person in the population has the ability to be a sample (Sugiyono, 2018). The study's sample comprises Bandung city residents between the ages of 18 and 25 who transact through social media, with a minimum sample size of 150 respondents and a determination of 5–10 times the number of indicators (Hair et al., 2010). In order to conduct validity testing (convergent and discriminant validity), reliability testing (Cronbach alpha and composite reliability), and hypothesis testing, SEM-PLS was used in the data processing methods for this study.

RESULT AND DISCUSSION

Respondent Characterisctic

Table 1. Respondent Characterisctic

Age	20-30	**17%**
	30-40	22%
	40-50	37%
	>50	24%
Firm Age	1-10	11%
	10-20	46%
	20-30	30%
	>30	13%
Revenue per month	Rp. 10.000.000 – Rp 50.000.00	35%
	Rp. 50.000.000 – Rp. 100.000.000	47%
	Rp. 100.000.000 – Rp.500.000.000	11%
	>Rp. 500.000.000	7%

Source:

Processed by researchers, 2023

Description Analysis

Table 2. Description Analysis

Source: Processed by SmartPLS 3.0, 2023

The findings of the descriptive analysis were derived from the answers provided

Var	Actual Score	Ideal Score	%	Category
Capital Structure	9841	13860	67,74%	Enough
Family Control	3221	4620	67,74%	Enough
Business Performance	10887	13090	87,77%	Enough

by 150 respondents to the questionnaire, which asked questions about capital structure, family control, and business performance. Business Performance is 10887 with an ideal score of 13090 (87.78%) including the high category, and Family Control is 3221 with an ideal score of 7887 (67.88%) and fall into the sufficient category (76%), indicating that both areas still need to be improved (Gautam & Sharma, 2018).

Outer Model

11	Business Performance	Capital Structure Construct	Family Control
BP1	0.786		
BP2	0.797		
BP3	0.778		
BP4	0.808		
BP5	0.791		
BP6	0.795		
BP7	0.814		
BP8	0.796		
BP9	0.779		
CS1		0.796	
CS10		0.760	
CS11		0.754	
CS12		0.826	
CS13		0.774	
CS14		0.725	
CS2		0.826	
CS3		0.714	
CS4		0.777	
CS5		0.789	
CS6		0.789	
CS7		0.819	
CS8		0.761	
CS9		0.775	
FC1			0.787
FC2			0.740
FC3			0.809
FC4			0.813
FC5			0.794
FC6			0.747

Figure 1. Outer Loading

This paragraph presents the outer loading values of the indicators measuring the research constructs. It demonstrates that all of the indicators have satisfied the requirements for loading factor values, with none of the loading factors being less than 0.70. For additional analysis, utilize Capital Structure, Family Control, and Business Performance.

Validity and Realibility Test

Table 3. Cronbach Alpha and Composite Realibility

	Cronbach's Alpha	Composite Reliability	Critical Value	Remarks
Business Performance	0.927	0.939	0.7	Reliable
Capital Structure Construct	0.950	0.955		Reliable
Family Control	0.873	0.904		Reliable

Source: Processed by SmartPLS 3.0, 2023

The findings of the construct reliability testing for the three study constructs are displayed in Table 3. In particular, the table indicates that all constructs in this research are trustworthy because all values (Cronbach's Alpha and Composite Reliability) are above the crucial number of 0.7.

Table 4. Cronbach Alpha and Composite Realibility

Construct	Average Variance Extracted (AVE)	Critical Value
Business Performance	0.630	0.5
Capital Structure Construct	0.605	
Family Control	0.612	

Source: Processed by SmartPLS 3.0, 2023

Table 4 shows that all of the constructions' AVE values are greater than the crucial value of 0.5. We can therefore infer that this study satisfies the validity criteria.
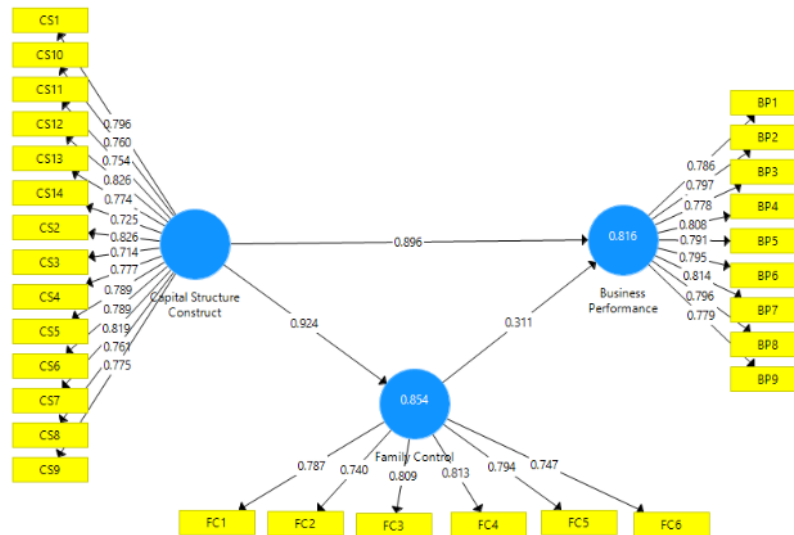
Structural Model

Figure 2. Structural Model

Structural model is one that creates a relationship between exogenous and endogenous latent variables. This model illustrates the relationship between endogenous variables and other endogenous variables. Below is a summary of the values used in the structural model. Figure 2 illustrates the significant and positive link that exists between the variable and the construct

R-Square

Table 5. R-Square

Path	R-Squared
Capital Strcuture Construct → Business Performance	0.864
Capital Strcuture Construct & Family Control → Business Performane	0.816

Source: Processed by SmartPLS 3.0, 2023

Table 5 indicates that the Capital Structure Construct model's R^2 value for Social Support is 0.864, indicating a "high" level of significance. Aside from that, the impact of family control and the capital structure construct on business performance is 0. 816, which is classified as "high." These findings demonstrate the quality of the models that this study produced. The R-Square or R2 formula for dependent construction indicates the underlying error or bias of independent construction in deteriorating dependent construction. The R-Square or R2formula for dependent construction indicates the underlying error or bias of independent construction in deteriorating dependent construction. Table 5 illustrates that the R2value for the Capital Structure Construct model with respect to Business Performance is equal to 0,864, meaning that Capital Structure Construct effecrive on Business Performance by 86,4%. In addition, the relationship between Capital Structure Construct, Family Control and Business Performane can be seen in the R2value of 0.816, which indicates that the relationship between Capital Structure Construct, Family Control and Business Performane is 81,6 %.

Hypothesis Testing

A hypothesis test is an approach that will produce a result, either confirming or refuting the hypothesis. As a result, the hypothesis should be assessed using statistical analysis and the boothstrapping method in light of the evidence.Hypotesis testing using SmartPLS 3.0 application SmartPLS is a software package primarily used for structural equation modeling (SEM) and path analysis. Hypothesis testing in SmartPLS involves examining the relationships between constructs in a theoretical model.
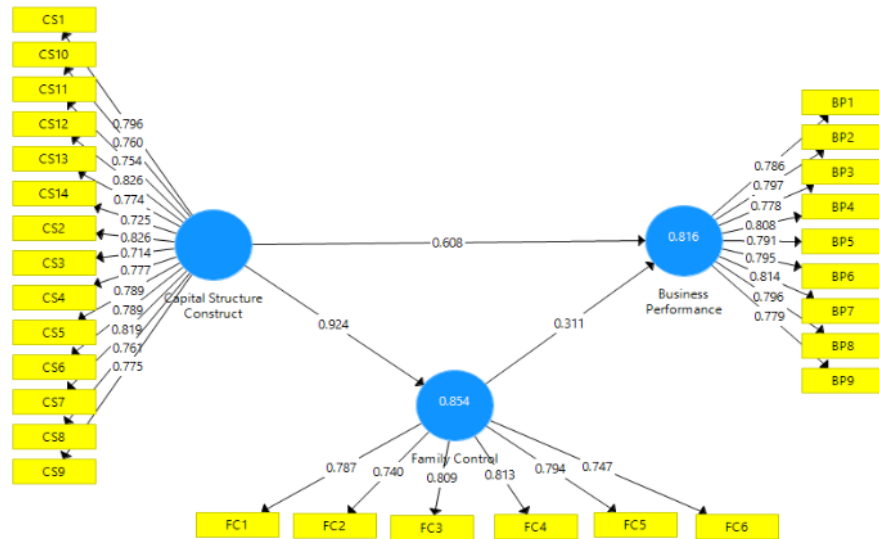
Figure 3. Path Coffecient

After starting the bootstrapping, the value in the J-shaped diagram is the value for the T-shaped significance uji. If the structural similarity coefficient (t) is greater than 1,96 and the significance level is less than 0.05, then H0 is rejected or there is a significant difference between the independent and dependent variables. The following is the process of hypotheses testing

Table 5. Direct Effect

Path	Path Coeffecient	T Statistics	T.Table	Sig.	
Family Control On Business Performance	0.924	22.230	1.65	0.000	H0 is not supported
Capital Structure Construct On Family Control	0.608	5.503	1.65	0.000	H0 is not supported
Capital Structure Construct On Business Performance	**0.311**	**15.028**	**1.65**	**0.000**	H0 is not supported

Source: Processed by SmartPLS 3.0, 2023

The first hypothesis, which states that Family Control has a positive impact on Business Performance, is supported 22.230 which is higher than the of 1,96, and a signifikan value of 0,000, which is less than the significance level of 0.05. Therefore, H0 is rejected, indicating that Family Control has a positive impact on Business Performance. This is corroborated by a positive path coefficient, which indicates that Family Control has a positive impact on Business Performance, which will have an adverse effect on Business Performance family ownership business, which is increasing. In order for organizations that provide be able to maximize the opportunity to increase firm size and adaptability,

The Second hypothesis that Capital Structure Construct has a positive impact on Family Control, is supported is supported 5.503 which is higher than the of 1,96, and a significant value of 0,000, which is less than the significance level of 0.05. Therefore, H0 is rejected, indicating that Capital Structure Construct has a positive impact on Family control, which is The decision to take working capital will also improve the attitude of family members to control their company

The Third hypothesis that Capital Structure Construct has a positive impact on Business Performance, is supported is supported 0.311 which is higher than the of 1,96, and a significant value of 0,000, which is less than the significance level of 0.05. Therefore, H0 is rejected, indicating that Capital Structure Construct has a positive impact on Business Performance, which is The decision to take working capital will also improve Business Performance family ownership business, which is increasing. In order for organizations that provide be able to maximize the opportunity to increase firm size and adaptability,

SIMPULAN

Based on study findings, analysis and research, Capital Structure Decisions on Business Performance are influenced by how family members control their company. The task of family control has a big impact on Capital Structure decision making which can ultimately improve Business Performance. The findings are definite, Capital Structure Construct has a positive and significant influence on Business Performance through Family Control.

Limitations

In this research, it only focuses on the Capital Structure Construct and Family Control variables which are assessed whether they can influence Business performance or not, then the research is only carried out on Business SMEs, and the research object is carried out only in Bandung City which is considered to represent Indonesia

Suggestions

For further researchers, they can create more diverse variables and larger research objects with a much larger number of samples, then the research objects used can focus on larger scale businesses or multinational companies.

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