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Does family ownership and women leadership influence sharia bankfinancial performance?

Rahman Anshari[1]✉, Dewi Sartika[2]
Department of Management, University of Muhammadiyah Kalimantan Timur, Samarinda.

Abstract

This study empirically examines the effect of family ownership and women's leadership on company boards on the financial performance of Islamic banks. This research is quantitative. Data were obtained from the annual report of Islamic Commercial Banks in 2014-2020. The sample was selected using a purposive sampling technique using specific criteria with a total sample of 77 observations for 7 years of research. Family ownership is measured using the sizeof the family's share in the company. Leadership is calculated using the proportion of women on the company's board (board of commissioners, board of directors, and sharia supervisory board). Financial performance is measured using ROA. Data analysis in this study used multiple regression using the IBM SPSS version 23 application. The results showed that familyownership had a negative effect on the company's financial performance. The female leadership variable has a positive impact on company performance.

Key words: Firm performance; family ownership; women leadership; sharia bank

✉ Corresponding Author
Email Address: rahman.ansari@umkt.ac.id
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INTRODUCTION

Company performance is a description of a company's financial condition, which is analyzed with financial analysis tools. So that it can be known about the good and bad financialcondition of a company that reflects work performance in a certain period (Maith, 2013). Thecompany's financial performance is closely related to performance measurement and assessment. Performance measurement is the qualification and efficiency, and effectiveness ofthe company is operating the company's business during the accounting period. Companies use performance measurement to make improvements in their operational activities to be able to compete with other companies. The best operating performance of the company can be explained through financial performance so that the company's performance is commonly referred to as financial performance (Terjesen, Couto, & Francisco, 2016). Banking today, especially commercial banks, is the core of every country's financial system. Banks have the main activity of collecting funds from the public and channeling these funds back to the community in the form of credit within a certain period (Marimin & Romdhoni, 2015).

In Indonesia, the establishment of Bank Muamalat in 1992 became an essential point for the establishment of Islamic banks in Indonesia. The definition of a bank is contained in Undang-undang No 10 pasal 1 tentang perbankan, namely "Bank is a business entity that collects public funds in the form of savings and distributes them to the public to improve the standard of living many people. The definition of commercial Bank is a bank that carries out business activities conventionally or based on sharia principles, which provides services in payment traffic. Undang-undang No 10 pasal 1 tentang perbankan ayat 13 states what is meantby sharia principles, namely "rules of agreements based on Islamic law between banks and other parties for depositing funds or financing business activities, or other activities declaredin accordance with sharia, including financing based on the principle of profit-sharing(mudharabah), financing based on equity participation (musyarakah), the principle of buying and selling goods with a profit (mudharabah) or capital financing based on the principle of thepure lease without choice (ijarah), as well as other activities such as transfer of ownership ofgoods. leased from the Bank by another party (ijarah wa iqtina) (Marimin & Romdhoni, 2015).

The existence of Islamic banks in Indonesia is essential, considering that the majority of Indonesia's population is Muslim. So, the presence of Islamic banks in society is a need thatmust continue to be developed. In 2021, there will be 14 Sharia Commercial Banks and 20Sharia Business Units. Based on data from the Financial Services Authority (OJK), in 2021,financing disbursed by Islamic commercial banks and conventional bank sharia business unitsgrew by 7.25% in the first half of Rp. 394.94 trillion compared to the same position in theprevious year, which was Rp. 368. 23 trillion. This shows that there is positive sentiment andincreasing public confidence in Islamic commercial banks in Indonesia. Based on statisticaldata from the Financial Services Authority (OJK) in 2021, the financial performance of Islamicbanks for the last three years shows a consistently favorable position. This indicates that thelevel of public trust in using the services of Islamic banks is quite good so that Islamiccommercial banks in Indonesia can continue to maintain financial performance in that position. Research on the effect of family ownership on company performance has been conducted by Alves, Gama, and Augusto (2020) which shows that family-owned companieshave better performance. Roffia, Simón-Moya, and García (2021) also stated the same thing inhis research on family companies in Italy. The results showed that family companies have apositive correlation to the company's financial performance. However, the researcher alsoexplained that the positive correlation could turn into a negative correlation depending on theinterests of the controlling shareholder. The research results by Sunon, Islam, and Kabir (2021)found that companies owned by families and families having a managerial position in the company will have better financial performance.

The Pricewaterhouse Cooper or PWC (2014) shows that 95% of companies in Indonesiaare family companies. The survey results show that companies in Indonesia have a concentrated ownership structure that a few majority shareholders own. Oh, Chang, and Martynov (2011) explain that family companies are unique companies because they tend to maintain the good name and performance of the company. After all, the company must continue and can be passed on to the next generation. Based on this, to meet the goal of passingon the family business to the next generation, companies controlled by families need to maintain their performance to achieve business sustainability.

In Indonesia, based on the results of a study by the Center for Governance, Institutions, and Organizations (2012), the percentage of women on the boards of commissioners and directors of public companies listed on the Indonesia Stock Exchange (IDX) is 11.6%. Of thisvalue, 34% of company boards have only one woman on the board, and only 2.8% have four or more women on the board. When compared to other countries, the score is 11.6% lower thanEurope (17%), North America (16.1%), and Australia (13.8%), but better than other developingcountries by 7, 2%. Indonesia's position also leads other Asian countries, such as Japan (1.1%), Hong Kong (10.3%), Malaysia (7.3%), and Singapore (7.3%) (Ramadhani and Adhariani, 2017). The company's financial performance depends on how the company's board carries outits duties. One of the important issues related to the structure and function of the board of commissioners and directors is the diversity of members of the board of commissioners and directors. The diversity of the board of commissioners and directors illustrates the distributionof differences between board members related to characteristics regarding differences in attitudes and opinions. Roffia et al. (2021) explaining the presence of women on the board of commissioners and directors indicates that the company provides opportunities that are equal for everyone (no discrimination), has a broad understanding of the company's market and consumers so that in the end it will increase the reputation (legitimacy) and value of the company.

Based on the previous explanation, this study aims to empirically examine the effect offamily ownership and female leadership on company boards on the company's financial performance at Islamic Commercial Banks in Indonesia. The novelty of this research is on theresearch subject, namely general Islamic banks in Indonesia. The subject was chosen becausethere have not been many studies that have reviewed the financial performance of Islamic banks seen from the ownership structure, namely from family ownership and gender diversityon the company's board. One of the differences between Islamic banks and other types of companies is that there are three boards in Islamic banks, namely the board of directors, the board of commissioners, and the sharia supervisory board.

This study uses socioemotional wealth theory and gender theory as the basis for understanding the research problem. The socioemotional wealth theory explains that the familyhas non-financial aspects of the company to meet the family's affective needs such as identity,the ability of the family to influence the company, the family's desire to use authority, continuity of family leadership and authority in appointing trusted family members to occupy important positions (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). Gender theory explains that women are more careful in their actions so that they help companies improve their performance, which is useful in avoiding high risks and preferring smaller and safer risks for the company. So that companies that have women on the company'sboard will help neutralize the nature of male board members who tend to take high risk (Al-Matari, Al-Swidi, & Fadzil, 2014; Ramadhani & Adhariani, 2015).

Family Ownership and Financial Performance

A family company is a company with family ownership of more than 10% or with a family holding a managerial position. Companies with family ownership have a strong drive to be able to control and supervise management (Barontini & Caprio, 2006; Siregar & Utama,2008). Companies with family ownership can cause families to prefer to maximize profits forthemselves at costs that must be borne by other parties (Andres, 2008). This is supported by empirical research, which shows that family ownership has a negative effect on performance (Abdul & Adelabu, 2015; Subekti & Sumargo, 2015).

But on the other hand, companies that carry out supervision by family ownership are due to share ownership originating from the family's personal wealth so that families can be more motivated to supervise management to produce a good performance for the company (Andres, 2008). One way that companies with family-owned companies can carry out supervision is by choosing families to be able to occupy managerial positions in the company (Giovannini, 2010). The presence of families in managerial positions can reduce conflicts of interest that may occur between management and families and can lead to alignment between goals or interests between principals and agents in the company with family ownership structures will reduce agency costs and improve company performance (Andres, 2008; Dyer & Whetten, 2006). In addition, the existence of supervision and control will increase the effectiveness and efficiency of management so that it will have an impact on improving performance (Maury, 2006). This is in line with empirical research, which shows that family ownership positively affects performance (Anderson & Reeb, 2003; Komalasari & Nor, 2014).

H1: Family ownership influences financial performance

Women leadership and financial performance

The board of directors is generally the most influential person in determining strategy,direction, and decisions within the company (Terjesen et al., 2016). Diversity tends to producehigher creativity, innovation, and quality decision-making both individually and in groups, sothat this characteristic is very crucial at the level of the board of directors (Hamdani & Hatane,2017). The existence of diversity can help the board of directors think more broadly and fromvarious perspectives. It is more effective in dealing with the problem of diversity in the workforce and market products which is one of its competitive advantages. If the company succeeds in increasing its competitive advantage, it will positively impact the company's performance (Erhardt, Werbel, & Shrader, 2003).

Hamdani and Hatane (2017) found that companies with high female representation in top management produced better performance than companies with low female representation.Erhardt et al. (2003) and Krishnan and Park (2005) state that the presence of women on the company's board can improve the company's financial performance. Based on this explanation,a hypothesis can be made:
H2: Women leadership influence financial performanceResearch Methodology

This research is quantitative research with an archival approach. According to Moers (2007) , archival is an empirical study that uses archival data as the primary source by applyingquantitative methods to analyze this data. The population in this study is Islamic Commercial Banks in Indonesia in 2014 – 2020. The number of samples used in this study was 77 samples.All information needed in the study was obtained from the company's annual report from the company's official website.

The first independent variable in this study is family ownership. Family companies aredefined as companies whose family members are active in the company as owners through share ownership (Block & Wagner, 2013; Chau & Gray, 2010; Gallo & Sveen, 1991). The measurement of family ownership refers to the research of Chau and Gray (2010) which is measured using the percentage of shares owned by the family. The second independent variablein this study is the leadership of women on the company's board.

RESULTS AND DISCUSSION

Descriptive statistics

Based on the descriptive statistics presented in table 1, information is obtained that from the 77 sample companies, the average family ownership through shares in the company is 40.56%. The lowest value is 0% and the highest value is 100%. The average presence of women on the company's board is 13.52%. The lowest value is 0% and the highest value is 44%. The company's average financial performance is 1%. The lowest value is -10.77% and the highest value is 13.58%.

Table 1.
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Family ownership	77	.00	1.00	.4056	.46391
Women leadership	77	.00	.44	.1352	.13618
Financial performance	77	-.1077	.1358	.01044	.0336411
Valid N (listwise)	77				

Multiple Regression Analysis and Hypothesis TestingF Statistics Test

From the F test in table 2, the Fcount value is 8,319 with the probability seen from theSig column of 0.000. This study has n = 77 with k = 3, so that the Ftable value is 2.49. This shows that the value of Fcount>Ftable is 8.319>2.49 with a probability value of <0.05 which is 0.000<0.05 where all independent variables have a significant relationship together with thedependent variable. So it can be concluded that the variables of family ownership and women'sleadership have a significant simultaneous effect on the financial performance variable.

Tabel 2.
Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.022	3	.007	8.319	.000[b]
	Residual	.064	73	.001		
	Total	.086	76			

Dependent Variable: Financial Performance
Predictors: (Constant), DPS, Woman Leadership, Family Ownership

T Statistics Test

From table 3, it can be seen that the two independent variables, namely familyownership and female leadership, show significant results as seen from the probability of family ownership of 0.019 and female leadership of 0.000 and both are below 0.05. The regression equation that can be explained as follows:

ROA = 0.001 – 0.023(FOW) + 0.125(WLD) + e

Table 3.
T test

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.001	.024		.030	.976
	Family Ownership	-.023	.010	-.320	-2.399	.019
	Woman Leadership	.125	.027	.504	4.644	.000
	DPS	.000	.002	.015	.111	.912

a. Dependent Variable: Financial Performance

The regression coefficient test presented in table 3 shows that the significance value offamily ownership is $p < 0.05$, so it can be concluded that family ownership has a negative and significant effect on the financial performance of companies in Islamic commercial banks in Indonesia. So the hypothesis which states that family ownership affects the company's financialperformance is accepted. These results are in line with research by Subekti and Sumargo (2015)and Roffia et al. (2021) who found that in family companies where family members play an active role as shareholders tend to place family members on the company's board of directors. Such action may lead to an imbalance in the composition of the company's competent board. The same thing is also in accordance with socioemotional wealth theory, that companies ownedby families tend to place family members on the board so that family members have the abilityto control policies in the managerial ranks. However, not all family members of the company's owners have the relevant abilities to be on board positions so that policies that are not taken by a competent board can have an impact on unfavorable financial performance.

Based on the results presented in table 3, it shows that the significance value of femaleleadership is $p < 0.05$ and it can be concluded that female leadership has a positive and significant effect on the financial performance of companies in Islamic commercial banks in Indonesia. So the hypothesis which states that women's leadership affects the company's financial performance is accepted. These results are in line with research by Hamdani and Hatane (2017) that companies that have a higher proportion of women on the company's board

have better financial performance. This is in accordance with gender theory which states that women tend to be more careful in taking risks compared to men. So that policies that have significant risks tend to be avoided by women's councils. These actions help the company avoidlosses and maintain good financial performance.

CONCLUSIONS

Indonesia is the largest Muslim country in the world. The need for sharia-based financial institutions is a community need. Based on the survey results from PWC in 2014, 95% of companies in Indonesia are family-owned. This shows the phenomenon that the majority ownership structure of the company is owned by a few large shareholders. This phenomenon also occurs in Islamic commercial banks in Indonesia. This is indicated by the average percentage of family shares of 40%. This amount is sufficient to become the majorityshareholder and control company policy. Another phenomenon is the small proportion of women involved in the company's board. This phenomenon attracts researchers to examine how family ownership and women's leadership influence the financial performance of Islamiccommercial banks.

Based on the results of this study, it can be concluded that family ownership has a negative and significant effect on the financial performance of Islamic commercial banks in Indonesia in 2014-2020. Then, the female leadership variable has a positive and significant effect on the financial performance of Islamic commercial banks. The novelty of this researchis the research subject, namely Islamic commercial banks in Indonesia. There has not been much research examining the ownership structure and leadership of women on the board, especially in banking companies.

The limitation of this research is in the identification process of whether a company canbe classified as a family company or not. Because many definitions explain the criteria for family companies, the use of different definitions of family companies can produce different research results.

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