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ABSTRACT

This study aims to examine whether or not family control benefiting the internal and external governance mechanism to mitigate to agency problems affecting dividends in a capital market environment to improve investor protection such as Indonesia. The quantitative analysis model was used to test the hypotheses based on the panel data analysis of 58 family firms listed from 2012 to 2019, and the random effect technique (pooled EGLS). The findings indicate that internal governance mechanism (family ownership and family board representation) are irrelevant to the dividend policy. However, external governance mechanism (debt) negatively affects dividends. This means that debt plays a significant role in influencing dividend policies. In addition, it provides the issue from institutional setting, when legal protection for minority shareholders is improving, the governance role of families become less effective to monitor the firms..

SARI PATI

Penelitian ini bertujuan untuk menguji apakah kontrol keluarga melalui mekanisme tata kelola internal dan eksternal dapat mencegah persoalan keagenan yang dapat mempengaruhi kebijakan dividen di lingkungan pasar modal yang mulai meningkat sistem perlindungan investornya, seperti di Indonesia. Model penelitian kuantitatif dipergunakan untuk menguji hipotesis penelitian yang berbasis pada analisis data panel dari 58 perusahaan keluarga yang terdaftar dari tahun 2012 hingga 2019, dan teknik random effects (panel data - EGLS) digunakan. Hasil penelitian menunjukkan bahwa mekanisme tata kelola internal (kepemilikan keluarga dan perwakilan keluarga di dewan komisaris) tidak relevan mempengaruhi kebijakan dividen. Namun, mekanisme tata kelola eksternal (hutang) berpengaruh negatif terhadap dividen. Hal ini menunjukkan bahwa hutang berperan penting dalam menentukan kebijakan dividen. Disamping itu, secara konteks kelembagaan, perlindungan hukum bagi pemegang saham minoritas semakin membaik, maka tata kelola peran keluarga menjadi kurang efektif dalam aktivitas pemantauan perusahaan..

INTRODUCTION

Dividend payouts can be a measurement of companies' successs by market participants. However, dividend policy is a puzzle that difficult to solve and makes controvercy in finance (Black, 1976). Market participants may interested to companies which pay more dividends because it might signal of the prospect and quality of futures earnings (Dong *et al.*, 2005; Miller & Rock, 1985) or firm reputation (Isakov & Weisskopf, 2015). In the situation when company is owned by a large number of small shareholders such as in Asia (Claessens *et al*,. 2000), the common type of controling shareholders are families. The preferences of the controling shareholders might have impact on pay-out policy (De Angelo *et al.*, 2009). Interestingly, many family controlled firms in Indonesia might not prefer issuing dividends to shareholders. In conjunction with Indonesia situation, Wu & Huang (2020) and Teng *et al.* (2020) found that in Taiwan, family controlled firms also pay less dividends. It seems that in emerging markets, there is a tendency for weak minority shareholders protection and private benefit control. In these circumstances, the firm's growth depends on internal resources and encourage the dominance of family ownership (Teng *et al.*, 2020; Young *et al.*, 2008). As a consequences, minority expropriation has always been a major issue for firms that have majority ownership, such as family ownership.

Prior research (e.g. Cheung *et al.*, 2005; Jara-Bertin *et al.*, 2008; Miller *et al.*, 2011; Pindado *et al.*, 2012) indicates there are contradictory results are apparent on this issue in family firms. Some found that family firms are generous in paying dividends to alleviate the expropriation concerns of minority shareholders. However, others argue that controlling shareholders are tend to expropriate the minority shareholders. Wu et al. (2020) and Teng *et al.* (2020) reveal that dividend pay-outs for family firms in the West and East countries might be not the same depend on various culture, nationality and philosophy or shareholders protection. When shareholders right are strong, study in Canada and Australia shows that shareholders can pressure managers to pay higher dividends instead of using these amounts for their private benefit (Adjaoud & Ben-Amar, 2010; Setia-Atmaja *et al.*, 2009) or in the US, the board structure is effective to limit the opportunistic behaviours of controlling family (Anderson & Reeb, 2004). However, in the capital market setting with lack of investor protection, external governance mechanisms become rather important. In other words, the effectiveness of alternative corporate governance practice may depends on the context of institutional setting.

We utilize panel data on a sample of Indonesian publicly listed family firms that pay dividends over the period 2012 -2019 with 464 observations from 58 family firms. The Indonesia setting offers two important advantages. First, Indonesia is a civil law country with relatively develop environment to protect minority shareholders since the *Financial Services Authority* (OJK) issues regulation in 2014 that requiring listed companies to have at least 30 per cent independent boards on its board members. Moreover, to improve investment security in the Indonesian capital market, *Indonesia Securities Investor Protection Fund* (SIPF) was established in 2016 to proctect investor's assets. Indonesia SIPF is a company that organizes the fund protection program financiers, and surveillance by OJK. Indonesian capital market is charactherized by high level ownership which exhibits usually high private benefits of control.

Meanwhile, previous research on devidend payouts and family-owned firms in Taiwan (Wu *et al.*, 2020) found that devidend policies are not related to the agency problems. They are are likely pay less devidend to utilize their earnings for investments rather than to exploit for their interests. Thus our research offers an opportunity to examine further the key role whether corporate governance menchanisms are considered in devidend payouts, particularly in the presence of improving legal protection for minority shareholders.

Secondly, by Indonesian context is that its devidend tax system. Indonesia currently adheres to the two tier tax which is also adopted by European countries such as the Netherlands. In this system, taxes are levied on profits generated at the company level, then taxed on net income at the level of individual shareholders. Thus, double taxation is possible, namely the imposition of tax twice on the same income. However, since 2021, the *Job Creation Law* changes the dividend taxation system to a one-tier system. In this system, taxes are charged on profits generated only at the company level. This means that the tax is imposed once at the corporate level. When the company's income is distributed as dividends to individual shareholders, so there is no double tax issue here. Thus, this makes it relevant to examine whether the agency perspective of dividends also hold for family firms in environments where tax may be the reason for paying dividends. However, the period of this study covers the time before one-tier system applied that possibly makes a consequences on the market preferences to dividend itself.

Literatures atribute important governance functions to dividend, debt, ownership structure and the board of directors in mitigating agency conflict and entrenchment problems (Isakov & Weisskopf, 2015; Setia-Atmaja, *et al.*, 2009; Setia-Atmaja, 2010; Teng *et al.*, 2020; Wu *et al.*, 2020). If family firms deflect corporate resources from minority shareholders, they perform low dividends and debt levels, and set boards that less effective to monitor. However, if family firms have higher dividends and debt levels, the independent boards will more effective monitors (Setia-Atmaja, *et al.*, 2009). The situation could be different if the independent boards are a requirement in board structure. Moreover, prior research (e.g. Gomez-Mejia & Larazza-Kintana, 2003) indicates that some governance tools for mitigating agency problems such as institutional ownerships (external) and manager's compensation (internal) are less effective to be applied in family firms. This should indicate that others governance tools may be more effective for family firms. Accordingly, we consider the effect of others internal dan external governance mechanisms such as dividends, debt, family ownership and boards of directors, may play a significant role in controlling agency problem in family firms.

Our results indicate that internal governance mechanism (family ownership and family board representation) are irrelevant to the dividend policy. However, external governance mechanism (debt) negatively affects dividends. These reveal that family-controlled firms employ either dividends or debt as external governance mechanisms. Moreover, dividends and debt in alleviating the family's expropriation of minority shareholder's wealth are more effective than internal governance mechanisms, both through family ownership and family board representation.

From the agency perspective, our result support the notion that dividends and debt are act as substitution tools. The findings are consistent with the context of an institutional setting, that although families may have incentives to expropriate minority shareholders, families may consider the net effects of benefits and costs of their involvement. It seems that governance and control are conditioned on the institutional context. Thus, the internal governance mechanisms play a less important role in mitigating agency problems in family firms. Otherwise, empowering the governance role of debt in family firms is more significant in pay-out policy.

This study contributes to the field of studies in the following aspects: First, this study elaborates internal and external governance mechanism with dividend policy in term of exacerbating agency problems in family firms. Moreover, it provides the issue from institutional setting, when legal protection for minority shareholders is improving, the governance role of families become less effective to monitor the firms. Second, our result extend prior studies which have only examined the impact of family ownership on dividends in an environment that mostly strong legal shareholder protection with low concentration of ownership or reverse situation. Thus, it acknowledges that external governance mechanisms may play an important role in mitigating agency problems inherent in family firms (Anderson & Rebb, 2004; Setia-Atmaja *et al.*, 2009).

The following sections are organized as follows. Section 2 provides a literature review and hypotheses development. Section 3 presents the data and methodology. Section 4 discusses the empirical results. Section 5 draws the discussion and the conclusion.

Literature Review and Hypotheses Development

Internal Governance Mechanism and pay-outs

Dividend payouts are likely to reduce agency costs between managers and shareholders and then is expected to increase firm value. This suggests that pay-out is based on agency perspective. Dividends are often used as a control mechanism of shareholders to reduce agency costs and then increase firm value (Chen & Steiner, 1999). One of the agency problems that related to that cost is the misuse of cash flows by managers. Managers may not distribute cash flows due to their personal benefits such as invest in unprofitable projects. In family firms, when the families are controlled shareholders, the conflict between managers and shareholders may be minimized since families have stronger incentive to control managers (Anderson & Reeb, 2003). Families percieve their firms to pass to the next generations which implicitly makes them to discourage managers from abusing their positions. On the other hand, the agency problem between controlling and minority shareholders raises because of the divergent of interests that lead to the expropriation of minority shareholders (Johnson *et al.*, 2000). Family firms incure higher agency costs that associated with ownership and control, especially when family control is greater than its cash flow rights (Faccio *et al.*, 2001).

Researches have considered that dividend payouts matter and critical importance for family control (De Angelo *et al.*, 2009; Villalonga & Amit, 2006); family firm's reputation (La Porta *et al.*, 2000) and family income (Isakov & Weisskopf, 2015; Miller *et al.*, 2011). Although there is some evidence that family firms adopt traditional strategy when it comes to reluctance to invest aggresivelly and extensive capital expenditures (Bertrand & Schoar, 2006) because these investments take long time to pay-off. As a result, they tend to distribute generously dividends, rather than reinvest their profits to firms. From an agency perspective, dividends may serve to reduce agency problems by reducing the amount of free cash flows (Jensen, 1986). Moreover, dividends can limit minority expropriation by removing corporate wealth from controlling shareholders (La Porta *et al.*, 2000).

Empirical findings provides a mixed perspectives on the relation between family control and dividends. Some argue that family ownership appers to be positively associated with dividends (Miller *et al.*, 2011; Setia-Atmaja, 2010). Indeed, the argument implies that the protection of shareholders is strong enough, thus dividends are used as a part of firm's monitoring. In contrast, some found that the relationship between family ownership and dividend payouts tend to be negative (Attig *et al.*, 2016; Jara-Bertin *et al.*, 2008; Setiawan *et al.*, 2016; Vandemaela & Vancauteren, 2015), that may result in misuse free cash flows and used by controlling shareholders to harm minorities. In the context of a country with weak minority protection, the family has the potential to expropriate the wealth of minority shareholders. This indicates that internal governance mechanisms (e.g. family ownership and family board representation) are less effective in resolving agency issues between families and minority shareholders. Family ownership and control in relation to dividend may be associated with the level of investor protection and regulations applied in a country. Thus, it can be a different predictive space depending on the prevailing institutional context. In other words, external control mechanisms may substitute internal control mechanisms in order to maintain good corporate governance. In addition, La Porta *et al.* (2002) found that external control mechanism highly dependent on the legal structure which gives protection to the investors (shareholders). Based on the above arguments, considering the condition of developing legal protection for minority shareholders in Indonesia, the research hypotheses are drawn:

H1: Family ownership has no effect on dividend pay-outs.
H2: Family representation on the board directors has no effect on dividend pay-outs.

External Governance Mechanism and pay-outs

Notwithstanding that corporate control is important, there has been less discussion about external and internal governance mechanisms may shape dividend pay-outs. For example, debt as governance mechanism, serves as a disciplining tool for managers by imposing fixed obligations on firm cash flow (Jensen & Meckling, 1976; Jensen, 1986). Thus, debt can be an effective force to motivate managers to run firms effectivelly. However, in the context of family firms, debt is an instrument to protect a families' control towards their companies. When the ownership of the firm is disperesed, debt is relevant to the distribution of voting rights.

Moreover, D'Mello & Miranda (2010) argue that ownership structure and debt can be seen as control mechanisms to alleviate agency conflicts that exist between different types of stakeholders inside firms. This view supports Friend & Lang (1988) that the presence of a group of investors might limit the discretion of management in seeking lower debt ratios. In this context, the mechanism of monitoring is used by shareholders to reduce the potential for wealth diversion. However, in closely-held firms such as family firms, debt can facilitate minority shareholders' expropriation (Faccio *et al.*, 2001).

Prior studies have documented a negative association between debt and dividend payout (Lawellen, 2006; Setia-Atmaja *et al.*, 2009; Teng *at al.*, 2020; Wu et al., 2020). This indicates that debt and dividend act as an opposite tool for governance. Furthermore, since debtholders can give significant dicipline on firms to pay interests, family firms with high fixed financial costs will put their obligations first than pay dividends (Jensen et al., 1992). Therefore, we propose the following hypothesis:

H3: Debt has a negative effect on dividend pay-outs

METHODS

Data and Sample

In this study, 464 firm-year observations, during the period 2012 to 2019 from 58 family firms are collected from the *Indonesian Stock Exchange* (IDX). We exclude the financial sector (sector 8) from nine sectors in IDX because this sector has characteristics governed by highly regulations, so it would lead to the biased results (Rajan and Zingales, 1995). Dividend data are collected from the *Indonesia Capital Market Institute* (TICMI). The corporate governance variables and financial variables are from the year prior to the year of dividend payments. The identification of family firms follows previous research (e.g. Maury, 2006; Pindado *et al.*, 2008; Roida, 2020; Villalonga & Amit, 2006), that family firms are if have at least 10per cent ownership and place family members on the board of directors as representatives of the family, and issued financial reports throughout the study period. The threshold refers to previous studies with the consideration that this percentage is quite effective to run the internal control mechanism (Poutziouris *et al.*, 2015). Family status in the study sample relies on the official information from prospectus or annual reports, the history of the firm and the official information on the firm website.

Since we use panel data run pooled regression, relations among firms and years might overestimate the significance of parameters. Thus, in order to address this possible issue, we follow Petersen (2009) to cluster this data panel, both by year and by firm. In addition, to control the unobservable characteristics that may impact the results, we include year fixed effects.

Primary Variables and Control Variables Measures

Dividends as the dependent variable in this study is measured as total ordinary dividends divided by net income (Faccio *et al.*, 2001; La Porta *et al.*, 2000; Setia-Atmaja *et al.*, 2009). The internal mechanism is measured through the concentration of ownership and involvement of families on the board of directors. Family ownership refers to the influence of various levels of concentration of family ownership (Suveera & Parmjit 2015), or the percentage of family share ownership as a group (FO). Meanwhile, family representation on the board of directors is measured by the proportion of family members on the board of directors (FB). The family on the board of directors can come from the founder or the next generation who is placed as a representative of the family (Villalonga and Amit, 2006). The power of debtholders (DEBT) is measured by the ratio of the book value of total debt to total assets (Anderson and Reeb, 2003; Setia-Atmaja et al 2009).

We adopt Teng *et al*. (2020)'s control variables in this study. We categorize into heterogeneity of family firms (firm age) as well as the firm's financial performance (profitability and growth opportunities). Firm age (AGE) is associated with characteristics of entrepreneurial spirit, drive for growth, and value-added capabilities that can differ between generations and age of the firm (Poutziouris *et al*. 2015). The age of the firm is measured from the time the firm was founded until the research period. Firm profitability (PROF) is measured by the ratio of net income to total assets. A firm's growth opportunities (GROWTH) are measured by the ratio of market capitalization to total book value of equity. Table 1 explains in detail the description and definition of each variable.

Estimation Methodology

The estimation method used to analyze the panel regression data panel. In this model, the observed dividend pay-out is presented as a function of various firm-specific factors. The primary specification is:

$$\text{Dividend}_{i,t} = \alpha + \beta_1(\text{FO}_{i,t}) + \beta_2(\text{FB}_{i,t}) + \beta_3(\text{DEBT}_{i,t}) + \beta_4(\text{AGE}_{i,t}) + \beta_5(\text{GROWTH}_{i,t}) + \beta_6(\text{PROF}_{i,t}) + \text{€}_{i,t}$$

The data set for family firms in Indonesia is balanced panel data so that it can be used to estimate the pooled model. Random effects model are employed to estimates this equation separately to compare the results with ordinary regression studies. Econometrically, the random effects estimator has the advantage that it address the possibility of a spurious relationship between the dependent and independent variables (Setia-Atmaja *et al.*, 2009). This problem may arise regarding the exclusion of unmeasured explanatory variables that probably still affect dividend policy behaviour. The family ownership and control are relatively stable for long time periods. Accordingly, random effects model is more fit than fixed effects model in this study. Several robustness and specification tests

Table 1. Variable Description

Variabel		Description
Dependent variable		
1.	DPR	Total ordinary dividends divided by net income
Independent Variables		
2.	Family ownership	Percentage of family shareholding
3.	Family board	Proportion of family members on the board of directors
4.	Debt	The ratio of the book value of total debt to total assets.
Control Variables		
5.	Firm age	Number of years since firm was founded
6.	Growth opportunities	The ratio of market capitalization to total book value of equity.
7.	Profitability	Ratio of net income to total assets

were also carried out, especially by testing several different proxies for the independent variables to test the robustness of the estimated coefficients in the main model.

RESULTS AND DISCUSSION

Tabel 2 Panel A presents the descriptive statistics for all variables. On average, this study reports a dividend pay-out ratio of 27 per cent and a debt to asset ratio of 53 per cent. With regard to family ownership, the concentration in average is about of 52 per cent in Indonesia, indicating that family firms in Indonesia are relatively concentrated ownership. Family board representation is relatively large, on average is about 42.5 per cent, as well as the requirement to have at least 30 per cent of board independence. In the context of investor protection, this regulation is mandatory and has implications for reducing concerns about family expropriation and private benefits for families over minority shareholders. Furthermore, family firms in Indonesia also appear to be heterogeneous based on firm age which is on average is above 34 years.

Table 2 Panel B shows the results of the multicollinearity test among independent variables. The highest correlation of -0.301 occurs between family ownership and family board representation. This correlation indicates that family ownership and family control may substitute each other. The three control mechanism variables used show that family representation on the board of directors is negatively correlated with both family ownership and debt, which is -0.038, respectively. However, family ownership and debt have positive correlation, is about 0.027. This correlation value is very small between variables indicating the independence of the chosen variable can represent aspects of the control mechanism in family firms. Overall, the low correlation between variables shows that the model and estimation of this study do not experience multicollinearity problems.

Impact of internal and external control mechanisms to dividend pay-outs

Table 3 shows the results of regression estimation using random effects with internal governance mechanisms (family ownership and family board re-presentation) of family firms. Both family ownership and family board representation are not significantly impact on dividends. This findings is conflicting with the expropriation arguments, in fact family firms do not employ dividends in mitigating the agency problems between families and minority sharehol-

Table 2. Panel A. Descriptive Statistics

Variable	Observation	Mean	Std-dev	Min	Max
Dividend pay-outs	464	0.270	0.438	-5.203	0.980
Family ownership (per cent)	464	0.520	0.194	0.101	0.917
Family board (per cent)	464	0.425	0.171	0.000	0.800
Debt/Assets	464	0.530	0.601	0.368	0.667
Firm age (years)	464	34.806	11.241	5	68
Growth opportunities	464	2.625	3.209	3.053	41.974
Profitability	464	0.079	0.123	0.229	1.266

Panel B. Correlation Matrix

	FO	FB	DEBT	AGE	GROWTH	PROF
FO	1					
FB	-0.301	1				
DEBT	0.027	-0.038	1			
AGE	-0.126	0.129	0.052	1		
GROWTH	-0.026	-0.050	-0.058	-0.106	1	
PROF	0.132	0.026	0.113	-0.113	0.151	1

ders. Based on the findings that dividend pay-out in columns (1) and (2), only firms at the range 20 – 30 years shows negative relationship with dividends. This could be explained in the context of firm's stage that family firms need to reserve cash for exploring future investment and considering a long-term horizon, rather than paying cash dividends.

Furthermore, in the context of institutional environment, when the legal protection to minority is getting stronger, the likelihood of majority shareholders to supervise over managers, balancing the benefit of control with minority shareholders. Therefore, in this context, family ownership may not play a crucial role in controlling agency problems associated with dividends. Hence, the proportion of family board representation is around 42.5 per cent versus the requirement of minimum 30 per cent of board members are independent directors, indicate this situation could balance the effects associated with families entrenchment.

Interestingly, this finding is not in line with the study of Sacristan-Navarro *et al.* (2011), who argue that families' representativeness on the board may evoke benefits at the expense of minority shareholders. Some studies arguments about a long-term investment horizon of family firms that can prevent managers' opportunistic behaviour and provide knowledge to increase capabilities in managing the firm (Anderson & Rebb, 2003; Block *et al.*, 2011), however, provided contradiction findings. In addition, under the Indonesian double tax system, firms may seek to avoid their dividends pay-out because of the imposition of tax twice on the same income. Moreover, ssupporting the institutional setting that the protection of minority shareholders are improving in Indonesia, the hypotheses that family ownership and family representation on the board of directors are not relevant to dividends (Hypothesis 1 and Hypothesis 2), are supported.

With regard to external governance mechanism, the results of this study shows the negative effect of debt on dividends. This finding indicates that debt and dividends act as a substitution governance mechanism. It can be explained that dividends reduce cash available for meeting debt obligation. In addition, families are concerned about the loss of control associated with external financing. Debt can serve families to control more resources without diluting their voting rights. As consequence, the presence of debtholders represents a significant discipline on firms to commit pay obligation on time, their tendency to pay dividends will negatively related, which does support Hypothesis 3.

Heterogeneity and financial performance of family firms

Regarding the control variables, this study found that the heterogeneity of family firms, namely age, is not significantly associated with dividends. Table 3 (2) expanding the definition of age with including dummy variables for age category: over 30 years, between 20-30 years, and less than 20 years, in order to examine the possibility of young and progressive predecessor beyond the founding generation. Following Poutziouris *et al.* (2015) and Aronoff *et al.* (2003), the change of generations in the family firm occurs on average every 30 years. The results suggest that young family firms (between 20-30 years) exhibit a significant and negative association with dividends. Younger firms are characterized by growth stage that require more funds for exploring future investment. With regard to financial performance, dividends is not significantly associated with growth opportunities, but positively related to profitability. Table 3 reports the estimation of equation using random effects model.

Robustness Tests

This section investigates the robustness of the findings through several dimensions, using random effects regressions. First, we adopt the instruments of the firm's age. The consideration is based on the argument that ownership composition is likely to change over the firm's lifecycle. When firms grow and getting mature, they need more external funds, suggesting family firms are have dispersion

Table 3. Random Effect Estimation of Dividends and Control Mechanisms

Variable	(1)	(2)
FO	-0. 001	-0.3347
	(-0.009)	(-0.4218)
FB	-0.229	-0.2995
	(-1.153)	(-0.199)
DEBT	-0.074**	0.5508 ***
	(-2.344)	(8.3152)
AGE	0.001	-
	(0.554)	
Dummy Age 1 (age > 30)	-	-0.04
		(-0.461)
Dummy Age 2 (20 < age ≤30)	-	-0.155*
		(-1.769)
GROWTH	0.000	0.001
	(0.554)	(0.203)
PROF	0.684***	0.682 ***
	(4.028)	(4.049)
Intercept	0.297*	0.386**
	(1.698)	(2.369)
Adjusted R^2	0.028	0.047
F test	3.281***	3.270***
Observation	464	464

Note: ***, **, and * are significant at the level 1 per cent, 5 per cent and 10 per cent levels, respectively.

ownerships (Harada and Nguyen, 2011; Teng *et al.*, 2020), Second, to find out whether the main model is sensitive to other measurement alternatives, we re-estimate the model by considering that the results are sensitive to gender differences or gender diversity on the board of directors in influencing dividend pay-out. This study replaces the proxies of family representation on the board of directors with the proportion of female families on the board, the proportion of women as independent boards and when those two measurements are tested together, as shown in Table 4.

Several studies say that board diversity has a positive effect (Anderson *et al.*, 2011, Campbell & Minguez-Vera, 2008; Liu *et al.*, 2014; Terjesen *et al.*, 2016) because women on the board of directors can give different perspectives than the 'old boy club' in the family firm. This perspective is expected to assist managers in making decisions, thus giving good performance results. However, family firms in Asia that generally still under patriarchy culture, so the role of women in the family business is still relatively small. As a result, when tested with female family proxies on the board of directors (Table 4 (1)), it shows that the results are consistent with the main model estimation. Female family on board does not affect dividends.

Third, re-estimation is also done by testing the sensitivity if women are on board independence. Several studies say that women as board of directors have a tendency to be independent (Adams & Ferreira, 2009; Dang *et al.*, 2014; Bøhren & Staubo, 2016). Moreover, they are a better indicator of independence board compared to using ordinary independence board measurements such as the percentage of independent directors (Ferreira, 2015). The results show that women as independent boards have no significant impact on dividends (Table 4 (2)). Lastly, even though we re-run the two proxies together (Table 4 (3)), the results are consistent with the main estimation model. Thus neither female family members on the board directors nor women as independent directors affect dividends.

Table 4. Estimation Methodology

Variable	(1)	(2)	(3)
FO	0.052	0.035	-0.4732
	(0316)	(0.208)	(-0.6025)
Female FB	-0.011	-	-0.010
	(-0.037)		(-0.033)
Female IB	-	0.069	0.069
		(0.733)	(0.732)
DEBT	-0.073**	-0.072**	-0.072**
	(-2.289)	(-2.267)	(-2.262)
AGE	0.001	0.001	0.000
	(0.345)	(0.348)	(0.318)
GROWTH	0.000	0.000	0.000
	(0.099)	(0.002)	(0.022)
PROF	0.668***	0.677***	0.676***
	(3.929)	(3.998)	(3.961)
Intercept	0.183	0.194	0.195
	(1.252)	(1.327)	(1.317)
Adjusted R^2	0.025	0.026	0.024
Observation	464	464	464

Note: ***, **, and * are significant at the level 1 per cent, 5 per cent and 10 per cent levels, respectively.

Discussion

We examine the impact of both internal and external governance mechanisms through family ownership, family control through family representation on the board of directors, and debtholders monitoring on the dividends under the context of the Indonesian capital market environment, where the protection of investors has been strengthened through the legal structure that already developing. In particular, this study examines the possibility of a moral hazard conflict perpetrated by the family as the majority shareholder against the minority shareholder. The previous studies have documented that, in developing countries, family firms tend to rely on founding families' resources. This induces controlling shareholders to expropriate the minority for their private benefits. Thus, dividends can reduce wealth transfer to controlling family.

Our empirical analysis shows that the internal governance mechanism through family ownership and family board representation are powerless to decide the final dividend pay-out. Our finding shows that family firms seem not to gain selfish benefits, including their chance to use earnings for their interests. These results validate that under countries in which legal protection for minority is getting stronger, the likelihood of families to supervise over managers, balancing benefit of control with minority shareholders. Therefore, in this context, family ownership and control may irrelevant in controlling agency problems associated with dividends. It seems that the regulation is effective to create healthy governance by apply the rule of minimum 30 per cent of board members are independent directors. Therefore, our findings can be a reference for regulators of emerging capital markets to strengthen the effective legal protection of minority shareholders in order to mitigate the families' expropriation to minority shareholders' wealth.

Our study also indicates under environment of developing investor protection such as in Indonesia, family firms employ debt levels to enhanced control mechanism. Moreover, families prefer to employ debtholder monitoring which is consistent with the expropriation argument under developing legal protection environment. Overall, the results suggest that dividend pay-outs are determined by external governance mechanisms through debt. The findings are in line with the notion that invoking an institutional setting. Although families may have incentives to expropriate minority shareholders, their influences is conditioned on the institutional context. From a practical perspective, the internal governance mechanisms are becoming irrelevant in controlling agency problems. Otherwise, the external governance mechanisms can play important role for family firms by reversing the dividend pay-outs.

This research is not free from limitations. We did not have access to information about the ultimate owners since these information is not available publicly. In addition, corporate governance mechanisms may be different across the generations, we recognize that we do not study consider the generation differences such as founders and descendants. Lastly, we only consider cash dividends as a proxy for dividends. It is acknowledged that the use of stock dividends (Wu *et al.*, 2020), could help obtain the choice of paying dividend payments with loaning additional debt or performance considerations.

MANAGERIAL IMPLICATION

A practical implication for investors is to be more confident in investments since sound rules and regulations minimize the agency problem between controlling and minority shareholders. Investor protections matter for the ability of family listed firms to raise the capital needed to grow.

CONCLUSION

This paper provides several important contributions to the literature. First, it provides insights on dividends of family-owned businesses, which have not examined the interacting control mechanisms and dividends. Second, the study contribute to literature by considering institutional setting that may influence corporate governance choices. Moreover, the capital market environment may also represent an essential structure that is related to dividends, as it can influence the behaviour of family firms.

These findings may have several implications for investors and capital market policy makers. The finding reveal that investment in family firms that have developing legal protection for minority shareholders, are unconcerned. The fear of expropriation from controlled family is irrelevant. Furthermore, the results imply that alleviating these fears could foster regulators to establish effective external monitoring rules to mitigate expropriation to minority shareholders. It might even enhance the attractiveness of the capital market for investors. Aside from that, the findings emphasizes that the institutional setting is not to be neglected when conducting empirical studies on corporate governance.

Of course, our study is subject to several limitations, which can be addressed in future research. Future research should accommodate the dynamic of control mechanism of the influence of family overtime. Furthermore, to acknowledge the variation of ownership concentration, the generational lifecycle stage, and the interaction between the combination of control mechanism. All of these suggestions can potentially contribute to increase the understanding of family businesses and their dynamic of corporate governance. ■

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