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Analysis of The Impacts of Family Ownership on a Company's Costs of Debt

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Abstract. There is an increasing trend among investors to consider Good Corporate Governance (GCG) in determining company incentives are to be invested in. Obviously, investors would prefer to make investments in companies that adopt Good Corporate Governance rather than otherwise. This view has eventually led to a belief that GCG can give added values not only to the adopting company, but also to the stakeholders. This research analyzes the impacts of family ownership and founding CEO/chairperson on a company's costs of debt. This topic is chosen in consideration that there are still a lot of family-owned companies in Indonesia. The research uses a positivist-quantitative paradigm and the samples are 64 family-owned companies listed at the Indonesia Stock Exchange from 2007 to 2009. The research also uses a random effect model. The results of the research indicate that family ownership has positive but insignificant impacts, while founding CEO/chairperson has no impacts on a company's costs of debt.

Keywords: *corporate governance, family ownership, cost of debt*

INTRODUCTION

According to the National Committee on Governance (KNKG), good corporate governance (GCG) is a pillar of the market economic system. Corporate governance is closely associated with a good trust in the adopting companies as well as in the business climate in a country. Adoption of GCG can create a healthy competition encouraging business climate. Therefore, in order to drive sustainable economic growth and stability, it is important for Indonesian companies to adopt CGC (KNKG, 2006). Meanwhile, according to OECD (Sutojo and Aldridge, 2008), corporate governance is

"the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, the managers, shareholders and other stakeholders, and spells out the rules and procedure for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance".

Good corporate governance is expected to (1) improve company's performance through better decision-making processes, better operational efficiency and better services to stakeholders; (2) provide wider access to cheaper funding in order to improve corporate value; (3) regain investors' trust to invest their capital in Indonesia; (4) give shareholders better satisfaction through improved corporate performance, shareholders' values and dividends; (5) to minimize differences and frictions in the internal management, which can be achieved if a company can ensure that GCG is adopted in all its business aspects and lines (FCGI, 2006).

According to Solomon (2007), the most important aspect in corporate governance is ownership structure. There are several ownership structures, for example, insider, institution, government, and family ownership. Family ownership is of particular interest in Indonesia, where a lot of companies are owned by family members. A number of studies related to family ownership have been conducted, namely, among others, De Clerck and Crijns (1997), Wiwattanakantang, (2000), Claessens *et al*., (2000), Arifin (2003) and Ayub (2008). Family ownership is also often referred to as highly-concentrated ownership. A family-owned company will have better efficiency in cost monitoring due to minimized conflict of agency between principal and agent. (Fama and Jensen, 1983). Mishra *et al*., (2001), Yammeesri and Lodh (2001) and Anderson et al. (2003) find that family-controlled companies have better performances. The reason for this is that family ownership entails a stronger authority to monitor the operations of the company; that it has a bigger concern for the company's performance. In general, Wiwattanakantang (2000) classifies family-owned companies into: (a) Single-family-owned firms, (b) Non single-family-owned firms, (c) Conglomerate-firms, and (d) Non-conglomerate companies.

Ownership structure affects not only a company's

performance, but also its costs of debt. These impacts are related to the encumbering of debts by a creditor to a company or shareholders, which is also known as a form of asset substitution. Jensen and Meckling (1976) explain that problems between shareholders and a creditor may arise from the transfer of investment risks from shareholders to the creditor. Such problems are related to the investment in a project with risks that are higher than those of the other existing projects. As a result, the creditor compensates the risk by imposing higher costs of debt. Publicly listed companies are identical with separation between ownership and managerial functions, which can potentially give rise to conflicts and costs among shareholders, managers, and creditors. Companies with concentrated shareholders are more likely to incur higher agency costs, of which forms may vary from reduced returns for minority shareholders, over-avoidance of risks, to higher costs of debt (Demsetz and Lehn, 1985).

A family-owned company is a company with concentrated shareholders. However, when a family-owned company is managed by a founding CEO/chairperson who is still a member of the owning family, conflicts among the shareholders, managers, and creditor can be minimized. The reason for this is that the owning family can monitor the company better because its members act not only as shareholders but as people who manage the company (Casson, 1999). In addition, due to a stronger sense of belonging among the founding family members, a family-owned company tends to have a better performance than that managed by an external party (Villangola and Amit, 2004).

Creditor-shareholders conflicts can also greatly be reduced because the shareholders belong to the founding family and they are the type of investors who have long-term orientation and consider the possible risks in every investment they make. They are the kind of investors who also want to bequeath the company they currently run to the next generation, which is the very reason that they are usually greatly concerned about the continuity of their company. In this case, the costs of debt encumbered by the creditor to the company tend to be lower. The costs of debt that the creditor imposes on the company will also be lower if the company has a good record of governance. Creditors like banks and other financing institutions that often deal with the managing family members would consider that any investments made by the family would give such maximum levels of returns as would reduce their risks as creditors (Anderson et al., 2003).

Apart from family-owned companies that are managed by the founding family members, there are also family-owned companies that are run by descendants of the founding family members. Usually the CEOs of such companies are descendents of the founding family members. Based on previous researches by Johnson et al. (1985), Morck et al. (1988), and Villangola and Amit (2006), a CEO who is a descendant of the founding family would likely inherit the company's working culture and values. This tendency may be caused by the fact that the CEO position is achieved by means of familial ties rather than hard work, experience and skills. If the company does not have a good performance, creditors will be faced with greater risks. Therefore, they would impose higher costs of debt to the company as a compensation of the higher risks they have to bear (Anderson et al., 2003). Performance is also a factor that determines the level of costs of debt a creditor imposes to a company. Thus, CEO is a factor that is crucially related to a company's performance. A CEO that comes from a company-owning family and happens to be a hard worker who possesses the necessary professional skills, experiences can improve the company's performance and thus reduce the costs of debt it has to incur (Anderson et al., 2003).

Furthermore, for their finance family-owned companies would rather seek debt-based funding than publish new shares (Shleifer and Vishny, 1997). This is because owning families do not want to lose power and authority over their companies. Previous researches find that family-owned companies tend to incur lower costs of debt because their investments are long-term-oriented and undiversified (Anderson et al., 2003).

Basically, researches on impacts of family ownership structure refer to similar definitions family-owned company. That is, they all consider certain percentages of ownership and degrees of family representation. The difference generally lies in the amount of cut-off ownership percentage used. This research uses La Porta's criteria of family ownership La Porta (1999), which exclude financing companies, but the minimum percentage of family ownership for research is 5%, considering that according to the regulation, ownership of 5% or more of a company's shares must be reported to the Indonesia stock exchange. Thus, with all the data available, it is easier to group companies with family ownership and non-family ownership structures.

Based on Wiwattanakantang (2000), in developing countries, most companies are controlled by individuals, their family members and their partners. This trend is also common in Indonesia as a developing country. Initially these companies were mostly closed companies, whose businesses are funded internally with supports from external loans. However, along with economic and capital market development, many of such family-owned companies later turned into open companies. Once they have become open companies, the risks and profits that used

to be shared by the entire owning family, now must be shared with external parties. When a company becomes an open company, it not only shares risks with an external party, but it can also have a wider access to funds for its business expansion (Wiwattanakantang, 2000). A research on family ownership in Indonesia has been conducted by Ayub (2008), who, by using cross-sectional regression, studied the costs of debt of 65 family-owned companies that were registered at the Indonesia stock exchange in 2007. The results indicate that the proportion of family ownership and founding CEO has no impact on the amount of costs of debt. Unlike in Ayub's research, however, the data in this research are tested by means of panel data.

Previous literature such as Morck et al. (1988) and McConnell and Servaes (1990) state that as a company's managerial capability improves, the interests of the management and shareholders become more interconnected, causing company performance to also improve. However, when a company's stock equity keeps on increasing, the management's interests may deviate away from those of the shareholders. This may cause bigger problems and reduce the company's performance. In addition, a minority group of shareholders who are not directly affiliated in a company can pose an impact on management-shareholders conflicts as they have strong incentives to monitor the management.

Family-owned companies have a number of characteristics that affect the determination of their capital structure and investment behavior. Compared to more diversified non-family-owned companies, family-owned companies are rarely well diversified. Ownership is concentrated on a certain group of people (Agrawal and Nagarajan, 1990). In other words, family-based ownership usually has a longer orientation as owning families want to hand down the companies to the next generation. Furthermore, still in relation to long-term ownership orientation, family-owned companies tend to make low-risk investments in low-risk projects. (Mishra and McConaughy, 1999).

Another general characteristic of family-owned companies is that in financing their businesses they would rather seek debts than publish new shares (Anderson et al., 2003). Similarly, Shleifer and Vishny (1997) argue that in terms of business financing, companies with family ownership structure generally prefer to incur debts rather than publish new shares. There are a number of reasons for such a preference. First, being members of the founding family, major shareholders have long-term investments that would last for more than a generation. Therefore, they are rather oriented to long-term management pursuits and business continuity, which are main company goals. Thus, for them, longer-term funding schemes seem to be a better choice than issuing new shares, which has short-term orientation (James, 1999). Second, the above characteristic results from a concern that publishing new shares would not only reduce the percentage of family ownership, but also weaken their voice and authority in controlling the company. In other words, losing power and authority over their company would be their last option (Anderson et al., 2003).

The basic assumption that leads a family-owned company to prioritize internal funding over external funding is that a family-owned company has a long-term goal to develop external funding (the trade-off theory), but initially, it apparently avoids external funding in effort to form a tax shield against the debts the company incurs for its business (Jensen and Meckling, 1976; Chen et al., 2008). When internal funding (retained earnings) is impossible, companies would rather seek external funding by issuing debts than issuing new shares (equity). Another assumption is that there may be some kind of asymmetrical information circulating in the company, which, induces owning family members to prioritize family gains (i.e. cost minimization) for the initial funding, but at the same time give rise to family costs that result from the growing scope of diversifications during the course of the company's development (Yupitun, 2009). From the above assumptions, it can be understood that although the family-owned companies referred to in this research prefer debt-based funding, they still also seek external funding to allow capital diversification in their development.

Furthermore, there will always be a cost of debt arising from every debt a company owes. Costs of debt are used to break down the risks promised in the expected standard. Costs of debt are also used as a component in the repayment of the principal (Cooper and Davydenko, 2001). High costs of debt can result from the different interests between shareholders and creditors. By investing in high-risk projects, diversified shareholders pose high risks to creditors, but there is also a promise of high return. Therefore, creditors compensate this by imposing high costs of (Jensen and Meckling, 1976). Meanwhile, in some family-owned companies whose shareholders are undiversified, the risks of investments are smaller for creditors because owning family members prefer investments that give them smaller risks.

However, family-owned companies with concentrated share ownership tend to have lower levels of performances because they place many incompetent family members in the management, which consequently causes costs of debt to increase (Anderson et al., 2003). Another factor that determines a company's performance and costs of debt is its CEO. It is commonly believed that when the

CEO of a company is also its founder, costs of debt will be lower as the company is likely to have a higher level of performance (Anderson et al., 2003). The costs of debt that a creditor imposes also depend on the performance of the company in debt. Therefore, the fact that CEOs have significant impacts on company performance makes them a crucial factor. A CEO who is both a member of the owning family and a hard-working and experienced professional has the capability to improve company performance, which consequently ensures smaller costs of debt (Anderson et al., 2003).

Based on the background above, this research aims to analyze (1) the extent to which family ownership affects a company's costs of debt; and (2) the extent to which the costs of debt of a company are affected by family members who are both its founders and owners. The research will hopefully confirm and enrich the results of the previous researches on the impacts of family ownership and founding and owning family members on costs of debt.

RESEARCH METHODS

This study uses a positivist paradigm with a quantitative approach. Samples are chosen by means of judgment/purposes sampling method. That is, samples are chosen by considering a set of criteria set by the writer. In other words, elements are included as samples intentionally in order to fulfill the above criteria, provided that the samples adequately represent the population. (Supranto, 2003). The sample criteria are as follows. (1) Sample companies (423 companies) should be listed at the Indonesia stock exchange during the period between 2007 and 2009; (2) Sample companies operate in non-financing businesses—that is, they must not be banks, or insurance, leasing, and security companies, for problems could possibly arise in the calculation and comparison between the research control variables and non-financial companies (Ikhwan, 2009). Consequently, the samples are then reduced to 353 companies. (3) Sample companies must have a minimum family ownership percentage of 5%. With this criterion in mind, there number of samples is now reduced to 67. (4) Sample companies must have a complete set of financial report data for the period studied (2001-2009). Despite this additional criterion, the number of samples still remains. (5) The financial reports of the sample companies have earlier been audited by the Bapepam (Capital Market Supervisory Agency) and should be obtained from the Bloomberg special Historical Widget for Bapepam. Finally, there are now 64 sample companies.

The variables in this research include family ownership (FAMOWN) and founding CEO (CEO) as independent variables and Cost of debt (COD) as a dependent variable. The controlling variables are level of debt (LEV), company size (SIZE), and company performance (PERF). This research examines two hypotheses. The first hypothesis is, as Villalonga and Amit (2004) and Ayub (2008) claim, that family ownership correlates positively with a company's costs of debt. This is because creditors would not likely consider proportion of family ownership in charging costs of debt to a family-owned company. Proportion of family ownership neither signifies company risks nor affects the creditor in deciding the amount of costs of debt to be charged to a company.

Hypothesis 1

H_0 : Family ownership does not affect costs of debt.

H_1 : Family ownership affects costs of debt.

Second, Ayub (2008) claims that a founding CEO or Chairperson does not affect costs of debt. Responsible for the company's operations, a CEO or chairman is not the main factor that determines the success of a company because in his/her duty, he/she must be supported by other people who possess good individual competence and performance to improve the company's performance. Creditors generally do not regard the existence of a company-founding CEO or chairperson as a factor that can reduce the risks they face. The fact that the CEO/chairperson also happens to be a founder of the company is not regarded in the calculation of the costs of debt the company must bear.

Hypothesis 2

H_0 : Leadership of a family-owned company by a founding CEO affects costs of debt.

H_1 : Leadership of a family-owned company by a founding CEO does not affect costs of debt.

RESULTS AND DISCUSSION

Table 1 shows the descriptive statistics of each variable, which include average, maximum and minimum, and standard deviation values.

The average cost of debt in family-owned companies is 0.0751. Based on this average cost of debt value, it is apparent that the costs of debt that creditors impose on companies are in general not high because the value is just a little above the SBI (Bank Indonesia Certificates) interest rate, which is 6.5% in 2009 and below the 2007 and 2008 SBI interest rate, which is 9.5%. The mean proportion of family ownership (FAMOWN) in Indonesian companies is 0.5108 and the maximum value is 0.9900. The large proportion of family ownership above indicates that family-owned companies in Indonesia are dominated by

Table 1. Descriptive Statistics on Research Samples

	COD	CEO	FAMOWN	LEV	SIZE	PERF
Mean	0.0751	0.50	0.5108	0.3593	13.3583	0.0183
Median	0.0702	0.50	0.5500	0.3466	13.4856	0.0229
Maximum	0.1882	1.00	0.9900	2.5252	17.7626	0.2722
Minimum	0	0	0.0900	0	8.7499	-0.6673
Std. Dev.	0.0420	0.5013	0.2325	0.3162	1.7963	0.0768
Observations	192	192	192	192	192	192
Cross sections	64	64	64	64	64	64

Table 2. Hypothesis 1 Test Results

Independent Variable	COD Dependent Variable		
	Coefficient	t-statistic	Probability
FAMOWN	0.0206	4.9757	0.0000
LEV	0.0325	4.8120	0.0000
SIZE	0.0080	3.0925	0.0023
PERF	-0.0926	-4.4825	0.0000
Intercept	-0.0529	-1.8248	0.0696
Overall R-Square	0.1915		
Adjusted R-Square	0.1742		
Durbin-Watson stat	2.1678		

family shareholders. The average value of founding CEO or chairperson is 0.50. Because it is a dummy variable, the value is binary, 1 or 0. Thus, the value 0.5 indicates that half of the family-owned companies in Indonesia studied between 2007 and 2009 are still run or monitored directly by their founders. The value 0 for Leverage indicates that there are 6 companies that do not have standing debts. This finding is consistent with the pecking order theory, which argues that companies prefer to optimize internal funding from retained earnings as this would make external financing unnecessary.

The results of the hypothesis testing, which uses a random effect method for COD dependent variable, indicate that FAMOWN independent variable has a probability value of 0.0000, which is significant at the 1%, 5%, or 10% level of trust. The other significant variables are LEV and PERF, whose probability value is also 0.0000 at the 1%, 5%, or 10% level of trust. SIZE variable also falls within the 1%, 5% and 10% categories of significance. However its probability value is 0.0023 or 0.23%.

In the t-statistic above, the most significant variables are FAMOWN, LEV, SIZE and PERF. The above table indicates that: (1) every 1% increase in FAMOWN in a company will cause a 0.0206 or 2.06% increase in cost of debt (COD); (2) every 1% increase in a company's debt level (LEV) will cause a 0.0325 or 3.25% increase in COD; (3) every 1-billion-rupiah increase in company size (SIZE) will cause a 0.0080 or 0.8% increase in COD; (4) every 1-unit decrease in company performance value (PERF) will cause a 0.0926 or 9.26% increase in COD.

Table 3 shows the results of the second hypothesis testing, which apparently are not satisfying. The second hypothesis testing does not yield any confirming results as the CEO variable has no significance to the high probability value, which is 0.9158.

The significant variables at significance level of 1%, 5% or 10% are FAMOWN, LEV and PERF, of which probability values are 0.0003, 0.0000 and 0.0000 respectively. SIZE variable also belongs to significance levels 1%, 5% and 10%, but with a slightly bigger probability value, which is 0.0038 or 0.38%. Given this treatment, the R-Square, Adjusted R-Square and Durbin-Watson stat values remain unchanged. Thus, in the first model of this study, all the variables belong to the 'significant' category, except for CEO. FAMOWN, LEV, and SIZE variables have positive impacts on cost of debt, and PERF has a negative impact on cost on debt.

In the t-statistic above, the significant variables in the first model are FAMOWN, LEV, SIZE and PERF. The

Table 3. Results of Hypothesis Testing 2

Independent Variable	COD Dependent Variable		
	Coefficient	t-statistic	Probability
CEO	0.0004	0.1059	0.9158
FAMOWN	0.0203	3.6938	0.0003
LEV	0.0326	5.3255	0.0000
SIZE	0.0080	2.9330	0.0038
PERF	-0.0922	-4.4455	0.0000
Intercept	-0.0529	-1.7768	0.0772
Overall R-Square	0.1903		
Adjusted R-Square	0.1686		
Durbin-Watson stat	2.1794		

table indicates that: (1) every 1% increase in FAMOWN will increase COD by 0.0203 or 2.03%; (2) every 1% increase in LEV will increase COD by 0.0326 or 3.26%; (3) every 1-billion-rupiah increase in company SIZE will increase COD by 0.0080 or 0.8%; (4) every 1-unit decrease in company performance value will increase COD by 0.0922 or 9.22%.

Then, an F-test is carried out to find out whether all the independent and control variables, i.e. family ownership (FAMOWN), founding CEO or chairman (CEO), level of debt (LEV), company size (SIZE), and performance (PERF), altogether affect the value of COD as the dependent variable in this research. F-test results show that FAMOWN, CEO, LEV, SIZE and PERF can altogether significantly affect COD, as is evident from the F significance value, which is >0.05, or 0.0950 to be exact. Thus, it can be concluded that H_0 is not rejected.

The explanation above indicates that family ownership proportion has a significant positive impact, while founding CEO does not have any significant impact on cost of debt. The test conducted yields results that are consistent with the hypotheses. Family ownership proportion and owning CEO or chairperson has a positive impact on COD. This is, however, contrary to a study by Cronqvist and Nilsson (2000), which finds that family ownership does not have any significant impact on COD. Another study in Indonesia by Maydeliana (2008) also confirms that family ownership has a positive impact, though with a low level of significance.

Generally, when shareholders have a total combined ownership of over 50%, they will have a significant control power over a company. It can thus be assumed that the bigger family ownership proportion is, the bigger the control power becomes and the more significantly it can affect cost of debt. Yet, if shareholders are concentrated in several circles, it is difficult for a group to reach an ownership proportion of up to 50%. If this is the case, the control over a company will no longer related to the 50% proportion above. Therefore, although family ownership proportion is below 50%, the proportion can sufficiently affect the course of the company's future.

If a family-owned company has a large amount of debt, the policies and decisions that the management makes with regard to the company's continuity will be significantly affected by the creditor's terms and conditions. For a creditor always requires a company in debt to meet certain financial ratios. Therefore, in this case, control and policy power does not lie solely in the hand of the majority shareholders, but also in the hand of a creditor. Company performance is monitored not only by the shareholders but also by a creditor. If a company proposes for another loan from the same or even a different creditor, its performance can affect the creditor's perspective.

Due to the limited data available, the research does not delve further into the involvement of the owning family in the management and in the board of commissioners. Many family-owned companies employ non-family executives in the board of directors or commissioners. Therefore, decisions regarding the continuity of a company are not made exclusively by owning family members.

Eventually, company performance is determined not only by family control or ownership proportion. A study by Demzet and Villangola (2004) finds that companies that employ non-family executives tend to show better performance than do family-run companies. This claim is also corroborated by Anderson and Reeb (2003) who claim that family-owned companies that hire external people will have lower costs of debt than do family-run companies. So, large family ownership proportion does not guarantee higher costs of debts. Since the limited data do not enable the research to investigate family members who are involved in the board of management or commissaries, the research cannot provide adequate elaboration on the implementation of corporate gover-

nance in companies and its implication on the amount of costs of debt.

According to a study by Anderson and Reeb (2003) leadership by a founding CEO can reduce a company's cost of debt. Yet, this research finds no significant correlation between leadership by a founding CEO or chair person and cost of debt. Founding CEO or chairperson does not significantly affect cost of debt. This is possible because in improving company performance and reduce cost of debt, a CEO or chairperson must also be supported and assisted by competent board of directors, board of commissioners, and managers. (Ayub, 2008; Ikhwan, 2009).

The results of this research do not agree with a study by Schmid et al. (2008), which concludes that family-owned companies generally have better performance levels compared to other companies, particularly those with a founder effect, i.e. companies whose CEOs are actually their founders. The latter study has its own background. First, the initial incentives are derived from long-term business commitment that aims at business continuity. Second, the business investment portfolios are not diversified. Third, the existence of company founders leads companies to reduce agency conflicts between creditors and shareholders, which can consequently reduce costs of debt. Actually the three backgrounds are also relevant for the present research. However, in a developing country like Indonesia, there seem to be many other external factors that affect costs of debt and these factors are not indentified further in this research (Ayub, 2008). Thus, the results of the above research by Schmid et al. (2008) in Germany cannot be adopted in a research conducted in Indonesia. The study by Schmid et al. (2008), which places an emphasis on business segmentation in family-owned companies, seems to constitute a specific analysis in this study because the study reveals segmentation levels that are lower than those in family-owned companies, which also causes costs of debt to reduce.

In Indonesia, many well-developed family-owned companies have more than one segment. For example, some telecommunication companies also have subsidiaries in the property business. This practice is made possible by partnership among such companies (Ikhwan, 2009). Therefore the aspect of family-owned company segmentation cannot be elaborated further in this research although it needs to be considered in follow-up researches.

Company size is a significant control variable. In this research, company size is measured based on the total asset value. Results suggest that asset value correlates positively with cost of debt. In other words, the bigger the company's assets, the bigger the costs of debt. This, however, differs from a study by Lee and Choi (2002), which, as quoted in Siregar and Utama (2008), argues that company size is used as the proxy for the asymmetrical information on information disclosure and that, unlike smaller companies, bigger companies are more transparent in disclosing company-related information. Therefore, creditors are more confident to give loans to big companies that to small ones. Creditors consider that less transparent information disclosure means greater risks for them. As a result, creditors charge higher costs of debts to small companies. However, as apparent from the results, the company size proxy used to determine costs of debt is ineffective since asymmetry of information is a big problem in Indonesia.

Level of debt has positive and significant correlation. The higher the level of debt, the higher cost of debt and the higher the level of debt, the bigger the risks. Big rises are related to the possibility that a company cannot repay its debt because investment return turns to be lower than that expected by the creditor. Debt level, which is a substantial part of capital structure in a family-owned company, cannot be ignored, as revealed in a study by Ampenberger et al. (2009), which has a particular focus on how capital structure affects cost of debt. The research finds the "capital structure puzzle" scheme that results from the institutional differences between family-owned and non-family-owned companies. By considering three different components of a family-owned company (ownership, board of commissioners' activities, and management leadership by family member), it can be seen that debt level (leverage) is lowest if the bulk of the shares are family-owned and the company CEO is still a family member. Thus, the results of both this study and that undertaken by Ampenberger et al. (2009) indicate that family-owned companies have a lower tendency to use debt. As illustrated by the descriptive statistics, the average costs of debt among family-owned companies are still below the Bank of Indonesia rate of interest. Therefore, the costs of debt in the capital structure of family-owned companies are proportionally not high (Ampenberger et al., 2009).

Company performance has a negatively significant correlation. The higher the performance, the lower the costs of debt. It is believed that high performance gives creditors better certainty that companies can repay their debt. Family-owned companies in Indonesia do not normally have the same operational age. In other words, the different cycles existing in the different companies cause performance measurements and analyses to vary. This has actually been anticipated by Wiwattanakantang (2008), who argues that in their development, most companies in developing countries are controlled by individuals, their family and partners. This condition is also common in Indonesia as a developing country.

Most family-owned companies are initially closed companies that finance their business activities by using

internal and external funding. Such companies normally have low to middle performance level. However, in line with the economic and capital market development, many of such family-owned companies have become opened companies. Because of this, company performance now has a negatively significant correlation with costs of debt, suggesting that most family-owned companies are now categorized as publicly listed companies with a mature business cycle. With their current statues as open companies, the risks and profits which have initially been shared among the founding family are now shared with external parties. Thus, not only do these open companies share risks with external parties, but they also have wider access to more funding for their business expansion (Wiwattanakantang, 2000).

CONCLUSION

The series of tests on the impact of family ownership, CEO or chairman on cost of debt, which involves 64 sample family-owned companies that are sampled by using the purposive sampling method, yield the following results. *First,* family ownership proportion has a significant correlation with cost of debt, which is consistent with the hypothesis. This finding indicates at least two important things. (1) Consistent with the trade-off theory, compared to other types of companies, family-owned companies prefer larger debt-based funding sources. (2) In imposing costs of debt to a company, a creditor takes into account family ownership proportion. The proportion of family ownership reflects the risks of a company and affects the creditor's decision regarding the amount of costs of debt it should charge a company. *Second,* test results also show that leadership by a founding CEO or chairperson does not have significant correlation with costs of debt. A CEO or chairman, whose duty is to lead and control a company, is not a crucial factor that determines the success of the company. A CEO or chairperson must be supported by competent people who can improve company performance. Creditors do not generally consider a founding CEO or chairperson as a factor that can reduce the risks they face and, in calculating costs of debt, creditors to not take CEO or chairperson factor into consideration.

This research can be used as a reference for investors. The research advises investors to be more careful when they choose to invest in companies with high concentration of family ownership. They should bear in mind that highly concentrated companies can bear higher debt levels risks than do diversified family-owned companies. Like other similar researches, this research also has its limitation. Considering the limited variables involved in this research, further researches are advised to incorporate more variables so that the impact of family ownership on cost of debt can be better explained.

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