



## Analysis of the Effect of Family Control on the Profitability Business of Filsyakhoi Bayam Crackers

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### ABSTRACT

Family control has a significant influence on the profitability of a business. In practice, family businesses in the culinary sector show varying results, giving rise to inconsistencies. This research aims to analyze the influence of family control on business profitability at the Filsyakhoi Bayam Crackers company. The influence of family control on business profitability and corporate financial performance has become an important topic in corporate management literature. The object of this research is Filsyakhoi Bayam Crackers, which is a family company in the culinary sector. The method used in this research is a quantitative method using a descriptive verification approach. This research identifies the relationship between family control in the company structure and the level of profitability achieved by the Filsyakhoi Bayam Crackers company. The samples used were family members and the team in the Filsyakhoi Bayam Crackers company who had an important role in the family company. The variables used are family control and business profitability at the Filsyakhoi Bayam Crackers company. The research results show that family control has a significant effect on business profitability. The results of this research provide important insights for company stakeholders and researchers regarding the dynamics between family control and financial performance at Filsyakhoi Bayam Crackers company.

**Keywords:** Family Control; Business Profitability; Family Business; Culinary Business

### INTRODUCTION

*In Indonesia, family ownership still dominates business ownership (Lukviarman, 2004; Arifin, 2007; Achmad, 2008; Siregar, 2008; Saputra, 2010; Hadiprajitno, 2013). In Tasikmalaya, family businesses are predominantly involved in the culinary sector. Family companies generally have the advantage of having a long-term perspective on their business so that they can produce better returns for the company (James, 1999; Ibrahim and Samad, 2010; Din and Javid, 2012). Investing in family businesses tends to be more carefully considered than non-family businesses. Non-family businesses are more likely to make short-term considerations by looking at share price fluctuations. Meanwhile, family businesses that consider long-term business sustainability can produce better investment*

can produce better investment decisions (Shyu, 2011). These better investment decisions will increase the profitability of the business. Apart from a long-term perspective, family businesses are also more conservative in decision-making (Gudmundson, 1999; Din and Javid, 2012). This conservative nature creates a strong incentive to focus on the family wealth contained in the business and increase the company's profitability (Shyu, 2011).

The disadvantage of a family business is that it can be seen from the emotional relationships that create emotional bonds in the business management environment due to family relationships (Colli and Rose, 2008; Shyu, 2011). In contrast to non-family businesses, their business relationships are more rational and logical. Deeper emotional connections can lead to problems and nepotism. Another weakness is that family businesses lack innovation so the business does not develop even though the company needs to respond quickly to the increase in dynamic customers (Altindag, Zehir, and Acar, 2011). The conservative nature that was previously an advantage of family businesses can also become a weakness of family businesses because family businesses become afraid to take risks (Gudmundson, 1999). This conservative nature also prevents the family business from developing. Another weakness is the conflict between company interests and family interests which has an impact on tolerance for people who are not competent and closes the possibility of entry for people who have potential (McConaughy et al, 1999).

Apart from the advantages and disadvantages of family businesses, there is also research conducted in Thailand by Connelly, Limpaphayom, and Nagarajan (2012) which even revealed that family businesses allow corporate governance that is for personal interests, thus a negative impact on business profitability. This finding is in line with the findings of Leksmono (2010), Abdullah et al (2011); Miller (2007); Villalonga and Amit (2006); Cucculelli and Micucci (2008); Rehman and Shah (2013); Fazelzadeh, Hendi, and Mahboubi (2011); Onder (2003); and Lauterbach and Vaninsky (1999), the results of their research show that family ownership a negative impact on business profitability. Based on existing research, the phenomenon of problems related to family control on business profitability in the Bayam Crackers family business can be influenced by several factors. Some factors that can affect the profitability of a family business in the food industry include competition from convenience stores and government regulations. In addition, internal company decisions such as marketing strategy, product innovation, and financial management can also influence the profitability of a family business. The influence of family control on business profitability in several previous studies has had positive and negative influences on various problems. Therefore, the formulation of this research problem is to question the influence of family control on profitability and value in culinary business companies in Tasikmalaya. Several fundamental factors influence company profitability. One of these factors is leverage. Leverage shows the ability of a company to fulfill all the company's financial obligations if the company is liquidated (Agnes, 2004). Companies must carefully consider their debt use policies because the use of debt will have an impact on company value. Debt interest costs are costs that can reduce income tax payments, thereby increasing company value. Leverage in this study is proxied by the Debt to Equity Ratio (DER), namely the comparison between total debt and total capital. The reason DER was chosen is because this ratio can show the company's ability to pay its debt with the capital or equity in the company Modigliani & Miller (1958); Yastini (2015). The company's performance in this research is by knowing the impact of Return On Assets (ROA) in the Filsyakhoi Bayam Crackers company. The reasons for choosing ROA in this research are: (1) ROA is a comprehensive measurement

*that entirely influences the financial statements as reflected in this ratio (2) ROA is easy to calculate, know, and is very meaningful in absolute value (3) ROA is a denominator that can be applied to each organizational unit responsible for profitability and business units (Hernitra, 2011).*

*Further research is needed to understand the impact of family control more deeply and comprehensively on profitability in the Filsyakhoi Bayam Crackers family business, by considering the factors that influence the profitability of family businesses in the food industry. Therefore, the author is interested in conducting this research with the aim of finding out the impact of family control on profitability, especially at the Filsyakhoi Bayam Crackers company. This research aims to analyze the influence of family control on the level of profitability of the Filsyakhoi Bayam Crackers business. By identifying the family ownership and control structure in the Filsyakhoi Bayam Crackers business, and describing the characteristics of the Filsyakhoi Bayam Crackers business, scale of operations, and company profile. then, to determine the influence or relationship between the two variables, the researcher wants to measure the impact of family control on sustainability and innovation in the Filsyakhoi Bayam Crackers business and analyze the relationship between the level of family control and strategic decisions and operational policies of the Filsyakhoi Bayam Crackers business.*

*Family control is whether or not the family has control rights in a company which can be seen through their share ownership (Barontini & Caprio, 2006; Naldi et al., 2007; Siregar & Utama, 2008). This research uses 10% as the limit of control rights over company ownership. Because 10% is the cut-off point for the existence of a chain of control, control rights of 10% are effective enough to describe the control exercised over a company (Barontini & Caprio, 2006; Maury, 2006). Profitability is the net result of a series of policies and decisions. To be able to maintain the survival of a company, it must be in a profitable condition.*

*Family companies have the aim of passing on the business to the next generation so that they have a high sense of ownership and concern for the company's reputation. This encourages family members to carry out closer supervision, the supervision carried out will allow a company to obtain higher profits. Higher profits indicate a high level of company profitability. This explanation is supported by research conducted by (Ishak, Haron, & Salleh, 2011; Athanassiou et al., 2002; Yammeesri & Lodh, 2004; Westhead & Howorth, 2012; Reyna & Encalada, 2012; Pattanayak, 2008; Shyu, 2011; Amran & Ahmad, 2010; Din & Javid, 2012). On the other hand, the opportunistic behavior of family members reduces company efficiency. Family companies often retain leaders who are no longer competent, which hinders the recruitment of more competent and professional management. This hinders the achievement of high profits. Low profits indicate a low level of company profitability. This explanation is supported by research conducted by (Sindhuja, 2009; Andreas, 2007; Lee, 2006; Lauterbach & Vaninsky, 1999; Wahyuni & Prabowo, 2012; Surifah, 2011).*

*Family companies are long-term oriented, so family members prefer to make profitable long-term investments. This shows the company's good prospects in the future. So that investors will respond positively and will ultimately increase the value of the company. This explanation is supported by research conducted by (James, 1999; Ibrahim & Samad, 2011; Ong & Gan, 2013; Kim, 2006). On the other hand, companies where the majority shareholder is the family will control decisions within the company through the control rights they have, these decisions are often only based on the interests of the majority*

shareholder and not in the interests of all shareholders. This shows the company's prospects are bad in the future, so investors will respond negatively and will ultimately reduce the value of the company (Gama & Galvao, 2012; Connelly, Limpaphayom, & Nagarajan, 2012; Villalonga & Amit, 2004; La Porta, Silanes, & Shleifer, 1999; Faccio, Lang, & Young, 2001; Maquieira, Espinosa, & Vieito, 2011). In other words, companies that have a high level of profitability each year tend to use their capital compared to used debt (Kesuma, 2009). Another assumption also states that the return on assets is high, meaning the company's net profit is also high. Therefore, this research wants to know the effect of family control on the profitability of a company operating in the culinary sector. With the following assumptions:

*Hypothesis 1: Family control positive effect on profitability.*

*Hypothesis 2: Family control negative effect on profitability*

## RESEARCH METHOD

To test the hypothesis, regression analysis is used. The variables used are family control as the independent variable, and business profitability as the dependent variable. In this study, the independent variable was tested against the dependent variable, namely profitability.

This research was conducted using quantitative research with descriptive analysis. Quantitative research methods are an approach to empirical studies to collect, analyze, and display data in numerical form.

The population used is a snack food sector company, namely Filsyakhoi Bayam Crackers which is registered with IPR and certified as a halal product by LPPOM MUI. The samples used were leaders and employees who met certain criteria (purposive sampling). The criteria determined are the leadership and employees of the Filsyakhoi Bayam Crackers family company which has also published a complete annual report for 2021-2022. In the end, the number of samples that met the criteria and became the sample for this research was 21. The data used was primary data using a questionnaire research instrument.

## RESULT AND DISCUSSIONS

### Descriptive Statistics Test

The following is descriptive statistical data for the variables used in this research after fulfilling the classical assumption test:

Table 1. Descriptive Statistics Test

		Stastitik Deskriptif				
		N	Minimum	Maximum	Mean	Std. Deviation
RAAR Vol.4 No.1	Family Control	2	63.00	85.00	77.81	5.913
		1				
	Profitability	2	41.00	55.00	50.52	3.894
		1				
	Valid N (listwise)	2				
		1				



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Based on the descriptive statistics table above, it can be concluded that the family control variable has the lowest value of 63 and the highest value of 85 with an average value of 77.81 and a standard deviation of 5.913 and the Profitability variable has the lowest value of 41 and the highest value of 55 with the average is 50.52 and the standard deviation is 3.894. The data from the research above comes from 21 respondents.

Coefficient of determination test

Table 2. Coefficient of determination test

Summary Model				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.912 <sup>a</sup>	.832	.823	1.636

a. Predictors: (Constant), Family Control

Based on the Coefficient of Determination table above, we can explain the magnitude of the correlation/relationship value (R), which is 0.912. From this output, a coefficient of determination (R Square) of 0.832 is obtained, which means that the influence of variable X (Family Control) on variable Y (Profitability) is 83.2%.

Analisis Regresi Linier

Table 3. ANOVA

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	252.389	1	252.389	94.306	.000 <sup>b</sup>
	Residual	50.849	19	2.676		
	Total	303.238	20			

a. Dependent Variable: Profitabilitas

b. Predictors: (Constant), Family Control

Based on the Coefficient of Determination table above, we can explain the magnitude of the correlation/relationship value (R), which is 0.912. From this output, a coefficient of determination (R Square) of 0.832 is obtained, which means that the influence of variable X (Family Control) on variable Y (Profitability) is 83.2%.

Table 4. Uji T Hipotesis

		Coefficients <sup>a</sup>				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.777	4.827		.782	.444
	Family Control	.601	.062	.912	9.711	.000

a. Dependent Variable: Profitabilitas

$$\text{Equation} = 3.777 - 0.601X$$

The sig value is  $0.00 < 0.05$  or the t-count value  $> t\text{-table}$ , then there is an influence of variable X on variable Y.

Based on the table above, the results of the simple linear regression model equation in this research are:

$$Y = a + bX$$

$$Y = 3,777+ 0,601X$$

The simple linear regression model equation above shows that the constant value  $a = 3.777$  is positive. If the independent variable, namely communication, has a value of 0, then the dependent variable, namely Profitability, has a value of 3,777.

## CONCLUSION AND RECOMMENDATION

Based on the results of research regarding the influence of family control on profitability, it can be concluded that family control has a significant influence on business profitability in companies in the culinary industry. However, this significant influence can be influenced by several factors such as competition from government regulations, minimarkets, and internal company decisions such as company financial management, product innovation, and marketing strategy.

The suggestion is addressed to one of the family companies in the culinary sector, namely Bayam Crackers Filsyakhoi. To consider factors that can influence the influence of family control on business profitability. Companies are required to consider internal company decisions such as company financial management, product innovation, as well as marketing strategies to increase business profitability. Apart from that, companies must also consider competition from minimarkets and government regulations in making business decisions. In this case, the company must also consider the interests of shareholders in making business decisions.

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