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Form Over Substance? Ineffectiveness of Good Corporate Governance in Family-Controlled Firms



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ABSTRACT

Purpose—This study examines whether family ownership concentration explains why Good Corporate Governance (GCG) mechanisms may fail to improve financial performance in listed non-financial firms operating within a concentrated-ownership environment.

Design/methodology/approach—Using panel data, ultimate family ownership is classified through an internationally established voting-rights threshold. Interaction models assess whether family control alters the relationship between formal governance structures and accounting performance, using alternative specifications and robustness checks to evaluate the stability of the results.

Findings—Formal governance compliance has no significant direct relationship with financial performance, and this finding remains stable across alternative specifications. The moderating role of family ownership is directionally consistent with a weakening effect but is not robustly significant. Family-controlled firms also exhibit substantially weaker formal governance structures than non-family firms without a corresponding performance penalty.

Originality/value—This study integrates principal-principal agency theory with institutional decoupling theory to explain why formal oversight mechanisms may remain detached from substantive control in concentrated-ownership markets. Its population-level classification of ultimate ownership extends the "form over substance" thesis from a family-firm-specific phenomenon to a systemic characteristic of governance regimes dominated by controlling shareholders.

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1. Introduction

Unlike the widely dispersed shareholding typical in traditional corporate finance, concentrated ownership is the main organizational structure in many parts of the world. Evidence on ultimate ownership shows that, outside regions with strong investor protections, large firms are usually controlled by families or the state (De Haas et al., 2025; La Porta et al., 1999). This is especially true in East Asia, where controlling families often wield voting power via pyramidal structures, cross-shareholdings, and management involvement; Indonesia is noted as having mainly family-controlled listed firms (Claessens and Yurtoglu, 2013). Similar findings from other emerging markets indicate that family and business-group control significantly influences resource allocation and minority shareholders' exposure. For example, Indian business groups have been linked to intragroup tunneling, and in China, the effects of family ownership depend on the local institutional framework governing control and accountability (Bertrand et al., 2002; Jiang and Peng, 2011). The classification of ultimate ownership in this study shows that 75% of Indonesian Main Board non-financial firms are controlled by families or founders, a figure much higher than the roughly half reported

earlier in Indonesian research (Mardianto and Maharani, 2025; Siregar and Utama, 2008). Thus, Indonesia serves as a critical case for exploring whether formal corporate governance remains effective when family control is widespread.

Indonesian regulators have addressed governance risks by mandating oversight arrangements for public companies. OJK Regulation No. 55/POJK.04/2015 stipulates that listed companies must have an audit committee composed of independent commissioners and external members, led by an independent commissioner (Irawan, 2021; Johan, 2021). However, having formally compliant governance structures does not necessarily mean these structures effectively restrict substantive corporate decisions. When controlling families influence both ownership and appointments, those supposedly overseeing may also shape the composition, authority, access to information, and practical independence of the monitoring mechanisms designed to discipline them. Institutional theory describes this as decoupling: organizations implement legitimate structures to meet external expectations while shielding their core activities from real change (Meyer and Rowan, 1977). Research on corporate governance shows that

firms often adopt reforms symbolically, gaining legitimacy or stakeholder approval without fully applying the practices (Westphal and Zajac, 1998, 2001). Reviews of governance codes reveal that adopting and formally complying with codes does not guarantee effective implementation, especially when enforcement and firm commitment are uneven (Cuomo et al., 2016; Park and Lehnert, 2025). This gap between visible compliance and actual oversight—the "form over substance" issue—is the focus of this study.

Although Indonesian literature is significant, it still has unresolved empirical, methodological, and theoretical gaps. Studies show that family ownership affects earnings management, governance outcomes, and the link between corporate governance and firm performance (Itan et al., 2024; Mardianto and Maharani, 2025; Nasir et al., 2024; Siregar and Utama, 2008). However, these studies typically focus on selected listed firms rather than the entire population, using international voting-rights criteria to define ultimate family control. Conventional governance metrics often combine observable ownership, board, and committee traits without identifying the ultimate controllers who may influence through indirect ownership chains. This limits their ability to accurately represent the actual distribution of control. More fundamentally, prior Indonesian research has primarily viewed governance issues through the lens of agency theory and the principal-principal conflict between controlling and minority shareholders (Jensen and Meckling, 1976; Nurani et al., 2025; Young et al., 2008). While this explains why controlling families may protect private benefits, it does not clarify why formal governance structures persist with limited performance effects. Institutional Decoupling Theory offers insight by showing that Agency Theory explains why families may evade monitoring, while decoupling describes how ceremonial governance can maintain legitimacy without real control. Combining these theories is crucial in Indonesia, where concentrated ownership coexists with a civil-law system that traditionally offers weaker protections and enforcement for minority investors (Harahap et al., 2023). Evidence across markets that governance effectiveness varies with institutional and enforcement conditions further underscores the importance of a context-sensitive approach (Claessens and Yurtoglu, 2013; Ararat et al., 2017).

This study aims to achieve three interconnected goals: to determine if good corporate governance affects financial performance, measured by return on assets; to categorize the ultimate ownership structure of Indonesian Main Board non-financial companies; and to assess whether family ownership concentration influences the effectiveness of formal governance systems. It is the first research to classify ultimate family ownership in the entire set of Indonesian Main Board non-financial firms using an internationally recognized 20% voting rights threshold and to directly connect this classification to GCG effectiveness. This extends the "form over substance" concept from a family-firm-specific issue to a broader, systemic aspect of GCG compliance in Indonesia's capital market. Additionally, the study advances theory by combining Type II Agency Theory with Institutional Decoupling Theory, linking controlling shareholders' economic incentives to the organizational processes that maintain symbolic governance compliance. Methodologically, tracing both direct and indirect voting rights to the ultimate family or individual controller offers a more transparent and internationally comparable classification

than relying solely on immediate shareholdings or self-identified family status (La Porta et al., 1999).

The study investigates these issues by using hand-collected ultimate-ownership data, publicly available governance attributes, and audited financial records. It uses a balanced panel framework for this. Section 2 concerns the development of theoretical arguments and hypotheses. Please refer to Section 3 for full details of the sample variables and estimation approach. Section 4 reports and discusses the empirical findings. Finally, Section 5 concludes with theoretical and practical limitations, as well as suggestions for future research.

2. Literature Review

2.1 Theoretical Foundation

Agency theory provides an economic framework for understanding governance under different ownership structures. In the traditional Type I formulation, the separation of ownership and control leads to conflicts between managers and shareholders. Good Corporate Governance (GCG) aims to reduce information asymmetry, managerial opportunism, and agency costs (Chouaibi et al., 2026; Jensen and Meckling, 1976). However, this formulation implicitly assumes dispersed ownership. (La Porta et al., 1999) demonstrate that this assumption is not universal; in jurisdictions without strong investor protection, large firms are typically controlled by families or the state. The institutional roots of this pattern partly lie in legal origin, as common law systems generally provide stronger investor protection than French civil law systems, as in Indonesia. These systems provide weaker protection and exhibit greater ownership concentration (La Porta et al., 1998). Consequently, the locus of conflict shifts from managers versus shareholders to controlling versus minority shareholders. (Young et al., 2008) formalize this Type II conflict as the 'principal-principal' perspective, which is particularly important in emerging economies. In Indonesia's civil law, a weak enforcement environment means this perspective best explains the incentives for controlling families.

Institutional decoupling theory provides a complementary sociological explanation. (Meyer and Rowan, 1977) posit that organizations may adopt formal structures with a view to gaining legitimacy rather than efficiency, resulting in these structures becoming detached from practice. In the context of corporate governance, (Westphal and Zajac, 1998) demonstrate that companies may announce long-term incentive plans as a symbolic gesture without substantive implementation, yet still receive favorable market reactions because investors respond to the formal signal. Westphal and Zajac describe this as decoupling policy from practice, which occurs when governance policies are adopted without meaningful operational change, while top management or controlling shareholders retain power over the board. The theories are complementary: Type II Agency Theory explains the controlling family's incentive to preserve private benefits, whereas Institutional Decoupling Theory explains the organizational mechanism of symbolic adoption of GCG structures through which that capacity persists within an apparently compliant regime (Jamali, 2010; Safari and Parker, 2024). It is predicted that there will be a weak GCG performance relationship, in which compliance will serve primarily as a legitimacy signal, with further attenuation under stronger family control (Shakri et al., 2025). The subsequent section will build on this dual foundation by reviewing evidence

on GCG and financial performance to formulate the first hypothesis.

2.2 The Influence of GCG on ROA

The concept of Good Corporate Governance (GCG) establishes a framework of relationships among shareholders, boards, directors, and stakeholders. The primary objective of GCG is to enhance transparency, accountability, oversight, and managerial efficiency (Fama and Jensen, 1983). In Indonesia, OJK Regulation No. 55/POJK.04/2015 stipulates that independent commissioners and audit committees are to be regarded as formal monitoring mechanisms (OJK, 2015). According to agency theory, effective governance can help limit managerial opportunism, reduce agency costs, and encourage value-oriented decisions, which should improve Return on Assets (ROA) (Jensen and Meckling, 1976). Cross-country evidence generally supports this logic. In Korea, Black et al. (2006) found that a governance index significantly predicts Tobin's q, while Claessens and Yurtoglu (2013) concluded that stronger governance generally enhances firm valuation and lowers capital costs across emerging markets. However, effects vary by institutional context, ownership structure, and governance dimension. A similar conclusion was reported by (Ararat et al., 2017) for Turkey, which found positive effects on profitability and market value. The findings of (Bhatt and Bhatt, 2017; Ying and Rayapan, 2020) document a positive association between Malaysia's governance index and firm performance. Indonesian evidence demonstrates that governance and ownership jointly influence earnings management choices and CSR-related reporting outcomes (Kumala and Siregar, 2021; Siregar and Utama, 2008). However, Nasir et al. (2024) find that family ownership weakens the positive association between GCG and market performance. The findings indicate that effective GCG is associated with higher asset-based profitability.

H1: Good Corporate Governance (GCG) positively affects Return on Assets (ROA).

2.3 The Moderating Role of Family Ownership

The effectiveness of Good Corporate Governance (GCG) varies due to the ultimate control of the firm. The incentive-entrenchment framework differentiates the alignment created by substantial cash-flow rights from the entrenchment enabled when voting rights exceed cash-flow rights through pyramids or cross-shareholdings (Claessens and Yurtoglu, 2013). A wider control-ownership wedge can lead to a stronger focus on value creation, while greater cash-flow exposure can allow controlling shareholders to direct corporate resources and bear a limited share of expropriation costs; in turn, firm value rises as cash-flow rights increase but declines as the wedge widens. Fan and Wong (2002) further demonstrate that this separation reduces the transparency of earnings information, as controlling shareholders can utilize financial reporting to protect private benefits rather than communicate transparently with external investors. In Indonesia, where corporations are predominantly family-controlled, independent commissioners and audit committees may satisfy formal requirements while families retain strategic influence through managerial appointments and business-group networks (Claessens and Yurtoglu, 2013). It is therefore possible for formal GCG to become decoupled from substantive control (Meyer and Rowan, 1977; Westphal and Zajac, 1998, 2001).

Research consistently indicates that family ownership and management influence the relationships between governance, performance, and earnings management (Nasir et al., 2024; Itan et al., 2024). However, the entrenchment argument is not theoretically exhaustive.

However, not all research treats family ownership as inherently detrimental. Stewardship Theory challenges the assumption of uniformly opportunistic managers by proposing that owner-managers may act as intrinsically motivated stewards of organizational continuity, reputation, and intergenerational legacy (Davis et al., 1997). In line with this perspective, (Anderson and Reeb, 2003; Martikainen et al., 2009) find that family firms outperform non-family firms in the S&P 500 index. (Kim and An, 2019; Villalonga and Amit, 2006) demonstrate that performance is contingent on the configuration of ownership, control, and management, with founder-led firms exhibiting value creation, while descendant-led firms may potentially result in value destruction. According to the Socioemotional Wealth (SEW) perspective, which posits a multifaceted approach to decision-making, family firms consider the potential impact on non-financial benefits, including family control, identity, and dynastic continuity. In doing so, they may be willing to assume performance risks, even when such risks are substantial (Gómez-Mejía et al., 2007). The FIBER framework consequently positions SEW preservation as a defining feature of family-firm behavior (Berrone et al., 2012). From these perspectives, it can be concluded that lower formal GCG scores do not necessarily indicate inadequate oversight, as controlling families may replace costly formal mechanisms with more cost-effective, indirect forms of monitoring. Therefore, the impact of family ownership on formal governance is contingent on the company's institutional environment.

The concepts of entrenchment and decoupling, on the one hand, and stewardship and SEW, on the other, therefore generate competing predictions about the moderating role of family ownership. The explanatory power of these factors is subject to institutional constraints. In contexts where investor protection, disclosure, and enforcement are in place to limit private-benefit extraction, stewardship-based alignment becomes more feasible. Conversely, in environments where these safeguards are less robust, entrenchment and symbolic compliance become more probable. This distinction aligns with the legal-origin argument that French civil law systems offer comparatively weaker investor protection and encourage concentrated ownership to address gaps in institutional governance (La Porta et al., 1998). Research on large Asian family firms also highlights that the impact of family control on performance is shaped by national institutions and principal-agent conflicts, rather than being uniformly beneficial or harmful (Dinh and Calabrò, 2019; Jiang and Peng, 2011; Luo and Chung, 2013; Peng and Jiang, 2010). In Indonesia's civil-law system, where enforcement is often lacking, it is anticipated that family members will maintain sufficient informal authority to mitigate the benefits of formal GCG, such as enhanced monitoring and performance. The following section presents a conceptual framework that illustrates this conditional relationship.

H2: Family ownership concentration moderates (weakens) the effect of Good Corporate Governance (GCG) on Return on Assets (ROA).

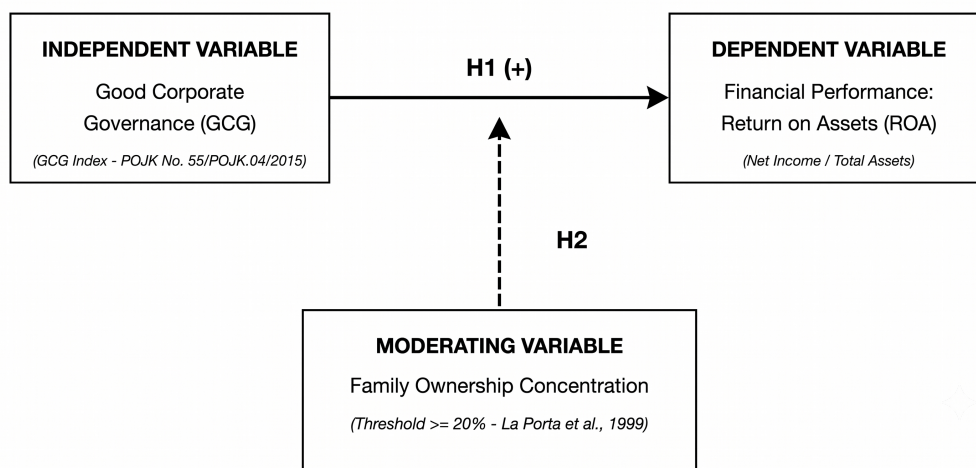


Fig. 1. Conceptual Framework

2.4 Conceptual Framework

This study uses the theoretical framework of Type II agency theory, the incentive-entrenchment framework, and institutional decoupling theory. It considers GCG as the independent variable, ROA as the dependent variable, and family ownership concentration as a moderating variable. The expectation is that family ownership will weaken the link between GCG and ROA, as shown in Figure 1.

3. Method

3.1 Research Design

The present study employs a quantitative causal design, utilizing archival firm-level data to empirically test the hypothesized relationships (Wooldridge, 2002). The use of archival data is appropriate in this instance, as it enables direct observation of profitability, leverage, governance attributes, and ownership structure from audited financial statements and public disclosures. This approach circumvents common-method bias and self-report limitations often associated with perception-based instruments. The dataset is a balanced panel of 136 firms observed annually from 2019 to 2024, yielding 816 firm-year observations. Panel data exploits cross-sectional and time-series variation within a unified framework, thereby improving control for unobserved heterogeneity (Baltagi, 2005). This structure differentiates between changes in GCG and ROA within firms and between-firm differences in time-variant family ownership, which is essential for separating the moderator's effect from the direct effect of time-varying governance. The panel design meets the required standards for testing H1 and H2, as outlined in the relevant documentation.

3.2 Population and Sample

The population under discussion includes all non-financial firms listed on the Indonesia Stock Exchange Main Board from 2019 to 2024. The selection of the main board is a substantive methodological consideration rather than a matter of convenience. IDX Listing Rule No. I-A stipulates that companies must have a minimum of 36 months of operating history, operating revenue for the previous three years, and three years of audited financial statements, with unqualified opinions for the two most recent years. Since May 2022, issuers with negative equity or a Level III written warning

have also been deemed ineligible. These requirements support two key principles: first, reporting continuity and, second, standardized data availability. They also support a comparatively homogeneous governance environment. This means that variation in GCG effectiveness will be more attributable to ownership structure than to organizational maturity. Financial firms were excluded from consideration due to the fact that sector-specific capital adequacy rules render leverage non-comparable. In addition, the financial asset-dominated balance sheets of these firms result in ROA that differs conceptually from that of non-financial firms. Purposive criteria demanded ongoing Main Board listings, comprehensive audited reports, and verifiable ultimate ownership, yielding 136 firms and 816 balanced-panel observations, as outlined in Table 1. As illustrated in Table 2, the sample encompasses ten IDX-IC sectors, primarily energy, consumer non-cyclicals, and consumer cyclicals. This sectoral composition is pivotal to interpreting year effects because commodity price movements significantly impacted energy and materials profitability.

3.3 Operational Definition and Measurement

The data were collected through meticulous documentation of available annual financial statements and corporate governance reports from the official IDX website for the specified period of 2019 to 2024. The ultimate ownership was traced using a variety of official documents, including annual reports, prospectuses, minutes of general meetings of shareholders, and official ownership-change disclosures. These documents were examined using direct- and indirect-voting-rights tracing. The 20% voting-rights threshold was deliberately adopted as an international benchmark: it is low enough to identify effective control through pyramids and cross-shareholdings, common in Indonesian business groups, yet high enough to exclude passive minority stakes lacking strategic influence. In instances where shares were held through intermediate entities, the voting rights were traced through each ownership layer to the ultimate individual or family beneficiary, in accordance with the methodologies established (Claessens and Yurtoglu, 2013; La Porta et al., 1999). Please refer to Table 3 for the operational definitions. GCG is a standardized z-score composite indicator of various factors relevant to institutional ownership, managerial ownership, audit committee financial expertise certification, and board independence. The formula for ROA is net income after

Table 1. Sample Selection Criteria

Selection Criteria	Number of Firms
Non-financial firms listed on the Indonesia Stock Exchange Main Board	163
Less: Firms not continuously listed on the Main Board throughout the observation period	–19
Less: Firms with incomplete or non-consecutive audited financial statements	–6
Less: Firms whose ultimate ownership could not be adequately traced	–2
Final sample	136
Observation period	6 years
Total firm-year observations	816

Source: Processed data, 2026.

Table 2. Sample Distribution by IDX Industrial Classification

Sector	Number of Firms	Percentage
Energy	27	19.90%
Consumer Non-Cyclicals	20	14.70%
Consumer Cyclicals	18	13.20%
Infrastructure	16	11.80%
Basic Materials	15	11.00%
Properties and Real Estate	14	10.30%
Industrials	11	8.10%
Healthcare	8	5.90%
Transportation and Logistics	4	2.90%
Technology	3	2.20%
Total	136	100.00%

Notes: Sector classification follows the Indonesia Stock Exchange Industrial Classification (IDX-IC). The sample is concentrated in the energy, consumer non-cyclicals, and consumer cyclicals sectors. Financial-sector firms are excluded from the analysis.

Source: Processed data, 2026.

Table 3. Operational Definitions and Measurement of Variables

Variable	Symbol	Role	Operational Definition and Measurement	Data Source
Good Corporate Governance	GCG	Independent variable	Standardized z-score composite comprising institutional ownership, managerial ownership, audit committee financial expertise certification, and board independence. Higher values indicate stronger formal governance.	Annual reports and corporate-governance reports
Return on Assets	ROA	Dependent variable	Net income after tax divided by total assets.	Audited financial statements
Family Ownership Concentration	FAM	Moderating variable	Dummy variable equal to 1 when the ultimate family or individual controller holds at least 20% of direct or indirect voting rights, and 0 otherwise.	Annual reports, prospectuses, shareholder-meeting records, and ownership disclosures
Firm Size	SIZE	Control variable	Natural logarithm of prior-year total assets.	Audited financial statements
Leverage	DAR	Control variable	Total debt divided by total assets.	Audited financial statements
Year Effects	YEAR	Control variable	Annual dummy variables, with the first observation year serving as the reference category.	Research dataset
Moderating Effect	GCG × FAM	Interaction variable	Interaction between mean-centered GCG and family ownership concentration. A negative coefficient indicates that family ownership weakens the GCG–ROA relationship.	Constructed from GCG and FAM

Notes: Ultimate family ownership was traced through direct and indirect voting rights using a 20% control threshold (Claessens and Yurtoglu, 2013; La Porta et al., 1999). GCG components were measured using ownership proportions, board independence, and audit-committee financial expertise.

Source: Processed data, 2026.

tax divided by total assets. Meanwhile, FAM is defined as 1 if a family or individual holds at least 20% of the ultimate voting rights. The controls comprise SIZE, the natural logarithm of prior-year assets; DAR, total debt divided by total assets; and year dummies for 2020–2024, with 2019 as the reference point. These capture pandemic and commodity-cycle shocks (Irawan, 2021; Johan, 2021).

3.4 Data Analysis Technique

The hypotheses were evaluated using panel-data regression, employing cross-sectional and time-series data on 136 firms over six years (Baltagi, 2005; Wooldridge, 2002). Model choice involved a Chow test comparing the common effects and fixed-effects models, followed by a Hausman test comparing the fixed- and random-effects models; a significance level below 0.05 favored the Fixed-Effects model (Breusch and Pagan, 1980; Hausman, 1978). Since FAM is time-invariant, entity fixed effects would absorb both its main effect and the constant component needed for moderation, making random effects

necessary to estimate FAM and GCG × FAM, regardless of the Hausman outcome. Standard errors were clustered by firm to address heteroskedasticity and autocorrelation within firms (Petersen, 2009). GCG was mean-centered prior to creating the interaction, with moderation inferred from the interaction coefficient. ROA was winsorized at the 1st and 99th percentiles to evaluate sensitivity to outliers (Mitton, 2024). Finally, the random effects moderation results were cross-validated using an independent maximum-likelihood mixed-effects model with similar covariates and clustering, yielding comparable point estimates but different standard errors for leverage and GCG × FAM, highlighting sensitivity to variance estimation and warranting cautious interpretation of nearly significant interaction effects.

4. Result

4.1 Descriptive Statistics and Preliminary Analysis

Table 4 displays descriptive statistics for 816 firm-year observations. The average ROA is 7.58% with a standard

Table 4. Descriptive Statistics and Preliminary Group Comparisons**Panel A. Descriptive statistics**

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Return on Assets (ROA)	816	−0.2117	0.9952	0.0758	0.0934
GCG Index (z-score)	816	−3.9822	9.1026	0.0000	1.8628
Family Ownership (FAM)	816	0.0000	1.0000	0.7500	0.4333
Firm Size (SIZE)	816	12.8610	19.8970	15.9766	1.3633
Leverage (DAR)	816	0.0023	1.7278	0.4866	0.2031

Panel B. Mean-difference tests by ownership status

Variable	Family Firms	Non-Family Firms	t-Statistic	p-Value
ROA	—	—	−0.198	0.843
GCG Index	−0.378	1.133	−8.290	< 0.001***

deviation of 9.34%, reflecting considerable variation in profitability, while the standardized GCG index has a mean near zero by design. Family ownership of at least 20% is present in 75.0% of observations, covering 102 out of 136 firms. The control variables show mean values of 15.98 for SIZE and 0.49 for DAR. During data cleaning, two issues were identified: first, 18 SIZE entries for mining and energy firms in 2024 showed unrealistically high total assets, likely due to currency differences in US-dollar reporting; these were adjusted using each firm's median SIZE from valid years. Second, one observation with identical ROA and DAR values indicated a possible entry mistake; it was kept in the main analysis and later addressed through winsorization in the robustness check. Overall, Table 4 provides the complete descriptive statistics.

The mean-difference tests in Panel B of Table 4 indicate no significant difference in profitability between family-controlled and non-family firms ($t = -0.198$, $p = 0.843$). However, their formal governance profiles differ notably. Family-controlled firms have an average GCG score of -0.378 , while non-family firms have an average GCG score of 1.133 ; this difference is statistically significant ($t = -8.290$, $p < 0.001$). These findings suggest that family-controlled companies tend to have weaker formal governance structures but do not exhibit lower financial performance. This pattern implies that formal GCG scores might not fully capture the governance mechanisms family-controlled firms use to monitor management and sustain profitability. Accordingly, the analysis continues with panel-model specification tests and formal hypothesis assessments.

4.2 Model Specification and Hypothesis Testing

Model selection was conducted in two stages using the full specification with control variables, as reported in Table 5. The Chow test favors the Fixed Effects Model over the Common Effects Model ($F = 7.341$, $p < 0.001$), confirming the presence of significant firm-specific effects. The Hausman test fails to reject the null hypothesis ($\chi^2 = 6.361$, $p = 0.607$), indicating that the Random Effects Model is more efficient while remaining consistent. REM is also technically required because FAM is time-invariant and would be fully absorbed by entity fixed effects, preventing estimation of its main effect and its interaction with GCG. Accordingly, all hypothesis models use REM with standard errors clustered at the firm level.

Table 6 summarizes the hypothesis tests. GCG has no significant direct impact on ROA ($\beta = -0.0007$, $p = 0.542$), and this result remains consistent regardless of controls. This indicates that GCG's lack of effect is not due to model under-specification, so H1 is not supported. The interaction term GCG

$\times$ FAM is negative ($\beta = -0.0031$), aligning with the expected weakening effect. Although its p-value drops from 0.509 in the uncontrolled model to 0.105 after adding controls, it still exceeds the 5% significance level; thus, H2 is not supported. Table 7 shows the full estimates. Including SIZE, DAR, and year dummies raises the R^2 from nearly zero to 0.069 in Model 1 and 0.070 in Model 2, highlighting the limitations of the uncontrolled model. DAR is negative, which aligns with capital-structure theory. The 2020 effect is significantly negative ($\beta \approx -0.031$, $p < 0.001$), consistent with pandemic-related challenges, while the positive effects in 2021 and 2022 indicate recovery and a surge in commodity prices that benefit energy and materials firms in the sample.

4.3 Robustness Checks

Raw ROA exhibits strong non-normality, with a skewness of 4.11 and kurtosis of 30.16, mainly due to several extreme outliers. These include a non-family firm with ROA between 89–99% in 2020–2021 and DAR over 98%, reflecting negative equity after a large debt-funded special dividend, as well as a family firm with ROA of 94% in 2022 amid a global coal-price surge. Winsorizing ROA at the 1st and 99th percentiles reduces skewness to 1.94 and kurtosis to 4.59. As shown in Table 8, hypothesis 1 (H1) remains unsupported and highly robust (p-values between 0.982 and 0.829), while the GCG $\times$ FAM coefficient drops to -0.0006 ($p = 0.790$), indicating earlier near-significance was partly driven by outliers. After winsorization, SIZE and DAR become significant ($p < 0.05$ and $p < 0.01$), and R^2 increases to 0.144, suggesting outliers initially masked relationships with control variables. This sequence—from negligible explanatory power without controls, near-significance with controls, to fragile significance after outlier adjustment—highlights the importance of transparent reporting of multiple specifications in replication-focused finance research, especially when working with moderate-sized panels.

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4.4 Discussion

The most robust finding is the absence of a direct relationship between Good Corporate Governance (GCG) and Return on Assets. This relationship remains stable when alternative specifications, control structures, and treatments of extreme observations are considered. This outcome is difficult to reconcile with the fundamental premise of agency theory, which posits that formal oversight constrains managerial opportunism, minimizes agency costs, and enhances profitability (Jensen and Meckling, 1976). If the governance index captures the quality of

Table 5. Panel-Model Specification Tests

Test	Model Comparison	Test Statistic	Degrees of Freedom	p-Value	Conclusion
Chow test	CEM versus FEM	$F = 7.341$	135; 672	$< 0.001^{***}$	FEM preferred
Hausman test	FEM versus REM	$\chi^2 = 6.361$	8	0.607	REM preferred

Notes: CEM = Common Effect Model; FEM = Fixed Effects Model; REM = Random Effects Model. The Chow-test null hypothesis states that pooled estimation is adequate. The Hausman test's null hypothesis states that the Random-Effects estimator is consistent.

Source: Processed data, 2026. $^{**}p < 0.01$.

Table 6. Hypothesis-Testing Results

Hypothesis	Relationship	Expected Sign	Coefficient (β)	z-Statistic	p-Value
H1	GCG > ROA	Positive	−0.0007	−0.610	0.542
H2	GCG $\times$ FAM > ROA	Negative	−0.0031	−1.621	0.105

Table 7. Random Effects Regression Results

Variable	Model 1: Direct Effect β (p-Value)	Model 2: Moderation β (p-Value)
Constant	0.1023 (0.004) ***	0.1079 (< 0.001) ***
GCG (mean-centered)	−0.0007 (0.542)	0.0006 (0.535)
Family Ownership (FAM)	—	−0.0079 (0.622)
GCG $\times$ FAM	—	−0.0031 (0.105)
SIZE (mean-centered)	−0.0050 (0.137)	−0.0057 (0.108)
DAR	−0.0523 (0.467)	−0.0535 (0.452)
Year 2020	−0.0309 (< 0.001) ***	−0.0311 (< 0.001) ***
Year 2021	0.0146 (0.047) **	0.0150 (0.043) **
Year 2022	0.0161 (0.043) **	0.0160 (0.043) **
Year 2023	−0.0017 (0.839)	−0.0019 (0.826)
Year 2024	−0.0043 (0.649)	−0.0043 (0.653)
Overall R^2	0.0686	0.0702
Firm-year observations	816	816
Number of firms	136	136
Year effects	Yes	Yes
Firm-clustered standard errors	Yes	Yes

Table 8. Robustness Tests Using Winsorized ROA

Variable	Model 1	Model 2
GCG (mean-centered)	−0.00002 (0.982)	0.0002 (0.829)
Family Ownership (FAM)	—	−0.0046 (0.749)
GCG $\times$ FAM	—	−0.0006 (0.790)
SIZE (mean-centered)	−0.0058 (0.026) **	−0.0061 (0.035) **
DAR	−0.0852 (0.001) ***	−0.0856 (0.001) ***
Overall R^2	0.1437	0.144
Firm-year observations	816	816
Number of firms	136	136
Year effects	Yes	Yes
Firm-clustered standard errors	Yes	Yes

Notes: Winsorizing reduced ROA skewness from 4.11 to 1.94 and kurtosis from 30.16 to 4.59. Year effects were included in both models but are omitted from the table for parsimony. Coefficients are reported with p-values in parentheses.

Source: Processed data, 2026. $^{*}p < 0.05$; $^{**}p < 0.01$.

substantive monitoring, stronger GCG should positively impact operating performance. Its failure to do so is more consistent with institutional decoupling theory. According to Meyer and Rowan (1977) organizations may adopt formal structures primarily to obtain legitimacy while leaving operational routines and power relations substantially unchanged. In the context of corporate governance, formally announced mechanisms may also generate legitimacy without being implemented in ways that constrain decision-makers (Westphal and Zajac, 1998, 2001). It is important to note that Indonesian compliance with OJK Regulation No. 55/POJK.04/2015 is more of an outward indicator of the company's alignment with the regulation than a direct mechanism that affects strategic and operational decisions that impact profit. It appears that the ineffectiveness of GCG is not only limited to family firms but rather reflects a more widespread gap between formal governance structures and actual oversight within the Indonesian capital market. This interpretation is consistent with evidence

that governance-performance relationships vary considerably across emerging markets because formal rules operate within different legal, enforcement, and disclosure environments (Claessens and Yurtoglu, 2013). As La Porta et al. (1998) point out, Indonesia's civil law tradition and comparatively limited enforcement of investor protection create institutional conditions in which ceremonial compliance can persist without producing measurable operational consequences.

The moderating effect of family ownership aligns, in principle, with the predicted weakening mechanism, though it lacks sufficient robustness when extreme observations are treated conservatively. This interpretation is prudent in that it does not exaggerate a theoretically convenient result but rather highlights the competing mechanisms embedded in family control. From an entrenchment perspective, this negative direction aligns with the incentive-entrenchment framework, where controlling families can exercise voting power that exceeds their economic exposure through pyramids, cross-shareholdings, and business-

group structures (Claessens and Yurtoglu, 2013). As a result, these structures increase their ability to preserve private benefits while weakening the practical authority of formal monitoring arrangements. Fan and Wong (2002) have also demonstrated that the separation of control and cash-flow rights can diminish the informative value of earnings, as accounting information may be prioritized to serve the interests of controlling shareholders rather than external investors. However, the absence of robust moderation also allows for explanations based on stewardship theory and socioemotional wealth. Family owner-managers may act as stewards motivated by organizational continuity, family reputation, and long-term survival rather than short-term expropriation (Davis et al., 1997). Family firms may also succeed in preserving control, identity, and dynastic continuity by implementing relational monitoring systems that serve as a substitute for formal governance structures (Gómez-Mejía et al., 2007; Berrone et al., 2012). The descriptive pattern of weaker formal GCG among family firms, without correspondingly weaker profitability, is consistent with such substitution. However, it should be noted that the same observable pattern can also arise from symbolic compliance and entrenchment. This observational equivalence highlights a key challenge in using compliance-based indices: distinguishing genuine informal stewardship from concealed private-benefit extraction. The institutional context further complicates the distinction. Positive family effects have been documented in strongly protected markets. However, these effects may not be applicable directly to Indonesia, where weak enforcement allows stewardship and entrenchment to coexist (Anderson and Reeb, 2003; Villalonga and Amit, 2006; Jiang and Peng, 2011).

The null and near-null findings also carry important methodological meaning within the replication debate in empirical finance and accounting. Research shows that governance-performance relationships often weaken when researchers introduce richer control structures, longer panels, alternative variance estimators, or more careful treatment of influential observations. The observed progression here aligns with the established pattern: a parsimonious model provides minimal explanatory content, the controlled model produces a theoretically suggestive moderation signal, and the outlier-sensitive analysis reveals that the signal is fragile. Such movement across specifications is not just a technical inconvenience; it shows that the results of research in the field of governance can depend heavily on the choices made in the modeling process and on a small number of economically unusual observations. It is therefore essential to present the full specification sequence transparently to distinguish stable relationships from results produced by selective modeling. The limited explanatory power of the governance models also raises a measurement question. The absence of a detectable relationship may indicate genuine governance ineffectiveness, but it may also suggest that a composite based on institutional ownership, managerial ownership, formal board independence, and audit committee expertise does not capture the governance dimensions most relevant to performance. The following factors may provide more direct measures of monitoring quality: de facto commissioner independence, the substance rather than the frequency of audit committee deliberations, the power of controlling shareholders over nomination processes, and the scale and nature of related-party transactions. The causal interpretation is further restricted by endogeneity. Profitability

may influence investment in governance structures, while omitted organizational traits may have a dual effect on both governance and performance. Dynamic panel approaches or credible instrumental-variable designs may help distinguish these mechanisms more effectively (Wintoki et al., 2012). It is important to note that a single pooled governance coefficient should not be used as definitive evidence of value relevance in concentrated-ownership markets.

In the broader emerging-market governance literature, Indonesian evidence occupies a distinct position relative to settings in which governance indices show strong and persistent associations with firm value. The difference between Korea and other countries, where governance reforms were accompanied by substantial institutional restructuring and a robust governance-valuation relationship, suggests that formal mechanisms only acquire economic force when supported by an effective enforcement and disclosure ecosystem (Black et al., 2006). The findings are broadly in line with recent Indonesian studies, which indicate that family ownership and managerial identity influence the translation of formal governance arrangements into corporate outcomes (Nasir et al., 2024; Itan et al., 2024). The present study extends that discussion by tracing ultimate ownership across the Main Board population using an internationally comparable voting-rights criterion derived from the ownership literature (La Porta et al., 1999). The empirical results are also placed within an integrated theoretical framework. Here, Type II agency theory provides a detailed explanation of the incentives of controlling shareholders, while institutional decoupling theory explains how formally compliant structures can remain detached from substantive control. This synthesis shifts the focus from whether firms have mandated governance mechanisms to whether those mechanisms have the authority, independence, and information access required to influence decisions. The text raises questions that cannot be resolved through compliance indicators alone. These include the performance relevance of different governance components, the balance between entrenchment and stewardship across family generations, and the nature of informal arrangements such as family councils, constitutions, and relational monitoring. It also considers whether such informal systems can be considered as an alternative to formal governance or simply another layer of symbolic structure. “latex

5. Conclusion

This study examined whether the concentration of family ownership in Indonesian listed non-financial firms can explain why corporate governance (GCG) policies are not as successful as hoped in improving their financial performance. The study utilized a panel of non-financial companies listed on the Indonesia Stock Exchange Main Board to trace ultimate family ownership through direct and indirect voting rights. It applied the internationally established 20 percent control threshold. The evidence indicates that GCG exerts no substantial direct impact on Return on Assets, a finding that remains consistent across various alternative specifications, control sets, and outlier treatments. Family ownership has been found to weaken the GCG-performance relationship in the predicted direction. However, this moderation is not robust once extreme observations are addressed. Family-controlled firms also exhibit lower formal GCG scores without incurring a corresponding performance penalty. These findings extend the "form over

substance" thesis by indicating that GCG ineffectiveness is systemic rather than confined to family firms. It is evident that formal compliance under Indonesia's governance regime is insufficient to ensure the requisite level of substantive oversight quality, which directly impacts financial performance.

Theoretical Implications

The present study deserves recognition for its significant theoretical contributions to the extant corporate governance and family business literature. Firstly, the null GCG–ROA relationship qualifies the Type II agency theory assumption that formal monitoring mechanisms automatically reduce principal–principal conflicts in concentrated-ownership markets (Young et al., 2008). In Indonesia, formal compliance does not equate to a quantifiable reduction in agency costs or an enhancement in profitability. Secondly, the study builds on institutional decoupling theory, extending its application from the firm level to the market level. It demonstrates that the separation between formal governance structures and substantive oversight is not limited to family ownership categories (Meyer and Rowan, 1977; Westphal and Zajac, 1998, 2001). Thirdly, it integrates Type II agency theory and institutional decoupling theory into a single framework for emerging markets, linking economic incentives that preserve private benefits to sociological processes of legitimacy and symbolic compliance. Finally, the weaker formal governance of family firms without a performance penalty provides indirect support for stewardship theory and the socioemotional wealth perspective. This suggests that relational oversight, reputation, and intergenerational orientation may substitute for formal mechanisms (Davis et al., 1997; Berrone et al., 2012).

Practical Implications

These findings carry practical implications for regulators, investors, and corporate boards in Indonesia and similar emerging markets. For the OJK, the absence of a performance association indicates that OJK Regulation No. 55/POJK.04/2015 should be supplemented with outcome-oriented indicators, such as de facto board independence, the substantive quality of audit committee deliberations, and related-party transaction transparency, rather than replaced. Investors and analysts should be aware that formal GCG scores should not be viewed in isolation as a measure of superior performance, as ultimate ownership may provide more relevant information about how oversight is exercised. Family-controlled firms lacking formal governance structures are advised to disclose any informal mechanisms, such as family councils and advisory arrangements, as well as intergenerational accountability practices, to allay minority shareholders' concerns. More broadly, systemic decoupling indicates the need for stronger enforcement capacity, transparent sanctioning processes, and credible class-action or collective-redress mechanisms. These should replace the addition of further procedural requirements.

Research Limitations

It is important to acknowledge the limitations of this study when interpreting the findings. The random-effects panel design can accommodate a time-varying moderator. However, it does not fully address endogeneity, so reverse causality between profitability and governance investment cannot be ruled out. The four-component GCG index may omit governance dimensions

that are more consequential for performance. Such dimensions may include de facto director independence, the substance of committee oversight, and related-party transactions. In the context of the study, family ownership was classified as time invariant. This meant that transitions in ownership, succession events, and changes in control structures were not captured. The sample is limited to Main Board issuers subject to demanding listing standards, which limits generalizability to firms on other boards and to unlisted companies. It was decided that financial institutions would not be included in the study because their capital regulation and asset structures are not comparable with those of non-financial firms.

Future Research Directions

The findings and limitations of this study suggest several avenues for future research. It is recommended that future studies employ instrumental variables, dynamic panel GMM, or difference-in-differences designs based on exogenous governance reforms in order to strengthen causal identification. To ensure optimal governance, it is essential to measure and evaluate several key indices. These should include de facto board independence, the frequency of board and committee meetings, transparency regarding related-party transactions, and informal family governance mechanisms such as councils, constitutions, and succession plans. Longitudinal ownership tracing is a process that could be used to test whether governance effects change during transitions from founders to later generations. Cross-country research using consistent ownership thresholds across ASEAN markets could establish whether systemic decoupling is unique to Indonesia or more widespread in the region. Qualitative and mixed-methods studies should identify the practical operation of relational monitoring, reputational constraints, and family networks. It is recommended that future panel models incorporate explicit industry effects to distinguish governance relationships from profitability driven by commodity cycles.

Author Contributions

Yulia contributed to conceptualization, methodology, software, formal analysis, investigation, data curation, writing—original draft, visualization, and project administration. Eddy Suratman contributed to conceptualization; validation, resources, writing—review and editing, and supervision. Giriati contributed to conceptualization, validation, writing, review, editing, and superconceptualization; has read and agreed to the published version of the manuscript.

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Conflict of Interest

The authors declare no conflicts of interest related to this manuscript.

Data Availability Statement

The data used in this study were obtained from publicly available annual reports and financial statements published by the Indonesia Stock Exchange (IDX) at www.idx.co.id. The compiled dataset, including the family ownership classification, is available from the corresponding author upon reasonable

request.

Ethical Statement

This study relies exclusively on secondary, publicly available archival data, including audited financial statements and ownership disclosures of publicly listed companies. It does not involve human participants, personal data, or primary data collection from individuals. Accordingly, informed consent and institutional ethics review were not required for this research.

Declaration of Originality

The authors confirm that this manuscript is original, has not been published previously, and is not under consideration for publication elsewhere.

Declaration on the Use of Artificial Intelligence

The authors used generative artificial intelligence tools solely for language editing, including grammar correction, sentence refinement, formatting assistance, and improvement of academic readability. These tools were not used to generate research data, determine the research design, conduct statistical analyses, formulate empirical findings, develop theoretical interpretations, or make substantive scientific decisions. All AI-assisted outputs were critically reviewed, verified, revised where necessary, and approved by the authors. The authors retain full responsibility for the accuracy, integrity, originality, and scholarly content of the manuscript.

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