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A REVIEW OF THEORETICAL PERSPECTIVE ON FAMILY BUSINESS GOVERNANCE

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Abstrak. *Tujuan dari penelitian ini adalah untuk meninjau masalah tata kelola di perusahaan keluarga dari beberapa perspektif dan membahas tentang kontribusi teori biaya transaksi untuk menjelaskan mekanisme tata kelola di perusahaan keluarga. Dalam literatur bisnis keluarga, penjelasan tentang gerakan mekanisme tata kelola dapat ditemukan dalam teori Agensi dan Teori biaya transaksi. Teori keagenan mendukung landasan untuk memahami mekanisme kontrol formal melalui hierarki dalam perusahaan. Ekonomi biaya transaksi sering digunakan untuk menjelaskan mekanisme tata kelola untuk kontrol formal dalam hubungan antar perusahaan. Dengan mengatasi masalah tata kelola dalam UKM keluarga, penelitian ini berkontribusi pada pemahaman hubungan antara karakteristik UKM keluarga, kegiatan bisnis ekonomi, faktor lingkungan, dan mekanisme tata kelola.*

Kata Kunci: *Perspektif Teoretis, Usaha Keluarga*

Abstract.
The purpose of this paper is to review governance issue in family firms from several perspectives and discuss about the contribution of transaction cost theory to explain governance mechanism in family firm. In family business literature, the explanation about the governance mechanism movement can be found in Agency theory and Transaction cost Theory. Agency theory supports a foundation for understanding formal control mechanism through hierarchy within firm. Transaction cost economy frequently use to explain governance mechanism for formal control in inter-firm relationship By addressing governance issue in family SMEs, this study contributes to an understanding of connection between characteristic of family SMEs, economic business activities, environmental factors, and governance mechanism.

Keyword: *Theoretical Perspectives, Family Business*

INTRODUCTION

Literature indicates the adoption of numerous theoriesin family firm research (Gersick & Feliu 2014; Goel, Jussila, Ikaheimoenen 2014; Siebels & Aufseb 2011). For instance, Agency Cost theory (Gomez-Meija, Nickel & 2001; Schulze et al. 2001; 2003), Resources based view (Habberson et al. 1999; 2003; Rau 2014; Sirmon & Davis 2003), Social capital (Arregle et al. 2008; Eddleston Pearson, Carr & Shaw 2008), Stewardship theory (Corbetta & Salvato 2004; Miller & Miller 2006; 2011); Transaction cost Theory (Gedjalovic & Carney 2010; Memili, Chrisman, & Chua 2011; Verbeke & Kano 2010; 2012).This adoption cannot be separated from scholars' encouragement to explain why family firms are different from non-family business (Nordqvist et al. 2014; Memili et al. 2011). The effort to distinguish family firms from non-family firms require tools which theories contribute to this explanation.

A numbers reasons can be addressed to the various adoption of theories in family business research. First, is the difference of research focus and concern about aspects in family business behaviour (Chrisman et al. 2010). Scholars who concern to the contribution of family network might use social capital theory or resources based view to explain this issue. In contrast, scholars who interested in ownership and management conflict might apply agency theory than other theories. Second, is the differencepreference about the assumption embedded in a particular theory (Miller & Miller 2006). Scholars who believe family members favour to pursue collective goals than individual goals might apply Stewardship Theory than Agency Theory (Corbetta & Salvato 2004; Miller & Miller 2011).Third, is the limitation of a certain theory to cover issue lead to the adoption of an alternative theory(Verbeke & Kano 2011). For instance, the limitation of Agency Theory to explain governance in inter-firm relationship lead to the adoption of transaction cost theory in this field.

Family business fielduses more establish theoretical perspective in order to enhance the understanding of family enterprises (Jennings, Breitkreuz, James 2014; Moores 2009; Sharma 2004).This field also borrows from others perspective theory to obtain legitimacy (Born 1956; Moores 2009) and to increase sophistication of theory development (Sirmon 2014). Theory is also important to the development of knowledge since they facilitate the connectionamong phenomenonthrough conceptual framework in order toraise the understanding (Sutton & Staw 1995; Sharma 2004).

GOVERNANCE AND PERSPECTIVE AGENCY THEORY

Agency theory provides theoretical lens about how efficient governance in organisation can be achieved under different goal's orientation between owners and agents (Moores 2009). This theory is relevant for explaining corporate governance in family firms since it concerns about the importance of goal achievement and the alignment of interest of critical stakeholder (Goel et al. 2014). Furthermore, this theory provides platform on how core elements of governance such as control, legitimacy, and incentives can be articulated within family firms (Nordqvist, Sharma & Chirico 2014). Agency theory also explains about the importance of structure, system and processes of governance can be established in family firms to obtain a better firm performance or efficient governance (Pieper, Klein & Jaskiewicz 2008 p.373; Seibel & Aufseb 2012).

Through agency theory, family firms contribute two contrasting views (Miller et al. 2013). In one hand, family firms produce efficient governance (Anderson & Reeb 2003; Chrisman, Chua & Litz; Jensen & Meckling 1976; Fama & Jensen 1983). On the other hand family firms generate inefficient governance (e.g. Gomez-Meija & Nickel et al. 2001; Morck, Shleifer & Vishny 1988; Mork & Yeung 200; Schulze et al. 2001).

There are some arguments that support the benefit of family firms. The most argument relies on incentives of ownership structure (Bammens, Voordecker & Van Gils 2011; Chua et al. 2012) Family firm enjoy the less of agency cost due to unification of ownership and control (Jensen & Meckling 1976; Fama & Jensen 1983). Since agency problems occur due to the separation of ownership and control, unification nullify agency problems. Furthermore, the involvement in management reduces misallocation resources and consumption of perquisites (Fama & Jensen 1983). Another benefit is intimate relationship and knowledge acquired from long term investment (Barthelomuezs & Tanewski 2006; Miller et al.2013). Long term relationship among family members gains monitoring benefit. As Fama and Jensen (1983) suggested "family members have many dimensions of exchange with one another over a long horizon and therefore have advantages in monitoring and disciplining related decision agents "(p.36).Anderson and Reeb (2003) support hypothesis about monitoring and incentive structure in family firms. Anderson and Reeb (2003) demonstrated that the concentration of ownership among family members reduce monitoring cost due to familiarity and long term relationship among owners.Next, concentrated ownership which is common for family firms give power and incentives for owners to monitor agents' behaviour (Demsetz & Lehn 1985, Jensen & Meckling 1976; Morck et al. 1988 & Miller, Miller & Lester 2011). When ownership is concentrated, monitoring benefit is commensurate with time and energies owners spend (Demsetz & Lehn 1985). Concentrated ownership also enhance stewardship attitude to the firms (Miller et al.2013). Concentrated ownership grow sense of belonging that reflected on emotional attachment to their employees, customer and other inside and outside stakeholder (Gomez-Meija et al. 2007).

In contrast to the view of low agency problems, family firms suffer from conflict among owners (Schulze et al. 2001; Shukla et al. 2014). There are two kinds of principal-principal agency cost: conflict between majority and minority shareholders (Mork & Yeung 2003; Chrisman et al.2010; Shukla et al.2014) and family members action that can detriment both majority and minority investors (Gomez-Meija & Nickel 2001; Schulze et al.2003). Morck, Shleifer and Vishny (1988) found the tendency family firms to applied managerial entrenchment that harm minority shareholder. Managerial entrenchment refers to "capacity of a controlling shareholder to hold senior executive office for an extended period regardless of his or her performance" (Shukla et al. 2014 p.105). Subsequent scholars, Gomez-Meija & Nickel (2001) also found this tendency (managerial entrenchment) in Spanish family firms. Managerial entrenchment in Spanish family firms is induced by emotional sentiment of relational contract that neglect economic calculation.

Despite agency theory is the most prominent for family business research this theory may less applicable to explain governance mechanism in family SMEs. Agency Theory deals with agency problems which arise due to the separation ownership and control (Jensen & Meckling 1976). This issue is prevalent for large and public firms but not for family SMEs (Chu 2009) since they unify ownership and control (Dyer 2006; Westhead & Howorth 2006). A number investigation about governance issues often emphasize on the role of board director to protect shareholder interest (Pieper 2003). This issue probably is not essential for SMEs due to many SMEs do not recognize this institution (Abor & Adjasi 2007). Agency theory also merely focuses efficiency of governance on the relationship between owners and managements and neglecting other type of relationships (e.g. suppliers, customers) (Verbeke & Kano 2012). This perspective also does not provide framework that explain when they should adopt particular governance mechanism such as market or hierarchy, or formal and relational governance (Memili et al. 2011).

RESOURCES BASED VIEW

The idea of resource based view is developed from Penrose' (1956) who defined a firm as a collection of resource. Penrose (1956) suggested that performance differences among firms are determined by firms' resources possession. Despite Penrose (1956) contribute to the idea firms resources, the term "resources base view" itself is proposed by Wernerfelt (1984). Wernerfelt (1984) use term "resources based view" to describe the importance of firm's resources in product market competition. Wernerfelt (1984) argued that both resources and products market are two sides of same coin. Product market portfolio is the reflection firm's resources portfolio. Popularity of resources based view (RBV) as a distinctive strategic perspective in management is paramount after Barney published his seminal article in 1991.

There are two fundamental assumptions in this theory: heterogeneity and immobility of resources (Barney 1991).Heterogeneity resources suggest that resources distribute differently among firms. Thus, some firms possess superior and unique resources while others are not. When resources are heterogenic, firm can implement a strategy that could not by imitated by its competitors (Barney 1991). In contrast, when resources are homogeny among firms, competitors and potential competitors can pursue a same strategy because they have same resources. While, immobility resources refers to difficulty of resources to moving across firms. When resources are highly mobile, the competitor is more likely to earn resources needed to pursue an identical strategy (Barney 1991).

Family business potentially gains competitive advantage due to the possession of unique bundleresources (Habbershon & William 1999). Unique bundle resources are result from the interaction between family and business (Edleston, Kellermanns & Sarathy 2008; Habbershon & William 1999). In other word, the involvement of family in business can lead to heterogeneity in resources. Habbershon and William (1999) called these bundle resources as "familiness". In another step, Habbershon, William & MacMillan (2003) developed the interaction of family and business into more integrative framework what they called as "unified system perspective". Unified system perspective describes an interaction between subsystem of family firm such as family unit, individual member and business entity. The interaction between sub-system in family business that incorporate resources and capabilities leads to competitive advantage(Habbershon et al. 2003).

From the similar perspective, other scholars (e.g. Sirmon & Hitt 2003; Sirmon, Hitt & Ireland 2007) suggested that intertwine between family and business creates unique capital that distinguish from non-family business. Sirmon and Hitt (2003) specified unique capital of family firms into four types: human capital, social capital, survivability capital and patience capital. In developing human capital, family business often introduce family members business operation and and mentoring them in the very early childhood that result in tacit knowledge and loyalty (Dyer 2006; Sirmon and Hitt 2003). Family firms are often building long-term relationship with their stakeholder such as suppliers, customers and financial institution that result in social capital. Survivability capital enables family firms to access financial resources that provide by other family members "during poor economic times" (Sirmon & Hitt 2003 p.343). Patience capital reflects the dedication of family members to invest their money for long-term period.

Despite resources base view (RBV) support the argument about the competitiveness of family firms, they receive alot of critiques (Rau 2014; Shukla et al. 2014). RBV as theory is more normative rather than prescriptive since it is less explanation how resources to be managed to produce competitive advantage (Sirmon & Hitt 2003; Verbeke & Kano 2012). Verbeke and Kano noted that "RBV misses ex-ante guidance (rather than ex-post rationalization) on how best to govern particular resources and resource bundles, including the specific types of human asset employed by family firm" (1184). Also RBV is lack of empirical evidence (Kraaijenbrink 2010; Butler 2001). Newbert (2007) demonstrated that only 53% of paper they reviewed supports the RBV prediction. Furthermore, RBV has been viewed boasting the advantages of family firms' resources and neglect negative side of interaction between family involvement in business (Rau 2014; Shukla et al.2014). In fact, the involvement family in business sometime erode the competitiveness of family firms (Shukla et al. 2014). Succession conflict, lack of professional human resources, and nepotism in family firm are part of negative side of family that prevent the achievement of sustainable competitive advantage (Rau 2014).

STEWARDSHIP THEORY

Stewardship theory emerges in the field of organisation and management since Davis, Schoorman and Donalson published their article in 1997. They criticized at the assumption of human actors in agency theory that solely driven by self-interest (Eddleston, Kellermanns & Zelwegger 2012). Davis et al. (1997) argue that economic man in agency theory is over simplifies the complexity of human actors and neglect the role social systems to individual behaviour. Furthermore, they ignore positive side of human actor (Davis et al.1997). They defines stewardship theory as" situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals".

In contrast to agency theory which is developed from economic theory, stewardship theory originates from Psychology and Sociology (Seibel &Aufseb 2011). Psychology provides explanation of how managers identify their self in regard with organisational success (Davis et al. 1997). Stewardship theory suggests that organisational success is reflection of individual success (Davis et al 1997). Managers in stewardship theory represent self-actualizing man since they advance organisational goals rather than individual goals (Corbetta & Salvato 2004). Sociological perspective helps our understanding on how social values create individual values. Davis et al. (1997) suggested that cultural orientation such individual-collectivism, and low-high power distance influence stewardship characteristics in organisation.

There are some arguments supports the relevance of stewardship theory in explaining family firms' governance. First, family firms' managers are likely to act as steward since they emotionally involve in family as well as their personal motivation and reputation (Bubolz 2001; Davis et al. 2010; ward 2004). When family firm managers act as stewards, then self-control mechanism which are proposed by agency theory become less important (Davis et al. 1997). Second, family firms have a tendency to long term oriented, maintain talented employees, and have a good relationship with stakeholder (Eddleston et al.2012; Miller, Miller & Scholnick 2008).

All these descriptions are less likely achieved when firms practicing self-interest behaviour (Eddleston et al. 2010). Third, family firms have non-financial goals as complement for financial goals (Corbetta & Salvato 2004). Non-financial goals represent internal motivation and non-calculative behaviour that related with stewardship characteristics (Corbetta & Salvato 2004).

Literature demonstrated divergent views whether family agents behave as stewards or agents (Chrisman et al. 2007; Siebel & Aufseb 2011). Research conducted by Chrisman, Chua, Kellermanns and Chang (2007) indicated that family managers behave as agents than stewards. It referred to the evidence that family manager need incentive compensation and monitoring as like agents. Other scholars Davis et al. (2010) examined stewardship perception of family members and non-family members in family business. They found that family members have higher stewardship perception compare to non-family members. Specifically, family members have higher trust, commitment, and low agency perception than non-family members. Le-Breton-Miller and Miller (2009) suggested that the level of embeddedness of firms' executive with their family is connected with agency orientation. When the level of the firms' embedded is high, agency behaviour become prevalent in family firms.

However, Agency and Stewardship theories have contradictory assumption that result in conflicting result (Verbeke & Kano 2012).Agency theory assumes that human actors will maximize their self-interest that creates misalignment between owners and managers (Davis et al. 1997; Le Bretton & Miller 2009). On the contrary, stewardship theory assumes that human actors will maximize organisation goals than individual goals, thus lead to alignment between owners and managers (Davis et al.1997). Using this theory to predict governance mechanism in family business may be not appropriate since this theory have less pay attention toward opportunism which is critical element for selecting the appropriateness governance mechanism. This theory also does not yet provide framework about when positive and negative human side can contribute to formal and governance mechanism in family firms.

SOCIAL CAPITAL THEORY

Bourdieu (1986) suggested that social capital is valuable since it contribute to protect material and symbolic benefits which are accumulated from group membership. This capital is located within nexus through acquaintance and recognition (Nahapiet & Ghoshal 1998). The value of social capital is determined by the quantity and quality of variations resources which is located in relationship within nexus (Bourdieu 1986). The value social capital will be decrease except the relationship always be maintained overtime (Bourdieu 1986).

Social capital capital become important in family business research since the relationship between family members potentially produces bonding social capital (Gudmunson & Danes 2013). Bonding social capital link individuals with others within a group facilitate the evaluation, procurement and utilization of necessary resources for exploitation of opportunities (Davidsson and Honig 2003). Through bonding social capital, a family enjoys internal cohesiveness, trust and solidarity among family members in shared goals commitment (Gudmunson & Danes 2013). Davidsson and Honig (2003) note that through bonding social capital, parents and friend help nascent entrepreneur in the period business start up. Au and Kwan (2009) found that Chinese entrepreneur relies on family and friends when they need financial resources to support entrepreneurial venture and business growth.

Family firms potentially acquired resources through bridging social capital (Salvato & Melin 2008). Bridging social capital focuses on the benefit of connection between individuals and actors outside his or her groups (Salvato & Melin 2008). Family firms often develop good relationship with stake holder of family firm such as customer, supplier and employees and sometimes enduring across generation of family firms and involve personal attachment (Dyer 2006). These stakeholders give family firms chance to connect with stakeholder' acquaints to help resources acquisition. Furthermore, enduring relationship and commitment with stakeholder possibly give benefit for family firms in "developing and maintaining social capital" (Dyer 2006 p.263).

There some point of view about the connection between social capital and governance in family firms. Social capital control opportunism through shared values, norms, trust and shared vision (Mustakallio et al. 2002; Mosquita & Lazzarani 2008). Socialization common set of value and shared vision will minimize the divergent of interest between individual and organization (Chu 2001). Shared value enables family members "to derive pleasure and meaning from sustaining cross generational relationship and striving mutual goals" (Aronoff & Ward 2001 P.1). Norm is useful since "it transforms individuals from self seeking and egocentric agents with little sense obligation to others into members of a community with shared interest, a common identity, and a commitment to the common good" (Adler and Kwon 2002 p.25). Trust can be used to mitigate opportunism since it reflects the prediction that the partner will fulfill their responsibility and behave in the expected manner (Verbeke & Gredianus 2009; Zaheer, McEvily, & Perrone 1998). Through shared vision, organization members are encouraged to trust each other and prioritize collective goals rather than individual goals (Tsai & Ghoshal 1998).

Social capital literature provide framework to understand governance mechanism in family firms. Research conducted by Mustakallio (2002) and Wallevik (2009) discuss formal and relational governance in family firms. Mustakallio (2002) and Wallevik (2009) used social capital theory as complement for agency theory. Their research in line with scholars in sociology such as Coleman (1998) and Granovetter (1986) that suggested economic perspective need to pay attention to social interaction aspects in transaction. Relational governance has been viewed as an alternative of formal governance mechanism (Poppo & Zenger 2002; Uzzi 1997; Verbeke & Gredianus 2009). It has been argued that social normative elements such as trust, value, vision, and norm create self-enforcing safeguard is effective and efficient to attenuate exchanged hazard (Poppo & Zenger 2002). Trust can be used to mitigate opportunism since it reflects the prediction that the partner will fulfil their responsibility and behave in the expected manner (Verbeke & Gredianus 2009; Zaheer, McEvily, & Perrone 1998).

There are some critiques addresses for social capital in family firms. Over emphasizes on family ties make family members ignore or become less control toward opportunism (Kellermanns, Eddleston & Zelwegger 2012). Family relation often creates a problem in term of control and monitoring process. Family firms' CEO may be less capable or reluctant to evaluate their performance (Schulze et al. 2003). Family relationship often creates bias in a CEO's perception about family agents' behavior through filtering and selecting information process (Schulze et al. 2003). As result, family relationship often decreases the ability of family business' owner-manager (CEO) to control and discipline family agents (Schulze, Lubatkin & Dino 2003). It makes owner-managers tend to compromise the unproductive behavior of family members when their actions have consequences toward the relationship inside and outside of the firm (Schulze et al. 2003). Strong bond leads to organisational norm that deviant from universal norm and result in fraudulent activities (Eddleston & Kidwell 2008).

TRANSACTION COST ECONOMY

Transaction cost theory (TCE)is originally proposed by Ronald Coase who published article "The Nature of the Firm" in 1937.He described markets and hierarchies as a governance choice for managing transaction. Coase (1937) argued that the difference of transaction cost was considered to determine governance mechanism between markets and hierarchies. Market governance relies on price, competition and contracts (Barney & Hesterly 1986). Hierarchy governance relies on managerial authority (Barney & Hesterly 1986; Williamson 1985). Through the idea that sometime cost managing transaction across market is higher than transaction within boundary of the firm, Coase (1937) explains why firm exist. However, Coase did not give clear explanation when a transaction should be takenthrough market and within boundary of the firm (Barney & Hesterly 1986).

Williamson (1975; 1985) develop Coase's idea about governance choice.

He developed Coase's idea by giving explanation about considerable factors that determinegovernance choice between market and Hierarchy. Those factors include asset specificity, uncertainty and frequency of transaction. Williamson (1985) suggested that the appearance of asset specificity and uncertainty elevates opportunism that makes transaction cost through market governance outweigh its benefit. The task of managers is searching governance mechanism that can minimize transaction cost (1991).

There are two assumptions in TCE namely bounded rationality and opportunism (Barney & Hesterly 1996).Bounded rationality reflects to the characteristic of human being that "...intendedly rational, but only limited so" (Simon 1947 p.24).Bounded rationality make impossible to make a complete contract. As a consequence, a firm needs extra effort to acquire and interpret future information around the economic exchange (Lieblien 2003;) and become problematic when uncertainty came (Rindfleisch & Heide 1997). Opportunism is "...self-interest seeking with guile" (Williamson 1985 p.47). Without opportunism, economic exchange will operate as usual, thus transaction cost is minimum. As Barney and Hesterly (1996 p.118) pointed out that"...the threat of opportunism is important because a world without opportunism, all exchange could be done on the basis of promise".

Basic idea of TCE is that if market governance can decrease transaction problems due to opportunism and bounded rationality, then economic actor will prefer to market than hierarchy (Barney & Hesterly 1996; Rindfleisch & Heide 1997). In contrast, when market governance too costly to manage exchange problems, it is appropriate to apply hierarchical governance or internal organisation (Barney & Hesterly 1996; Rindfleisch & Heide 1997). Comparing market governance, hierarchy governance has more powerful control since it has ability to measure and renumerate behaviour and output (Eisenhardt 1985).

There are some critiques addresses to TCE. These critiques include: (1) assumption about opportunism, (2) it ignore role of social control in transaction, (3) overemphasize on cost minimization.

The assumption about opportunisms has been criticized by some scholars. Ghoshal and Moran (1996), pointed out that opportunism in transaction do not represent actual human behaviour. Some people may prefer cooperative rather than opportunistic behaviour in transaction. The assumption about survive or exist due to the capability to attenuate opportunism may become misleading because survive can also be achieved through trust and cooperation behaviour (Ghoshal & Moran 1996; Hill 1990; Zaheer & Venkatraman 1998). Thus exchange relationship based on positive notion such as trust should be taken into account. As Zaheer and Venkatraman (1998 p.375)" thus empirically, the assumption that opportunism characterizes exchange should be considered in favour of one suggestion that trust does".

Transactional Cost Theory has been criticized as neglecting role of social and cultural in transactions. Granovetter (1985) argued that transaction was not merely economic activities but also social activities since transactions are embedded within social relationship. The expectation about transaction is formed through history of transaction. This view also was supported by Uzzi (1999 p.488) "...the more commercial transaction are embedded in social attachments, the more expectations of trust govern exchanges". Transaction with friend or family may not require formal contract since they rely on trust.

TCT is over emphasized cost minimization. Williamson (1991 p.76) suggests that minimization cost is the best strategy by arguing "economizing is more fundamental than strategizing". Many scholars refused this view (e.g. Barney & Hesterly 1996; Madhok 2002). Madhok (2002) argued that this view overlook role of capability and resources to create competitive advantage. Sometime firms consider to buy from market rather than to make, because they do not have capability or competence to make products or too costly if they make product rather than competitor. In short, avoiding opportunism and reducing governance cost is secondary firms' task. Madhok (2002) suggested that market is implicitly representation of firms. Therefore he extent the question of economic activity from" Why is an activity organized within firms and not purchased through market?"

to "Why is an activity organized within a particular firm (or firms) and not any other?". Other scholars,Barney and Hesterly (1996) argue that transaction cost is only material when asset specificity exist. As Barney and Hesterly (1996 p.123) argue that "minimizing transaction cost is (of) relatively little benefit if a firm has no transaction specific asset (including knowledge) that are highly valued by the market".

CONCLUSION

Agency theory is relevant for explaining corporate governance in family firms since it concerns about the importance of goal achievement and the alignment of interest of critical stakeholder (Goel et al. 2014). Another theory, Resource base view (RBV) posits the central issue on how superior performance of the firm can be achieved through unique resources (Barney 1991). The interaction between firms' resources and business factors provide potential benefit that bring family firm to achieve a high level of performance (Mazzi 2011). Stewardship theory views that family members are good steward that contribute to family firms' performance. In contrast to agency theory that assumes individual will maximize their utility functions Stewardship Theory presumes that individual will maximize collective interest than individual interest (Davis et al. 1997). Family firms potentially acquired resources through bridging social capital (Salvato & Melin 2008). Social capital focus on resources embedded in the relationship among actors in family business. The relationship between family members potentially produces bonding social capital (Gudmunson & Danes 2013). Bonding social capital link individuals with others within a group facilitate the evaluation, procurement and utilization of necessary resources for exploitation of opportunities (Davidsson and Honig 2003).The central discussion of transaction cost theory (TCT) is whether transaction is a more efficient when conducted inside (hierarchy) or outside boundaries (market governance) of the firm (Geyskens et al. 2006; Williamson 1985). The a priori assumption in TCE is market governance is more efficient rather than hierarchy governance (vertical integration) due to the advantages of a competition (Geyskens, Steenkamp, & Kumar 2006).Transaction cost economy (TCE) perspective is applicable to be used in for several reasons. First, transaction cost economy perspective concerns about how economic institution includes family firms searching efficient governance mechanism (Memili, Chrisman & Chua 2011b).Second, TCE provide theoretical foundation to exercise formal and relational governance in business relationship (Poppo & Zenger 2002; Ferguson, Paulin & Bergeron 2005; Vandaele 2007). Third, TCE provide framework for assessing the influence firm's assets and environment on governance mechanism (Gedjalovic & Carney 2010; Shukla, Carney & Gedjalovic 2014; Verbeke & Kano 2010).

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