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Good Corporate Governance: A Case Study of Family Business in Indonesia

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Abstract

Good Corporate Governance (GCG) has been implemented by companies, especially companies that have gone public. However, many local companies still have not applied the principles of GCG. This study examines the implementation of the CG concept which is not fully implemented in family businesses in Indonesia. Besides, this research also aims to find out the role of the Internal Audit function in enhancing GCG practices. This research is a qualitative study that uses in-depth interviews, observation, and data triangulation, to gather evidence from exploratory case studies conducted in three family business firms. The results of this study found that CG is essential for the successful run of family businesses. After analyzing the data, we developed a new theory called Islamic Integrity Governance. The Internal Auditor plays a key role in improving GCG and a vibrant and agile internal audit function can be an indispensable resource supporting sound corporate governance. The internal auditor provides objective assurance and insight on the effectiveness and efficiency of risk management, internal control, and governance processes. Therefore, the Internal Auditor is an important pillar for effective and efficient GCG implementation. This theory concludes several concepts such as THTCL (Trustworthy, Honest, Transparent, Creative, Loyal). Internal auditors are needed because the concept of control is useful for improving GCG in business.

Keywords: Corporate Governance, Family Business, TARIF, Islamic Integrity Governance

JEL Classification Code: G34, L25, G38, G39

1. Introduction

Every good company that has gone public and those who have not gone public are familiar with the term good corporate governance (GCG) which includes several aspects so that a company can be categorized as a company with good governance. Good corporate governance means that

the processes of disclosure and transparency are followed so as to provide regulators and shareholders as well as the general public with precise and accurate information about the financial, operational, and other aspects of the company. In practice, several companies that have gone public or listed on the Indonesia Stock Exchange (IDX) have followed the rules regarding GCG with Sarbanes-Oxley as a reference. Companies that implement GCG can be seen from the principles they apply, namely the principles of transparency, accountability, responsibility, independence, and fairness. Corporate Governance is a detailed disclosure of information and an account of an organization's financial situation, performance, ownership and governance, relationship with shareholders, and commitment to business ethics and values. Chang et al. (2015) showed that the existence and implementation of good corporate governance keep companies away from the risk of financial crises and increase the company's credibility.

In Indonesia, not all companies are publicly listed companies on the IDX, there are a lot of companies that are family companies that in their company operations do not implement appropriate and effective corporate governance

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practices. The need for GCG is also felt by family businesses (Gnan et al., 2016). They started as small-scale companies and developed into conglomerates with various lines of businesses. They are defined as companies in which family members, either founders or descendants, continue to hold positions in top management and/or on the board, or they are the largest shareholders (Bardhan et al., 2015). Bardhan et al. (2015) also stated, that more than 80% of business companies in North America and Western Europe are family companies. One of the most significant problems identified with family businesses is the continuity of the business (Merchant et al., 2017) so that CG is deemed necessary to be implemented by companies.

Corporate governance is a means to make the company better (Sumani & Roziq, 2020). Mazagatos et al. (2016) revealed that there is a potential for agency conflict between family managers and family owners which will affect the performance of the family company as a whole. Mazagatos et al. (2016) analyzed the effects of agency conflict between active family owners (who participate in firm management) and passive family owners (who do not do so) on the performance in unlisted Spanish family firms wholly owned by family members. Their findings showed that family managers' ownership and family governance mechanisms have a positive influence on the performance of second-generation and later-generation firms. Endleston and Kellermanns (2007) suggested that agency conflicts may arise due to the possibility that family managers employ incompetent relatives for key positions, pay them higher salaries than competitive rates, or provide them with rewards that are irrelevant to their performance. In turn, this behavior can interfere with company performance.

Contrary to the opinion of Mazagatos et al. (2016), Gnan et al. (2015) revealed that the governance system in family firms will be able to significantly reduce the potential for agency conflicts. They explored the role of family councils vis-à-vis corporate governance mechanisms. Particularly, the paper explored whether family councils perform only their distinctive family governance role or if they also substitute for the roles performed by corporate governance control mechanisms. Their findings showed that the family council partially substitutes the shareholders' meeting and the board of directors in playing their respective corporate governance roles of ownership and monitoring. Ahmed et al. (2016) explored the corporate governance (CG) practices in family firms of Bangladesh and Sri Lanka. Their findings showed that the level of board independence in Bangladeshi and Sri Lankan family firms was very weak though Sri Lankan firms have relatively better board independence compared to Bangladeshi firms. Another finding of the study is that most of the family firms of both countries have chief executive officers (CEO) from the controlling family. The finding of a high level of family ownership

also indicates the tendency of keeping management control by the family members. The alignment theory argues that insider ownership of key executives such as directors or officers positively influences the performance of firms, increasing the value of a firm. As the level of internal ownership increases, so does the value of the company. As the corollary, the top management of high-performing firms has a high level of ownership or involvement in the decision-making process (Tahir et al., 2020).

The realization of good corporate governance must be supported by the role of internal auditors to oversee every company activity. Mihret and Grant (2018) explained that internal auditors have a supervisory role in the governance mechanism. Their research provided a conceptual tool in explaining the relationship between internal audit and corporate governance in more contemporary organizations.

The problem in Indonesia is that there are still many family businesses that do not apply the principles of good governance. Although in practice this is not applied, family companies in Indonesia can develop and be sustainable in their operations. Mazagatos et al. (2016) stated that unfulfilled CG expectations can lead to agency conflicts and will indirectly lead to family companies threatened with bankruptcy. Can this statement be supported by the reality in Indonesia? What is the sustainability of family companies in Indonesia that do not apply the principles of GCG so that the company can sustain for a long time?

This research results in an understanding that the concept of GCG (TARIF) cannot be widely applied to family companies because in Indonesia they are more familiar with different concepts even though they have the same goals. This concept comes from Islamic integrity which is formulated to include several things related to trustworthiness, honesty, transparency, creativity, and loyalty.

2. Literature Review

2.1. Corporate Governance

In the early 1990s in the United States, initiatives to realize and develop the concept of corporate governance began to emerge, marked by the publication of the principles of good corporate governance by the Organization for Economic Cooperation and Development (OECD) and dissemination through collaboration with the World Bank. These principles are Fairness, Transparency, Accountability, and Responsibility (OECD, 2015). These four principles form the basis for experts to establish more detailed rules and directions in the form of detailed GCG implementation guidelines or implementation rules in various institutions and agencies.

The principle of justice states that a firm should create value for all stakeholders, not just shareholders. By using the concept of a corporation, shareholders or owners can

be separated from the managers who act as managers of the company (in Agency Theory, the first party is called the Principal, and the second is called the Agent). Management runs the company to improve the welfare of company owners. Simply put, this principle prevents various stakeholders from being misled or making wrong conclusions or decisions for the company.

An organization that follows the principles of accountability – transparency, participation, evaluation, and feedback – will, according to the developing best practices, be more likely to be successful. The OECD states that this principle is related to the availability of a system that controls the relationships between components in a company. Furthermore, this principle can be applied by encouraging all components of the company to realize their responsibilities, powers, rights, and obligations. Corporate governance should ensure the protection of shareholders, especially minority and foreign shareholders, and provide clear authoritative boundaries on the board of directors. This is intended to achieve the goal of good corporate governance, namely to accommodate the interests of various parties related to the company such as the community, government, business associations, etc.

The principle of responsibility is also related to the company's obligation to comply with all applicable laws and regulations, including the principles governing the preparation and submission of corporate financial statements. All applicable laws and regulations are followed by clear and strict sanctions. Besides, it is important to remember that the purpose of these provisions is to protect the interests of certain parties, particularly the interests of the public. Therefore, compliance with applicable regulations can protect the company from legal sanctions as stipulated in the relevant provisions, and moral sanctions from the community.

Overall, there are various parties involved in implementing good corporate governance; they are shareholders, investors, employees and managers, suppliers and their business partners, local communities, governments, business institutions, the media, academia, and competitors. These parties play a certain role in the implementation of corporate governance. In this case, the company must be able to accommodate the interests of stakeholders. With a two-tier system, the role of shareholders in Indonesia is played by the board of commissioners, which carries out the controlling function.

Independence can be interpreted as the self-actualization of organizations and companies, which means that they can stand alone and have a competitive edge in their business environment. This principle has two indicators; the first is that each component of the company must carry out its functions and duties in accordance with the company's articles of association and the prevailing laws and regulations, and the second is that each component of the company must avoid

domination by any party, not influenced by certain parties' interests, and are free from conflicts of interest and any influence or pressure.

Based on the explanation of the five concepts above, it can be concluded that the implementation of Good Corporate Governance (GCG) is very important as GCG fosters a culture of integrity and leads to a positive performing and sustainable business. Good governance signals to the market that an organization is well managed and that the interests of management are aligned with other stakeholders. In implementing GCG, the Company refers to the five main principles of GCG, namely transparency, accountability, responsibility, independence, and fairness. The corporate governance guidelines are expected to be a value driver in encouraging sound business practices, increased productivity, encouraging efficiency, improving production systems, and driving innovation and breakthroughs so that all decision-making processes in the company can run effectively and can create shareholder value continuously. Besides, the purpose and objectives of these corporate governance guidelines are to improve the company's commitment to the implementation of good corporate governance in all of its business activities; achieve optimal company performance, and create long-term shareholder value through effective and efficient work methods towards a sustainable growth; and improve the trust of investors, shareholders, and all stakeholders.

2.2. Family Business and CG Applications

Colli et al. (2014) defined a family-owned business as any business in which two or more family members are involved and the majority of ownership or control lies within a family. Family-owned businesses may be the oldest form of business organization. The percentage of ownership, the strategic control, the involvement of multiple generations, and the intention for the business to remain in the family are among the many criteria that experts use to distinguish family businesses from other types of businesses. Bardhan et al. (2015) suggested that a family business is a company in which a family, both its founder and descendants, continuously occupy top positions in management or the board of directors or own the largest company shares.

The application of CG to the family business is a growing debate. According to Shea (2010), family firms have been widely criticized by management researchers as the worst organizational form because of ownership concentration and unification of ownership and management. Colli et al. (2014) suggested that the prevalence of founding families in listed family firms is prone to wield substantial control by extracting 'private benefits of control' through extraordinary dividend payouts, risk avoidance, excessive compensation schemes, and related-party transactions.

Governance is a major area of study that has attracted an increasing level of attention within the privately held small business and family firm domains. Gibson et al. (2013) used research frameworks from several financial and management disciplines to enable the identification and analysis of difficulties arising from making simplistic assertions based on large firm considerations about the benefits and prescriptions for good governance activities in family firms. These difficulties exist primarily because governance in most family firms is driven by a different set of structures and processes from those that apply to large firms. While the theoretical perspectives of the large firm governance literature may hold in family firms, the prescriptions need to be viewed with a different outcome in mind.

Abor and Biepe (2007) assessed how the adoption of corporate governance structures affects the performance of SMEs. The results showed that board size, board composition, management skill level, CEO duality, inside ownership, family business, and foreign ownership have significantly positive impacts on profitability. Corporate governance can greatly assist the SME sector by infusing better management practices, stronger internal auditing, greater opportunities for growth, and a new strategic outlook through non-executive directors. Corporate governance structures influence the performance of SMEs.

Bartholomeusz and Tanewski (2006) contributed to the agency theory literature by identifying relations between family control and corporate governance structure. They found evidence that suggested that family firms utilize substantially different corporate governance structures from non-family firms and that these differences lead to performance differentials. Results suggested that family control creates, rather than negates, agency costs.

Martin (2001) stated that there is a relationship between family governance and parenting. He said that good parenting in wealthy/business families forms a framework in which good governance models can work. He wrote that achieving good family governance requires commitment, patience, and a lot of hard work from the family.

2.3. Internal Auditor in Corporate Governance

Internal auditors within the company certainly have a very important role in Corporate Governance because the role of internal auditors will minimize irregularities in the company that may occur. The implementation of CG itself can be seen from the existence of a good internal control function through the role of the internal auditor.

2.4. Internal Control in Family Business

There are two crucial issues debated in the case of family businesses: the honor of family ownership and the

quality of internal control. Bardhan et al. (2015) stated that the founding family is a long-term, undiversified investor. The family's wealth and reputation are closely related to the success of the family business and their long-term existence.

Mihret and Grant (2018) explained that internal auditors have a supervisory role in the governance mechanism. Their research provides conceptual tools in explaining the relationship between internal audit and corporate governance in more contemporary organizations. Drogalas et al. (2016) stated that internal audit has been acknowledged as the main driver of corporate disclosure which aims to increase the quality of financial information, ensure transparency in financial reporting, and increase the confidence between managers and shareholders. The need for developing strong governance structures has led many researchers to examine the new framework of corporate governance and to explore its relationship to the internal audit process

Florea and Florea (2013) stated that boards of directors from all kinds of companies are charged with responsibility for the effectiveness of their organizations' internal control systems, to promote effective corporate governance. Corporate governance is the system by which business corporations are directed and controlled. Internal auditors also help directors achieve managerial goals and become an integral part of the company's GCG framework.

3. Research Methods

The raw data for this qualitative study was obtained from in-depth interviews and surveys conducted on three family companies in Indonesia whose majority ownership was in their immediate family members. The data collected in this study consisted of primary and secondary data. Primary data was obtained through direct observation and in-depth interviews with informants and related parties. The interview is not structured, the questions are spontaneous, but all processes are still within the relevant limits (Narse & Irwanto, 2014). The researcher rewrote the results of the interview in a diary and manuscript. The data in the manuscript was then confirmed to the informants. This procedure is taken to ensure that there are no mistakes and misunderstandings. Secondary data is collected through documents relating to the activities of informants which is used to support the implementation of corporate governance in the company.

The selected informants are those who directly assist in organizing and supervising company operations, and include financial consultants and company auditors, as well as company owners. The author conducted interviews with three representatives and leaders of three family companies. Interviews were conducted informally and casually at unscheduled times, namely during lunch or small talk outside the workplace (for example in a restaurant or cafe) so that the

information obtained was more valid and informants were not under excessive pressure. The author notes the things that need to be written. The conversation begins with small talk so that the informant feels comfortable during the interview. The author explores the knowledge of informants about the basic concepts and definitions of corporate governance and TARIF and the role of internal auditors in improving company performance.

Apart from in-depth interviews, the writer also made direct and indirect observations. The author observes the application of the CG concept in companies and operational actors (the relationship between staff and employees and between managers and company owners). The author indirectly observes financial and managerial data, such as organizational structure, job descriptions, financial reporting processes, company regulations regarding internal control, and the discussion process in the company.

Referring to the description above, the technical analysis process was carried out during and after data collection, which was carried out through observation, documentation, and interviews. In qualitative research, it is possible to carry out these activities simultaneously, so that the analysis process does not have to be carried out after the data collection process is complete. The data collected through interviews and observations are recorded as carefully as possible so that they can be converted into field notes.

4. Results and Discussion

4.1. Research Object Identity

In this study, the researcher chose 3 family companies as the population, namely companies owned by Mr. BI, Mr. SH,

and Mr. AJA. The selection of the three family companies is based on the access that researchers have to the company. Furthermore, for the research sample, the authors chose 7 subsidiaries from 3 holding companies owned by Mr. BI, Mr. SH, and Mr. AJA. The sample selection was carried out purposively in accordance with the research needs to determine the application of the CG concept in the company.

From these three companies, the researcher will briefly describe the ownership of family companies starting from BI-owned companies which have several types of businesses with several types of business entities. The company's main businesses are housing construction, distribution of Semen Indonesia, gas stations, transportation, and sand mining. In 2016, the rights to the company were transferred to the wife and children with varying proportions of ownership. In this study, researchers chose to observe cement distribution companies because they have the most complex internal problems compared to other companies.

SH family company is the best hospital in Malang, Indonesia. Another business SH owns is a cigarette company. In 2014, ownership of SH was transferred to his wife. Researchers chose to observe this company because the company has grown rapidly after ownership changes, which is marked by an increase in its fixed assets. However, this increase was not followed by rapid system improvements, which according to researchers could cause problems with CG applications.

PT PG, under AJA's ownership, is engaged in fertilizer manufacturing. The economic crisis in 1998 resulted in PT PG failing to pay its debts. The debt restructuring in 2001 forced the company to hand over its management to a state-owned bank. Another type of company owned by PT PG under AJA's ownership is PT PSKI which is engaged in

Table 1: Interviewed Informants from the Seven Companies

No	First name	Position	Company	Company Background	Length of Work
1	Mr. RRI	CEO	PT. BLPi, PT. BLPa, CV. BG, CV. JP	Contractors, gas stations, cement, sand	18 years
2	Mr. RBU	CEO	PT. BLPi, PT. BLPa, CV. BG, CV. JP, PT. CMU	Contractor, Gas Station, Cement, Sand, Umrah Travel	18 years
3	Mrs. CTM	Finance Manager	CV. BG	Cement Distributor	20 years
4	Mr. SHB	Operational Manager	CV. JP	Scrape the sand	30 years
5	Mr. AML	Finance Manager	PT. BLPa	gas station	20 years
6	Mr. HRM	Legal Manager	PT. BLPi	Home Contractor	35 years old
7	Mr. HRI	COO	PT. CMU	Umrah and Hajj trips	20 years
8	Mr. DA	Co CFO	PT. PG	Fertilizer	20 years
9	Mr. AM	CFO	PT. PG	Fertilizer	20 years
10	Mr. HR	CFO	PT. TB	Hospital	3 years

Table 2: Data on Increase in Turnover for 2011–2018

Year	CV. BG		CV. JP		PT. BLP			
	Total Assets	Turnover	Year	Total Assets	Turnover	Year	Total Assets	Turnover
2011	–	154,613,366,202	2011	14,110,475,482	10,054,426,365	2011	15,257,068,873	89,466,913,529
2012	97,625,022,480	–	2012	15,753,290,272	11,325,376,600	2012	25,167,900,385	94,350,272,429
2013	108,759,931,634	234,708,171,164	2013	21,414,347,226	14,971,460,221	2013	27,586,807,262	162,504,599,405
2014	208,498,616,594	231,945,510,439	2014	17,383,790,912	13,508,343,460	2014	29,406,437,794	207,010,070,643
2015	172,658,456,976	298,068,057,791	2015	24,068,256,708	19,067,645,280	2015	29,806,888,359	229,745,683,040
2016	235,298,177,969	321,774,108,890	2016	25,943,971,558	12,685,149,936	2016	35,449,580,658	179,154,832,390
2017	250,461,148,959	320,357,088,544	2017	24,752,179,462	14,851,257,754	2017	36,363,416,770	199,461,708,355
2018	265,148,217,064	352,214,033,869	2018	23,764,758,545	15,147,581,590	2018	35,200,851,251	216,085,519,407

packaging; PT SGP, which is engaged in transportation, and PT GGS, which is engaged in mango plantations. In 2007, PT PSKI was closed due to financial difficulties. Amazingly, PT. PG was able to survive and successfully paid off all of its debts in 2013. The majority ownership of the company is now owned by AJA and AM's subsidiaries. The researcher again chose this family company because of the problems in implementing CG in the company.

From the informants above, the researcher will try to dig deeper into how the CG concept can be implemented in the family company, considering that they do not only have one company but many other companies with different fields. Problems in the implementation of CG are the reason researchers conducted this research.

The turnover increase table above supports data that strengthens the conclusion about the existence of a new concept in the application of CG in family companies. This can be seen even though in writing the company does not apply the CG concept but the turnover generated by the company continues to increase.

4.2. Good Corporate Governance in Family Companies

Corporate governance is the structure of rules, practices, and processes used to direct and manage a company. A company's board of directors is the primary force influencing corporate governance. Corporate governance in the business context refers to the systems of rules, practices, and processes by which companies are governed. In this way, the corporate governance model followed by a specific company is the distribution of rights and responsibilities by all participants in the organization. More than just implementing corporate governance, companies must carry out Good Corporate Governance. Based on the results of interviews and in-depth observations, it can be concluded that the concept of CG is needed by all companies, both companies listed on the stock exchange and those with public accountability and those that are not listed and have no public accountability (family business). However, public governance and accountability are two concepts that are relevant and interrelated in public services (Bracci, 2014).

In this study, the owner's knowledge of the need to implement CG in the company was tested by researchers. Based on the results of in-depth interviews and observations on the ownership structure and corporate governance, the three family companies have realized the importance and need of implementing good corporate governance. The results of the observation show that all companies have an organizational structure and job description for each manager. The AJA and SH family companies even have written standard operating procedures (SOPs) for all sample companies. The BI family company has not written SOPs;

however, it can still run well. The downside is that they never update their SOPs. When the researcher discusses more the characteristics of corporate governance that are reflected in the standard CG pattern, namely TARIF (Transparency, Accountability, Responsibility, Independence, and Fairness), along with the details of the characteristics of each principle, the owner is surprised and confused by the redundancy of the definition. The RBU from BI commented:

"I've heard about the concept because our company also strives to implement good corporate governance, but there may be basic thinking (about the concept) and (in) different language (how I describe it)" "So, this is what I mean. I am a Moslem. My father (BI, father of RBU) founded this company based on Islamic principles, so most of the values we use are most likely derived from religious values, which we refer to as the characteristics of the Prophet Muhammad SAW in running his business; They are Amanah (accountability), Siddiq (honest), Fathanah (creative), and Tabligh (transparent). This does not mean that we do not accept your opinion (the researcher), but its characteristics may be similar to the concept of CG, or I can say that the concept of CG is more contemporary [laughs]."

After asking RBU, one of the company owners, about the concept of CG, the researcher interviewed his subordinates, namely CTM and SHB. SHB is older than RBU, but CTM is younger. Age was considered in this study because younger people were thought to have a better knowledge of current terms. When researchers asked them about the concept of CG and its characteristics (TARIF), their responses were the same as those of the RBU. CTM responded weakly (because he was sick during the interview) as follows:

"I've never heard of the TARIF concept, but I've heard of CG or corporate governance, but I think that concept only applies in government circles, right? I didn't bother thinking about the concept too much, I just tried to finish my assignment as best I could, I even thought that I wasn't doing well because I was stressed out with my work being too burdensome. I just try to be honest and creative and can be trusted in playing my part in this company..."

A similar response was given by SHB, namely as follows:

"... I don't know about that concept. For me to work is to carry out the mandate (task) given to me. As the operational leader here, I have to do my best to fulfill my leader's wishes and accommodate the interests of employees... to prevent turmoil..."

When the researcher explained and asked HR about the concept of CG, he answered as follows:

"... I am familiar with the concept because before I moved to this hospital, my previous company had implemented the concept. That's a good concept Sir... and indeed the concept is needed to improve company performance, but it's not the only concept we need; systems and human resources, as well as infrastructure improvements, must (provide) support, Sir. This hospital doesn't seem to be able to implement it comprehensively ... it has to start from the owner sir ... The owner doesn't want to do it ... that's all (there's nothing we can do) [laughs] it's still too far (for us) to apply (the concept) here ... The infrastructure is not yet ready, but several concepts have been implemented, such as transparency, accountability, starting with preparing good financial reporting and accountability. But the others haven't started yet ..."

When researchers asked DA and AM about this concept, they had a similar response to HR as follows:

"... Everything here still depends on the owner, sir. If the owner wants to change, CG can be applied properly... here the application is not complete. On the one hand, for managerial duties, we have to be transparent and accountable, which is normal, because we are employed by them, but for responsibility, independence and fairness, there is still a long way to go ... or even impossible ... you know, this company is a business. family... we are fortunate to have AM, who is considered a senior among us, so they still listen to him if he talks about financial matters, but for other matters... don't even bother to listen... Am I right, Mr. AM?"

AM added the AD response as follows:

"That's right, sir... what DA said. We are all here and stay (to do our job), because (we) are assigned to improve and manage the (business) finances of the company, we try to always be trustworthy (trustworthy) in carrying out the duties that we assign, and (we) try to remain on the right track (and) comply with the rules that apply But sometimes if we (have to) pay unspecified costs to the owner (company) ... sometimes we feel a dilemma ... if we refuse to give (money), (it is impossible because) this company is his, if we give (money), (we are afraid) that the company's operations will be hampered So now Pak DA and I try to prioritize the company's operational affairs. So, it becomes a contest of rigidity between us ... we'd rather fight it than sacrifice the company's operations."

Based on the results of the interview above, it is clear that GCG is needed to maintain and improve the performance of a company, but the implementation and practice of GCG do require commitment and willingness of company owners because of the proportion of ownership and interests.

The number of owners in the family company is very large, not to mention the gap in interests between one owner and another. Besides, a strong and capable infrastructure is another important thing that companies must have for implementing CG. This is in line with the research of Gibson et al. (2013) who stated that there are cost consequences in implementing CG. TARIF misinterpretation can also occur in family companies due to delays in updating knowledge and delays in providing additional education for employees. However, the owner is not the only one to blame. Because one of the characteristics of a family company is that it does not have to carry out public accountability, and it is not obliged to apply CG and TARIF as a whole. Huerta et al. (2017) investigated the introduction of accounting practices into small family businesses, based on socioemotional wealth theory. It was found that, although owners control the implementation of accounting practices, others (including family employees, non-family employees, and external experts) at times propose practices. The owner's control can be relaxed, or even eliminated, as the result of proposals from some family employees. However, the degree of influence of family employees is not linked to the closeness of the family relationship, but rather to the owners' perceived competence of the family employee, indicating an interaction between competence and experience on one side, and family ties on the other.

When viewed from the perspective of eastern culture, in this case in Indonesia, where the majority of people are Muslim, the CG principle has been applied indirectly through the religious teachings exemplified by the Prophet Muhammad SAW, but it is not in accordance with the principles of CG in general. Hence, when viewed from the perspective of applying CG principles in accordance with applicable international standards, this does not apply to family companies in Indonesia, especially where researchers conducted research.

The researcher realized a limitation, namely that the three sample family companies were companies whose owners were Muslim. Therefore, before the concept of TARIF and CG was applied in this research, the researcher had applied the concept of GCG in the form of the example given by the Prophet Muhammad SAW. It should be noted that the Prophet Muhammad SAW was a trader and a businessman and his principles of doing business were imitated by his people. These characteristics of the Prophet turned out to be used as a business concept that resembles GCG, where Amanah means Trusted, Siddiq means Honest, Tabligh means Transparent, and Fathonah means Creative, and at least the concept is applied by family companies and their employees. Based on these different values, the comparison between the CG concept and the business concept of the Prophet Muhammad SAW is as follows:

According to the comparison in Table 3 above, the two concepts are similar. Transparency is similar to *Tabligh*,

Table 3: Comparison of Standard CG Concept with Family Business CG Concept

No	CG Concept According to KNKG (Public Business Company)	The Concept of CG According to the Prophet Muhammad SAW (Islamic Family Business)
1	Transparency	Tabligh = Transparent
2	Accountability	Amanah = Can be trusted
3	Responsible	Siddiq = Honest
4	Independence	Fathonah = Creative
5	Justice	Loyal

accountability is similar to *Amanah*, responsibility is similar to *Siddiq*, and justice is similar to loyalty. Only independence cannot be compared to *Fathonah*.

Loyalty is not included in the characteristics of the Prophet, but the researcher adds that the concept is based on the results of observations which show that there are still many employees of family companies, especially BI family companies, who have been working in the company since they were young and would want to continue working till they retire or die. Researchers gathered more information to find out why they were willing to work for the company for such a long time. One of the SHB informants explained that:

"... our needs are provided by the company; from salaries, housing, bonuses, to Umrah and Hajj. The company treats us as partners, not as workers ..."

The informant's last comment shows that in this family company, they are treated as human beings who have needs, needs that are met by the company so that they feel that their purpose in life has been completed as such they do not need to look for other ways to achieve it. Employees and companies have the same understanding and beliefs.

Biondi and Lapsley (2014) observed that there are several interpretations of what is meant by transparency and what it wants to achieve, including issues of legitimacy and trust. Steier (2001) said that trust plays an important role in the governance of most organizations, and for family firms, trust is an important source of strategic and competitive advantage. Sundaramurty (2008) stated that trust, a competitive advantage for family businesses in the early stages, often deteriorates as the firm grows, putting it under considerable risk. In this paper, a model of sustaining trust is presented based on an integration of this trust literature with the family business literature. The basic premise of the model is that trust is dynamic and multiple dimensions of trust need to be developed through structures and processes to sustain interpersonal trust inherent in the early stages.

1 In the early stages of firm development, the trust indigenous in most family relationships allows firms to reduce transaction costs substantially. As family firms evolve, so does the optimal role of trust as a governance mechanism. Ironically, in some cases, what was once a very resilient trust is replaced by an atmosphere of fragile trust or even distrust, and an important source of strategic advantage is lost. As family firms naturally evolve, a major transitional task for them is optimizing the changing role of trust in firm governance.

From the results of this research, there is a positive correlation between the application of the concept of Islamic Integrity Governance and the increase in turnover of the three companies for eight consecutive years. Then from the results of interviews with informants and researchers conclude that in family companies, honesty is the priority for running company operations, so there is no need for complicated SOPs. Honesty is the bedrock of trust and trustworthiness. The moral command to be honest requires us to speak and act only in ways that engender and justify trust. Honesty is a key characteristic of a business because it sets the tone for the kind of work culture that you want to create, provides consistency in workplace behavior, and builds loyalty and trust in customers and prospects.

Furthermore, by comparing the CG concept in the table above, the author formulates a new concept that represents the two CG concepts. New concepts when visualized are as follows.

Based on the picture above, it can be seen on the left is the CG concept which has 5 principles, namely Transparency, Accountability, Responsibility, Independence, Fairness, while on the right is the CG concept according to Islamic teachings shown by the nature of the Prophet Muhammad, namely Amanah, Siddiq, Tabligh, and Fathanah. Then what

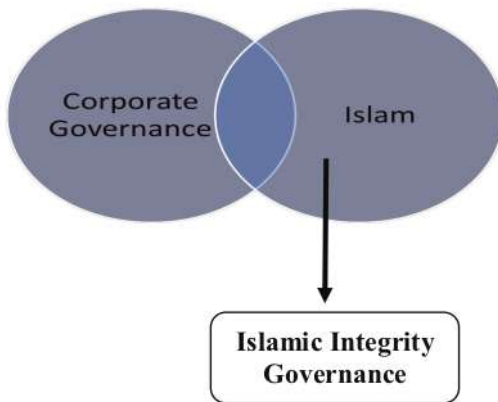


Figure 1: The Concept of Islamic Integrity

is sliced between the two concepts is the condition of the company that directly applies only 2 principles, the CG concept, namely transparency and responsibility, while indirectly applying the CG concept in accordance with the nature of the Prophet Muhammad SAW.

4.3. Internal Auditors and Family Companies

11 Internal auditors' role is to provide independent assurance that an organization's risk management, governance, and internal control processes are operating effectively." An internal audit is conducted objectively and designed to improve and mature an organization's business practices. This makes the need for the internal audit function to develop a strong governance system urgent.

The results of observations show that the position of Internal Auditor/IA (Internal Control Unit / SPI) is already listed in the organizational structure of the family business owned by SH and AJA, but not in the organizational structure of the BI family of companies. The need for internal auditors in each company is highly dependent on the owner's decision. Therefore, once again, because family companies have no obligation to carry out public accountability, there is no obligation for companies to standardize their organizational forms. Researchers also asked about the absence of the Internal Auditor in the company's organizational structure to RR, the owner of the BI family company. The response is as follows:

"... I don't think it's necessary because my brother and I can still monitor the company's performance. Besides, we trust everyone we assign managerial functions of company operations, so an internal control unit is unnecessary... However, as our business grows, we may consider (to add) such functions to our structure. ..."

Nothing can force the owner of the company to create new managerial functions in the organizational structure of the family company if he does not wish to do so. However, the evolving and growing business cycle will make companies consider hiring internal auditors. Researchers asked the same question to DA and AM. The explanation of DA is as follows:

"... The problem is sir, (has) the company been making strict savings since the last few years. We have to make some employees take early retirement, including the previous internal auditors, he chose to retire early. His position is still vacant. So, Mr. AM and I have other duties as internal auditors, but you know, these additional duties are certainly not carried out well, because we are already overwhelmed by our duties in the finance department."

AM is added as follows:

“... That's right, sir. The internal auditor's job is very tough, but very much needed. Even so, we couldn't do anything about it, the owner still didn't trust anyone, so Pak DA and I support him. We're tired actually, not to mention the rewards for our extra work aren't satisfying...”

Drogalas et al. (2016) examined internal audit in terms of audit quality and the consulting role of internal audit, to highlight the new management-oriented and value-adding scope of internal audit. The results showed that corporate governance is positively associated with the consulting role of internal audit, internal audit quality, and the audit committee.

Bou-Raad (2000) stated that the role of internal auditors is changing from a traditional audit approach to a more proactive value-added approach where internal auditors are taking up partnerships with management. The debate of internal auditors needing to expand their repertoire has been around for many decades, though now, the evidence of more internal auditors changing their practices has begun to emerge and examples are visible. Internal auditors are seen to be accepting change to keep up with the demands of the market place and are doing so to provide a service of value to the organization that employs them.

Cohen et al. (2002) stated that there has been growing recognition in recent years of the importance of corporate governance in ensuring sound financial reporting and deterring fraud. The audit serves as a monitoring device and is thus part of the corporate governance mosaic. They examined the impact of various corporate governance factors, such as the board of directors and the audit committee, on the audit process. Importantly, there is little professional guidance on how auditors should consider such factors when formulating an appropriate audit strategy, and there has been only one prior study on this issue. Reflecting on client experiences, auditors indicate a range of views with regard to the elements included in the rubric of corporate governance. Most significantly, auditors view management as the primary driver of corporate governance. The inclusion of top management in the corporate governance mosaic is inconsistent with agency theory's prescription of the board and other mechanisms serving as a means to independently oversee management's actions to protect stakeholders. Auditors consider corporate governance factors to be especially important in the client acceptance phase and an international context.

Hence, the realization of good corporate governance must be supported by the role of internal auditors to oversee every company activity. Internal audits evaluate a company's internal controls, including its corporate governance and

accounting processes. They ensure compliance with laws and regulations and help to maintain accurate and timely financial reporting and data collection. It is the technique by which companies are directed and managed. Therefore, the Internal Auditor is an important pillar for effective and efficient GCG implementation.

5. Conclusion

The absence of public accountability for family companies makes a comprehensive application of the CG concept, namely the TARIF not necessary. In fact, before the concept of TARIF, terms or concepts that had the same purpose existed; they are THTCL (Trustworthy / Trustworthy, Honest / Siddiq, Transparent / Tabligh, Creative / Fathanah, Faithful), which are the characteristics of the Prophet Muhammad SAW during his life and business activities.

Fortunately, because all elements of the company have implemented the concept of Islamic Integrity Governance, problems within the company can be resolved and there is no fraud in their operational activities.

The limitation of this research lies in the family company which is the object of the research which cannot make the researcher confirm that all companies in Indonesia have the same conclusion because each family company, of course, has different standards and rules in running their business. The researcher only looks at the phenomena based on the circumstances and facts during observations and interviews in the field, as such, for further research, it is hoped that research can be carried out on family companies in different cities to prove the applied CG concept.

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