

Designing the Concept of Good Corporate Governance in Family Company (Case Study at CV. XYZ AMDK Company)

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Abstract— This research aims to design the principles of Good Corporate Governance in the bottled mineral water manufacturing company CV. XYZ. This company is a purely family company, which is one hundred percent family owned. This study uses a qualitative method with a case study approach. Data collection using interviews and documentation. Researchers interviewed the passive committee, directors, deputy directors, and Ciputra University lecturers as experts. After getting the data through interviews, the data were analyzed by examining data from various sources, after which the data was reduced, categorized, data validity and drawing conclusions. Testing the validity of the data using source triangulation. The result of this research shows that the company has indirectly implemented the concept of Good Corporate Governance such as transparency, responsibility, independence, and fairness. However, only the principle of Accountability has not been implemented, because the company has so far not had a clear organizational structure and no formal written policies and SOPs.

Keywords— Good Corporate Governance, Family Company, KNKG.

1. Introduction

Good Corporate Governance became popular in Indonesia during the 1997-1998 monetary crisis, in which the state experienced a severe rise in inflation and state governance, State-Owned Enterprises (BUMN), and private companies lost control of what was happening at that time. Good Corporate Governance is believed to be the key to the success of a company or organization to grow in the long term, and also to win business competition on a large (global) scale. Good Corporate Governance is definitively a system that regulates and controls companies that create value added for all stakeholders (Kaihatu, 2006; Monks & Minow, 2003). The decrease in the cost of capital, investment in the company and the company's stock price will increase, the value of the company will increase and contribute to long-term growth, increase job opportunities and have a role in poverty alleviation in the financial sector so that Good Corporate Governance is needed to get a return (Sukasih & Susilawati, 2011).

Indonesia is ranked the lowest of the five Asian countries studied in the implementation of good corporate governance by McKinsey & Co. (Sukasih & Susilawati, 2011). In addition, the international community also places Indonesia at the bottom of the rating for the implementation of Good Corporate Governance as carried out by Standard & Poor's, CLSA, Pricewaterhouse Coopers, Moody's Morgan, and Calper's. (Kaihatu, 2006). Whereas the ratio of family and non-family companies is 80% to 20% (Andypratama & Mustamu, 2013). This means that family companies in Indonesia account for the lowest rank, the rest are non-family.

The management of companies in Indonesia has not implemented Good Corporate Governance seriously (Sukasih & Susilawati, 2011), because in Indonesia alone most family companies are of the Family Business Enterprise (FBE) type. (Andypratama & Mustamu, 2013). . If the management is good, there are actually no problems, but in reality, family companies often clash, either between the family and the family or the family and the professional (agency). Because each party between the founder (principal) and controller or professional (agency) has its own interests, this is called a conflict of interest (Andypratama & Mustamu, 2013; Surya & Yustiavandana, 2006). Even so, having an agency in a family company can encourage long-term returns and value for the company and also encourage management to make opportunistic profits (Alijoyo & Zaini, 2004 as cited in Azwari, 2016).

Azwari (2016) divides the type of company ownership into two, namely companies controlled by owners and companies controlled by management. In a survey of family businesses in Indonesia conducted by Price Waterhouse Coopers (PWC) in 2014, there are three top procedures used to resolve family conflicts, namely, shareholder agreements, measuring and assessing performance, and family regulations/constitutions. To find out how important (urgent) Good Corporate Governance is in the company, the researcher will discuss many things

related to Good Corporate Governance of a family company that was founded in 2006. It developed from a refilling water depot (having 3 branches) in Ambon, Maluku and then because the market potential at that time was very good, the three brothers established a Air Minum Dalam Kemasan (AMDK) factory. This study aims to design the right concept of Good Corporate Governance in the CV family company. XYZ. The researcher hopes that this research can produce benefits and inspiration for family company owners, so that they can apply this research as a lesson to make family companies grow with solid governance.

2. Literature Review

2.1. Initial Research

The following are some previous studies related to Good Corporate Governance. First, research from Sianggono and Mustamu (2018), Petra Christian University students entitled "Penerapan Prinsip-Prinsip Good Corporate Governance pada Perusahaan Keluarga Dalam Industri Mebel". This study uses a qualitative method. The result of this research is that the transparency of family companies can be said to be good, but the company has not clearly conveyed its vision and mission to all its employees.

Second, research from Setiono (2016), a student at Ciputra University, Surabaya. This research is entitled "Role of Good Family Governance on Family's Firm Sustainability". This study uses a qualitative method. The result of this research is that preparing for the transfer of business from one generation to the next is one of the most difficult and crucial challenges faced by companies in dealing with the problem of corporate ownership. It is the responsibility of the active leader in managing the succession process.

Third, research from Gulzar and Wang (2010), with the research title "Corporate Governance and Non-Listed Family Owned Businesses: An Evidence from Pakistan". The study shows the importance of family-owned businesses in the country's economy. Research also highlights the strengths and weaknesses of family-owned businesses. The research shows the importance of corporate governance in family owned businesses and also sheds light on sound corporate governance practices that make the sustainability and profitability of family owned businesses in Pakistan.

Fourth, research from Kaur and Singh (2018), Assistant Professor of the School of Management in Utah Pradesh, with the title "Corporate Governance in Family Businesses – A Review". This study uses a qualitative method. In this study, the researcher suggests that corporate governance is a major concern. Since it is family owned and family run, corporate governance issues are usually ignored with one school of thought claiming that governance is unnecessary. However, if a family company is successful from both a business and family perspective, a family business must be able to face two interrelated challenges, one being able to achieve strong business performance and two, maintaining the family's commitment to being able to run as owners.

2.2. Basic Concepts & Principles of Good Corporate Governance

2.2.1. Basic Concepts of Good Corporate Governance

Good Corporate Governance is one of the pillars of the market economy system. Good Corporate Governance is closely related to trust in the company that runs it and a conducive business climate. Therefore, companies in Indonesia that implement Good Corporate Governance can support sustainable (long-term) economic growth and stability for the companies themselves and the country (KNKG, 2006). Meanwhile, according to The Organization for Economic Corporation and Development (OECD) corporate governance is a system used to direct and control company activities. Corporate governance regulates the division of duties, rights and obligations of those who have an interest in the life of the company, including shareholders such as shareholders, management boards, managers and all members of non-shareholder stakeholders (Peruno, 2015)

2.2.2. Prinsip-prinsip Good Corporate Governance

According to the Komite Nasional Kebijakan Governance (KNKG) (2006), the five principles of Good Corporate Governance are:

1. **Transparency** : Companies dare to be open in carrying out the decision-making process and present material and relevant information (Kaihatu, 2006) in a way that is easily accessible and understood by stakeholders. Companies must take the initiative to disclose not only issues regulated by laws and regulations, but also matters that are important for decision making by shareholders and stakeholders. In this study, there are 2 indicators according to KNKG (2006) that will be used in assessing the transparency

of AMDK CV companies. XYZ, namely providing any information (including financial statements) in a precise and accurate manner, company policy in writing.

2. **Accountability:** Accountability emphasizes the importance of an effective supervisory system based on the job desk division of commissioners, directors, and other shareholders which includes monitoring, evaluation, and control (Peruno, 2015). Accountability is a necessary requirement to achieve sustainable performance (sustainability). According to KNKG (2006) in assessing corporate accountability CV. XYZ can be seen from 3 indicators, namely clear details of duties and responsibilities, reward and sanctions system for all levels of the company, clarity of company rules in the form of business ethics and agreed code of conduct.
3. **Responsibility:** Companies must comply with applicable laws and carry out responsibilities to the community and the surrounding environment so that the business of an entity/company can be well maintained in the long term and also get recognition as a good corporate citizen. The following are 2 indicators according to KNKG (2006) in assessing CV. XYZ, namely compliance with laws and regulations, social responsibility towards the community and the surrounding environment.
4. **Independence:** To expedite the implementation of the principles of Good Corporate Governance, the company must be managed independently so that each organ of the company does not dominate each other and cannot be intervened by outside parties, so that in making decisions there will be no pressure or influence from any external parties and can produce decisions objective (Peruno, 2015). This means that it has been agreed, approved, and known by the company's internal ranks. According to KNKG (2006) there are 2 indicators to assess company independence, namely avoiding decisions from external parties, not dominating each other and throwing responsibilities between one another.
5. **Fairness:** In carrying out its activities, the company must always pay attention to the interests of shareholders, stakeholders, and all those involved in it based on the principles of equality and fairness. To assess the fairness of a company, there are 2 indicators according to KNKG (2006) that can be seen, namely mutual open access to any information between top management or shareholders, fair treatment between shareholders according to their benefits and contributions to the company.

2.3. Stages of Good Corporate Governance Implementation

According to Kaihatu (2006) generally companies that have been successful in implementing Good Corporate Governance use the following stages.

1. Preparation stage, this stage consists of 3 main steps, namely awareness building (building awareness about the importance of Good Corporate Governance and mutual commitment in its implementation), Good Corporate Governance assessment (mapping company conditions in determining Good Corporate Governance), Good Corporate Governance manual building (preparation of manuals or guidelines for the implementation of Good Corporate Governance).
2. Implementation stage, this stage consists of 3 main steps, namely socialization (introducing to all companies various aspects related to the implementation of Good Corporate Governance, especially regarding the guidelines for implementing Good Corporate Governance), implementation (performing activities that are in line with existing Good Corporate Governance guidelines), and internalization (long term stage in implementation).
3. Evaluation stage. This stage is what needs to be done regularly from time to time to measure the effectiveness of the implementation of Good Corporate Governance by the company.

2.4. Benefits of Good Corporate Governance

According to the Forum for Corporate Governance (FCGI) (2001, p. 4), there are several benefits in implementing Good Corporate Governance, including improving company performance through the creation of a better decision-making process, making it easier to obtain financing funds that are more affordable and less rigid, Restoring trust investors to invest in Indonesia, shareholders will be satisfied with the company's performance because it also increases stakeholder value and dividends.

2.5. Corporate Governance Mechanism

The corporate governance mechanism is a clear rule of the game, procedures and relationships between parties who make decisions by supervising decisions. "The corporate governance mechanism is directed at ensuring

and supervising the running of the governance system within an organization" (Sari, 2010). Meanwhile, according to Hexana (2004), the mechanism for monitoring corporate governance is divided into two groups, namely internal and external mechanisms.

3. Research Methods

In this research, the type of research used is descriptive qualitative research. Qualitative research is research that intends to understand phenomena about what is experienced by research subjects such as behavior, perception, motivation, etc. holistically, and by way of description in the form of words and language, in a special context that is natural and with utilizing various natural methods (Kelvianto & Mustamu, 2018; Moleong, 2016). In determining informants, researchers used informants who have competence and understand the condition of the company as well as external parties who have expertise related to the concept of Good Corporate Governance or at least have a family company. Internal informants selected are company shareholders including Passive Management, Directors, and Deputy Directors. Meanwhile, the selected external informants were lecturers from Ciputra University who own a family company. These four informants are expected to assist researchers in examining the principles of Good Corporate Governance in AMDK CV manufacturing companies. XYZ. To collect data, the techniques used are interviews, and documentation. The focus of the research is to implement the concept of Good Corporate Governance as a solution to the problems of family companies. The data analysis techniques used in this study according to (Sugiyono, 2017) are data collection, data reduction or sorting, categorization, checking data validity, drawing conclusions and, verification.

4. Results and Discussion

In this study, the object to be studied is a family company CV. XYZ which is engaged in manufacturing bottled drinking water is located in Ambon, Maluku. The products from AMDK are 600 ml and 330 ml bottles, 220 ml glasses, and 19 liter gallons. This company was founded in 2006 and only started operating in 2007. Since it was founded until now there has been no breakthrough from the founders as well as those who lead the company (top management) to advance the business. The company only relies on word of mouth from person to person and intangible assets in the form of names that are well known to the public. With this intangible asset opportunity, the company only improves governance to make it even better. This phenomenon is the basis for consideration in research, because it is necessary to work together between teams, both top management and their subordinates to improve the quality of corporate governance. Data from interviews will be analyzed according to the theoretical basis and compared with conditions that occur in the company.

4.1. Discussion

4.1.1. Transparency

Companies dare to be open in carrying out the decision-making process and present material and relevant information (Kaihatu, 2006) in a way that is easily accessible and understood by stakeholders (Komite Nasional Kebijaksanaan Governance (KNKG), 2006). There are 2 indicators of transparency in this research:

1. Provide any information (including financial statements) in a precise and accurate manner. The company's way to provide information such as meetings every quarter and provide any reports, such as sales results, purchases, etc. transparently and as is in the form of softcopy or print out.
2. Written company policy. According to previous research by Gulzar and Wang (2010), the Board of Directors must prepare an annual report to be submitted to shareholders which includes an annual financial report and a review of the company's financial and operating performance during the year. From the research of Gulzar and Wang (2010), and the results of data collection, it can be concluded on the principle of transparency that directors have a fairly heavy burden.

4.1.2. Accountability

Accountability emphasizes the importance of an effective supervisory system based on the job desk division of commissioners, directors, and other shareholders which includes monitoring, evaluation, and control (Peruno, 2015). According to KNKG (2006) in assessing corporate accountability CV. XYZ can be seen from 3 indicators, namely:

1. Details of duties and responsibilities clearly. According to KNKG (2006), that the directors must control the resources owned by the company effectively and efficiently, and the directors have the ability to give their duties or to employees so that they can carry out certain tasks, besides that KNKG (2006) also explains that companies must determine the details of the duties and their respective responsibilities to all employees are clear and in line with the vision, mission. The shareholders of CV. XYZ agrees that the *job desk* must be made clearly and in writing, but the reality in the current company is that it is still not written clearly and in detail.
2. Reward and sanction system for all levels of the company. So far, this system has only been seen by the shareholders of CV. XYZ, are there any employees who are doing well or are having problems. The reward system has just been implemented for the family itself, for example, providing additional bonuses. For now, the system that is run is just like employees being guided or when there is a problem, employees are just reprimanded and if a fatal error may be issued. when a family company wants to implement this system, trial and error should be carried out, if the experiment is successful then it is maintained and if something goes wrong, it is corrected
3. Clarity of company rules in the form of business ethics and agreed code of conduct. According to KNKG (2006), in carrying out their duties and responsibilities, every organ of the company and all employees must adhere to the agreed business ethics and code of conduct. Researchers can draw conclusions from the principle of accountability according to Kaur and Singh (2018), that corporate governance issues are usually ignored with one school of thought claiming governance is unnecessary. The reason is quite interesting, because even companies without good governance can still operate until now.

4.1.3. Responsibility

Companies must comply with applicable laws and carry out responsibilities to the community and the surrounding environment so that the business of an entity/company can be well maintained in the long term and also gain recognition as a good corporate citizen. The following are 2 indicators according to KNKG (2006) in assessing CV. XYZ, namely:

1. Compliance with legislation. Compliance with laws and regulations is mandatory for every company, because it is the right of employees in the form of wages that have been regulated by the government. The family company has implemented a minimum wage since its inception, and not a single employee, including pieceworkers, is paid below the minimum wage.
2. Social responsibility towards the community and the surrounding environment. Because the company is in a good location in the middle of residential areas and must protect the environment. The company is responsible for the use of the environment, for example roads, rivers, forests, and others. the company must have an AMDAL that is approved (obtained a permit) from the local government in order to establish a company. Meanwhile, according to the previous research by Sianggono and Mustamu (2018) and the *grand theory* in this study KNKG (2006) for responsibility, that companies must comply with the applicable laws and regulations to gain recognition as a good corporate citizen. The company's social responsibility, for example, the company involves the surrounding community in religious events such as the feast of sacrifice and the holy month of Ramadan.

4.1.4. Independency

To expedite the implementation of the principles of good corporate governance, companies must be managed independently so that each company organ does not dominate each other and cannot be intervened by outside parties, so that in making decisions there will be no pressure or influence from any external parties and can produce objective decisions (Peruno, 2015). This means that it has been agreed, approved, and known by the company's internal ranks. According to KNKG (2006) there are 2 indicators to assess company independence, namely:

1. Avoid the decisions of external parties. If the company is open to providing opportunities for external parties to make strategic or administrative decisions such as consultants, then that is fine. But if the company is closed from the decisions of external parties, including consultants, then it is not wrong.

2. Do not dominate each other and throw responsibilities between one another. all policies must be decided together through internal meetings so that everyone knows their respective jobs. Of course with a written policy. If it is related to the real case of a family company with what the expert said, that each shareholder already has his own job. They agreed to do their job and work. However, the work has not been made aware of the written policy. From the reality of the case above, when it is associated with Beattie (2018) previous research, lack of managerial experience and business negligence is a failure to do business in good governance. Or from previous research Kaur and Singh (2018), governance issues are usually ignored. It means a family company CV. XYZ does have a lack of governance.

4.1.5. *Fairness*

In carrying out its activities, the company must always pay attention to the interests of both shareholders, stakeholders, and all those involved in it based on the principles of equality and fairness. To assess the fairness of the company there are 2 indicators according to KNKG (2006) that can be seen, namely:

1. Opening access to any information between top management or shareholders open access to information between top management. Information is like a right that must be given. If the rights are not given then it is an unfair action. In a family company, any information has been conveyed fairly and transparently through a meeting and if something is hidden, the shareholders usually hold a meeting to discuss the matter.
2. Fair treatment among shareholders according to their benefits and contributions to the company. The ideal company is that the shareholders must already know the job desk and the distribution of shares, that's what the expert said. According to previous research Kaur and Singh (2018), family businesses must be able to maintain family commitments to be able to run as owners. When associated with the reality of the CV family company. XYZ, by implementing justice for each shareholder, it means that the shareholders have kept their family commitments.

5. **Conclusions and Practical Implication**

5.1. **Conclusions**

Based on the results of interviews and discussions on the subject of research designing the principles of Good Corporate Governance, so far, companies have indirectly implemented the principles of Good Corporate Governance, but have not formulated a governance policy in accordance with the principles of corporate governance according to KNKG (2006). The following are conclusions related to the five principles carried out by CV. XYZ:

1. On the principle of transparency, according to previous research by Sianggono and Mustamu (2018), companies must provide information that is easily accessible and understood. CV. XYZ itself has been good at implementing the principle of transparency to fellow shareholders, but it would be even better if there was an official written record that was approved by the director.
2. On the principle of accountability, Kaur and Singh (2018) suggests that corporate governance should be a major concern. One of the governance that must be implemented by the company is to improve the organizational structure for which there are no clear and written performance measures, besides the rules that are implemented are still informal and instinctive (properly).
3. Regarding the principle of responsibility according to Sianggono and Mustamu (2018), companies need to provide salaries to all staff at the minimum wage that applies and is responsible for the environment. The company has implemented the principle of responsibility for employee rights in the form of salary standards according to local government regulations and is responsible for repairing the damaged environment around the company.
4. According to Sianggono and Mustamu (2018) and KNKG (2006), companies must be managed independently and cannot be intervened by other parties. At the company AMDK CV. XYZ still involves local people such as employees and customers to help with strategic matters in the form of inputs related to products and services. It can be said that the company has no intervention from external parties that influence decisions.
5. According to Kaur and Singh (2018) a family company can succeed both in terms of business and family if it can maintain family commitments. The principle of equality and fairness (fairness) on the CV. XYZ has been very good because the shareholders and founders of the company are open to each other and equalize their respective portions.

5.2. Practical Implication

Based on the results of interviews with the four informants and data analysis that has been compiled, the following are managerial implications in the form of designing the concept of Good Corporate Governance in accordance with the results of the study.

1. According to KNKG (2006) company policies must be written and proportionately communicated to shareholders, and based on interviews with expert Dr. Daniel Kurniawan, the policy passed by the director must be displayed using a frame in the company, either in the office or in the factory. Thus the company policy of CV. XYZ must be written and agreed upon by the shareholders and displayed framed in factories and offices. So that it can be seen and implemented by all levels of management according to the direction of top management.
2. Based on the KNKG (2006), the Company must clearly define the details and responsibilities of each level of management and all employees. Thus CV. XYZ must be able to compile a detailed organizational structure so that each staff can know the job description clearly
3. According to KNKG (2006) companies must have a reward and punishment system. So, all staff can be motivated to work
4. Based on previous research by Sianggono and Mustamu (2018), company regulations need to be made clear to all employees. Thus CV. XYZ must be able to make company regulations in the form of SOPs that can be read and understood by all levels of company management, so that everything can run according to the system that has been created.

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