FORMULATION OF GOOD FAMILY BUSINESS GOVERNANCE FOR COMPANY SUSTAINABILITY (CASE STUDY ON CV K)

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ABSTRACT

This study aimed to formulate good family business governance in CV. K. The governance elements studied in this research included accountability, transparency, fairness, participatory, and consensus oriented. Three tools were used to formulate good family business governance for CV. K., namely family constitution, family meeting, and family council. This research is qualitative in nature with triangulation method. Data were collected through interview with three groups of informants: expert, first generation, and second generation and the total number of informants was four informants. The research show that five elements of governance have not been fully applied to the CV. K, many things need improvement in supporting the implementation of five elements of governance at CV. K., and tools applied to the CV. K were family meeting and family constitution.
Keywords: Family Business, Governance, Family Constitution, Family Meeting

INTRODUCTION

Family company is an interesting phenomenon in business world. Many companies around the world are family company and have big contribution to their country. In Indonesia, of 95% or 159,000 out of 165,000 existing companies are family companies (CNN Indonesia, December 02, 2014). Since a family company is a company owned and controlled by particular family, family's vision, mission and issues heavily influence the management and performance of either small or big company. Three main issues often arise in the family business are family issue, ownership issue, and business issue, and can be found both in the first generation or the next generation. Those issues are actually similar with issues found in non-family business companies. To address these issues, a family company must have good management system or good family business governance in order to be able to provide effective protection to all family members, including those who are not active in the business themselves. That is also to make sure that the business can fulfill the family and company interests.

CV. KS is a company owned and managed by the researcher's parent, MT, and has been operating for more than nineteen years. The company manufactures plastic packaging for industries (factories and end users). Currently, the first and second generation manage this company. During management process, conflicts happened due to buck-passing. The owner's unprofessional attitudes also cause insignificant business development. If the conflict continues and good family business governance is not implemented immediately, it is worried that this family business will not survive anymore. Family's internal conflict has negative impact towards its members' emotional health and thus towards the company performance. Therefore, a good governance is highly needed by the company. The implementation of good corporate governance can help maintaining good relationship among the company stakeholders, as well as increasing the company profit and maintaining good performance.

LITERATURE RIVIEW

Review of Related Researches

Research conducted by Botero, *et al.*, (2015) entitled "*Family Protocols as Governance Tools, Understanding Why and How Family Protocols are Important in Family Firms*" aims to find out how family protocol as a tool of policy in corporate governance can help solving intra family conflicts and increasing the probability of family business sustainability. This research uses the theory of equity and organizational justice as theoretical framework and explains why protocol development can help family company to survive. This research's contribution is as reference to integrate the practitioners and academics' works to understand family protocols, describe how and why protocols help family and business relationship, and present a procedural model for family protocols development to manage relationships between family and business.

Family Business Governance

Aronoff (2011:2) explains that many family businesses are unknowingly doing business without clear pattern, thus worsening communication and decision making process and later destroying the company's common good. Family business governance is an effective governance system to empower leadership in both family and business in order to family business' unique strengths: a strong synergy, unity in family business ownership, and good family company management. Aronoff (2011:8) describes family company governance in three circles based on its three main components: family, owners or ownerships, and management of family company.

Elements of Governance

One of the values in running or maintaining family governance that cannot always be visible to all members but in fact is one of the most important, is that a value of opportunity for the family to appreciate their working togetherness experience in order to achieve family target and desire (Aronoff & Ward, 2011:12). Key elements of this value are accountability, transparency, fairness, participatory, and consensus oriented or consensus building.

Khan (2014:12) refers *accountability* to necessity and responsibility in providing explanation or reason for all company activities and decisions taken by the company. This kind of *transparency* also demonstrates company's ability to provide information about company activities or financial performance, including future planning and challenges faced when running a business strategy to all company stakeholders. Aronoff and Ward (2011:6) add that in building a family company that can operate smoothly and well, equity is needed within the company. In company governance process, equality among family members or more specifically among brothers can be defined as equal share for all family members involved in the company. Additionally, equality can also be interpreted as equal treatment among family members. Poza and Daugherty (2014:6) define *participatory* as a natural process to include all family members involved in the company in management team, board member, or as company shareholder. Later, Aronoff and Ward (2011:13) explain *consensus building* as one of the efforts of a family to show their shared responsibility for everyone who is involved in the family business.

RESEARCH METHODS

This research chose qualitative approach. This research attempts to understand scientifically of a phenomenon happens in particular social situation, by emphasizing the process of deep communication interaction between the researcher and the phenomenon being examined. Case study was chosen as the method of this research, and the research sites were in Pasuruan and Surabaya. The researcher conducted interview technique by visiting the respondents. This process took time from November 2016 to January 2017. The informants were selected by conducting purposive sampling technique, a technique to select data sources with particular consideration (Sugiyono, 2012). Four people were selected as informants, the company founders (Mr. and Mrs. MT), second generation (DP), and informant expert (second generation that has implemented good corporate governance). Data were collected through interview, observation, and documentation. In this study, the researcher implemented check and recheck procedure to ensure that the data reliability.

Data Analysis

Accountability

Accountability refers to the necessity and responsibility to provide explanations or reasons for all company activities and decisions. Accountability can be assessed from several aspects, namely establishment of corporate goals, company annual report, job description, and management structure and system. Setting goals of a family company includes all short term, medium term, and long-term targets. These targets are interpreted in form of corporate goals that are later communicated to all stakeholders and management. Financial report aims to communicate accounting information to help users make business decisions that are relevant to the company for maintaining and improving its financial position and performance. Job description is a list of job duties, responsibilities, job descriptions that are related to other jobs, working conditions, and required supervision responsibilities. Structure of company organization is a concept created to improve company performance through periodic supervision of corporate performance, and ensure accountability of working management.

Transparency

Transparency means that decisions taken by the board are appropriate and follow the rules. To maintain objectivity in doing business, company must provide relevant materials and information in a way that the stakeholders easily access and understand. Transparency can be assessed from several aspects, namely accounting system development, company transparency development through website, and wide enterprise management development.

According to GEMI (Global Environmental Management Initiative) in Buntoro (2014), one of the things that can be observed to assess attention and transparency of a company according to the GEMI (Global Environmental Management Initiative) is the development of accounting systems based on accounting standard and best practices to ensure the quality of financial reporting and disclosure. For transparency through its website, the company's family of the interviewees in this research has not been actively using information technology. However, the interviewees consider the use of technology important to support transparency.

According to COSO Standard of Enterprise Risk Management Integrated Framework (in Wiryani, 2014), ERM is a process influenced by the board of directors, management and other personnel, applied in strategy setting that covers all aspects of a company. This process is designed to identify potential events that may affect the entity and to manage risks, in order to provide certainty for achieving the entity's objectives.

Fairness

In building a family company that operates smoothly and well, equality in a family company and among brothers of the family can be interpreted as equal share of profit among all family members who have been in the company, as well as equal treatment among family members. Fairness can be observed from two aspects, namely equality in giving opinion and equality in family company compensation system. National Governance Committee (NCG, 2012) explains that fairness can be done by giving opportunity to minority shareholders to express opinions, thus giving equal treatment to the stakeholders and employees. CV. K is already committed to the principles of fairness based on the NCG since its establishment.

Compensation is a form of return given by a company for its employees. It is undeniable that for all family members, compensation is also an important factor for them to decide whether they join the company or not. Fair and equal compensation for all family members involved in the company also has significant influence for the company sustainability.

Participatory

Participation is one of the main keys of good governance. This is a process of involving men and women, either directly or through institutions or representatives, in determining some steps that must be done through decision-making. To make sure that participation runs well, such form of participation must be informed and organized to the family members. The participation of each individual can vary because every individual certainly has a different way of thinking with its own positive values. If the positive values of each individual's way of thinking can be well collaborated, idea can be well collaborated, it can get maximum results for the company when formulating strategies and making decision.

Consensus Oriented

Consensus is a fundamental aspect that combines family members' commitment to continue and develop family business being inherited from the previous generation. Without a commitment among family members involved in a family company, the company cannot sustain. Consensus in the family company will also minimize conflict that can arise between individuals. Therefore, consensus significantly affects the survival of a family company. Table 1 displays the findings and implications in relation to the formulation plan of good family business governance that is proposed to CV. K.

Table 1. Formulation Plan of Good Family Business Governance at CV. K

Elements of governance	Prior Research	After Research
Accountability	• The financial statements were still prepared by staff; therefore, its accuracy is doubted • Long-term goal was already set • SOP already existed in accordance with ISOO	• KQ as the second generation begins to take over task in presenting real financial statements. • Defining performance evaluation constructively • Formulating business development in the coming year • Communicating vital company future planning • Shows an understandable assessment of the company's position and its prospects • Developing individual skills • Evaluating long-term goals and setting short-term goals together • Evaluating SoP of each divisions and giving performance evaluation for each divisions in based on the SoP.
Transparency		• Developing an integrated financial system to present accurate financial statements. • Creating company website • Conducting meetings to identify risk per division and involving all management staff

Fairness		• Calculating and re-analyzing the compensation system provided • Regulating the rights and obligations of each individual • Listening to all opinions and taking into account all opinions without distinction or distinguishing • Giving fair compensation to all parties, family members and employees, by taking company's financial strength into account
Participatory		• Formulating strategic planning together • Making the design of a succession process and knowledge transformation
Consensus Building		• Reviewing shared vision and mission • Increasing each individual's commitment

Some differences between family business companies and non-family business companies are the existence of corporate governance mechanism and other unique tools used by family companies. The following tools have unique functions for family company to improve communication among family members and avoid conflict (Alderson, 2015:149): Family Constitution, Family Meeting, and Family Council. Writing family company constitution is one of the important tools in family governance to prevent and solve conflicts. This constitution is a written document that can be changed and changed to the latest version. This document has significant value to prevent and condition conflict before it can damage the company, by approving company rules since the beginning before negative emotions among family members escalate. Family meetings is also one of main devices of family business. This kind of meeting can be done in non-formal way, does not need regular schedule, and can be held anywhere. It can occur during family lunch or dinner, when family members have opportunities to talk about their business plans. Family council is commonly recommended by the consultants to improve communication and effectiveness in decision-making. Table 2 describes the process of implementing principles of Good Family Governance and three governance tools in CV.K from 2015 up to 2017.

Table 2. Process of Implementing Principles of *good family governance* and three governance tools at CV. K

2015	2016	2017 *
Accountability The job structure was not available yet, the division of task was also unclear. No vision and mission.	**Accountability** Already has vision and mission as it is now. Organizational structure has existed, yet there are dual positions	**Accountability** Recruiting staffs Communicating planning formulation
Transparency No financial reports	**Transparency** Has created financial statements in the form of balance sheet reports, income statements and cash flow statements, yet the accuracy only reached 50%	**Transparency** The existence of an integrated financial system that can present a variety of real financial statements Creating company website

		Formulating wide risk management
Fairness The opinions of the second generation were heard	**Fairness** The input of the second generation has been used	**Fairness** Recalculating compensation Dividing the dividend
Participatory The second generation (DP) entered the workforce, while KQ had just begun working	**Participatory** The second generation made important decisions	**Participatory** Creating succession and strategic planning process
Consensus Oriented The second generation still followed the first generation	**Consensus Oriented** The second generation has begun to think about the company's survival and voiced her opinions	**Consensus Oriented** Reviewing consensus and increasing commitment.
Family Constitution Not available	**Family Constitution** Not available	**Family Constitution** Following professional sessions on family business Formulating process (currently still draft table of contents)
Family Meeting Conditional, informal, done when there was a problem in business, and only 3 people got involved	**Family Meeting** Conditional, informal, done when there was a problem in business, and only 3 people got involved	**Family Meeting** Holding a family meeting with all family members with formal, structured, and clear meeting agenda
Family Council Not yet, and not required	**Family Council** Not yet, and not required	**Family Council** Not yet, and not required

Conclusion

This case study examines the formulation of Good Family Business Governance with CV. K as the examined family company. Family company is a company with high uniqueness as well as high level of complexity. Five principles are required in family corporate governance, namely accountability, transparency, fairness, participatory, and consensus oriented. Accountability refers to the necessity and responsibility to provide explanations or reasons for all activities and decisions taken by the company. At CV. K, the observable accountability before the research was conducted is the company's vision and mission and organization structure although there double post existed in the structure. To maintain objectivity in doing business, company must provide relevant material and information in a way that stakeholders can easily access and understand, since it is the essence of transparency. Before this research was conducted, the aspect of fairness of CV. K's financial statements only achieved 50% since the statements were written by staffs. Fairness itself is equity in a family company. Before the research was conducted, CV. K has already listened to the second generation's opinion. Participation is a process to involve all family members, men or women, either directly or by institution or representative, in deciding steps to conduct through decision-making activity. For CV. K, its second generation has already participated in making important decision. Consensus building is used to make decision, where many opinions and recommendations are generated within the process.

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