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PRACTICING CORPORATE GOVERNANCE TOOL FOR FAMILY BUSINESS SUSTAINABILITY

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Abstract: *The purpose of this paper is to analyze the importance of practicing the good governance tool for the sustainability of a family business. A family business with its three dimensions which is family, business, and ownership often face some conflicts and misunderstanding in the management of the family businesses, because it must accommodate three different interests. Therefore to avoid and preserve the family business, it is suggested to practice the good governance tool. Two family businesses were chosen as participants in this research. The two companies already involved the second generation in its operation. Also, one expert who is a family business consultant with more than ten years of experience involved as an informant. After having the literature review and conducting an in-depth interview, found that from the three good governance tools only one regularly practicing by the participant's company which is a family meeting. The other two tools (family constitution and family council) are implemented partially and un-systemized. Nevertheless, the two companies agreed on the urgency to apply the two tools in purpose to achieve the sustainability of their family business. In line with that, the family business consultant shares his experience in facilitating family businesses to scale up (for example when prepared themselves listing in stock exchange), all of the companies were practicing the three good governance tools. Therefore, this paper suggests for every family business that has the intention to run the business for the long term should be practicing the good governance tool which is a family constitution, family meeting, family council.*

Keywords: *good governance, governance tool, sustainability, family business*

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Introduction

The family business has an important factor in a country's economy. According to Poza (in Antoro, 2017) a family company is a company founded by someone who involves family members in their operations or CEOs in future generations and is significantly affected by one or more family members. There is a difference between companies managed by family members and those not managed by families, as stated by Miller & Rice (1988), family companies are different from companies in general because of the involvement of family members in the company. Many family companies, especially in Indonesia, cannot survive the past more than 2 generations. According to Kusuma (2015), family companies in Indonesia that successfully transitioned from one generation to the next were only 30%. Whereas family businesses that are able to make the transition from the second generation to third-generation are only 7%. This is corroborated by research data conducted by the Family Firm Institute for the Family Business Review (Hall, 2008), which says that only 30% of all family-owned companies can survive transitions between generations in the second generation, while that only 12% can survive in the third generation and only 3% are able to develop until the fourth generation and so on. This makes the emergence of idioms in family businesses, namely: "the first generation founded, the second generation built, and the third generation destroyed". Based on the conditions described, the purpose of this study is to find out how the companies that are the subject of this study implement good governance tools in their companies. Besides that, this research also aims to find out how these three tools can make a company sustainable. For this purpose, the researcher interviewed two family companies that had been operating for more than twenty years and had involved the second generation in running their companies. The two companies were interviewed to find out how their company was managed so that it could continue to operate more than twenty years.

Literature Review

Elements of Good Governance

The most important value in having a family company is the opportunity and experience of working and spending time with family members to create a shared goal (Aronoff and Ward, 2011: 12). For the purpose of managing a sustainable company, we need a tradition of good governance. There are five elements in governance, namely: accountability, transparency, fairness, participatory, and consensus. The following will be explained briefly each of these elements.

Accountability is one element of good governance practices that refers to the necessity and responsibility to provide an explanation or reason for all company activities and decisions taken by the company. Good governance requires accountability between shareholders and the business itself (Aronoff and Ward, 2011: 6; Khan & Subramaniam, 2014: 12). In a family company, there are three dimensions that influence each other, namely family, business, and ownership, therefore accountability in a family company is very much related to liquidity, company capital allocation, company sustainability, and investment performance.

The second element of good governance is transparency. Transparency is the conformity between decisions taken by decision-makers with established regulations (Khan & Subramaniam, 2014: 7). It also means that there should be information that is freely and directly accessible to anyone affected by a decision. Transparency also shows the ability of the company

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to provide information to its shareholders both the company's activities, and financial performance, including planning ahead with the possibility of risks faced when carrying out business strategies in the future. Transparency will help leaders to be more confident in making decisions and running the company in the future to stay sustainable. According to Poza and Daugherty (2014: 97), the lack of transparency either in the board of directors or managers will not provide added value for family companies especially if they do not have a clear matrix and scorecard. The low level of transparency will also weaken the level of attention given to the family company, in the long run, it will threaten the sustainability and existence of the family company.

The third element of governance is Fairness which illustrates the ability of a family company to behave and act equally and fairly so that the family company is able to run smoothly and well in its operations, (Aronoff and Ward, 2011: 6). In the process of governance, equality is interpreted as equality among family members, namely the existence of an equitable distribution of benefits among all family members who take part in one company. Besides that equality can also be interpreted as an equal treatment among family members. Fairness according to Kang (2012: 9) means treating individuals fairly and equally. equality must occur in the distribution of income distribution as well as equality in other financial matters. Equality in the family business will maintain the survival of the family business beyond generations.

Next is Participatory, which is one of the main keys in good governance. Participatory is a natural process that involves all family members in a family company, both as a management team, board member, or as a shareholder of the company, (Poza and Daugherty, 2014: 6). This counterbalances the element of fairness that is each member involved in a family company by the abilities of each family member. The final element is the consensus. according to Poza and Daugherty (2014: 46) in most family companies, the use of voting in decision making is common. In addition, the consensus is also often used when companies face problems. Family businesses often hold family gatherings to discuss important issues. According to Aronoff and Ward (2011: 13) consensus building is one form of effort for a family that shows that the family has a shared responsibility for who is involved in the business that is built in the family. Through this consensus, will build the company's level of confidence in welcoming the business future.

Governance Tools

The difference between family-owned and non-family owned companies is the mechanism of corporate governance and the unique tools used in family businesses. As for the tools of governance that have a unique function in a family company that also functions to improve communication between family members and avoid conflict (Alderson, Keanon (2015: 149). In family companies, there are governance tools that are not owned by other companies, namely family constitutions, family meetings, and family council.

Family Constitution

One important tool in family governance to prevent and resolve conflicts is to develop the family company constitution. This constitution is a written document, which can be revised to the latest version. The special value of the constitution is the ability to prevent and resolve conflicts by following company regulations from the beginning before problems between family members increase (Alderson, 2015; 150). According to Botero et al. (2015: 221), The

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family constitution can be an important tool to clarify the rights and obligations of each family member in a family business.

Family Meeting

A sense of belonging and togetherness in the family is a potential strength and energy for corporate sustainability. If the family has strong values, then the family will also have good sources. (Aronoff et al. (2011: 3). According to Alderson (2015: 149) Family meetings are one of the main tools in a family business. Family meetings can be conducted informally, are not regularly scheduled, and can be done anywhere. Family meetings can be done during lunch or dinner together, so the family can talk about business and future plans.

Family Council

According to Bianchi (2012: 150) forming a family council is a general recommendation from consultants, to improve communication and effectiveness in making decisions. The family council consists of family members and non-family members who are stakeholders in the business. The duties of the family council should focus on the needs of the family business and recommend rules and procedures to the directors. (Alderson, 2015: 150). According to Carlock and Ward in Susanto (2008: 207), the board also carries the task of achieving the vision. Specifically, it is necessary to determine the duties and responsibilities of the board, including determining the proportion of board members and evaluating the performance of each board member.

Business Sustainability

Planning and implementing good governance must be a priority for the family company as part of preparing a good relationship and interaction model for future leaders of the company so that the continuity of the family business can be achieved. According to Poza and Daugherty (2014: 115), the meaning of sustainability in a family company is not only the ability to extend lifecycle and product life through global competition or supply chains but also means the ability of companies to run the company from generation to the next generation. Therefore, discussions related to the success of a family company and its sustainability are more about succession, financial management, or governance.

Tricker (2015: 231) argues sustainability is the goal of studying corporate governance and business ethics. The company needs to recognize the activities carried out in order to have a long-term impact on society and the environment. Tricker defines sustainability as how we live and work in a way that is suitable and integrated with the surrounding environment, the ongoing economic, the needs of social communities, without threatening the sustainability of future generations.

Methodology

This study uses a descriptive qualitative approach, where the research subjects are the successors of two family companies. One company is a company engaged in catering and the other is a distribution company for household appliances and appliances. The two companies have been operating for more than twenty years, involving the first and second generations in their operations and known as profitable companies with growth. Both successors were interviewed to get information on how they manage their company based on their experiences. The list of interviewed is formed beforehand and use as a guideline in the interview process.

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To get a deeper understanding, follow-up questions were carried out on the answers given by the respondents. In addition, one family business consultant with ten years of experience in consulting the family business was also interviewed to gain experience in facilitating family companies to be able to list in Indonesia stock exchange and able to run good governance in their respective family companies. Interview data were recorded and analyzed using the Steps of Miles and Huberman (1994).

Findings and Discussion

In-depth interviews were conducted to collect data in this study. The two informants who represented the family business were asked for their opinions and experience in running the family business. To get a broader picture, a question was asked from an informant who is a family company consultant, experienced in helping various family companies so they can still achieve business and family goals. It was found that the two companies have been operating for more than 20 years and were founded by the first generation (their parents). The current condition is that it has involved the second generation (informants) in the management of the family business.

Good governance is recognized by both informants as something important in running a business. They are aware of the emergence of various problems in the management of companies in general due to unclear regulations such as job description, payroll, and also the decision to use the company's profit. For example, one informant stated that there was jealousy among siblings because the salaries earned by children were the same, even though the contributions to the company were not the same. Another example is when a parent (founder) sometimes uses company money to help a family member, this causes losses due to loss of business development opportunities and or other important things that are being prioritized. Another problem that arises is the existence of an employee who is not a family member who according to the successor is not suitable (less professional) but by the parent (founder) is considered important because the employee has been in the company for a long time. These conditions according to the successor should be avoided by the existence of written rules (family constitution).

Based on the experience explored by the two informants, they agreed that the existing problems could be prevented or found a way out by the availability of clear rules, intense and quality communication, and good relations between families. The informant who is a family consultant reinforces that in general, the things delivered by the two informants of this research are also often experienced by other family companies. He added that family companies that do not face problems with unclear rules are more likely to focus on business development. Companies that have successfully avoided these problems have generally implemented governance tools in their companies.

From interviews with the two informants in this study, it was found that the practice of a family constitution had not been implemented in their respective companies. It was explained that there were actually agreements between family members in running the company's operations but the agreement was not yet written and documented. they stated that they felt as though they did not trust other family members if the agreements had to be written down. This is a reason for the two companies not to do the family constitution. This was examined by an informant who is a family business consultant that many family companies are reluctant to do family constitution,

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this is related to Indonesian culture which has a low context culture (Kim, Pan & Park, 1998). It was also added that this phenomenon is the same at various scale companies both small, medium and large companies, although this reluctance is more common in small scale companies.

However, lately, with the more open access to information and knowledge, especially in the management of the family company, awareness has begun to emerge from the family company actors to make written agreements commonly referred to as a family constitution. This was also confirmed by the two informants that it was indeed a good idea for family companies to develop a family constitution. One informant (catering company) stated that he would immediately discuss the possibility with his parents, but on the other hand, the informant from the distribution of household equipment stated that he did not dare to propose to his parents because he was concerned if his parents perceived the request as mistrust of parents or other family members.

Unlike the first tools, family meetings are the tools most often done by the companies of the two informants. Both informants stated that almost every day there was talk about the company at mealtimes. The model is also the same at meal times some or all complete family members to eat together while discussing important matters in company operations, for example, the potential to get new customers, complaints from customers or other issues related to employees. If there are crucial things that are very impacted by the family company, usually there is a join dinner that is held more formally. The informant who is a business consultant also revealed the same thing, that the strength of a family company is the amount of time spent by family members to discuss the condition of the company. In larger family companies, this family meeting is usually used as a place for family reunions and discuss important matters and impacts for the family company such as dividend distribution, share ownership, investment plans, business expansion, and other important decisions. Likewise when it comes to deciding someone's involvement (both family members or not) in important positions in the company.

The last tool, the family council, is something that is not formally systemized in the two family companies that were informants in this study. If there are important issues or conflicts faced by the family company, then the two informants stated that they are looking for a solution among the families themselves. Sometimes family members ask for opinions from other trusted people such as religious leaders, the oldest family member, or lecturer (because one of the informants is studying in college). The involvement of other parties is also more about exchanging ideas or giving opinions on a particular case. The other party does not give certain decisions regarding the direction or solution of their family company. This is likely due to the scale of the informant's company is still relatively small, so having a family council is relatively unnecessary. The consultant who was the informant in this study said that small-scale family enterprises rarely have family councils, but in medium and large-scale family companies the formation of family councils is more common, although members are generally dominated by family members. This is slightly different from large and open companies, the family council they have usually involved more professionals who are not family members.

From the data that has been analyzed, it can be concluded that when the company implements the three good governance principles, it will make the company meet the five good governance principles, namely accountability, transparency, fairness, participation, and consensus.

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Implementation of the family constitution, namely written rules regarding the rights and obligations of each family member, job description, profit sharing, sanctions and other rules related to the management of a family company will make the company an accountable company. Running a Family constitution will also be one of the factors that make professionals who have been involved in family companies feel at home and even attract professionals outside of family members to join because the existence of written regulations will ensure openness and transparency in running a business. This family constitution also guarantees that everyone in the family company, both family members and non-family members, are treated fairly.

Implementing regular family meetings will encourage openness to run a family business. Family meetings are believed to be a medium for getting to know each other among family members which will facilitate cooperation in running the company and even for solving problems faced by family companies. The more routine family meetings are held, the more family members participate in running the company. For example, at a family meeting, parents tell their dreams or hopes related to the family company. It will make the children involved in the meeting more responsible for making them happen. This proves that family meetings are an effective approach to increasing family member participation. From the processed data, it is understood that if the problems faced by the company are discussed at informal family meetings, then this will at the same time increase the sense of involvement of family members who participate in the meeting to solve the problems at hand. Discussions held during family meetings will also make it easier to reach an agreement, even in matters where it is relatively difficult to find agreement.

The existence of a family council will also reduce friction in family companies because family councils contain rules and procedures in solving problems related to decision making in family companies. In other words, the existence of a family council will make it faster for companies to determine who is responsible for making decisions on complicated issues in family companies. This will enable the family company to be more transparent and effective in making strategic decisions to achieve its objectives. The family council will also ensure that there are fewer delays in making decisions, especially when the family company faces sensitive issues that can affect family relations between people involved in the family company. With the Family council, it will help family companies to be able to avoid potential family breakdowns and more effectively support efforts to achieve business goals of family companies that will affect the sustainability of family companies.

Conclusion

This study concludes that the two companies only conduct family meeting tools regularly. While the two other tools, namely family constitution, and family council, are implemented but not yet systemized. Nevertheless, they agreed on the need to apply governance tools to make each family's company well managed so that it would have an impact on the company's sustainability. The informant who is a consultant to the family company explained that the family company that survived for more than two generations applied governance tools in running the company.

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