UNIVERSITAS STIKUBANK
DIGITAL YOUTH ENTREPRENEURIAL UNIVERSITY
DINAMIKA AKUNTANSI KEUANGAN DAN PERBANKAN

Vol. 12., No. 1, Hal: 1 – 8; Mei 2023
ISSN: 2656-4955 (media online)
2656-8500 (media cetak)

STUDY OF IMPLEMENTATION AND GOOD CORPORATE GOVERNANCE INTERNAL CONTROL SYSTEM
(Case Study In a Family Firm)

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Received: 02 February 2023; Revised: 06 February 2023; Published: 8 Mei 2023

ABSTRACT

This research aims to examine the implementation of Good Corporate Governance (GCG) and the implementation of the company's Internal Control System. Data analysis used the positivism philosophy method in a family business company engaged in the manufacturing industry since 1946. Informants were determined by purposive sampling, namely, taken from the top management, middle management, and staff groups. Data analysis techniques in this study used a case study approach through interviews. Research results: GCG implementation is not following best practices by this family business company, and Internal Control System implementation has not become aware by management.

Keywords: *good corporate governance, internal control system, family business company*

INTRODUCTION

A family business is a business or company in which most of the shares are owned by family members. Based on survey results from Indonesian Family Business (2014) from www.pwc.com/id all businesses in Indonesia, more than 95% are family businesses. The composition of the board of directors is 52% from family and 87% from owners and management. Generation 1 company survival is 23%, 2nd generation is 37%, 3rd generation has a 33% chance, and 7% believe nothing lasts more than 4 generations. Firm age <20 years is 30%, 20-49 years is 53%, and those > 50 years are only 17%. The survey also conducted forecasting regarding the challenges for the next 5 (five) years, namely the number of competitors (73%), then 67% needed innovation, recruited the right workforce, and 60% challenged price competition (Survey Indonesia Family Business, 2014). Family business companies are also inseparable from other problems, namely distrust among family members and conflicts in leadership success and decision-making. The dispute over the issue of a crown prince who is expected to be the successor to the throne in the company, and there are often differences in managerial mindset between the first generation and the next generation. With these problems, it is not uncommon for family businesses to experience a decline in performance and are even forced to close.

Based on these problems, the family business must determine the right strategy to survive and be sustainable based on the company's vision, mission, goals, and values (professional, ethical, open and innovative) through good governance. These Best practices can be carried out by considering 2 (two) factors. Namely by implementing: (1). Good Corporate Governance (GCG), used to regulate organizational behaviour. (2). Internal Control System. Both are guidelines for managing the company to achieve good business and work ethics (Medcoenergi, 2016). In small companies, only 38% have an internal control department, while for large companies, as much as 88.3% (ACFE, 2016).

The research was conducted on manufacturing companies whose products were based on teak wood and whose marketing was carried out on an export basis. It is based on a

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statement from the Ministry of Trade of the Republic of Indonesia (2016), 9-13 February 2016. It was stated that when Indonesia participated in the competition in the era of the ASEAN Economic Community (AEC) by participating in the most oversized furniture and light product exhibition in Sweden, the Stockholm Furniture and Light Fair, the Indonesian products displayed their uniqueness. Hence, the products sold out on the last day of the exhibition because Indonesian furniture exporters already have a Timber Legality Assurance System (SVLK) certificate. At the same time, it is proof that they have met EU standards in terms of sustainability. SVLK is a significant advantage for exporters because of evidence of timber legality, which is the main focus, especially for foreign consumers. The research object was set at a family business company founded in 1946 and has marketing activities to export to the Netherlands and Japan.

Based on the results of the interview conducted on Tuesday, 29 July 2020, it was stated that the company is running by forming a portfolio into different business units, for example, minimarkets and restaurants. On the other hand, the company in its operations has not prepared a written job description document, resulting in job overlap. The Standard Operating Procedure (SOP) document also does not yet/does not exist in writing because all forms of control and orders are carried out directly by the owner. The reporting line lacks cross-checks from various parties with the same authority, so there is no awareness of the importance of internal control.

The exciting thing about this research is that the survey results of Indonesian Family Business (2014) state that very few family businesses survive >50 years (17%), which means they are included in the company that is the object of this research. Next, the company stays but has not followed management practices of company management which should follow the theory and even previous research. It is exciting that even though the company, from a theoretical point of view, has many weaknesses, it still survives and even develops and can adequately provide welfare to its employees. In connection with this, it becomes interesting to study the implementation of GCG and Internal Control Systems in family business companies.

THEORY BASIS

Agency theory is intended to provide an understanding of the relationship in which principals (shareholders) employ agents (managers) to carry out various corporate activities on behalf of the principals. It means that the principal delegates decision-making authority to managers (in the best interest of principals). This agency relationship can create moral hazard or agency problems when the agent's interests are not in line with the principal's (Adams, 2014). Agency theory describes the company as an essential structure for maintaining agreements through corporate governance. It is also possible to exercise controls that limit agent behaviour so that it does not deviate, including in family business companies (Agbenyo, 2018)

Cohen and John L. Ward (2001) explain that family business is about balancing business needs, opportunities, needs and wants of the family taking into account control (building a career, capital, conflict, culture). Today's family company's challenge is to grow and develop its business. Simanjuntak (2010), in his research, revealed that 3 (three) main issues often arise in family businesses, namely leadership, ownership, and principles of management (management), both in the first generation and the next generation. This issue is not much different from business issues, whose membership is unrelated to family (non-family business). The family business is also one of the longest-lived organizations in the world. Family

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involvement in corporate ownership, governance and management makes family businesses different from non-family firms. The Resource Based View argues that companies achieve and maintain competitive advantage through a specific combination of tangible and intangible resources (Astrachan 2010).

The success of a family business depends on whether the company is managed in harmony with the local community's culture. The sustainability of a family business is characterized by the business experiencing success and being able to respond to all kinds of obstacles. Based on this, sustainability must consider the aspects of the ability of the family and the ability of the company or business. Family and business members can interact to become a community in management through control (Porfírio et al., 2018).

Internal control is the provision of elements for the standard, well-organized, and effective achievement of the enterprise, which applies to small and large companies. Further, internal control applies to efficiency, operating effectiveness, reliable financial reporting, and compliance with relevant laws and guidelines (Agbenyo et al., 2018). Muceku (2014) stated that internal system control leads to efficient management and harmonization and promotes the company's ability to generate value and maximize company capital. Internal control activities help achieve the company's mission, organizational cost-effectiveness, and successful operations. Aladejebi (2015) states that there are 5 (five) components of the internal control framework: control/control environment, risk assessment, control activities, information and communication, and monitoring.

Furthermore, Musa (2015) revealed that a system directs and controls the company to follow stakeholders' expectations, is in line with applicable laws and regulations, and complies with universally applicable business ethical norms and values. A company that is highly respected by all levels, namely Good Corporate Governance (GCG). The implementation of GCG practices based on the Regulation of the Minister of State-Owned Enterprises Number Per-01/MBU/2011 concerning the Implementation of Good Corporate Governance is proof that the company has implemented the principles underlying a process and mechanism for managing a company based on laws and regulations and ethics. The GCG guidelines that have been prepared serve as a reference for shareholders, the board of commissioners, directors, and employees and an authority for other stakeholders in their dealings with the company.

METHODOLOGY

Data analysis in this study uses qualitative methods, namely research methods based on positivism or interpretive philosophy. The technique for determining respondents or participants was by purposive sampling, which was taken from the top management group (1 person), middle management (3 people), and staff (5 people). The primary data was obtained from primary sources using open interview techniques. Interview grids regarding the implementation of GCG regarding the Annual GMS and Extraordinary GMS, the board of commissioners, supporters of the board of commissioners, directors, directors' supporters, implementation of GCG principles, and implementation of GCG tools. Furthermore, interviews regarding Internal Control System regarding the policies that the company has implemented in its operations. Data analysis techniques in this study used a case study approach.

RESULTS AND ANALYSIS

Characteristics of Informants

Informants in the study were divided into 2 (two) categories, namely informants who gave responses regarding the implementation of GCG. Furthermore, the second group of informants who were asked to provide feedback regarding the performance of the Internal Control SystemG group 1 (one) informant as many as 3 (three) people with middle and lower management position categories, all of whom have family ties with the company. Management group informants are still very productive, namely 40-60 years old, with male and female behaviour. The informants also have an adequate level of education (all undergraduates starting from S1 and S2 education levels). The selection of these informants was felt to be very appropriate because they had a very long working period of 5-35 years, and all were from the service department division with the positions of section heads and managers. This adequate working period thus has a lot of information that can be conveyed with a high degree of accuracy.

The second group of informants also has a very productive age (37-48 years), with a working period of 6-15 years. Informants also have an adequate level of education, namely the high school and undergraduate levels. They are from the service department and have no family ties. The interviews were conducted from February to March 2022. This sufficient informant's working period thus has a lot of information so that research can be studied more deeply regarding implementing Internal Control Systems in family business companies.

Implementation of Good Corporate Governance (GCG)

The results of interviews regarding the implementation of GCG in family business companies. First, regarding the dimensions of the Annual and Extraordinary GMS, a response pattern was formed that the annual GMS had been held but not routinely. When the yearly GMS is stored, it is not always fully attended to by the shareholders. Furthermore, I have never owned an Extraordinary GMS, and not all meeting results / decisions have been documented in minutes. It is concluded that the company is a family business concerning t governance. Annual GMS and Extraordinary GMS have not been conducted following best practice standards in GCG.

Second, the pattern of informant responses is related to the implementation of the Board of Commissioners in family business companies, namely the Board of Commissioners has been formed, but has not carried out its duties and is responsible collectively for supervising management policies, the course of management in general and providing advice to the Board of Directors. The number of members of the Board of Commissioners does not consider the company's complexity. The Board of Commissioners come from family members, and the procedures for appointment and dismissal have not followed formal procedures in best practice. Appointed subjectively, it does not pay attention to ability, integrity, or legal, material and other requirements and does not yet have work rules and guidelines. In connection with this, the company is a family business and has not yet carried out the standard best practice governance in GCG regarding the Board of Commissioners.

Third, the concept obtained from the results of interviews regarding the implementation of GCG dimensions of Supporting the Board of Commissioners formed a pattern that has not yet created a Supporting Committee for the Board of Commissioners, Audit Committee, and Risk Management Committee. Thus, it can be drawn from this concept that family business companies have not implemented good governance following best practice standards in GCG because the Board of Commissioners Support Committee has not yet been formed.

Fourth, the results of interviews regarding the implementation of GCG dimensions of the Board of Directors formed a pattern of responses that they had not thoroughly carried out their duties and responsibilities collegially. The Board of Directors has carried out their duties professionally, with integrity and with the required experience and skills. The Board of Directors has fulfilled the formal, material and other requirements. The number of members of the Board of Directors is not following the company's complexity and does not fully understand and implement the guidelines set by the company/legislation. The Board of Directors has not yet prepared a vision, mission and values for long-term and short-term programs. The Board of Directors can control resources effectively and efficiently, has not established work rules and guidelines, and has also not developed and implemented a risk management system.

On the other hand, the Board of Directors can make strategic decisions (including creating new products or services). It has carefully calculated the impact of the risks. The Directors have not prepared Internal Control System and have not implemented Internal Control System, the Directors always ensure smooth communication with the member's stakeholders. The Directors do not yet have a clear and focused written plan for corporate social responsibility, but everything is going well. The family business company haven't run all t corporate governance following best practice standards.

Fifth, regarding the implementation of GCG dimensions of support for the Board of Directors, a response pattern was formed from informants that a company secretary already exists but has not thoroughly carried out their duties because most of them are carried out by the DirectorDirector. The company does not yet have Internal Control System standard documents and has not implemented Internal Control System, and the internal audit has not been running as it should. Support for the Board of Directors in family business companies has not yet been implemented, so the standards have not met best practices.

Sixth, regarding the implementation of GCG principles, a pattern of informant responses was formed that the management of the company has not adhered to the principles of transparency, accountability and fairness. The company has attached to the principles of independence and responsibility. The results of this response show that the family business company has not fully adhered to GCG principles, thus not implementing best practice governance.

Seventh, family business companies have not implemented proven best practices from the minimum standards of policy documents that must be owned. Policies that have been set include budgeting, finance, marketing, and quality standards regarding service. However, some of these policies have not been implicitly stated in the quality standard documents and quality policies. About other procedures the company does not have at all; this is because the company runs on traditions that have been passed down from generation to generation. This family business company ultimately has a weakness in that the management of the company only focuses on habits. Since most of the important positions are occupied by family members, it is managed with a high element of trust. The problem is that when a company does not have a minimum policy in best practice standards, it will be difficult for employees (who are not family members) because, potentially, all orders, mandates, and work instructions often change or vary. In addition to making it difficult for employees to work, they also have opportunities for results prone to errors. Thus employee performance is not optimal and impacts low company work productivity.

Internal Control System

The Internal Control System is, of course, needed by all companies, including those engaged in the manufacturing industry and family business companies. Not all companies have implemented it properly because management requires awareness. First, from the responses from informants regarding the control environment, a pattern is formed that the control environment is supported by a commitment to creating integrity and a high commitment to developing ethical values. On the other hand, the control environment has not been equipped with a broad organizational structure (still narrow), has not been supported by clear reporting lines, and has not been endorsed by tiered authorization lines (not tiered). Furthermore, the control environment has not been supported by an accountability system (still monthly, not daily and weekly) and not yet supported by the development of accountability. These results, it is concluded that the company is a family business has not implemented the Internal Control system properly; it can be seen from the control environment that a broad organizational structure, clear reporting lines, tiered lines of authorization, accountability systems, and development of accountability have not supported it.

Second, the results of interviews regarding risk assessment formed a pattern of responses that the management had not implemented specific risk management, had not carried out risk identification and had not carried out a risk assessment. That is, it can be concluded that the company is a family business have not implemented the Internal Control System properly; it can be seen from the risk assessment that there is no risk identification and evaluation.

Third, regarding control activities, a pattern has been formed that about control activities, there is no specific policy, no specific control mechanism and no specific control instruments or devices. This response pattern can be concluded that family business companies have not implemented a sound internal control system; it can be seen from control activities that there are no policies, mechanisms and instruments.

Fourth, the results of informant interviews regarding information and communication systems formed a pattern that the company had not built an information and communication system specifically concerning internal control. On the other hand, both the information received and those that must be conveyed to internal and external parties have gone well. Furthermore, communication for both internal and external parties has also been running smoothly. From this response pattern, it can be concluded that family business companies have not yet implemented an information and communication system, but good communication has been established (internally and externally).

Fifth, the results of interviews regarding monitoring formed a pattern that an appropriate control environment had not yet been built and that monitoring and evaluation had never been carried out. Furthermore, monev has never been carried out on the possibility of various risks. About customer satisfaction, monitoring and assessment have never been carried out precisely. From this pattern of responses, it can be concluded that family business companies do not yet have the awareness to implement Internal Control System properly, and there appears to be no good activity monitoring.

DISCUSSION AND CONCLUSION

Family business company in the context of this research has not implemented the principles of GCG good, as contained in the theory of best practice. It can be seen from the implementation of the annual GMS, which has not been held according to procedures in best practice; the Board of Commissioners that has been formed comes from family members and has not carried out their duties as they should. The company has not yet started supporting boards of commissioners, directors and investing directors in family business companies that have not implemented all governance a company that complies with best practice standards, besides that the company has not fully adhered to GCG principles and also does not yet a minimum standard of policy documents.

The company also has not implemented SPI properly; for example, concerning the control environment, it seems that there is no development of an accountability system, and the command line and authorization are still centralized to the Director. Regarding risk assessment, the company has not carried out risk identification and evaluation. Control activities do not yet have policies made. Thus, there is no proper risk control mechanism and no control tools/instruments. Information and communication systems in the company, both internal and external, are running well, although there is no specific information and communication system yet. On the other hand, monitoring has not been carried out correctly.

Covid-19 pandemic, so it was conducted online. There were technical difficulties regarding the timing of the informants, so the interviews were carried out repeatedly and with minimal time. Research cannot be done by taking pictures of the documents that the company owns. The object of study is only 1 (one) family business company. The limitation is also because it does not reach the concept of estimating the company's sustainability in the future.

Recommendations that can be conveyed to the management of the company that the existence of the Board of Commissioners can work following their duties and responsibilities collectively to supervise and provide advice to the Board of Directors. Implementation of the Annual GMS can be held regularly every year. The existence of the Board of Directors must be able to carry out their duties following their authority and responsibility. Management must be able to implement the principles contained in GCG, namely transparency, accountability, responsibility, independence, and fairness.

Future researchers can conduct research by conducting research on several family business companies and non-family firms. The goal is to be able to compare the behaviour of management in corporate governance. In addition, future research can also develop quantitative methods with forecasting analysis tools to estimate the company's sustainability in the future.

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