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

Daniel Yudistya Wardhana  
Universitas Atma Jaya Yogyakarta  
Email: daniel_yudistya@staff.uajy.ac.id

Abstract  
Good corporate governance (GCG) practices have been broadly acknowledged in both industry and government these days. In general, good execution and practice of good corporate governance indicate the health of corporations. The awareness of good corporate governance practice developed among family business regardless the size of the business. Thus, this research aims to explore the general perception of family business towards the good corporate governance practices and the importance of good corporate governance in their business. The focus of this study is family business in Yogyakarta Province, Indonesia. This research uses descriptive and quantitative model. Every data that was obtained from the respondents will be described in detail and explained with quantitative model to analysis the implementation of good corporate governance in SMEs. The results from 60 family businesses show that mostly the SMEs understand that company financial and non-financial report should be reported on regular basis (mean= 2.83) they also discloses the internal salary system to the employee (mean= 2.68) it might be due to the direct communication by the owner or management to the employees. SMEs agree that detailed job description is necessary (mean= 2.97) as well as standard operational procedure document (mean= 2.67). Also, most of SMEs agree that a regular payment period is important (mean= 3.58) and reporting the tax on time (mean=3.27). SMEs agree that the owners or family members should be independent in recruiting employees (mean=2.55) and deciding company strategies (mean=2.43) and SMEs perception of fairness showed that family member have limited opportunity to work at the company (mean=3.30).

Keywords: Good corporate governance; SMEs; family business; TARIF.

1. Introduction  
Family firms play an important role in most nations worldwide because they dominate the economic landscape, not only in terms of number, gross revenues, and jobs, but also because they are an important engine of growth, prosperity, and welfare as well (Heck & Trent, 1999; Astrachan & Shanker, 2003; Sirmon et al., 2008 on Duller 2013). Although the notion of "family business" is not the same as "small business": some family businesses are big businesses, but the majority of family businesses are small businesses with a workforce of less than 20 (U.S. Small Business Administration, 1997). In Indonesia, according to data from Ministry of Cooperation and SMEs (2012), the contribution of small business to Indonesia's GDP in 2013 also reached 58.1% with 14.1% being export commodities. Small and Medium Enterprises (SMEs) have become strong business entities on facing crisis and have big contribution to economy especially in Indonesia. 

According to Kuncoro in Afiah (2008) there are at least four factors underlying the resilience of SMEs: firstly SMEs do not have external debt, debt to banks is minimal, using local, and lastly is export-oriented inputs. Tedjakusuma (2014) describes the role of SMEs among others are as (1) major economic actors in various sectors, (2) large business field providers (3) local economic development actors and community empowerment (4) creators of new markets and sources of innovation (5) maintain balance of payments through export activities. Therefore, the potential must be optimized in facing the era of global market within the scope of ASEAN and International.

Ministry of Cooperation and SMEs (2012) provided data that out of a total of 55,586,176 registered business units in Indonesia, 98.79% are micro businesses with annual turnover categories of three hundred million Rupiah and fifty million Rupiah business assets. This highly strategic sector empowerment is very important because it also positively impacts the employment of 107,657,509 people in 2012 and is certain to increase until 2015. However, the spread of SMEs in 2013 throughout Indonesia is still not ideal compared to other countries in ASEAN (only 1.65%) with an ideal rate of 2% (Ministry of Cooperation and SMEs, 2013). Opportunities to increase the ideal percentage is of course wide open, but needs to be balanced by improving their quality.
and business competence of the SMEs. From the total of 1.4 trillion Rupiah of 2015 budget year program allocation, 74.18% is allocated for the SMEs Competitiveness Improvement Program with a focus on improving the conduciveness business climate and increasing access to productive resources, based on data from the Ministry of Cooperatives and SMEs (2014).

Research from the Credit Rating Agency of Bank Indonesia (2011) shows that in general SMEs have similar goals to other business entities, first, in relation to provisions requiring a company to fulfill its obligations, such as paying taxes, carrying out social and environmental responsibilities, and complying with labor requirements such as security and other workers’ rights. The second objective is based more on targeted policy making such as coaching, technical capacity improvement, and financing policy for SMEs. According to Liang & Meng (2010) most SMEs are managed by their business owners and have no separation between ownership and management, accountability and business transparency. It is further said that good corporate governance can also have an impact on SMEs. The above provisions are closely related to SME compliance and awareness of the aspects of good corporate governance and compliance with existing regulations. Therefore, it needs to be supported by a study on the implementation of corporate governance directly in the community.

Indonesian National Committee on Governance Policy (2006) stated that the implementation of good corporate governance aims to provide standards and guidance for business actors with the aim of (1) achieving business continuity through the application of transparency, accountability, responsibility, independence and fairness (TARIF). (2) Improve the function and independence of the entity in the business structure. (3) Encouraging business stakeholders to make decisions based on ethics, morals according to the rule of law. (4) Increasing social and environmental awareness of business actors. (5) Increasing business value for shareholders by not excluding other stakeholders. (6) Increasing business competitiveness both nationally and internationally for the creation of market confidence that can increase investment and economic growth.

In Indonesia, the implementation of good corporate governance is getting more attention from business actors as well as the government. Inconsistency in the implementation of good corporate governance has resulted in the decline of the Indonesian economy in the 1998 crisis. Itan & Lestari (2012) added that after the economic crisis in Asia in 1997/1998, Indonesia underwent economic reform, which was one of the main issues of corporate governance (Sato, 2003 in Itan & Lestari, 2012). This has led many researchers to focus on Corporate Governance mechanisms (Hsu, 2010; Bhagat & Black, 2002 in Itan & Lestari, 2012). Duller (2013) adds that although various management issues in family firms have been analyzed, there are still aspects left for research, such as the relationship between family control and corporate governance structures and the influence of generations on these governance mechanisms. Abor & Adjasi (2007) also stressed that it is also crucial to examine corporate governance in the SME sector from the context of a developing economy, also the implications of the extension of corporate governance principles to SMEs and the impact this will have on value creation through corporate entrepreneurship.

1.1 Research Problem

Many companies are born as family businesses. Even today, many families still exercise to control over multiple companies, the effects of which reflect in their corporate governance. Cultural and local traditions, as well a desire to control, impact board composition in different parts of the world. As a result, not all family businesses have a board of directors or their boards are almost exclusively made up of family members, either as current or future stockholders; this family-members-only board composition affects the objectivity of corporate governance, in many cases taking precedence over the health of the company (Brener, et al, 2009).

In general, an enterprise can be classified according to various categories. The two categories of SMEs that recently have received increased attention are family businesses (Corbetta & Tomaselli, 1996; Ward & Hardy, 1988 in Gabriellson & Huse, 2005) and venture capital-backed firms (Fried et al., 1998; in Gabriellson & Huse, 2005). It further explained that there are three forms of ownership in the context of small and medium enterprises including subsidiaries, joint ventures and partnerships (Kriger, 1988; Huse and Rindova, 2001; Goodall and Warner, 2002 in Gabriellson & Huse, 2005). Such ownership characteristics become a distinction between family and non-family businesses.

Some family businesses manage to merge family and business very successfully and take advantage of the unique characteristics of a family in business (Aronoff & Ward, 1995). Even though some
of them fail, resulting in adverse effect for the family. However, Brenes et al. (2009) also demonstrated that family businesses managed by one family line have the same relative characteristics of problems in every country in the world, namely, conflicts of interest and internal competition.

In family firms, power, sentiment, and emotional issues of the family owning the business can have a profound impact on management issues (Fletcher, 2000 in Westhead, et.al 2001). Check and balance system also become growing issue in SMEs because most of them do not have formal structures and at risk for abuse of authority and rules. Problems arise when the effects of family centralization often dominate in corporate decision making. Researchers in family business believe that family influence makes a family business distinct from a non-family business. But no business can escape family influence; even the decisions of the CEO of a publicly held corporation with no dominant shareholder can be influenced by his or her family (Chrisman et.al, 2003). Corporate governance describes how companies ought to be run, directed and controlled. It is about supervising and holding to account those who direct and control the management (Abor & Adjasi, 2007). Current corporate governance requires operating systematically with a strong balanced power base (Gómez & López, 2004). In consequence, to achieve this power balance the stockholders have to define clear individual component roles and responsibilities. A part of the stockholders’ assembly role comprises values guiding organizational culture, as well as business goals and expectations, and long-term vision (Brenes et.al, 2009).

In Indonesia, according to Center of Domestic Trade Studies (2013) SMEs find it difficult to meet the requirements set by financial institutions, especially in the case of bookkeeping and collateral. Likewise, financing institutions find the difficulties of SMEs are feasible and bankable to be financed to avoid the existence of problem loans. In addition, Adam (2010); Nugroho (2011) in Damayanti & Adam (2015) stated that SMEs have less experiences in managing credit and have poor financial report system, therefore the importance of understanding the appropriate business practice is essential to be implemented. Ministry of Cooperation and SMEs (2012) also stated that only 35% of SMEs has access to banking. Furthermore, based on a survey of World Bank (2009) in Damayanti & Adam (2015) the number of SMEs registered in Indonesia still less than 30% of total SMEs, fall behind Vietnam and the Philippines respectively 87% and 98%. These findings indicate that in general SMEs governance is still a problem since the beginning of establishment to the development of business. The fact that large number of unlicensed SMEs, not listed as taxpayers, and not applying a reasonable wage system also rise as problems. In order to grow and have competitiveness, SMEs are responsible to fulfill that obligation and meet the standard of good corporate governance.

The analysis of the company’s internal control system and management bodies are one way to study corporate governance (Hung, 1998 in Gubitta & Gianecchini, 2002). In family business, governance receives the family imprinting and becomes a synthesis (sometimes a compromise) between the family values and business rules, reflecting all of the critical steps in organizational development (Gubitta & Gianecchini, 2002).

Based on the description stated above this research will be addressed to the later explanation related to the readiness of good corporate governance implementation in family business in Yogyakarta, with emphasizing on how is the implementation of good corporate governance in family business in Yogyakarta based on transparency, accountability, responsibility, independency and fairness? And how is family business readiness in Yogyakarta implementing good corporate governance?

This research aims to analyze the implementation of good corporate governance practices (transparency, accountability, responsibility, independency and fairness) in family businesses in Yogyakarta and identify and examine the readiness of good corporate governance practice in order to find new family businesses issues that may arise among SMEs in Yogyakarta. This research was focused more on business and limited to family businesses that are classified as small and medium enterprises in accordance with Small Medium Enterprises Act No.20 of 2008, which is based on the amount of assets and turnover, and family business that the ownership or management is held by one or more members of a family that is located in the Special Region Province of Yogyakarta.

2. Theoretical Framework and Hypothesis Development

2.1 Good Corporate Governance In Indonesia

The concept of Good Corporate Governance (GCG) in Indonesia was first introduced during the 1998-1999 monetary crisis period in conjunction with the development of GCG banking guidelines and
GCG guidelines for the insurance sector (Indonesian National Committee on Governance, 2006). During that time, Indonesia experienced inconsistencies in the implementation of good corporate governance on many companies, especially related to business ethics. In 2001, sustained GCG changes were implemented and in 2004 GCG guidelines for the banking sector and GCG guidelines for the insurance sector were published following by the guidelines for public companies in 2006. In 2004, The Government of Indonesia made some significant improvements under the Principle of Corporate Governance from Organization of Economic Co-operation and Development (OECD) by establishing Good Corporate Governance Implementation Framework (Indonesian National Committee on Governance, 2006).

Brenes et al (2009) explained that corporate governance is guidance and management structure aligning and organizing ownership management and business management. Corporate governance comprises three different elements: the stockholders’ assembly, the board of directors and the top management team. However, issues concerning corporate governance fall upon the board of directors how the board members are chosen, how this board operates and the boards responsibilities — and all of those factors in turn impact top management functions and responsibilities. According to Mayer (1997) corporate governance is concerned with ways of bringing the interests of (investors and managers) into line and ensuring that firms are run for the benefit of investors. Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society’s conception of the scope of corporate accountability (Deakin and Hughes, 1997).

In Indonesia, good corporate governance is very crucial in order to raise the market transparency & efficiency among domestic and multinational companies. Therefore, the implementation of good corporate governance principal is supported by government through two main ground concepts (Indonesian National Committee on Governance, 2006) as follows:
1) Government as regulators, inspectors and party that encourage the conducive & healthy business climate.
2) Business society as the user of product & service should aware about the principal of good corporate governance and responsible of its practice & control.

In many instances, SMEs are made up of only the owner who is the sole proprietor and manager (Hart, 1995 in Abor & Adjasi, 2007). Even though, many SMEs do not have formal structure, still many research result show that often, family business has exceed performance than non-family business (Anderson & Reeb, 2003; McConaughy et al., 1998 in Itan & Lestari 2010). Brenes & Madrigal (2003) stated that many families owning one or several businesses that decided to anticipate and prevent conflict by developing a family protocol, setting policies regarding family member involvement in the business and creating mechanisms to implement that protocol. Accordingly, family business stakeholder involvement on the business will determine the success of the business in the future. Likewise, Gubitta & Gianecchini (2002) asserted that unlike managerial companies, the success of family businesses depends on the ability to manage three networks: the familial network, which encompasses all the members of the institution (whether or not they are involved in the management or in the equity), the organizational network, which includes all the people who take part in the business (at the top, middle, and low levels familial or not) and the environments network, which involves the external stakeholders, such as customers, suppliers, banks, and other institution.

Through the implementation of good corporate governance in Indonesia, initiated by Indonesian National Committee on Governance (2006), all business sectors such as private business, Government, public services and high environmental risk business are expected to be good example of the effective implementation of good corporate governance in Indonesia. In other words, family business and SMEs are also including in that criteria. Moreover Indonesian National Committee on Governance (2006) asserted that good corporate governance principle have to be implemented in every part of business. In particular:

1) Transparency
Transparency is described as openness and availability of relevant, accessible and understandable information to stakeholders. These include vision, mission, business strategy non-financial reports and financial reports.

2) Accountability
Accountability is based on the appropriate company’s performance, measurable and in line with the interests of the company & the stakeholders. It includes clarity of job description, duties and responsibilities and functions within the company.

3) Responsibility
Responsibility is explained as company’s compliance with laws and regulations in relation to long-term corporate sustainability. These include
company decision making and corporate governance principles.
4) Independency
Independency is based on the professionalism and independence of the management with a balanced portion of power without the domination or intervention of both party and free from conflict of interest.
5) Fairness
This principle of fairness and equality is based on the company’s activities in dealing with stakeholders fairly and equitably and fulfilling the rights of stakeholders fairly. It includes professionalism and equality in recruitment, payroll and external co-operation.

2.2 Family Business & Non Family Business

Family business is defined as a business that is owned and managed by one or more family members (Hollander & Elman, 1988 in Winter et al 1998). Furthermore, Chua et al (1999) stated that theoretical definition of family business is: “The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families. Farrington (2009) described a ‘family business’ is a business where a single family owns at least 51% of the equity of the business, and where at least two family-members are involved in the senior management of the business. There is a lack of consensus surrounding the theoretical and operational definitions of a family firm (Birley, 1997; Chua et al., 1999; Litz, 1995; Westhead & Cowling, 1998). Researchers focus on three key issues when defining family firms: whether a single dominant family group owns more than 50% of the shares in a business, whether members of an “emotional kinship group” perceive their firm as being a family business, and whether a firm is managed by members drawn from a single dominant family group (Westhead et.al, 2001).

In other hand, non-family business that described as venture capital-backed SMEs are firms in which professional investors have invested alongside management due to the firm’s potential for significant economic returns (Fried & Hisrich, 1995; Manigart & Sapienza, 2000). While family businesses by definition may be relatively old and mature firms, will venture capital-backed firms consequently often be young and fast-growing firms in which the need for alertness and proactiveness in turn calls for short-term planning and frequent follow-ups (Manigart and Sapienza, 2000).

2.3 Small Medium Enterprises In Indonesia

The role of SMEs in encouraging economic growth in Indonesia shows a significant contribution, as explained before the contribution of SMEs to the GDP of Indonesia in 2013 that is 58.1% with 14.1% is the export commodity (Ministry of Cooperation and SMEs, 2013). The findings of LIPI in 2014 according to Damayanti & Adam (2015) show that SMEs produce goods and services for the main needs of lower middle-class society and about 67% of the workforce is lower middle class. It shown that SMEs are not only a source of job creation and income for the lower middle class, but also a source for them to meet their needs (Damayanti & Adam, 2015). Research finding of World Bank (2009) in Damayanti & Adam (2015) also shows that the proportion of medium and large enterprises to the population is much lower, indicating that SMEs not necessarily grow and develop into larger-scale enterprises. It is expected that the development of SME’s in Indonesia play an important role in Indonesian local economy and contribute to many aspects of nation development, especially as demonstrated in times of crisis. SME’s become the ground of the domestic economic growth and potential in Indonesia.

According to Indonesian Ministry of Cooperation and SMEs, (2013) SMEs is a small business is defined as an individual or business entity that has engaged in activities / business that has sales / turnover per year as high as Rp 600,000,000 or assets / assets as high as Rp 600,000,000 (excluding land and occupied premises): (1) business staff (Firm, CV, PT, and Cooperative) and (2) individual (craftsmen / home industry, farmers, ranchers, fishermen, forestry, miners, traders of goods and services). Indonesian Central Bureau of Statistics (2011) also describe that small business enterprise is a business with 5 to 19 employees and medium business enterprise is a business with 20 to 99 employees. As explained previously, family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families. Governance issues highlighted in family firms are potentially more complex than those reported in nonfamily businesses. The greater
complexity is due to the fact that the family firm involves three intertwined systems, the family, management, and ownership (Hoy & Verser, 1994).

3. Method

This research uses descriptive and quantitative model. This model is used in explaining the characteristics of the respondents. Every data that was obtained from the respondents will be described in detail and explained with quantitative model to analysis the implementation of good corporate governance in SMEs. The population in this study is the family business that is involved in the goods or services industry including small and medium enterprises, in which ownership or management is held by one or more members with family relations and located in the Yogyakarta Region. The numbers of samples used in this study are 60 Small and Medium Enterprises in accordance with the research criteria (Sekaran, 2010).

Data collection methods that used are questionnaires and field observations. Questionnaires were distributed and tested for validity as research instruments. Interviews are conducted in a structured list of pre-determined questions. Interviews are conducted in-depth and seek further information as needed and lists of open questions. Further observations were conducted to support the results of the interviews with a structured process. The range of questions in the questionnaire includes respondent characteristics, respondent's business characteristics, and implementation of good corporate governance with 4-point interval scale measurements from 1 strongly disagree to 4 strongly agrees. It is agreed that in terms of achieving target small medium business sector should have some set of guidance that could lead them to success. The guidelines stated at good corporate governance practice would benefit the business to mitigate the risks and fulfill their financial or credit requirement.

4. Results

4.1 Profile of SMEs

Total of 75 questionnaires are distributed and 60 SMEs responded. Therefore, the response rate is 90%. Business registration status shown that 60% are not registered yet and 40% of business are officially registered. In addition, 33% of the business operated more than 5 years, 33% operated 3-5 years and 10% and 23% operated less than 1 year and 1 to 3 years respectively. These findings are quite interesting since majority of SMEs still not officially registered even though the businesses are already running mostly more than 5 years. In terms of industry, 43% works at general service industry, 35% in general trading sector, 10% in culinary, 5% in education and general industry respectively and the least is 2% in entertainment. Majority of SME’s owner education background of the respondents shows that most of the respondents are bachelor degree holders with 72%, followed by the 28% are senior high school holders.

Regarding to the criteria of SMEs, majority of the respondents are relevant with the standards. Majority or 57% work only with less or equal to 10 employees, 26% has more than 20 employees and the rest 17% has 10-20 employees. Majority of SMEs or 47% generate monthly income less than Rp. 25 Million, 28% of SMEs generate Rp. 50-100M per month, 15% has Rp.25-50 M monthly and 10% earn more than Rp.100 M. About 67% of SMEs respondents have less family member involvement and 33% said they have more family member involvement. Majority of the SMEs or 77% do not conduct meeting frequently, only 23% of SMEs hold a meeting more frequently. Also, 57% of the business revealed that has separation of its structure while 43% do not have separation of structure. It can be summarized that majority of respondents are categorized as SMEs and also family business.

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<th>Table 1. Profile of Respondents</th>
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Source: data analysis
4.2 Good Corporate Governance Perceptions

This section examined the general practices of good corporate governance in SMEs. At the beginning of the survey, most of the respondents, the owners and managers responded negatively by telling that they have very limited understanding in term of GCG, however after they read some of the points, they reveal that actually some of the technical term was already implemented in their business. There are four main aspects from GCG that examined in this section, the perception of SMEs toward transparency show that mostly the SMEs understand that company financial and non-financial report should be reported on regular basis (mean= 2.83), they also discloses the internal salary system to the employee (mean= 2.68) it might be due to the direct communication by the owner or management to the employees. Another section identify that even though most of SMEs do not have structured board of director, meeting still held regularly, also regarding to the financial reporting, there are less detail in the financial document, it might be due to the limited of financial literacy and compenency.

In transparency section, the perception of SMEs toward transparency show that mostly the SMEs understand that company financial and non-financial report should be reported on regular basis (mean= 2.83), they also discloses the internal salary system to the employee (mean= 2.68) it might be due to the direct communication by the owner or management to the employees. Another section identify that even though most of SMEs do not have structured board of director, meeting still held regularly, also regarding to the financial reporting, there are less detail in the financial document, it might be due to the limited of financial literacy and compenency.

In accountability, the finding shows that the SMEs agree that detailed job description is necessary (mean= 2.97) as well as standard operational procedure document (mean= 2.67), following with specific reward and punishment procedure and code of conduct document in the company. However, most of the SMEs do not believe in the separation of managerial structure will increase their accountability; it might be due to the size of the company and the number of family or management team that involved within the company.

When the section pertaining to responsibility is examined, the findings indicated that most of SMEs agree that a regular payment period is important (mean= 3.58). It explains that most of the employees...
recognize that their salaries are an essential aspect of their employment. Companies reporting the tax on time (mean=3.27) was also categorized as an important aspect to SMEs, although only 40% of them are registered. It also indicates that the SMEs owners are aware of their responsibility to report and pay the government tax regardless their business registration status. Regarding the annual report to the owners, most of the SMEs have low perception, however, it does not mean that they do not report, it might be because there is no clear separation of the company structure, so the members can easily communicate directly. Specific safety procedures are also not considered to be a critical point as the businesses seem not to require any specific safety equipment or procedures.

SMEs agree that the company should have specific recruitment methods (mean=2.55) in order to make sure that the recruitment program is fair as well as the owners or family members should be independent in deciding company strategies (mean=2.43). Other information that is generated from the findings is that they slightly agree that the owners have more influence in company planning and decision making. It could be the indication that the most of SMEs run with the trust of the member and also implement equity among the member of the company, also most of the SMEs have less than 10 employees.

SMEs perception of fairness showed that family member have limited opportunity to work at the company (mean=3.30). The evidence is that 67% of the SMEs respondents have less than 3 family members in the business. Even though the family members’ participation is important, the owners of the business realize that by limiting the number of family involved would not impede the communication through family or board meeting on regular basis (mean=3.05) and also in terms of the access of daily business operation, the involvement of family member is limited due to fairness reason. The SMEs also consider that salary and bonuses should be given based on performance regardless the family relationship.

4.2 Good Corporate Governance Scoring

This section examined the implementation of good corporate governance in SMEs. Therefore, to understand the score of the implementation, an interval scoring used as an assessment instrument with some categories, very good, good, poor and very poor. Those categories are according to the 1 to 4 intervals scoring from each question in the questionnaire (transparency, accountability, responsibility, independency, fairness) using this following formula, Interval = (Maximum Score-Minimum Score)/4. This formula has been used to find the interval score in every good corporate governance variables. Transparency, independency and fairness have 4 set of questions while accountability and reliability have 5 set of questions each.

Following is the general analysis for the SMEs good corporate governance implementation based on the variables. In transparency section, the scoring of SMEs toward transparency score was 10.19 indicated that mostly the SMEs have good implementation of transparency in their business. Also, the accountability of the business score was 12.59 or most of the family business has good accountability. The interval score of responsibility score was the highest with 14.62 indicated that the implementation still considered as very good. Even though the lowest score is independency with 9.30, the practices of the SMEs still considered as good. The last section that is fairness had 12.11 that categorized as very good, it indicated that although most of the business size is small, the practices of fairness are implemented well on daily basis.

5. Conclusion and Recommendations

Generally in Indonesia, since the impact of SMEs towards the national economy is extremely positive, the Indonesian Government has come out with the long term programs to develop this sector further and supporting the financial needs of SMEs, for instance a micro business loan to SMEs and financial literacy program. Moreover, the Indonesian Government believes that SMEs sector that rapidly growing still provides many opportunities. Also, good corporate governance in SMEs is considered as exceptional practices due to the SMEs readiness. On the other hand SMEs have limited resources in structure, financial and the general business competency. However, the responsibility to fulfill the best practice of good corporate governance is compulsory. SMEs business owner or manager must increase their capability to meet the good corporate governance standard by creating their own business code to provide the guidelines based on the good corporate governance.

The importance of business structure would become a very good point to start for SMEs to be able to monitor their business. In addition, the owners must actively observe and provide adequate guidance for the employees to make sure that the business operated according to their strategy. Findings advise that SMEs actually recognize the importance of good corporate
governance and how their business must be responsibly operated. However, the lack of information and competency of the owners or stakeholders often hinders the practices. Also SMEs need to modify or adapt the basic concept of good corporate governance that is suitable to their business practices. The respondents believe that the involvement of the family member in the business should provide a supportive business environment and adequate information regarding good corporate governance practices. For instance, financial reporting statements, salary and bonus, job description, family roles, annual meeting and the completion of standard operation procedures. The owners and managers should also be accountable for the business activity that relates to stakeholders’ interests.

According to the results, the majority of the SMEs consider that good corporate governance practice is an important aspect of their business and also takes some benefit from it. In some ways most of the respondents have already applied the fundamental concept of good corporate governance even with no detailed guidance. It shows that SMEs in Yogyakarta already have a good starting point and should be prepared for more detailed implementation in the future, since it is necessary to meet the requirement to rise some funding for the business. This study is a preliminary research related to the application of good corporate governance in the SMEs sector in Yogyakarta, Indonesia. Thus, this research should be the stepping stone for future research in similar areas of interest.

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