Family Business Corporate Governance: A Case Study of PT. Puco

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ABSTRACT

This study is about the family business and its relation to governance in the family business, namely at PT. Puco. PT. Puco is a valve control system manufacturer in Indonesia. This research aims to identify the picture of governance in PT. Puco recommends key factors determining the success of governance at PT. Puco and create an ideal governance concept for PT. Puco. The research method used is qualitative research with data collection methods using interviews, Analytical Hierarchy Process, and the Soft System Methodology approach. The results of the research on governance description is PT. Puco has implemented governance following the ISO 9001:2015 standard but needs improvement. The research results on the key factors determining the success of governance at PT. Puco. The results propose a governance model for PT. Puco consists of family and business circles. Proposed changes to resolve the problem need to be taken as an action to improve the situation.

INTRODUCTION

An excellent firm is crucial because it serves as the foundation for honesty. Poor corporate governance weakens a company's potential and, at worst, can pave the way for financial difficulties and even fraud. If the company is well regulated, it will usually outperform other companies and will be able to attract investors whose support can help finance further growth. Thus, good corporate governance is essential to the company because it can strengthen its potential to continue to grow (Brenes et al., 2011). Several things must be considered if a family business wants to improve corporate governance, which is as follows (Sarbah et al., 2015): 1) the company reviews corporate governance, starting with a well-structured arrangement of the board of commissioners and management, 2) the company ensures that family and nonfamily members' succession planning is handled well, 3) the company takes professional actions in management, including evaluating performance and providing incentives for employees.

The family business studied in this research is PT. Puco. PT. Puco is a Domestic Manufacturer (PDN) manufacturer in the field of valve control systems in Indonesia. PT. Puco is a provider of valve control systems for oil and gas industry companies in Indonesia. PT. Puco has an interesting phenomenon related to its governance. For example, this company already has ISO 9001: 2015 certification, which means that every company's operational activities, especially production activities, should be well documented. For example, in November 2017, an incident led to the implementation of corporate governance, namely the documentation. The required and crucial document is a Material Test Certificate for each item that must be prepared by Purchasing before production activities and checked by Quality Control and Quality Assurance. However, these documents are not ready before production; even new documents are ready after the show. If the paper is not prepared, then the process of preparing product documents by Document Control will be delayed. However, this problem can be solved because Document Control, Production Supervisor, Quality Control, and Quality Assurance do overtime to prepare documents so that the delivery of goods is not late; this can be avoided if the company refers to good governance. This incident motivated the writing of this research, namely, what kind of governance in a family business is run in PT. Puco. This research wants to produce an ideal concept of corporate governance in a family business so that, in the long term, it can improve the performance of the family business to achieve its goals.

The family business, according to (Poza, 2010), is defined as follows: 1) two or more members of a family or partnership family control the business, 2) family members can have a strategic impact on company management by actively participating in management, defining the culture, working as an adviser or board member, or being an active shareholder, 3) putting family bonds first and last 4) the company's long-term sustainability objectives.

According to (Susanto & al. 2007), the family business may be split into two types, 1) a Family Owned Enterprise (FOE) is a business owned by a family but managed by professionals who are not related...
corporation owned and managed by the founder's family. The fact that family members hold significant roles in the firm is a distinguishing feature of this type of business. Because the firm is owned and managed by the founder's family, PT. Puco is classified as a Family Business Enterprise (FBE). Family members hold vital positions in PT. Puco, including President, Director, Directors, and Managers. According to (Ward, 2004), family businesses have the following benefits and strengths: 1) there is a small amount of bureaucracy, 2) greater flexibility due to a focus on good corporate governance, 3) a clear structure of accountability, 4) there is a desire to reinvest earnings in the company's development in line with a mutual agreement, 5) family culture is a source of pride for leaders, demonstrating stability, identity, high drive, and consistency, and last 6) because there is no market pressure exchange, there is a high level of action independence.

Corporate governance is essential for family businesses. According to (Davis, 2001), the following elements are included in the governance of family businesses: 1) a family meeting is a regular (typically annual) family council meeting where all family members can participate, 2) a family council consisting of family members who may assist families in planning, policymaking, and improving communication and family relations, 3) the family constitution includes family policies, vision, and value standards that regulate the interaction between family members and the company. This written document can be short or lengthy, thorough or straightforward, but it will benefit every family member.

Because there are separate meetings for the family – owners – managers or periodic meetings between shareholders, the board of commissioners, and management, family corporate governance varies from professional corporate governance. Basic Governance Structures of Family Business System, according to (Tagiuri & Davis, 1982), in any family-owned firm, there are three governance structures: family, ownership, and business structures. Each circle has its character and dynamism, interacting with and influencing the other two. Managing a healthy and sustainable family company function also requires effective governance.

In the following ways, the optimum governance in a family business (Sarbah & Wen, 2015): 1. Informing the family board of the company's values, vision, and goal. 2. Hold family gatherings to discuss business accomplishments, difficulties, and the company's strategic future. 3. Using family meetings to communicate corporate laws and regulations. 4. Using family meetings to communicate ideas and ambitions. 5. Provide chances for the family board of directors to make important business decisions. Moreover, Sarbah et al. (2015) also note that good corporate governance improves businesses’ performance; businesses need to have good governance structures to grow. Family businesses have very different corporate governance structures than nonfamily businesses, and these differences have a big impact on how well they do (Tanewski et al., 2006). As a result, there is still a lack of awareness of the distinctiveness of corporate governance applied in family businesses, which is a major source of frustration.

**RESEARCH METHOD**

Because this research is delivered in words, the technique used in this study is qualitative. Because the research topic is the ideal party to be employed as a research sample, the sample in this study was established utilizing a judgment sampling form of purposive sampling. In this study, three analytical approaches were used: 1) qualitative analysis using interviews to answer questions about governance practices at PT. Puco. 2) Analytical Hierarchy Process (AHP) analysis using questionnaires to answer questions about key factors determining the success of governance at PT. Puco, and 3) Systems thinking analysis using a soft system methodology to answer the question of how to improve governance at PT. Puco. Primary data was gathered for the purpose of authoring this thesis. The interview guide was utilized to collect information about PT. Puco's governance description. The 5W1H guidelines are used in this interview guide (who, what, where, when, why, and how). The goal of variable operationalization is to extract data on important elements impacting the performance of governance at PT. Puco, includes components in family company governance, the fundamental framework of family business governance, and the implementation of the family board's functions. The study's premise is that if the major variables affecting success in a family business are governance, then PT. Puco is a family firm that can withstand business rivalry.

**RESULTS AND DISCUSSIONS**

The following are the findings of the research on the important variables impacting the effectiveness of PT. Puco's governance, as determined by the distribution of questionnaires to 5 persons and the application of 9 criteria:

**DISCUSSION OF PT. PUCO'S GOVERNANCE OVERVIEW.**

Puco, who holds the office of President Director, plays a significant role in PT's governance. The necessity of excellent corporate governance has been recognized by PT. Puco. PT. Puco has put in place governance,
although it might be better. The goal of PT. Puco's interaction with its management is to retain professionalism and reassure customers. PT. Puco has the elements of family company governance, such as family councils, family gatherings, and family constitutions. PT. Puco's core family consists of the company's founders. In the family board of PT. Puco, the family council, plays a vital role in company administration and dispute resolution. At PT. Puco, family meetings are held regularly, and the outcomes are memorialized in a family constitution.

KEY DETERMINANTS SUCCESSFUL GOVERNANCE AT PT. PU CO.
Nine criteria were examined and weighted to determine the primary aspects impacting the performance of PT. Puco's governance. The nine criteria, based on their rankings, show that if PT. Puco wants optimum governance; it must consider the fundamental aspects of governance success. The following are the major criteria that determine the performance of PT. Puco's governance:
1. There is a family council in place.
2. The frequency with which the family meets.
3. A written policy on corporate management.
4. There is a schism inside the family council.
5. The controlling stockholder.
6. The composition of the family council's membership.
7. PT. Puco's legal entity is a manufacturing company.
8. The principal decision-maker in a commercial transaction.
9. The family council is charged with certain responsibilities.

The five first criteria suggest that the family board plays a significant role in governance at PT. Puco, notably in terms of existence, engagement, documentation, management, and execution, is based on these nine criteria. In terms of concept, the ideal governance in a family firm is described by Sarbah and Xiao (2015) as follows:
1. Informing the family council on the company's vision and objectives.
2. Hold a family gathering to discuss business accomplishments, difficulties, and strategic direction.
3. In meetings with the family, communicating company norms and regulations.
4. Using family gatherings as a vehicle for communicating ideas and ambitions.
5. Give the family board of directors the opportunity to make important business choices.

Based on the findings and with Sarbah and Xiao (2015), PT. Puco has a good chance of achieving ideal governance if the focus is on family board meetings, or in this case, the existence and frequency, as long as written documents exist that can be used as guidelines for company policies. As a result, the first five of the nine criteria are critical predictors of governance success. This phrase can be found in PT. Puco, refers to the ideal governance of a family firm. The following (Sarbah and Xiao, 2015) are ways to improve governance in a family business:
1. Establish a structure, such as forming a family council for learning and growth.
2. Procedures, such as developing and implementing ownership education programs and strategic planning
3. Policies, such as family council policies that require family council members to participate in learning and growth.

It appears that PT. Puco encourages corporate governance through a structure based on the criteria findings for the major variables impacting the performance of governance at PT. Puco. The system at PT. Puco's objective is to have the family board have frequent interaction with the firm, which takes the form of family meetings, the establishment of a family constitution, and conflict management by the family council. According to the research findings, the learning and development committee of the family council is one of the most important variables affecting the effectiveness of governance, particularly the five criteria. The lesson here is that the family council is active in information updating, although in a passive role.

Puco for governance to be implemented optimally. PT. Puco is a maker of valve control systems, as indicated in the corporate description, in addition to the importance of the family board. Companies must execute governance in line with ISO certifications, according to the company's goal. The government of PT. PT must carry out part of the corporate governance process. Puco can operate smoothly if the procedure is followed correctly.

Thus, PT. Puco has fulfilled the critical success factors of ideal governance because it has carried out the role of the family board based on the results of the AHP ranking, and this is a derivative of the mission of PT. Puco, which is very clearly stated in the company profile that the importance of implementing good governance, namely the task of PT. Puco number two contains implementing ISO International Standards in corporate governance to create Product Traceability following ISO standards.

Four criteria became the aspirations of the informants involved among the nine criteria that are key factors determining the success of PT. Puco, namely 1) The form of business of PT. Puco is a manufacturer, 2) Composition of membership in the family board, 3) Majority shareholder, and 4) The Main party in business decision making. PT. Puco is a manufacturer in the context of its business form, which includes manufacturing, fabrication, machining, testing, assembly, and repair. At the same time, the family board's
membership should ideally match the CEO and extended family requirements. The CEO and the founder's nuclear family should preferably be the largest stakeholder in PT. Puco. The founders and the family board of directors determine the majority of business decisions.

**DISCUSSION OF THE IDEAL GOVERNANCE CONCEPT FOR PT. PUCO**

The following are the phases in developing an ideal governance model for PT. Puco using a soft system methodology:

1. Determine the issue.
   The AHP technique was used to develop the criteria for the main success elements in governance. Nine criteria were identified as a result of this approach, including 1) the existence of a family council, 2) the frequency of family meeting schedules, 3) a written document of business management policies, 4) conflicts within the family council, 5) the family council has specific tasks, 6) the form of PT. Puco is a manufacturer, 7) the composition of membership on the family board, 8) the majority shareholder, and 9) the main party in business decision making. Additional information was obtained during probing to confirm the results of the AHP, revealing problems that did not support the key factors determining the success of governance at PT. Puco, namely incomplete product certificates, under-supervised product quality assurance, incompetent human resources due to a lack of training, and standard operating procedures that are not supervised by quality assurance.

2. Reveal the problem

   ![Figure 1. Problems at PT. Puco](image)

3. Determine the applicable system's root cause definition.

   **Table 2. CATWOE's of PT. PUCO (Source: processed from interview)**

<table>
<thead>
<tr>
<th>CATWOE's Element</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Oil and gas companies</td>
</tr>
<tr>
<td>Actors</td>
<td>Chief Operating Officer</td>
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<tr>
<td>Transformation</td>
<td>By considering the important variables that influence governance success ----&gt; the documentation process goes smoothly, product quality improves, highly qualified human resources are available, and standard operating procedures can be adopted in a long-term way</td>
</tr>
<tr>
<td>World view</td>
<td>Valve control system manufacturing.</td>
</tr>
<tr>
<td>Owner</td>
<td>Chief Operating Officer</td>
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</table>
4. Explain the conceptual model system at the root of the problem.

The Three Circles Models, which include family, company, and ownership structures, are the best form of family business governance. The ideal governance model for PT. Puco, on the other hand, employs Two Circles Models, namely the family and business structure, as indicated below:

![Figure 2. Two Circle's Model for PT. Puco](image)

PT. Puco is a family firm that can survive the business rivalry, according to the findings of this study and the research hypothesis, which argues that if governance in a family business has critical success elements. In order for PT. Puco to thrive in business rivalry, nine important success characteristics are advised, as detailed above. At PT. Puco, there are four issues that do not support the core determinants of good governance. These issues include: 1) incomplete product certifications, 2) poor product quality assurance, 3) incompetent human resources owing to a lack of training, and 4) unsupervised standard operating procedures. In this regard, it is proposed that PT. Puco analyses the difficulties that develop and takes remedial action.

CONCLUSION

Researchers can make conclusions for the three-issue formulations in this study based on the findings of their research and analysis, which are as follows:

1. The findings of the formulation of the first problem, namely the description of governance at PT. Puco, revealed that PT. Puco has implemented command by the ISO 9001:2015 standard, but it might be improved.
2. The study findings suggest that PT. Puco must refer to the key factors determining the success of governance if it wishes to have perfect governance because it has carried out the role of a family board based on the results of the AHP ranking. PT. Puco has fulfilled the key success factors of ideal governance. This is a derivative of the company's mission, which is very clearly stated in the company profile that the importance of implementing corporate governance is important.
3. The study results suggest the ideal governance concept for PT. Puco is two circle models, comprising family and business circles, for the formulation of the third problem, namely the perfect governance concept for PT. Puco.

Inspecting documents utilizing zahir accounting and local servers, integrating relevant departments, checking product quality and creating product quality checking reports, giving ISO 9001:2015 training and American Petroleum Institute to PT. Puco personnel and SOP Quality assurance monitor PT. Puco, through a written statement, and recommended modifications to SOPs are communicated to PT. Puco's management and directors in writing.

Researchers can provide managerial implications for PT. Puco, namely the governance of PT. Puco, based on the results of research and analysis conducted for the three problem formulations in this study. The governance of PT. Puco refers to the Two Circles Models, which consists of the family and business boards (president director), establishing nine key factors determining the success of governance at PT. Puco.

There will be more family companies. Based on the research and analysis conducted for the three problem formulations in this study, researchers can make recommendations to other researchers, such as conducting additional studies comparing two or more family businesses in terms of governance to obtain governance information. The next researcher can then use a quantitative technique to assess governance.
REFERENCES


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