

How Economic Sustainability is Created by Implementation of Good Corporate Governance in Small Scale Enterprises: Case Study in *Tenun Songket* Industry in West Sumatera

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Abstract

The purpose of this research is to determine the effect of the implementation principles of good corporate governance on the family firm's economic sustainability. Corporate governance refers to the mechanism used by companies in managing relations between stakeholders, determining the direction or strategic objectives of the company, as well as how to control the company's performance. The population in this study were all *songket* weaving business units in West Sumatera. The sample was obtained by using Snowball technique and purposive sampling with the criteria of the business unit managed by the family. The number of samples in this study is 118 units of family business of *songket* weaving in West Sumatera. Data analysis with multiple regression, data is processed by using IBM SPSS statistics 24. From the results of the study obtained the correlation value (R) of 0.397. With a value of $\alpha = 0.05$, the results obtained (1) Transparency have a significant effect on economic sustainability of *Songket* weaving industries in West Sumatera with a regression coefficient of -0.132, (2) variable Accountability has a significant effect on economic sustainability of *Songket* weaving industries in West Sumatera with a regression coefficient 0.110, (3) Responsibility has not significant effect on economic sustainability of *Songket* weaving industries in West Sumatera with a regression coefficient of 0.019, (4) Variable Fairness has a significant effect on economic sustainability of *Songket* weaving industries in West Sumatera with a regression coefficient of 0.147.

Keywords: economic sustainability, corporate governance, transparency, accountability, responsibility, fairness, *songket* weaving

Introduction

Basically a family business is a form of business that is established and managed by people in one family. Because it is founded and managed by a family, in general, companies in the form of family businesses are small-scale and usually in the form of home industry (IRT). The management of the family company is limited to people in the core family. *Songket* woven business which is an original and authentic handicraft product and reflects the values of Minangkabau culture still experience problems in its growth and development. Furthermore, Miller and Le Breton (2005) explain that a family business can be defined according to number of different criteria. Miller, define a family business as "a business, whether public or private, in which a family controls the largest block of shares or votes and has one or more of its members in key management positions" (Miller & Le Breton-Miller 2005). They prefer to define a family business as comprising one of three distinct types, which can overlap. 1. Businesses that are owned by members of the same family, usually with family owning over half of the shares. 2. Businesses controlled by members of the same family, even if the family is not the majority owner. In this case the family can lose control if the owners become unhappy with the performance of the business. 3. Businesses in which ownership and/or management pass from one generation to the next (Dobson and Swift 2008).

Almost all of weaving business in west Sumatera are run as family businesses. This family business also tends to started from two or three generations before who now manage it. However, the development and growth of this business such as the road in the place even tends to decline. There is

no development which means that from year to year it even decreases from generation to generation. If we look at the phenomenon of its development, it now raises concerns that the business will end or close. If this continues to happen and is left alone, it is possible that the weaving industry will become extinct someday, which also means the extinction of one of the Minangkabau cultural products. It seems right the expression "The first generation created, the second generation develops and the third generation destroys" because that is indeed the problem that often occurs today.

Furthermore, AB Susanto (2014) explained that family businesses that have a business plan for succession to the next generation of family companies are around 28.8%, sell family firm to other owners around 19.8%, open markets 16.4%, and bring other partners only 5.4%. JCG noted that there are 7 main issues of family business, namely the conflict of values and differences in lifestyle, family succession or appointing professionals, structure management, arranging compensation for the active, dissenting opinions between members in the family business or jointly managed, building competencies, and fair income distribution .

Concern about destruction and the cessation of family business is not just a discourse. Many studies from various countries have highlighted the succession of this family business. One of the results was the research conducted by AB Susanto (2014), Chairman of The Jakarta Consulting Group (JCG). which states that only 5% of family businesses in Indonesia are able to survive up to the fourth generation (G4) and have contributed to the national economy. The results of the JCG survey show a continuing trend of decline in family companies in the second generation, only 61 percent, third generation 24 percent and only five percent remaining in the next generation. The existence of a family business in the national economic order cannot be underestimated, even this family business occupies a very significant portion of the global economy, as stated by Heck and Stafford, 2001; Rowe et al., 1999; Shanker and Astrachan, 1996. That is why it is important to conduct studies to study the determinants that influence the survival of this family business.

The results of a survey conducted by The Jakarta Consulting Group in 2014 concerning succession of family businesses in Indonesia showed that 45% of family businesses rely on succession hopes for one biological child or can be said to be the next generation, but only 8% stated that the succession of the successor of the family company to competent family members, whereas the success of a business is in human resource capacity in implementing good corporate governance.

Most of the research conducted related to corporate governance is carried out in large companies. Veira (2016) states that it is important to conduct a deeper and more focused study related to this family business. Paiva et al., (2016); Pazzaglia, Mengoli, & Sapienza, (2013) added that there were only a few studies related to income management studies that focused on this type of company. Apart from the importance of this type of business in the economic order and the awareness that earnings management is an important problem in family companies (Stockmans, Lybaert, & Voordeckers, 2010). In addition, most of the previous studies have focused on analyzing the differences between family and non-family businesses. However, in family business groups, there are still differences that have never been analyzed before, namely differences related to government and / or resources, given heterogeneity in family firms (Astrachan, 2010; Nordqvist, Sharma, & Chirico, 2014). According to Chua, Chrisman, Steier, and Rau (2012), previous research comparing families versus non-family companies is based on the assumption that family companies are homogeneous organizations.

Furthermore, research conducted by the Family Business Institute in 2009 concerning the movement between succession generations illustrates that the success of family businesses continues to decline from generation to generation and even more than 10% of family businesses stop in the third generation and only about 3% reach the fourth generation. The family business goals have been studied since the first stage of the family business philosophy (e. G., Astrachan and Jaskiewicz, 2008; Dunn, 1995; Lee and Rogoff, 1996; Tagiuri and Davis, 1992; Westhead and Howorth, 2007). However, there is a lack of clarity surrounding the theoretical definition of family business goals and absence of methodological approaches to make the concept operative (Miller and Le Breton-Miller, 2014). Furthermore Bakoğlu (2016) uses three dimensions of family firms sustainability, namely economic sustainability, social sustainability, and environment sustainability, but very rarely do companies

really focus on these three dimensions at once. From all these findings it can be said that none of the firms that make emphasis on the three dimensions of sustainability seem to have up to date, developed and strong implications of sustainability and its perspective within their firm.

The purpose of this study was to find out how the implementation of good corporate governance (GCG) affects the main dimensions of the family firm sustainability, namely economic sustainability. According to the Cadbury Committee, GCG is a principle that directs and controls the company in order to achieve a balance between the strength and authority of the company in providing its accountability to its shareholders in particular, and stakeholders in general. Therefore, the main focus in this research is related to the decision making process of companies that contain values of transparency, responsibility, accountability, and fairness. The research model was developed as shown below;

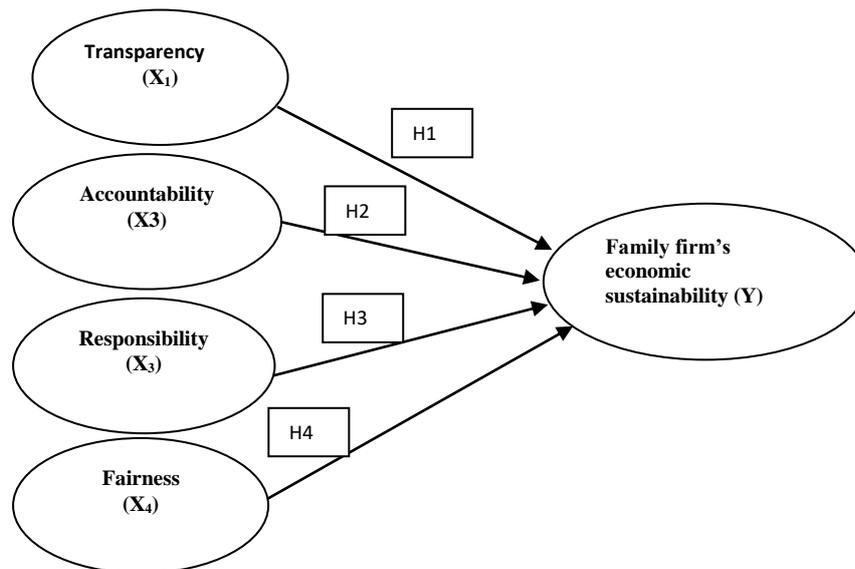


Figure 1 Conceptual Framework

Hypothesis:

- H1. Transparency has a significant effect on Family firm's economic sustainability
- H2. Accountability has a significant effect on the Family firm's economic sustainability
- H3. Responsibility has a significant effect on Family firm's economic sustainability
- H4. Fairness has a significant effect on the Family firm's economic sustainability

Methods

This research is a quantitative research, which examines the relationship of the influence of the independent variable (the dimensions of good corporate governance, namely: transparency, accountability, responsibility, and fairness) on the dependent variable (family firm's economic sustainability). The population in this study were all *songket* weaving business units in West Sumatra. The sample was obtained by using Snowball technique and purposive sampling with the criteria of the business unit managed by the family member. The number of samples in this study is 118 units of family business of *songket* weaving in West Sumatra. Data analyzed by using multiple regression method and data processed with IBM SPSS statistics version 24.

Results and Discussion

Results of Multiple Linear Regression Analysis

From the table 1 can be seen the significance value of the influence of each independent variable on the dependent variable. With the value $\alpha = 0.05$, in the significance column there is one variable

where the significance value is greater than 0.05, which means that the variable, namely variable responsibility does not significantly influence the family firm's economic sustainability.

Table 1 Results of Multiple Linear Regression Analysis

Variabel	Koefisien Regresi	t-hitung	Sig
(Constant)	36,528	11,671	0.000
Transparency (X1)	-0,132	-1,993	0,049
Accountability (X2)	0,110	2,515	0,013
Responsibility (X3)	0,019	0,238	0,812
Fairness(X4)	0,147	2,229	0,028

Overall the hypothesis of this study can be answered as follows:

1. Variable transparency (X1) has a significance value of $0.049 < \alpha = 0.05$, which means that variable transparency significantly affects the family firm's economic sustainability. In this case, H1 is accepted
2. Variable accountability (X2) has a significance value of $0.013 < \alpha = 0.05$ which means that variable accountability significantly influences the family firm's economic sustainability. It means H2 is accepted
3. Variable responsibility (X3) has a significance value of $0.812 > \alpha = 0.05$ which means that the variable responsibility does not significantly influence the family firm's economic sustainability. In this case means H3 is rejected
4. Variable fairness (X4) has a significance value of $0.028 < \alpha = 0.05$, which means that variable fairness significantly affects the family firm's economic sustainability. In this case means H4 is accepted

From table 1 above, by looking at the coefficient value of each variable, a regression formula for this research can be formulated as follows:

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Error! Reference source not found.0,147 X3

Y = Family Firm's economic sustainability

X1 = transparency

X2 = accountability

X3 = responsibility

X4 = fairness

Determination Coefficient Calculation Test Results (R2 Test)

Table 2 Results of the Determinant Coefficient Calculation (R square test)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,397	0,158	0,128	3,546

From table 2 above the acquisition of the determinant coefficient of R is 0.397. This shows that the contribution of variable X to variable Y is 39.7%, which means that 39.75% of family firm's economic sustainability is explained by the variables of transparency, accountability, responsibility, and fairness which are the principles of good corporate governance. While the value of R Square is 0.158. Where the contribution of variable X to variable Y is 15.8%. While the remaining 74.2% is explained by other variables outside this study.

Model Feasibility Calculation Test Results (F Test)

Table 3 Model Feasibility Calculation Results (F Test)

ANOVA ^a					
Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	266.231	4	66.558	5.294	,001 ^b
Residual	1420.583	113	12.572		
Total	1686.814	117			

a. Dependent Variable: Eco Sustain

b. Predictors: (Constant), Fairness, Transparency, Accountability, Responsibility

Source: Primary data is done using SPSS 24

From the results of data analysis in the ANOVA table, it can be seen that the significance value is $0.001 < \alpha = 0.05$, which means that simultaneously the variables of transparency, accountability, responsibility, and fairness give impact to the family firm's economic sustainability.

Conclusions

Based on the results of research about the effect on economic sustainability of *Songket* weaving industries in West Sumatra it can be concluded with the following description:

1. Transparency has a significant effect on the family firm's economic sustainability in *songket* weaving SMEs in West Sumatra.
2. Accountability has a significant effect on the family firm's economic sustainability in *songket* weaving SMEs in West Sumatra.
3. Responsibility has not significant effect on the family firm's economic sustainability in *songket* weaving SMEs in West Sumatra.
4. Fairness has a significant effect on the family firm's economic sustainability in *songket* weaving SMEs in West Sumatra.

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