

# Certification Is Not Everything: Quality Standards in Implementing Good Corporate Governance

M. E. Hastuti & S. P. Tumuju

*University of Surabaya, Surabaya, Indonesia*

**ABSTRACT:** The role of SMEs in the sustainability of the Indonesian economy is inevitable. In the all-digital era, sustainability must be maintained; one of them is through the implementation of Good Corporate Governance (GCG) in SME by involving all stakeholders. The role of research and community service activities is one of the supporters of the realization of GCG in order to create the sustainability of SMEs in this disruptive era. Higher Education is an institution that always keeps up with developments and can implement it on the fostered SMEs that are its stakeholders. This study used a qualitative approach with a natural setting conducted with open-ended questions and non-participant observers.

## 1 INTRODUCTION

The existence of Small-Medium Enterprises (SMEs) has a significant contribution to the Indonesian economy (Mahmood 2008). However, capital limitations, weak management control systems, and lack of knowledge have made many SMEs suffer (Suyono et al. 2016). Therefore, one of the efforts undertaken as support to enhance the role of SMEs in the Indonesian economy is the implementation of Good Corporate Governance (GCG).

El-Fotouh (2009) proposed two reasons why SME must implement GCG principles because the implementation of GCG principles will increase the capability of internal control so that it will improve the SME internal control system and minimize the potential for fraud. In addition, GCG is expected to be able to create added value for all related parties so that it can avoid conflicts between all parties in the business (Abdullah & Valentine 2009). Based on the above thinking, the researchers were interested in analyzing how SME applies GCG principles.

Two theories are often used to study corporate governance, namely stakeholder governance and stockholder governance (Friedman & Miles 2002; Gamble & Kelly 2001; Letza et al. 2004; Prabhaker 1998; Sternberg 1997 Turnbull 1997, 2002; Vinten 2001; Wheeler & Sillanpää 1998). In today's business world, stockholder governance theory is more

focused on the interests of shareholders. Whereas stakeholder governance theory views that all stakeholders such as government, communities surrounding business activities, employees, suppliers, consumers, related financial institutions, and all related elements that engage with business activities are an inseparable and equally important part to be considered (Günay 2008).

Corporate governance refers to a system that regulates and also oversees the running of a company's activities and balances all the interests of the organization to ensure responsible organizational behavior, and indeed, achieve efficiency and profitability (Du Plessis et al. 2018). According to the National Committee on Governance Policy or KNKG (2006), the principles of GCG, namely transparency, accountability, responsibility, independence, and fairness, are basic principles that are very critical in helping companies or organizations to survive for a long time. Transparency will be seen if the organization must openly provide valuable information related to business activities and ensure that the information is easy to understand and accessible by all parts of the organization. Organizations are said to be accountable if they account for their performance transparently. Therefore, the organization must be managed properly and measurably and in accordance with the interests of the organization and continue to take into account the interests of all parts of

the organization. Furthermore, responsibility is a form of compliance with laws and regulations as well as carrying out social responsibility towards the community and the environment. This responsibility aims to keep business activities running for a long time and to be recognized as a good organization. Independence is a characteristic when an organization can manage its business activities independently, and no part of the organization dominates other parts, and there is no intervention or interference from other parties. Whereas, fairness is a characteristic when the organization always considers the interests of all parties of the organization based on the principle of justice by not discriminating against one party with another.

## 2 RESEARCH METHODS

This study used qualitative methods with natural settings at Lombok Jaya SME. "Lombok Jaya" is an Ubaya's fostered SME producing chili sauce with various flavors. In this study, researchers used several data collection techniques, including interviews, document analysis, and observation.

The interview method was used to obtain information about business activities and the implementation of GCG principles in this SME. Interviews were conducted directly with the interviewees face to face using the semi-structured interview method to the SME owner. Analysis of documents and journals was deployed to complement the results of semi-structured interviews and observations that have been made. Document analysis was used to add information related to the implementation of GCG in SME "X". The observations made in this study were non-participant observation. The observation was carried out directly on business activities to observe how the GCG principles were applied in Lombok Jaya.

## 3 RESULTS AND DISCUSSION

The theory explains that elements of corporate governance, including the board of directors, audit committees, top management teams, internal auditors, external auditors, and government supervisory institutions (Rezaee & Riley, 2010). Where they explained that this structure is needed in order to ensure that management is monitored and behaved accountably in its business activities, as well as being responsible to the capital providers. While in this SME, they also have a responsibility to the govern-

ment and also the University of Surabaya (Ubaya) to get funding support and also to coach. Furthermore, the form of support from the government through higher education has been realized in the form of production equipment for the processing of these SME products. Then, coaching that has been given by the Ubaya was in the form of how to do business and make policies for applying ISO. This form of GCG implementation includes the implementation of ISO 9001: 2008 policies that guarantee the suitability of the process of products produced in this "Lombok Jaya" business activity.

The following are the results of interviews conducted by researchers with the owners of "Lombok Jaya" SME

"ISO-certified meaning that all systems have been systemized. Everything has been set, and we know what to do. Thus, we must do all that has been written in the quality manual document."

Based on the results of the interview, it can be seen that this SME has implemented GCG through ISO implementation policies in its business activities. The quality manual document is a guideline in business activities that applies to all parties of Lombok Jaya; therefore, in the work process, all parties can be directed and achieve organizational goals. Everything written in the quality manual documents must be carried out by the organization.

This SME has been implementing ISO since 2015, where at that time, all indicators required to be implemented in ISO were also compiled. One such requirement was the existence of an organizational structure. In Lombok Jaya's quality manual, there were many positions for the stakeholders. The organizational structure in the quality manual document shows that the highest position is occupied by the owner and director, followed by a management representative, financial division, then six divisions, namely marketing, HRD, production, quality control, warehouse, and operations. However, this time, the structure has been changed by making it simpler to adjust to the current needs of SMEs. However, due to financial constraints, in 2018, Lombok Jaya was not ISO 9001: 2015 certified and instead implementing HACCP by IPB. Not ISO certified but still implementing it in daily production activities guarantee the safety of the resulting products.

Lombok Jaya is an SME engaged in the food industry where its main production is chili sauce with a variety of flavors. At the beginning of its establishment in 2011, the structure of the SME was still unclear because there was no specific policy as a guideline for carrying out business activities in which all work was carried out by the owner him-

self. Yet, along with the development of the business and the increasing number of workers, the owner began to make specific policies and rules and develop the organizational structure. From this, it can be seen that Lombok Jaya has applied GCG with the improvement of structure and policies in its business activities. In this SME, there are still multiple positions where the owner holds HRD. However, this does not have a negative impact on business activities because the owner can still cover their duties adequately in controlling all activities that take place in the organization. In addition, Lombok Jaya has implemented ISO in its business activities. The implementation of ISO is undoubtedly a form of GCG implementation.

The implementation of the transparency principle in Lombok Jaya has been done quite well, where there is a vision, mission, and quality policy, organizational structure, job description, SOP, and other policies made in writing and communicated openly to all Lombok Jaya employees. Lombok Jaya has disclosed information to the government and the Ubaya Institute of Research and Community Service (the Ubaya LPPM) to obtain funding assistance and guidance. However, this SME does not openly provide information about rewards in the form of bonuses for employees who work more than the time they should or employees who are assigned to carry out exhibitions and other activities. Only business owners and related employees know about the rewards. This is not in accordance with the principle of transparency, where everything in an organization must be communicated openly to all employees. It is better to disclose everything to all employees related to giving rewards or anything related to employee performance in order to make employees become more excited and serious in their work and avoid things that deviate from the regulations set by this SME. The principle of accountability in Lombok Jaya has been carried out well where all the duties of each employee have been carried out properly and in accordance with the job description that has been clearly defined by the business owner. Lombok Jaya is also responsible for the government and the Ubaya as a provider of funding assistance and business coaching. From this, it can be seen that Lombok Jaya has tried to maintain business quality by applying this principle of accountability.

The implementation of the principle of responsibility in Lombok Jaya is also quite good, which has carried out its responsibilities and adhered to applicable regulations. It is just better if the business owner pays more attention to the welfare of the em-

ployees for the future, among others, by paying attention to the benefits and bonuses.

The principle of independence in Lombok Jaya has been implemented quite well because there is no external pressure and no conflict of interest and influence on this business activity. The principle of fairness in Lombok Jaya has also been carried out quite well wherein running the business, the owner treats all employees who work fairly and equally and does not discriminate related to religion, ethnicity, and race, and applies all rules and policies equally to all his employees. This is in accordance with the principle of fairness, as proven by the efforts of Lombok Jaya to develop specific policies in their business activities.

The implementation of good and consistent GCG principles can certainly keep the business going for a long time. The problem that is still faced by Lombok Jaya is related to human resources as competent human resources who will be able to increase productivity, and the increased productivity can sustain the business. Thus, human resources and the application of policies, as well as rules in business activities, are always the primary concern to be studied and controlled so that in the future, they can grow better and faster. This condition shows that the larger the size of a company or organization (small and medium) and the more developed its business activities, the higher the tendency to implement GCG principles.

#### 4 CONCLUSION

The implementation of GCG principles in SMEs can be done in various ways, one of which is the implementation of ISO procedures. This implementation brings SMEs to a level where product quality can be guaranteed well. Although not certified, SMEs can implement quality assurance of its products so that consumers can consume SME products without worry. The role of LPPM as one of the SMEs' stakeholders has an important role in GCG implementation that leads to sustainable business.

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