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IMPLEMENTATION OF GOVERNANCE IN SMEs: COMPARISON OF IMPLEMENTATION IN FAMILY AND NON-FAMILY BUSINESS (CASE STUDY IN SMEs IN YOGYAKARTA)

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ABSTRACT

The purpose of this study is to identify the application of aspects of corporate governance in family businesses and SMEs scale non-family businesses in the Special Region of Yogyakarta and to identify differences in the application of aspects of corporate governance in family businesses and non-family businesses on the scale of SMEs in the Special Region. Yogyakarta. Respondents in this study involved SMEs in the Special Region of Yogyakarta. In each sampling location, five family businesses and five SME scale non-family businesses in the Yogyakarta Special Region were selected. The sample was determined by the convenience sampling method. This study will first examine the application of governance in family businesses and non-family businesses separately, then compare the application of governance between the two types of business.

The results of this study indicate that each type of business has carried out corporate governance in its business, but not maximally. There are advantages and disadvantages in its application. Most of the reasons for these differences in implementation arise from the basic characteristics that differentiate family businesses and non-family businesses, namely the ownership structure and the business structure. The more concentrated ownership and business structure, the less transparency, accountability, responsibility, independence, and fairness the company tends to be. On the other hand, in companies with more dispersed levels of ownership concentration and business structure, the application of the five aspects of corporate governance will increase.

Keywords: Good Corporate Governance, Small and Medium Enterprises, Family and Non-Family Business

INTRODUCTION

In the Special Region of Yogyakarta, Small and Medium Enterprises (UKM) contribute to the economy by 95% (jogja.tribunnews.com). Market conditions are increasingly competitive and natural resources are increasingly limited so that breakthroughs are needed to create creative and innovative products. DIY is rich in traditional culture and various characters of its inhabitants so that the creative industry has great potential to be developed. SMEs often experience delays in their development due to various conventional problems that

are not completely resolved. Most small and medium businesses are businesses where the owner also doubles as management (Hart, 1995). The control of the business is automatically in the hands of the shareholders and agency problems do not arise under these business conditions. This is the reason why many small and medium businesses do not implement corporate governance (Lane et al., 2006). However, in Indonesia, more than 90% of the total number of business units are small and medium enterprises, where these businesses contribute to more than 95% of employment in Indonesia (Biro Pusat Statistik, 2011).

Apart from being based on the definition, the differences between family businesses and non-family businesses can also be seen from their respective characteristics. The internal control system used, the company's strategy and the involvement of family members in decision-making are some of the distinguishing characteristics between the two types of business (Dhewanto et al., 2012). Also besides, a different characteristic is that the family business is more focused on the desire to protect family members (Soedibyo, 2012). The characteristics of these two types of business are indeed different, but when they are faced with a dynamic and complex market situation, each must be able to demonstrate competence in the intense market competition. However, not a few SMEs face obstacles to survive and develop their business. Limited information, limited access to resources (capital, technology, and people), and lack of good corporate governance in running the business are some of the obstacles faced by SMEs (Mead & Liedholm, 1998; Swierczek & Ha, 2003; Indarti. et al., 2013).

Most of the SMEs then focused more on strengthening access to these resources so that they could survive in the competition. Meanwhile, the factor of corporate governance is not a major concern in its implementation by most SMEs. Unconsciously corporate governance plays an important role in determining business quality (Indarti et al., 2013). With the hope that the implementation of good governance can provide more benefits for SMEs. By implementing good governance, business management will be more organized (Abor & Adjasi, 2007). The business has the opportunity to achieve the highest and best goals of its business such as maximizing profits, improving strategies, creating jobs, increasing employee capabilities, and serving all shareholders including capital owners, employees, consumers, suppliers, and the community (Aronof & Ward, 2011 in Dhewanto et al., 2012). From a funding perspective, the business will also be more bankable (Abor & Adjasi, 2007).

The fundamental problem in implementing corporate governance is the separation between ownership and control of the company (Indarti et al., 2013). In general, the pattern of large companies is that of separate shareholders from corporate management. This condition allows agency problems, where there are differences in interests between several parties in the company, especially between shareholders and management. Therefore, the implementation of governance is mostly carried out in large companies, to be able to overcome these agency problems (Abor & Adjasi, 2007). Meanwhile, most small and

medium businesses are businesses where the owner also doubles as the management (Hart, 1995). The control of the business is automatically in the hands of the shareholders and agency problems do not arise under these business conditions. This is the reason why many small and medium businesses do not implement corporate governance (Lane et al., 2006).

The fact on the ground that most businesses in Indonesia are small and medium enterprises and that in practice only a small proportion of them have implemented good corporate governance is an interesting phenomenon to study further. Apart from that, the implementation of governance in family businesses and non-family businesses with small and medium scale companies is also interesting to observe. Not many studies have focused on studying the application of good business governance in small and medium scale businesses, especially those comparing the application of governance in family businesses with non-family businesses. Much of the research on corporate governance has focused on large (public) scale companies (Memili, 2011; Culasso et al., 2012). Research on governance in small and medium-sized businesses that have been carried out has focused more on family businesses and only uses certain aspects of governance (Corbetta & Salvato, 2004; Bennet & Robson, 2004; Gabrielsson & Huse, 2005; Lane et al., 2006). Based on the background and problem formulations, several research questions can be drawn, namely how to implement governance in family businesses and small and medium scale non-family businesses in the Special Region of Yogyakarta; and how are the difference in the application of governance in family businesses and small and medium scale non-family businesses in the Special Region of Yogyakarta?

FAMILY BUSINESS

A company can be classified as a family business when the company is founded by two or more family members who will always supervise the company's financial performance. An organization will also be classified as a family business, when there are at least two (2) generations of families involved in the company and have a major influence on the company's decision making (Ward, 1997). However, there are many different definitions of the family business in the literature. Among other things, Morck & Yeung (2004) argued that family businesses have two criteria, namely (1) the largest shareholder of the company is a certain family, and (2) the proportion of family ownership is greater than 10% or 20% of shares with rights sound. Studies on the performance of family businesses and non-family businesses have also been discussed almost all over the world (Anderson & Reeb, 2003; Amran & Ahmad, 2010). Family ownership is common and occupies one-third of the companies listed in the S&P 500 and accounts for 18% of the company's shares. These results are consistent with the findings of Mc.Conaughy et al (1998). Firm performance in previous studies can be reviewed based on firm value. Study results show that governance affects firm value as a result of reduced insider takeovers and an increase in expected cash flows that can be distributed to investors (Gomper et al., 2003). There are several stages in the development of a family business, consisting

of the stages of existence, survival, success, renewal, and rejuvenate/decline.

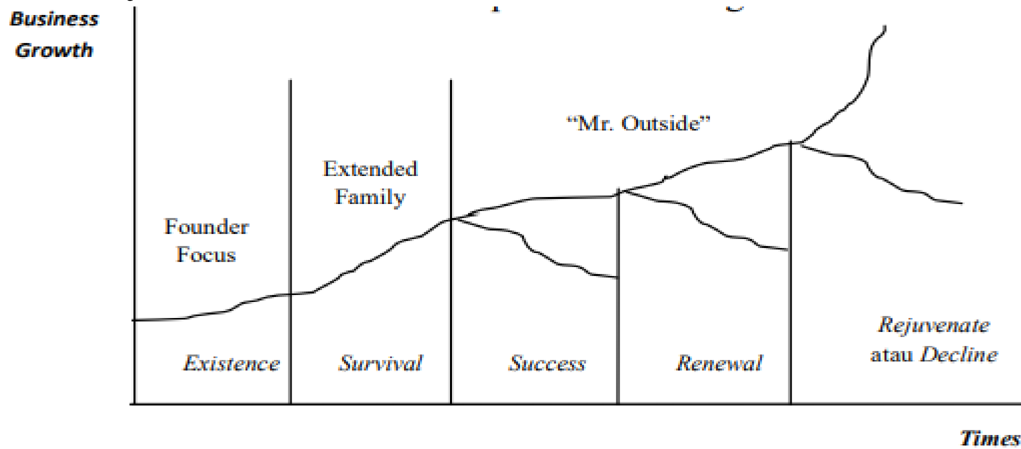

Figure 1. The Family Business Stages Model
Source: Lestari (2018)

The family business development model can be used as a guideline and a guide for when company founders should prepare to choose, educate and hand over the continuation of the family business responsibilities they have been holding to their future generations, and what challenges are likely to be faced by the next generation of the family business. The critical phase usually occurs when the succession process is carried out, so it will usually affect the prospects for the sustainability of the family business which will become "young" again or experience a decline and then collapse. Thus, the succession process is a stage that must be passed by a family business, so it must be planned properly and systematically for the sustainability of the family business in the future, both in the short and long term.

GOOD CORPORATE GOVERNANCE

Good Corporate Governance is a set of rules governing the relationship between shareholders, company management, creditors, government, employees, and other internal and external stakeholders about concerning their rights and obligations or in other words a system that controls the company, to create added value for all interested parties (FGCI, 2011). Good Corporate Governance is a system used to direct and control company activities, regulate the distribution of duties of their rights and obligations to shareholders, the board of directors, managers, and those with an interest in the life of the company (OECD, 2013). One of the programs assigned to assess the implementation of Good Corporate Governance in Indonesia is the CGPI (Corporate Governance Perception Index). CGPI is a research and ranking program for the implementation of Good Corporate Governance in companies in Indonesia. This program is designed to encourage companies to improve the quality of the implementation of the concept of Corporate Governance through continuous improvement by carrying out evaluations and observations. The factors assessed by CGPI in Retno & Danies (2012) include:

a. This commitment shows the seriousness of the company's organs in formulating, implementing, and evaluating strategies by following per under the principles of Good Corporate Governance and this seriousness can be felt and can encourage company members to participate in doing so.
b. Accountability shows the seriousness of the company's organs in being responsible for the entire process of achieving performance transparently and fairly, including being accountable for the entire process in formulating, implementing, and evaluating strategies, and this seriousness can be felt and can encourage company members to be able to participate in implementing it.
c. The responsibility that shows the integrity of the company's organs in ensuring the implementation of the formulation, implementation process and can encourage company members to participate in implementing it.
d. Independence which shows the seriousness of the company's organs in ensuring the absence of domination or intervention from one participant against another participant, including in ensuring the absence of domination and intervention from any one participant in the process of formulating, implementing and evaluating strategies and this seriousness can be felt and can encourage members companies to participate in implementing it.
e. Justice that shows the seriousness of company organs in paying attention to the interests of shareholders and other stakeholders, including in paying attention to and considering the interests of all stakeholders in the process of formulating, implementing, and evaluating strategies and this seriousness can be felt and encourages company members to participate carry it out.
f. Competence that shows the seriousness of the company's organs in demonstrating their ability to use their authority by their roles and functions, to be innovative and creative, including showing their ability to formulate, implement and evaluate strategies appropriately and their sincerity can be felt and can encourage company members to do so as well.
g. The ability to cooperateshows the seriousness of the company's organs in showing the ability to cooperate to achieve common goals with dignity, including in demonstrating the ability to work together to formulate, implement, and evaluate strategies and this sincerity can be felt and can encourage company members to participate in doing so.
h. Vision, Mission and Values that show the seriousness of the company's organs to understand the points contained in the statement of the company's vision, mission and values which will serve as a guide for the company in formulating, implementing, and evaluating its strategies, and this seriousness can be felt and can foster a desire in the hearts of company members to achieve these points.
i. Morals and Ethics that show the seriousness of the company's organs in applying moral and ethical values in every business process by the principles of Good Corporate Governance,

including in the process of formulating, implementing and evaluating strategies, and this seriousness can be felt and can encourage company members to participate in doing so.

j. Strategies that show the seriousness of the company's organs in formulating, implementing and evaluating strategies in response to changes so that the company can maintain its performance in sustainably manner and this sincerity can be felt and encourage company members to participate in doing so.

Mahzan & Yan (2014) in their research entitled "Harnessing the benefits of Corporate Governance and Internal Audit: Advice to SME" suggests that corporate governance is a system in which companies are directed and controlled. This study suggests that the principles of good corporate governance are establishing clear roles and responsibilities of the Board of Direction (BOD), strengthening the composition of the board of directors, strengthening independence, fostering commitment, upholding integrity in financial reporting, recognizing and managing risks, ensuring timeliness and high quality, as well as strengthening the relationship between the company and shareholders. This study suggests that good corporate governance increases the competitiveness of SMEs and is very important for the continued development of SMEs. Based on a review of the extant literature, it can be said that SMEs do not necessarily benefit from implementing the same CG framework as other companies. The literature also finds that SMEs that follow the CG framework of other companies that are incompatible with the SME concerned can hinder productivity. This raises the argument that a tailor-made framework may be more beneficial for SMEs, the framework must be flexible and dynamic and the framework development process must be participatory and everyone in the SME can provide an opinion on the appropriate CG framework for the SME concerned.

According to Günay & Apak (2014) in a study "Comparison of public and non-public SMEs" corporate governance strategies in Turkey "suggests that corporate governance can be defined as a process to provide trust to stakeholders. In this case, the application of corporate governance principles is expected to help companies to go public, improve their reputation in the market, maximize their long-term corporate value, and provide sustainability. Accountability, social responsibility, transparency and fairness are basic requirements for operating in global markets. All of these requirements are related to a good corporate governance structure. To have a good corporate governance structure, SMEs are required to make adjustments in areas such as information and transparency, innovation, evaluation, and risk, and performance audits. In the conventional management perspective, SMEs have short organizational lives, do not have sustainable growth, and face many management problems. It is hoped that a good corporate governance structure can help SMEs to be successful and achieve sustainability. Also besides, a good corporate governance structure not only provides benefits for shareholders but also for other stakeholders. SMEs especially need an organizational structure that is

institutionalized to build a good corporate system in their organization.

METHOD

The research will be conducted in the Special Region of Yogyakarta. In each sampling location, 5 family businesses and 5 SMEs scale non-family businesses were selected in the Special Region of Yogyakarta. The sample was determined by the convenience sampling method. Convenience sampling is a non-probability sample that is not limited, where the sample is selected from the members of the population who are easiest to find and ask for information (Hadi, 1987, Cooper & Emory, 1991). This research is supported by primary data obtained directly at the sample locations and also supported by secondary data obtained from relevant stakeholders in the sample locations. The data collection process in this study uses two approaches, namely direct observation at the research location and to strengthen the observation technique, a comprehensive content analysis approach is needed related to primary data in the form of existing data (qualitative and quantitative) currently that are directly related to this research and also to obtain secondary data in the form of important documents related to this research. The primary and secondary data that have been obtained using observation and content analysis techniques are then analyzed descriptively-exploratively and quantitatively about to with concerning various results of field studies conducted and important data that will be used as a basis for identifying the application of aspects of corporate governance in the family business. and in SME scale non-family businesses in the Special Region of Yogyakarta and identified differences in the application of aspects of corporate governance to family businesses and SMEs scale non-family businesses in the Special Region of Yogyakarta.

RESULTS

Implementation of governance in family businesses and small and medium scale non-family businesses in Yogyakarta Special Region

The characteristics of family companies according to Memili (2011) can be seen from the following aspects. Among them are (a) family involvement, namely the involvement of the second or third generation into business management; (b) the enthusiasm of future generations to quickly learn in business activities; (c) level of trust and mutual reliability among family members; (d) emotional strength in carrying out business activities; (e) degree of flexibility in business life; and (f) dual leadership in the sense that each family head is usually at the same time a business leader. By taking into account the characteristics of family companies, it is inevitable that compared to corporate companies in general, they have both advantages and disadvantages. Among the strengths/strengths of family companies are (Susanto, 2005): (1) the high degree of independence of action in the sense that the level of survival of the company is not determined by the stock market because most or all of the financial resources are supported by the family; (2) there is no concern if the company's assets will run out so that the company has high financial strength; (3) there is a guarantee of company stability because it is supported by a strong corporate culture; (4) there is a willingness

to reinvest profits according to a mutual agreement to develop the company; (5) the acculturation process of the business world that has occurred since childhood enables family members to have excellent business knowledge; and (6) an informal approach with a minimum of bureaucracy usually colors family companies in carrying out business activities.

Based on these strengths, many family enterprises continue to exist even though the macroeconomic situation is experiencing a crisis. Companies can survive and contribute significantly to state revenues (Susanto, 2005). Apart from all that it must be admitted that family companies also have some weaknesses. Among them are: (1) lack of organization in a family company is often a weakness for a company. This is indicated by the unclear organizational structure, lack of management development due to excessive intervention from the owner; (2) Too large a family involvement in a company often results in a very emotional company life and risks conflicts of interest. Apart from this, the ties of tradition and family history made it difficult for the company to change; (3) this family company is very vulnerable to internal conflicts. This happens because, in family companies, unprofessional relationships often occur by combining personal matters with company affairs. Based on the weakness of the family company, many family companies fail in the middle of the road because they are unable to compete with other family companies, do not operate properly, and lay off a lot of their workforce.

In this study, 5 family businesses and 5 non-family businesses at the scale of SMEs in Yogyakarta were selected. Referring to the life cycle model of family enterprises as suggested by Susanto (2005), currently, Taman Batik Terang Bulan Malioboro is in the process of transitioning or learning the business to the second generation. Starting with the founder (Ismail) who focuses on developing his company. Furthermore, when the company started to grow bigger and stronger, the third generation began to enter even into the dynasty of families. So, although family companies usually face succession problems, this is not the case at Taman Batik Terang Bulan Malioboro because Mr. Ismail (alm) as the founder has succeeded in educating his successor (Mr. Ismu as the second generation) from an early age so that the business knowledge of his successors is very competent to continue. his family company. Now Mas Arif, as the third generation or the next generation, has been given full authority to manage and be responsible for developing the business of this company. With an early succession learning pattern, the applied management tends towards professional management, because the focus is on structuring systems and procedures. So the Batik Company has entered the adolescence stage, where the business authority has been appointed.

Furthermore, the application of Corporate Governance in Non-Family SMEs in Mendong crafts, the application of Corporate Governance is seen in the aspect of transparency in the discussion of the principle of transparency in taking indicators in the company, namely the delivery of information, the media in delivering information in the internal environment of the company, information on the situation

and finances company, as well as company policy. In terms of delivering general company information within the company environment, the company submits production and sales reports to all employees per division so that employees know about the production and sales reports in their division, only the directors know the complete report. If the information regarding the company's company finances is not transparent, this is because the financial reports are only provided to the participants of the annual meeting of shareholders and evaluation meetings and the heads of respective divisions. The financial report was not submitted in its entirety, but only submitted the entries and expenses of each division. In terms of information about the company for the general public, the company provides a web that can be accessed in general so that the public can find out the complete company profile. Also besides, the company is transparent because it is willing to provide proof of taxpayer identification number (NPWP) to researchers so that it can become evidence that the company is obedient as taxpayers. Even in the case of corporate tax reporting, be open to tax agencies by not covering up and manipulating corporate income reports. So that companies can pay taxes according to the rates set by the government. In terms of the means of conveying important information within the company environment, it is only conveyed to the highest position holder, so that it will be announced to all employees under him. The media for conveying the information used were effective. Company policies are conveyed very clearly, for example, the delivery of regulations to employees in the company, usually the regulations are posted on a bulletin board and posted on the employees' desks so that they always remember the existing regulations. General rules for guests are also conveyed by sticking them on the security desk when guests come to report. As much as possible, other policies are conveyed to employees so that employees can know about decisions made by the directors. For example, the decision of the board of directors to create a work team in the design and production of new products, as well as a fine if there is a mistake in production. So that every employee involved in the production team is not surprised when they are required to pay a fine due to a production error.

Chaithanakij (2006) provides interesting research results in developing countries (especially in Malaysia, the Philippines, and Indonesia), generally companies started from family businesses. In a relatively unchanging environment, it is believed that family cultural norms will survive and dominate business practice, as the founders continue to be the majority shareholder. The difficulty in separating ownership and control, and the existence of a kinship and social relations between owners and management resulted in an individual accountability being replaced by collective accountability. Patriarchal culture coupled with the value of "feel bad" will replace the accountability of this individual. If there is individual deviation, for example, the solution will prioritize a family approach rather than a legal settlement. At least this is reflected in the following informant's statement:

"Once a staff member was cheating. But since he is the family of the

commissioner, this offense is resolved by kinship. I hesitate to impose sanctions."

Patriarchal culture places the owner as a leader figure. As an individual (family) business, it should be managed by trusted people who have kinship and social relations with the owner. The company is seen as the nexus of relationship, not the nexus of contract as in modern companies. As a result, ethical and cultural values will dominate the creation of relations more than agency values. Taballujan (2002) views companies as "an association of people rather than that capital", companies as an extension of the family unit. As a result, family values will influence individuals to view the company as part of the family unit so that personal obligations and collective obligations are equally important. Because the separation between shareholders and corporate entities is pseudo-nature, there is often a blur of differences between personal assets and company assets.

It can be said that the influence of family ownership on governance practices is manifested in various forms of involvement. The role of the founder is still very dominant, especially related to authority and supervision. Involvement in supervision is carried out not solely to protect assets, but rather as a 'boundary' so that the company does not deviate from its original purpose of establishment. As the founder, the owner will try to instill the philosophy he believes into the company to shape the character of the company and keep the company on track. The selection of the closest and most trusted people indicates that the relationships that are built are based on trust relationships and not on agency relationships. The selection of the closest and trusted people is done to ensure that the company is managed according to the expectations of the founder and also to ensure that the company's goals, which are the owner's goals, will be achieved. The control mechanism played by the regulator will suppress asset expropriation. Black and Kim's (2003) research found the influence of industrial regulatory factors on corporate governance practices at the company level. The presence of this regulation and supervision makes family involvement no longer significant in the governance process. The important role of regulation and supervision confirms the characteristics of banking companies as highly regulated companies. Although byLaw No. 40 of 2007, the governance structure adopts a two-tier board system, the implementation of this structure cannot be separated from the role of the regulator. The election of commissioners and directors by the General Meeting of Shareholders must obtain approval from regulators (PBI 11/23/2009 and PBI 11/33/2009). Muawanah (2010) calls this an extended two-tier board system, namely the separation of functions and physical operations and supervision while remaining under regulatory supervision. Family companies with the family capitalism model tend to have an incentive to operate efficiently. However, on the other hand, the tendency towards nepotism (for example, the selection of management from the closest people who are less competent), can lead to inefficiency. Furthermore, these family firms often have centralized decision-making systems and informal systems of internal control (Lukviarman 2004). The result of this is that related party transactions can occur and several governance

mechanisms in company management are neglected. Regulation and supervision are urgent in this family company to encourage practices towards good governance.

In a family business, where managers are also business owners, they will often face challenges when they have to balance the interests of the family and the family business, so there is usually a conflict over these interests. Family businesses have a relatively high likelihood of considering conflict when making decisions because the decisions taken will affect the probability of a company's growth and also affect its ability to create or maintain the level of wealth earned by family members, which can have long-term repercussions. So that there is a need for the role of corporate governance as the main principle that can be used as a reference to overcome it. Apart from identifying priorities, strategies, resources, and strengths to help balance the two existing interests, namely to reduce conflicts so that family and business interests can run well (Pounder, 2015). Conflict of considerations in decision making is a major problem because usually family business owners have the vision to be able to inherit a healthy company, making it easier for future generations to continue the company. This vision is long-term, but in the process of achieving it, it is often necessary to reduce or sacrifice the level of welfare of family members (especially wives and children) until the vision is achieved. On the other hand, if the owner prioritizes maintaining the level of welfare currently enjoyed by his family members, the family business may experience limitations in developing and maintaining the survival of the company, because often these conditions create behavior to avoid some opportunities that are more profitable but contain risks that can reduce the level of welfare that can be enjoyed by the family (Eddleston & Kellermans, 2007). Based on this, the ability to balance the two types of interest orientations that are often contradictory must be able to be passed on from previous generations to future generations, to maintain the uniqueness which is the main competitive advantage in the family business. For these expectations to be achieved, there must be a good succession planning process.

Differences in the implementation of governance in family businesses and small and medium scale non-family businesses in Yogyakarta Special Region

The large contribution of family firms can lead to agency conflicts between minority shareholders and company controllers (Miller and Miller, 2006). Research by Miller et al. (2007) also explained that a family company consisting of many family members will often experience conflicts among themselves. This is also supported by Mertosono (2013) which states that family companies not only experience problems in their operational management but also family problems. This conflict occurs because of differences in goals between family members who want to fulfill their interests, thus causing the possibility of earning management practices and lowering the quality of financial reporting. Research Chi et al. (2015) proved that family companies tend to carry out earnings management due to weak governance systems and ineffective governance practices.

Anderson and Reeb's research (2003) proves that family companies experience less conflict than non-family companies because every family member in the company has the same relationship and goals. Also besides, research by Wang (2006) explains that the higher the percentage of ownership, the more effective it is in conducting supervision, and family firms tend to maintain the credibility of their companies by reporting better earnings quality. Therefore, the presence of independent commissioners is necessary to produce better quality financial reporting. This is in accordance with the research of Jaggi et al. (2009) which revealed that the role of independent boards of commissioners in family companies will make the quality of earnings reporting more effective because the supervision carried out by independent boards of commissioners can reduce the occurrence of earnings management. Other research that also supports, is the research of Wang and Campbell (2012) and Klein (2002) which explains that the presence of an independent board of commissioners is very important to reduce the occurrence of earnings management practices compared to companies that do not have independent commissioners. In general, the implementation of corporate governance is associated with large companies only, where the problem of aggravation often occurs. This problem arises when an agent acts no longer by the interests of the stakeholders but accordance with personal interests. Three agent problems occur in a business:

1. Conflict between a business owner and a manager
2. Conflict between majority and minority shareholders
3. Conflict between the company and the parties cooperating with the company (consumers, employees, and creditors)

The difference in interest becomes a trigger for each party in the company to act according to their respective interests. This is what is considered very rare in small and medium businesses. Most of these businesses are formed by a founder and that person also runs the management of the company. Many SMEs are also formed by a founder and manager and both of them join to run the company. This causes small and medium businesses to have a tendency not to separate ownership and management (Abor and Adjasi, 2007). Also besides, the implementation of governance in small and medium businesses has not become a major concern because of the assumption that this business is still relatively small in terms of business size. Business people are more concerned with ways to minimize costs, maximize profits, and increase the value of the company in the market. Whereas unconsciously the implementation of business governance plays an important role in determining the quality of the business. Good governance is not only suitable to be applied to large enterprises but also to small and medium enterprises. The way to implement it is no difference between the two businesses. Guidelines for implementing governance in large companies can also be applied to small and medium businesses. With the implementation of good corporate governance, the company can increase the value of the company, develop the corporate structure, increase financial results, and also

ensure the sustainability of the company. Apart from that, another advantage is the increased trust on the part of investors and also the increased reputation of the company in the community.

Given that small and medium businesses themselves are divided into family and non-family businesses, it is necessary to further examine the implementation of governance between the two types of small and medium businesses. The issue of corporate governance regarding the separation between ownership and control is considered to have different implications for each of these types of business. This difference is evident in the agency problems that can arise in conducting business. In general, agency theory discusses the relationship between the principal and the agent who makes decisions in the interests of the principal. In non-family businesses where ownership and control are in the hands of different individuals. The interests of business owners can differ from those of management. Business owners or shareholders are usually interested in the return on their investment so they want managers to be able to maximize the value of the company. Meanwhile, managers want to be able to enjoy company facilities that have the opportunity to reduce company value. Meanwhile, in family businesses where the business owner or shareholders also act as business management, agency problems do not arise in the business. Ownership and control of the company are in the same individual so that there is no conflict of interest between the owner and manager.

This view may not be correct because agency problems can occur in family and non-family businesses. The agency relationship arises because of the interaction between the principal and the agent who runs the business for the interests of the principal. In non-family business, this relationship can be seen clearly from the relationship between shareholders and managers. Meanwhile, in the family business, agency relationships can be found between superiors and subordinates (if the subordinates are also family members) or between parents and children. Problems for the principal in the family business can arise when determining the reward structure for the agent based on the targets that are met. The reward structure given is sometimes unclear because of the emotional kinship ties. It is different in non-family businesses where certain incentive mechanisms can motivate managers to develop business.

In addition to agency theory, important things related to governance in family and non-family businesses are the constituent elements of each of these businesses. The three aspects of management in a family business are family management, ownership management, and management. Family management deals with all matters regarding the relationship between family members where they are the main stakeholders of the company or more specifically as business owners. Issues related to family management are about the distribution of power among owner members, determining which family members are involved in management, management of various interests among families involved in the company to business succession. The second aspect is ownership management which involves managing share ownership in the company.

Issues related to ownership management are from the formulation of the structure and distribution of ownership among the families involved, capital capitalization, coverage and family control mechanisms in companies, policies to withdraw capital from outside the family or maintain domination of family ownership to the creation of capital raising mechanisms within the family environment. to sustain the company's expansion and growth. Meanwhile, the last aspect is management, which is concerned with the technical management of the company's business. This management concerns how the business implements its vision and mission, how to carry out business strategies, build organizational designs, and other business techniques. Although family management, ownership, and management are the three dimensions of governance in a family business, only the dimensions of family management that are true are a special characteristic of family business governance. The dimensions of management of ownership and management are also dimensions of governance in non-family businesses.

DISCUSSIONS

In practice, business governance has been widely applied in large companies. However, this implementation has not been seen in many small and medium businesses (Indarti et al, 2013). Most small and medium businesses are businesses where shareholders also act as management (Hart, 1995) so that business control will automatically be in the hands of shareholders. The interaction between shareholders, the board of commissioners, and management as occurs in large companies does not occur in this condition. This is the reason why many small and medium businesses do not implement corporate governance (Lane et al, 2006). Small and medium enterprises (SMEs) are a company or business that is different from large companies that are publicly owned. This difference lies in the business structure that is more informal and simpler, in the amount of capital and labor that is more limited (Gabrielsson and Huse, 2005). In Indonesia, several definitions of Small Medium Enterprises (MSMEs) were issued by the Ministry of Cooperatives and Small and Medium Enterprises (Menengkop and UMKM), Decree of the Minister of Finance (KMK) No 316 / KMK.016 / 1994, Law No. 20 of 2008, and the Biro Pusat Statistik (BPS).

In its operations, SME businesses can be run by business owners or outsiders in a more familial way (Gabrielsson and Huse, 2005). Several studies have classified SMEs into two types of business, namely: 1) family business (Ward and Hardy, 1998 in Gabrielsson and Huse, 2005), and 2) non-family business (Huse and Ridnova, 2001; Goodall and Warner, 2002 in Gabrielsson and Huse, 2005). In general, a family business is defined as a business where the family has control over the business (Gabielsson and Huse 2005). More specifically, the definition of a family business can be distinguished by the involvement of family members, based on ownership and/or management, or based on share ownership by the family members involved (Dhewanto et al., 2012).

A non-family business is a business owned by two or more people (partnership) in which there is no kinship between them.

There are 3 types of partnerships: (Nickels, et al, 2008). In general partnership, all owners run the business and bear the burden of business debts together. The liability to bear business losses and debts among business owners is unlimited. The second form is a limited partnership where there are one or more general partnerships with one or more limited partners. General partners have unlimited obligations in bearing the burden of business debt and are active in running the company, while limited partners are company owners who only invest a certain amount of capital in the business without having management obligations or the obligation to bear the company's debt burden exceeding its investment value. The last form is a master limited partnership, which is a form of business that is almost similar to a corporation. Non-family businesses can also be formed from investment by professional investors to generate significant economic returns. A venture capital company is a company that invests its capital in another company for a certain period time in the form of equity participation, participation through the purchase of convertible bonds, and or financing based on the distribution of operating results. Sometimes venture capital firms also incorporate managerial expertise or technical skills into managing the invested company.

In market competition, all businesses, both family businesses, and non-family businesses have the same challenges, namely, they are required to be able to adjust quickly in a situation of surviving in a dynamic market. Family companies are unique that differentiates them from non-family companies. The most basic difference is from the ownership structure, generally, family businesses are closed and owned in a concentrated manner in the hands of people who have a kinship in the form of blood or marital relationships (Dhewanto et al, 2012). The role of family members is so dominant and colors every decision making for the company. In many family businesses, the networks that are built are based mostly on kinship networks. The more employees of family members who work in a business the more successful the family business are viewed. That is why the definition of success in a family business is not always financial but also non-financial. Apart from that, the unique character of the family business is in terms of leadership. The style or type of leadership that is applied is a legacy from time to time because it is considered a business culture where the leadership style is obtained forever the process of running the business. Leadership can be collective when each family member has the right to convey their views on running the company. The succession of business succession is based on kinship.

In contrast to the characteristics of a family business, in non-family businesses, the structure of business ownership is not based on kinship. The selection of management, employees, and the succession program is carried out based on certain criteria that are adjusted to the business situation at hand. The leadership style in non-family businesses is more flexible in adapting to business circumstances and challenges. To measure the level of success in a family business is easier than in a non-family business because achievement must be defined in financial terms. In addition to these characteristics, the difference between

family and non-family businesses is that the elements of the founders of the second business are different. The family business consists of three elements, namely family, management, and ownership. The relationship between these three elements can be categorized based on the company's tendency to run its business which will be more family-oriented, leading to a form of organizational leadership that prioritizes family interests. Ownership orientation places more emphasis on stakeholder interests. Meanwhile, if the orientation is more on management, the sustainability of the company will depend on the performance, and responsibility of the company members. The relationship between these three elements also creates potential conflicts between families and management between families and ownership, between management and ownership, or between family, management, and ownership. Some of the potential sources of conflict in the family business are compensation systems, leadership styles, succession, or career paths. It appears here that the characteristics of a business can also be a source of conflict in the business. Meanwhile, in non-family business, the family element is not an element of building the business. Potential conflicts that occur only between management and ownership. This is also a fundamental problem in corporate governance.

CONCLUSION

This study has several limitations in the research process. For example, that the selection of informants is a very important thing so that it must be done carefully, the researchers decided that the informants in this study were the board of commissioners, the board of directors, employees, and the community. This difficulty arises because the researcher examines the application of aspects of corporate governance in family businesses and non-family businesses at the scale of SMEs in the Special Region of Yogyakarta and identifies differences in the application of aspects of corporate governance in family businesses and non-family businesses on the scale of SMEs in the Special Region. Yogyakarta. That reason may be closed tightly by actors whose essence is privacy. Also besides, data collection is not possible via telephone but must go directly to the informant's domicile. Therefore, it is necessary to have sufficient funds to reach the informants' domicile. As a solution to the risks above related to data collection, researchers use the relationships of researchers to find informants and are expected to work to capture wider information. The author's recommendation to the company is that the company can apply all GCG principles properly by improving the principles of accountability and independence to improve company performance.

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