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THE IMPACT OF POLITICAL TIES, FAMILY OWNERSHIP AND BOARD POSITIONS ON GOOD GOVERNANCE: A LITERATURE REVIEW

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Abstract
This article explores the evolution of corporate governance in Indonesia through literature review approach. The article accentuates the pivotal role of political connections in surmounting external challenges, while vigilantly recognizing potential risks, such as manipulated financial reporting aligned with the interests of controlling shareholders. Within the realm of family-owned enterprises, where familial influence often permeates key leadership roles, the centralized nature of family ownership introduces complexities in decision-making, necessitating a careful examination of policy quality to attain organizational objectives. In its conclusion, the study also underscores the perpetual necessity for transparent practices, stringent regulatory enforcement, and ethical governance. The intricate interplay between ownership structures, political affiliations, and corporate performance emerges as a crucial focal point for fostering enduring prosperity and resilience within the landscape of Indonesian businesses.

Keywords: *Political Ties, Family Ownership, Family Board Positions, Good Governance, Literature Review*

1. INTRODUCTION

This article provides a comprehensive exploration of the evolution of corporate governance in Indonesia, with a focus on the period since the Asian economic crisis of 1997, as analyzed by Indaryanto (2004). It delves into the introduction of Good Corporate Governance (GCG) as a strategic response to the crisis, marked by Indonesia's commitment through the signing of a letter of intent (LOI) with the IMF. The National Committee for Corporate Governance Policy (KNKCG) emphasizes the crucial role of companies in adhering to international GCG standards. Despite concerted efforts, Airlangga Hartarto, the coordinating minister for the Economy, acknowledges persistent weaknesses in GCG implementation across many Indonesian companies, attributing this to factors such as inadequate investment quality, extensive business diversification, a weakened role of directors and commissioners, subpar audit systems, lack of transparency, and weak law enforcement.

Family ownership emerges as a substantial factor influencing corporate governance practices, particularly in Indonesia where over 95% of businesses are family-owned. Internal conflicts within these family-run enterprises can significantly impact decision-making processes and the overall trajectory of companies. Moreover, the article delves into the crucial role of political relationships, presenting opportunities for companies to secure contracts, subsidies, favorable tax treatments, and streamlined access to funding.

The evaluation of GCG implementation through the ASEAN CG Scorecard in 2019, yielding a score of 70.8 for Indonesia (Ningrum, 2022), is discussed. Despite improvements, Indonesia is positioned among the lowest-ranking ASEAN countries, just above Vietnam. The research aims to elucidate the substantial influence of family ownership on corporate governance execution, with potential conflicts of interest between minority and majority shareholders. Simultaneously, the article emphasizes the impact of political connections on a company's financial performance and adherence to governance principles.

The author accentuates the strategic advantage of political connections in overcoming external challenges, including regulatory hurdles and government policies. However, the article also acknowledges inherent risks associated with this advantage, such as tailored financial reporting to align with the interests of controlling shareholders. Within the context of family-run enterprises, where family members often hold key positions in management and the board of directors, the challenges posed by centralized family ownership are explored. The quality of policies is identified as a critical consideration for successfully achieving organizational goals within this framework (Kirana & Ermawati, 2017). Overall, the article provides a nuanced examination of the multifaceted landscape of corporate governance in Indonesia, addressing key factors such as family ownership, political ties, and the ongoing efforts to enhance governance practices.

2. RESEARCH METHODS

In this study, the researchers adopted the literature review methodology as the primary approach to cultivate a comprehensive comprehension of the impact of family ownership and political affiliations on the execution of corporate governance. The procedure for sourcing literature was conducted through an examination of the SINTA database spanning the preceding 5 years. The executed literature review encompassed the discernment of principal themes, concepts, and theoretical frameworks, facilitating the subsequent amalgamation of findings. Through this systematic approach, the literature review method aspires to furnish a profound understanding of the intricate interplay between family ownership, political associations, and corporate governance implementation. Furthermore, it aims to discern potential lacunae in knowledge that could serve as a foundational premise for subsequent research endeavors in this domain.

3. RESULTS AND DISCUSSION

3.1. Article ready to review

Table 1. Article ready to review

Author & Year	Title
Ningrum (2022)	Family Ownership, Political Relations, and Family Aligned Boards on the Implementation of Corporate Governance
Setiawati, *et. al.* (2023)	Implementation of corporate governance, family ownership, and family-aligned board: Evidence from Indonesia

Rizqiani, *et. al.* (2020)	Implementation of Good Hospital Coporate Governance (GCG) in Makassar, Indonesia
Abdallah dan Ismail (2017)	Corporate Governance Practices, Ownership Structure, and Corporate Performance in the GCC Countries
Lozano (2016)	Corporate governance, ownership and firm value: Drivers of ownership as a good corporate governance mechanism.
Chou dan Buchdadi (2018)	Executive's compensation, good corporate governance, ownership structure, and firm performance: a study of listed banks in Indonesia
Sanjaya, *et. al.* (2022)	Family Ownership and Coporate Performance
Annisa, *et. al.* (2021)	Implementation of Good Corporate Governance in Family Businesses

3.2. Article identity

Table 2. Article identity

No	Title	Journal	Citations
1.	Family Ownership, Political Relations, and Family Aligned Boards on the Implementation of Corporate Governance	S4 on Isoquant: Jurnal Ekonomi, Manajemen dan Akuntansi (Vol. 6, No. 1)	0
2.	Implementation of corporate governance, family ownership, and family-aligned board: Evidence from Indonesia	Q3 on Problems and Perspectives in Management (Vol. 20 No. 4)	0
3.	Implementation of Good Hospital Coporate Governance (GCG) in Makassar, Indonesia	Q2 on International Journal of Innovation, Creativity and Change (Vol. 12 No. 7)	8
4.	Corporate Governance Practices, Ownership Structure, and Corporate Performance in the GCC Countries	Q1 on Journal of International Financial Markets, Institutions & Money (No. 46)	349
5.	Corporate governance, ownership and firm value: Drivers of ownership as a good corporate governance mechanism.	Q1 on International Business Review (Vol. 25 No. 6)	161
6.	Executive's compensation, good corporate governance, ownership structure, and firm performance: a study of listed banks in Indonesia	Q3 on Journal of Business and Retail Management Research (Vol. 12 No. 3)	26
7.	Family Ownership and Coporate Performance	S5 on Jurnal Akuntansi dan Pajak (Vol. 22 No. 5)	0
8.	Implementation of Good Corporate Governance in Family Businesses	S3 on Jurnal Ilmiah Manajemen dan Bisnis (Vol. 6 No. 2)	6

The table comprises a collection of academic articles focusing on corporate governance, family ownership, and related themes, with associated information on the respective journals and citation counts. The journals are classified based on their quartiles or sectors, indicating their relative prestige and impact in the academic community. Specifically, Q1 denotes the highest impact factor or ranking, while Q4 or S4 represents the lowest. The number of citations serves as a metric for the influence and reception of each article within the scholarly community. Notably, higher citation counts generally indicate a greater impact and recognition of the research in the academic field. In this context, the articles cover diverse aspects of corporate governance, including family ownership, political relations, and their implications for the implementation of governance practices, providing valuable insights for researchers, practitioners, and policymakers in the field.

3.3. Theory used

On all 8 articles we've been reviewing they all used agency theory. Agency theory, a framework that examines the relationships and conflicts of interest between stakeholders in a firm, sheds light on the dynamics of corporate governance concerning political ties, family ownership, and board positions. In the context of political ties, where executives may have affiliations with political figures, agency problems may arise as personal or political interests may diverge from shareholder value. This potential conflict undermines good governance, necessitating transparency and accountability. Similarly, family ownership introduces agency challenges, as family members managing the business may prioritize their interests over minority shareholders, requiring effective governance mechanisms for balance. Concerning board positions, the composition and independence of the board of directors are crucial for aligning shareholder and managerial interests. If boards lack diversity or independence, it poses a risk to effective oversight, emphasizing the significance of good governance practices for shareholder protection.

3.4. Article Methodology

Table 3. Article Methodology

Article num.	Author & Year	Sample	Data source	Data analysis
1	Ningrum (2022)	57 firms included in Institute for Corporate Directorship (IICD)	Secondary data (annual report)	Descriptive Statistical Analysis and Multiple Linear Regression Analysis
2	Setiawati, *et. al.* (2023)	big capital and middle capital companies in the top 50 IICD	Secondary data (company's annual report, the company's official website, company articles, and others)	Descriptive Statistical Analysis and Multiple Linear Regression Analysis
3	Rizqiani, *et. al.* (2020)	regional hospital in the southern Sulawesi region	Primary data (interview)	Descriptive qualitative
4	Abdallah dan Ismail (2017)	all firms listed in the stock exchanges of the GCC countries	Secondary data (National Investor's report)	Descriptive Statistical Analysis and Multiple Linear Regression Analysis

5	Lozano (2016)	publicly traded companies from 16 European countries	Secondary data (annual report)	Descriptive Statistical Analysis and Multiple Linear Regression Analysis
6	Chou dan Buchdadi (2018)	bank in Indonesia capital market	Secondary data (annual report)	Descriptive Statistical Analysis and Multiple Linear Regression Analysis
7	Sanjaya, *et. al.* (2022)	industrial manufacturing firm listed on Indonesia Stock Exchange (BEI)	Secondary data (annual report)	Descriptive Statistical Analysis and Multiple Linear Regression Analysis
8	Annisa, *et. al.* (2021)	family business listed on Indonesia Stock Exchange (BEI)	Secondary data (annual report)	Descriptive qualitative

The table provides an overview of eight research articles, detailing relevant information such as the author and year of publication, sample characteristics, data sources, and the methods of analysis employed. The studies cover diverse topics, ranging from corporate governance in Indonesia to family ownership and corporate performance. The research samples vary, including firms affiliated with the Institute for Corporate Directorship (IICD), big and middle capital companies, regional hospitals in southern Sulawesi, and businesses listed on the Indonesia Stock Exchange (BEI). Data collection methods include both secondary and primary sources, such as annual reports, official websites, interviews, and national investor reports. The analytical approaches involve a mix of Descriptive Statistical Analysis, Multiple Linear Regression Analysis, and Descriptive Qualitative methods.

3.5. Result

Table 4. Result

Title	Result
Family Ownership, Political Relations, and Family Aligned Boards on the Implementation of Corporate Governance	Based on the findings of this study, political ties have a detrimental impact on the governance of corporations. When this occurs, the variables of family ownership and family-aligned board do not impact the corporation's governance.
Implementation of corporate governance, family ownership, and family-aligned board: Evidence from Indonesia	First, the study's findings reveal that family-owned businesses have a higher share of family-affiliated board members and commissioners on their boards in significant capital and middle capital companies. This relates to both large and middle capital companies. Second, although family ownership positively impacts companies at the centre of the capital spectrum, it has a huge and

	detrimental impact on how corporate governance is implemented in large capital enterprises. In the third place, it is possible to conclude that the number of directors and commissioners who are members of the same family affects the adoption of good governance practices and, as a result, the development of sound policies to deal with challenging issues that may arise within a company. This is because large capital companies exhibit different signals than middle capital companies.
Implementation of Good Hospital Coporate Governance (GCG) in Makassar, Indonesia	According to this study's findings, both the concepts of transparency and independence are involved in implementing Good Corporate Governance in hospitals. In addition to the community, the inside of the hospital is also subject to the openness of the hospital. The availability of an organizational structure that is accessible to all members of the community is a component of the transparency that is provided to the community. However, this structure only comprises a structural board and does not include simple tasks and functions. Transparency within the hospital can take the shape of superiors communicating with subordinates or subordinates communicating with one another. When it comes to hospitals, there is no such thing as complete autonomy because there are laws that must be followed, and this is especially true when the hospital in question is a government hospital.
Corporate Governance Practices, Ownership Structure, and Corporate Performance in the GCC Countries	According to the findings, the quality of governance varies significantly from one exchange to another. For the first time, we have discovered that the favourable association between the quality of governance and a company's performance is preserved and further strengthened when the level of concentrated ownership is low. The fact that the relationship between governance and firm performance is an increasing function of dispersed ownership is an even more intriguing discovery. Furthermore, we have discovered that the value addition associated with excellent governance is only sometimes sustained at high levels of ownership concentration. Furthermore, when the government or local companies are the company's principal shareholders, the interaction between the two parties reaches its maximum degree.
Corporate governance, ownership and firm value: Drivers of ownership as a good corporate governance mechanism.	In addition, our data indicate that the conflicts that arise between majority owners and minority shareholders are less severe in organizations that provide more excellent protection to investors and in businesses that young families control.

Executive's compensation, good corporate governance, ownership structure, and firm performance: a study of listed banks in Indonesia	The data shows a statistically significant negative correlation between the RNC and the executives' compensation (ES). The RNC's responsibility is to curb the excessive compensation of the EC. Last but not least, regarding the ownership structure, the state banks exhibit behaviour comparable to the primary findings in this research. Nevertheless, the RNC has a significant influence on both the accounting-based performance and the market value-based performance of the state bank, but only in that institution. The ownership concentration (BO) variable, which is used as a dependent variable in this study, reveals the possibility of agency problems or the condition of inactive block holders, making the corporation's monitoring role ineffective. This is because the findings show that the more BO there is, the more EC there is, and the worse the firm's performance is.
Family Ownership and Coporate Performance	Because there is a potential agency problem in Indonesia, the study's findings will impact the rule, leading to listed firms being required to disclose the ultimate owner. Additionally, the findings provide information that informs prospective and existing investors to pay more attention to financial statements. This is because the statements could mislead investors.
Implementation of Good Corporate Governance in Family Businesses	According to the study's findings, family businesses are in dire need of establishing a corporate governance system. This is because keeping the family business until the third generation is complex. In order to make the most of its implementation, it is possible to maximize it based on the values of openness, accountability, responsibility, independence, and justice. These principles will assist businesses in the succession of sustainable company development for future generations.

3.6. The Impact of Political Ties on Good Governance

Companies connected to the world of politics have ownership through various means, actively establish ties, and make efforts to build close relationships with politicians or the government. This political connection is considered a valuable asset to support the company's success. Political connections can lead to mutually beneficial relationships, starting with companies providing funding to political parties or requiring assistance from the political world in return, such as getting a tender project from the government or involving themselves in the policy process (Ningrum & Setiawati, 2022).

Substantially, the relationship between political dimensions and business activities offers the potential to be a crucial resource for companies, especially private companies. These interactions can be manifested through several strategies, including gaining access to financial capital, exploiting tax policies, exploiting market forces, and establishing sales relationships with government entities (Ningrum & Setiawati, 2022). Ultimately, this involvement is expected to stimulate increased company performance. Nevertheless, executives must be careful in integrating political dimensions into business activities to avoid potential risks and implications arising from such practices.

Companies forging connections with the political sphere are profound and necessitate careful consideration. While such affiliations may provide strategic advantages, ethical concerns emerge regarding transparency and fairness. Dependency on political ties exposes companies to risks associated with shifts in political landscapes, potentially affecting long-term sustainability. Regulatory scrutiny, reputational impact, and the need for strategic alignment further underscore the complexity of managing political engagements. To mitigate these implications, companies must prioritize adaptability, resilience, and robust corporate governance, ensuring transparent policies to uphold ethical standards and navigate the intricate intersection of business and politics successfully.

3.7. The Impact of Family Ownership On Good Governance

Family firms, characterized by the continued involvement of founders in top management, board positions, or as significant block holders, are a distinctive organizational structure where ownership is concentrated within the founding family. In Indonesia, family firms commonly adopt a pyramid ownership structure, reflecting both direct and indirect ownership, with the latter typically undisclosed in public financial reports (Rizqiani et al., 2020). The lack of transparency in disclosing indirect ownership, often facilitated through less accessible private companies, is a considerable incentive for controlling families to engage in expropriation practices. In the context of Indonesian public companies, the entrenchment effect, characterized by the preservation of family control, tends to outweigh the alignment effect, emphasizing the prevalence of expropriation practices within family firms in the country (Sanjaya et al., 2022).

In the context of emerging markets, according to (Abdallah & Ismail, 2017; Setiawati et al., 2022) research, they ascertain that entities with foreign ownership exhibit heightened productivity in the Russian market relative to their domestic counterparts. Concurrently, another research conducts an investigation into chaebol families and their affiliates in Korea, revealing an absence of compelling evidence linking concentrated ownership to enhanced firm performance. Their findings further underscore the nuanced impact of ownership concentration on performance, contingent upon the quality of national governance. In a distinct regional context, empirical research explore the influence of diverse ownership dimensions (specifically, board ownership, foreign ownership, institutional ownership, and ownership concentration) (Chou et al., 2018; Lozano et al., 2016). Their results demonstrate that firm performance is significantly affected by board, foreign, and concentrated ownership.

The implications drawn from the examined literature underscore the multifaceted nature of family firms, particularly in the Indonesian context, where a pyramid ownership structure and undisclosed indirect ownership create a landscape ripe for expropriation practices by controlling families. The prevalence of the entrenchment effect, as opposed to the alignment effect, emphasizes the challenges associated with maintaining a balance between family control and ethical business practices within Indonesian family firms. Furthermore, insights from the broader context of emerging markets, such as Russia and Korea, reveal varying dynamics related to foreign ownership and concentrated ownership's impact on firm performance. The nuanced nature of these relationships, contingent upon factors like the quality of national governance, calls for a careful consideration of contextual factors in assessing ownership structures and their implications for firm productivity. Ultimately, these findings underscore the need for transparent governance practices, regulatory oversight, and ethical considerations in navigating the intricate relationships between ownership structures and firm performance in diverse business environments.

3.8. The Impact of Board Positions on Good Governance

The influence of board positions on effective governance is crucial for shaping the ethical standards and functionality of corporate entities. A well-organized board, featuring independent directors and ensuring the segregation of Chair and CEO roles, is fundamental in promoting transparency, accountability, and impartial decision-making. The inclusion of diverse board members enriches the board's capacity to consider a wide array of viewpoints, contributing to adept risk management and strategic planning. The creation of specialized committees and the involvement of diverse stakeholders in the board reinforce the governance structure (Annisa et al., 2021; Ningrum & Setiawati, 2022).

Ethical supervision, strategic decision-making, and a dedication to accountability and openness are fundamental elements shaped by board positions. In essence, the structure and operation of the board profoundly impact the organizational ethos and governance practices, thereby influencing the overall prosperity and resilience of the company. A family-aligned board refers to a scenario where a company owner tends to appoint family members to both the board of directors and the board of commissioners. Companies tend to prevent the separation of the board of commissioners from the board of directors, aiming to secure family interests as controlling stakeholders. The concentration of family ownership influences the control process during the initial determination of the board of directors and commissioners. This is done to safeguard family interests as shareholders (Ningrum & Setiawati, 2022; Rizqiani et al., 2020).

The significance of board positions in influencing effective governance, as elucidated in the cited literature, underscores the pivotal role of a well-structured and diverse board in shaping the ethical standards and operational efficiency of corporate entities. The advocacy for transparency, accountability, and impartial decision-making, particularly through the distinct roles of Chair and CEO, contributes to the overall strength of corporate governance. The engagement of various stakeholders and the establishment of specialized committees further reinforce governance frameworks, fostering adept risk management and strategic planning. When executed proficiently, these governance practices have the potential to augment the overall prosperity and resilience of the company. Conversely, the concept of a family-aligned board, characterized by the tendency to appoint family members to key roles, implies a potential conflict of interest and raises apprehensions regarding the safeguarding of broader shareholder interests. The concentration of family ownership and the avoidance of separating boards may pose a risk of prioritizing family concerns over those of minority shareholders, potentially influencing the governance dynamics and long-term viability of the company. Thus, a careful examination of these contrasting board structures is imperative, considering their implications for organizational ethos and governance practices.

4. CONCLUSION

In conclusion, the discussion has illuminated the trajectory of corporate governance in Indonesia since the 1997 economic crisis, marked by the introduction of Good Corporate Governance (GCG) as a response. The recent global pandemic underscores the importance of robust governance, evaluated through the ASEAN CG Scorecard, which indicates progress but acknowledges lingering shortcomings. This discussion highlights the ongoing efforts and challenges in advancing corporate governance in Indonesia. The influence of family ownership and political connections demands careful consideration, emphasizing the need for transparent practices, regulatory enforcement, and ethical governance to ensure the long-term prosperity and resilience of Indonesian businesses. Family ownership and political connections emerge as pivotal factors influencing governance, posing challenges in decision-making and external engagement. The study emphasizes the ongoing need for transparent practices and ethical considerations to navigate the intricate relationships between ownership structures, political ties, and corporate performance, as explored through a comprehensive literature review methodology.

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