The Role of Good Governance in Conflict Management
A Life Story of Family Members Partnership
The Case of PT Blind-Trust - Family Business in Bandung

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Abstract

Family business' important role in Indonesian economy, has been calculated as 82.44% of 165,000 medium and small enterprises registered in the statistical census in 1996 (Faustine, 2001). It has been also predicted that most of the large companies which have turned into multi-national corporation, were previously started as small family owned businesses.

Among those family owned businesses, several of them could not sustain into generations. Many factors can be the triggers of this condition, one among many is information risk. An example for information risk is: unregistered transaction, which causes difficulties when correct information is retrieved. Another form of information risk is: Inaccurate registration of transactions. In most cases, it is the result of trusting family business members without any further control or blind-trust. This condition will lead to difficulties in auditing for managing the company. Correct data are crucial for control tools in any companies activities or processes.

This paper revealed a true discontinuity case of family business, which could be avoided should the family business members realized the importance of having Certified Public Accountant.

Keywords: family business, information risk, investigated audit, certified public accountant.
INTRODUCTION

Family business' important role in Indonesian economy, has been calculated as 82.44% of 165,000 medium and small enterprises registered in the statistical census in 1996 (Faustine, 2001). It has been also predicted that most of the large companies which have turned into multi-national corporations, were previously started as small family owned businesses.

Among those family owned businesses, several of them could not sustain into generations. Many factors can be the triggers of this condition, one among many is information risk. An example for information risk is: unregistered transaction, which causes difficulties when correct information is retrieved. Another form of information risk is: inaccurate registration of transactions. In most cases, it is the result of trusting family business members without any further control or blind-trust. This condition will lead to difficulties in getting the correct data for managing the company. Correct data are crucial for control tools in any companies activities or processes.

This information risk can be prevented by having a Certified Public Accountant in a company. But unfortunately, this prevention are not commonly practiced and realized by family businesses. In most cases, it is due to the reluctance of questioning family business members, which actions can be perceived as distrustful acts towards family members.

This study was conducted based on the data obtained from a true case in Indonesia, which imposed an investigated audit requested by law. For the purpose of confidentiality, the name of the company in this case study is mentioned as BLIND-TRUST ENTERPRISE (BTE)

This very case was revealed in this study, with an objective to give inputs to family business owners, on aspects that could caused family business members to envisage discontinued successions, as the results of information risk in their companies. It is expected, that this case will motivate a better governance of family businesses, right from the start, so they could ensure their family business sustainability.

THE FAMILY BUSINESS

Definitions on family business are various. It can be viewed from ownership, such was claimed by Gallo & Sven (1991) that ownership or control are within the sole family's ownership. While Rosenblatt, de Mik, Anderson, and Johnson (1985) viewed family business from the number of family members be involved in company
management. Davis and Tagiuri (1986) as well as Lansberg (1988) discussed about trust in family business, which is quite interesting, as it signifies obvious characteristics in most of Indonesian family businesses.

THE NATURE OF AUDITING

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person. To do an audit, there must be information in a verifiable form and some standard (criteria) by which the auditor can evaluate the information. Information can and does take many forms. Auditor routinely perform audit of quantifiable information, including companies financial statement. (Aaren, 2005).

THE CASE OF BLIND-TRUST ENTERPRISE

In this study, family business is defined as a business entity, established by the family members who are horizontally or vertically blood related, thus ownership as well as power are in family’s hands.

![Drawing 1. Blind-Trust Enterprise Family Members](image)

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THE BUSINESS PRACTICE

Unequipped with good book-keeping system at the establishment, thinking that the family members could trust each others blindly. Secondly, as many of family business members do, these family members had also the mindsets that the most important factor was to make the business run well first, then paper works to follow thereafter.

Having those in minds, any early activities in the company were not recorded accordingly nor accurately. Many activities or transactions happened were all memorized merely by the owners. No one nor other departments could verify the activities nor the transactions.

THE CONTROLLING PARTIES INVOLVED

Due to the insufficient documentation, the parties-involved at the departments were limited only to certain individuals. Even worse, there were overlappings in each of the department, thus many procedures were repeated in almost each of the departments.

THE REVEALED PROBLEMS

After 15 years of the establishment, family members had a meeting to report the outcomes of PT Blind-Trust after internal audit.

The deviation in the cash flow was found out, which was amounting to over 700 million rupiahs. This first findings lead to an investigation audit which is part of Compliance Audit. It is done only when there are doubts about Financial Statement fairness.

The objective of the execution of investigation audit was to determine if the loss in BTE exists or else. But due to the fraudulence was suspected to have happened, C has become a suspect, that he had breached the Article 372 of Criminal Law. Therefore Investigation Audit Scope has been ordered, to the whole business of BTE under C’s leadership.

Four steps of Investigation Audit has been conducted. The results were as follow:

1. If the other family business owners file a case to the police department, sueing for “strange transaction”
2. Then Police Department will issue an Examining Report which is called _Berita Acara Pemeriksaan (BAP)_ from the company and bringing minimum 2 (two) witnesses.

3. Police Department can call and arrest (if necessary) the suspect, or to be asked questions for BAP made.

4. For determine total loss and the way so Police Department will request Certified Public Accountant for examine the financial statement include the supporting document or other explain

The result of the audit on 2 months financial statements was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Month</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>There were no petty cash evidences</td>
<td>August, September &amp; December</td>
<td>Rp.133.558.777,00</td>
</tr>
<tr>
<td>Dispute amount about correct balance from Account Receivable – Account Payable Reconciliation</td>
<td>January - December</td>
<td>Rp.119.649.492,00</td>
</tr>
<tr>
<td>Unrecorded bonuses from Sharp &amp; Samsung</td>
<td>August</td>
<td>Rp.81.836.500,00</td>
</tr>
<tr>
<td>Unrecorded purchases transaction into company book</td>
<td>January - December</td>
<td>Rp.273.278.744,00</td>
</tr>
<tr>
<td>Undeposited cash receipt to Bank</td>
<td>September</td>
<td>Rp.36.620.643,00</td>
</tr>
<tr>
<td>Had taken cash as a part of 25% profit sharing from company</td>
<td>August</td>
<td>Rp. 73.578.552</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>Rp701.523.008,00</td>
</tr>
</tbody>
</table>

On top of the findings, there was also weaknesses in internal control in the company. They are:

1. Sales was not completed with sales invoices
2. Part of inventories recorded was done only by stock taking
3. Book Balance had never been reconciled with Bank Statement
4. There was a difference between Stock card with Inventory Statement
5. There was not Delinery Order and Invoices prenumbered
6. Not completed invoices and Delivery Note from the supplier
THE UNREVEALED PROBLEM

The basic unrevealed problem from the whole true story was the blind-trust from A & B towards C. What made it happen was because of the misperception on “trust”. A & B see trust as confidence in the reliability of a person © or a system, regarding a given set of outcomes and events, where that confidence expresses a faith in the probity or love of another (B towards his Uncle C) as was stated by Giddens (1995:34).

In a normal cases, where people reciprocate the trust extended to him, he would share a certain reality as was said by Ridley (1996), but C did not do the same thing. Instead, he had practiced on the contrary to the Bourdieu’s (1997) social capital., he did the fraudulent on making the distrust mechanisms which increase the cost of monitoring (have to ask for a Certified Public Accountant’s ‘ help’ to ask him to do the investigation. It is totally the last choice a family business firm should do.

BLOOD IS NOT THICKER THAN MONEY

This idioms should be supported by developing effective ownership for other family members, other than just himself, and encouraging family participation in creating family fairness, and preparing participation agreements (Carlock & Ward, 2001)

The moral encoding of trust in the form of an obligation to reciprocate, it is essential to the very operations of complex societies. It is not a matter of free will, but it is necessity that such obligation are taken seriously, as was mentioned clearly by Wels & Loan.. In this study, the trust exercised between B & C (his uncle) did not demonstrate openness and self disclosure.

In this case study, no openness of C, that has reduce them number of uncertainly

In making it happen for a family business to sustain over generation, it seems to be a must that trust be placed in context of actual day to day interaction between people, seriously (Wels & Loon, 1999). The interaction should include also the mechanism for other to control, not a blind-trust as mention by Axelrod (1984).
Family members do not have a privilege of working irresponsibly. They in fact, are expected to be more prudent in exercising their leadership.

CONCLUSION

What was revealed from this case study, shows also that not just trust is the main factor for sustainability of a family business. In fact the system to control the mechanisms of the so called “trust” should be established.

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