THE INFLUENCE OF FAMILY OWNERSHIP, FAMILY ALIGNED BOARD, AND POLITICAL CONNECTION TOWARD THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE IN BANKING INDUSTRY

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THE INFLUENCE OF FAMILY OWNERSHIP, FAMILY ALIGNED BOARD, AND POLITICAL CONNECTION TOWARD THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE IN BANKING INDUSTRY

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ABSTRACT

This research aims to investigate the effect of the family-owned bank, family aligned board and political connection to the implementation of good corporate governance in the banking industry from 2014 to 2017 period. This research is used secondary data sourced by annual reports of banks from bank annual report. The number of samples is 58 banks each year. The analysis technique method used multiple regression analysis. The results showed that family ownership and the family aligned board has an insignificant positive effect and political connection has a significant negative effect on the implementation of good corporate governance. It means that family ownership and family aligned board does not have or cannot influence toward good corporate governance in banking industry. Meanwhile, the presence of political connection makes the bank has lower composite score or in other word the political connected bank have worse performance in implementing good corporate governance rather than counterpart.

Keywords: Family ownership, family aligned board, political connection, corporate governance.

BACKGROUND

Good corporate governance is one of the important factors for the firm's life because it can affect the decision-making process, the balance of the framework, and understand the firm's management. Additionally, by the good corporate governance implementation, companies can carry out their management reliably, mitigate risks, maintain product quality standards, improve access to capital, and make the company more efficient which reflects the economy of a country. (Muliaman D Hadad, 2014).

However, in recent years the failure of GCG's implementation triggers the financial crisis in the last decades, which has further worsened Indonesia's economic condition (Muliaman D Hadad, 2014). Financial crisis in 1997 was the worst banking industry in history. Therefore it became a lesson for banking industry how important prudential managementis. As a part of the prudence principle, bank has awareness to develop sustainability business through the implementation of GCG.

According to KNKG (2006: 1) the banking crisis in Indonesiawas not only caused by the economic crisis, but also causedby improper the implementation of good corporate governance and the underlying ethics. Therefore, the efforts to restore trust in the banking worldIndonesia through restructuring and recapitalization can only havelong-term andfundamental impacts if accompaniedby three important actionsothers, which are in line to the principle of prudence, implementation of goodcorporate governance, and effective oversight of the authoritybank supervisor. The banking industry is an industry which requires the trust of the public and investors. Therefore, the implementation of regulations and principles of good corporate governance in banking industry is the main requirements to protect the interest of stakeholders.

There are a lot of factors that can affect the implementation of GCG and one of them is family ownership. The former deputy governor stated that 70% of Indonesian bank is owned by family. He also stated family-owned bank usually put their family member in directors and commissioner.

Based onstatistics data, most of collapse bank was not caused by competition but fraud. It may cause depth intervention so that the governance cannot control well (Detik Finance, 2011). Families tends to dominate most of the shares in the company so that they are could being majority shareholders whose the votes will be most influential in making decisions which is lead a conflict of interest between minority and majority shareholders in determine the direction of a company.

The large proportion of family ownership encourages the determination of management who has a close relationship with the family by the controlling shareholders through a collection mechanism that is dominated by the votes of the controlling shareholders. The tendency of family elements to maintain the status quo could be a cause of poor implementation of corporate governance so that the profits as majority shareholders can be maintained, and it is not only through management but also by family-affiliated board (Haque, Arun, & Kirkpatrick, 2011).

Moreover, the other cause of the improper implementation of good corporate governance is the presence of political elements. Faccio (2006) research showed political connected companies have lower performance compared to companies that do not have political connections on an accounting basis. His research supported by Fan et, al. (2007) research which showed that company with political connection in China have lower performance as 37% in three days after done Initial Public Offering (IPO). However, BayuWirawan (2014) research showed that political connection does not have negative effect to GCG.Thus the issue of the political connected company with corporate governance is also interesting to be study further. Remaining the importance of the implementation of good corporate governance for the life of the bank, therefore the author is interested in examining the influence of family ownership, family aligned board, and political connections on the implementation of good corporate governance in banking industry.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Good Corporate Governance (GCG)

Sutedi (2006, p.175) stated that corporate governance is a set of rules that regulate the relationship between management (managers) of the company, shareholders, government, creditors, employees and other internal and external stakeholders related to rights and their obligations or in other words a system that regulates and controls the company and a system of relationships between stakeholders that is used to determine and control the direction of the company's strategy and performance.

There are five basic principles used as guideline to implementing good corporate governance. The principles of good corporate governance (GCG) according to (KNKG: 2004) are transparency,accountability, responsibility, independency, and fairness or also known as TARIF.In order to create a good banking industry, Bank Indonesia (2006) issued a refinement of bank Indonesia regulation (PBI) concerning the assessment and compliance of the quality of banking management. The improvement of the regulation was issued to prioritize the fulfillment of prudential banking principles and implementation GCG.

The bank's GCG assessment is guided by Bank Indonesia Regulation No.8 / 4 / PBI / 2006 concerning GCG implementation for commercial banks. The assessments is done independently (self-assessment) by comparing the fulfillment of each criteria or indicators with bank conditions based relevant data and information. Based on the results of the analysis, each rank is set criteria or indicator. In order to ensure the five basic principles of GCG, banks are do self-assessment consist of 11 assessments namely:

1. Implementation of the Commissioner's Duties and Responsibilities
2. Implementation of Director's Duties and Responsibilities
3. Completeness and the Implementation of the Committee Duties
4. Handling Conflicts of Interest
5. Application of Compliance Function
6. Implementation of the Internal Audit Function.
7. Implementation of the External Audit Function
8. Implementation of Risk Management Including the Internal Control System
9. Provision of Funds to Related Parties and Provision of Funds Large Exposure
10. Transparency of the Bank's Financial and Non-financial Conditions, Reports of GCG Implementation and Internal Reporting
11. Bank's Strategic Plan

FAMILY ALIGNED BOARD

When a family owns a company, it will have a tendency to place a family member in the composition of the board of directors and the board of commissioners. Anderson and Reeb (2005) stated that there is a tendency for family companies to avoid having a board of commissioners from independent board to safe the interests of the family as the holder of control. The concentrated ownership of the family has an influence on control in process determination of the board of commissioners and the board of directors. This is done to protect the interests of the controlling shareholder family.

FAMILY OWNERSHIP

Haque, Arun, dan Kirkpatrick (2011) conducted research in Bangladesh on the effects of concentrations of family-controlled company ownership and corporate political connection towards the implementation of corporate governance. The result is more concentrated family ownership in the company the greater the family's influence in giving a decision to place his family members as directors and commissioners in the company.

Siagian (2011) proves that empirically the level of ownership family has a negative influence on implementation of corporate governance because it avoids governance that tends to reduce control of the controlling shareholder in Indonesia. The research of Cynthia Afriani and WahyuJatmiko (2015) find that family-owned bank has greater credit losses than non family-owned bank.A family firm is characterized by significant ownership of a single family and more than one family member and a person or family through a group, legal entity and companies. Canella, Jones, and Withers (2015) describe how family firm organizational identity greatly influences their governance choices. Specifically, family firms are more likely to select directors and commissioner with more experience in family firms, and keep directors on their boards longer (Canella et al, 2015).

POLITICAL CONNECTION

According to Purwoto (2011), a company with political connections is a company that in certain ways has a political bond or strives for closeness with politicians or the government. Political connection is like a double-edged sword. It can increase or even endanger the value of the company. Fan et. al., (2007) in China shows that when political control is limited, the company's performance improves. Purwoto (2011) also conducts research on political connection and blurring of financial statement with synchronization and risk of stock price crashes. The result is political connections will have an impact on the availability of specific information on the company, and the companies tend to obscure specific information through quality reporting.

Effect of Family Ownership toward the Placement of the Board Affiliated With Family

Haque, Arun, and Kirkpatrick (2011) stated that the companies that are dominated by family ownership directly give influence in the management of the company.

According to Haque, Arun, and Kirkpatrick (2011), a company said has family-affiliated commissioners if the controlling shareholder is a family, then the family tends to have incentives and strength to obtain benefits for themselves in the form of excessive compensation, special relationship transactions for personal gain. Claessens et al. (2002) stated that 84.6% of managers in Indonesia were determined by the final control and the companies are more likely to take advantage of their control in expropriating minority shareholders through their chosen management. Anderson and Reeb (2005) state that there is a tendency for family companies to avoid having a board of commissioners from independent circles to safe the interests of the family as the holder control. Concentrated ownership of the family have an influence on control in the political process for the determination of the board of commissioners and the board of directors and this is done to protect the interests of the controlling shareholder which is family.

Effect of Family Ownership to Good Corporate Governance

Haque, Arun, and Kirkpatrick (2011) stated that the companies that are dominated by family ownership directly give influence in the management of the company. Claessens et al. (2002) stated that 84.6% of managers in Indonesia were determined by the final control and the companies are more likely to take advantage of their control in expropriating minority shareholders through their chosen management. Anderson and Reeb (2005) state that there is a tendency for family companies to avoid having a board of commissioners from independent circles to safe the interests of the family as the holder control. Concentrated ownership of the family have an influence on control in the political process for the determination of the board of commissioners and the board of directors and this is done to protect the interests of the controlling shareholder which is family.

Hypothesis 1: Family Ownership has negative effect toward GCG

Effect of Family Aligned Board to Good Corporate Governance

Haque, Arun, and Kirkpatrick (2011) showed that there is a negative influence of the ownership structure and the political process of determining the board of commissioners and directors on the implementation of corporate governance in Bangladesh. The more directors and commissioners who are affiliated with the family, the decisions taken will be more gainful for the controlling shareholders but harm the minority shareholders. Siagian (2011) proved that in Indonesia empirically the level of family ownership has a negative influence on the implementation of corporate governance because it avoids governance that tends to reduce control from the controlling shareholders.

Hypothesis 2: Family Aligned Board has negative effect toward GCG

Effect of Political Connection toward Good Corporate Governance

The reciprocal form of the funder can be in the form of political lobbying, project tenders, or policies that are beneficial for the company or related individuals. Moreover, the company going to try to lobby politically to maintain the status quo in policies related to corporate governance in order to maintain control over minority shareholders. Micco, Panizza, and Yanet (2007) stated that companies with political connection have the possibility to make adjustments in financial reporting for the benefit of controlling shareholders so as to sacrifice minority shareholders.

Research from Bebchuk and Neeman (2005) shows that insider transactions in companies whose the ownership is concentrated in families use assets from the company for personal gain, one of the uses of company assets is to influence politicians and bureaucrats to maintain low investorprotection. By investor protection that remains low, the controlling shareholders will be able to continue to use minority shareholders through expropriation.

Besides the weakness of investor protection, the implementation of governance is also influenced by the transparency from the politically connected company itself. Leuz and Gee (2006) have argued that political connections can be a substitute for loans from abroad. According to Leuz and Gee (2006) this substitution effect makes the level of transparency of the company worse because of the need to follow the reporting and transparency requirements in accordance with foreign financing standards.

The politically connected companies will have low transparency and obtain debt financing due to their political connections. Politically connected companies will use their control to lobby politics so that standards, rules and enforcement of corporate governance remain in the status quo (Haque, Arun, and Kirkpatrick, 2011). In this issue, there is applied resource based theory. In this case, political connection could be considered as resource based for the bank. Being politically connected are valuable for firms as their connections may provide privileges such as prevent them from competition, could create industry entry to barrier , more likely to be bailed out and improve the access to resources. In Indonesia research on corporate political connections began in the Suharto era by Fisman (2001) which resulted in an influence from the company's political closeness with the authorities on the company's stock price. Other research in Indonesia related to corporate political connections is by Wulandari (2012) who discusses the influence of political connections and ownership structures on company performance. Her research result prove that companies who have political connections have worse performance compared to companies that do not have political connections. Purwoto (2011) also conducts research on political connection and blurring of financial statements with synchronization and risk of stock price crashes. The result is political connections will have an impact on the availability of specific information on the company, and the companies tend to obscure specific information through quality reporting.

On the other side, however, it also can be argued that political connections could be a burden for a firm as the connections may create well-performed firms that dependent on favorable government policies. It causes them more susceptible to the political issues, political changes or regulatory reforms (Trinugroho et al, 2017).

Hypothesis 3: Political connection has influence toward GCG

Below is the research framework that underlying this research:

Index Score	Predicate	Rank
Composite score < 1.5	Excelent	5
1.5 ≤ Composite Score < 2.5	Good	4
2.5 ≤ Composite Score < 3.5	Fair	3
3.2 ≤ Composite Score < 4.5	Less Good	2
4.5 ≤ Composite Score < 5	Bad	1

Source: Developed by Author

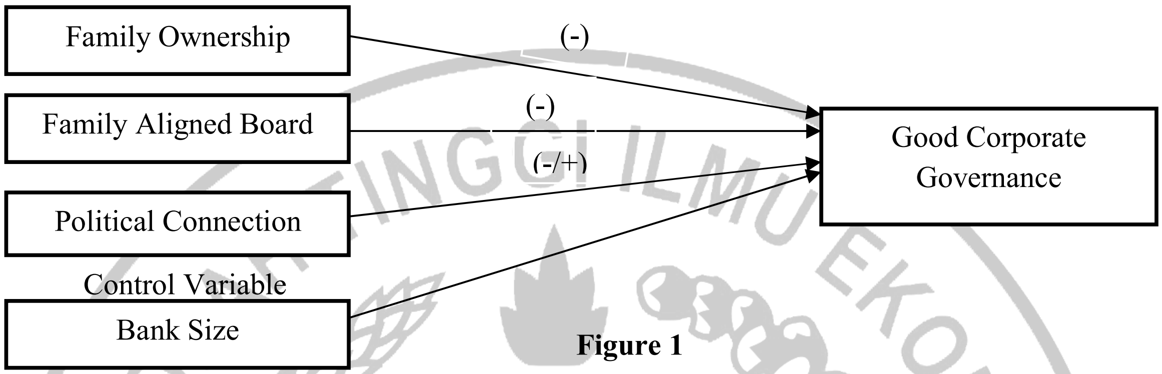

Figure 1
Research Framework

Variable Definition & Measurement

Good Corporate Governance

Good Corporate governance or GCG can be interpreted as a set of rules that govern the relationship between management (managers) of the company, shareholders, government, creditors, employees and other internal and external stakeholders related to their rights and obligations or in other word a system that regulates and controls a company. The bank's corporate governance can be measured bycomposite score from self-assessment. The criteria assessment is performed below:

Table 1:GCG Self-Assessment Ranking

Index Score	Predicate	Rank
Composite score < 1.5	Excelent	1
1.5 ≤ Composite Score < 2.5	Good	2
2.5 ≤ Composite Score < 3.5	Fair	3
3.1 ≤ Composite Score < 4.5	Less Good	4
4.5 ≤ Composite Score < 5	Bad	5

Source: Circular Letter of Bank Indonesia No9/12/DPNP 2007

The composite score is changed to five as the highest (the excellent) and one as the lowest (the worst) for the better understanding.

Table 2: Modified GCG Assessment

Family Ownership

Family ownership is the percentage of bank shares owned by the family. The family is the entire individual and the company who the ownership is registered. Besides, family ownership can be interpreted as an indirectly ownership of a family but their ownership is through a group or a company or legal entity which owned by them. According to Harijono (2013), tracing family ownership is done by looking at the names of the board of directors and the board of commissioners. If the name of the board of directors and the board of commissioners tends to be the same within a few years and has shares in the ownership of the company, then the company may be included as family ownership. A family owned bank signed by indirectly ownership of a person but their ownership is through a group or a company or legal entity which owned by them has more than 20% of the shares (Haque, Arun, & Kirkpatrick 2011).

$$\text{Family Ownership} = \frac{number\ of\ family's\ stock}{total\ number\ of\ stock} x\ 100\%$$

Family Aligned Board

According to Bank Indonesia regulation No.5 8/14/PBI/2006, family aligned boards can be interpreted as members of the board of commissioners and directors who are affiliated with the family of the shareholders or the percentage of the number of members of the board of directors and commissioners who have a family relationship. Family aligned board can be measured by following formula:

$$\text{FAB} = \frac{number\ family\ affiliated\ board\ members}{total\ number\ of\ board\ members} x\ 100\%$$

Political Connection

According to the research of Prabowo (2013) and Nys et al. (2015), politically connected banks can be considered as 1) state-owned banks (SOB) and regional development bank (RDB) 2) politically connected private banks defined as those controlled by politicians or having at least one politically connected commissioner or directors as a parliament member (MPR), or ministry.

Political connections are proxied by dummy. It will be worth 1 if the company is proven to have political connections and 0 if it is not politically connected.

RESEARCH METHOD

Sample Classification

The population is all bankslistedon Financial Service Authority in 2017. The sample used is a politically connected bank, family bank and the members of the board of commissioners and directors who are affiliated with the family of the shareholders or the percentage of the number of members of the board of commissioners and directors who have family relations in the 2014 and 2017 periods. This study uses purposive sampling which is the samples have to qualify certain charactristics determined by researcher. Bank which is included to this study has to fulfil these charactristics (criteria):

1. Bank listed in Financial Service Authority in 2017
2. Sharia, foreign bank, and joint-venture bank did not includes as observed research.
3. Political connected bank with criteria:
   a. State owned bank (SOB) and regional development bank (RDB)
   b. Politically connected private banks with characteristics below:
      1. Private banks for which at least one of their director or commissioners is politically connected serve as a government official President JokoWidodo government (including parliament and ministry member)
      2. Private bank which at least one of their controlling shareholders who own shares ≥ 5% is politicallysconnected as a parliament (MPR) and ministry member.
4. Family owned bank signed with one personor more from family or indirectly ownership of a person but their ownership is through a group or a company or legal entity which dominating the shares
5. Bank who have executive board affiliated with family as ultimate shareholder or member of board directors and commissioners who has family relationship.
6. Issued and publish annual report in bank website from 2014 to 2017.

Research Data

In this study the author using secondary data in document form. As well as the data for the corporate governance assessment scored, and the composition of the board of directors and board of commissioners affiliated with family from the annual report and the status of political connection from google.com. The required data in this study is concerning about the ownership structure of the company in the form of family as well as the composition of the board of commissioners and the

Table 3: Descriptive Statistic

Variables	Minimum	Maximum	Mean	Std. Deviation
Composite Score	2	5	2.2112	0.56081
Family Ownership	0%	100%	22.8%	33.4%
Family Aligned Board	0%	33.30%	4.16%	8%
Political Connection	0	1	0.5	0.501
Ln TA	(24)	(35)	(30.75)	(1.683)
Bank Size (In Million Rupiah)	26,000	1,126,248,442	93,058,709	206,055,422

Source: SPSS, Developed by Author

board of directors also the composition of the government cabinet and the composition of the parliament, especially the 2014 to 2017 period.

Financial reports and annual reports are obtained from bank website. The cabinet's composition of the Indonesia's government is obtained from http://wikipedia.org/wiki/kabinet_kerjaand the composition of the members of the parliament data is obtained from http://ww.mpr.go.id/badan/anggota.

Indonesian banks consist of conventional and Islamic (Sharia) commercial banks which include of regional development banks, state-owned banks, foreign-owned banks, and joint-venture banks. However, in this study, the author excluded from the sample which are Islamic (Sharia) banks, foreign-owned banks and joint-venture banks and only keep the conventional commercial banks consist of state-owned bank, regional development bank, foreign exchange bank and non-foreign exchange bank.

Research Variable

The dependent variable used in this research is good corporate governance. Meanwhile, the independent variables are family ownership, family aligned board and political connection.In this research, control variable is included because Control variable is used to control or made constant so that the effect of the independent variables on the dependent is not influenced by external factors that are not observed in the study. The sample used in this study includes large-scale and small-scale banks. The control variable used in this study is the size of the bank. The size of the bank is chosen because between large and small company certainly have different size of asset.

Data Analysis Technique

Descriptive analysis provide a subjective or descriptive picture of a data which is seen from the mean, standard deviation, maximum, minimum, sum, range, kurtosis and skewness (SyofianSiregar, 2013: 95).

Descriptive analysis is used to obtain a general description of the observation variables, which are family ownership, family aligned board, political connection and good corporate governance.While the statistic analysis used is multiple linear regression analysis to test the hypothesis of the influence of family ownership, family aligned board and political connections or X to the implementation of good corporate governance or Y.

RESULT AND DISCUSSION

Descriptive Statistic

Descriptive analysis is used to describe the results of this study about the descriptionof research variables. The descriptive statistic is performed in table 3. From table 3, the minimum value of composite score is 2 and the maximum value is 5.The higher composite score, it reflects that the bank more able in implementing good corporate governance. Moreover, the mean value of composite score is 2.2112, means averagely composite score of Indonesian bank is as 2.2112.

Based on table 3, the average value of family ownership is 22.8% and the maximum value as 100%. While for minimum value (0%) is represented by bank which the ownership does not owned by a person or family.

For family aligned board context, it has average value as 4.16%. Moreover, the maximum value as 33.3% and the minimum value as 0%. The minimum value which is 0% is represented by bank which does not have executive board affiliated with family. In this research, politically connected bank has not executive board affiliated with family. Due to the mean value of family aligned board is very weak, it indicates that the family aligned board does not have influence to composite score.

Based on table 3, political connection has maximum value as 1 and minimum value as 0. It indicates that 0 is as representative from non-political connected bank and 1 for political connected bank which consist of state owned bank and regional development bank. The mean value of political connection is 0.5 and standard deviation is 0.501.Because of this research is conduct to investigate whether political connection is influence toward GCG, so the comparison composite score between politically connected bank and non-politically connected bank is performed below:

Table 4: GCG's Score Comparison

Type	N	Min	Max	Mean	St. Dev
Politically connected	29	3	5	3.59	0.63
Non-politically connected	29	2	5	3.98	0.41

Source: Developed by author

According to table 4, the maximum composite score value from politically connected bank and non-politically connected bank are same. They have maximum value as 5. However, politically connected bank and non-politically connected bank have different minimum value. Politically connected bank has minimum value as 3 and non-politically connected bank has value as 2. Not only the maximum value, but also the mean value of politically connected bank and non-politically connected bank is different. The composite score for politically connected bank averagely is 3.59 and non-politically connected bank have higher value which is 3.98.

Therefore, it can be concluded that non-political connected banks are better in implementing good corporate governance rather than politically connected bank due to higher mean composite score is better in implementing good corporate governance.

Nased on table 3 in bank size context, it has maximum value as 35 and minimum value as 24. Itindicates that the bank observed in this study start from size 24 to 35 in 2014.

Hypothesis Examination

Multiple linear regression analysis is carrying out to determine the direction and magnituded of the influence of independent variables FOWN, FAB, and PCON on the GCG as dependent variable. The main objective of this research is to investigate whether familyownership, family aligned board, and political connection effected the implementation of good corporate governance in banking industry. The result of analysis is defined on following table:

Table 5: Multiple Regression Analysis Result

Variable	B	t_{count}	t_{table}	Sig.	Conclusion
Constant	-0.338				
FOWN	0.037	0.252	-1.652	0.801	Ho Accepted
FAB	0.707	1.425	-1.652	0.155	Ho Accepted
PCON	-0.306	-3.295	± 1.971	0.001	Ho Rejected
SIZE	0.138	6.711	± 1.971	0.000	
R Square	0.279				
Adjusted R Square	0.266				
F Count	21.932				Ho Rejected
F Table	± 2.41				

Source: SPSS, Developed by Author

If the value of FOWN, FAB, PCON and SIZE is constant, the value of good corporate governance is -0.338.

The family ownership coefficient (B_1) = 0.037, which mean family ownership has positive correlation to composite score. It shows that, if the family ownership increased one point so the composite score would be increase as 0.037 with an assumption other variables are constant.

Family aligned board (B_2) = 0.707, which mean family aligned board has positive correlation to composite score. It shows that, if the family aligned board increasedone point so composite score would be increase as 0.707 with an assumption other variables are constant.

The political connection value (B_3) = – 0.306, which mean political connection has negative correlation to composite score. It shows that, if the value of political connection increased, so the compositescore would be decreasing as 0.306with an assumption other variables are constant.It indicates that the presence of political connection makes bank have lower score composite which reflect they have less capability in implementing GCG.

The bank size coefficient (B_4) = 0.138, which mean bank size has positive correlation to composite score. It shows that, if the bank size increased one point so composite score would be increased as 0.138 with an assumption that other variables are constant.

Family Ownership

Table 5 shows that the significance of t-test result is more than a = 0.05 or t count 0.252 >t table -1.652, indicates H_o is accepted or H_1 is rejected. Family ownership has positive correlation toward composite score, meaning when family ownership increased one point the composite score will be increased one point. By that result, it can be concluded that there is positive but not significant influence between the family ownership to composite score.

Family owned bank usually run the business on a relationship basis and have a strong social network. The higher the percentage of family ownership or the more concentrated family ownership in the company, so the bigger the family's influence in giving a decision to place their family members as directors and commissioners at the company. As family owned banks are characterized by very closely ownership structures, it is reasonable to go beyond control mechanisms to align or preserve the owners' interest towards the management. Moreover, family owned bank may have feasibility to have better performance than the counterpart. The reason is because founding family entails a stronger authority to monitor the operations of the company; that it has a bigger concern for the banks soundness and sustainability. This is related to assessment number 8 regarding implementation of risk management including the internal control system.

One of family ownership characteristics is the family have a tendency to inherited their business to the next generation, so they would consider by implementing GCG well, it could be one of the way to maintaining their long-survivability. Hence, it is reasonable if family-owned business or family-owned bank would have better performance in practicing GCG principles. This explanation related to the assessment number 11 regarding bank's strategic plan.

The non significant result can be explained by regarding the majority or ultimate shareholder is come from own family, then they would has higher votes to point out whose going to be in commissioner position through general meeting shareholder, so the executive position may be determined by the final control and the family-owned banks are more likely to take advantage of their control in expropriating minority shareholders through their chosen management.

Family Aligned Board

Table 5 shows that t count 1.425 >t table -1.652, it indicates H_o is accepted or H_1 is rejected. Family aligned board has positive correlation toward composite score, means when family aligned board increased one point the composite score will be increased one point. By the result, it can be concluded that family aligned board has positive insignificant influence toward good corporate governance..

Under Article 39 of the Regulation of the Financial ServicesAuthority No. 55 / POJK.03 / 2016 in Good CorporateGovernance for Commercial Banks, Board of Commissioners member must disclose family and financial relationship ofmembers with fellow Board of Commissioners members,Board of Directors members and/or Controlling Shareholders**.** In accordance of its regulation, the family affiliated board has been done transparency and there is no hiding information regarding the closeness among family. Besides, the placement of executive board affiliated with family is not an arbitrary. Board of commissioners members are appointed by the general meeting shareholder and each members will be part of board of commissioners if only they have passed the fit and proper test requirements by Financial Service Authority. It means, the affiliated-board is fulfilling the qualification of the assessment number one regarding the commissioner duties and responsibilities already.

The non significant result can be explained by family-affiliated boards are not strong enough in encouraging the practice of good corporate governance. In this case, the mean value of family-affiliated board only as 4.16%, which very low and weak value. Besides, in this research, the proportion or the mean value of independent board is higher rather than family-affiliated board within the bank which is as 92%. Moreover, due to the existence of independent commissioners and directors have a strong influence to keep the bank to implementing good corporate governance properly. Thus, the bank would not neglect the interest of minority shareholder. This is related to the assessment number one regarding the commissioner duties in supervising policy and regulation.

Furthermore, another reason regarding the non-significant is the regulation from Financial Service Authority. Based on the regulation number PBI No.

8/14/PBI/2006about the implementation of good corporate governance for commercial banks regulates that the bankmust have an independent commissioner with a composition of at least 50% of the amountmember of the Board of Commissioners. Moreover, the audit committee members must consist of at least one commissionerindependent as chair and member, one partyindependent who has expertise in finance or accounting and one independent party who has expertise in the field of lawor banking.Independent commissioner and independent party member of the committeeaudit is at least 51% of the total members of the Committee.

Political Connection

Table 5 shows that the valueof ttable> tcount (1.971>-3.295) then Ho is rejected, meanthere is partially significant effect between political connection toward composite score. So from this case it can be concluded that political connection partiallyaffect to the implementation of good corporate governance. The result said that the presence of political connection makes the bank has higher composite score, or in other word politically connected bank is not good enough in implementing good corporate governance. This result is not in line with previous research from and BayuWirawan and Vera Dianty (2014) which stated that political connection has not impact negatively toward the implementation of good corporate governance.

Based on this study, there are regional development banks that have vacuum of power in commissioners and directors place in a few times. This is problematic, remaining how important commissioners roles and responsibilities to encourage the quality of corporate governance implementation and to running the banks life. As a result, this issue is not fulfilling the assessment number one and two regarding the duties of commissioner and director.

Moreover, one of the characteristics of politically connected bank is a person who is close to the local or regional officials will be placed in a position such committees without regard to theircapability to manage and supervising the operations of the bank itself. This is problematic, considering the ability of a committee in the banking industry is very important. It means, the bank cannot qualify the assessment number three regarding the completeness and implementation of committee duties. Additionally, the independency of committee within the bank might be doubted.

As a result, there are regional development bank which has gap assessment between FSA and the bank itself such. So the bank must be evaluate and do re-self assessment. It is indicate that few of regional development need to be educated more regarding how to assess their performance in implementing good corporate governance properly. This issue is related to the assessment number six regarding Implementation of the internal audit function. It means that those politically connected bank did not qualified in the assessment number six well.

Bank Size

Bank size is a picture of theassets's size of owned by the bank. The result shows that bank size has positive significant effect toward implementation of good corporate governance. It means that the larger size of bank would have higher composite score, or in other word the larger size of bank is well in implementing good corporate governance. The measurement used to determine the size of the bank uses the value of the total assets, and then the value is changed in the form of natural logarithms (Ln total assets). Bank with the big total asset one shows that the bank has reached the stage of maturity because in this stage the company's cash flow already positive and considered to have good prospects in a relative time period. In addition, this also reflects that banks are relatively more stable and more able to generate profits compared to bank with small total assets.

Besides, larger banks are has possibility to have complex committees in order to maintaining the practices of good corporate governance within bank so the practice of good corporate governance run according to the guidelines.

CONCLUSION, LIMITITATION, AND SUGGESTION

The research aims to investigate the effect of family-owned bank, family aligned board and political connection to the implementation of good corporate governance in banking industry along 2014 to 2017 period. This research used secondary data sourced by annual reports of bank website. The number of sample is 58 banks each year. The analysis technique method used multiple regression analysis. From the discussion in the fourth chapter, the result of this study is summarized as bellow:

Based on F test, it can be concluded that family ownership, family aligned board, political connection, and bank size simultaneously have effect to good corporate governance in banking industry.Based on t-test, it shows that family ownership and family aligned board have positive non-significant effect to good corporate governance in banking industry.Based on t-test, it shows that political connections have negative significant effect to good corporate governance in banking industry.

Based on this research, a researcher has research limitation, which are (1) the sample of this research is not matched observed bank based on bank type whether foreign exchange bank and non-foreign exchange bank, (2) the criteria of political connection only limited in members of parliament (MPR) and member of ministry,(3) the measurement of good corporate governance is used composite score as result from self assessment, yet sometime there is occurred difference assessment score between Financial Service Authority and the banks itself so the bank must do revised, (4) Lack of data and information provided regarding the closeness of a board of director or commissioner or ultimate shareholder with government such as parliament, ministry or even president, (5) The model of this research only able to explain 27.9%of the variation in the dependent variable (good corporate governance). While the rest (72.1% of 100 percent) is influenced by another determinant factors.

Based on result finding, the researcher has some recommendations for shareholder and future research as below. (1) The assessment of good corporate governance score should be highlighted thing to be considered in investment. Because more good the bank in implementing good corporate governance, it reflect the bank has awareness, and responsibility toward each stakeholder and shareholder, (2) future research is expected to conduct next research by match the observed sample based on bank type such foreign exchange bank and non-foreign exchange bank, (3) adding the criteria of political connection in order to get representative result like parties members, and campaign successful team,(4) using another index score as measurement of good corporate governance such as ASEAN Corporate Governance Scorecard or Corporate Governance Perception Index (CGPI), and (5) adding the independent variable for example like profitability, leverage, and ownership structure.

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