CHAPTER II

LITERATURE REVIEW

2.1 Previous Research

In a research, theoretical foundation needed to support theory to be tested. The theories that will be used are a previous research done by other researcher. This research is based on the results of previous studies that took the topic of the influence of family ownership, family aligned boards, and political connections on the implementation of corporate governance. The previous research referenced conducted by following research:

1. Paulus Hadjiprayitno (2013)

The topic of this study is the influence of structure ownership and good corporate governance on agency cost. The independent variables are structure ownership, good corporate governance and the dependent variable is agency cost. The purpose of this study was to determine the impact of corporate governance on agency cost. But the result of the study implicitly said that dominating family ownership has a bad influence on the application of corporate governance. The sample used in this study is non-financial industries with high regulated listed in Indonesia Stock Exchange 2012. The data analysis technique used is the multivariate regression analysis. The result is the proportion of independent board and the number of board meeting has negative effects on the agency cost that is proxied as assets turnover.

The current study and the prior study have a similarity as follows:

1. Both research determining the effect of ownership structure toward implementation of GCG.

However, the current study and the prior study have differences as follows:

1. In previous research using agency cost as dependent but for current research using good corporate governance as dependent variable.
2. Previous research used non-financial firm as sample but current research use bank as sample.

2. Emmanuelle Nys, Amine Tarazia, & Irwan Trinugroho (2013)

This topic of this study is political connections, bank deposits, and formal deposit insurance: Evidence from an emerging economy. This study investigates the impact of political connected banks on their ability to collect deposits under two different deposit insurance regimes. The variable independent used is political connection and dependent variable is supply and demand of funds. The sample of this study is Indonesian banks listed on Financial Service Authority from 2002 to 2008. The analysis technique used is TSLS procedure to simultaneously estimate the demand and supply of funds. The result is, regardless of their type (state-owned or private entities), politically connected banks are able to attract deposits more easily than their non-connected counterparts. This result is implicitly said that politically connected banks have lower level of transparency because transparency is not considered to be an added value due to having access to finance from political input.

The current study and the prior study have similarities as follows:

1. Using politically connected bank as an independent variable.
2. Both researchers using purposive sampling.

However, the current study and the prior study have differences as follows:

1. Research sample period of prior study is 2002 to 2008 Indonesian banks but present study is 2014 to 2017 Indonesian banks listed in Financial Service Authority.
2. The analysis technique used is simultaneous equations panel data model, however, current study use multiple regression analysis.
3. Prior study used bank performance and cost of funding as de pendent variables, but current study use good corporate governance.

3. Bayu Wirawan and Vera Dianty (2014)

The topic of this study is the influence of family ownership, family aligned board, and political connections on GCG implementation. The purpose of this study was to determine the impact of family ownership, family aligned board and political connections on GCG implementation in non-financial companies listed on the Indonesia Stock Exchange in 2012. The variable independents used were family ownership, family aligned board and political connections, and the dependent variable is good corporate governance. The sample used in this study was a politically connected non-financial company listed on the Indonesia Stock

Exchange in 2012. The data analysis technique used is multiple linear regressions. The sampling method is purposive sampling. The result of this study is family ownership and family aligned board has significant negative effect toward the implementation of GCG, in other hand political connection have positive effect toward the implementation of GCG.

The current study and the prior study have similarities as follows:

1. Both researcher using family ownership, family aligned board and political connections as independent variables and good corporate governance as the dependent variable.
2. Both researchers using multiple regression analysis techniques.
3. Both researchers using purposive sampling.

However, the current study and the prior study have differences as follows:

1. The period of this study is 2014 to 2017.
2. The sample's criteria used are different from the previous research criteria.
3. Previous research used non-financial firm as sample but current research use bank as sample.

4. Umi Muawanah (2014)

The topic of this study is good corporate governance and family ownership. The purpose of this study was to investigate whether non-family owned bank and family-owned bank have difference in practice of GCG. The variable independent used is family ownership and the dependent variable is good corporate governance. The sample used in this study was Bank Pembiayaan Rakyat Syariah, Bank Umum Syariah, and Unit Usaha Syariah. The data analysis technique used is analysis of mean differences and regression. The design of this study is embedded explanatory design that incorporates mail surveys with in depth interviews. The sampling method is purposive sampling. The result of this study is family owned bank has higher composite score average rather than non-family-owned bank.

The current study and the prior study have similarities as follows:

1. Both researchers using family ownership as independent variable and good corporate governance as the dependent variable.
2. Both researchers using composite score in good corporate governance assessment

However, the current study and the prior study have differences as follows:

1. The period of this study is 2014 to 2017.
2. The sample used is different from the previous research criteria.
3. Previous research used sharia banks yet current study used conventional banks
4. Prior study use questionnaire as the method of collecting data but for current study using document or secondary data.

5. Albert A. Cannella, Jr. Carla D. Jones, Michael C. Withers (2015)

The topic of this study is family business versus lone-founder-controlled public corporations: Social identity theory and boards of directors between family companies and lone-founder companies in implementing corporate governance. The purpose of this study is to investigate whether family firm put their family member or their descendant in executive position such as board of director and board of commissioners. The independent variable used is family ownership and lone-founder firm and dependent variable is family aligned board. The sample used in this study was a publicly traded corporation between 1991 and 2006 in United States. Data analysis technique used generalized least squares (GLS) panel data regressions. The result of this study is family firm positively put family member or their descendant in executive position such as board of director and board of commissioners rather than put the independent parties in executive position.

The current study and the prior study have similarities as follows:

1. Using family firm or family ownership as an independent variable.

However, the current study and the prior study have differences as follows:

1. Prior study using generalized least squares (GLS) panel data regressions as data analysis techniques but this study using multiple linear regressions.
2. Using family aligned board as a dependent variable, however, current study use good corporate governance as dependent variable.

5. Irwan Trinugroho, Bambang Sutopo, & Sylviana Maya Damayanti (2017)

The topic of this study is politically connected bank in Indonesia. The purpose of the study is to investigate the impact of being politically connected bank on the bank performance and cost of funding. The independent variable is politically connected bank and the dependent variables are bank performance and cost of funding. The sample used in this study was 89 Indonesian banks over the period of 2001-2008 and this research used secondary data through annual report. The data analysis technique used is multivariate analysis. The result provides evidence that politically connected banks are benefited by getting a lower cost of funding.

The current study and the prior study have similarities as follows:

1. Using politically connected bank as an independent variable.
2. Both researchers using multiple regression analysis techniques.
3. Both researchers using purposive sampling.

However, the current study and the prior study have differences as follows:

1. Research sample period of prior study is 2001 to 2008 Indonesian banks but present study is 2014 to 2017 Indonesian banks.
2. Prior study used bank performance and cost of funding as independent variable, but current study use good corporate governance.

6. Daniel Yudistya Wardhana (2018)

The topic of this study is the influence of the family firm on the implementation of good corporate governance. The purpose of this study is to investigate whether family businesses have influence toward the implementation of good corporate governance. The independent variable is family firm and dependent variable is good corporate governance. The sample used in this study was a family company in the province of Yogyakarta. This research used primary data with did observation. Data analysis techniques were used descriptive and quantitative and the sampling method is purposive sampling. The result of this research is family business do proper implementation of good corporate governance.

The current study and the prior study have similarities as follows:

1. Using family firm or family ownership as an independent variable.
2. Using good corporate governance as a dependent variable.

However, the current study and the prior study have differences as follows:

1. Prior study using small medium enterprises (SMEs) as research object but current research use bank as the sample.
2. Prior study use questionnaire as the method of collecting data but for this research using document or secondary data.

Table 2.1

SUMMARY OF PREVIOUS STUDY

Information	Emmanuelle Nys, Amine Tarazia, & Irwan Trinugroho (2013)	Bayu Wirawan & Vera Dianty (2014)	Umi Muawanah (2014)	Canella, A. A., Jones, C., & Withers, M. (2015)	Daniel Yudistya Wardhana (2018)
Topic	Political connections, bank deposits, and formal deposit insurance: Evidence from an emerging economy	The Influence of Family Ownership, Family Aligned Board, and Political Connections to the Implementation of Corporate Governance	Good Corporate Governance and Family Ownership	Family- versus lone-founder-controlled public corporations: Social identity theory and boards of directors	Good Corporate Governance Practices in Family Business : A Case Study in Indonesia
Research Purpose	This study investigates the impact of political connected banks on their ability to collect deposits under two different deposit insurance regimes	To find out the influence of family ownership, Family Aligned Board, political connection toward the implementation of GCG	To investigate whether non-family owned bank and family-owned bank have differences in practice of GCG	To find out the differences behave between family companies and lone-founder companies in implementing corporate governance	To find out the influence of family business toward the implementation of GCG
Dependent Variable	Supply and demand of funds	Good corporate governance	Good corporate governance	Good corporate governance	Good corporate governance
Independent Variable	Political connection	Family ownership, Family Aligned Board, political connection	Family owned bank and non-family owned bank.	Family companies and Lone-founder companies	Family business or family ownership
Sample	Indonesian bank listed in Financial Service	Non-Financial firm listed in Indonesia Stock Exchange	Bank Pembiayaan Rakyat Syariah, Bank	Publicly traded corporations between	Small Business Enterprises in Yogyakarta

	Authority 2002-2008		Umum Syariah, and Unit Usaha Syariah	1991 and 2006	
Analysis Technique	Mean differences and regression	Multiple linear regression	Analysis of mean differences and regression.	Generalized least squares (GLS) panel data regressions	Descriptive and Quantitative
Data	Secondary	Secondary	Primary and secondary	Secondary	Primer
Method of collecting data	Document	Document	Questionnaire and Document	Document	Questionnaire
Result	The result is, regardless of their type (state-owned or private entities), politically connected banks are able to attract deposits more easily than their non-connected counterparts.	Family ownership, family aligned board has negative effect toward good corporate governance, and political connection has positive effect toward good corporate governance.	Family owned bank has higher average composite score rather than non-family-owned bank.	Family firms are more likely to interlock with other family firms, select directors with more experience in family firms, and keep directors on their board longer rather than independent board.	Family business (family ownership) has positive effect toward the implementation good corporate governance

Source: Emmanuelle Nys, Amine Tarazia, & Irwan Trinugroho (2013), Bayu Wirawan & Vera Dianty (2014), Umi Muawanah (2014) Canella, Jones & Withers (2015), Daniel Yudistya Wardhana (2018)

2.2 Theoretical Basic

The related literature is supporting and become the basic to achieve the objective of this study. This sub-chapter describe the theory linked about family ownership, family aligned board and political connection on the implementation of governance, as well as the theory put forward by experts.

2.2.1 Corporate Governance

The term of corporate governance (CG) was popularized by the Cadburry Committee in 1992. The Cadburry Committee defines corporate governance as a balancing system between the company's strengths to maintain its existence and its accountability to stakeholders (Zarkasyi, 2008). In addition, 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 according to (KNKG: 2004) are as follows:

a. Transparency

1. Banks must disclose information in a timely, adequate, clear, accurate and comparable and easily accessible to stakeholders accordingly with their rights.
2. Information that must be disclosed includes but not limited to the company's vision, mission, business objectives and strategies, condition of finance, composition and compensation of management, controlling shareholders, cross shareholding, executive officer, risk management, internal control and control systems, compliance status, systems and implementation of GCG and important events that can affect bank conditions.
3. The principle of openness adopted by banks does not reduce liability to fulfill the bank's secret provisions in accordance with regulations applicable laws, confidentiality of position, and personal rights.
4. Bank policies must be written and communicated to the party who have an interest (stakeholders) and who have the right to obtain information about the policy.

b. Accountability

1. Banks must establish clear responsibilities from each organizational organ that are aligned with the vision, mission, business objectives and company strategies.
2. The bank must believe that all organs of the bank's organization have competencies in accordance with their responsibilities and understanding their role in the implementation of GCG.

3. The bank must ensure that there is an internal check and balance system bank management.
4. Banks must have a measure of performance from all levels of the bank based agreed measures are consistent with the value of the company.

c. Responsibility

1. Bank relies on prudential banking practices and warrants the compliance with the applicable regulations.
2. Bank as a good corporate citizen have to performed proper social responsibilities.

d. Independency

1. Bank keeps off the occurrence of improper domination by any stakeholders and not affected to partial interest as well as free from any conflict of interest.
2. Bank will take objective decision and free of any pressures from any parties.

e. Fairness

1. Banks must always pay attention to the interests of all stakeholders based on the principle of equality and fairness (equal treatment).
2. Banks must provide opportunities for all stakeholders to provide input and express opinions for the interests of the bank and have access to information in accordance with the principle of openness.

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.

Based on Bank Indonesia regulation No.13 / I / PBI / 2011 concerning level assessment health of commercial banks, it regulates that the implementation of GCG principles is one of the criteria used to assess the quality of the bank. 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 on 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 Commissioner's Duties and Responsibilities

   The duties of commissioner are supervising on supervision policy, the course of the maintenance of the company by the board of directors and provide advice to the board of directors. Besides, the responsibilities of commissioner are providing feedback and approval of the work plan and the annual budget of the company and the company's long-term work plan was prepared and submitted by the board of directors.

2. Implementation of Director's Duties and Responsibilities

   The board of directors is the visionary body for the chapter. It is their responsibility to understand the practice of case management, evaluate the needs of the membership, consider the resources of the chapter and develop the long term plan and the strategy to implement the plan.

3. Completeness and Implementation of Committee Duties

   Within banking sector, there are committees needed to support the bank's performance in implementing corporate governance, namely internal audit unit; risk management unit and management committee risk, risk monitoring committee remuneration & nomination committee compliance unit.

4. Handling Conflicts of Interest

   A conflict of interest is a situation in which a person or group of people or organization is involved in multiple interests, financial or otherwise, and serving one interest could involve working against another. It must be overcoming as soon as possible in order to mitigate the feasible risk.

5. Application of Compliance Function.

   Compliance officers provide an in-house service that effectively supports business areas in their duty to comply with relevant laws and regulations and internal procedures.

6. Implementation of the Internal Audit Function.

   The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

7. Implementation of the External Audit Function.

   On the other hand, external auditors are professional in public practice expresses accountants an opinion whether financial statements are prepared, in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing.

8. Implementation of Risk Management Including the Internal Control System.

   Implementation of internal control system effectively that help the bank in maintaining assets, ensure the availability of accurate information and reporting, increasing the bank's compliance to the rules and regulations in force, as well as reduce the risk of loss, fraud and violation of the principle of prudence.

9. Provision of Funds to Related Parties and Provision of Funds Large Exposure.

   A bank may have exposures to a group of counterparties with dependencies that imply that they are all likely to fail simultaneously. In other words, this means that the group poses a single risk similar to that of a single counterparty. A key lesson from the financial crisis is that it is important for banks to consistently measure, aggregate, and control exposures to these counterparties.

10. Transparency of the Bank's Financial and Non-financial Conditions, Reports of GCG Implementation and Internal Reporting

    In order to attract and convince customers and investors in trust, banks are required to publish financial reports, annual reports and GCG reports regularly every year.

11. Bank Strategic Plan

    In anticipation of the dynamics of changes in the external environment, banks need to always reviews its short, medium and long-terms strategies as outlined in the form of Bank Business Plan (BBP) in order to keep exist and sustain banks life.

2.2.2 The Objective of Good Corporate Governance

The objectives of implementing the principles of good corporate governance are:

1. Maximizing the value of the company in the form of performance improvements (high performance) and good corporate image.
2. Encouraging professional, transparent and efficient management of the company and empowering functions and increasing the independence of the company's organs.
3. Encouraging corporate organs to make decisions and carry out actions based on high ethical or moral values and compliance with applicable laws and regulations, as well as awareness of the company's social responsibility towards stakeholders.

4. Reducing the potential conflict of interest in the organs of the company and workers in running the business of the company.
5. Creating a conductive business environment to achieve corporate objectives.

2.2.3 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 he controls.

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 Wahyu Jatmiko (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).

2.2.4 Agency Theory and Family Ownership

Agency theory is a theory that attempts to explain relationships and self-interest in business organizations. It describes the relationship between principals or agents and delegation of control and explains how best to organize relationships in which one party (principal) determines the work and which another party (agent) performs or makes decisions on behalf of the principal (Jensen and Meckling, 1986). Agency issues do not only occur between shareholders and management, but also occur between majority shareholders and management with minority shareholders (Villalonga and Amit, 2006).

Banks with dominant family ownership which managed by their own family members would be trusted more, so agency conflicts are reduced (Fama and Jensen, 1983). On the other hand, agency problems that arise are no longer between owners and management, but minority shareholders and also with family owners, which includes management from families. In the case the majority shareholder is family, so they have a tendency to maintain its dominance and status quo within the company, through its management and also restrictions on good corporate governance practices.

2.2.5 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.

2.2.6 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. This is happens when there is an increase in results in the flexibility of the company in terms of placement of labor and enforcement of more effective corporate governance mechanisms. Fan et al., (2007) reported the results of research that companies that have CEOs with political connections have a lower performance of about 37% compared to companies that do not have political connections when measured by their company's three-year stock return after the initial public offering (IPO).

Faccio (2006) research shows that political connected companies have lower performance compared to companies that do not have political connections on an accounting basis. This is possible because when politicians channel resources to the intended company, it can lead to distortion of incentives, and misallocation of investment and increasing corruption. Faccio (2006) argued that political connections can increase firm value if it succeeds in revoking unfair economic rents at the expense of competitors and consumers. However, if all or most of the value of the company is consumed by politicians and managers who are connected with the politicians then the shareholders will only get a little of the remaining available value and this is one of the agency problems.

According to Faccio (2006,) this can be aided by the use of proper governance structure. Faccio (2006) stated that if the political connection as the main determinant of a distorted investment decision, it will result in a lower firm value if there is no political connection. Leuz and Oberholzer (2006) provide evidence that in Indonesia, companies that face difficulties in establishing relationships with new governments when their patrons fall from power causes these companies have low performance and then turn to foreign financing. Another advantage gained by companies with political connections is easier access to debt financing, lower taxes, and stronger market forces.

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.

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).

The company can be said to have political connections if at least one of them is the head of the company, the majority shareholder or their relatives have been or are currently serving as high-ranking state officials, parliamentarians, or ruling party administrators (Faccio, 2006). Preliminary research on political connection is about the relationship between the company and the authorities, one of research by Fisman (2001) who examined the value of political connections. The examples of the influence of political connections between companies and ruling parties are also reflected in America (Goldman, Rocholl, and So, 2009).

Another influence of corporate political connection is can increase the value of a company if through political connections can eliminate unfair economic rents. This needs to be supported by good governance so that the value of the company is not only intended for the interests of the owners and politicians who have relations.

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 proves those companies who have political connection 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.

2.2.7 Effects of Family Ownership on the Composition of the Board of Directors and the Board of Commissioners Affiliated with the Family

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. The results of their study strengthen the research’s result by Fama and Jensen (1983), Shleifer and Vishny (1997), and Faccio, Lang, and Young (2001). 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.

2.2.8 Effect of Family Ownership and Composition of the Board of Commissioners and Directors on the Implementation of 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.

2.2.9 Effect of Political Connection to the Implementation of Corporate Governance

Vermonte (2012) stated that funding from political parties in Indonesia is not enough only from membership fees, parties also need other sources of funding from corporate or individual contributions that often involve the transactional agreement. 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 investor protection. 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 transparency from politically connected companies. 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.

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).

2.3 Research Framework

Based on the explanation of the previous section, it can be made a link between family ownership, family aligned board, political connections, bank size as control variable and the implementation of corporate governance with the following framework:

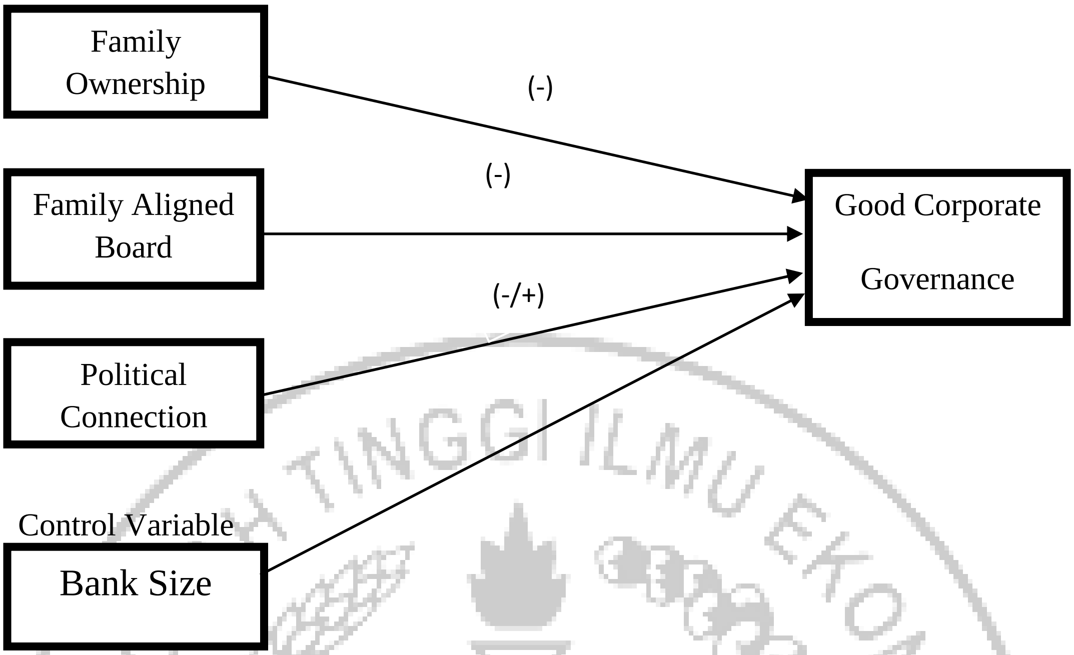

Figure 2.1

Research Framework

2.4 Research Hypothesis

In this study consisted of several research hypotheses as the initial reference in this study based on previous theories and research.

H1: Family ownership has a negative effect on the implementation of good corporate governance.

H2: The composition of the board of directors and the board of commissioners affiliated with the family within the company has a negative effect on the implementation of good corporate governance

H3: Political connections have a significant effect on the implementation of good corporate governance