



A Newsletter of RSM AAJ Associates

# Wake up Call

Quarter IV/2014 Edition







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# Family Owned Business: Is It Good or Bad?

Andrew Winarto, Governance Risk Control Practice

Family owned businesses is the most dominant form of business organizations in Indonesia. A survey conducted on family owned business in Indonesia shows that 95% of companies in Indonesia are family owned and they contribute significantly to Indonesia's economy. Family owned business in this case is defined as a company where the majority of their voting rights are in the hands of founder(s) or a person who acquires the company, for example spouse, parents, descendants or heir. There is at least one representative of the family placed in managerial position or Company's administration.

Good Corporate Governance (GCG) is defined by FCGI (Forum of Corporate Governance Indonesia) as a set of rules governing the relations between all parties involved with the company including employees, owner's), creditors, government, and stakeholders. GCG principle consists of Transparency, Accountability, Responsibility, Independency, and Fairness. In this article, relevant aspects of GCG will be applied as a basis in providing an insight on the shortcomings and major challenges faced by Family Owned Businesses in Indonesia.



## Managing Red flags

If we look at family owned company from its cultural aspect, apart from its positives, family owned business also has its potential negative sides. Why potential? Because those so called negative can be a nonexistence, if manage properly.

## Segregation

In family owned business, it is common that the management and the owner can share the same role and solve various problems within the company, in certain circumstances; leaders may emerge from within the family which often confuses the employees. In addition, sometimes there is non-existence of a firm line which separates company's problem and personal problem, and its decision-making process which often relies heavily on the owner's judgement with minimum transparency. In addition to these negative characteristics, most family owned businesses are facing the problem of developing a solid succession plan or exit strategy.

## Transparency

Other matter also common in family owned business is the minimum level of transparency. As stated above, in most family owned businesses in Indonesia, decision-making process relies heavily on the owner's judgement with minimum level of transparency. Transparency is the most fundamental principal of GCG, in order to overcome the problem faced by family owned businesses, company structures must be set to allow management, and financiers of the company to evaluate the company's revenue and financial status, to enable them to make decisions based on this evaluation.

## Accountability

Now, let's talk about accountability. In family owned business, management and owner tend to share the same role. In accordance to GCG principle, a clear set of rules to define the role of management and owner must be set to ensure accountability, if there are several directors in the company, clear rules of procedure and a schedule of responsibilities for each management position should be established.

A more defined role across the business also helps the company to determine the amount of compensation given out.



## Employment Policy

The next issue to be discussed in more detail is the employment policy in family owned business. Companies must ensure that personal and professional competence is used as a basis for recruitment. Employment policy must consist of requirements for every key position in the company, and clear selection procedures. In order to ensure compliance of GCG principle, every applicant should be treated equally; therefore the company should not allow special arrangements for specific person or member of the family.



## Succession Plan

Succession plan is one of the major challenges that a family owned businesses face. Most business owners understand their business but they tend to forget the importance of planning for retirement. Succession planning may change towards retirement; however it should not be overlooked, as it is vital in guiding the long-term future of the Company. For a succession plan to be effective, the Company must identify potential successors suitable for the position. These potential successors must have the ability to perform the tasks and meet the minimum criteria set by the Company. Based on GCG principles, succession plan must be

developed for every managerial position, up to one level below the management.

### All is Good when Managed Properly

Family owned business may have its potential downside, however it should not be ignored as it is the most dominant form of business organization in Indonesia, and it is a massive contributor to Indonesia's economy. The role of GCG in family owned business may add a different dimension on how to manage a Family owned business, and add value to the organization in the long run. There is nothing wrong about family owned business, what is wrong if you don't manage it and run it professionally.

To do so, it constitutes great sacrifices though. Sacrifices of heart, which is the willingness to let go on several authorities that usually owned, authorities that comes with the entitlement as founder and as descendants of founder.

Letting go of those entitlements is the most difficult, as it requires a consensus from family members as owner, and it requires commitment and discipline to play by the rule of the game that has been set to ensure that the company can last from generation to generation.

Sending you the warmest wishes  
for a holiday filled with love,  
laughter, family, and friends.

MERRY CHRISTMAS  
HAPPY NEW YEAR



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# Perspectives, Issues, and Opportunities within Indonesia Transformation Process

Hadian G. Hatman, Marketing & Business Development

*"We should not be afraid to go into a new era, to leave the old beyond" ~ Zack Wamp*



The topic of Indonesia must not exclude the discussion about Asia. From economic standpoint, the spectacular growth of Asian economies has become significant contributors to global economic output, in which a major development is underpinned by economic situation in several Asian countries, most notably China and India.

With the current global GDP of around USD 75 trillion, the Asian Development Bank projected that Asia has the potential to double its share to nearly half of global GDP that is projected to reach USD 350 trillion by 2050. By then, income levels in Asia could match those in Europe today. However, Asia's great future growth also faces challenges such as widening gaps and corruption.

Indonesia on the other hand, with GDP of USD 868 billion based on data released by World Bank in 2013, joined the "one trillion dollar club" for the first time as the country is currently ranked as 16th largest economy. With an assumption of 7% growth by 2019 as estimated by the Ministry of Finance, extrapolating it for the next ten years will result to around USD 2 trillion. In short, Indonesia has all the tools to be the

global powerhouse economy.

Demographically, Indonesia today's population is approximately 240 million people, with sixty percent of population is younger than 40 years old, whereas half of the population is below 29 years old. This "demographic dividend" is a significant advantage, yet it will be such a waste if there are not enough good, productive jobs for these young potential workers. As a result, economic development is no longer a choice Indonesia could afford not to make and with that comes the demands for highly skilled human capital.

## Challenges vis-à-vis Opportunities

It has been few months since the newly-elected president, Joko Widodo, was inaugurated as the 7th president of Indonesia for the next five-year term. Political election process of both House of Representatives (DPR) and the Presidential election under democracy which are transparent and safe was considered successful. This is a proof in the eyes of the international community that Indonesia's state system is continuously improving.

As Indonesia transitions smoothly from

one administration to another, the country's economy faces challenges going forward. These challenges can be turned around into opportunities, provided that they are navigated correctly.

Indonesia is embracing democracy and welcoming the gifts of globalization, one of which is in the form of free market economy.

There are three key issues, or what I personally like to call the "game changers", that Indonesia under the new government is going to focus on:



## 1. Education

Based on data released by Ministry of Education, it is recorded that around fifty million people of Indonesian workers only finishes elementary school. More than ten million workers are working in zero-to-low productivity jobs in agriculture and the informal sector, or have been forced to travel abroad in search of work.



As an example, Indonesia currently only produces 14 thousand PhD compared to China's 500 thousand PhD. Plans have been made by the government to



tackle this issue, one of which is a short term's solution by providing vocational training, while in the long-term plan is to keep improving education system at all levels.

## 2. Infrastructure

High infrastructure costs resulted in high total costs, and reducing them is therefore significant. The first and most important step is to increase investment, including FDI. Further, Foreign Direct Private Investment will need to close the gap between investment requirements and domestic savings. As of now, the gap is between USD 60 – USD 80 billion, compared to net flows of only between USD 10 billion – USD 15 billion. During APEC CEO Summit last November in Beijing, President Jokowi presented a roadmap for infrastructure projects to develop integrated seaports across the country's archipelago in maritime push, the developments of toll roads and railways, and construction of mega power plants, in which all these projects will open up opportunities to court foreign investors. Increasing investment in infrastructure requires not only raising more resources but also an equally massive

increase in the implementation capacity of the government.

In addition, according to many experts, there needs to be a roughly ten-fold increase in expenditures by the national government, from 0.6 to 6.5 percent of national income by 2019. A recent policy for cutting fuel subsidies, of which fuel subsidies contributes to 3.5% of GDP, or around USD 245 million, has taken place. State budget in 2015 is USD 167 billion while around 16% of the budget, or around USD 27 billion, is spent for fuels. With the fuel subsidies being cut, it will provide more funds to the state budget (APBN) and allocate those funds to the productive sectors.

## 3. Structural & Institutional Reforms

Indonesia has enjoyed natural energy resources boom in the past decade, and that era is now over. New thinking and strategies will must take place, with increasing focus on quality and sustainable growth.

In order for Indonesia to facilitate and to take full advantage of the benefits of globalization while minimizing the risks, a quick action of significant structural and institutional reforms is critical. Failure to undertake the necessary reforms could put Indonesia at risk of being caught in the "middle-income trap".

Several reforms that will be addressed in the new government to support the developments of infrastructure projects are resolving the land acquisition issues, and business permits by establishing an integrated one-stop service office. This will provide certainty and clarity for any

investor to take part in Indonesia's infrastructure developments.

In addition, Indonesia has continuously improved its tax incentives, for example: tax holidays for new firms, tax credits for new investments, exemptions from import duties mainly capital good, and providing special zones for exporting companies. All these are done to promote investment while upgrading productivity.



## Conclusion

By refocusing and maximizing Indonesia's resources with precise policy and swift execution, Indonesia should be able to achieve at least two of the three "game changers". If those "game-changers" are achieved, Indonesia is set to regain international economic competitiveness for higher growth which will create more opportunities for everyone, and Indonesia will be an attractive investment thesis, a global powerhouse economy.

Now is the perfect time for new era and new Indonesia's leaders – whether in the government, business or labor – to seize this moment in the interests of Indonesia and its people.



# Our activities



**RSM AAJ Delivers Tax Risk Management Seminar.** In yet another way of showing appreciation to valued clients, on Wednesday afternoon November the 19th, RSM AAJ held a seminar on "Tax Risk Management and Planning" at Soehanna Hall, Energy Building located in Jakarta's business district. The seminar was a successful event, with more than one hundred invitees consisting top level management and owner representing their respective companies attended the seminar. An opening remarks was delivered by RSM AAJ Chief Executive Partner Amir A. Jusuf, and Irwan B Affif, RSM AAJ Senior Managing Partner, acting as the moderator to two prominent speakers, Nick Graham, our Managing Partner of Tax, and a tax expert Yustinus Prastowo. Issues discussed at the seminar consists of both international and domestic sides of current tax issues and going forward, of which issues are informative for companies currently operating in Indonesia and those that have or plan to expand overseas and how these companies can conduct a tax-efficient management and planning.



**RSM AAJ at Career Days in Tarumanegara University and Bina Nusantara University.** RSM AAJ participate at Career Day event in Tarumanegara University on November 13, 2014. This event is an annual event that is held specifically for students majoring in Accounting by Tarumanegara University. Attended by 190 participants consisting of final year students and alumni, is divided into two sessions: the first session "company presentation" by our Audit Manager and the second session 'open table "by marketing and HR.

The Binus Job Expo event held on 10-11 September 2014 by Bina Nusantara University, West Jakarta was open to the public and attract students of various departments who are seeking employment. Target participants in this event more than 1000 students from all over Indonesia.



# Our activities



**RSM World Day 2014.** Entering September 2014, we did pre RSM World Day activities as planned. We embedded the RSM World Day signature in our email for the entire month of September. We held Trivia Quiz through email for 8 days, twice everyday. The purpose of this game were to educate and enrich our knowledge about RSM network, in which the winner got shopping voucher as the prize. We also provided donation box in several areas at our office to collect donation money from staff in fundraising activity for cancer kids. We started the day by gathering in the office's common room, hosted by our International Contact Partner, Angela Simatupang.

Wearing informal attires that suits along with a relax ambience, we all watched a video presentation of RSM International by Jean Stephens. After the presentation, we continued with a showcase of RSM Photo Handshake. We truly hope that this year's Photo Handshake can break the record for longest handshake participants. The gathering ended at lunch time when we all enjoyed Jakarta's famous chicken rice-box meals for lunch. After lunch, we conducted two social activities, concurrently at the same time – but at different location. At the office, blood donation was on voluntary basis. The doctor, nurses and personnel from Indonesia Red Cross pre-examined the candidate donator to ensure that only those that were fit that can donate blood. In total, there were 85 people donated. It was an exciting moment for all (including for some of us who are genuinely afraid of the needle), knowing that we were taking part of "giving life" for those who in needs. Another plus point, performing blood donation is suggested by doctors for health reasons. Another plus point, performing blood donation is suggested by doctors for health reasons. For the out-of-office activity, we visited a home for kids with cancer in Jakarta, "Yayasan Kasih Anak Kanker Indonesia" / YKAKI (Indonesia Cancer Kids Foundation).

The YKAKI foundation was established about ten (10) years ago by parents who had lost their child to cancer. It is a house or home dedicated for kids with cancer who are currently in treatment. The home accommodates 35 kids who come from poor family backgrounds and different regions of Indonesia. The home also provides accommodation for parent staying with the kid during treatment process. Majority kids with cancer in Indonesia are leukemia and retina cancer. The home or YKAKI is a non-profit organization, where all operational needs are being funded by volunteers and donors. RSM AAI took part in donating the home with basic needs, such as food, clothing / pampers and some fund raised from our internal. We also donated the kids with entertainment, in which we invited clowns and cartoon characters to perform and play with the kids. Nothing beats the feeling of looking at kids' smiling faces, as they played and sang along during our visit.

Giving back, was mainly our theme in celebrating RSM World Day this year. Somehow by end of the day, there's a mutual feeling that resonates within our entire firm. We gained valuable perspectives from visiting kids with cancer and taking parts in donating blood for the needy. We learnt to agree that in order to gain something, one must have the heart to act and give something.



# Our activities



**RSM World Conference 2014.** This year's conference theme was in honour of RSM's 50th Anniversary and was held at W Barcelona. 'Our future starts today' was in reference to the fact that while we are now 50 years old, and we have an exciting future ahead of us, full of continued growth, quality and exceptional client service. The focus of this year's conference was on promises made, goals achieved and future strategy: our past, present and future.

Over 280 delegates attended the conference to discuss building on the network's success, industry developments and the future strategy of RSM. As ever, the agenda for the four conference days was very busy, with the days before and after the main conference taken up by the RSM International Board meeting, the

Managing Partners meeting, Centres of Excellence and service line meetings as well as regional meetings.

The Managing Partners meeting focused on the future strategy for RSM and Managing Partners' roles as leaders. The objective was to leave Managing Partners with a better understanding of their role as part of the RSM vision, in order to facilitate closer alignment among member firms.



**RSM AAI in ACIIA Conference 2014.** Team of RSM staff from Indonesia and Singapore attended the recent ACIIA conference held in Bali on 24-25 November, and sponsored by RSM.

ACIIA is a confederation of 18 IIA affiliates in the Asia Pacific region. As a sponsor, RSM had an insert in the delegates' seminar pack, the RSM logo featured on the stage and conference programme, and RSM received an award for the support given to IIA.

**RSM AAI in Support Profession Development in Indonesia.** Two partners from the Governance Risk Control (GRC) practice at RSM AAI were entrusted to be involve in professional organisations in Indonesia. Syahraki Syahrir Musin was appointed as Marketing & Communication Director at ISACA Indonesia Chapter for the period of 2014-2016, and Angela Indirawati Simatupang was elected as one of the Governor of the Institute of Internal Auditors (IIA) Indonesia for the period of 2014-2017.





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