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Responsibilities and Authorities of External Directors in Family-Owned Companies: A Legal and Islamic Perspective

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Abstract

Family businesses account for 72% of enterprises in Indonesia, many of which operate as Limited Liability Companies (LLCs) to gain legal and financial flexibility. However, a significant governance problem arises when appointing external (non-family) directors; the boundaries of their authority and fiduciary responsibilities are often unclear. This ambiguity leads to legal disputes and diminished strategic roles, especially under the dominance of controlling family members. This study examines the boundaries of external directors' responsibilities in family-owned LLCs through the lens of Islamic law and normative jurisprudence. This qualitative research employs normative legal analysis and Islamic law, using academic literature, legal documents, and classical Islamic texts to explore authority within Limited Liability Companies and analyze using a qualitative descriptive approach. The findings indicate that although Law No. 40 of 2007 regulates fiduciary duties and the ultra vires principle, external directors remain vulnerable to the dominance of family owners. From an Islamic perspective, external directors are regarded as trustees who must uphold honesty (*ṣidq*), trustworthiness (*amanah*), and justice (*'adl*). The study proposes four key solutions: clear articles of association, protective contracts, independent supervisory boards, and Sharia Advisory Boards. These offer a governance model rooted in legal certainty and Islamic ethics, contributing practical insights for regulators, business owners, and directors in Muslim family enterprises.

Keywords: Corporate Governance, External Directors, Family, Islamic Law

Abstrak

Perusahaan keluarga menyumbang sekitar 72% dari seluruh perusahaan di Indonesia, dan banyak di antaranya berbentuk Perseroan Terbatas (PT) untuk memperoleh fleksibilitas hukum dan keuangan. Namun, muncul permasalahan tata kelola yang signifikan ketika menunjuk direktur eksternal (non-keluarga); batasan wewenang dan tanggung jawab fidusia mereka sering kali tidak jelas. Ketidakjelasan ini dapat memicu sengketa hukum dan mengurangi peran strategis direktur, terutama di bawah dominasi anggota keluarga pengendali. Penelitian ini mengkaji batasan tanggung jawab direktur eksternal dalam PT milik keluarga melalui perspektif hukum Islam dan yurisprudensi normatif. Penelitian kualitatif ini menggunakan pendekatan analisis hukum normatif dan hukum Islam, dengan memanfaatkan literatur akademik, dokumen hukum, dan teks-teks klasik Islam untuk menelusuri konsep wewenang dalam Perseroan Terbatas serta dianalisis secara deskriptif kualitatif. Temuan menunjukkan bahwa meskipun Undang-Undang No. 40 Tahun 2007 mengatur tentang kewajiban fidusia dan prinsip ultra vires, direktur eksternal tetap rentan terhadap dominasi pemilik keluarga. Dalam perspektif Islam, direktur eksternal dipandang sebagai pihak yang diberi amanah dan harus menjunjung tinggi kejujuran (*ṣidq*), kepercayaan (*amanah*), dan keadilan (*ʻadl*). Studi ini menawarkan empat solusi utama: anggaran dasar yang jelas, kontrak perlindungan, dewan pengawas independen, dan Dewan Pengawas Syariah. Keempatnya membentuk model tata kelola yang berakar pada kepastian hukum dan etika Islam, serta memberikan wawasan praktis bagi regulator, pemilik usaha, dan direktur pada perusahaan keluarga Muslim.

Kata Kunci: Tata Kelola Perusahaan, Direktur Eksternal, Keluarga, Hukum Islam

Introduction

Family enterprises play an important part in the Indonesian economy, with families managing the majority of economic sectors. Approximately 72% of all Indonesian firms are family-owned.[1] Many of these organizations use the Limited Liability Company (LLC) form to acquire legal protection, financial flexibility, and increased market competitiveness.[2]. To maintain continuity and professionalism, family businesses often appoint directors from outside the family. However, appointing external directors in family-owned LLCs presents specific challenges, especially regarding the limits of their authority and responsibilities. External directors' position is weak, especially when it comes to strategic decision-making, since they are often treated as regular workers who may be fired by the family owners at any moment.[3] This brings up important issues about the scope of external directors' management responsibilities and power, as well as how well they can perform their duties in the face of competing corporate interests and familial dynamics.

In some family-owned companies, particularly Family-Owned Enterprises (FOEs), the family acts solely as shareholders without direct involvement in management. The company's operations are fully entrusted to professional executives from outside the family, while family members refrain from interfering in day-to-day activities. [4] Conversely, the role

[1] Hadi Cahyadi Ng et al., "Too Big to Fail: Succession Challenge in Large Family Businesses," *Journal of Asian Finance, Economics and Business* 8, no. 1 (2021): 199–206, https://doi.org/10.13106/jafeb.2021.vol8.no1.199.

[2] Matthew Soener and Michael Nau, "Citadels of Privilege: The Rise of LLCs, LPs and the Perpetuation of Elite Power in America," *Economy and Society* 48, no. 3 (2019): 399–425, https://doi.org/10.1080/03085147.2019.1626629.

[3] Jeroen Neckebrouck, Miguel Meuleman, and Sophie Manigart, "Governance Implications of Attracting External Equity Investors in Private Family Firms," *Academy of Management Perspectives* 1, no. 1 (2021): 1–56; Michelle L. Zorn et al., "The Impact of Hiring Directors' Choice-Supportive Bias and Escalation of Commitment on CEO Compensation and Dismissal Following Poor Performance: A Multimethod Study," *Strategic Management Journal* 41, no. 2 (2020): 308–39, https://doi.org/10.1002/smj.3092.

[4] Jocelene Buckman, Paul Jones, and Samuel Buame, "Passing on the Baton: A Succession Planning Framework for Family-Owned Businesses in Ghana," *Journal of Entrepreneurship in Emerging Economies* 12, no. 2 (2020): 259–78, https://doi.org/10.1108/JEEE-11-2018-0124; Dolores Botella Carrubi and Tomas F. González Cruz, "Context as a Provider of Key Resources for Succession: A

of directors in Limited Liability Companies (LLCs) is a crucial component of the business management structure. Articles 97 and 104 of Law No. 40 of 2007 on Limited Liability Companies (Company Law) regulate the duties and authorities of directors, while Article 92 paragraphs (1) and (2) provide further details on this authority. [5] Even while these rules provide directors a legal basis to fulfill their duties, family-owned businesses sometimes find it difficult to apply them, particularly when there are conflicts between personal and professional connections. In this context, the principle of *amanah* (trust) forms the basis of leadership that demands honesty and accountability in managing entrusted assets. [6] Anyone who has been given leadership duties must carry them out in a fair, open, and responsible manner. Even in the face of possible conflicts of interest, this concept compels directors to perform honorably, preserve fairness and openness, and strike a balance between the interests of the business and the family owners. Amanah further highlights the need of upholding integrity and putting general interests ahead of individual or collective interests. In family-owned enterprises, this concept provides external directors with a moral basis for handling moral quandaries and preserving the confidence of stakeholders, including family owners. The *amanah* principle not only offers guidance for modern business practices but also strengthens the directors' position in performing their roles professionally, transparently, and responsibly.

Several related studies show similarities and differences in approaches to leadership roles and responsibilities in family businesses. Dick's research[7] emphasizes the dynamics of family ownership and managerial structure, including conflicts between family interests and professional management, which corresponds with the concentration of this paper on tensions between external directors and family owners. Similarly, Qiu[8] emphasizes internal conflicts in family firms concerning authority and the roles of organizational actors, particularly external directors, and the importance of conflict management strategies—an issue also addressed in this study. Gonzalez[9] shows how family ownership influences managerial behavior and strategic decision-making, in line with this study's finding that

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Case Study of Sustainable Family Firms," *Sustainability (Switzerland)* 11, no. 7 (2019): 1–18, https://doi.org/10.3390/su11071873.

5 OJK, Undang-Undang Republik Indonesia Nomor 40 Tahun 2007 Tentang Perseroan Terbatas, 40, *Peraturan.Bpk.Go.Id* (Indonesia, issued 2007).

6 Norlaila Ibrahim et al., "Entrepreneurial Specific Factors, Support Factors and Micro Enterprises Performance: The Case of Malaysian Microcredit Program," *Information Management and Business Review* 16, no. 1 (2024): 51–63, https://doi.org/10.22610/imbr.v16i1(i).3649; Ashilla Nadiya Amany et al., "The Effect of Audit Quality, Audit Committee, and Islamic Corporate Governance on Islamic Corporate Social Responsibility Disclosure in Islamic Banking on Period 2018- 2022," *International Journal of Social Science, Management and Economics Research* 2, no. 4 (2024): 36–54.

7 Markus Dick, Eva Wagner, and Helmut Pernsteiner, "Founder-Controlled Family Firms, Overconfidence, and Corporate Social Responsibility Engagement: Evidence From Survey Data," *Family Business Review* 34, no. 1 (2021): 71–92, https://doi.org/10.1177/0894486520918724.

8 Hong Qiu and Mark Freel, "Managing Family-Related Conflicts in Family Businesses: A Review and Research Agenda," *Family Business Review* 33, no. 1 (2020): 90–113, https://doi.org/10.1177/0894486519893223.

9 Eva López González, Jennifer Martínez-Ferrero, and Emma García-Meca, "Corporate Social Responsibility in Family Firms: A Contingency Approach," *Journal of Cleaner Production* 211, no. 1 (2019): 1044–64, https://doi.org/10.1016/j.jclepro.2018.11.251.

family power can affect the performance and autonomy of external directors. Samara[10] also highlights the role of cultural values and informal structures in family businesses, which parallels the discussion in this study on how family authority can interfere with the roles of professional directors. Furthermore, Ahmad and Saleem[11] emphasize the importance of professionalism in family firms and how governance structures, including the role of external directors, impact performance and business continuity—an approach also adopted in this study.

However, there are notable differences between this study and previous research. Dick's study[12] focuses more on directors' overconfidence regarding CSR, whereas this study emphasizes the legal responsibilities and authority of external directors within the framework of Islamic and national law. Qiu's[13] work is conceptual and general, without a specific legal or role-based discussion on external directors. Gonzalez[14] and Ahmad's emphasis on CSR and SME continuity is different from the normative-legal focus of this research. Islamic law and external director duties in the Indonesian setting are not particularly addressed in Samara's study, which is based on Middle Eastern cultural dynamics. In contrast to this study's qualitative-legal technique, Saleem[15] takes a quantitative approach to governance and performance. Thus, the purpose of this research is to examine the boundaries of the duties of external directors in family-owned limited liability companies, specifically in light of national normative law and Islamic law. This study's primary novelty is the way it approaches the examination of the duties and powers of external directors in family-owned limited liability corporations by combining Islamic law concepts with national legal standards.

This study fills a gap in previous research by offering a more in-depth analysis of the role, responsibility, and authority of external directors in family-owned LLCs through both Islamic and national legal perspectives. Most prior studies have focused on managerial aspects, conflict of interest, organizational culture, or corporate social responsibility (CSR), without specifically addressing the legal position of external directors, especially in the Indonesian family business context. Thus, this study bridges a gap in the literature by exploring the legal dimension of professional directors who are not part of the owning

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10 Georges Samara, "Family Businesses in the Arab Middle East: What Do We Know and Where Should We Go?," *Journal of Family Business Strategy* 12, no. 3 (2021): 1–16, https://doi.org/10.1016/j.jfbs.2020.100359.

11 Shabir Ahmad, Kamran Ahmed Siddiqui, and Hoda Mahmoud AboAlsamh, "Family SMEs' Survival: The Role of Owner Family and Corporate Social Responsibility," *Journal of Small Business and Enterprise Development* 27, no. 2 (2020): 281–97, https://doi.org/10.1108/JSBED-12-2019-0406; Irfan Saleem, Faiza Khalid, and Muhammad Nadeem, "Family Business Governance: What's Wrong? What's Right? What's next?," *Emerald Emerging Markets Case Studies* 9, no. 1 (2019): 1–23, https://doi.org/10.1108/EEMCS-02-2018-0011.

12 Dick, Wagner, and Pernsteiner, "Founder-Controlled Family Firms, Overconfidence, and Corporate Social Responsibility Engagement: Evidence From Survey Data."

13 Qiu and Freel, "Managing Family-Related Conflicts in Family Businesses: A Review and Research Agenda."

14 González, Martínez-Ferrero, and García-Meca, "Corporate Social Responsibility in Family Firms: A Contingency Approach."

15 Saleem, Khalid, and Nadeem, "Family Business Governance: What's Wrong? What's Right? What's next?"

family. Moreover, the integration of sharia values in the legal analysis provides a fresh perspective relevant to Indonesia's socio-cultural characteristics, expanding the theoretical scope and offering practical implications for strengthening family business governance based on Islamic law and ethics. Therefore, it is anticipated that the results of this research would be used as a guide by stakeholders, including family company owners, outside directors, and legislators, in the creation of regulations that boost public confidence in Indonesian family-owned businesses and promote business continuity.

This study employs a qualitative method with the primary objective of analyzing the boundaries of responsibility of external directors in family-owned limited liability companies. The research adopts a normative juridical approach combined with Islamic legal analysis, involving the exploration and interpretation of Islamic legal provisions as well as relevant regulations regarding the duties and accountability of external directors in family businesses. The selection of the qualitative method is based on the conceptual and normative nature of the problem, rather than a quantitative or empirically driven inquiry. This research does not aim to measure statistically or collect field data, but instead seeks to explore legal concepts, interpret norms, and analyze ethical principles and accountability. The qualitative method is appropriate because it explains phenomena through narrative and descriptive language rather than numbers.[16]

Within the context of normative legal studies, this research includes the analysis of legal principles, legal systematics, legal inventories, clinical law, legal synchronization, and comparative law[17]. This approach enables the researcher to deeply examine legal documents, academic literature, and both classical and contemporary Islamic legal texts. An empirical method is not used, as the research does not involve direct observation of legal actors or data collection through surveys, interviews, or observations. The primary focus is the normative analysis of regulations and Islamic legal principles. Nevertheless, this presents a limitation to the study's scope, as it does not involve empirical data or direct observation of the practices of external directors in family companies, thereby making the findings theoretical and conceptual in nature.

Through a descriptive-analytical approach, this research provides a detailed depiction of the legal phenomenon and in-depth analysis of relevant principles from both Islamic and juridical law perspectives. The study is conducted as a literature review, with primary data sources consisting of books, scholarly articles, statutory regulations, and other credible and relevant legal documents. Data is collected systematically by selecting appropriate literature to obtain a comprehensive understanding of the boundaries of responsibility for external directors in family-owned limited liability companies, from both Islamic law and Indonesian positive law perspectives. The data collection process includes identifying key themes in the literature that are directly related to the legal boundaries and responsibilities of external directors in family businesses. After data collection, analysis is

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[16] Isma Patonah, Mutiara Sambella, and Salma Mudjahidah Az Zahra, "Pendekatan Penelitian Pendidikan: Penelitian Kualitatif, Kuantitatif Dan Kombinasi (Mix Method)," *Pendas: Jurnal Ilmiah* 08, no. 1 (2023): 5378–92.

[17] Cislia Maiyori, Wismar Harianto, and Rizana Rizana, "Tinjauan Yuridis Tanggung Jawab Ahli Waris Menurut Kompilasi Hukum Islam Dan Kitab Hukum Perdata Terhadap Warisan Dalam Bentuk Utang Di Indonesia," *Jurnal Karya Ilmiah Multidisiplin (JURKIM)* 4, no. 1 (2024): 47–53, https://doi.org/10.31849/jurkim.v4i1.19026.

conducted using qualitative descriptive techniques, where the data is categorized based on main themes such as accountability, justice, and ethical principles. This approach allows for a structured and logical presentation of research findings, providing insights into how Islamic and Indonesian positive law define the boundaries of responsibility for external directors in the context of family-owned limited liability companies.

In data analysis, this study uses two main theories to address the core research questions. First, the Theory of Accountability from the perspective of Islamic law, which emphasizes moral and ethical responsibility in carrying out a mandate, is derived from Al-Mawardi's work *Al-Ahkam As-Sulthaniyyah*,[18] which stresses the importance of leaders or managers acting in accordance with the principles of justice and transparency. Second, the study adopts the theory of Good Corporate Governance (GCG) as a normative juridical approach, which provides the legal basis for regulating responsibility and governance structure within a limited liability company, as stipulated in Law No. 40 of 2007 on Limited Liability Companies. Data analysis is carried out using qualitative descriptive techniques by categorizing the data based on key themes identified from the literature.

The data analysis is performed using qualitative descriptive methods, enabling the researcher to identify, categorize, and analyze the data according to key themes relevant to the research questions. The initial step involves collecting academic literature, regulatory documents, and relevant Islamic references from both classical and contemporary sources. The collected data is then grouped into main categories such as accountability, justice, trust (amanah), and legal authority boundaries. Subsequently, a comparison is made between the provisions of positive law and the principles of Islamic law to examine their congruence and differences in the context of the responsibilities and authorities of external directors. The results of the analysis are presented in a detailed and argumentative narrative to provide a comprehensive understanding of how the two legal systems can complement each other in shaping an ethical, professional, and transparent model of corporate governance for family businesses. The presentation of data is carried out systematically to produce logical conclusions and support the theoretical and practical contributions of this study.

Liability Limits of External Directors in Family-Owned Limited Liability Companies: A Legal Perspective

Responsibilities of Directors in Limited Liability Companies

The duties of the board of directors of a limited liability company are regulated under Law No. 40 of 2007 concerning Limited Liability Companies (Indonesian Company Law) in Indonesia. Article 97(3) of the Company Law requires the board of directors to present an annual report to the shareholders. In order to maintain accountability and openness, this report includes operational data as well as the state of the business throughout the fiscal year. This need is strengthened by Article 97(4), which mandates the presentation of thorough financial accounts, including the profit and loss statement, balance sheet, and other supporting documentation. Meanwhile, the General Meeting of Shareholders (GMS) has the power to choose which directors to nominate or remove under Article 104(2). This highlights

[18] Abu'l Hasan Al-Mawardi, *Al-Ahkam As-Sultaniyyah: The Laws Of Islamic Governance* (London: Ta-Ha Publishers Ltd, 1996).

that directors report directly to shareholders and that a limited liability company's management structure allows shareholders to monitor and assess the board's performance.

After receiving formal recognition from the Minister of Law and Human Rights, a Limited Liability Company is considered a legal entity with its own legal rights and responsibilities.[19] In both contractual and legal conflicts, the board of directors represents the company's interests. The GMS, Board of Directors, and Board of Commissioners are the primary organs of the corporate organization; the directors are in charge of daily operational management. According to Article 97(1) of the Company Law, directors must carry out their responsibilities fully and in good faith. In the global context, this responsibility is consistent with the fiduciary duty idea, which requires acting in the best interests of the company, rather than for personal or group gain. However, there are sometimes difficulties in implementing this idea in Islamic family-owned enterprises, particularly when it comes to the function of outside directors who are not members of the original family. On one hand, external directors are appointed to bring professionalism, objectivity, and good corporate governance.[20] On the other hand, the dynamics of family relations and the dominance of traditional values often make it difficult for external directors to exercise their managerial functions independently, particularly when business conflict of interests with family interests.[21]

In order to address these issues, concrete actions based on Indonesian positive law are required. To begin with, the company's articles of association must clearly outline the role, power, and restrictions of external directors in order to prevent their responsibilities from conflicting with those of family members.[22] Second, the terms of the external director's employment contract with the firm should clearly outline the range of duties and rights, including legal protection against internal pressure that goes against the fundamentals of sound corporate governance.[23] Third, the GMS has to take a proactive role in promoting the independence of outside directors and helping to prevent family members from interfering too much[24]. Within the parameters of Indonesia's positive legislation, these steps may help handle the function of external directors in Islamic family enterprises in a more efficient and

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[19] Yuniar Kurniawaty et al., "The Essence of Supervision of Registration of Individual Company Legal Entities for Micro, Small and Medium Enterprises," *Journal of Law and Sustainable Development* 12, no. 1 (2024): 1–24, https://doi.org/10.55908/sdgs.v12i1.2819.

[20] Daniel Attenborough, "Misreading the Directors' Fiduciary Duty of Good Faith," *Journal of Corporate Law Studies* 20, no. 1 (2020): 73–98, https://doi.org/10.1080/14735970.2019.1631516.

[21] Trung Quang Dinh and Andrea Calabrò, "Asian Family Firms through Corporate Governance and Institutions: A Systematic Review of the Literature and Agenda for Future Research," *International Journal of Management Reviews* 21, no. 1 (2019): 50–75, https://doi.org/10.1111/ijmr.12176; Qiu and Freel, "Managing Family-Related Conflicts in Family Businesses: A Review and Research Agenda."

[22] Holger Fleischer, "Corporate Purpose: A Management Concept and Its Implications for Company Law," *European Company and Financial Law Review* 18, no. 2 (2021): 161–89, https://doi.org/10.1515/ecfr-2021-0008; Qiu and Freel, "Managing Family-Related Conflicts in Family Businesses: A Review and Research Agenda."

[23] Shann Turnbull, "Corporate Governance: Its Scope, Concerns and Theories," *Corporate Governance: Values, Ethics and Leadership* 5, no. 4 (2019): 415–40.

[24] Neema Mori and Goodluck Charles, "The Role of Boards of Directors of Family-Owned Microfinance Institutions: Lessons from the Boardroom," *Journal of Family Business Management* 9, no. 1 (2019): 79–97, https://doi.org/10.1108/JFBM-11-2017-0040.

legal manner. This keeps the company's family cultural origins and religious beliefs intact while allowing it to thrive professionally.

Background of FOB in the Context of Family Companies

A firm in which family members participate in ownership or management is known as a family-owned business, or FOB. John L. Ward and Craig E. Arnoff state that if two or more family members are involved in managing the company's finances, the firm might be categorized as a family business.[25] Robert G. Donnelley also states that a company may be considered a family business if at least two generations of a family influence company policies.[26] In practice, family businesses can be categorized into three main types: Family-Owned Business (FOB), where the family acts only as shareholders while daily operations are managed by professional executives; Family Business (FB), where the family not only owns shares but is also active in management; and Business Family (BF), which emphasizes kinship aspects without direct family involvement in daily operations. When establishing a family business, it is essential to determine the business model, whether it takes the form of a Family Business (FB) or a Business Family (BF).[27] The FB model emphasizes the professionalism of family members and external professionals involved in the company, whereas the BF model focuses more on kinship relationships among family members. Nevertheless, both models must prioritize good corporate governance principles to ensure business sustainability and growth. Over time, family businesses often undergo structural changes, transitioning from an FB to an FOB, as seen with major business groups in Indonesia, such as the Salim Group, Lippo, Bakrie Group, and Ciputra.[28] Although family business forms and models may vary, involved family members must be prepared to face emerging challenges, including leadership issues, internal conflicts, succession, transparency, and company culture management. The motivation to establish a family business also varies, with some seeing it as a primary source of income, while others consider it a side business or a means of continuing family traditions.

Limits of Responsibility for External Directors in Family-Owned Companies

In limited liability firms that are family-owned, the duties of external directors are governed by the idea of fiduciary obligation. One of these responsibilities is to act in the company's best interests, even if the director is not a family member. In the context of Indonesian positive law, the position of external directors is regulated under Law Number 40 of 2007 concerning Limited Liability Companies (LLC). According to Article 1 paragraph (2) of the LLC,[29] the Board of Directors is an organ of the company fully responsible for the

[25] Craig E Aronoff, Stephen L McClure, and John L Ward, *Family Business Succession: The Final Test of Greatness* (Marietta: Family Enterprise Publisher, 2003).

[26] Naomi Birdthistle and Rob Hales, "The Family Business - Meaning and Contribution to Global Economies," in *Attaining the 2030 Sustainable Development Goal of Good Health and Well-Being* (Emerald publishing group, 2023), 13–25, https://doi.org/10.1108/978-1-80455-209-420231002.

[27] Vanessa Diaz Moriana et al., "Defining Family Business: A Closer Look at Definitional Heterogeneity," in *The Palgrave Handbook of Heterogeneity among Family Firms* (Palgrave Macmillan, 2018), 333–74, https://doi.org/10.1007/978-3-319-77676-7.

[28] Matthew Wade, "Island City: Urban Development, Planning, and Real Estate in Jakarta" (University of California, 2019).

[29] OJK, Undang-Undang Republik Indonesia Nomor 40 Tahun 2007 Tentang Perseroan Terbatas.

management of the company in the interest of the company, in accordance with its purposes and objectives. A Limited Liability Company (LLC) depends extensively on both internal and external directors, especially when delegating management responsibility. External directors have the same legal obligations as internal directors, including fiduciary duties that require them to perform their duties in good faith, full responsibility, and due diligence.[30] This connection demonstrates that a LLC's ability to succeed much hinges on how well its directors run the business, who must put the family's interests last and put the company's interests first. External directors in Muslim family businesses, however, actually face a number of difficulties, such as family owners interfering, conflicts between professional and family values, and restrictions on their ability to make strategic choices that might not be in line with the owners' desires.[31] The boundaries of external directors' responsibilities often become blurred when there is pressure from family owners to make decisions that benefit the family but are detrimental to the company.

To address these challenges practically, Muslim family businesses can take several concrete steps. The external director and the family owners should first create a clear employment contract that specifies the external director's duties and power as well as the owner's participation in operational decision-making.[32] This will strengthen the external director's stance as a professional who answers to the business rather than to certain family members. Second, the creation of an impartial supervisory board made up of outsiders may serve as a mediator in conflict of interest situations and provide supervision and protection for the choices made by the external director.[33] Third, Muslim family businesses may adopt the principles of good corporate governance and integrate Islamic values such as honesty (*ṣidq*), trustworthiness (*amānah*), and justice (*ʿadālah*) into managerial practices.[34] These values support professionalism and strengthen the integrity of external directors in facing ethical and structural dilemmas.

Article 97 of the LLC states that directors who are at fault or negligent in carrying out their responsibilities are personally accountable for the company's losses from the standpoint of Indonesian positive law. However, directors may be exempt from liability if they can prove that the management was carried out in good faith and with full responsibility in the

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[30] Robert McCorquodale and Stuart Neely, "Directors Duties and Human Rights Impacts: A Comparative Approach," *Journal of Corporate Law Studies* 22, no. 2 (2022): 605–39, https://doi.org/10.1080/14735970.2021.2016147.

[31] Donard Games and Dessy Kurnia Sari, "Role of Female Successors in Family Business Innovation: Some Insights From the Largest Matrilineal Muslim Society," *SAGE Open* 13, no. 4 (2023): 1–13, https://doi.org/10.1177/21582440231210501; Magfira Rahma Zakia and Adita Pritasari, "Kinship-Based Problems Affecting the Employee Performance: A Study Case of Family Business in Developing City in Indonesia," *PEOPLE: International Journal of Social Sciences* 4, no. 2 (2018): 1145–65, https://doi.org/10.20319/pijss.2018.42.11451165.

[32] Vincent Molly, Diane Arijs, and Johan Lambrecht, "Building and Maintaining the Family Business-Private Equity Relationship: An Integrated Agency-Stewardship Perspective," *Journal of Small Business and Enterprise Development* 25, no. 1 (2018): 41–63, https://doi.org/10.1108/JSBED-02-2017-0051.

[33] Saleh Alamer, "The Role of the Sharīʿah Supervisory Board: A Gatekeeper?," *SSRN Electronic Journal* 1, no. 1 (2022): 1–62, https://doi.org/10.2139/ssrn.4274965.

[34] Muhammad Shabbir and Anwarullah Tayyabi, "Fiqh Al-Muʿāmalāt: Synthesizing Qur'ānic Principles (Qawāʿid Qurʾāniyyah), Classical Juristic Discourse, and Modern Socio-Economic Praxis," *Tanazur* 6, no. 1 (2025): 1–17.

interest of and in accordance with the purposes of the company. In order to guard against future disputes and legal claims, external directors should create open lines of communication with shareholders, record all important decisions, and actively include the board of commissioners in supervision. Therefore, contractual, structural, and managerial ethical considerations are necessary to strengthen the role of external directors in Muslim family-owned businesses. These initiatives will establish a professional and legal balance between company and family interests.

Limits of External Directors' Authority in Family-Owned Limited Liability Companies

Directors' Authority in Limited Liability Companies

The authority of the Board of Directors in a Limited Liability Company (LLC) is explicitly regulated under Law Number 40 of 2007 concerning Limited Liability Companies. Article 92 paragraphs (1) and (2) state that directors are appointed by the General Meeting of Shareholders (GMS), with a maximum term of five years and the possibility of reappointment. This provision provides legitimacy to the directors while serving as a control mechanism for shareholders to periodically evaluate their performance. According to the Articles of Association and current laws and regulations, the Board of Directors' authority in practice encompasses the management functions and asset administration of the company with the goal of ensuring the company's sustainability and increasing its business value. According to Yahya Harahap[35] this authority is both administrative and strategic, as it relates to the operational continuity and growth of the business.

However, in the context of family-owned businesses based on Islamic values, particularly those structured as Limited Liability Companies, challenges often arise in involving external directors. Some family business owners are reluctant to grant broad decision-making powers to outsiders due to concerns over trust, traditional values, or the potential interference with upheld sharia principles.[36] To address this issue, practical approaches aligned with Indonesian positive law need to be applied. First, business owners should be made aware of the flexibility offered by Law No. 40 of 2007 regarding the appointment of directors, including clauses in the Articles of Association that can be used to limit or guide the authority of external directors in line with Islamic values and family interests. Second, organizations may create a code of ethics for directors that links all stakeholders in governance and integrates sharia principles. Third, to guarantee accountability, openness, and adherence to shared values, regular assessments must to be carried out via GMS forums or a Governance Committee.

The techniques used in the growth of Muslim family firms are often defensive, emphasizing market stability and asset preservation, reducing risks, and steering clear of too

35 Yahya Harahap, *Hukum Perseroan Terbatas* (Jakarta: Sinar Grafika, 2011). 30

36 Nonyelum Lina Eze et al., "Different Strokes for Different Folks: The Roles of Religion and Tradition for Transgenerational Entrepreneurship in Family Businesses," *Entrepreneurship: Theory and Practice* 45, no. 4 (2021): 792–837, https://doi.org/10.1177/1042258720964428; Kussudyarsana Kussudyarsana et al., "Examining Formal and Relational Governance in Family Small Medium Enterprises: Evidence from Indonesia," *Journal of Entrepreneurship in Emerging Economies* 12, no. 2 (2020): 231–57, https://doi.org/10.1108/JEEE-10-2018-0108.

aggressive innovations.[37] In order to preserve client loyalty and company continuity, this strategy is often carried out using a 4P-based marketing approach (product, price, place, and promotion).[38] To stay up with contemporary advancements, this approach must be modified. One such modification is switching to the 7P model, which incorporates people, process, and tangible evidence.[39] External directors play an important role in this situation, especially in adding professionalism and fresh viewpoints to the management structure. Therefore, the integration of external directors should not be seen as a threat but rather as a means of strengthening the governance of family-owned companies—provided it is framed within a clear Islamic legal and ethical structure and facilitated by positive Indonesian law, which allows for specific arrangements in the Articles of Association and employment agreements.

Limits of Authority of External Directors in Family-Owned Companies

The Limited Liability Company Law (LLC Law) has severe regulations governing the power of external directors in family-owned businesses. These regulations serve to uphold responsibility and guard against corporate interests being mismanaged. The Board of Directors is a crucial body that is entirely in charge of running the business in line with the goals outlined in the Articles of Association, but restrictions are also necessary to guard against any abuse of authority.[40] The first limitation lies in the ultra vires principle, which states that directors are not authorized to take actions beyond the powers granted to them [41]. Actions that exceed these limitations are deemed invalid and void by law, aimed at protecting the interests of investors and shareholders. Furthermore, the LLC Law, Article 2, emphasizes that corporate activities must align with the objectives and purposes established without violating public order and moral norms. While paragraph (2) emphasizes the significance of carrying out responsibilities with complete trust, Article 97, paragraph (1) requires directors to manage the firm in good faith for the company's interests. Directors are prohibited from representing the business in the event of a conflict of interest or legal issues involving the firm under Article 99, paragraph (1).[42] The Articles of Association further provide that certain legal acts must first get permission from the Board of Commissioners or

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[37] Mustafa Kavas, Paula Jarzabkowski, and Amit Nigam, "Islamic Family Business: The Constitutive Role of Religion in Business," *Journal of Business Ethics* 163, no. 4 (2020): 689–700, https://doi.org/10.1007/s10551-019-04384-5.

[38] Elyana Reni Rachmawati, Tantri Yanuar Rahmat Syah, and Rhian Indradewa, "Influence of Marketing Mix Strategy on Business Arena Corner," *International Journal of Research and Review* 8, no. 8 (2021): 76–86, https://doi.org/10.52403/ijrr.20210812; Awol Hussien, "Systematic Literatures Review on Marketing Pricing Strategies," *International Journal of Social Science Research and Review* 5, no. 1 (2022): 79–105.

[39] Aylin Caliskan, Yeşim Deniz Özkan Özen, and Yucel Ozturkoglu, "Digital Transformation of Traditional Marketing Business Model in New Industry Era," *Journal of Enterprise Information Management* 34, no. 4 (2020): 1252–73, https://doi.org/10.1108/JEIM-02-2020-0084.

[40] Steven Boivie et al., "Corporate Directors' Implicit Theories of the Roles and Duties of Boards," *Strategic Management Journal* 42, no. 9 (2021): 1662–95, https://doi.org/10.1002/smj.3320.

[41] Andika Pribadi Waruwu, "Qualification of Ultra Vires Act by Board of Directors Company in Indonesian Law and Court," *Locus Journal of Academic Literature Review* 1, no. 5 (2022): 298–307, https://doi.org/10.56128/ljoalr.v1i5.81.

[42] OJK, Undang-Undang Republik Indonesia Nomor 40 Tahun 2007 Tentang Perseroan Terbatas.

the General Meeting of Shareholders (GMS).[43] Directors' authority also includes managing corporate assets, but they are expressly prohibited from using them for personal gain. If corporate assets are misused for personal benefits, directors are personally liable for such actions. Actions contrary to corporate interests are considered a breach of authority or abuse of authority.

Regarding directors' actions, several types of legal actions exist: those that do not require the approval of the Board of Commissioners or GMS, those that require consultation with the Board of Commissioners, those requiring GMS approval, and those needing approval from both the Board of Commissioners and GMS. However, if approval from the Board of Commissioners or GMS is required, the responsibility remains with the directors as the company's managers. Article 92, paragraph (2) regulates that directors' policies must be based on expertise, available opportunities, and industry practices. The expertise referred to requires directors to have an in-depth understanding of the business being managed, as well as the ability to recognize opportunities that support the company's goals. Directors must also consider industry norms, emphasizing business ethics in every decision. According to Article 1, point 5, and Article 98, paragraph (1), which govern that the business has legal standing as a legal entity, directors represent the corporation in and out of court while carrying out management duties. Unless otherwise stated in the Articles of Association, each director has the authority to represent the business in cases when there are many directors. Because the firm is a legal entity, directors serve as its legal agents in settling conflicts; they are not permitted to act directly.[44] This regulation provides clear limitations to ensure that the directors' authority in family-owned companies remains controlled and aims to protect the interests of all stakeholders.

Family Business Management within Limited Liability Companies

To maintain the independence of the company and prevent violations of business management principles, Law Number 40 of 2007 concerning Limited Liability Companies (the Company Law) explicitly regulates the management boundaries of family-owned businesses in the form of a limited liability company (LLC). [45] The separation between family interests and corporate interests is essential to avoid conflicts of interest that may hinder performance and professionalism. Based on Article 92 of the Company Law, the management of a LLC is carried out by the Board of Directors, appointed through the General Meeting of Shareholders (GMS) and stipulated in the Articles of Association (AoA). The corporation, not specific stockholders, including the founding family, is the Board of Directors' ultimate boss. This clause guarantees that personal or family interests won't affect business management. Furthermore, owners who do illegal activities that cause injury or abuse the business for personal advantage may be held personally accountable, including their personal assets, according to Article 3 paragraph (2) of the business Law. This is a

[43] Rahmat Lubis et al., "Juridical Review Invitation of General Meeting of Shareholders (GMS) at PT. Main Partner Grace (Analysis of Central Jakarta District Court Decision Number 108/Pdt.P/2014/PN.JKT.PST.)," *East Asian Journal of Multidisciplinary Research* 1, no. 10 (2022): 2183–98, https://doi.org/10.55927/eajmr.v1i10.1889.

[44] Susan Mary Watson, "The Corporate Legal Person," *Journal of Corporate Law Studies* 19, no. 1 (2019): 137–66, https://doi.org/10.1080/14735970.2018.1435951.

[45] OJK, Undang-Undang Republik Indonesia Nomor 40 Tahun 2007 Tentang Perseroan Terbatas.

crucial reminder to family shareholders to keep their personal and business assets separate. The Board of Directors is also not exempt from legal responsibility. Article 104 paragraph (2) states that directors are jointly and severally liable for losses if bankruptcy occurs due to their negligence or misconduct, and the company's assets are insufficient to cover its liabilities.

Meanwhile, Article 114 paragraph (2) provides that commissioners are also personally liable if they fail to carry out their supervisory duties over the directors. Although in practice, family businesses often have family members as dominant shareholders, the Company Law strictly limits their involvement in day-to-day operations to ensure managerial independence. Commissioners and directors are required under Articles 108 and 109 of the Company Law to behave professionally and without regard to family ties. The objective is to encourage honesty and accountability in corporate decision-making. However, there are still a lot of obstacles in the way of the external directors' position in Muslim family enterprises. Many families with large shareholdings are reluctant to hand over control to outsiders due to trust issues, internal family values, or perceptions that external parties do not understand the family business. Another challenge is the lack of independence for external directors if they are not given sufficient authority within the organizational structure.

Thus, the following are some doable tactics that may be used: first, establishing in the AoA and employment agreements the precise range of responsibilities and powers of external directors.[46] Second, ensuring that the selection of outside directors is carried out in a transparent and professional manner using credentials and performance history rather than just connections[47]. Third, conducting internal education for family shareholders regarding legal responsibilities under Article 3 paragraph (2) of the Company Law so they understand the consequences of unauthorized intervention. In the context of Muslim family businesses, establishing an internal sharia advisory board can be an additional solution to bridge Islamic values with modern business professionalism. This board can provide ethical input but should not intervene in the company's operations. In this way, family values are preserved without violating the prevailing positive law in Indonesia.

External Directors in Family-Owned Companies: An Islamic Legal Perspective

In Islam, responsibility in business management emphasizes values of justice, trustworthiness (*amanah*), and honesty. The role of a director in a company aligns with the concept of *amanah*, which refers to the trust granted by the business owner to the manager to run the company with high integrity and avoid abuse of power. A hadith of Prophet Muhammad SAW emphasizes the importance of *amanah*, as narrated by Imam Bukhari:

[46] Pascual Berrone et al., "Impact of Informal Institutions on the Prevalence, Strategy, and Performance of Family Firms: A Meta-Analysis," *Journal of International Business Studies* 53, no. 6 (2022): 1153–77, https://doi.org/10.1057/s41267-020-00362-6.

[47] Laura Broccardo, Elisa Truant, and Adrian Zicari, "Internal Corporate Sustainability Drivers: What Evidence from Family Firms? A Literature Review and Research Agenda," *Corporate Social Responsibility and Environmental Management* 26, no. 1 (2019): 1–18, https://doi.org/10.1002/csr.1672.

حَدَّثَنَا مُسَدَّدٌ، حَدَّثَنَا يَحْيَى، عَنْ عُبَيْدِ اللَّهِ، حَدَّثَنِي نَافِعٌ، عَنْ عَبْدِ اللَّهِ رَضِيَ اللَّهُ عَنْهُ، عَنْ رَسُولِ اللَّهِ ﷺ قَالَ: «كُلُّكُمْ رَاعٍ، وَمَسْئُولٌ عَنْ رَعِيَّتِهِ، فَالْأَمِيرُ الَّذِي عَلَى النَّاسِ فَهُوَ رَاعٍ، وَهُوَ مَسْئُولٌ عَنْهُمْ، وَالرَّجُلُ رَاعٍ عَلَى أَهْلِ بَيْتِهِ، وَهُوَ مَسْئُولٌ عَنْهُمْ، وَالْمَرْأَةُ رَاعِيَةٌ عَلَى بَيْتِ بَعْلِهَا وَوَلَدِهِ، وَهِيَ مَسْئُولَةٌ عَنْهُمْ، وَالْعَبْدُ رَاعٍ عَلَى مَالِ سَيِّدِهِ، وَهُوَ مَسْئُولٌ عَنْهُ، أَلَا فَكُلُّكُمْ رَاعٍ، وَكُلُّكُمْ مَسْئُولٌ عَنْ رَعِيَّتِهِ».[48]

Meaning: *Each of you is a shepherd, and each of you is responsible for his flock. A leader is a shepherd and is responsible for his people. A man is a shepherd over his family and is responsible for them. A woman is a shepherd over her husband's household and children and is responsible for them. A servant is a shepherd over his master's property and is responsible for it." (HR. Bukhari, 2554). This hadith signifies that the amanah entrusted to a director should be carried out responsibly, not only for personal benefit but also for the sustainability of the company being managed. Conflicts of interest, which can occur in family enterprises when family members are actively engaged in management, are severely discouraged by Islam*.[49] The Quran in Surah An-Nisa, verse 58, reminds:

إِنَّ اللَّهَ يَأْمُرُكُمْ أَنْ تُؤَدُّوا الْأَمَانَاتِ إِلَى أَهْلِهَا وَإِذَا حَكَمْتُمْ بَيْنَ النَّاسِ أَنْ تَحْكُمُوا بِالْعَدْلِ

Meaning: *Indeed, Allah commands you to render trusts to whom they are due, and when you judge between people, to judge with justice*. (QS. An-Nisa: 58). This verse underlines the importance of justice and clear distribution of responsibilities so that decisions made are not influenced by personal or familial interests. The clauses of the Limited Liability Company Law (LLC Law) pertaining to the collective liability of directors in the event of business losses or bankruptcy are likewise consistent with the Islamic concept of collective responsibility. In Islam, the concept of joint responsibility (tanggung renteng) asserts that a group involved in a collective activity shares responsibility in certain situations.[50] This serves as a reminder to Directors to exercise caution in decision-making, as mistakes or negligence can impact related parties. This principle is supported by a hadith of Prophet Muhammad SAW:

أَحَبُّ النَّاسِ إِلَى اللَّهِ أَنْفَعُهُمْ لِلنَّاسِ[51]

Meaning: *The people most loved by Allah are those most beneficial to others*. (HR. Ath-Thabrani).

This hadith reinforces the values of utility, where every decision made by a director should consider the benefit of the company as a whole. In the context of transparency and accountability, Islam places a high value on honesty and openness in every transaction [52]. A sahih hadith from the Prophet SAW, narrated by Bukhari and Muslim, states:

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48 Al-Bukhari, *The Translation of The Meaning of Sahih Al-Bukhari 2554* (Riyadh: Darussalam, 1997).

49 Maurice J. Murphy and Jan M. Smolarski, "Religion and CSR: An Islamic 'Political' Model of Corporate Governance," *Business and Society* 59, no. 5 (2020): 823–54, https://doi.org/10.1177/0007650317749222.

50 Benjamin Gidron and Anna Domaradzka, *The New Social and Impact Economy* (Cham: Springer Nature Switzerland, 2021); Munrokhim Misanam, "Local Wisdom, Dignity, Trust, and the Construction of Social Collateral for Micro Financing," *Global Review of Islamic Economics and Business* 11, no. 1 (2023): 105–21, https://doi.org/10.14421/grieb.2023.111-07.

51 Umair Mirza, *Al Mujam Al Awsat - Imam Tabarani 6026 Volume 4* (Lahore: Dar Al-Kutub Al-Ilmiyah, 2015).

52 Al-Mawardi, *Al-Ahkam As-Sultaniyyah: The Laws Of Islamic Governance*.

الْبَيِّعَانِ بِالْخِيَارِ مَا لَمْ يَتَفَرَّقَا، فَإِنْ صَدَقَا وَبَيَّنَا بُورِكَ لَهُمَا فِي بَيْعِهِمَا، وَإِنْ كَتَمَا وَكَذَبَا مُحِقَتْ بَرَكَةُ بَيْعِهِمَا[53]

Meaning: *Both parties in a transaction have the right to cancel until they part. If they are honest and transparent, their transaction will be blessed. If they hide and lie, the blessing of their transaction will be erased*. (HR. Bukhari, 2079).

In this regard, Directors must report the company's condition honestly and transparently to shareholders, including in the preparation of annual reports in accordance with Article 97 of the LLC [54]. In addition to meeting legal requirements, this openness upholds the company's operations' benefits and represents honest ideals. In accordance with the Islamic precept that forbids the unauthorized taking of another person's property, it is severely forbidden to exploit business assets for personal benefit. Allah SWT states in Surah Al-Baqarah, verse 188:

وَلَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ

Meaning: *And do not consume one another's wealth unjustly*. (QS. Al-Baqarah: 188).

This principle forbids Directors, including external Directors, from misusing company assets. Islam encourages every asset manager to uphold trust and protect the company's property responsibly. The principle of fiduciary duty is also reflected in Islam, whereby one entrusted with the management of property is required to safeguard and advance the interests they represent. This is in line with the concept of stewardship (khalifah) in Islam, which teaches that humans are representatives on earth, obligated to manage resources wisely.[55] In this sense, a director is considered a steward who must protect the company's assets and welfare. This responsibility is emphasized in a sahih hadith from Prophet Muhammad SAW:

كُلُّكُمْ رَاعٍ وَكُلُّكُمْ مَسْؤُولٌ عَنْ رَعِيَّتِهِ[56]

Meaning: *Each leader is a guardian for those under his charge, and he will be held accountable for them*. (HR. Bukhari and Muslim). This hadith stresses the importance of trust in the management and protection of company assets, in line with legal obligations. Professionalism and competence are also highly recommended in corporate management according to Islamic teachings.[57] In Surah An-Nisa, verse 58, Allah SWT says:

وَإِذَا حَكَمْتُمْ بَيْنَ النَّاسِ أَنْ تَحْكُمُوا بِالْعَدْلِ

Meaning: *And when you judge between people, judge with justice*. (QS. An-Nisa: 58). This principle implies that every business manager, including Directors, should possess adequate competence and knowledge to fulfill their trust. Professionalism in fulfilling one's duties also builds shareholder trust and ensures the sustainability of the company. Thus, the boundaries of responsibility and authority of external Directors in family-owned limited liability

53 Al-Bukhari, *Sahih Al-Bukhari (Arabic-English) 2079 Volume 3* (Riyadh: Darussalam, 1997).
54 OJK, Undang-Undang Republik Indonesia Nomor 40 Tahun 2007 Tentang Perseroan Terbatas.
55 Sri Yuliawati and Firda Utami, "Humans as Caliphs on Earth Environmental Responsibility in Islamic Perspective" 1, no. 2 (2024): 1–6, https://doi.org/10.56566/jks.v1i2.243.
56 Muhammad Al-Bukhari, *Sahih Al-Bukhari (Arabic-English) Vol 9: 7138* (Riyadh: Darussalam, 1997).
57 Udin Udin et al., "Islamic Work Ethics, Affective Commitment, and Employee's Performance in Family Business: Testing Their Relationships," *SAGE Open* 12, no. 1 (2022): 1–12, https://doi.org/10.1177/21582440221085263.

companies from an Islamic perspective include principles of trustworthiness, justice, transparency, and professionalism. Islamic teachings support regulations in the LLC to uphold fairness and avoid conflicts of interest. By applying Islamic principles, family businesses in the form of limited liability companies can be managed responsibly and ethically, safeguarding the interests of all shareholders and securing blessings from every business activity undertaken.

The various challenges faced by external directors in Muslim family-owned companies demand a strategic approach that harmoniously integrates the principles of Islamic law and Indonesia's positive law. Juridically, Law Number 40 of 2007 concerning Limited Liability Companies provides a strong legal foundation regarding the position and responsibilities of directors, including external directors, through the principles of fiduciary duty, the ultra vires doctrine, and legal accountability mechanisms for any damages caused to the company. However, in the context of family businesses, the application of these norms often encounters practical obstacles due to the dominance of the owning family, which may lead to conflicts of interest and weaken the independence of external directors. This situation highlights the need to strengthen internal legal instruments, such as the formulation of articles of association and employment agreements, which explicitly define the limits of authority, rights and obligations, as well as conflict resolution mechanisms, to maintain the professionalism and integrity of the external director's role.

From an Islamic normative perspective, the external director is not merely regarded as a company manager, but also as an *amīn* or trustee who bears moral and spiritual responsibilities to carry out their duties with honesty (*ṣidq*), trustworthiness (*amānah*), and justice (*ʿadl*). These values are emphasized in the Qur'an, Surah An-Nisa: 58, and various Prophetic traditions on leadership trust, which are fundamentally aligned with modern corporate governance pillars such as transparency, accountability, and professionalism. Integrating these values into business practices should not stop at mere symbolism but must be internalized within the company's decision-making system. One strategic approach is the establishment of a Sharia Advisory Board, functioning as a consultative entity to bridge the interests of the owning family with the need for professional management based on Islamic values, without directly intervening in the company's operations.

Furthermore, these challenges cannot be addressed solely at the corporate level but require cross-sector collaboration. Academics play a crucial role in developing curricula that integrate studies on family business, corporate law, and Islamic ethics to produce graduates who critically understand the ethical-normative and technocratic dimensions of corporate governance. Meanwhile, business professionals need specialized training on Sharia-based family business governance so they can effectively perform their strategic roles with sensitivity to Islamic values and local wisdom. Policymakers, on the other hand, must formulate derivative regulations or guidelines that not only provide legal protection for the position of external directors but also promote a balanced governance system between family dominance and managerial professionalism. Therefore, the boundaries of responsibility and authority of external directors in family-owned companies structured as Limited Liability Companies should be viewed as a trust to be carried out professionally and ethically within the framework of Indonesia's positive law and Islamic principles. Harmonizing these two legal systems not only ensures structural and legal sustainability but also creates a civilized, competitive, and spiritually grounded business entity in the modern economic order.

This research provides unique insights into the responsibilities of external directors in family-owned limited liability companies from the perspectives of Islamic law and national regulations, namely the Indonesian Company Law (LLC Law). One of the study's main strengths lies in its emphasis on fiduciary and *amānah* duties, which prioritize the interests of the company in alignment with principles of transparency and accountability. In the Islamic context, this responsibility is not only material but also highlights the importance of blessing in business operations—an aspect rarely discussed in previous studies, which tend to focus more on family control interests.[58] This study also specifically highlights shareholder protection through the *ultra vires* principle, which limits directors' authority and safeguards company assets from potential conflicts of interest. Therefore, this study further contributes by connecting Islamic legal principles with the national regulatory framework to create a more just and transparent governance environment. The findings of this study offer a new perspective not fully supported by previous research. While family-owned businesses often reduce their involvement in corporate social responsibility (CSR) to preserve control and socio-emotional wealth,[59] this study emphasizes the importance of open and fair accountability in the management of family businesses. It also stresses the boundaries of directors' duties in terms of legal and ethical considerations, whereas other studies focus more on family business conflicts, such as ownership disputes and interpersonal relationships. The study's emphasis on integrity and trust as the main pillars of business management also diverges from other research that tends to frame family business responsibility through contingency-based perspectives.[60]

These findings imply that, particularly when applied within the frameworks of Islamic law and the Company Law, the implementation of fiduciary duties and *amānah* principles in managing family-owned limited companies can enhance ethical and sustainable governance structures. To improve corporate governance in Muslim family businesses, effectively integrating the principle of *amānah* into management structures is crucial through institutional, contractual, and educational approaches. First, the *amānah* principle must be internalized through the formulation of a corporate code of ethics based on Islamic values such as honesty (*ṣidq*), justice (*ʿadl*), and accountability (*masʾūliyyah*), and this must be consistently socialized to all directors and shareholders. Second, Muslim family businesses are advised to adopt a dual board system model—which clearly separates supervisory and managerial functions—so external directors can perform their professional roles without direct family interference. This model can be further strengthened by establishing a Sharia Advisory Board as a consultative body that bridges religious values and modern management practices. Third, the employment contract of the external director must be

58 Eva López González, Jennifer Martínez-Ferrero, and Emma García-Meca, "Corporate Social Responsibility in Family Firms: A Contingency Approach," Journal of Cleaner Production 211, no. 1 (2019): 1044–64, https://doi.org/10.1016/j.jclepro.2018.11.251.

59 Dick, Wagner, and Pernsteiner, "Founder-Controlled Family Firms, Overconfidence, and Corporate Social Responsibility Engagement: Evidence From Survey Data."

60 Qiu and Freel, "Managing Family-Related Conflicts in Family Businesses: A Review and Research Agenda." Samara, "Family Businesses in the Arab Middle East: What Do We Know and Where Should We Go?"

explicitly designed to define the scope of authority, provide protection against conflicts of interest, and establish fair and transparent internal dispute resolution mechanisms. In this regard, Islamic legal institutions and government authorities play a strategic role in issuing Sharia governance guidelines based on positive law, ensuring legal protection for external directors and defining the limits of shareholder family intervention. Sharia financial institutions and Islamic business associations can also be involved in offering training and certification on Sharia corporate governance for family business practitioners. Through this approach, Muslim family businesses can preserve religious and traditional values while also growing professionally, competitively, and sustainably in a modern economic landscape that demands high accountability.

This research makes a significant contribution to the academic literature in the fields of corporate law and Islamic law by filling a gap in studies on the limits of responsibility and authority of external directors in family-owned Limited Liability Companies (LLC) using a normative legal approach grounded in national law and Islamic principles. By integrating the fiduciary duty concept from the Company Law with the Islamic principle of *amānah*, this study expands academic understanding of corporate governance based on ethics and Sharia law. For practitioners, especially Muslim family business owners and external directors, this research offers practical guidance on the importance of clear articles of association, binding employment agreements, the establishment of independent supervisory boards, and the formation of a Sharia Advisory Board as a bridge between family values and professional management. With this approach, family-owned companies can enhance accountability, avoid conflicts of interest, and create a governance system that is just, transparent, and blessed—aligned with Indonesian positive law and Islamic principles.

Conclusion

This research examines at the strategic role of external directors in family-owned businesses set up as Limited Liability Companies (LLCs), with an emphasis on the limits of their power and duties under Islamic and Indonesian positive law. Law Number 40 of 2007 concerning Limited Liability Companies serves as the legal foundation that emphasizes the importance of fiduciary duties, while Islamic values place trust (amānah), honesty (ṣidq), and justice (ʻadl) as ethical cornerstones in business management. External directors are required to maintain professionalism and integrity in this situation, particularly when dealing with any conflicts of interest involving family members who control the business. The results of the research show that since family values predominate and restrict external directors' autonomy in decision-making, their function is often neglected. Therefore, a comprehensive institutional and contractual approach is required, such as drafting a firm and clear company charter, establishing employment contracts that guarantee independence, and forming a consultative Sharia Advisory Board. Such an approach opens a path for integrating professionalism and religious values into the governance of Muslim family businesses. The research also emphasizes the need of enhancing education and control by means of cooperative efforts among academics, practitioners, and legislators to support the implementation of Islamic values within the framework of national legislation. Family-owned companies may achieve steady development without sacrificing their cultural and spiritual character by combining ethics with a disciplined legal framework. This analysis is constrained, nonetheless, by the dearth of actual evidence about the use of these principles. Therefore, future research is recommended to explore the actual application of fiduciary duties and trust, as well as to investigate the influence of local culture on leadership patterns and power dynamics within the structure of family businesses in Indonesia.

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