

The Effect of Organization Culture and Internal Control on Corporate Governance and its Impact on State Owned Enterprises Performance in Indonesia

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Abstract

This study measured four variables, namely, organizational culture, and internal control as exogenous variables as well as corporate governance and corporate performance as an endogenous variable. To collect data using survey techniques on state-owned companies in Indonesia. The population of this research is State-owned companies in Indonesia 119 SOEs either state-owned, opened state-owned, and Housing (perum). The samples of this research are 105 companies. The respondent of this research is all company managers of SOEs in Indonesia's state-owned enterprises and state-owned company in Indonesia. The data were analyzed using Structural Equation Modeling with LISREL application. The results showed that there is significant influence of organizational culture on corporate governance, internal control of corporate governance, organizational culture on corporate performance, corporate governance influence on corporate performance. From the test direct effect has no significant effect of internal control to corporate performance. Corporate governance is an intervening variable relation between the internal control and corporate performance.

Keywords: organizational culture, internal control, corporate governance, corporate performance.

Introduction

State-owned Enterprises (BUMN) is a business entity partially or wholly owned by the Republic of Indonesia. Currently there are 119 State Owned Enterprises (SOEs) under the control of Ministry of SOEs (As of December 31, 2014). Indonesia is a country where the state role in the economy is relatively large. One of them, showed by the large number of SOEs, although until 2014, the number of SOEs has been decreasing or decrease to 20 SOEs compared to the end of 2013. The excessive role of state in the economic system, often considered led to various kinds of distortions that lead to inefficiencies. Therefore, there is a belief that one important step to enhance the competitiveness of enterprises is reducing state intervention in the economy, which in the context of ownership of the SOEs indicated by privatization. Therefore, what is more urgent to be addressed is actually the implementation of the governance of SOEs, which in turn will affect the performance of the company (Corporate performance).

Many factors affect the performance of the company which is the development of the organizations, the compensation plan, the communication system, managerial style, organizational structure, policy and procedures. The factors affecting the performance of the company are the business environment factors, namely the external environment and internal environment.

According to Syakhroza (2009), the problems faced by SOEs is the professionalism of human resources, organizational systems, organizational culture, good corporate governance, behavioral, organizational strategy, and payroll systems. A step that has to be taken by the state is doing repairs concerning structure, culture, and the organization's internal systems. Empowering the management of SOEs has to be a priority in order to be more responsive to changes in market environment. While at the macro level, concerning the existence of ministries of SOE as SOE policy body. Cultural organization grows easily in the organization. Despite strong to change, organizational culture can be made to further improve the performance of companies (corporate performance), Kotter and Heskett (1998). According to Robbins, (2008), organizational culture can affect performance.

Internal control (internal control) that is good can enables management ready to dynamic economic changes situation, increasingly fierce competition, shifting customer demands and their priorities, and also restructuring for future progress. According to COSO (1992), that the difference in Internal Control of COSO version and Internal Control of previous version (version of Government Accountability Office/GAO) is the emphasis on Soft Control (Performer), which is the core of the internal control compared to its Hard Control (mechanisms, forms, etc.).

Furthermore, according to the provisions of Article 1 of Law No.19 of 2003 on State-Owned Enterprises (SOEs) the provisions of Article 22 Paragraph (1) The decision of the Minister of BUMN 117 of 2002 on Good Corporate Governance states that "The Board of Directors shall establish an internal control system that is effective for securing investments and assets of state-owned enterprises. Several of research with corporate governance in Indonesia is more focused on the Stock Exchange and in the interests of the capital markets and investors only.

Literature Review

Corporate Performance

Performance (performance) is an achievement of the work in accordance with the rules and standards that apply to each organization's work. Hawkins (1979), states that: "Performance is: (1) the process or manner of performing, (2) a notable action or achievement, (3) the performing of a play or other entertainment".

Corporate Governance

Good corporate governance is related on how investors believe that managers will benefit investors, convinced that the manager will not steal and embezzle or invest in projects that do not benefit associated with the fund or the capital that has been invested by the investor and is related with how investors control managers (El Gammal and Showeiry, 2012). Corporate governance is a system that directs and controls the company with the aim to achieve a balance between the power of authority required by the company to ensure the continued existence and accountability to shareholders.

Organizational Culture

Corporate consists of various elements and shaped by the larger culture. The corporate culture is built to address the challenges in the past. Policies, procedures, corporate philosophy, customs and others are response to the situation and challenges in the past. When conditions change faster than the speed of cultural

adjustment, organization's success and even survival of the enterprise may be in danger, Zwell (2000). The corporate culture (corporate culture) is the application of the culture of organization (organizational culture) to an enterprise or company.

Internal Control

In Indonesia, State Owned Enterprises (SOE) required to organize internal control (internal control) based on framework of COSO (internal control COSO) as set out in Article 22 of the Decree of the Minister of State-Owned Enterprises NO. 117/MMBU/2002 on the Implementation of Good Governance in state owned enterprise. Article 5 Paragraph (3) of Law No.19 of 2003 on State-Owned Enterprises (SOEs) stated that "In exercising their duties, members of the Board of Directors must comply with the statutes of SOEs and legislation and is obliged to implement the principles of professionalism, efficiency, transparency, independence, accountability, responsibility, and fairness.

Influence of Organizational Culture and Internal Control to Corporate Governance and its Impact to Corporate Performance

The organization's culture will affect corporate governance. This finding is supported by Chandrasasmita, (2010) and Rashidpur (2011) are also having the same opinion that the organizational culture influence on corporate governance. Internal Controls affect the Application of the Principles of GCG. This is consistent with the research of Suripto (1996) and Hiro Tugiman (2001). This suggests that in order to implement the principles of good corporate governance should be encouraged by the Internal Control. Tseng (2009) and Xiaoming (2012) provide evidence that the cultural influences on the performance of the company (corporate performance). Based on the results of data processing of the structural model, it is known that that variable of organizational culture has positive effect on corporate performance significantly. Khan, Rehman, Dost, and Mumtaz (2011) and Anum and Ghazali (2010) in their study mentions that the corporate governance affect the corporate performance, furthermore Sheikh (2013) and Muktiyanto (2005) states that corporate performance is influenced by corporate governance. Likewise, research results of Murwaningsari (2009), Hadrat (2007), Wulandari (2006) and supported by research Switzera, and Mingjun (2009), Aljifri, and Moustafa, (2007) and Bonifasius (2009), that the corporate governance affect the corporate performance.

Research Method

This research uses explanatory research method and the type of research is causality. This study measured four (4) variables, namely, organizational culture, and internal control as exogenous variables as well as corporate governance and corporate performance as an endogenous variable. To collect data using survey techniques on state-owned companies in Indonesia. Respondents of this research are SOE enterprises managers in Indonesia. The population of this research is State-owned companies in Indonesia consists of 13 sectors and totaled 119 SOEs either state-owned, opened state-owned, and Housing (perum). In this study is only done on SOE state-owned and opened state-owned and on the other hand Housing (perum) is not used in this study. The samples of this research are state-owned enterprises and opened state-owned enterprise is 105 companies in 12 sectors of 85 state-owned SOEs and 20 SOEs owned open. The respondent of this research is all company managers of SOEs in Indonesia's state-owned enterprises and state-owned company in Indonesia, by taking four managers from each of the state-owned company, so the opportunity for all managers in answering questionnaires distributed is the same. Validity and reliabilities made to the questionnaire that has been collected. The data were analyzed using Structural Equation Modeling with LISREL application.

Results and Discussion

Influence of Organizational Culture and Internal Control against Corporate Governance

Based on test result the culture of the organization, internal control, respectively - each has significant positive effect on corporate governance in state-owned companies in Indonesia. Can be seen in the following Table:

Table 1. The result of the influence of Organizational Culture (OC) and Internal Control (IC) against of Corporate Governance (CG).

Line	Standardized Value	t - Value	Critical value	Hypothesis
OC - CG	0,51	7,84	1,96	Accepted
IC - CG	0,38	6,32	1,96	Accepted

Source: Data Processing Results (2015).

So based on the test results it can be concluded that the culture of the organization and internal control, respectively - each has significant positive effect on corporate governance in state-owned companies in Indonesia.

a. Influence of Organizational Culture against Corporate Governance

With their good organizational culture can support to create good corporate governance. The roots of good corporate governance lies in the attitude and behavior of the leadership of the company's internal factors that can also be the driver on the successful implementation of GCG originating from within the company which is the presence of an organizational culture that supports the implementation of GCG in the mechanism of labor management system in the company. Thereby the organization's culture will affect corporate governance. This finding is supported by Chandrasasmita, (2010) and Rashidpur (2011) are also having the same opinion that the organizational culture influence on corporate governance.

Based on the results of data processing of the structural model, it is known that variable of organizational culture has positive influence on corporate governance significantly. Thus, it can be concluded that the better the organizational culture of state-owned companies throughout Indonesia, then the corporate governance will also be better. Strong organizational culture gives managers a clear understanding of the tasks given by the organization, have a major influence on corporate governance Vendor.

b. Effect of Internal Control against Corporate Governance

Based on the results of data processing of the structural model, it is known that the internal control variable has positive influence on corporate governance significantly. Thus, it can be concluded that the better the internal control in state-owned companies throughout Indonesia, the corporate governance will also be better. Internal Controls affect the Application of the Principles of GCG. This is consistent with the research of Supto (1996) and Hiro Tugiman (2001). This suggests that in order to implement the principles of good corporate governance should be encouraged by the Internal Control.

Influence on Organizational Culture, Internal Control against Corporate Performance

Based on test results, organizational culture, corporate strategy, each has significant positive effect on corporate performance in the state-owned company in Indonesia, and internal control did not significantly affect corporate performance in state-owned companies in Indonesia. Can be seen in the following Table 2:

Table 2. The test results influence of organizational culture (OC), internal (IC) control against corporate performance (CP).

Line	Standardized Value	t - Value	Critical Value	Hypothesis
OC - CP	0,27	3,45	1,96	Accepted
IC - CP	-0,07	-1,06	1,96	Denied

Source: Data Processing Results. (2015)

So based on the test results it can be concluded that the culture of the organization, corporate strategy, each has significant positive effect on corporate governance in state-owned companies in Indonesia, On the other hand internal control did not significantly affect corporate performance in state-owned companies in Indonesia.

a. Influence of Organizational Culture Against Corporate Performance

Company consists of various elements and shaped by the larger culture. The corporate culture is built to address the challenges in the past. Policies, procedures, corporate philosophy, customs and others are response to the situation and challenges in the past. Cultural organizations can influence individual and corporate performance, especially in a competitive environment. The study that evaluated the effects of organizational culture variables on the performance of companies (corporate performance) has been done by Thoyib (2005). The study's findings are supported by the findings of research conducted by Rahmati, Darouian, Ahmadinia (2012) on the effect of cultural variables on the performance of the company. M. Shakil Ahmad (2012) proves that the culture affect the performance of the company (corporate performance). Tseng (2009) and Xiaoming (2012) provide evidence that the cultural influences on the performance of the company (corporate performance). Based on the results of data processing of the structural model, it is known that that variable of organizational culture has positive effect on corporate performance significantly.

b. Effect of Internal Control against Corporate Performance

The mechanism on internal control (internal control) are designed to bring the interests of managers and shareholders in congruence. Required by law, the board of directors (board of directors) in publicly owned corporation is responsible for developing and implementing mechanisms of internal control (internal control). Based on the results of data processing of the structural model, it is known that that the internal control variable is not a positive influence on corporate performance significantly. Thus, it can be concluded that the better the internal control in state-owned companies throughout Indonesia, does not affect the corporate performance.

Influence of Organizational Culture (OC), Internal Control (IC), through Corporate Governance (CG) Against Corporate Performance (CP)

Based on test results, culture of the organization, corporate strategy, and internal control over corporate governance each has significant positive effect on corporate performance on state-owned enterprises in Indonesia, can be seen in the following Table:

Table 3. The test results of influence on organizational culture, internal controls over corporate governance towards corporate performance.

Line	Direct Effect		Non-direct Effect		Hypothesis	Description
	S-Value	t - Value	S - Value	t - Value		
OC - CG -	0,27	3,45	0,29	4,76	Accepted	CG Intervening

CP						
IC – CG – CP	-0,07	-1,06	0,22	4,31	Accepted	CG Intervening

Source: Data Processing Results (2015).

So based on the test results it can be concluded that the culture of the organization and internal control, through corporate governance each has significant positive effect on corporate performance in state-owned companies in Indonesia. And Compared to the construct of the direct influence of the corporate governance then is an intervening variable on each relationship between organizational culture and corporate performance. As well as corporate governance is an intervening variable in the relationship between the internal control and corporate performance.

Influence of Corporate Governance (CG) Against Corporate Performance (CP)

Based on test results corporate governance has significant positive effect on corporate performance on state-owned enterprises in Indonesia, can be seen in the following table:

Table 4. The test results of corporate governance (CG) against corporate performance (CP).

Line	Standardized Value	t – Value	Critical Value	Hypothesis
CG – CP	0,56	5,36	1,96	Accepted

Source: Data Processing Results (2015).

So based on the test results it can be concluded that corporate governance has significant positive effect on corporate performance in state-owned companies in Indonesia.

According to the Organization of Economic Cooperation and Development (OECD: 2004), Corporate governance is the structure of the relationship and its relation to the responsibilities of the related parties consisting of shareholders, board members, commissioners, managers, designed to encourage the creation of a competitive performance that required to have to reach the main goal of the company. Khan, Rehman, Dost, and Mumtaz (2011) and Anum and Ghazali (2010) in their study mentions that the corporate governance affect the corporate performance, furthermore Sheikh (2013) and Muktiyanto (2005) states that corporate performance is influenced by corporate governance. Likewise, research results of Murwaningsari (2009), Hadrat (2007), Wulandari (2006) and supported by research Switzera, and Mingjun (2009), Aljifri, and Moustafa, (2007) and Bonifasius (2009), that the corporate governance affect the corporate performance.

Based on the results of data processing of the structural model, it is known that the corporate governance's variables have positive effect on corporate performance significantly. Thus, it can be concluded that the better corporate governance in state-owned companies throughout Indonesia, will better also the corporate performance.

Conclusions

1. The organizational culture, internal controls, each has significant positive effect on corporate governance.

2. An organizational culture influences on corporate performance and internal control has no significant effect on corporate performance.
3. Culture organization, internal controls, corporate governance each has significant positive effect on corporate performance. Corporate governance is an intervening variable in the relationship between organizational culture and corporate performance, and corporate governance is an intervening variable in the relationship between the internal control and corporate performance.
4. Corporate governance has significant positive effect on corporate performance.

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