

The Influence of GCG Implementation towards Employee Performance in PT XYZ

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The Influence of Good Corporate Governance Implementation towards Employee Performance in PT. XYZ, Surabaya.

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Abstract

In the era of business volatility and uncertainty, there are companies that dealing with loss caused by fraudulence and unethical actions. Good Corporate Governance (GCG) known as one of the best management frameworks, is now being adapted and implemented by many of companies around the world. It is often referred as the formal standard for business principles and corporate ethics. This research paper aims to measure the influence (including correlation) of Good Corporate Governance (GCG) implementation towards the employee performance in PT. XYZ, Surabaya. Method used in this study is simple linear regression applying the equation of $Y=a+bX$. Some of activities done here include observation and analysis where survey is conducted using questionnaire, process of identification and data modelling, parametric testing, goodness of fit evaluation, and also hypothesis examination. Based on the analysis result, it is found that GCG implementation has influence towards employee performance positively and significantly in PT. XYZ with coefficient determination value at the number of 0,41 which is categorized as fine correlation.

Keywords— Influence, Good Corporate Governance, Implementation, Performance

1. INTRODUCTION

Good Corporate Governance has been becoming a biggest issue in many of companies these days. It is not only dealing with stuffs about how we operate, but also on how we compromise with everyone in workplace. Good Corporate Governance (later will be shorted as GCG) is a system used to regulate and also control business at the same time to generate value that is added for all stakeholders of a company (Monks, 2003).

There are five keypoints in good corporate governance concept; fairness, transparency, accountability, responsibility, and also independency (Kaen, 2003; Shaw, 2003). Business practitioners believe that those keypoints will stand as barrier to those who are ignorant enough teased to be

involved in fraud action. Corruption is one of the most anticipated fraud actions in business. The Corruption Eradication Commission of Indonesia (KPK) published data in their annual report stating that they have at least 564 corruption cases during 2004-2018 which has the biggest portion at the number of 64% instead of procurement cases (21%), budgeting fraud (5%), money laundering (3%), illegal levy (3%), licensing (3%), and investigation hindering (1%). What quite surprising is that the second biggest corruption happened was coming from private business sector with 238 suspects preceded by cases from House of Representatives with 247 suspects as the highest one (kpk.go.id). Another fact retrieved from transparency.org that in 2019 Indonesia's corruption index was ranked 85th from 198 countries (scored 40

out of 100), left behind with other ASEAN countries like Singapore ranked 4th, Brunei ranked 35th, and Malaysia with 51st rank. This fact drove many Indonesian researchers and scholars who were happened to conduct studies in good corporate governance. Theoretically, many of experts said that the rise and fall of a company depends on the engagement between the management team and the good corporate governance principles. So it is about implementation, not only available as knowledge base with no action taken. Viewed from the historical aspect, attention towards corporate governance became so popular and raised global concern since the several scandals occurred in the past like Enron, Worldcom, Tyco, London & Commonwealth, Poly Peck, Maxwell, etc. (Kaihatu, 2006). The collapse of those public companies was caused by the failure of strategy and fraudulent practices in the top management level that lasted without any of detection in such a long time period caused by internal weakness control that should be maintained by the company board.

GCG was then adopted by many companies in G20 (OECD) in 1999 and became so popular in Asia since 2000's. Some were skeptical but some also optimistic with GCG approach in corporate management and governance. Internal audit is one of the ways to check the implementation of GCG. Internal audit is a specific mechanism in which cannot be separated with GCG (Cohen & Sayag, 2010). It is very relevant to make sure that the efficient utilization of resources, business process control and fraud detection and misapplication of the resources of a company (Badara & Saidin, 2014). Internal auditing applies principles to make sure that the efficiency in the growth and business development in company leading to sustainable financing. Alzeban and Gwilliam (2014) believe that failure in corporate business is the result of poor implementation of internal audit practices.

Due to the popularity and the big recognition of internal auditing in corporate governance, the measurement of internal audit implementation including its

effectiveness has attracted many of academic studies afterward. Badara & Saidin (2014) state their opinion that internal audit effectiveness has become an important topic over decades. This might be caused by the important roles played by the internal auditors in organizational survival and achievement to comply with GCG standard in order to gain the best employee performance of a company.

Moreover, the writers believe that internal audit on GCG implementation will improve company's performance where every stakeholder including corporate board members, management team, and business partners may gain benefit from it in many forms. But when it goes to topic where current situation is stated, there is a doubt where companies really implement good corporate governance as we know it is one of requirement in business sustainability.

Based on the above point of view, a deep study must be conducted to measure the influence between the GCG implementation and the employee performance.

2. LITERATURE REVIEW & CONCEPTUAL FRAMEWORK

The Corporate Governance can characterize the arrangement of principles, practices, and procedures by which an organization is controlled. It consists of shareholders, administration officers, customers, finance officers, suppliers, government and the community. Since corporate governance also provides the framework to obtain the objectives related with company business performance, it encompasses practices in every sphere of management, (Shleifer & Vishny, 1997).

All of government ministries and agencies must improve effectiveness of the internal control work, also internal audit role and the organizational commitment since they are able to develop good governance (Eko & Hariyanto, 2011) where in addition, an effective internal control will provide information to management about the business progress, or the lack of progress in achieving their objectives (Nilniyom & Chanthinok, 2011;

Vijayakumar & Nagaraja, 2012; Verdina, 2011).

Prior studies by OCEC (1999) have provided a deeper definition of corporate governance. It clearly described the corporate governance as the system where business corporations are directed and also controlled. The structure of corporate governance specifies the distribution of rights and responsibilities among stakeholders in the corporate ecosystem such as: the board, managers, shareholders, customers, employees, among others, and also states the rules and policies for making decisions related with the corporate affairs. By doing this, it also provides the structure in which the company objectives are set and the tools of obtaining these objectives and monitoring performance (Wolfensohn, 1999; Uche, 2004; and Akinsulire, 2006).

Effective corporate governance will reduce the shareholder's control ability and creditors confer on company managers, by increasing the probability that managers invest in projects with positive net present value (Shleifer and Vishny, 1997). Thus, it will fix the relationships between the board and management team where operations should be characterised by transparency to shareholders, and fairness to other stakeholders (Al-Faki, 2006). As effect, this will mitigate the agency costs (Jensen & Meckling, 1976).

Employee performance refers to how workers behave in the workplace and how well they perform the job duties obligated to them. Your company typically sets performance targets for individual employees and the company as a whole in hopes that your business offers good value to customers, minimizes waste and operates efficiently (Donohoe, 2019). Good corporate governance is inarguably one of the principles that potentially increases the employee performance where this assumption becomes the foundational concept of this study.

Based on the background and literature review the conceptual framework of the study is as follows.



Pict. 2.1. Conceptual Framework
Source: Writer's proposition, 2021

According to the above conceptual framework, there are at least two kinds of hypothesis we can pull as the target to prove in this study.

Ha: Good Corporate Governance (GCG) implementation influences employee performance in PT. XYZ.

H0: Good Corporate Governance (GCG) does not influence employee performance in PT. XYZ.

3. RESEARCH METHOD

This type of study goes with quantitative character which purpose is to explain something that uses research with numerical data analysis proceed with statistical procedures. The population in this study are employees working at PT. XYZ, Surabaya, a plastic-based product company who have been establishing its business since 1981 and has several offices and manufacturing bases in Southeast Asia and America. Population in this study are employees who work in the period of 2021 spread around the globe. Based on the company's policy, GCG is one of the principles that company adopts and implements for the business sustainability and to minimize fraud. The number of employees is currently 15.000 people.

Questionnaire as the main instrument consists of 10 questions about good corporate governance principles and other attributes that considered help to dig deeper in data collection process. The 10 questions will cover the topics of transparency, accountability, responsibility, independency, fairness, frequency of audit held in GCG area, supporting training, implementation, management evaluation, influence/impact measurement scored based on likert scale where non-disclosure agreement (NDA) is prepared in the beginning of the study to keep the respondent data confidential. Of course,

NDA is not an obligatory activity but considering ethics in doing research, that might create serious risk if not be mitigated in such a way.

The sampling technique used in this study is based on the Isaac and Michael table which is 340 employees.

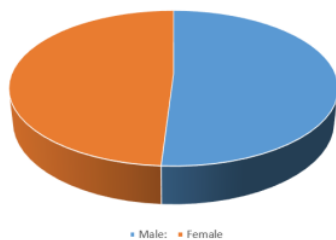
The data set obtained from respondents is then processed using Python programming approach in the Jupyter Notebook including library packages such as Scikit-learn to call regression library, Pandas for data description and dataframe reading, Numpy for arrays with approach like linear algebra, fourier test, & data transformation, and matplotlib for plotting. In this study data analysis uses simple linear regression test because there is only one independent variable. Simple linear regression test is used to examine the effect of independent variable on the dependent variable where instrument tests are also conducted in order to examine the linearity, validity, normality, and heteroscedasticity. The formula used for the regression is $Y=a+bX$. As the last step, hypotheses test needs to be done too where t test is used with significance valued at 0,05. All of these tests will be discussed in the next chapter.

4. ANALYSIS & RESULT

Descriptive Statistics

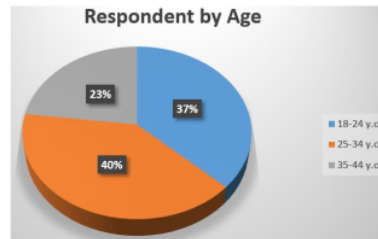
To describe the respondents, writers propose descriptive data to define the respondents in categorical ways. They are categorized by gender, age, educational background, working period, and marital status.

Respondent by Gender



Pict. 4.1. Respondent by Gender Graph
Source: Data collection, 2021

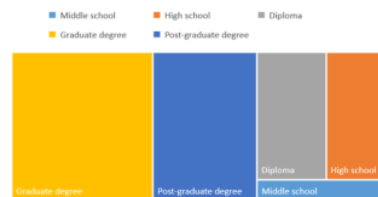
According to the data collection, respondents are 51% male and 49% female. Seen from age, we have 18-24 years old as many as 37%, 25-34 years old 40%, and 35-44 which is 23%.



Pict. 4.2. Respondent by Age Graph
Source: Data collection, 2021

Another finding is, that most of respondents are coming from graduate degree background which is 38%, followed by post-graduate alumnis as many of 28%, then diploma has portion of 16%, high-school graduates 14%, and middle-schoolers take 5% of portion which can we see in the below treemap graph.

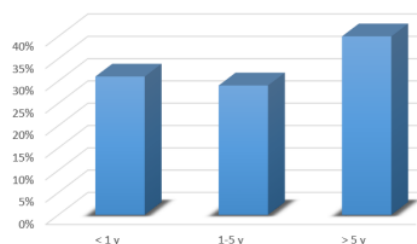
Respondent by Educational Background



Pict. 4.3. Respondent by Education
Source: Data collection, 2021

It is also found that employees who have been working less than a year are 31%, 1-5 years is 29%, and those who have been working for more than 5 years are 40%, as we can see in the below graph.

Respondent by Working Period



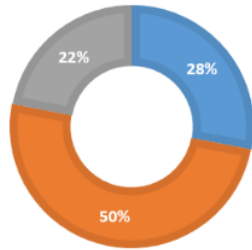
Pict. 4.4. Respondent by Working Period
Source: Data collection, 2021

Implementation	5	1603	0,66
Evaluation	5	1600	0,75
Influence	5	1609	0,69

Another fact is, that those who are married have portion of 28%, single 50%, and widow 22%.

RESPONDENT BY MARITAL STATUS

■ Married ■ Single ■ Widow



Pict. 4.5. Respondent by Marital Status
Source: Data collection, 2021

Instrument Test

Before going to do instrument test, we need to check the data profiling and summary. It will show the indicators, their average, total summation, and the standard deviation so we can ensure the quality of the data being processed for regression analysis. Average is taken from the data pulled from all indicator which consists of 10 questions. The question set will show the actual conditions to be put in the instrument where data analysis will be based on. Total summation is also done to ensure the fitness of the dataframe, where standard deviation is carried out to check whether or not the deviation is higher than the expected criteria. The set of analysis will help in the observation step. From all of those activities the writers might get the points needed.

Data Profiling

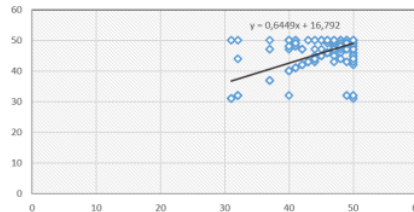
Indicator	Avrg.	Total	Std. Dev
Transparency	5	1553	0,67
Accountability	4	1526	0,84
Responsibility	5	1541	0,84
Independency	5	1600	0,66
Fairness	5	1602	0,63
Frequency	5	1608	0,68
Training	5	1619	0,65

Pict. 4.6. Indicator's Data Profiling
Source: Data collection, 2021

From the profiling above, that the average is stable where total is also close enough one another means that the gap is narrow. Moreover, standard deviation which is a measurement of relative data set that is scattered over the average and is counted as square root from the data variance, shows normal result which is categorized as fine scatter. First test is validity test over the questionnaire. It shows the t stats at 0,86 is higher than t table which is 0,6 while normality test shows the value of 0,07 which is lower than Dn valued at 0,21 meaning that the data is distributed normally.

In the other side, heteroscedasticity test carried out shows the P value at 0,56 which is higher than alpha (0.05) which means that there is no heteroscedasticity symptom in the instrument.

Linear Regression

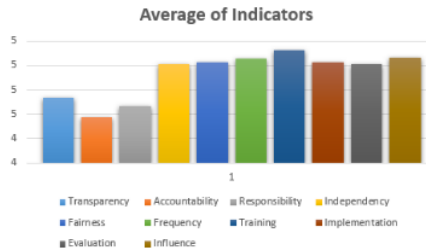


Picture 4.7. Linearity Test
Source: Python Output

6 In the regression graph in picture 4.7., the independent variable is on the X axis and the dependent variable is on the Y axis that means positive where it shows that all the variables are linear. In the other words, plot shows that there is no multicollinearity symptom in the instrument where it is also proven that there that linear regression is appropriate model in this study. It shows that both variables are linearly related where they have the same finite variance and normal distribution too.

Exploratory Data Analysis

In addition to the instrument tests above, an exploratory data analysis is also conducted. Simply defined, exploratory data analysis (EDA) is a set of analysis process that a researcher must do with large sets of data, looking for patterns and generate a summary of the dataset's characteristics instead of taking concern in data modeling and hypothesis testing.



Pict. 4.8. Variable's Indicators Average
Source: Data collection, 2021

From picture 4.8. we can see that question item about training has the most out score where respondents give highest appreciation on that. These finding drives assumption of which indicator contributes most to the independent variable. The next step is to bring more closely to the data set before going to regression.

```
import pandas as pd
import numpy as np
import io
import pandas_profiling
df = pd.read_csv('gog_raw.csv')
print(df.dtypes)
```

```
Respondent; Transparency; Accountability; Responsibility; Independence; Fairness; Frequency; Training; Implementation; Evaluation; Influence
object
dtype: object
```

Pict. 4.9. Python Library for EDA
Source: Python Output

```
print(df.head())

<bound method NDFrame.head of
0      1;5;5;4;4;5;5;5;5;5;5
1      2;5;5;5;5;5;5;5;5;5;5
2      3;4;4;4;4;5;5;5;4;5;5
3      4;5;5;5;5;5;4;5;4;4;4
4      5;4;2;4;5;5;3;5;5;4;3
...
335     336;5;4;5;5;5;5;5;5;5;5
336     337;5;5;5;5;5;5;5;5;5;5
337     338;4;4;4;5;5;5;5;5;5;5
338     339;5;5;5;5;5;5;5;5;5;5
339     340;4;4;4;4;4;5;5;5;5;5

[340 rows x 1 columns]>
```

```
print(df.tail())

<bound method NDFrame.tail of
0      1;5;5;4;4;5;5;5;5;5;5
1      2;5;5;5;5;5;5;5;5;5;5
2      3;4;4;4;4;5;5;5;4;5;5
3      4;5;5;5;5;5;4;5;4;4;4
4      5;4;2;4;5;5;3;5;5;4;3
...
335     336;5;4;5;5;5;5;5;5;5;5
336     337;5;5;5;5;5;5;5;5;5;5
337     338;4;4;4;5;5;5;5;5;5;5
338     339;5;5;5;5;5;5;5;5;5;5
339     340;4;4;4;4;4;5;5;5;5;5

[340 rows x 1 columns]>
```

Pict. 4.10. Data Reading
Source: Python Output

Data reading process above uses head and tail functions to check which one is the highest and the lowest row including its values. It is a way to make sure that data fits the frame and is readable for further analysis.

```
len(df)
340

df.describe()
count      340
unique      340
top 192;5;5;5;3;5;5;5;5;5
freq      1
```

Pict. 4.9. Data Description
Source: Python Output

Data description phase shows that the data consists of 340 respondents filled the questionnaire once as stated in the frequency row above. To proceed it further we need to check the dataframe summary.

```
DataFrame Stats
Minimum value:
dtype: object 100;5;5;4;5;5;3;3;2;2;3
Maximum value:
dtype: object 9;5;5;5;4;5;5;5;5;5
Mean value: Series([], dtype: float64)
Mode value:
0      100;5;5;4;5;5;3;3;2;2;3
1      101;5;5;4;5;5;5;5;5;5;5
2      102;4;2;4;5;5;4;4;4;5;4
3      103;4;4;4;5;5;5;5;5;5;5
4      104;5;5;5;4;4;4;4;5;5;4
...
335     96;3;4;4;4;4;4;4;4;5;4
336     97;5;5;5;4;5;5;5;5;5;5
337     98;4;5;4;5;5;5;5;5;5;5
338     99;5;5;4;5;5;5;5;5;5;5
339     9;5;5;5;4;4;5;5;5;5;5

[340 rows x 1 columns]
Median value: Series([], dtype: float64)
Standard Deviation value: Series([], dtype: float64)
```

Pict. 4.11. Dataframe Summary
Source: Python Output

According to the data frame description which is shown above we know that the type, series, and value are recognized by python interpreter, meaning that the analysis process is allowed to be done further.

Determination Test

```
r_sq = model.score(x, y)
>>> print('coefficient of determination:', r_sq)
coefficient of determination: 0.410983384
>>> print('intercept:', model.intercept_)
intercept: 16.79245581
>>> print('slope:', model.coef_)
slope: [0.64488777 0.641079858]
```

Picture 4.12. Simple Linear Regression
Source: Python Output

Correlation coefficient measures the extent of interrelation between the two of variables which are simultaneously changing with mutually extended effects. Simple linear regression test above shows that R Square (R2) value is 0.41 which means the variabel (X) determines the Y valued at 41%, while the another 59% is determined by other variables exclude the model.

Coefficient (intercept) valued at 16.79 means that if the independent variable is 0 (*null*) or company doesn't use X (GCG implementation) then Y (employee performance) will be increasing as many as 17 times assuming that variable outside X (GCG implementation) is constant or doesn't change (*ceteris paribus*).

If X is 0 (*null*) then employee performance (Y) estimation will be as many of 17 times increasing. Whereas, X coefficient at 0,64 shows that every one additional implementation of GCG activity will increase employee performance 64 times higher in a month, assuming that GCG implementation is stable/constant (*ceteris paribus*).

Welch's T Test

Welch's t-test is generally known as one of statistical tools to test the significant difference between the mean of two unrelated groups which is categorized in nonparametric univariate test type. It is an alternative to the independent t-test when there is a violation in the assumption

of equality of variances. The t test here is then carried out by the writers as the final step to find the most dominant influence between each independent variable to explain the dependent variable with significance level of 5%. Library used in the python kernel is Scipy.

	XI	Y
Mean	46,65	46,87647
Variance	18,68245	18,90505
Observations	340	340
Pooled Variance	18,79375	
Hyp. Mean Diff.	0	
Degree of freedom	678	
t Stat	0,681129	
P(T<=t) one-tail	0,248011	
t Critical one-tail	1,647104	

Pict.4.13 t-Test Result
Source: Python Output

The t-test result above shows that the t stats is lower than the t table which is $0.68 < 1.64$ where p value is 0.24 higher than alpha (0,05). It is heading to the finding where independent variable clearly influences the dependent variable. This finding is significantly in line with the research conducted previously by Nur'ainy, Nurcahyo, Kumiasih & Sugiharti (2013) who found that the implementation of Good Corporate Governance containing the principles of transparency, accountability, responsibility, independence, and fairness have direct effect toward company's performance. This confirms the hypothesis in this research where H1 is accepted and H0 is rejected.

5. CONCLUSION

From the explanation above there are several matters that can be concluded. Good corporate governance influences employee's performance positively and significantly. Means that if there is GCG implementation activity done in a certain time, will increase the performance of employee. Next finding is, that since it significantly increases employee performance with sixty-four times better, company must conduct an implementation

program to keep up the performance in a good range. It is suggested to evaluate the current performance and develop certain program for the company's Good Corporate Governance implementation in PT. XYZ, Surabaya, in order to achieve company's goal and target set by the board of executives.

The writers hope that there would be practitioners and researchers in the future who are interested to conduct study about the implementation of good corporate governance with various variables to be included. The result of the study might be enhanced where it can enrich the previous studies as the contribution to literature and scientific paper in business management and entrepreneurship.

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