Effects of Internal Control, Corporate Governance, Organizational Culture, and Management Audit on Managerial Performance: Evidence from Indonesia

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ABSTRACT

This research aims to examine the effect of internal control, application of good corporate governance, organizational culture and management audit on managerial performance. This research used classical assumption test. The data was analyzed using internal control test, GCG principles, organizational culture, and management audit on managerial performance. Data was also analyzed using multiple regression statistics which then it would be described. Based on the results of data analysis and discussion that have been performed, it can be drawn some conclusions that partially, internal control and good corporate governance provide significant and positive effects on managerial performance at local revenue office in Makassar. Partially, organizational culture and management Audit provide positive but not significant effects on managerial performance at local revenue office in Makassar city. Simultaneously, internal control, good corporate governance, organizational culture and management Audit provide significant effects on managerial performance.

JEL Classification: G32; G34; M42.

Keywords: Internal Control; Application of Good Corporate Governance; Organizational Culture; Management Audit; Managerial Performance.

1. INTRODUCTION

Attention on how creating superior corporate managerial performance has been becoming an interesting issue for researchers and practitioners from year to year. Managerial performance measurement is one of the most important factors for the company. Managers must be able to translate strategic vision into concrete measures, so it can be implemented properly (Rustiana, 2004). A good company should have at least a good performance and it should also be able to provide solutions to problems that may be faced in the future. Good performance management towards high-performing organizations should have qualitatively structured key performance indicators, and clear deadlines to achieve high-performing organizations. All performance measures are typically set out in the form of agreement between superiors and subordinates, that is often referred to as performance contract. The existence of a process of performance management cycle that is good and adhered to be performed together including performance planning, performance implementation and performance evaluation providing impact on the achievement of corporate goals will show the effectiveness of the performance itself (Astuti, 2010).

Managerial performance is required in the organization because it is expected to bring success for the company. According to Nur and Bambang (2009), managerial performance is the performance of individual members of an organization in managerial activities. Managerial performance includes: planning, investigation, coordination, evaluation, staff monitoring, arrangement, negotiation, and representation. With the managerial performance or the ability to maximally manage the activities within the organization, the organization's sustainability will be maintained. Managerial abilities come from a long process and it occurs slowly through the process of observation and learning. The evidence of managerial ability is how far they are able to perform optimally. According to Nasution (2005), the meaning of managerial performance is the performance of individual members of the organization in managerial activities, which are: planning, investigation, coordination, evaluation, supervision, staffing, negotiation, and representation. A person who holds a managerial position is expected to produce a managerial performance. In contrast to general employee performance that is concrete, managerial performance is abstract and complex (Aida 2004).

Literature regarding job competencies agreed on a large scale that managerial competencies are linked in a complex way to managerial performance, being the main requirements for consistent performance over time. Based on Campbell's model of competencies and other models, Bucur (2013) assessed how different core competencies of managers (N= 210) are linked to managerial performance, on different levels of managerial complexity. Competencies were significantly linked with managerial performance, but the hierarchy of those competencies was different across the managerial levels. Core competencies were more important for top managers and less important for middle managers and line managers in determining managerial performance.

Aida (2004) states that performance is the work result that can be achieved by an individual or group of people within an organization, in accordance with the authority and respective responsibility in order to achieve organizational goals. Performance is the success of a personnel, team, or organizational unit in realizing a predetermined strategic goal with expected behavior. The performance of an organization depends on the work of its employees, but the superior can play a role in planning, implementing and controlling the organization. In this case, the superiors should have an important role in their efforts to motivate and manage their employees. This condition ultimately requires business people including managers to improve their performance, which are the ability in planning, coordination, and control of various activities and resources owned.

Implementation of Good Corporate Governance (GCG) principle is necessary to create an attitude of trust among the community as a required condition for the business world to be able to grow better and healthier in the future. Corporate Governance explains the relationship among various participants in the company playing a role in determining the direction of the company performance. With the development of labor systems in Indonesia, the development of business world and the success rate of an organization depend on the level of human resources productivity in achieving the goals, which have been declared. Human resource is a factor that cannot be left because it is the main and the first factor to be considered. Despite the availability of other factors such as adequate technological and economic quality, if it is not supported by human resources then it will not produce maximum results.

The World Bank defines corporate governance as mandatory laws, rules, and principles that can drive the company's performance efficiently. The National Committee on Corporate Governance Policy has issued Good Corporate Governance implementation guidelines for business actors in Indonesia and defines corporate governance as a structure, system, and process used by the company to provide sustainable additional value for the company in a long time period for the shareholders, while still paying attention to other stakeholders based on prevailing regulations and norms (Wardani, 2010). Nowadays, society demands the establishment of good public institution applying corporate governance (Mardiasmo, 2004) so that it is necessary for management to rethink the appropriate planning, controlling, and decision making. In this case, internal control has an important role of management functions such as planning, implementation, controlling, and returning proper decision. Internal control is a process run by board of commissioners, management, and other business personnel designed to gain reasonable confidence about the achievement of the goals (IAI, 2001). Therefore, large and developing companies require a greater role of internal control as well. Because the larger the size of the company, the more people shall involve in the company's activities specified in certain areas, hence it enables possibility of the error emergence to happen. In the internal control, management performance is very important because it is the core of the company to achieve its goals.

Management Audit is one of the factors affecting managerial performance. According to Agoes (2009), management audit is an examination on a company's operating activities, including accounting and operational policies that have been determined by management, in order to find whether the operations have been carried out effectively, efficiently and economically or not. Organizational or company culture becomes one important thing as stated by Atmosoeprapto (2000) that a strong organizational or company culture will affect how we perceive a job to be more fun, and then the existence of company culture needs to be maintained, so that all employees starting from top management to the lowest employees may produce high performance. Research performed by Ira et al., (2013) is about effect of good governance, internal control and organizational culture on local government performance (study on government unit of Pelalawan regency). The results show that good governance and internal control have effect on local government performance, while organizational culture does not provide significant effect partially on the performance of local government of Pelalawan regency. Bucur (2013) performed a research regarding the effect of management audit and control locus on company managerial performance (survey on SOEs in Bandung city).

The results show that management audit and control locus have effect on managerial performance. If the management audit and control locus are better and they are more controlled, so managerial performance can be improved. Andriyanto (2013) performed research on effect of internal control and the application of good corporate governance principles on managerial performance (empirical study on PT.BRI (company) tbk of Jember branch). Based on the research background description, this research aims to examine the Effect of Internal Control, Application of Good Corporate Governance, Organizational Culture and Management Audit on Managerial Performance at Local Revenue Office in Makassar City. Therefore, it can be utilized by organization in making managerial decisions related to performance. The hypothesis in this research was

2. METHODOLOGY

This research was conducted at Local Revenue Office in Makassar City. Research object was managerial performance at Local Revenue Office. Variables of this research consisted of independent variables including internal control, application of Good Corporate Governance principles, Organizational Culture, and Management Audit and dependent variables including managerial performance. The primary data was collected from questionnaires containing questions about internal control, Good Corporate Governance, and managerial performance distributed to respondents. Sampling was performed by saturated sample method. The number of samples used was 156 people. This research used classical assumption test. The data was analyzed using Internal Control test, GCG Principles, Organizational Culture, and Management Audit on Managerial Performance. Data was also analyzed using multiple regression statistics which then it would be described.

3. RESULTS AND DISCUSSION

The data collected from the respondents in the regression statistical analysis showed the relationship of 156 respondents, that the independent variables had effects on the dependent variable, presented in the following coefficient table.

Table 1. Result of Statistic Test

Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.009	8.536		.853	.815
	Internal Control	.262	.126	.302	2.081	.000
	GCG	.285	.117	.357	2.437	.020
	Organizational Culture	.055	0.97	.181	0.562	.578
	Management Audit	.183	.115	.214	1.722	.045

Sources: Result of research 2016 (analyzed data)

Based on the result of statistic test above, some effects among variables can be explained as follows:

According to Table 1, it is found that the probability value or Sig. of the internal control variable is 0,000. Because the probability value of internal control that is 0,000, is lower than the significance level of 0.05, then it can be drawn a conclusion that the effect occurring between independence and managerial performance variable is statistically significant. It is found that regression coefficient of the internal control variable is 0.262, which means positive, so the internal control variable provides positive and significant effects on managerial performance. This shows that there is a significant effect of internal control on the managerial performance. In accordance with the Committee of Sponsoring Organizations of the Trade Way Commission (COSO) in Yuda (2012), internal control is a process affected to provide assured assurance that organizational goals can be achieved through efficiency and effectiveness of operations, presentation of financial statement that can be trusted, Obedience to the applicable laws and regulations. It is important for an organization to operate internal control system, so that its organization performance can be improved. Various studies have proved that the internal control system affects organization's performance, such as Afrida (2013) research which proves that the internal control system of government provides significant and positive effects on the managerial performance of Local Government Unit and Yuda research (2012) which proves that the internal control partially provides significant effect on organizational performance.

Internal control comprises the policies and procedures used in the company's operations to provide reliable financial information and guarantee that applicable laws and regulations are complied. A process affected by management aims to provide reasonable assurance in achieving effectiveness, efficiency, compliance with applicable laws and regulations, and reliability of the presentation of financial statements. Internal control can provide information on how to assess company performance and company management and provide information that will be used as a guide in planning (Wardani, 2010). Internal control is established after taking into account the overall environmental influences undertaken together with an adequate assessment of the relevant risks and effective monitoring mechanisms. Effective internal controls can provide confidence in the availability of reliable financial statement that is in accordance with applicable laws and regulations, from the reliable financial statement, managers can estimate and take decisions on what actions should be taken to improve the effectiveness and efficiency of the company's operations. To establish effective internal controls, it is necessary to improve and evaluate the control elements including the control environment, risk assessment, control procedures, monitoring and information and communications, whether or not they have worked properly.

If the internal control of a company has been executed properly then the manager can make better decisions to improve the efficiency and effectiveness of the company. An organization needs to improve the internal control so that internal control within the organization can be implemented efficiently in reaching the manager's performance level. The higher the implementation of good internal control, the better managerial performance will be. The result of research conducted by Pratolo (2006) shows that the internal control provides partially significant effect on managerial performance. Tuati (2007) proves that internal control has a positive effect on managerial performance.

According to Table 1, it is found that the probability value or Sig. of good corporate governance variable is 0,020. Because the probability value of good corporate governance that is 0,020, is lower than the significance level of 0.05, then it can be drawn a conclusion that the effect occurring between good corporate governance and managerial performance variable is statistically significant. It is found that regression coefficient of the internal control variable is 0.285, which means positive, so the good corporate governance variable provides positive and significant effects on managerial performance. Application of good corporate governance principles is an application of principles that regulate, manage, and supervise the business control process as well as a form of attention to stakeholders, employees, creditors, and the surrounding community. Eachg corporate governance principle needs to be implemented properly by good corporate governance in the company which can run properly. With the transparency supported by a clear legal standard, therefore the public knowledge on the company establishment is increased, and then the public confidence of the company is better.

With the fairness, then all rights and interests of stakeholders will be fulfilled without any differences. Therefore, there will be no conflict of interest happened and the target company can be achieved properly. With the existence of public accountability as party requiring information, level of achievement of a predetermined mission can be found. With the responsibility, it is expected to encourage the manager in carrying out its activities in order to be more professional and has complete ethics, so they are spared from abuse of power and its performance can be improved. By the application of Good Corporate Governance principles (transparency, fairness, accountability, responsibility) then the manager can determine the direction and control of company performance. Application of Good Corporate Governance to assist managers in making effective decisions derived from the application of Good Corporate Governance principles, which aims to encourage and support the company development that can improve the company's image to the public in a long term. It can also harmonize the interests of managers with other stakeholders that can generate competitive advantage for the company.

Emye (2009) states that with the support from all parties, the application of Good Corporate Governance principles in the company will further ensure a strong and sustainable managerial performance. Corporate governance statistically provides significant effect on company's managerial performance. It is also supported by research conducted by Ira et al., (2013) regarding effect of good governance, internal control and organizational culture on local government performance (research on government working unit in Pelalawan district). The result of research shows that good governance and internal control provide effects to local government performance while organizational culture does not provide significant partial effect on the performance of the local government in Pelalawan regency.

According to Table 1, it is found that the probability value or Sig. of Organizational Culture variable is 0,578. Because the probability value of Organizational Culture that is 0,578, is higher than the significance level of 0.05, then it can be drawn a conclusion that the effect occurring between Organizational Culture and managerial performance variable is not statistically significant. It is found that regression coefficient of the Organizational Culture variable is 0.055, which means positive, so the Organizational Culture variable provides positive but not significant effect on managerial performance. This is not in line with the results of research conducted by Suhartini (2007) stating that the organizational culture interaction variable in partial provides positive but not significant effect on managerial performance and she also said that organizational culture was not a moderating variable. In contrast, this supports the results of research conducted by Rinarti and Renyowijoyo (2007), stating that organizational culture affects the relationship between budgetary participation and managerial performance. The results of Koesmono (2005) also states that organizational culture provides positive effect on the performance. Those three research results do not support the results of research conducted by Amalia (2010) that organizational culture had no significant effect on performance. Therefore, it is necessary to establish organizational culture in order to create a high commitment on quality so, high performance can be achieved and it can be concluded that organizational culture provides significant effect on managerial performance. In other words, organizational culture affects managerial performance.

Regarding the effects of organizational culture on organizational performance and employee job satisfaction at terminal (public transportation station) in Surabaya (Soedjono, 2005), the result of research indicates that there is significant effect from organizational culture on organizational performance, from organizational performance on employees, from organizational culture on customer satisfaction, but there is no direct effect from organizational culture directed at organizational performance on employee satisfaction. Involvement is a key factor in organizational culture. The high involvement of organizational members affects organizational performance, particularly in terms of management, organizational strategy, organizational structure, transaction costs and so on. Organizational values, norms and traditions are consensus for organizational members to engage in organizational activities. Involvement in the relationship between effectiveness is not a new thing because there are many literatures that already have discussed it. The central idea is that organizational effectiveness is a function from level of involvement and participation of organization members. This concept suggests that high levels of involvement and participation lead to sense of ownership and responsibility (Denison and Mishra, 1989). From this sense, a greater commitment in organization and a less need for a strict control system are arisen.

According to Table 1, it is found that the probability value or Sig. of Management Audit variable is 0,045. Because the probability value of management audit that is 0,045, is lower than the significance level of 0.05, then it can be drawn a conclusion that the effect occurring between management audit and managerial performance variable is statistically significant. It is found that regression coefficient of the Organizational Culture variable is 0.183, which means positive, so management variable provides positive and significant effects on managerial performance. Management audit has very important role in assessing activities from viewpoints of efficiency, effectiveness and economics. In carrying out the functions of planning, organizing, directing and control to be more focused on achieving corporate goals including strategic goals, then management auditors should improve inspection techniques better and can also give consideration to management in making decisions to achieve better results. The results are supported by Bucur's (2013) research, Effect of Management Audit and Control Locus on Company Managerial Performance (Survey on SOEs in Bandung). The results show that management audit and control locus have effect on managerial performance. If both are better and there are more controls, then managerial performance can be improved.

A management audit should discover cause of the problem by collecting and analyzing relevant data, then looking for methods to mitigate the impact that may arise from the problem. The research focuses only on the function of human resources to assess and analyze programs on the function and to follow up on existing issues so that the auditor can determine the improvement recommendations to be given to management. Human resource is very important and it requires more attention because human resource affects organizational effectiveness and it is also a fundamental function of the company in running the business and increasing the company's added value. In general, function of human resource plays an important role and has responsibility in supplying human resource who meets the qualifications in accordance with the competitive advantage of a business. Human resource is the most important organizational asset and it is able to make another organizational resources work. Human resource functions are required to take appropriate or correct action or election to achieve a predetermined goal and target.

Management audit of human resource aims to assess whether policies and procedures and human resource activities have met the objectives of the company and run effectively by detecting problems in the work process/activity that has been undertaken. With the audit process performed by the authors, it is expected that this audit process assists management in developing existing potential within the company, especially in terms of human resources.

4. CONCLUSION

This research aims to examine the effect of internal control, application of good corporate governance, organizational culture and management audit on managerial performance. Based on the results of data analysis and discussion that have been performed, it can be drawn some conclusions that partially, internal control and good corporate governance provide significant and positive effects on managerial performance at local revenue office in Makassar. Partially, organizational culture and management audit provide positive but not significant effects on managerial performance at local revenue office in Makassar city. Simultaneously, internal control, good corporate governance, organizational culture and management audit provide significant effects on managerial performance at local revenue office in Makassar city.

This fact is in line with the objectives of internal control itself that is to provide reasonable assurance about the achievement of company objectives, reliability of financial report, and compliance with applicable law and regulation. If the management has been able to do this properly then it will obtain assurance to achieve organizational goals and targets. If the goals and objectives of the organization have been achieved, then it will improve the manager's performance. With the support of all parties, the application of good corporate governance principles will further ensure strong and sustained managerial performance. It shows that good corporate governance is the principal instrument of the entity in achieving good managerial performance. Based on the results of research, the researcher suggests as follows: Adding the number of independent variables; in this research, researchers examined four variables, then the next researcher should examine more than four variables and must be different from variables that have been analyzed by the researchers before. Based on the results, this study in recommending for furthur researches to add other closely related variables in theory on managerial performance, as well as expand the scope of the research, so that the result of research can be expanded and it also creates more varied research.

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