



## **Performance the Malcolm Baldrige on State Electricity Company (PLN) in Indonesia**

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### **ABSTRACT**

The purpose of this study is to examine and analyze the influence of internal control over corporate governance, internal control influence on corporate performance, the influence of corporate governance on corporate performance. The research method uses are analytical descriptive and exploratory. Results of the study are: Internal control has positive effect on the corporate governance, internal control has positive effect on the Malcolm Baldrige performance, Corporate Governance has positive effect on the Malcolm Baldrige performance.

**Keywords:** Internal Control, Corporate Governance, Malcom Baldrige Performance

**JEL Classifications:** L80, G34

### **1. INTRODUCTION**

The State Electricity Company (PLN) as one of the SOEs has an obligation to apply good corporate governance (GCG). The company realized that the implementation of GCG now is not only just as a fulfillment of an obligation, but also has become a need in running the business activities of the firm in order to keep the business growth sustainably, increase the value of the enterprise, and make the company able to survive under competition. The corporate governance will run well if it is done together with the internal control and management of risks so that the company performance will increase (Suroso et al., 2017).

All this time, there are many researches in the accountancy and financial field that have done analysis in the influence of internal control of corporate governance and the effects on business performance. However, there are only few researches that measure the impact of those three variables to the company performance measured by Malcolm Baldrige. Baldrige Assessment can help organization to face dynamic environment, build a high working system, translate vision and mission into the strategy, and build short-term success and organization stability for the long term (Gazperz, 2011). The study formulation in this research is:

Whether there is an influence of internal control towards the corporate governance and the company performance.

### **2. LITERATUR REVIEW**

#### **2.1. The Performance of Malcolm Baldrige**

Malcolm Baldrige National Quality Award is an award for the quality of a performance given to the organization in the United States. The Baldrige Assessment is one of the tools to improve their performance of the organization overall and continuously by using the measurement and giving feedback on organization performance in providing the qualified products and services (Gazperz, 2011).

#### **2.2. Corporate Governance**

Five fundamental principles of GCG in the regulation of State Minister of SOE (BUMN) Number 1 year 2011 on the Application Good Corporate Governance [GCG] on state owned enterprises, covering:

1. Transparency (information openness), that is the openness in implementing the decision making process and transparency in revealing the material information and relevant with the company,
2. Accountability, that is the clarity of function, implementation

- and organization accountability so that the company management can be implemented effectively,
3. Responsibility, that is conformity/compliance in the company management towards the rules and regulations and healthy principals of the company,
  4. Independency, that is a situation where the company is managed professionally without any conflict of interests and influence/pressure from any party that is not in accordance with the rules and regulations and healthy principals of the company, and
  5. Fairness that is justice and equality in the rights of stakeholders that arise by virtue of agreements and legislation.

### 2.3. Internal Control

Internal control has several elements; however, those elements are interconnected in a system. According to Committee of Sponsoring Organizations of the Trade way or COSO the main elements of internal control are:

1. Environmental Control, the organization situation that affects control consciousness of all employees. Control environment is the basis of other components due to discipline and structure.
2. Risk assessment, that is the process of identifying and assessing the risks faced in achieving goals. After identified, management need to specify how to manage/control.
3. Control activity that is the policies and procedure need to be set to convince management that all directions have been implemented. Control activity is applied to all levels of organizations and data processing.
4. Information and communication is two elements that can help management in implementing responsibilities. Management has to build an effective and timely information system. It includes the accounting system consisting of the ways and recording in order to identify, combine, analyze, group, note, and report the occurred transaction and in order to make asset accountability and company debts.
5. Monitoring, it is an all-time evaluation process on the quality of internal control implementation and will be repaired if necessary.

## 3. METHODOLOGY

This research to test following hypotheses:

- $H_1$ : Internal control influences the corporate governance  
 $H_2$ : Internal control influences the company performance  
 $H_3$ : Company Governance influences the company performance.

### 3.1. Proposed Model for Testing

The methods of this study are descriptive and verificative that evaluates the causality relation that is the influence of internal control as the exogenous variable towards the corporate governance and company performance as the endogen variable.

Analysis method using the right measuring tool to collect data, the mistakes or deviation can be avoided. The analysis method used is parsial least square (PLS).

### 3.2. Population

The population used in this research is the board of directors and audit committee in PLN in Jakarta, Bogor, and Tangerang and Bekasi area.

Sample:

The population used in this research is the board of directors and audit committee in PLN in Jakarta, Bogor, Tangerang and Bekasi area, PLTA Saguling, PLTU Muara Karang, PUG Kamojang. Because the number of population is fixed, the sample amount determination can be referred to Slovin formula as follow:

$$n: N/(1+N(e)^2)$$

$$n = 140/(1+140*0.1^2)$$

$$n = 101$$

Notes:

n: Number of sample taken

N: Population number

e: Sampling error tolerated to 10%.

Based on the population existence, there are 140 so according to Slovin formula, it has 101 manager-level respondents.

### 3.3. Variable Operation

Internal control (IFAC, 2012) with the dimension of environment control, risk evaluation, activity, information and communication control and monitoring activity. Measuring scale uses interval data.

Corporate Governance (Regulation of State Minister of SOE Number 1 year 2011), with the dimensions of transparency, accountability, responsibility, independence and fairness. The measuring scale uses interval data.

The performance of Malcolm Baldrige (Gazperz, 2011), with the leadership, strategy planning, customer and market focus, resource focus and process management. Measuring scale uses interval data.

Analysis method: By using the right measuring tool to collect data, the mistakes or deviation can be avoided. The analysis method used is PLS.

## 4. RESULT AND DISCUSSION

### 4.1. Respondent Descriptions and the Analysis of Research Finding

Respondents given the questionnaire for this research are the Board of Commissioners, Directors, Audit Committee, Internal Auditor, Supervision Intern, General Manager, Area Manager and Director. The questionnaire distribution was done in PLTA Cibadak, PLTA Cirata, PLTA Jati Luhur, PLTA Saguling, PLTU Muara Karang, PLTG Alur Canang, PLTG Kamojang the province of West Java and PLN Jakarta, Bogor, Tangerang, Bekasi, Depok and Bandung. The total respondents were 140 respondents distributed for the research need and there were 101 respondents that answered completely and eligible to be the samples.

Based on the value of  $\beta$  standardized and the value of T-statistic in the Table 1, so the result of the test for each hypothesis is as follow in Table 1.

**Table 1: Hypotheses**

Hypotheses	Standardized $\beta$	t-statistic	R <sup>2</sup>
H <sub>1</sub>	0.3957	4.275	0.7957
H <sub>3</sub>	0.1792	2.938	0.7792
H <sub>4</sub>	0.1431	2.349	0.7431

Source: The result of data processing, 2016

Hypotheses 1: The Influence of Internal Control towards Corporate Governance.

The result in Table 1 shows that the value of t statistic is about 4.275 higher than 1.96 with the original positive sample 0.395, it shows that the internal control positively influences the GCG so that the bigger internal control the better GCG. The value of R<sup>2</sup> is 0.7957, it shows that the corporate governance model can be explained well by the internal control.

PT PLN develops eProc program in order to apply the GCG principle in its organization. In the process of procuring in PT PLN (Persero), the use of eProc can be called as the application of internal control system because it can prevent and reduce the act of fraud. Eproc aims to transparency, which means all procurement process was done openly with the online system so that the result can be accounted for. Besides, the application of eProc application also provides benefits for the company efficiency namely, the realization of better procurement, and the existence of new procurement in the process of accountability and support the process of procuring internal control system at PT PLN (Persero) overall is quite effective. PT PLN (Persero) already implements five components of internal control revealed by Committee Of Sponsoring Organization of Treadway Commission (COSO), that are environment control, risk evaluation, activity, information and communication control and monitoring activity. Besides, PT PLN (Persero) also applies PLN Bersih program (Clean PLN) that is a program suggested by the central PLN to show people that PLN commits to develop an institution that is free from corruption, collusion and nepotism. PLN Bersih is maximally and not carelessly managed so it can make PT PLN (Persero) better and "clean" by implementing its four pillars that are participation, integrity, transparency and accountability. This hypothesis Gramling et al. (2004); Weizhen (2004); Agaisa (2004); Colbert (2002); Song (2008).

Hypotheses 2: The Influence of Internal Control towards the Malcolm Baldrige Influence

PLN also applies the e-procurement or eProc program. The explanation of the eProc program implementation is stated in SK DIR No 305.K/DIR/2010 Chapter V, on goods/service supply through electronic media (e-procurement PLN). According to the SK DIR No 305.K/DIR/2010 Chapter V part 5.1.2, the purpose of the implementation of the e-Procurement PLN is to increase integration among the PLN units, transparency, process speed, efficiency time and money, accountability, facilitate monitoring and control, and optimize the use of material in the warehouse (either fast moving or slow moving material). In addition, eProc application is also expected to bring the benefits for the

company namely the standardization procurement processes, the formation of better transparency and efficiency procurement, the availability of information on prices of a special unit in internal of PLN, and to support the accountability of the procurement process. A number of problems for the implementation of eProc can be handled by the presence of a commitment to the whole range of management and implementation procurement to use eProc as the means of procurement process of goods and services in PLN, and hold the socialization gradually and do the simplifying procurement, make use of technology and application development. That is being flexible, thus leading to the proof that PLN as the electricity power plant can improve its performance measured by Malcolm Baldrige. This research supported Ayagre et al., 2014; Mukhina, 2015; Sawalqa and Atala (2012), Lin and Koo (2011).

Hypotheses 3: The Influence of Corporate Governance towards Malcolm Baldrige Performance

Table 1 shows that there is a positive influence between the corporate governance with Malcom Badrige, it is seen on the amount of t count about 2.349 (higher than 1.96) and the original sample is positive about 0.1431, it shows that the better corporate governance the more increased the company performance. The value of R<sup>2</sup> is 0.7431, it shows that the performance model of Malcolm Baldrige can be strongly explained by the corporate governance.

PT PLN is a state-owned care of all aspects of electricity in Indonesia. Because the importance of aspects that must be taken care of it electricity), the procurement in PT PLN is a sector that is prone to have the occurrence of the act of cheating or fraud. According to the website from Transparency International Indonesia, actions that can cause fraud risk in PT PLN are the bribing to vendor, bribe money, rewards, special treatment and many more. These kinds of actions are absolutely against the commitment of PT PLN to run the practice in performing clean company and free from the corruption, collusion and nepotism, and also to hold the GCG and anti-corruption in the electricity supply for the people.

In order to create the GCG, PLN finally can have competitive excellence for the need of the stakeholder as follow: (1) It will not perform any action that can be consider corruption according to the Regulation Number 20/2001 on Corruption in every goods and public service procurement that is conducted by PLN. The actions are corruption, nepotism, gratification, mark up, rewards, conflict of interest and blackmailing, (2) it will perform the goods and services procurement based on the transparency and efficiency principles in using state assets, (3) it will perform the goods and services procurement by following the formal legal process and also prioritizing the efficiency principle. This research supports Xiaonian et al. (2000); Black et al. (2006) Brown and Caylor (2004), Jandik and Rennie (2005); Hamid, 2009; Colpan et al. (2007); El-Chaarani (2014); Switzer and Tang (2009); Zhou and Chen (2010); Ho and Wong (2001).

The influence of internal control towards the Malcom Baldrige performance through the Corporate Governance.

The influence of internal control towards the Malcom Baldrige performance through the Corporate Governance is about 0.2358, it indicates that the internal control influence towards the corporate governance and company performance is positive.

Internal control is an organization structure, methods and measurements that are coordinated to keep the organization wealth, check the precision and reliability accountancy data, promote efficiency and promote the implementation of management policy by developing a good internal control structure, effective the activity controlling and increase organization culture that can be done by implementing the GCG principles so that the company performance will also increase.

## 5. CONCLUSION

1. Internal control effect on company governance because the bigger internal control hence good corporate governance will also increase because the internal control system at PT PLN (Persero) overall is quite effective, and PT PLN (Persero) has already implemented five components of internal control expressed by Committee of Sponsoring Organization of Tread way Commission (COSO), namely environmental control, risk assessment, information and communication, the activity of control, and supervision. Besides, by applying PLN Bersih so that it can make PT PLN (Persero) becomes better and "clean" by implementing the four pillars that are, participation, integrity, transparency, and accountability.
2. Internal control has had a positive impact on the performance of Malcolm Baldrige, because PLN also applies e-procurement program that will bring the benefits for the company namely the standardization of procurement process, the realization of a better transparency and efficiency procurement, the availability of information on the special unit prices in the internal of PLN, and to support accountability procurement processes so it can improve the good performance measured by Malcolm Baldrige.
3. The corporate governance has a positive impact on Malcolm Baldrige, since the process of good governance is done through General Meeting Stakeholder (GMS/RPUS) so that the Board of Commissioners and Directors may increase the success of business and accountability of the company to have the value of the shareholder in the long term by staying to consider the interests of the other stakeholders, and so when the GCG held in a transparent, accountable, responsible, independent, and reasonable way, the company performance will increase.

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