

# CHAPTER I

## INTRODUCTION

### A. Background

In this era of global competition, in which national borders are no longer become boundaries of competition, only company that implement Good Corporate Governance (GCG) is able to win the competition. Corporate Governance is a certain process and structure used company structures to enhance the success of the business and the accountability of the company in order to form the values of the shareholder on a long term basis by permanently taking into account the interests of the other stakeholders, based on the legal regulations and ethical values. GCG has a set of rules that govern the relationship between the various interested parties (stakeholders), especially in the narrow sense of the relationship between shareholders, board of commissioners and directors for the achievement of company objectives. GCG regulates relation and prevents the occurrence of errors so that it can be corrected immediately (Wahyudin Zarkasyi, 2008).

In order to form robust and sustainable company, implementation of GCG is needed. Implementation of GCG encourages the creation of healthy competition and conducive business climate. Therefore, the implementation of GCG is very important to support the growth and sustainable economic stability in global companies, particularly in Indonesia. Implementation of GCG is also expected to support the government's efforts to uphold good governance. Currently, the Indonesian government is trying to implement good governance in government bureaucracy in order to create a clean and dignified nation (Binhadi *et al*, 2006).

In order to implement GCG, information flow between departments in the company must be maintained. Each department has to be supported by the information system so that each functional areas such as the accounting information systems, financial information systems, marketing, information systems, human resource information systems and information systems of production and operation. If every information system is developed independently, it is going to adduce in information silos (Rainer & Cegielski, 2011). Information silos of communication occur between the functional areas to be inefficient. Thus, an information system that can bridge the silos of this information is needed. The information system has to be able to integrate the functional areas of the company (Turban & Volonio, 2010).

There is software that integrates the planning, management, and use of all available resources within the company called Enterprise Resource Planning (ERP). The ERP system, first introduced by The Garter Group, Inc., is integrated management software developed to the American Production, Inventory and Control Society, Inc. (APICS) MRPII standards. ERP integrates optimal modern business processes of marketing, logistic, production, just-in-time, materials, total quality, finance, and human resource management. ERP comprises information, money, and logistic flow. Thus, ERP is an information processing system that includes all information in the enterprise. Thus, ERP is a great system to implement that function as "the backbone" for industrial and services companies. This system is designed to solve problems in information such as the term information silos in the company (Zhang Jidong & Wang Liyan, 2010).

Success or failure of ERP implementation must be measured from the benefits received by the company that is an improvement of company performance ((Nah, Fuihoon,

and Tan, 2007). According to research that has been done by Elragal and Al-Serafi in 2011, in general, many benefits in business performance were achieved after implementing the ERP as reported by the business users in Egyptian multinational company. In their research, implementation of ERP has some financial and operational benefits can be attained and measured; yet, there is deliberation for the exact effect of ERP on performance at the financial and operational level (Elragal & Al-Serafi, 2011).

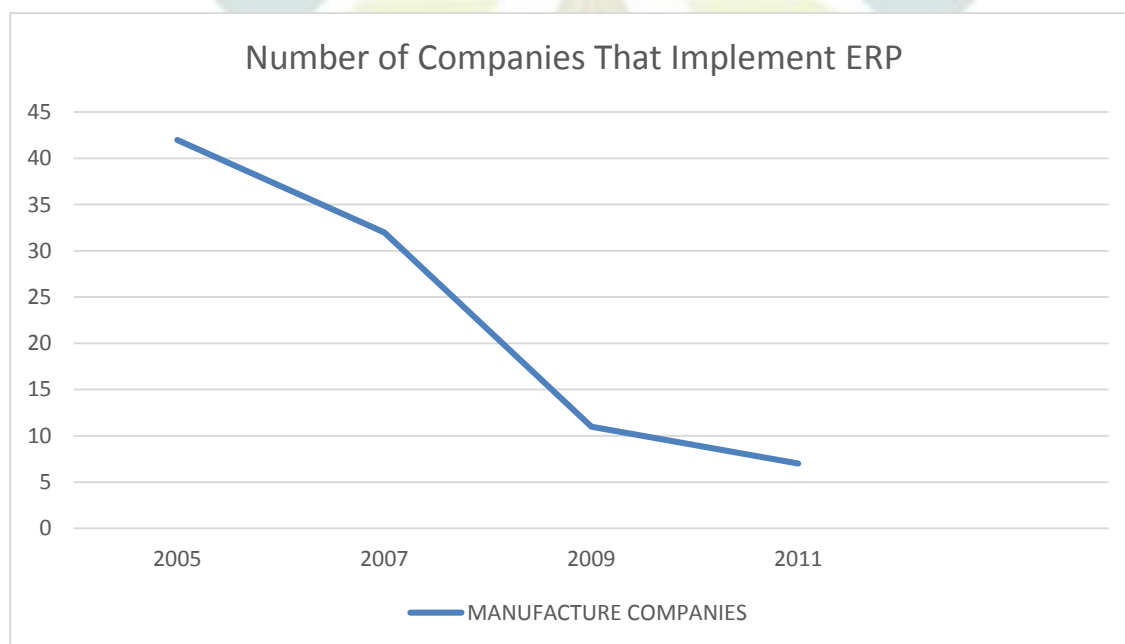
Hayes *et al* have done research about market reaction toward ERP implementation announcements. Their study showed indication of an overall positive reaction to initial ERP announcements. According to Hayyes *et al* research, capital markets provide additional value to the companies that implement ERP systems, as investors reacted positively to the announcement of the implementation of ERP. In addition, the capital market also reacted more positively to the implementation of ERP systems in the healthy small company. The capital markets also reacted negatively to the announcement of the implementation of ERP systems in small companies that are not healthy. For the announcement of the implementation of ERP systems in strong enterprises, healthy and unhealthy, the capital markets also showed positive reactions

Hunton *et al* in 2003 published their study about comparison between firm performance of ERP adopters and non-adopters. Their study found that firm performance was significantly lower for non-adopters than adopters. Their study also consistent with Hayyes *et al* that potential ERP adopters should be aware of performance improvement limitations that may result from a combination of size and health.

Not all of research found that ERP implementation successfully increase company performance, Gupta *et al* (2004) found failure of ERP implementation mostly because of

early ERP adoptions which did not have strong business justifications. Investing in ERP systems without any objective other than following the market or industry trend might also cause an ERP project to fail (Kang et al., 2008). Without a team attitude and total backing by everyone involved; especially those who have worked or will work closely with the ERP system, an ERP implementation will fail (Barker & Frolic, 2003).

The implementation of ERP in Indonesia has been done by various companies such as manufacturing, following is growth charts of companies listed on Indonesia Stock



Exchange (IDX) that implement ERP system:

*Source: Doni Eko Prasetyo, 2010 (organized by Author)*

Implementation of ERP in Indonesian enterprises has an expectation to increase speed of business processing, efficiency, and get higher income. There are a lot of companies in Indonesia that have invested in information technology around 1~2 % from their income, and most of the investment could not return (Warta Ekonomi, 2002).

According to Warta Ekonomi research on 2002, there were around 54.2 % of companies that became respondents have implemented various application or e-business solution including ERP. Although, a lot of companies in Indonesia implement ERP, the effect toward GCG implementation is not much known. Theoretically, implementation of ERP and adherence to COSO have a close relation to support GCG implementation (Julisar *et al*, 2015).

From those data, we knew the number of companies in various sectors that implement ERP system, in this study we only take a sample of companies listed on the Indonesia Stock Exchange (IDX), which implement the ERP system and use the GCG standard. To find out how much influence of the ERP implementation, it requires a long-term study at least three years before and after the implementation of the ERP system, so that we can find evidence whether there is a significant difference or not on their company's financial performance before and after the implementation of ERP systems. Here's a list of companies that became our samples;

No	Company's name	Company's code
1	Astra Graphia Tbk.	ASGR
2	Gajah Tunggal Tbk.	GJTL
3	Inducement Tunggal Prakarsa Tbk.	INTP
4	Lautan Luas Tbk.	LTLS
5	Medco Energy Internasional Tbk.	MEDC
6	Prima Alloy Steel Universal Tbk.	PRAS
7	Tigaraksa Satria Tbk.	TGKA
8	PT. Timah Tbk.	TINS

9	PT. Telekomunikasi Indonesia Tbk.	TLKM
10	PT. Surya Toto Indonesia	TOTO
11	PT. Voksel Electric Tbk.	VOSK

*Source : organized by Author*

PT. Indocement is one of the manufacturing companies listed on the Stock Exchange, Indocement's view is that the implementation of Good Corporate Governance (GCG) is an integral part of business practices to maintain the continuity of the Company's business in the long term and maximize the value of the company. The implementation of GCG in Indocement is based on the 2007 Limited Liability Company Law No. 40, the 1995 Capital Market Law No.8, the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) regulations, Indonesia Stock Exchange (IDX) regulations, the Company's articles of association, GCG best practices as well as other related regulations.

Indocement conducts self-assessment of GCG implementation in the Company based on the fulfillment of the five principles of GCG. The Corporate Secretary utilizes the checklists of Asean CG Scorecard in carrying out this self- assessment. The result of Indocement's GCG 2015 assessment showed for the implementation of GCG using the Asean CG Scorecard increased from 77.0% in 2014 to 79.0%. This increase was largely due to the Company's policies and improved practices of GCG principles. The following table shows Indocement's GCG assessment results for the past three years (2013-2015):

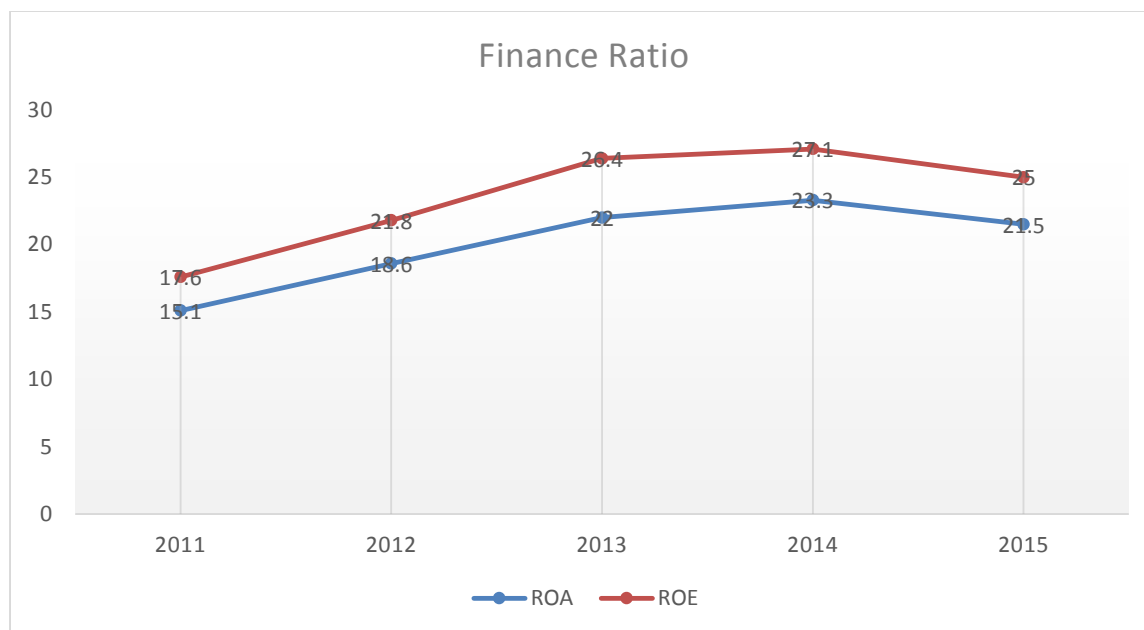


## Indocement's GCG Assesment Result in 2013-2015

	2013 (%)	2014 (%)	2015 (%)
Price Waterhouse Cooper	91,40	92,36	Unavailable
ASEAN CG Scorecard	56,0	77,0	79,0

*Source : [www.indocement.co.id](http://www.indocement.co.id)*

The Internal Control System (ICS) runs throughout the organization and includes the Board of Directors and all levels of the Company management in which ICS provide direction, guidance and supervision. The Audit Committee and Internal Audit monitor its implementation. The Company evaluates the effectiveness of the implementation of ICS on an ongoing basis. ICS has been implemented throughout Enterprise Resource Planning (ERP)/e-Workflow systems. All stages, including manufacturing, sales and distribution, procurement of goods and services, material inventory, human resources, finance and accounting and general administration have in-built ICS modules. Indocement is committed to ensuring that all decisions are strategic actions that can be accounted for in a measurable manner. Duties, and authority of units in the Company's organization, as well as their accountability, have been clearly stipulated in the job profile of respective units and are set out in specific standard operating procedures or enterprise resource planning (ERP), following is a summary of financial performance ratio for 5 years;



Source : [www.Inducement.co.id](http://www.Inducement.co.id) ( organized by Author)

Accordingly, the author interested doing research of how the ERP implementation can influence GCG through financial performance analysis in Indonesian companies. For research data author only took the data from IDX. IDX was chosen because data are easily obtained in IDX. In addition, data from the financial statements of companies listed on IDX provided disclosure of certain information required in this study

From the explanation of background and several literatures that has been described, author is interested in doing research within the title “**Analysis of Enterprise Resource Planning Implementation Toward Financial Performance as Parameters Good Corporate Governance’s Accountable Principle in Manufacture Companies listed on Indonesia Stock Exchange (IDX)**”



## **B. Problems Identification**

Based on the background that has been described above, this research only comprehended company that listed on IDX within observation period from 2005 until 2015. This research examined effect of before and after ERP implementation toward financial performances that measured by return on asset (ROA), return on equity (ROE), net profit margin (NPM), and gross profit margin (*GPM*). In this research, ROA, ROE, NPM and *GPM* become benchmarks of GCG criterions.

## **C. Limitations**

GCG is a standard for a corporation or company for running the daily operations by regulating relation and preventing the occurrence of errors to improve the success of the business. There are five principles of GCG that can be used as guidelines for a company, namely Transparency, Accountability, Responsibility, Independency and Fairness. In order to make this research more targeted, focused, and not widespread; the authors limited this research on one of the pillars of the GCG *i.e.* Accountability principle.

In a simple definition, the principle of accountability is clarity of function, structure, system and accountability elements of the company. When this principle is applied effectively, then there will be clarity on functions, rights, duties and powers and responsibilities between shareholders, board of commissioners and directors. In realizing this principle, a company is required to provide enough information, accurate, timely to all its stakeholders. The information contains, among others, financial condition, financial performance, ownership and management of the company. Audit is conducted based on

information independently. Openness is implemented so that shareholders and the others can know the state of the company that shareholder value can be increased.

The Accountability principle can be measured through the financial performance which is calculated through financial ratios, *i.e.* Return on Asset (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and the Gross Profit Margin (GPM)

#### **D. Research Questions**

From the background and problem identification that has been described, there are several questions in this research. The question can be seen as follows:

1. Is there any difference ROA before and after the companies implemented ERP system?
2. Is there any difference ROE before and after the companies implemented ERP system?
3. Is there any difference NPM before and after the companies implemented ERP system?
4. Is there any difference GPM before and after the companies implemented ERP system?

#### **E. Research Purposes**

Based on the background, problem identification, and research question, there are several purposes as follows:

1. To know how much improved financial performance (ROA) after the implementation of the ERP system and implementation of GCG simultaneously to the values of the company.
2. To know how much improved financial performance (ROE) after the implementation of the ERP system and implementation of GCG simultaneously to the values of the company
3. To know how much improved financial performance (NPM) after the implementation of the ERP system and implementation of GCG simultaneously to the values of the company
4. To know how much improved financial performance (GPM) after the implementation of the ERP system and implementation of GCG simultaneously to the values of the company

## **F. Research Benefits**

### 1. Practical Benefits

#### a. For Institution

As additional asset especially for candidates of education developer and practitioner sin management major and generally for the other related major

#### b. For Enterprises

As a suggestion and consideration for the Company to improve employee performance better and share experiences that may be implemented by other companies

### 2. Theoretical Benefits

#### a. For Researcher

To sharpen intellectuality of researchers and implement knowledge that is gained in college in order to fulfill requirements for graduate from bachelor degree

## **G. Frameworks**

Corporate governance or governance is a term used in the formulation of corporate governance. Basically, governance in the company are the rules, principles or practices that define the direction of the company. GCG could be defined as one of the pillars of the system of market economy. It is closely related to trust companies that execute them or to the business climate in the country.

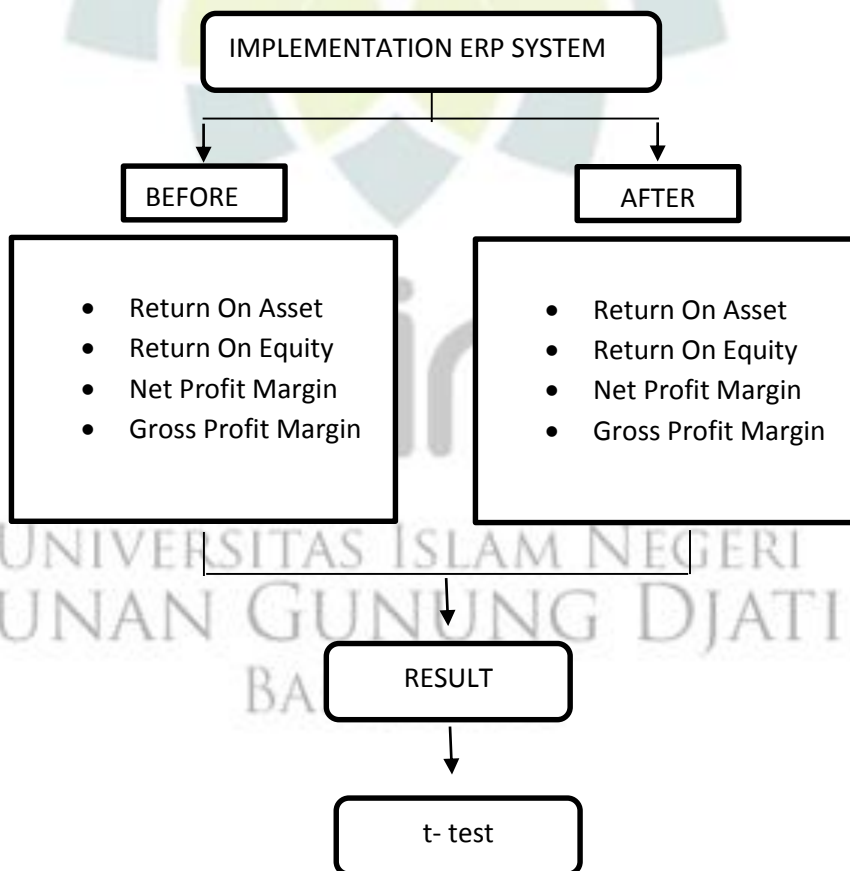
Information flow between functional areas in the company must be maintained in order to implement GCG. Every functional area has to be supported by the information system so that each functional areas such as the accounting information systems, financial information systems, marketing, information systems, human resource information systems and information systems of production and operation. If every information system is developed independently, it is going to adduce in information silos. Information silos of communication occur between the functional areas to be inefficient. Therefore, an information system that can handle the silos of this information is required.

ERP is software that can bridge the silos of the information. ERP can integrate the planning, management, and use of all available resources within the company. ERP helps not only to establish a complete, accurate, and timely information flow system but also to produce much standard information for inside and outside stakeholders, making the management and stakeholder levels more transparent. At the same time, ERP

implementation provides an accurate and timely guarantee of information that enterprises disclose.

In this study, the author is going to select four independent variables to represent the quality of corporate governance: ROA, ROE, NPM, and GPM, which are parameters of financial performances. For dependent variable, the author used ERP, which means that if the company implements ERP, the value of the variable is zero, otherwise it is 1. The diagram of the framework of this research can be seen in Figure 1.1.

**Figure 1.1**  
**Framework Diagram**



*Source : processed by researcher*

## H. Previous Research

Previous research is a collection of the results of research that has been conducted by researchers - researchers History and has a link with the research to be conducted. The results of studies related to the effect of transformational leadership and transactional leadership style on job satisfaction.

**Table 1.1**

**Previous Research**

NO	Researcher	Research Title	Variable	Analysis Results
1	Julisar <i>et al</i> (2015)	Is there a correlation between erp Implementation, adherence to COSO and GCG Implementation?	ERP, COSO, GCG	Descriptive Analysis showed erp implementation has correlation with adherence to COSO and GCG implementation. ERP implementation required control. Control is done by COSO. By implementing ERP, GCG can be enhanced. It is closely related to trust companies that execute them or to the business climate in the Country
NO	Researcher	Research Title	Variable	Analysis Results
2	Zhang Jidong (2010)	ERP Implementation: a Corporate Governance Perspective	Independent variables: Percentage of independent directors, concentration of ownership, ownership  Control variables: Corporate size,	Companies with poor corporate governance capability are more willing to implement ERP; companies with better corporate governance capability are less motivated to implement ERP. ERP system implementation and corporate governance have a positive relationship



			year, ROA  Dependent variable : ERP	
<b>NO</b>	<b>Resercher</b>	<b>Research Title</b>	<b>Analysis Method</b>	<b>Analysis Results</b>
3	Sphatis and Constantinides (2003)	The usefulness of ERP systems for effective management	ERP benefits, ERP modules adopted, reasons for ERP implementations, cost of ERP systems and company asset	ERP systems have fulfilled individuals' expectations but not that strongly. In specific, increased flexibility in information generation, improved quality of reports, integration of applications and, easy maintenance of databases appear the major benefits derived from ERP systems. Further, this suggests that ERP systems are now becoming a necessary tool for companies to remain competitive in this demanding business environment rather than constituting a novel strategic move.
4	Hayes <i>et al</i> (2001)	Market Reaction to ERP Implementation Announcements	Control variables: Cumulative abnormal return, total assets, net sales, market value, z-score  Independent variables: Firm size, firm health  Dependent variable: standardized cumulative abnormal status	Capital markets provide additional value to the companies that implement ERP systems, as investors reacted positively to the announcement of the implementation of ERP. In addition, the capital market also reacted more positively to the implementation of ERP systems in the healthy small company. The capital markets also reacted negatively to the announcement of the implementation of ERP systems in small companies that are not healthy. For the announcement of the implementation of ERP systems in strong enterprises, healthy and unhealthy, the capital markets also showed positive reactions



5	Hunton <i>et al</i> (2003)	Enterprise Resources Planning System: Comparing Firm Performance of Adopters and Non-Adopters	<p>Independent variables: ROA, ROS, ATO, ROI, size, health</p> <p>Dependent variables: ERP adopters/non-adopter</p>	firm performance was significantly lower for non-adopters than adopters. Their study showed that potential ERP adopters should be aware of performance improvement limitations that may result from a combination of size and health.
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## I. Hypothesis

Hypothesis is something that is considered true for any reason or explication of opinion, even though the truth has not been substantiated. According Sugiyono (2014: 70) hypothesis is a temporary answer to the formulation of research problems, formulation of research problems which have been expressed in the form of a question sentence. Is said to be temporary, because new answers given are based on relevant theory, not based on empirical facts obtained through data collection. So the hypothesis can also be expressed as a theoretical answer to the formula research problem, yet empirical answer.. Based on the background, framework, identification of the problem that has been described, the hypothesis suggested in this study are as follows:

### 1. Hypothesis 1

H<sub>a1</sub> : There is significant differences on ROA before and after the companies implemented ERP system

### 2. Hypothesis 2

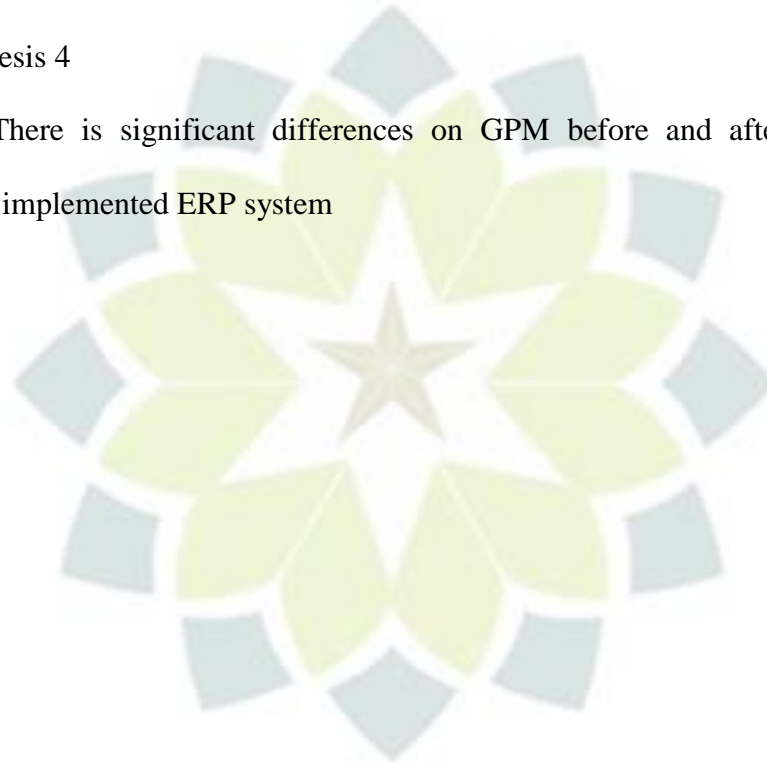
H<sub>a2</sub> : There is significant differences on ROE before and after the companies implemented ERP system

3. Hypothesis 3

$H_{a3}$  : There is significant differences on NPM before and after the companies implemented ERP system

4. Hypothesis 4

$H_{a4}$  : There is significant differences on GPM before and after the companies implemented ERP system



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