

# THE EFFECT OF CULTURE IN COMPREHENSIVE MANAGEMENT CONTROL SYSTEMS AND GOOD CORPORATE GOVERNANCE IN INDONESIA

**Anton Arisman**

Universitas Multi Data Palembang, Indonesia

**Email Correspondence:** ariman@mdp.ac.id

## ABSTRACT

*This study aimed to investigate the effect of moderating in relation of organisational culture, Comprehensive management control system and corporate governance in Indonesia. The respondents were 758 companies listed in the Indonesia Stock Exchange. Collecting data using sampling method of 188 respondents returned a complete used in data analysis. Analysis of data using Structural Equation Model (SEM) with the help of WarpPLS 3.0. The theory used in this research is the organizational culture concept by ([Hofstede 1980](#)) The results show that the moderating effect of the relation comprehensive management control system and good corporate governance in Indonesia is significant and indicates as a Homologiser Moderator.*

**KEYWORDS:** Organizational Culture, Comprehensive Management Control System, Good Corporate Governance



## Introduction

The occurrence of financial crises and global crises that often hit in the 21st century now, is indicated by some economic experts because of the poor implementation of corporate governance, both in the public sector and the government sector, including. Meanwhile, some parties who demand the importance of increasing competitiveness in facing the global market accompanied by accountability, transparency and bureaucratic reform in all sectors, have given their own color to the development of accounting in Indonesia. On the other hand, the development of modern accounting leads to the use of technological advances and the creation of a good and reliable accounting information system.

Throughout the history of accounting in the world, the development of accounting science has been greatly influenced by many factors, including cultural, economic, social, political, legal, anthropological, sociological, etc. factors. The development of accounting in Country 'X' will be very different from accounting in Country 'Y.' And cultural factors greatly influence the character of the individual who designs, uses and has an interest in the accounting system. Many in the literature found arguments that accounting is strongly influenced by culture (Violet 1983) and the lack of consensus in accounting practices between countries because its purpose is cultural not a technical problem (Hofstede 1986). Arguments like this have led to an unwritten agreement that cultural factors are very influential in choosing accounting techniques in a particular country.

The discussion of national culture and organizational culture is very broad, so in this study I limit it to organizational culture which leads to the preparation of financial reports and the implementation of GCG. Culture is used as a moderating factor. This study reconstructs the results of research conducted by Zaitul (2005) by including additional GCG factors in it, which gives its own color both in terms of ontology studies and in terms of dimensionalization. A variety of additional literature is used from various previous qualitative studies, specifically referring to the two main studies of Hofstede's (1980), Gray (1988), Harrison and McKinnon (1986), and (Doupnik 1995)

### Culture Concept

Culture is a value and attitude that is used and believed by a society or country. Cultural variables are depicted in the institutions of the State concerned (in the legal system etc.). Hofstede (1980; 1983) examines cultural dimensions in 39 countries. He defines culture as "The collective programming of the mind which distinguishes the members of one human group from another" (Hofstede 1983) and divides the cultural dimension into four. The four cultural dimensions identify basic values that try to explain the similarities and differences of cultures in general around the world. The four dimensions of the culture are explained as follows; Individualism (as opposed to collectivism). Individualism reflects on the extent to which individuals expect personal freedom. This is countered by collectivism (group) which is defined as accepting responsibility from the family, community group (tribe etc.).

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Koentjaraningrat (1972), that the socio-cultural values of Indonesian society consist of; Pay less attention to quality, Lack of discipline, Reluctant to take responsibility, Not straightforward, Like shortcuts and "latah". Meanwhile, according to Frans Magnis Suseno, (1983) revealed that Indonesia's prominent cultural values are Absolute Power, Feudal, Paternalistic, Hierarchical, Harmony, Status Orientation, Egoistic. And according to Mochtar Lubis (2001), that Indonesian people are characterized by; Hypocrite aka hypocritical, Reluctant to take responsibility, Feudal, Superstitious, Artistic, Weak Karsa, Envy, and Ngrasani (grumbling, but not openly).

### **Comprehensive management control system**

Comprehensive management control system are forms, records, procedures, and tools used to process data on the undertakings of an economic entity with the aim of generating feedback in the form of reports required by management to supervise its business, and for other interested parties such as shareholders, creditors, and government agencies to assess the results of operations. (Haward F, Slettler 1971). A comprehensive management control system comes from a system that means a collection of elements that are interrelated to achieve a certain goal, and accounting which means a service activity that provides quantitative information, especially financially related, about economic unity with the intention of being useful for making economic decisions.

A comprehensive management control system is very necessary for accounting users, namely external parties (external) company organizations and internal parties (internal) company organizations. The needs of external users can be met by the publication of profit/ loss statements. Meanwhile, internal users can meet their accounting information needs to achieve the maximum possible economic value (profit) of the company. The purpose of holding a good accounting system is

1. To support the day-to-day operations.
2. Support management decision making (to support decision making by internal decision makers).
3. To fulfill obligations relating to stewardship.

Supporting factors for the implementation of a good comprehensive management control system are strongly influenced by the initial design of the system, human resources supporting the system / operator, system network, and internal control. In practice, internal control is decisive, because it concerns; Environmental Control, Risk Assessment, Utilization of Information and Communication, Control Activities, and Monitoring. All of them concern the readiness of the culture and its human character. The better the company's organizational culture, the tighter the internal control, so that the risks that bring adverse effects are more controlled.

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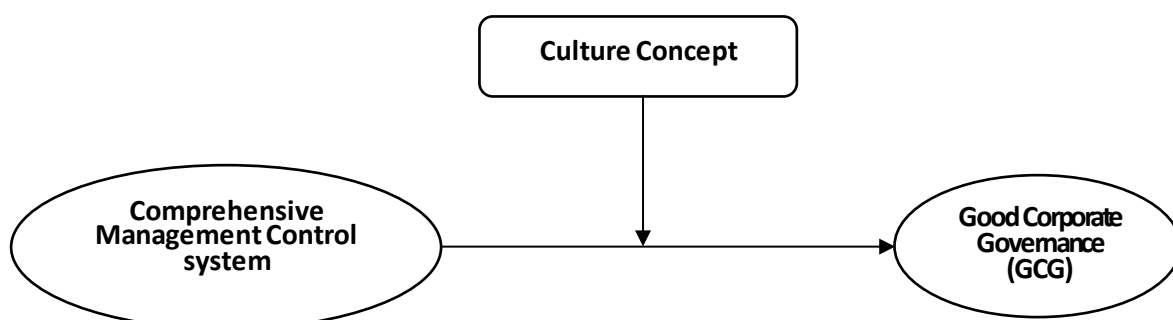
Gray (1988) identified four accounting cultures that could be used to define accounting sub-cultures: Professionalism, Uniformity, Conservatism, and Secrecy. Accounting itself one of its principles adheres to conservatism, which is a part of basic human nature that tends to avoid risks.

### **Good Corporate Governance (Gcg).**

Corporate Governance is a way to ensure that management acts in the best interests of stakeholders. The implementation of Good Corporate Governance demands strong protection of the rights of shareholders, especially minority shareholders. The principles or guidelines for the implementation of Corporate Governance indicate the existence of such protections. Good Corporate Governance is definitively a system that regulates and controls the company to create value added for all stakeholders. There are two things that are emphasized in this concept, first, the importance of the right of shareholders to obtain information correctly (accurately) and on time and, secondly, the obligation of the company to make disclosures accurately, timely, and transparently to all information on the company's performance, ownership, and stakeholders.

In the context of growing awareness of the importance of Corporate Governance, the Organization for Economic Corporation and Development (OCED) has developed a set of principles of Good Corporate Governance and can be applied flexibly according to the circumstances, culture and traditions of each country. These principles are expected to be a reference point for regulators (governments) in building a framework for the implementation of Corporate Governance. For business actors and the capital market, these principles can be a guide in collaborating best practices for increasing the value (valuation) and sustainability of the company.

The principles of the OCED concern five main areas: the rights of shareholders and their protection; the role of employees and other interested parties (stakeholders); accurate and timely disclosure and transparency with respect to the structure and operations of the corporation; the responsibility of the board (Board of Commissioners and Directors) to the company, shareholders, and other interested parties. Or in summary, these principles can be summarized as: equitable treatment (fairness), transparency, accountability and responsibility.



## Method

This research was conducted by survey method. The research instrument used is a questionnaire. This research questionnaire is entirely adopted from previous research that has been used to conduct surveys of companies listed on the Indonesia Stock Exchange in the last 3 years. Previous studies reported that all questionnaires used had good validity and reliability. In this study, efforts were made to anticipate the weaknesses inherent in the survey research. There are two weaknesses of concern, namely the possibility of biased respondents and the low level of questionnaire development.

To overcome these two weaknesses, the questionnaire is sent via the Company's active email by providing a link that leads to an online questionnaire page (google.form) that has been provided

### Measurement of Variable

	Source	Indicator	Type
<b>Culture Concept</b>	Jean-Francois Henri (2006)	<ul style="list-style-type: none"> <li>• Morale empowerment</li> <li>• Commitment of employees.</li> <li>• Vertical interaction,</li> <li>• Hierarchical communication</li> </ul>	Ordinal
<b>Comprehensive management control system</b>	Sujoko Efferin, Trevor Hopper (2007)	<ul style="list-style-type: none"> <li>• Monitoring</li> <li>• Attention Focusing</li> <li>• Strategic Decision Making</li> <li>• Legitimization</li> </ul>	Ordinal
<b>Good corporate governance (GCG).</b>	Bhagat, S. and Black, B. (2002)  (Klein, 2002	<ul style="list-style-type: none"> <li>• Independent directors</li> <li>• Independence of committees</li> <li>• Board size</li> <li>• Split chairman/ceo roles</li> <li>• Board meetings</li> <li>• Competence of audit committee members</li> <li>• Audit committee meetings</li> </ul>	Ordinal

## Result

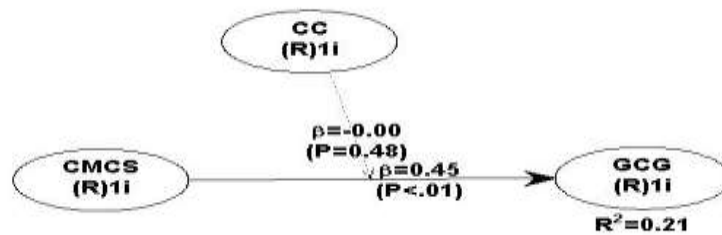
On the basis of inferential statistical data analysis conducted using WarpPLS, hypotheses can be tested and the results of statistical tests are presented as follows. A summary of the estimated coefficients of the WarpPLS output is as presented in table.

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**Tabel 1** Estimating Coefficient Equation

Equation	Koeffisien	Signifikansi	Conclusion
<b>Model utama</b>			
CMCS → GCG	0,453	<0,001	Diterima
CC* CMCS → GCG	-0,004	0,48	Ditolak

Source: Output WarpPLS (2022)



The test results show that:

- H1 which states that the comprehensive management control system has a positive effect on good corporate governance, is proven to be accepted. This is in accordance with the structural equation model, where the estimated value of the coefficient of the Comprehensive Management Control System variable produced is 0.453 with a significance level of  $<0.001$ , which means that it is below the acceptance level of significance of 0.05. This finding is in line with the theory which states that a comprehensive management control system cannot be separated from the users of the system and its users. The existence of a comprehensive management control system is inseparable from the human factor. No matter how well the system is designed and applied to facilitate organizational performance, if it is not supported by human readiness, the system will never run properly. In this world, there is no single system in organizational governance that is suitable and in accordance with one another, including a comprehensive management control system, so that is where the competitive advantage and uniqueness of the system itself is created. In the end, it all depends on the human itself, in this case, humans are very closely related to the culture they have. This finding is also consistent with several previous studies that support the Power distance theory. Defined as the power distance between Boss B and Subordinate S in the organizational hierarchy is the difference between the extent to which B can determine the behavior of S and vice versa (Hofstede 1983). In a society with a large power distance, there is recognition of levels in society and does not require equal levels. Meanwhile, in people with small power distances, they do not recognize differences and require equal levels in society.
- H2 which states that Culture moderates the relationship between the comprehensive management control system and good corporate governance, is not proven to be accepted. This is in accordance with the structural equation model, where the estimated value of the cultural variable coefficient is -0.004 with a significance level of 0.48, which means that it is above the acceptance level of significance of 0.05. Based on the results of data

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processing, this hypothesis is not proven to be supported empirically. The support for this hypothesis is not proven because the level of significance (p) is not in line with expectations. However, partial results using Residual Test (Ghozali 2018) to test whether culture moderates the relationship between Comprehensive Management Control System and Good corporate governance show different results. The negative and significant results indicate that culture does moderate the relationship between the comprehensive management control system and good corporate governance.

## Discussion

**Tabel 2 Hasil Uji Residual**

Coefficients <sup>a</sup>		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
M		B	Std. Error	Beta		
1	(Constant)	14.776	1.223		11.158	.000
	CC	-.558	.025	.247	-4.271	.000

a. Dependent Variable: Abscgc\_TS

Sumber: Output SPSS (2022)

This finding is in line with the theory of organizational culture, According to Rousseau (1990), it is not the definitions of culture that vary so widely among organizational researchers, but its operationalization

## Conclusion

The findings in this field illustrate that if the business unit tends to have a results-oriented, work, professional culture, open system, strict and pragmatic control, then the use of attributes (control tools) and feedback system mechanisms does not depend on the corporate culture, but rather depends on the company culture. determined by other factors, because the corporate culture itself is considered a control mechanism. This can happen because of the tendency of respondents' answers in this study to show that there are significant differences in corporate culture in business groups. However, overall respondents consider that the corporate culture where they work tends to be dimensioned in (1) results which are characterized by maximum effort in achieving goals and the courage to face challenges. various risks, (2) jobs characterized by important decisions made more often by individuals (centered on superiors), (3) professionals characterized by an emphasis on planning for the future and emphasizing competence in work, (4) openness which is characterized with openness in communication to outsiders, (5) tight control which is characterized by timeliness and efficiency and (6) pragmatic which is characterized by an emphasis on results rather than procedures.

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