Internal Control, Good Cooperative Governance And Performance

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Abstract: This study aims to examine the influence of internal control and good cooperative governance partially and simultaneously to the performance of cooperatives in West Java Province. The research method used in this research is descriptive and verification. The sample in this research is 22 boards as manager of cooperative in West Java Province. The data used in the research is the primary data through questionnaire collection. Validity and reliability testing is performed before hypothesis testing. This research uses multiple regression analysis technique. Based on hypothesis testing obtained: 1) internal control has no significant effect on performance; 2) good cooperative governance has a significant effect on performance; and 3) internal control and good cooperative governance have a significant effect on performance.

Index Terms: Internal Control, Good Cooperative Governance, Performance

1 Introduction

Cooperative is one of the alternative management of business model that can be developed in Indonesia. In its current development increasingly shows its existence in advancing the populist economy. According to the Minister of Cooperatives and Small and Medium Enterprises, the total contribution of cooperatives and members of cooperatives to the national gross domestic product (GDP) reaches 23.21%. Contribution of 23.21% is a considerable number, not only for the size of Indonesian cooperatives, but also the size of the cooperative world. Furthermore, Djohan (2017) compares with the co-operatives of developed countries included in the ICA 300 Global List: Finland (21.1%), New Zealand (17.5%), Switzerland (16.4%) and Sweden (13.5%). Currently with a total of 209,488 cooperative units and 36,443,953 members, the largest cooperative in the world, coupled with the cooperative contribution to GDP of 23.21% is a fantastic achievement. (Djohan, 2017) This achievement certainly shows the performance of cooperatives getting better. Performance can be achieved through internal control and good governance. The implementation of corporate governance is a controlling mechanism for managing a business with a view to improving corporate prosperity and accountability, whose ultimate goal is to realize shareholder value. Pitman (2005) argues that successful cooperatives are generally cooperatives that implement good cooperative governance.

Based on the phenomenon, the research question are:

a. Whether internal control and good cooperative governance partially affect performance.
b. Whether internal control and good cooperative governance simultaneously affect performance.

2 Literature Review

2.1 Internal Control

Internal control or internal accounting control are terms that are used frequently, although a surprising number of business managers may not be able to define them easily. Internal controls are necessary for all well-managed and well-functioning business processes and systems. (Moeller, 2004).

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Internal control comprises the plan of organization and all of the coordination methods adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. This definition recognizes that a system of internal control extends beyond those matters which relate directly to the functions of the accounting and financial departments. (Moeller, 2004) Konrath (2002) defined internal control as the process effected by an entity's board of directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Operating controls-relating to the effective and efficient use of the entity's resources;
- Financial reporting controls-relating to the preparation of reliable published financial statements; and
- Compliance controls-relating to the entity's compliance with applicable laws and regulations.

There are five internal control components according to the Committee of Sponsoring Organization (COSO, 1992), namely:

- Control Environment. Is a condition that reflects the attitude, awareness, and actions of management of internal control. The control environment becomes the basis of all internal control components.
- Risk Assessment. Is an activity of identification and analysis of risks that potentially hinder the achievement of corporate objectives. The results of this identification and analysis will be used as a basis for controlling those risks.
- Control Activities. Are policies and procedures has been implemented by management.
- Information and communication. Is a system that supports the process of identification, recording, dissemination, and the use of information in a timely manner in order to support the implementation of the duties and responsibilities of management and employees.
- Monitoring. Is a process of monitoring the quality of internal controls performed from time to time.

2.2 Good Cooperative Governance

The term Good Corporate Governance (GCG) was first introduced by Cadbury Committee in 1992, known as Cadbury Report which defines GCG as the system by which organization are directed and controlled or a set of rule that define the relationship between shareholders, managers, creditors, the government, employee, and other internal and external stakeholders in respect to their rights and responsibilities. (Arafat, 2008) The Organization for Economic Cooperation and Development (OECD) (2004) defines corporate governance as follows: "Corporate governance is the systems by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, the managers, shareholders and other stakeholder, and the spells out the rules and procedure for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance." Good corporate governance is determined by a number of factors: effective codes of governance that lead to transparent reporting; effective board governance and process; effective independent directors; informed business decisions; a culture of risk management embedded in the organization as a whole; and shareholders actively interested in ensuring that good corporate governance is practiced. (Wallace and Zinkin, 2005) To achieve long-term success, GCG implementation needs to be based on high integrity. Therefore, we need a code of conduct that can be a reference for corporate organs and all employees in applying the values and business ethics so that it becomes part of the corporate culture. (KNKG, 2006) Every company should ensure that GCG principles are applied to every aspect of the business and across all levels of the company. GCG Principles of transparency, accountability, responsibility, independence, and fairness and equity are needed to achieve sustainability of the company with regard to stakeholders. (KNKG, 2006)**.** According to the World Council of Credit Unions, Inc. (2005), there are three elements in good cooperative governance, namely:

- External governance, consisting of transparency, compliance, and public accountability.
- Internal governance, consisting of structure, sustainability, balance, and accountability.
- Individual governance, consisting of integrity, competence, and commitment.

External governance of the cooperative management must have a commitment to provide information of its activities to members, regulators, and the public with a spirit of openness, financial statements made in accordance with generally acceptable accounting principles. The Board is obliged to comply with prevailing laws and regulations. (Munaldus et al., 2014). In internal governance, the World Council recommends an odd number of board compositions of between 5 and 9 people. The existence of rotation in the stewardship and sustainability functions, providing benefits for members in the balance of saving and borrowing. (WOCCU, 2005). Furthermore, in individual governance, the board or manager must have integrity that has no criminal background, or related legal cases, no relationship until the third degree in the board or in management or between management and management. The board must have the business and financial skills that are based on the interests of members, administrators willing and able to provide time for cooperatives. (Munaldus et al., 2014).

2.3 Performance

Understanding performance actually comes from the job performance is also called the actual performance, work performance, or achievement actually achieved by an employee. Performance (Moeheriono, 2009) is a description of the level of achievement of the implementation of an activity/program/policy in realizing the objectives, goals, mission, and vision of the organization contained in the strategic planning of an organization. Performance is the end result of activities with certain measurements selected to assess the performance of organizational units in achieving organizational goals (Wheelen and Hunger, 2010) Robbins in Moeheriono (2009) states that performance is an interaction function between Ability (A), Motivation (M), and Opportunity (O), so Performance = f (A x M x O) function of ability, motivation, and opportunity. According to the Lawyer model, individual performance can essentially be influenced by factors: a) expectations of rewards; b) encouragement; c) ability; d) needs and traits; e) perceptions of the task; f) internal and external rewards; and g) perceptions of the level of rewards and job satisfaction. Performance refers to something related to the activity of doing the work, in this case includes the results achieved work (Otley, 1999) in Anggarini and Puranto (2010). Performance is a construct that is multidimensional, the measurement also varies depending on the complexity of the factors that make up the performance. Performance is a description of the level of achievement of the implementation of an activity/program/policy in realizing the goals, mission, and vision of the organization contained in the strategic planning of an organization. Performance can be known only if the individual or group of individuals have predetermined success criteria (Anggarini and Puranto, 2010). This success criterion of goals or targets to be achieved. (Mahsun, 2006) According to the Association of Asian Confederation Of Credit Unions (AACCU, 2009) the performance evaluation of the board includes the following:

- Decision function. Includes how a good understanding of the intentions and objectives of the credit union (CU), the contribution to CU progress, does not intervene to management beyond its prudence, is critical, anticipates future issues, and appreciates the decisions made and The impact.
- Advisory functions. Can differentiate responsibilities between the board and management responsibilities, in carrying out the advisory functions of the board understands that it is the management prerogative right to accept or modify the advice received from the board.
- Guardian function. Having an understanding of the rules and legislation, having a good understanding of financial statements, having a good understanding of assessing financial indicators, providing sufficient time to undertake a board role, understanding to analyze financial statements, separating personal interests from responsibilities as managers, and willing to sacrifice time.
- Sustainability function. When the meetings participate in providing appropriate inquiries and providing constructive views, respecting opinions, attending meetings and coming on time, supporting all decisions, good communication, and participating in regional activities.
- Symbolic function. Contributing to increasing trust in society and setting an example, supporting CU business, and keeping CU secret.

3 THEORETICAL FRAMEWORK

As Agrawal and Knoeber (1996), stated that the design and implementation of Internal Control is an effort to improve business performance. Walsh and Seward (1990) disclose, the performance of the company depends on the efficiency of internal control mechanisms and corporate extern. Root (1998) explains that controls include an integrated collection of policies, procedures, planning processes, strategy formulations, functions, systems, initiatives, activities, and other actions undertaken by management to achieve business objectives that are represented in performance improvement. Ittner (1998) states, the selection of performance measures will largely determine whether a control system can be applied to monitoring and controlling corporate strategic planning. Pratolo (2007) internal control directly affects partially on company performance. Prasetyo and Nurul (2007) internal control has positive but not significant effect on performance. Dineshkumar et al. (2013) study showed there is a strong relationship between internal control system and organizational performance of the Sri Lanka Telecom limited. And also internal control of the Sri Lanka Telecom limited will lead to high organizational performance in the future. Supriadi et al. (2014) The internal control system has a significant positive effect on performance. Azlina and Amelia (2015) stated that Internal Control has a positive and significant effect on government performance. Kinyua et al. (2015) there was significant association between internal control environment and financial performance recommends that internal control environment should be enhanced to further improve the financial performance of companies quoted in Nairobi Securities Exchange. Triadi and Suputra (2016) internal control have positive and significant influence to managerial performance. Rismawan and Amilin (2016) the implementation of internal control significantly influence the performance. Oppong et al. (2016) Internal control systems significantly enhances the performance of the faith-based NGOs, in two aspect; economy and efficiency but does not necessarily make the them effective. However Prasetyo and Nurul (2007) stated that internal control has positive but not significant effect on performance. Black et al. (2006) proves corporate governance is an important factor in running the company's performance. Brown and Caylor (2006) stated that corporate governance is significant and positive with firm performance. Pratolo (2007) the application of the principles of good corporate governance directly affects partially significant to company performance. Triadi and Suputra (2016) The implementation of good corporate governance principles positively and significantly influence to managerial performance. Supriadi et al. (2014) good governance have a significant positive effect on performance. Wuryani (2013) corporate governance has a significant positive effect on company performance. Setyawan and Putri (2013) good corporate governance have a positive and significant impact on financial performance. Azlina and Amelia (2015) stated that good governance has positive and significance effect on government performance. Supriadi et al. (2014) states simultaneously, internal control system, organizational citizenship behavior, and good governance have positive and significant effect on performance.

4 HYPOTHESIS

Based on the research background, problems, literature, and previous research review these are the formulated hypothesis:

H1 = internal control and good cooperative governance partially affect performance
H2 = internal control and corporate governance simultantly affect performance.

5 RESEARCH METHODOLOGY

Research Method and Variable

Descriptive research is basically a study to obtain a description of the characteristics of variables. While verificative research is a type of research that aims to determine the relationship between variables through a hypothesis testing. In relation to this type of research, the research method used is survey method. (Singarimbun and Effendi, 1995) The variables used in this study consist of: Internal control (X1) consisting of 5 dimensions (COSO, 1992) are: Control environment, risk assessment, control activity, information and communication, and monitoring. Good Cooperative Governance (X2) consisting of 3 dimensions (WOCCU, 2005) are: external governance, internal governance, and individual governance. Performance (Y) consisting of 4 dimensions (AACCU, 2009) are: decision making, advisory function, guardian function, sustainability function, and symbolic function.

Population, Sample, and Data

The population of this research is credit cooperative which become member of Credit Cooperative Center in West Java counted 83 credit cooperatives. The sample is part of the population that will be the object in conducting research and testing data. The method used in this sampling is purposive sampling. Sample selection criteria are cooperatives that do not have managers (board as managers). Out of 83 cooperatives, 61 primary do not have managers (board as managers). The data of research is primary data, obtained by interview and questioner to the respondent that is board as manager.

Data Analysis Method

To test the research hypothesis, the steps taken by using the method of analysis quantitatively. Method of data processing is done by using statistical model. Test Validity is done to determine whether the measuring tool has been prepared really measure what needs to be measured. A measuring instrument of high validity will have a small error variant or in other words the test runs its size by providing results that match the intent of the test. Test Reliability is performed to determine whether the data collection tool shows the level of accuracy, accuracy, stability, or consistency of the tool in revealing certain symptoms of a group of individuals although done at different times. The regression model analysis was used to determine the effect of independent variables on dependent variables. Regression model used as follows:

$$Y = a + b_1X_1 + b_2X_2 + e$$

Y	= Performance
a	= Constant
b_1 and b_2 variable	= regression coefficients of each
X_1	= Internal Control
X_2	= Good Cooperative Governance
e	= error

Determination Coefficient Test (R^2), If the value of determination close to 1 indicates the ability of independent variables in explaining the dependent variable is stronger. The t-statistic test is conducted to test and see how far each independent variable influences the dependent variable individually. Ghozali (2011)

Decision criteria:
- If sig value > α (0,05) means hypothesis not proven
- If the sig value < α (0.05) means hypothesis proven

F-Statistic test is done to know whether or not the influence of independent variable to dependent variable simultaneously, with significant level equal to 0.05.

Decision criteria:
- If significant value < α (0,05) then Ho is rejected and Ha accepted so can be concluded, independent variable have significant effect to dependent variable.
- If significant value > α (0.05) then Ho accepted and Ha rejected so it can be concluded independent variable has no significant effect on the dependent variable.

6 RESULTS AND DISCUSSIONS

Profile of Respondents
A total of 61 questionnaires were distributed to primary cooperatives, 22 returned questionnaires. Profile of respondents by type of position and level of education can be seen at table 2 and 3.

Testing of Research Instruments
Based on the results of processing using product moment correlation (index validity) obtained the test results of validity as follows; The results of the calculation of the validity of internal control research instruments consisting of 11 questions related to the control environment, risk assessment, control activities, information and communication, and monitoring all meet the requirements of validity, because the correlation coefficient ≥ 0.30. The results of calculating the validity of good cooperative governance research instruments consisting of 21 questions related to external governance, internal governance, and individual governance all meet the requirements of validity, since the correlation coefficient is ≥ 0.30. The result of calculation of validity of performance research instrument consisting of 27 questions related to decision making, advisory function, guardian function, sustainability function, and symbolic all meet the 0.30 ≥ requirements of validity, because the correlation coefficient is ≥ 0.30. Based on the results of processing using alpha-cronbach method obtained reliability test results as follows; Result of reliability research instrument test about internal control with 11 question has value of reliability coefficient 0.903; good cooperative governance with 21 questions has a value of reliability coefficient of 0.954; and performance with 27 questions has a value of reliability coefficient of 0.971. Value of reliability coefficient for questionnaires of three research variables > 0.70, this result indicates that the questionnaire items on the three variables reliable.

Descriptive Analysis of Research Variables
Especially for the data of the questionnaire, so much easier in interpreting the data of responses of respondents who have accumulated, conducted categorization of respondents score. Categorization of respondents score is useful to provide an overview of internal control, good cooperative governance, and performance. According to Cooper and Schindler (2006) for ordinal data or interval/ratio data that have asymmetric distribution, the centralizing measure can be performed through the distribution of inter quartile ranges. To facilitate in describing each research variable, then made categorization as follows:> 4 - 5 = Very Good; > 3 - 4 = Good; > 2 - 3 = Good enough; And 1 - 2 = Less Good. Internal controls are measured through five dimensions and operationalized into 11 questions. In general average score for dimensions of internal control is good. (Table 4.). Good cooperative governance is measured through three dimensions and operationalized into 21 questions. In general average score for dimensions of good cooperative governance is good. (Table 5.). Performance is measured through five dimensions and operationalized into 27 questions. In general average score for dimensions of performance is good. (Table 6.)

Hypothesis Testing

The Effect of Internal Control and Good Cooperative Governance Partially on Performance
Regression equation based on statistical test results as follows (Table 7.):

$$Y = 0.813 + 0.170X_1 + 0.618X_2$$

Based on the calculation of SPSS version 22 for the effect of internal control on the performance of the results obtained value of significance of 0.513 > 0.05. Partially means that internal control does not affect performance. (Table 7.) It indicates that the application of a control environment (standardized financial statements, assignment procedures, planning frameworks, implementation, control, and supervision), Risk assessment (positive impact on all components and board rotation), Control activities (supporting the control structure and the existence of policies and procedures), Information and communication (information has been communicated and internal and external communication), and monitoring (effective monitoring procedures and documentation of monitoring procedures) are still not effective in relation to performance achievement. Empirical evidence indicates the board as well as the manager so that there is a conflict of interest. The board who make cooperative policy as well as who run it, so that this causes internal control does not affect the performance. This is in line with research by Prasetyo and Nurul (2007) who found that internal control has no significant effect on company performance. Shanmugam, Haat, dan Ali (2012) conclude even though internal control strongly not affect the performance of Small and Medium Enterprises (SMEs) but a significant relationship does exist between these variable it is recommended to business owners to implement the internal control framework which hopefully will contribute to the success of the business. The influence of good cooperative governance on the performance obtained by the result of significance value 0.025 < 0.05. Partially means that good cooperative governance affects performance. (Table 7.) This indicates that the implementation of external governance (commitment, compliance with regulations, and audit of financial statements), Internal governance (board rotation, loyalty, member participation, sustainability strategy, succession planning, benefits for members, and accountability reports), and individual governance (codes of ethics, no criminal background, competence in accounting and finance, the ability to manage a business, providing time to organize cooperatives, respecting decisions, and not having individual interests) are well under way and can affect performance. This is in line with the study of Black et al. (2006), Brown and Caylor (2006), Pratolo (2007), Triadi and Suputra (2016), Supriadi, Herawati, and Adiputra (2014), Wuryani (2013), Setyawan and Putri (2013), and Azlina and Amelia 2015) states Good Governance has an effect on performance.

The Effect of Internal Control and Good Cooperative Governance Simultaneously On Performance

The result of R^2 shows the number of 0.524. That is, the influence of internal control and governance to the performance of 52.40% while the remaining 47.60% influenced by other variables. (Table 8.). Based on the calculation of SPSS version 22 the influence of internal control and good cooperative governance simultaneously to the performance of the results obtained value of significance 0.001 < 0.05. Means simultaneously internal control and good cooperative governance affect the performance. (Table 9.) Internal control frameworks are well implemented and supported by compliance with good cooperative governance principles will ultimately affect performance. This is in line with research that has been done by Supriadi, Herawati, and Adiputra (2014).

4 CONCLUSION AND SUGGESTION

Based on the research results can be concluded:

1. Internal Control has no significant effect on performance.
2. Good cooperative governance has significant effect on performance.
3. Internal control and good cooperative governance simultaneously have a significant effect on performance.

Suggestions that can be submitted are as follows:

1. For future researchers because of the low response rate of the respondents may be able to influence the final result. Therefore for further research is suggested to increase the number of respondents.
2. Further research may also consider including other variables that may affect performance such as organizational culture and organizational commitment. This is because the culture of cooperative organizations that have its own characteristics compared with other business activities. Organizational commitment of boards, especially managers is needed to contribute to the progress of cooperatives.
3. Related to internal controls, the board may make mapping of business risks that may occur in relation to performance achievement.

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APPENDIX

Tabel 1: *Purposive Sampling*

No.	Description	Amount
1.	Credit Cooperative Population of Credit Cooperative Center in West Java	83
2.	Credit Cooperative member of Credit Cooperative Center in West Java who has manager	(22)
3.	Sample Credit Union Cooperative Credit Center Cooperative members in West Java who do not have managers (board as managers)	61

Table 2.: *Position Type*

Position	Amount	%
Chairman	17	77.3%
Vice Chairman	1	4.5%
Secretary	1	4.5%
Treasurer	1	4.5%
Education Committee	2	9.2%
Total	**22**	**100%**

Source: research questionnaire (processed)

Table 3: *Educational level*

Education	Amount	%
Postgraduate	2	9.2%
Bachelor	10	45.5%
Diploma	3	13.6%
High School	6	27.2%
Junior School	1	4.5%
Total	**22**	**100%**

Source: research questionnaire (processed)

Table 4: *Average Recapitulation of Internal Control Score*

No.	Dimensions	Mean Score	Criteria
1	Control environment	3.89	Good
2	Risk assessment	3.91	Good
3	Control activities	3.59	Good
4	Information and communication	4.05	Very Good
5	Monitoring	3.25	Good
	Grand Mean	**3.74**	**Good**

Source: research questionnaire (processed)

Table 5: *Average Recapitulation of Good Cooperative Governance Score*

No.	Dimensions	Mean Score	Criteria
1	External Governance	3.76	Good
2	Internal Governance	4.08	Very Good
3	Individual Governance	3.88	Good
	Grand Mean	**3.91**	**Good**

Source: research questionnaire (processed)

Table 6: *Average Recapitulation of Performance Score*

No.	Dimensions	Mean Score	Criteria
1	decision making	3.82	Good
2	advisory function	3.88	Good
3	guardian function	3.70	Good
4	sustainability function	3.99	Good
5	Symbolic	4.09	Very Good
	Grand Mean	**3.90**	Good

Source: research questionnaire (processed)

Table 7: *Coefficient Correlation*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.813	.498		1.631	.119
	Internal Control	.170	.256	.163	.667	.513
	GCG	.618	.254	.593	2.432	.025

a. Dependent Variable: Performance

Table 8: *Determination Coefficient Test (R^2)*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.724[a]	.524	.474	.50381

a. Predictors: (Constant), GCG, Internal Control

Table 9: Simultant Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.315	2	2.658	10.470	.001[b]
	Residual	4.823	19	.254		
	Total	10.138	21			

a. Dependent Variable: Performance
b. Predictors: (Constant), GCG, Internal Control