

THE ASSESSMENT OF IMPLEMENTATION STRATEGY TO ERP IMPLEMENTATION, ADHERENCE TO COSO, GCG IMPLEMENTATION AND OPERATIONAL PERFORMANCE TO FINANCIAL PERFORMANCE

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Abstract: *In this era, the contribution of information technology to firm performance reflecting the prediction of positive, negative or non-existent relationship. ERP systems are expected to (1) reduce costs by improving efficiencies through computerization; and (2) enhance decision-making by providing accurate and timely enterprise-wide information. COSO as the internal control measurement in accordance with the principles of administration, in which there are responsibility and control-centered management. In ERP implementation, the primary audience is management because management plays a fairly important role for successful and unsuccessful ERP implementation. GCG is a term used in formulating governance for the company. Basically, corporate governance is rules, principles, or practices that set the direction of the company. This study finds how manufacture industries do strategy implementation to ERP implementation, adherence to COSO, and GCG implementation to get good quality to operational performance that has implication to financial performance as well.*

Keywords: *ERP implementation, adherence to COSO, GCG implementation, operational performance, financial performance, manufacture industries.*

INTRODUCTION

Economic activities in Indonesia are supported by a variety of business activities in several sectors. They are (1) the main sector which is industries of raw material producer consisting of agriculture and mines, (2) the second sector which is processing or manufacturing industries, and (3) the third sector which is service industries.

Manufacture, based on Letter of the Head of the Capital Market Supervisory Board No.SE-02/PM/2002, December 27th 2002, is an activity which processes resources into finished products through a manufacturing process. So that, the

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company's activities classified in the manufacturing industry group have at least three major activities, namely (1) activities to obtain or to keep input or raw materials, (2) processing/manufacturing/assembling the raw materials into finished materials, and (3) activities to store or to market their finished products. In terms of the products, manufacturing activities to day include various types of business.

Performance Management System is an enterprise performance measurement conducted as the study on company's strategic objectives in responding to the market place needs nationally and internationally. In relation to the Performance Management System, Wibisono (2011) wrote that performance of the company is assessed at three main factors: financial performance (70%), operational performance (15%), and administrative performance (15%).

From Wibisono (2011) it is clear that financial performance has considerable factor as one of the Performance Management System measurement (70%). It is because one of the aspects assessed by the public to make an investment (especially for a company that has sold its shares on the Stock Exchange) is to look at the company's financial performance. A company which has already sold its shares on the Stock Exchange is obliged to publish its financial statements, so that investors or potential investors can find out the company's financial performance and prospects of the company in the future. In other words, the financial statements may be considered by investors or prospective investors to make an investment.

Letter of the Head of the Capital Market Supervisory Board No.SE-02/PM/2002, December 27th 2002, for Presentation and Disclosure Guidelines for Issuers'/ Public Companies' for Manufacturing Industry Financial Statements, states that the objective of financial statements is to provide information that a rise of the financial position, performance, and changes in financial position of an enterprise that is useful for a large number of users in making economic decisions and to demonstrate accountability (stewardship) of the management over the use of resources entrusted to them. The letter states that the Issuer or Public Company Management is responsible for the preparation and presentation of financial statements. Financial statements presented consist of Balance Sheet, Income Statement, and Statement of Changes in Equity, Cash Flow Statement, and Notes to the Financial Statements.

In every company, there are departments, they are called functional areas. Functional areas are the lowest level in a company structure. The types of functional area are financial, accounting, human resource, marketing, production and operation management. Every functional area is supported by information system, so it is called financial information system, accounting information system, human resource information system, marketing information system, and production and operation management information system. This information system is developed individually and so it is caused information silos (Rainer, 2011; 292).

Silos can cause inefficient communication within departmental. However, it needs an integration system to be a bridge among the information system in company.

Turban (2010; 379) wrote ERP is an integrated software which integrate the planning, management, and all the resources in company. This software do automatically routine transaction in back-end transaction (such as financial, accounting, scheduling, and inventory management). In another words, ERP is a back-bone and integrated software to overcome the island of information. Rainer, (2011; 292) wrote "island of information" is as "information silos.

The main objective in implementing ERP is to integrate all functional areas in company with the result the information poured seamlessly (Rainer, 2011).

ERPS oft ware is the back bone of major companies in this era (Alshawi et.al., 2004). Momoh (2010) wrote that the package offered by ERP provides a seam less integration of all business processes in the company, including the integration of the accounting and financial information, human resources information, supply chain information, and customer information.

In relation to the importance of internal control whose primary audience is management; internal control viewed as a process; objectives of internal control on the effectiveness and efficiency of the operations, reliability of financial statements, and compliance with laws and regulations forced in any state; focusing on all entities that exist in the company; and who is responsible is the management, this research will use COSO as the internal control measurement in accordance with the principles of administration issued by Wren et.al (2002), in which there are responsibility and control-centered management.

In ERP implementation, the primary audience is management because management plays a fairly important role for successful and unsuccessful ERP implementation. ERP implementation depends on full support of the management because it controls over the implementation of ERP which includes planning, organizing, leading, and controlling (Vijayakumar, 2009).

Internal control is the most important thing to be applied in every company. It is assured that the company has the goal to be achieved in accordance with COSO compliance such as effectively, efficiency, reliability of the financial statement, and compliance with laws and regulation in the country. The activities in internal control involve all the entities in company with full responsibility in management.

COSO (2011,3) objectives are (1) Operations Objectives – these pertain to effectiveness and efficiency of the entity's operations, including operations and financial performance goals and safe guarding assets against loss; (2) Reporting Objectives – these pertain to the reliability of reporting. They include internal and

external financial and non-financial reporting; (3) Compliance Objectives – these pertain to adherence to laws and regulations to which the entity is subject.

To apply the compliance with law and regulation in a country as stated by COSO in accordance with internal control, this study will be guided to Indonesian Good Corporate Governance.

Code of Indonesian Good Corporate Governance (2006) via the Minister for Economic Affairs, Decree No.KEP/49/M.EKON/11/2004, has approved the establishment of the NCGP(National Committee of Governance Policy) consisting of Public Sub-Committees and Corporation Sub-Committees. NCGP provides GCG guidance to all companies in Indonesia, including companies that operate on the basis of sharia, companies whose shares have been listed on the stock exchange, state enterprises, regional companies, companies that raise and manage public funds, and companies whose products or services are widely used by the public, as well as companies that have abroad impact on environmental sustainability.

In the implementation of internal control that has a relationship with corporate governance and the implementation of ERP system, using agency theory, Morris (2011) described that the implementation of ERP system can facilitate monitoring and audit activities to obtain information that can be used by the principal about agent behavior, according to the second proposition written by Eisenhardt (1989): “when the principal has information to verify agent behavior, the agent is more likely to behave in the interest of the principal.”The argument of the proposition is if information system can provide information to the principal (shareholders) about the behavior of the agent(management), the agent cannot commit fraud or deceive the principal.

The argument in this preposition is whether information system can provide information to principals (shareholders) about the agents’ behavior,the agent cannot commit fraud or deceive the principal.

LITERATURE REVIEW

ERP Implementation

According to Al-Mashari (2002)

Enterprise resource planning (ERP) systems can be regarded as one of the most innovative developments in the information technology (IT) of the 1990s. With the growing interest of many organizations in moving from functional to process-based IT infrastructure, ERP systems have become one of today’s most widespread IT solutions. Whereas to Muscatello et.al (2003) Enterprise Resource Planning (ERP) systems are widely implemented as the backbone of many manufacturing

and service firm. They are designed to address the problem of information fragmentation or “island of information” in business organization.

According to Ray (2012; 3) Enterprise Resource Planning consist of three words:

Enterprise, enterprise is any organization that has a set of common goals. Resource, resources can be in the form of human resource (man power), capacity (machine, plants, warehouse, etc.) inventory resources (finished goods and raw materials stock), etc. For any organization the biggest challenge is the utilization of these resources effectively for creation of best possible value for its stakeholders (i.e., its employees, shareholders, etc).

Planning, for effective utilization of resources, an enterprise needs to plan and undertake a variety of planning activities like demand planning, distribution planning, production planning, capacity planning, material planning, maintenance planning, financial planning and budgeting, quality planning, new product planning, etc.

Rainer (2011; 292) wrote ERP systems take a business process view of the overall organization to integrate the planning, management, and use of all of an organization’s resources, employing a common software platform and database.

According to Rainer (2011; 7) a business process is a collection of related activities that produce a product or a service of value to the organization, its business partners, and/or its customers. A process has inputs and outputs, and its activities can be measured.

For company who implement ERP, ERP is an operational activity that according to Wibisono ((2011) this activity will gie 15% contribution, so do Ke et al (2008) wrote:

“ERP (Enterprise Resource Planning) systems, a type III information system (IS) innovation, have strategic relevance because their integration into core business processes or strategies can directly impact firms’ performance”

In this study, the dimensions of ERP are *strategic initiatives, executive commitment, human resources, project management, information technology, business process, training, project support and communications, and software selection and support* to support successful ERP implementation.

Adherence to COSO

COSO (2013, a) published a frame-work that shows the relationship among the objectives, internal control components and the organization structure.

In the picture below there are three (3) categories of the target application of internal controls in the form of a column; Five (5) components of internal controls

in the form of a line; and the shape of the overall organizational structure which includes entities, divisions, subsidiaries, operating units or functions included in its business process is, such as sales, purchasing, production and marketing in which the application of internal control is absolutely necessary, is presented in three dimensions in cube.

Figure 1: The COSO Framework



Source: COSO (2013, a)

GCG Implementation

Corporate governance is sometimes viewed as a business culture fostering economic growth by building up confidence of investors (The HIH Royal Commission Report, 2003)

Corporate Governance is a term used in formulating governance for the company. Basically, corporate governance is rules, principles, or practices that set the direction of the company. NCGP (2006) provides a definition of Good Corporate Governance through an opening speech by Dr. Boediono (Coordinating Minister for Economic Affairs of the Republic of Indonesia) is one of the pillars of the market economy system. It is closely associated with the trust of the company applying it and the business climate in one country.

Corporate governance is sometimes viewed as a business culture fostering economic growth by building up confidence of investors (The HIH Royal Commission Report, 2003). Risks that occur directly or indirectly may be associated with the performance of the company, because these risks affect corporate policies

and regulations. Paper written by Poletti-Hughes suggested that corporate governance practices for the company and the country in which these two things provide value for the company. Risks can be managed by giving better attention to the implementation of internal control and corporate governance structure (governance structure) to provide value for the company. (Bhimani, 2009).

Associated with the implementation of internal control, a study conducted by Uhlaner (2007) for private firms, that the implementation of corporate governance should be implemented in all companies, especially companies that are included in public company. It is as has been outlined by NCGP which provides GCG guidance to all companies in Indonesia, including companies that operate on the basis of sharia, companies whose shares has been listed on the stock exchange, state enterprises, regional companies, companies that raise and manage public funds, and companies whose products or services are widely used by the community, as well as companies that have abroad impact on environmental sustainability.

Agency theory is a theory that examines the relationship between Principal and Agent (Jensen and Meckling, 1976). It describes the relationship of cooperation based on managerial behavior, agency costs, and capital structure. In this case, Jensen and Meckling stated that the relationship between the Principal and the Agent is based on contract in which the Principal binds the Agent to conduct activities on behalf of the Principal and giving authorities to do the work and make certain decisions. Eisenhardt (1989) states, similar to Jensen and Meckling in relation to the Principal and Agent, the Principal will issue a supervision fee while the Agent must pay the royalty fee which is an economic bonding cost. This is to reduce the possibility of the Principal disadvantaged by the Agent or otherwise.

Relating to the implementation of Good Corporate Governance in the company, agency theory describes the relationship between the principal (top management) and the agent (functional are a manager). In this case, sometimes the desire of top management is in contradiction with the state of the functional area, so it needs to be bridged with GCG implementation. Thus, in equality between the different interests can be overcome. In line with the principle, Djohanputro (2008, a, pp19) wrote that the basis for determining the measurement of performance is the principal's relationship with the agent (principal-agent concept). According to the concept, owners of the company or the shareholders are the principal (Top Management positions: Chief Executive Officer, Chief Finance Officer, Chief Operating Officer), those who have real wealth of the company. Without the principal, company is none. The agent or agency is a party designated by the principal to run the company

In this study, GCG implementation is to formulate the corporate governance to company. It consists of regulations, principles or any other practices to determine

the goal of the company. This formulation is closely related to the reliable of the company and their environment. The dimensions of GCG implementations are Transparency, Accountability, Responsibility, Independency and Fairness.

Operational Performance

In the connecting with performance management system, Wibisono (2011) wrote that organization performance is measured by financial performance (70%), operational performance (15%) and administrative performance (15). Financial performance provide the information as the whole of the company activities. It is a very important study for the sake of maintaining the sustainability of the company.

Kamus Besar Bahasa Indonesia (KBBI) (2010-2011) defines performance as a noun which has meaning: (1) something achieved, (2) demonstrated achievement, (3) ability to work (tt equipment).

Mulyadi (1997, pp 149) wrote performance assessment is the periodical effectiveness operational determination in an organization, organization structure and its employees by objectives, standards and criteria stated previous.

In this study, operational performance is the result from ERP implementation. Madapusi (2011) the items are measured in operational performance are information availability, information quality, standardization, inventory management, and on-time delivery.

Financial Performance

According to Sucipto (2003) financial performance determines specific measurements that could measure the success of a company in generating profits. Financial performance is calculated by using financial ratios. The ratios are the results of a comparison between numbers of one financial figure and other financial figures. The figures contain in the financial statements consisting of balance sheet, profit / loss, cash flows, and changes in equity positions. There are several categories of the ratio that can be used as a measurement of financial performance: profitability, liquidity, solvency, turn-over, efficiency, and effectiveness (Djohanputro, 2008, a, pp. 23-34).

RESEARCH METHOD

This study use descriptive method. The goal of this study is to figure out or to characterize the condition of ERP implementation, adherence to COSO, GCG implementation, operational performance and financial performance in manufacturing industries.

The objectives of descriptive survey method is to find description from the object, otherwise explanatory survey method is to find the variable characteristic by examine the few of samples. Data was collected by using cross sectional, data was collected once in a time to answer the research question.

Sample in this study was 15 companies in manufacture industries. 66 questionnaires were sent to 15 companies. The unit observation was Top Management, Functional Area Management and the unit analysis was manufacture industries. Interviewed was conducted by some top managements as well.

DISCUSSION

To categorize respondent's responses, the item score is categorized by 5 categories, as follows:

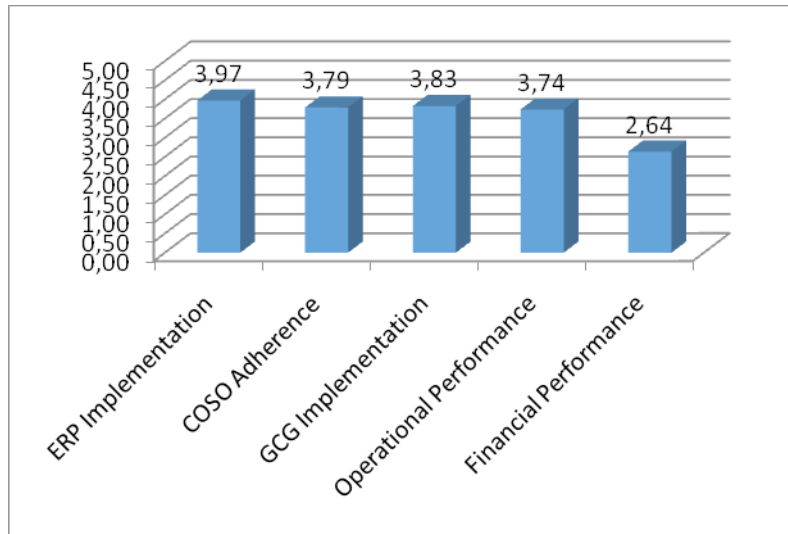
Table 1
Score Total Categorized

<i>Score Interval</i>	<i>Category</i>
1.00 - 1.79	Very Low
1.80 - 2.59	Low
2.60 - 3.39	Adequate
3.40 - 4.19	High
4.20 - 5.00	Very High

Source: Fitriana (2012)

From the figure 1 above, the condition of manufacture industries in ERP implementation, adherence to COSO, GCG implementation, Operational performance and financial performance was 3.97, 3.79, 3.83, 3.74, and 2.64 respectively.

ERP implementation, adherence to COSO, GCG implementation, and operational performance was in high category. Otherwise financial performance was in adequate category. One of top managements told that in this globalization era, manufacture industries should conduct their business by seeing globally, such as cost leadership problems that was to see total employment cost. Worker demonstration caused manufacture industries could not compete globally. It could not do the production processing well and it caused the product could not deliver on time to customer then it caused disorder in inventory management. This barrier was in operational performance. The implication could be the negative effect to financial performance.

Figure 1: The Condition of Manufacture Industries

Source: Study result

Implementation strategy for each variables as follows:

Table 2
Implementation Strategy

<i>Variable</i>	<i>Dimension</i>	<i>Score</i>	<i>Implementation Strategy</i>
ERP imple- mentation	Strategic Initiative	4.20	ERP implementation should be reviewed consistently in every functional areas.
	Executive Commitment	4.29	Top Management should support and mandate for ERP implementation
	Human Resources	3.75	Trainings should be offered to every employees to improve their abilities.
	Project Management	3.48	There should be responsible and experience to lead ERP implementation.
	Information Technology	4.33	There should be help-desk. The functions are to help every employees for those have any difficulties in using ERP.
	Business Process	4.20	It is the managers' ability to analyze business process and the employees' knowledge due to their jobs.

<i>Variable</i>	<i>Dimension</i>	<i>Score</i>	<i>Implementation Strategy</i>
	Training	3.44	There should be training. It is organized by the company due to improve the employees' ability.
	<i>Project Support and Communication</i>	3.89	Culture of sharing knowledge is the things should be implemented in company. It is to share information, knowledge thus if there is problems they can be shared among employees.
	<i>Software Selection and Support</i>	4.14	ERP implementation planning is to analyze the needed of module to implement in business process
Adherence to COSO	Control Environment	3.63	To determine the individual responsible due to internal control implementation.
	<i>Risk Assessment</i>	3.86	To do risk identification and risk assessment due to internal control implementation.
	Control Activities	4.09	To do controlling due to information technology implementation.
	<i>Information and Communication</i>	3.52	To deliver and use the result of information to support the function of internal control.
	<i>Monitoring Activities</i>	3.85	To do evaluation and communication due to the components of internal control.
GCG implementation	Transparency	3.99	Company should deliver the information accurately.
	<i>Accountability</i>	4.07	Company should determine internal control implementation to manage the company.
	Responsibility	4.16	Company should hold on to Code of Conduct and corporate social responsibility.
	<i>Independency</i>	3.49	Company should offer independency to stakeholder to extend their opinion.
	<i>Fairness</i>	3.42	Company should execute fairness and genuineness to all employees
Operational performance	Information Availability	3.61	Information should deliver timeliness.
	<i>Information Quality</i>	3.85	Good quality of information should be on-hand.
	<i>Standarization</i>	3.62	Company should have standardized business process.
	<i>Inventory Management</i>	3.85	Company should manage the inventory as well as management policy.
	<i>On-time delivery</i>	3.76	Company should deliver on-time the finished good to customer.

Sumber: Study result

CLOSING

Manufacture industries should assess ERP implementation, adherence to COSO, GCG implementation to get good quality of operational performance that has effect to financial performance. Financial performance is used to analysis the financial activities. The purpose of the financial performance analysis is to take policies, decisions on the operations, and financial activities faced by the company.

Thus, good ERP implementation, good adherence to COSO, GCG implementation is needed to get good effect to operational performance that has implication to financial performance.

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