

CHAPTER I

INTRODUCTION

1.1. Background

Information Technology (IT) is stereotyped as a tool to create an automatic processes that existed in that organization but the more importantly, IT is the driver of change in the organization which can directed to productivity gains (Dedrick, Gurbaxani, & Kraemer, 2003). Most of organization nowadays use Information Technology (IT) as one of the integral part in their organization. Administrative infrastructure, business processes, and operational skill of staff can be supported by the strategic value that provided by IT to the organization (Attaran, 2003). By the role and relevance of IT in the organization, it shows the enhancement of interest in the organization about IT (Lunardi, Becker, Macada, & Dolci, 2014).

Due to the use of IT, the organizations need to ensure that it is managed appropriately. The corporate governance manage the relationship between the board, management, and the shareholders of the company, and also dividing power among them. It assigns how the management of the company which supervised by the board are being run and how the accountability of the directors to the shareholders (Rezaee, 2007). Then, the decision of enterprise IT investment and project are decided by the management and board because of the use of IT system. However, just having an IT system and expecting the IT system to provide strategic value will not be enough for the company. Therefore the company needs the IT

Governance as a part of the corporate governance to confirm that the IT investment can truly provide value to the company and in order to guarantee the utilization of IT implementation. The governance mechanism of IT system will be related to the performance and risk management of the IT system by the way that would create value to the organization and assure the alignment between IT and business objective (Juneja, 2019).

The IT system must be align with the business strategies and objectives, so in order to set right strategies to the IT systems the company need to have an IT governance committee to supervise the strategic management of IT. Also the organization need to have formal process to select, design, and implement the IT systems, called as the system development life cycle, or SDLC (Turner, Weickgenannt, & Copeland, 2017).

By implementing the IT Governance to the companies it will offer them a platform to accumulate, analyze, and discuss the information in the organization at first which it will possibly create decision making reciprocally and prudently (Lazic, Groth, Schillinger, & Heinzl, 2011). One of the critical success factor in substantial number of organization is the information technology governance (ITG), which it provides the links between IT processes, IT resources, and information in structure to the strategy and objectives of the organizations (Abumusa, 2007).

The importance of IT Governance have shown by the study of Ko & Fink (2010), which stated that the governance activities of IT focus on alignment,

integration, and relationship in the organization that will improve the working relationship and also the understanding between IT and the whole business. As the result, the company will get financial benefits, such as increased return from sales, profits, and others, also can balance the risk taking and the risk managing by eliminating duplication, bottlenecks, and so on.

The benefits of the adoption of IT Governance to the company performance also supported by the several studies, for example in 2012, Mithas, Tafti, Bardhan, & Goh found that IT investment has a positive impact on revenue growth and profitability. It stated that regarding to the investment of IT, compare to the discretionary expenses such as advertising and R&D, the IT investment has major return in both the revenue growth and profitability of the company. The other study, Lazic et al. (2011) reported that a firm's business performance is related to the IT Governance, it gives super-additive values which will create sustainable competitive advantage to the firm. In addition, recent study by Borja, Kim, Yoon, & Hwang, (2018) has also declared that the effective IT Governance is positively affect the product innovations and the level of process, which will impact to the performance of the company. So, Borja, Kim, Yoon, & Hwang, (2018) suggest organization to start adopting IT Governance practices so they can considered the advantages that will be added by IT which lead the organizations in the long term.

Study such as conducted by Lunardi et al. (2014) also revealed that the Brazilian companies that adopted IT Governance clearly show the improvement in their financial performance, especially in the measurement of their profitability

(such as ROA, ROE, and profit margin). It stated that the Brazilian companies which ranked in the top 55 world's biggest companies according to Forbes in 2012, has promoted the IT Governance in their institutional report as the good implementation practices of IT management. But apparently by the productivity measures, this study did not find any evidence that the IT Governance adopters had improve their relative performance regarding operating profits and the relation between expenses and revenues, but the asset turnover. Also by the market measures it resulted that there is no statistically significant difference after the adoption of IT Governance. Additionally, based on the analysis of efficacy measure, such as sales growth, it did not find any significant gains.

Due to this contradictory, this study is motivated to give further evidence to see the impact of IT Governance to the company's performance in manufacturing and mining companies. Also by the evident need for further studies into the impact of IT Governance to the company performance of the manufacturing and mining companies in Indonesia. The reason to choose the manufacturing companies is because as published by the article of Badan Koordinasi Penanaman Modal, Indonesia has become the largest manufacturing industry base in ASEAN with contributions reaching 20.27% in the national scale economy. It also stated that Manufacturing Value Added (MVA) for Indonesia's manufacturing industry is in the top position among ASEAN countries with an achievement of 4.5%. Whereas globally, Indonesian manufacturing is ranked 9th out of all countries in the world. In addition to this, the reason to choose the mining companies is because Indonesia is known as a country that has a massive amount of natural resources, especially in

the mining sector. The potential of this mining sector is so great that it is one of the main contributors of PNBP, with the realization of State Non-Tax Revenues (PNBP) in the mineral and coal sector in December 2018, reaching Rp 46.6 trillion (Saepulloh, 2019). So, both of the companies have an essential role for the economy in Indonesia.

The regulation for implementing IT Governance in Indonesia is started around 2012 and 2013 by the Government regulation of the Republic of Indonesia No. 82 of 2012 concerning about the management of electronic systems and transactions. Also the regulation of the Minister of State-Owned Enterprises No: PER-02/MBU/2013 concerning about the guidelines for development of Information Technology of State-owned Enterprises. So, there are limited studies that examines the impact of IT Governance to the company's performance. This study might give new insight for companies in Indonesia regarding the adoption of IT Governance.

Moreover, not many manufacturing and mining companies that adopt IT governance, judging from the benefits that can be given by the adoption of IT Governance. While in Indonesia information technology has been highly developed by facing the digital industry era, but companies must also know how to utilize and manage the information technology so that the industry grows and has competitiveness. Beside that also because of the big amount of money that need to be invested in the acquisition of the IT and for maintain it, also the company need to invest in plenty of cost to do the consultation, training, and also for specific

software to adopt the IT governance. This study therefore set out to investigate whether there is a difference on company performance in the adoption of IT Governance in manufacturing and mining companies.

1.2. Problem Statement

1. Is there any difference on company performance between pre adoption and post adoption of IT Governance in manufacturing and mining company?

1.3. Research Objective

1. To investigate whether there is a difference on company's performance between pre adoption and post adoption of IT Governance in manufacturing and mining companies.

1.4. Study Benefits

1. Investor

Investor will find this study useful as a consideration to make better IT investment decision by looking at the impact of adopting IT Governance.

2. Companies

This study expected to give new insight for others company that have not adopt IT Governance to consider about adopting IT governance.

3. Academics

This research present benefits to the development of science in the field of IT Governance. It can be used as the source of scientific study by students.

This research also expected to be developed related to IT Governance more broadly.

4. Future Researcher

This research is expected to be useful for the future researcher. It will be used as reference regarding to the research of IT Governance and also give insight for future researcher.

1.5. Writing Systematic

The study consists of five parts of chapter to deliver systematic discussions and simplify research understanding. Chapter I is an introduction chapter, it explains about the research background, problem statement, research objectives, study benefits, and writing systematic. Chapter II talks about literature review that provides the supporting theory which is presented in this research, including the definitions and literature explanation regarding to topic used. In this chapter will explain about resource-based view theory, information technology, IT governance, company performance, and review of previous research to develop the hypothesis. Chapter III explain about the research methodology, it explains the research design used in this study, the population and sample, variables and operationalization on variables, research model, and data analysis methods. Chapter IV is the result and analysis of this study that explain the analysis and the result of the hypothesis testing. Chapter V is the conclusions chapter, it provides the conclusion of the study, research limit and opinion, the implication of the research that has been done, and the suggestion for the future research as well.