CHAPTER I

INTRODUCTION

1.1 Background

Information Technology (IT) is identical with automatic process, which helps in increasing productivity, especially for organization (Dedrick, 2003). Many organizations use Information Technology (IT) as the main support in their operational activities, from administration, production, employee management, and others (Attaran, 2003). Because of the benefits in applying IT system for the organization, it increases the organization's interest in developing IT system (Lunardi, 2014).

In implementing Information Technology (IT), organization must ensure that IT is properly managed. Corporate governance has not been able to manage IT system in the organization, because corporate governance focuses on the relationship between the board, management, and shareholders (Rezaee, 2007). Then, a new sector is needed to ensure that IT system is applied to the organization. So, IT Governance was formed, as part of the organization that ensures the implementation of IT in the organization, which IT investment will give a positive value to the organization's performance.

The implementation of IT system in the organization must be suitable with the organization's strategy, so the IT system can be used for the long term. From the implementation in long term, we will be able to see that IT system can provide a competitive advantage to the organization. To make an IT system is aligned with the organization's strategy, the organization should have an IT governance committee to control the management of IT strategies. An organization needs a tool to choose, design, and implement the IT system, called as the System Development Life Cycle or SDLC (Turner, 2017).

IT Governance should be implemented in companies, because it gives many kinds of benefits, such as speeding up the company to accumulate, analyze, and discuss information in decision making (Lazic, 2011). IT Governance, which provides a link between IT processes, IT resources, and information within the companies, is one of the main factor for companies to achieve their goals (Abu-Musa, 2007).

The governance activities of IT focus on alignment, integration, and relationship in the organization that will improve the working relationship, 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 (Ko & Fink, 2010).

Focusing on banking company, IT Governance is considered to improve the banking image that was bad before. Because IT Governance can protect the interest of stakeholder and improve bank compliance to banking laws, and make a healthy banking system. In addition, the implementation of IT Governance in banks will affect the performance of banks, one of them is an increase in the financial sector (Nahdiah, 2009).

The banking crisis in Indonesia which began at the end of 1997 was not only caused by economic crisis, but also by the lack of implementation of IT Governance. A statement in 1998 by the World Bank in Oktapiyani (2009), that the banking crisis in Indonesia was not a result of the decline in the rupiah exchange rate, but because the practice of Good Corporate Governance (GCG) is not implemented in the banking industry. The weak implementation of Corporate Governance system is one of the factor that makes the crisis. So, IT Governance implementation in banks is not only to improve the company's performance in internal, but also to provide security for external parties. The interest of investors will be protected and increase the awareness of bank to banking laws (Ferdyant, 2014).

Based on the 1998 crisis, Bank Indonesia (BI) issued a Bank Indonesia Regulation Number 8/14/PBI/2006, about "Implementation of Good Corporate Governance for Commercial Banks". The beginning of the regulation, it applied for conventional bank and Islamic commercial bank. However, with the rapid growth of Islamic bank in Indonesia, Bank Indonesia issued separate banking governance regulations for conventional bank and Islamic commercial bank. These regulations are proposed to improve company performance and ensure management accountability to stakeholders (Putri and Sholihin, 2015).

Because of the rapid development in economic, banks are required to be able to solve every problem quickly. So, bank will need a technology to improve their activities, and IT Governance is a choice that can help bank in an efficient way. Without IT Governance, banks will difficult to strengthen their position, expand networks, and do performance effectively. Therefore, the need for IT Governance in banks is necessary, cause the problem faced will be harder, be more complex. When IT Governance implemented well, it will help banks to face challenges in the banking industry (Chapra and Ahmed, 2008).

IT Governance is a challenge for banks, to create a mechanism that guarantees better bank performance. Banks are an important pillar of the economy, because they have a big role in the economy, such as providing capital for businesses (Ferdyant, 2014). When banks focus on IT Governance, it will make a positive effect in increasing company value, such as financial performance. In addition, IT Governance can increase investors confidence and makes positive market reactions (Nahdiah, 2009).

Research on the effect of IT Governance implementation on financial performance in banks has been carried out by several researchers, including Risqiyah, Miqdad and Kartika (2014), the results of the study stated that the implementation of IT Governance in Indonesian banks has no influence on banking financial performance, in this case the focus on Return on Equity (ROE). While Prasojo's research (2015), concluded that the implementation of IT

Governance in banks to banking financial performance has a positive effect, increasing in the value of Return on Equity (ROE). Pratiwi's research (2016), also stated that the implementation of IT Governance on financial performance in Indonesian banks on 2010-2015 has an effect on increasing the value of Return on Equity (ROE).

Due to this contradictory, researcher is motivated to provide further evidence to see the impact of IT Governance implementation on bank financial performance. The purpose of this study is to investigate whether IT Governance has a significant impact or not on banking financial performance, between before and after the implementation of IT Governance.

Desiana (2016) stated that bank performance can be evaluate from profitability ratio such as Return on Equity (ROE). ROE measures the ability of bank to obtain profits, which is the rate of return on bank capital. The reason for using this ratio because ROE determines the ability of bank in manage their capital when IT Governance is implemented. If the value of ROE is increase, it means that IT Governance has good influence to the bank performance. But, if ROE value is decrease after IT Governance implemented, doesn't mean the bank has bad performance. Cause it takes several periods to see the good impact of IT Governance after implemented for bank performance.

Refer to the result of previous researchers, there are inconsistent statement regarding the effect of IT Governance implementation on banking financial performance, if measured by the value of Return on Equity (ROE). Therefore, this research will use more financial ratios, such as Net Interest Margin (NIM), Return on Assets (ROA), Capital Adequacy Ratio (CAR), Gross Non Performing Loans (NPL), and Loan to Deposit Ratio (LDR) to assess the influence of IT Governance implementation in before and after implemented on banking company.

1.2 Problem Statement

Is there any difference on company performance between pre adoption and post adoption of IT Governance in banking company?

1.3 Research Objective

This study aims to investigate the influence of IT Governance to the performance in banking company between pre and post adoption of IT Governance.

1.4 Study Benefit

The benefits obtained from this study are as follows :

1. For Companies

   This study expected to give new insight for other company that have not adopt IT Governance to consider about adopting IT governance. To find out the effect of IT governance on bank financial performance. The existence of this research is expected to be an input for banking development.

2. For Investors

   For consideration in assessing how to manage a banking company in order to make investment decisions. Investor will find this study useful as a consideration to make better IT investment decision by looking at the impact of adopting IT Governance.

3. For Academics

   As a reference for scientific work and subsequent research. 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.

1.5 Writing Systematic

Systematic writing to facilitate each sub-chapter in the research writing which consists of 5 chapters are as follows :

Chapter I - Introduction, this chapter discusses the background of the problem, identifying problems, limiting the problem, formulating the problem, the objectives and benefits of the research, and the systematic research.

Chapter II - Literature Review, this chapter discusses the theoretical framework used by the author during the preparation of the study, along with the results of relevant research. The theoretical study used is taken from studies related to research.

Chapter III - Research Methodology, this chapter discusses research methods, populations and samples, data and data sources, data collection techniques, research variables, operational definitions of variables, and research instruments.

Chapter IV - Result and Discussion, this chapter discusses the data analysis that the author uses in research according to the formulation of the problem that the writer has determined to answer all the problems stated in this study.

Chapter V - Conclusion, this chapter contains conclusions from the research obtained, as well as the limitations of the research and suggestions from the author to solve the problem.