

CHAPTER I

INTRODUCTION

1.1. Background

Today, many companies became more competitive. This competitiveness urges the company to adopt information technology (IT) as one of the support systems to face a competitive environment. According to Malhotra et al, 2007 (in Li & Chan, 2019), for companies who want to succeed through this competitiveness must be able to carry out their process activities continuously and always evaluate their systems to be better. Due to this condition, the use of a technology information system in the company became one of the main considerations for the company to run the business process activity. Based on these conditions, we realize that information technology has a crucial part in running a business including innovating products and services and maintaining communication systems during the business processes.

Information Technology is needed because it is the main support system for business transformation. As Hadiyansyah, Hafid (2016) stated that the increasing need for the use of information technology today, both for the productivity of organizational or individual activities, has proven that the application of information technology in companies will bring many benefits. There are five advantages in using technical information for companies, such as; reduce costs, efficient in time, increasing service quality, help new opportunities for enhancing IT capabilities, and building customer trust by providing guarantees for all customer data. Information technology investment tends to be a solution for companies to face their competitors in order to carry out those advantages.

The use of information technology has become a necessity for companies. The use of IT not only increases the effectiveness and efficiency of the company but also increases the information use that makes the company become more competitive. So, it is not surprising if there are companies willing to spend large

amounts of funds to be invested in a set of information technology infrastructure. In his book, Laudon (2012) stated that American companies have invested 20-50% in information technology from the total amount of investigation. The percentage amount of investment in information technology is increasing over the year. The organization tends to invest in information technology with expecting will get high return of it.

With the large amount of investment, of course the company expects to get increase in their returns. On the other side, the large investment is usually followed by a large risk as well. Therefore, to minimize the occurrence of a large risk of failure that will lead to the loss of the company, it is necessary to have a good information technology governance. The company need to maintain its technology capabilities in order to compete with other company and one of the ways is to invest in an information technology investment that will give a good impact to their company performance (Wijayana & Achjari, 2019). The company that adopts information technology will have a better supporting system that will increase the quality of their companies product or services. IT investment is strategic for the company to advance competitive advantage and increase market share, via sales growth (Teo, Wong, & Chia, 2000). IT investment enables us to investigate the increasing future cash flow. Investing in information technology will increase the company's ability to produce goods and services and increase the confidence of consumer. This condition will lead the company to increase their sales and cash flow. So, the company can improve their performance.

IT Investment directly lead the company to increase its performance, but unfortunately, previous studies showed that not only positive impact but also negative impact provided for the company because of unfunctional system implementation that impacts the company's productivity and performance (Marshall & Byrd, 1997). This condition shows that the company must be aware of the importance of overseeing information technology governance. If its not monitored properly, it will cause the failure in implementation. Hadiansyah, Hafidz (2016) revealed in his research that many companies or institutions do not know how to manage the implementation of information technology properly, and

therefore a good information technology management system is needed for the company. The company needs to manage its information technology system to make guidelines to run an information technology system. The information technology can be managed well if the company able to consider the planning process to the application stage, this process is commonly called as IT Governance.

IT Governance is organized by manager and board of director in a company who take a responsibility to make sure the information technology and the whole business in the same alignment. The benefits of IT governance are to control the use of IT and ensure that IT usage goes according to the plan. The other study, Lazic et al, (2011) reported that information technology governance has a close relationship with company performance. As cited in Alsakina (2019), by adopting IT governance in a company, it will help the company in its sustainability. Also, a recent study by Lunardi et al., (2014) has also declared that if the company can adopt IT Governance well in its business activities, it will make the company have a better performance than the company who does not adopt IT Governance. It shows that effective IT Governance managed by the company will provide a better capability to the company to increase its quality of products and improve the performance.

Meanwhile, IT Governance can not guarantee success for the company, its needs further action to make the system in line with the company objectives. In Indonesia, as one of the developing country that faces the digital industrial era, many companies realize the importance of using IT Governance to create their performance. However, based on detiknet's article stated that the implementation of IT Governance in Indonesia still less and still for a certain company. Study such as conducted by Alsakina, (2019) also revealed that the awareness of implementation IT Governance in Indonesia still low because of needs a big total amount of money for acquisition and maintain the IT Governance. It is needs plenty costs to do a consultation, and some training to make sure the human resources understand about that system.

The main consideration in implementation IT Governance in Indonesia is the understanding of the manager and board of directors, if the understanding of the manager and board of director still less, it makes the failure of implementation IT Governance in Indonesia. Most of the previous studies about IT Governance only focus on a case study at one university or one company in Indonesia.

The previous studies have shown that the average company that implementing the IT Governance in Indonesia is still low because of the small scope of research in IT Governance in Indonesia. This makes companies in Indonesia do not have a strong reference to implement the IT Governance. Due to this fact, Indonesia needs further research about the implementation of IT Governance in Indonesia and the impact provided because of that implementation in order to give new insight for Indonesian companies to be able to apply IT Governance.

This research was used COBIT as a plan tools to evaluate the application of IT Governance in Indonesia company. COBIT is the short term for (*Control Objectives for Information and Related Technology*) which consists of information management standard guidelines consisting of a set of instructions that lead to IT governance that can help the users to bridge the gap between the company, control needs, technical problems and also to be able to implement IT governance effectively which can be applied throughout the organization.

Hadiansyah, Hafid (2016) explained that to implement the application of good governance in the information technology to the company requires the ability of managers to ensure the readiness of the company. Therefore, the manager is assisted by the COBIT (COBIT Management Guidelines) which focus on managing information technology in the company. The use of COBIT framework is to help senior managers to make the right decisions by considering all risks in each business process that are closely related to the use of information technology, as well as providing clear directions for the application of information technology governance for the organization (Sarno, 2011). The result in using COBIT as a framework for a company to measure the average level of the

application on IT Governance in companies in Indonesia using the primary data from the questionnaire.

1.2 Problem Statement

The main problem statements of this study are:

1. To what extent the implementation of IT Governance by an Indonesian company?
2. Is there any relationship between the implementation of IT governance and company performance?

1.3 Research Objective

Related to the problem statements above, the research purposes for this analysis are:

1. To investigate the extent of implementing information technology governance by Indonesia company.
2. To investigate the relationship between the implementation of IT governance and company performance.

1.4 Study Benefits

This study will be beneficial for several parties, which are :

Investors, for the investors this research study will provide clear information about which are a company who able to adopt the information technology and have a good impact on their company. This information will help investors to make a decision in which company they want to invest that have a good performance.

Companies, for the company this research study will provide information on whether in adopting Information technology governance for their company will bring a good impact on their company performance or not.

Academics, for the academic this study will bring benefits for science research in developing the useful in adopting the Information Technology Governance. Also able to be one of the sources to develop research about IT Governance and make it broadly.

Future researcher, for future researcher this research will give new insight for doing some research about IT Governance and also study the company performance then. This study able to be a reference for future researchers to support future research.

1.5 Writing Systematic

This research study that has titled *The Implementation of Information Technology Governance and Its impact on company performance in Indonesia* consists of five elements of the chapter which are :

Chapter I, is a part of introduction chapter that will give a clear explanation about the research background as a base for the researcher to conduct this research realize, also talks about the problem statement that need solutions. Then followed by research objectives, the benefits carried out and also the writing systematic use in this research. Chapter II, explain about Information Technology, IT governance, company performance, and how they can relate each other. This chapter is continued by discussing several previous research's that related to this research, research model and hypotheses. Chapter III provides the research methodology, it explains the research design used in this study, the population and sample, data collection method, operational definition and measurement, data analysis, and data analysis methods to make this research study proved. Chapter IV consist of result and analysis of this study. Chapter V is the end of this chapter and also the conclusions chapter. It will give the conclusion of the study, research limitations, opinions, implications of the research that has been done, and the suggestion for the future research as well.