

The Influence of Organizational Culture and Internal Control on Corporate Performance Mediated by Corporate Governance in PT Medco E&P Malaka

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Abstract

This study examines the influence of an organization's culture, internal control, and corporate governance on corporate performance in a national private company. To collect data used a survey technique with a saturated sample of all the employees on PT Medco E&P Malaka (Medco) located in East Aceh Region, Indonesia, with 161 respondents. The data were analyzed using Structural Equation Modelling (SEM). The result shows that in Medco, Significantly, culture affects corporate governance, Internal control affects governance, culture affects corporate performance, Internal control affects corporate performance, governance affects corporate performance, culture affects corporate performance thru governance, and Internal control affects corporate performance thru governance. The findings also prove from the results of direct effect and indirect effect tests, the corporate governance variable in the model functions as a partial mediator. These findings explain that the corporate performance improvement model at Medco is a function of cultural adjustment, and strengthening of internal controls within the company, which can have an impact on strengthening corporate governance.

Keywords: organizational culture, internal control; corporate governance; corporate performance

1. Introduction

PT Medco E&P Malaka (Medco) is a national company predominantly engaged in oil and gas exploration and production. Medco E&P Malaka is a subsidiary of PT Medco E&P Indonesia that has operated since 2018 in the East Aceh Region, before being transported to the buyers (industrial sector) via pipeline Arun-Belawan (Arbel), raw gas will be treated by removing impurities (CO₂ and H₂S). Currently, production for the field gas in the amount of 60 MMscf with associated condensate in the amount of 1500 barrels per day. The gas field contains a high concentration of H₂S and therefore requires prudent and safe operation for daily activities. Under these circumstances, the company's performance and daily operation are very important so that the company's goals to deliver gases to the customer comply with product specifications. The oil and gas exploration performance is influenced by several factors including the company's organizational culture, communication system, managerial style, and procedures.

A strong organizational culture in a company with a strong root system will benefit the member of the organization significantly, and it is a state or condition that can create a change agent for a positive direction. A strong organizational culture can provide stability for the organization and affect its organizational performance. Organizational culture is a pattern of beliefs and expectations shared by organizational members. In other words, organizational culture can be interpreted as a collection of values, norms, and habits that are owned by members of the organization and that describe ways to deal with and solve problems both inside and outside of the organization itself. One of the organizational cultures at Medco is operating responsibly. Internal control is important in a company organization for preventing and identifying risks, ensuring reliable financial reporting, strengthening compliance, and increasing operational efficiency. Internal control in an organization can affect employee performance because expected performance goals that have been targeted will be achieved if there is control. (Puspitasari & Dahlia, 2020). Corporate governance can be defined as the actual behavior of the company, in measuring performance, efficiency, company growth, financial structure, and treatment of shareholders and other stakeholders to maintain the continuity of the company's business over the long term. The principles of corporate governance are; transparency, accountability, responsibility, independence, fairness, and equity (BUMI, 2018).

2. Literature

Corporate Performance

Corporate performance is the result of the goals that have been set by the company by using resources as effectively and efficiently as possible. (Ekadjaja, Wijaya, & Vernetta, 2021), corporate performance is the overall success of the company in achieving the strategic goals that have been set by the company. Corporate performance is the result of management activities in utilizing its resources.

Corporate Governance

(Ali, Khalid, & Javed, 2019), corporate governance is the system that makes sure that the finance suppliers of the company are satisfied with the investments they made in the company. Corporate governance is the framework of rules which makes sure that the right and interests of financiers are not manipulated by leading managers of the company in which they invest. Corporate governance can encourage transparent, clean, and professional corporate management to ensure the existence and accountability of the company to shareholders. Corporate governance in this article will also often be referred to as just governance.

Organizational culture

The company's organizational culture is built to respond to the challenge of the past. (Robbins & Judge, 2017), organizational culture refers to a system of shared meaning held by members that distinguished the organization from other organizations. The culture of a company is different from the culture of another company; each company has different values, beliefs, assumptions, or norms. This is because organizational culture reflects the personality or characteristics of the company. Organizational culture in this article will also often be referred to as just culture.

Internal Control

Internal control helps an entity achieve its primary goals and sustain and improve corporate performance. Adequate internal control system to facilitate its daily operational activities and support the achievement of company goals. By implementing an internal control system, the company aims to achieve the following objectives: adequate business risk management, protection of asset and company revenues against damage, loss, fraud, and operational hazards, and protection of shareholders' investment (Medcoenergi, 2008). An established internal control system in the form of policy, business process guidelines, and standard procedure is to be followed by all employees and related stakeholders.

Organizational Culture Role In Corporate Performance

Sari et al., (2019), stated that an organization's culture influences its corporate performance and has a significant positive effect on corporate performance. (Eaton & Kilby, 2015) also strengthen this opinion that creating and maintaining an effective organizational culture is important to improve performance and productivity. (Schneider, Ehrhart, & Macey, 2012) state an organizational culture has the potential to influence corporate performance. (Tedla, 2016) proposed that an effective organizational culture will improve corporate performance. (Tulcanaza-Prieto, Aguilar-Rodríguez, & Artieda, 2021) reveal a positive relationship between organizational culture and corporate performance.

Internal Control Role In Corporate Performance

Internal control is a system designed by the company to increase efficiency, secure assets, and provide a mechanism to bring the manager and shareholder interests into harmony. (Abiodun, 2020), stated that internal control has a significant and positive effect on corporate performance. (Vu & Nga, 2022), (Alemu & Gujral, 2021), are also convinced there is a significant link between internal control and corporate performance.

Corporate Governance Role In Corporate Performance

(Sari, Lubis, Maksum, & Lumbanraja, 2018) concluded that corporate governance has a significant and positive effect on corporate performance. (Burak, Erdil, & Altındağ, 2017) concluded that a relationship between corporate governance and business performance. This statement is also supported by (Ahmed & Hamdan, 2015), as well as (Bauer, Frijns, Otten, & Tourani-Rad, 2008).

Organizational culture Role In Corporate Governance

Organizational culture reflects the company's values. A positive organizational culture contributes to good corporate governance. (Sari et al., 2018) concluded that organizational culture has a positive and significant impact on corporate governance. This finding is also supported by (Gantenbein & Volonté, 2012). (Paramitha, Agustia, & Soewarno, 2017) also has the same opinion that good corporate governance also constructs a good organizational culture.

Internal Control Role In Corporate Governance

The Internal control system represents all agreed-upon policies and procedures that are used by management to achieve effective business management activities. Lack of internal control makes the company susceptible to some risks. To reduce risks, corporate management required strong internal control activities that were simple, easy to operate, and safe for the corporation. Thus, internal control will influence the formation of good corporate governance activities. This statement is supported by (Leng & Ding, 2011), who concluded that internal control has a significant effect on corporate governance. (Sari et al., 2018) concluded that the variable of internal control has a significant positive effect on corporate performance; this is also supported by Sofia (2020).

Conceptual Framework and Hypothesis

From the literature and model framework of previous studies, the authors formulated the research framework and the hypothesis as follows.

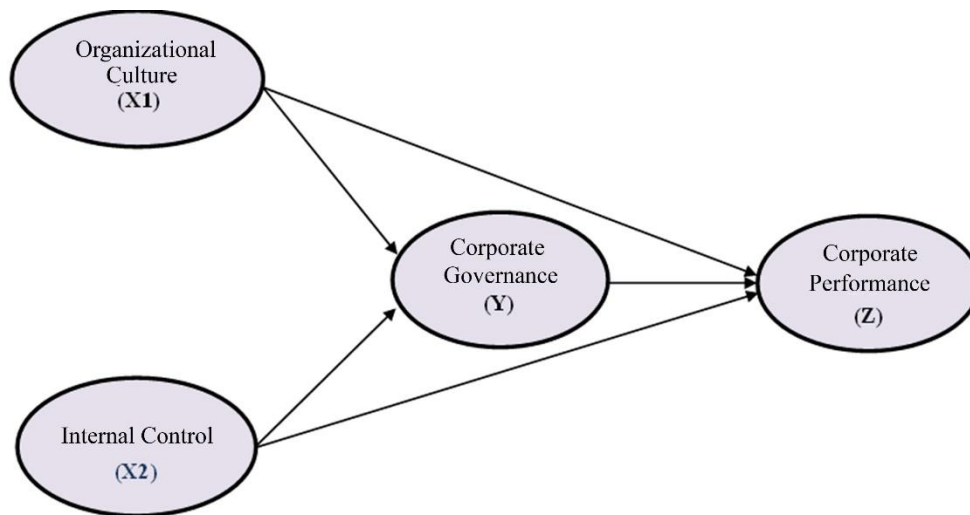


Figure 1. Structural Model

H1: Culture affects governance

H2: Internal control affects governance

H3: Culture affects corporate performance

H4: Internal control affects corporate performance

H5: Governance affects corporate performance

H6: Culture affects corporate performance thru governance

H7: Internal control affects corporate performance thru governance

3. Method

This study measures culture, and internal control as exogenous variables, as well as governance and corporate performance as endogenous ones. The authors conducted a survey technique by collecting data from respondents at Medco, in East Aceh Region. This study used a questionnaire as a tool to collect data from the respondent, and then the data were processed to produce information. Saturation sampling (a census) was used in this research to determine the sample, and all employees of Medco as many as 161 respondents were selected as respondents in this research. According to (Sugiyono, 2017), saturation sampling is a sampling technique

using all members of the population. Saturation sampling is used when the population is relatively small or to make generalizations with small errors in population data. The distribution of this questionnaire was conducted online using a short message (WhatsApp), e-mail, and a google form. Data were processed and analyzed using Structural Equation Model (SEM) for the direct effect test (H1 to H5), and the Sobel calculator for the indirect effect test (H6 and H7).

4. Result

An analysis of the structural model (after the CFA test) that explains the influence among variables is figured below.

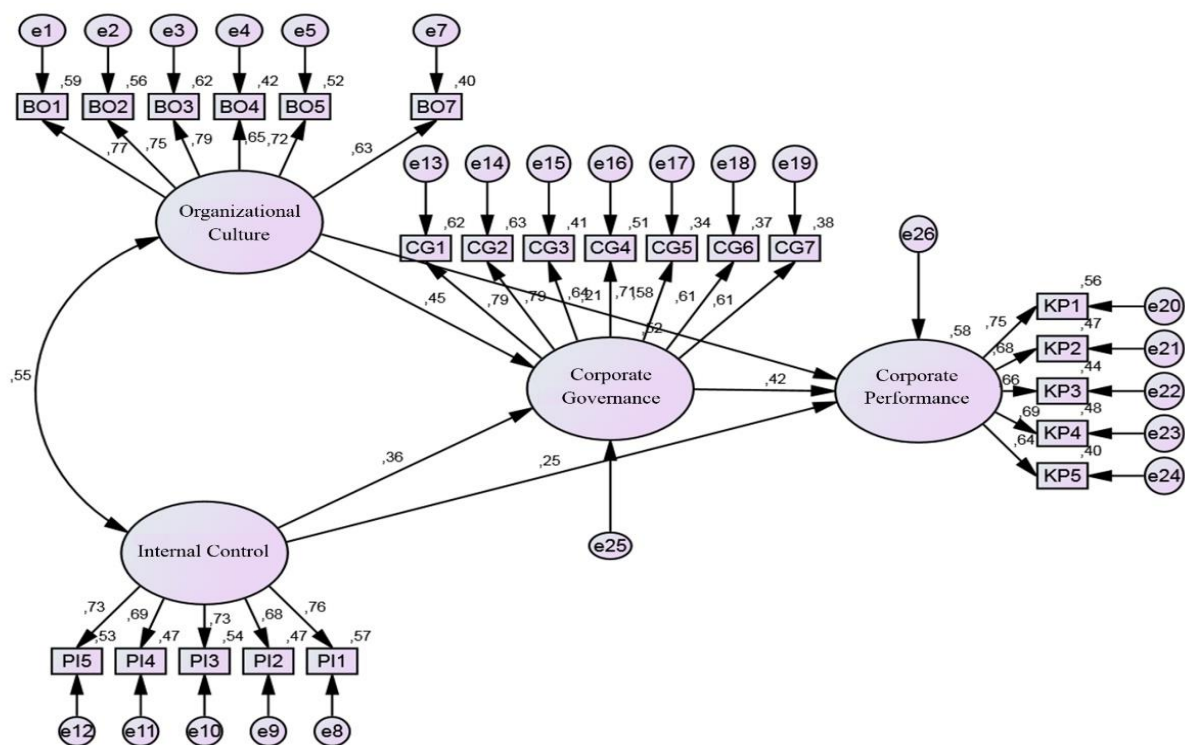


Figure 2. Model test result

The results tested by Amos on the direct effect hypotheses can be seen below.

Table 1. Hypothesis test of H1 to H5

	Estimate	S.E.	C.R.	P
Corporate_Governance <--- Organizational_Culture	.483	.104	4.635	***
Corporate_Governance <--- Internal_Control	.410	.109	3.777	***
Corporate_Performance <--- Corporate_Governance	.343	.097	3.535	***
Corporate_Performance <--- Organizational_Culture	.182	.092	1.973	.049
Corporate_Performance <--- Internal_Control	.227	.095	2.384	.017

Sources: Data Processing Result AMOS, 2022 (processed)

Based on the results of regression testing through structural equation modeling, the result of the direct effect test (H1 to H5) can be found as follows.

Organizational Culture On Corporate Governance (H1 test)**Table 2. Hypothesis 1 test**

Line	CR	p	Standardized Regression	Result
OC - CG	4.635	0.000	0.452	Accepted

Sources: Data Processing Result AMOS, 2022 (processed)

The first hypothesis test is the culture's effect on governance. Based on the result of the data processing described above reveals the organizational culture significantly affected corporate governance ($p < 0.05$); therefore, this hypothesis can be accepted. The result also explains if organizational culture increases by 1 unit, this increases corporate governance by 0.45 units

Internal Control On Corporate Governance (H2 test)**Table 3. Hypothesis 2 test**

Line	CR	p	Standardized Regression	Result
IC - CG	3.777	0.000	0.363	Accepted

Sources: Data Processing Result AMOS, 2022 (processed)

The second hypothesis test is the internal control effect on corporate governance. Based on the result described above, proves that internal control significantly affected corporate governance ($p < 0.05$); therefore, this hypothesis can be accepted. The result also explains if internal control increases by 1 unit, this increases corporate governance by 0.36 units

Organizational Culture On Corporate Performance (H3 test)**Table 4. Hypothesis 3 test**

Line	CR	p	Standardized Regression	Result
OC - CP	1.973	0.049	0.209	Accepted

Sources: Data Processing Result AMOS, 2022 (processed)

The third hypothesis test is the organizational culture's effect on corporate performance. Based on the result of the data processing described above, reveals that organizational culture significantly affected corporate performance ($p < 0.05$); therefore, this hypothesis can be accepted. The result also explains if organizational culture increase by 1 unit, this increases corporate performance by 0.20 units

Internal Control On Corporate Performance (H4 test)**Table 5. Hypothesis 4 test**

Line	CR	p	Standardized Regression	Result
IC - CP	2.348	0.017	0.246	Accepted

Sources: Data Processing Result AMOS, 2022 (processed)

The fourth hypothesis test is the internal control effect on corporate performance. The result above explains the internal control significantly affected corporate performance ($p < 0.05$); therefore, this hypothesis can be accepted. The result also explains if internal control increases by 1 unit, this increases corporate performance by 0.24 units

Corporate Governance On Corporate Performance (H5 test)

Table 6. Hypothesis 5 test

Line	CR	p	Standardized Regression	Result
CG - CP	3,353	0,000	0.420	Accepted

Sources: Data Processing Result AMOS, 2022 (processed)

The fifth hypothesis test is the corporate governance effect on corporate performance. The result shown above figures corporate governance significantly affected corporate performance ($p < 0.05$); therefore, this hypothesis can be accepted. The result also explains if corporate governance increases by 1 unit, this increases corporate performance by 0.42 units

Indirect effect test: Organizational culture effect on corporate performance through corporate governance (H6)

To obtain the result of the hypothesis test, the organizational culture effect on corporate performance through corporate governance can be seen in the result of the Sobel test as described below.

	Input:		Test statistic:	Std. Error:	p-value:
a	0.483	Sobel test:	2.81340677	0.05888555	0.00490196
b	0.343	Aroian test:	2.77300858	0.05974341	0.00555407
s_a	0.104	Goodman test:	2.85562362	0.058015	0.00429524
s_b	0.097	Reset all		Calculate	

Figure 3. Hypothesis 6 test (mediation)

Sobel test proves an indirect and significant effect of organizational culture against corporate performance through corporate governance. It is shown by the p is 0,004 less than 0,05. And

the total indirect effect for this hypothesis is 0,190, which figures that in this mediation model, it is proven an increase in governance by 1 unit can drive a cultural effect on corporate performance increasing to 0.19 units. The complete set that shows the coefficient of organizational culture effect on corporate performance through corporate governance (A, B, C, and C') is shown below.

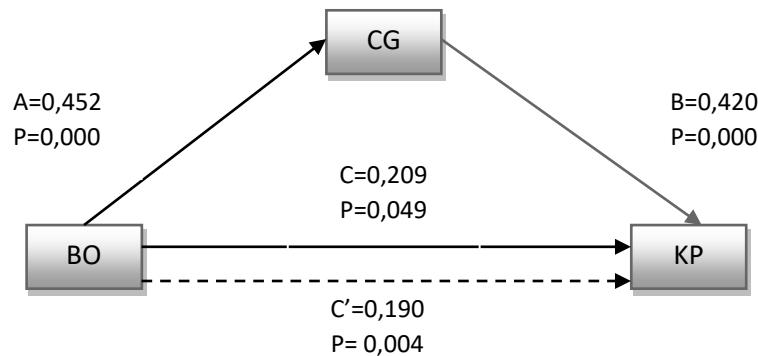


Figure 4. Hypothesis 6 Model

Information:

OC: Organizational Culture

CG: Corporate Governance

CP: Corporate Performance

Figure 4 explains that the coefficients of paths A, B, and C are significant and path C' is also significant. These results prove that corporate governance partially mediates the organizational culture effect on corporate performance. Partially, it means that governance can function as a mediator in the model or not (the direct effect model applies between culture and corporate performance).

Indirect effect test : Internal control effect on corporate performance through corporate governance (H7)

To obtain the result of the hypothesis test, the internal control effect on corporate performance through corporate governance can be seen in the result of the test described below.

	Input:	Test statistic:	Std. Error:	p-value:
a	0.410	Sobel test: 2.57638407	0.05458425	0.00998397
b	0.343	Aroian test: 2.52937014	0.05559882	0.01142675
s_a	0.109	Goodman test: 2.62612097	0.05355047	0.00863641
s_b	0.097	Reset all	Calculate	

Figure 5. Hypothesis 7 test (mediation)

Sobel test proves an indirect and significant effect of internal control on corporate performance through corporate governance. It is shown by the p is 0,009 less than 0,05. And the total indirect

effect for this hypothesis is 0,153 revealing that in this mediation model, it is proven an increase in governance by 1 unit can drive an internal control effect on corporate performance increasing to 0.153 units. The complete set that shows the coefficient of organizational culture effect on corporate performance through corporate governance (A, B, C, and C') is shown below.

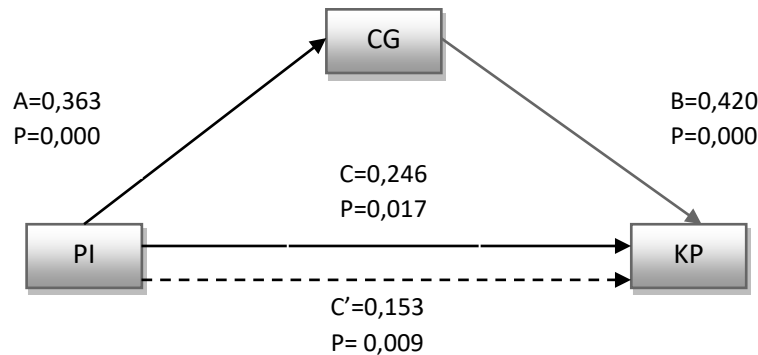


Figure 6. Hypothesis 7 Model

Information:

IC: Internal Control

CG: Corporate Governance

CP: Corporate Performance

Figure 6 explains the coefficients of paths A, B, and C are significant and path C' is also significant. These results reveal that corporate governance partially mediates the internal control effect on corporate performance. Partially, it means that governance can function as a mediator in the model or not (the direct effect model applies between internal control and corporate performance).

5. Conclusion

Testing the model in this research proves that in Medco, Significantly, culture affects corporate governance, Internal control affects governance, culture affects corporate performance, Internal control affects corporate performance, governance affects corporate performance, culture affects corporate performance thru governance, and Internal control affects corporate performance thru governance. The findings also prove from the results of direct effect and indirect effect tests, the corporate governance variable in the model functions as a partial mediator (for models of H7 and H8). These findings explain that the corporate performance improvement model at Medco is a function of cultural adjustment, and strengthening internal control within the company, which can have an impact on its corporate governance to get better. The tested model becomes a premise that can be used for theoretical explanations, and further research development by adding other predictor variables that can play a role in changes in corporate performance. This model can also be used by practitioners, especially policymakers at Medco, to rearrange its strategy to continuously improve its performance.

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