
Corporate Governance and HRM Practice on Consumption Product Sector Listed in Indonesia Stock Exchange

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Abstract:

This study bridges the gap between Corporate Governance with the practice of human resource management and organizational performance.

Data were collected from companies listed on Indonesia Stock Exchange on consumer product sector with 10 companies and consisting of 35 respondents. By using multiple regression analysis, the relationship between corporate governance and human resource management practices reveal significant effect on organizational performance. This proves that human resource management has a role to the company performance.

Moreover, the results show the role of human resource management as a mediating variable that connects between corporate governance practices and company performance. This result also proves that there is a correlation between corporate governance practices implemented in companies with the implementation of human resource management. This study raises the approach of stakeholders who take learning through corporate governance.

Although there is difficulty in getting cooperation and response from the companies involved, it proves that the stakeholders of the employees involved are aware of corporate governance issues and companies are required to improve and maintain their standards.

Keywords: *Corporate governance, human resource management, organizational performance.*

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1. Introduction

The failure of a number of businesses due to the 1997 Asia economic crisis and the 2008 global economic crisis is more emphasized in the incompetence of corporate governance practices. Thus it is necessary to understand the corporate practice standard, one of which is the practice of human resources in corporate governance.

A large number of studies have been conducted to test a wide range of issues involving broad corporate governance, focused on the relationship between corporate governance and human resources management. Some examine the relationship between corporate governance mechanisms and company performance (Rashidah and Roszaini, 2005), corporate governance and organizational performance (Ibrahim and Zulkafli, 2016). The implementation of corporate governance in a company is very important because it is one of the processes to maintain the company's long-term business continuity that prioritizes the interests of shareholders. Taking into account the importance of corporate governance, the company considers the need for good corporate governance (GCG) implementation. Corporate governance concentrates on the balance between economic and social and between individuals and society. The goal is to balance the best interests of individuals, corporations and communities. Governance deals with the direction and control of the corporation. The current governance tasks include activities that balance the needs, goals and interests of different stakeholders (Supangco, 2006).

The OECD (Organization for Economic Cooperation and Development) defines corporate governance as a set of relationships between different corporate actors involving management, directors, shareholders and stakeholders. Tirole (2001) illustrates the essence of corporate governance from shareholders' view that how to ensure managers, people who make decisions to benefit shareholders from internal and external influences in their decisions. Shleifer and Vishny (1997) define corporate governance as protection for interested shareholders.

O'Donovan (2003) with a different opinion describes corporate governance from stakeholder perspective as a system of structuring, operating, and controlling company by looking at achieving long-term strategic objectives to satisfy shareholders, employees, customers, creditors, suppliers and facing regulatory requirements and law, as part of meeting the needs of local communities and the environment. The role of corporate governance ensures that good employment and effective management practices for human capital both assure sustainability and satisfaction for employees and also mean on highest performance (Guest, 2005). This argument is reinforced by Lamba and Choudary (2013) that the practice of human resources improves the organization's internal capabilities in accordance with future agreements or challenges. Thus, it encourages people to work within the organization to be motivated and committed. The research gap in the study focuses on the influence of corporate governance practices on human resource management and how many relationships relate to organizational performance.

Thus, this study tends to focus on the relationship between corporate governance practices and human resource management practices. To examine the relationship, this study uses industries involving in consumption sector listed in Indonesia Stock Exchange, by considering the fact that the consumption sector is a buffer sector of Indonesia's economic progress.

The process of consumption sector to become an industry is determined by its human resources, and it is also inseparable from the human resource skill. Beverages and food companies in the process of course require value added so that consumer goods can be resold, thus the company can gain profit (Wahyuni and Ginting, 2017; Budiharseno, 2017). Measuring the level of effectiveness, efficiency of management is shown from the level of profit generated from sales and investment income, thus required measurement of the amount of profitability ratio. Based on the theoretical description above, in this study it can be formulated the problem that is whether the practice of human resource management significantly mediates the relationship between corporate governance practices and organizational performance. This study is expected to contribute significantly to the empirical study in Indonesia linking the practice of corporate governance, HRM and its impact on organizational performance.

2. Literature Review and Hypothesis Development

2.1 Corporate Governance and HRM

Corporate governance is primarily concerned with issues of ownership and control with the company. Corporate Governance is a set of terms and conditions of legal and wealth allocation among different stakeholder groups; and this affects their incentives and their willingness to work to operate with others in production activities (Giannakopoulou *et al.*, 2016). Konzelmann *et al.* (2006) stated that the central goal of HR is to improve performance and it is influenced by implementing of corporate governance practices. Furthermore, the demand from stakeholders can influence on the implementation and development of HRM practices. The practice of HRM practice is a set that distinguishes the current connectedness of activities, functions, and processes of attracting, developing and maintaining a company's human resources. Konzelmann *et al.* (2006) identifies two models of HRM, namely hard and soft HRM. Hard HRM focuses on physical HRM's aspects, while soft one focuses on internal HRM aspects, including communication, motivation, engagement, learning and leadership (Martin and Hetrick, 2006; El-Chaarani, 2017).

According to Konzelmann *et al.* (2006) there are 4 variables considered from soft and hard HRM namely employee consultation and incentive system (soft HRM) and training and teamwork (hard HRM). Corporate governance also points to the influence of labor management because of differences in the degree of importance that they work in the interests of workers, time frame, strategy type, financial performance measures, using market-based instruments for security commitments

and expanding entrepreneurial coordination (Gospel and Pendleton 2003; Jacoby 2005; Nugroho *et al.*, 2017; Ivanova and Bikeeva, 2016; Sharifz *et al.*, 2018). Based on theoretical studies above it can be made a hypothesis:

H1: Corporate governance has a positive and significant effect on human resource management practices.

2.2 Corporate Governance Practice and Organizational Performance

A study by Mitton (2002) based on a sample of 398 companies in North Korea, Malaysia, Indonesia, Philippines and Thailand during the 1997-1998 East Asian crisis found that companies with different levels of variables attributed to corporate governance had a strong influence on firm performance. These results suggest that the best firm performance has indicators of higher disclosure quality, higher outside ownership concentration, and their more diversified focus. Bhagat and Black (2002) by using some instruments state that corporate governance affects company's performance. These instruments include boards of directors, independent directors, CEOs, managers, efficient markets, political regimes, judiciary and government regulations. Bhagat and Bolton (2008) recommend using a more comprehensive instrument that covers the size of all corporate governance practices that are truly a single measure of performance. According to Beiner and Schmidt (2005), corporate governance plays an important role in improving the company's performance. Other studies show that good corporate governance improves company performance (Chung *et al.*, 2003). On other side, the other have reported negative relationships between corporate governance and company performance (Bathala and Rao, 1995) or no relationship found (Park and Shin, 2003).

H2: Positive corporate governance practices are related to organizational performance.

2.3 HRM and Firm Performance

The contingency approach suggests that the posture of organizational strategy either increases or decreases its effect from HR practices on firm performance (Delery and Doty, 1996). HRM practices affect organizational performance through influence on employee development and employee behavior. This practice determines the type of employee that has been selected, the skills and motivation of the employees and their opportunities and incentives that they design in a new, and better way than their work (Moideenkutty *et al.*, 2011). The past literature suggests that the effectiveness of management of human resource management aligned with business strategy can lead to better corporate performance (Guthrie, 2001). This essence of HRM practice is proving effective as a source of organizational excellence. According to Akdere (2009) the HR system focuses on the quality of management that is directly linked to the dual dimensions of organizational performance in the form of intangible consisting of employee satisfaction and customer satisfaction and in the tangible form in terms of profit. Moreover, knowledge management and positive management strategies were found to have a positive relation to the financial

performance implementing quality management. A study by Al-Kaha *et al.* (2011) found that human resource policies are positive in relation to organizational performance. They conclude that most of the importance of human resource policies on organizational performance is that employee participation in making decisions. However, it will be not widely implemented because of cultural attitudes that employee participation is driven in decision-making or because of the particular nature of critical and systematic work.

H3: There is a positive relationship between human resource management practices and organizational performance.

2.4 HRM Practices, Corporate Governance and Firms Performance

According to Martin and McGoldrick (2009) only a small number of HR articles mention corporate governance. However, there are a number of uses attempting to map out the link between governance and HRM (Boxall and Purcell, 2008). Konzelmann *et al.* (2006) stated that the central goal of HR is to improve performance. Gospel and Pendleton (2003) argue that governance and incentive-related structures, managers to prepare to lower the workforce and avoid investments, such as training, whose results are uncertain. The key to organizational equality of holders thus plays an important role in shaping HR practices because of the different classroom pressures of investors is the ability to use management and influence that here already have their adoptable systems of employment. Previous studies reveal that the organization's workplace in the secondary sector, generally composed of small firms-mostly managed by owners (Cosh and Hughes 2003). It is also found that friendly relationship between employees and managers and trust in employee cooperation along with loyalty is a means capable of efficient work organization achievement (Craig *et al.*, 1982; Kurniawan, 2017).

H4: The practice of human resource management significantly mediates the relationship between corporate governance practices and organizational performance.

3. Methodology

Samples of this study were collected from a consumer goods company listed on the Indonesia Stock Exchange. Data were collected through questionnaires arranged separately. Survey of instruments distributed to respondents. Due to the limited time of the questionnaires sent via e-mail to the respondents who collected a total of 100 each of 10 questionnaires per company of 10 companies listed on the stock exchange that have regular financial reports, ie for 2 directors, 2 managers, 2 supervisors, 2 section head and 2 employees. After the selection of respondents, this survey ensures adherence to the approach of stakeholders. Only 35 respondents who returned the questionnaires. Although it is a small number, this is still in consistent with Roscoe (1975) stating that a sample size of more than 30 is appropriate for research.

Table 1. Current ratio data of food and beverage sector companies in 2013 - 2014

No	Emiten Code	Current Ratio	
		2013	2014
1	AISA	1.75	2.66
2	CEKA	1.63	1.47
3	DLTA	4.76	4.47
4	ICBP	2.41	2.18
5	INDF	1.68	1.81
6	MYOR	2.40	2.09
7	PSDN	1.68	1.46
8	SKLT	1.23	1.18
9	STTP	1.14	1.48
10	ULTJ	2.47	3.34
	Mean	2.12	2.21

Source: www.idx.co.id

Corporate governance practices utilize some items taken from Sang and II (2004), including independent directors, external independence director, transparency, access to information and effectiveness of the audit committee. The variable of HRM practices adopted items from Delery and Doty (1996), Konzelmann *et al.* (2006) including soft and hard HRM approach that are workforce competence and employee participation, employee benefits, employee commitment (soft HRM) and training and development, and team work and individual performance (hard HRM). Perceptual measurements that are used to assess organizational performance over goals or secondary data are items such as profitability, sales growth, sales volume and market share. The measurement of organizational performance is broadly based on the work of Fynes *et al.* (2005), Homburg *et al.* (2004) and Hooley and Greenley (2005) that support the use of perceptual measures of organizational performance.

4. Results

Respondent demographic data Can be seen in Table 1. Demographic data shows respondent characteristics, which consist of gender, age, education and work. In Table 2 an outline of descriptive analysis is conducted on the practice of corporate governance. Table 3 illustrates the perception of respondents by appreciating the practice of corporate governance that has been implemented within the company in order. CG3 and CG4 had the highest average (4.0857) with SD = 0.91944 and CG2 showed the lowest average (3.4571) with SD = 0.74134.

Table 2. HRM Practice

	N	Min	Max	Mean	Std. Dev
HRM1	35	1	4	2.6857	0.71831

HRM2	35	1	4	2.6857	0.86675
HRM3	35	1	4	2.8286	0.70651
HRM4	35	1	5	2.2857	0.78857
HRM5	35	1	5	2.7429	1.212097
HRM6	35	1	4	2.1714	0.92309
HRM7	35	1	5	2.3429	0.96841
N	35				

Table 3. Demographics of Respondents

Characteristics	Classification	Amount	%
Gender	Female	15	42.85
	Male	20	57.15
Age	20-29	4	11.43
	30-39	14	40.00
	40-49	10	28.57
	50-59	5	14.29
	>60	2	5.71
Education	High School	2	5.71
	Diploma	24	68.57
	Graduate	5	14.29
	Undergraduate	4	11.43
Years of Serving	0-5	1	2.86
	6-10	2	5.71
	11-15	8	22.86
	16-20	7	20.00
	21-25	9	25.71
	26-30	4	11.42
	31-35	3	8.58
	> 35	1	2.86

Regression analysis available from SPSS is used to test the hypothesis. The results show that the relationship between corporate governance practices and HRM practices as indicated by significant value 0.044. This value shows significant positive effect of corporate governance. Corporate governance practices have a significant effect on the implementation of HRM practices. Moreover, the results shows that corporate governance practices are accepted by sig 0.040, explaining that the relationship between corporate governance practices and organizational performance is accepted or significant; but showed a negative effect. Table 4 shows that HRM practice is not significantly related to organizational performance with significant value 0.252.

Table 4. Corporate Governance Practice

	N	Min	Max	Mean	Std. Dev
CG1	35	2	5	3.7714	0.84316
CG2	35	2	5	3.4571	0.74134

CG3	35	2	5	4.0857	0.91944
CG4	35	2	5	4.0857	0.91944
N	35				

However, when viewed more deeply the results obtained tend to be positive with beta 0.199. The practice of human resources is able to mediate against corporate governance with organizational performance with significant value 0.036. The significance of corporate governance to organizational performance was 0.007, and has a tendency value of beta negative. The statistical analysis of relationship between corporate governance and HRM practices show that HRM practices were able to mediate organizational performance. Accordingly, the practice of corporate governance is associated with positive HRM practices. According to Baron and Kenny (1996) the requirements of mediation occur when both hypotheses must be significant and thus may be a mediation test. Based on the above conditions the hypothesis H1, H2, and H4 accepted and H3 rejected (Tables 5-8).

Table 5. Corporate Governance and HRM Practice

Model	Unstd Coefficient		Std Coefficient	t	Sig
	B	Std.Error	B		
(constant)	8.966	4.127		2.172	0.037
VarCG	0.557	0.266	0.343	2.097	0.044

a. Dependent Variable : VARHRM

Table 6. Corporate Governance dan Organizational Performance

Model	Unstd Coefficient		Std Coefficient	t	Sig
	B	Std.Error	B		
(constant)	21.751	2.676		8.129	0.000
VarCG	-0.367	0.172	-0.348	-2.133	0.040

a. Dependent Variabe : Varop

Table 7. HRM dan Organizational Performance

Model	Unstd Coefficient		Std Coefficient	t	Sig
	B	Std.Error	B		
(constant)	13.850	1.990		6.960	0.000
VarCG	0.129	0.111	0.199	1.167	0.252

a. Dependent Variabe : Varop

Table 8. Mediating Role of HRM Practices on Organizational Performance

Model	Unstd Coefficient		Std Coefficient	t	Sig
	B	Std.Error	B		
(constant)	19.649	2.708		7.255	0.000
VARHRM	0.234	0.107	0.361	2.194	0.036
VARCG	-0.498	0.174	-0.472	-2.869	0.007

a. Dependent Variable : Varop

5. Discussion

The result of H1 hypothesis is significant, that is that is a correlation between corporate governance practices implemented in the company with the type of HRM practice. The evidence provides that corporate governance of the HRM practice concept from a corporate perspective perspective, is significant, corporate governance of the company will determine HR policies and implemented HR practices. The results of this study are parallel to the reasons made by Konzelmann *et al.* (2006) that corporate governance practices and organizational performance are somehow consistent with one flow in a corporate governance study. Positive corporate governance practices are related to organizational performance. H2 result received although the beta tends to be negative. While it is generally accepted that corporate governance effectively improves the performance of the company, it also results in a negative correlation between corporate governance and corporate performance, as suggested (Bathala and Rao, 1995). Positive human resource management practices are related to organizational performance.

H3 in decline but the results obtained tend to be positive. The positive outcomes of H3 between the HRM relationship and the organization's performance provide evidence that HRM plays an important role for the company and this study is in accordance with previous studies. The implications of a direct relationship between HRM and organizational performance and adjusting to the outcomes of Al-Kaha *et al.* (2011) suggest that HR policy is positive in relation to organizational performance. The practice of human resource management significantly mediates the relationship between corporate governance practices and organizational performance. H4 is proved that this variable is able to mediate, although the results tend to be negative. This condition is still happening because the actual HRM is able to bring good corporate governance towards a better way but there is a tendency co-opted with government policy, tends to lead family system, and the community is still paternalistic, so indirectly the results are in may tend to negative.

6. Conclusions

The findings of this study suggest that a stakeholder approach is through an approach taken from a corporate governance study. Despite the difficulty in gaining the benefits of cooperation and responses from the companies involved, it proves that stakeholders in particular employees are aware of the issues of corporate governance and companies are demanding to improve and maintain their standards. This study was conducted based on 35 companies listed in Indonesia Stock Exchange. Subsequently small sample sizes were identified as a major limitation to make general conclusions about the sectors selected in this study. Low responses may be attributes to company policies that do not want to disclose their company information. With large numbers of samples it may get significant results between HRM and organizational performance, although the results of the relationship between corporate governance and the organization's performance of HRM engagement practices also shows its capability as mediating factor. It is interesting that to improve the performance of the organization so as not to be affected or co-

opted with the practice of government and family policy; as well as a paternalistic culture that is less supportive of HRM practices that satisfy the relationship between corporate governance and organizational performance.

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