

CHAPTER I

INTRODUCTION

A. Research Background

Labor is the strategic factor as an effort to achieve national development of Indonesia. The roles of the state in realizing national development efforts are to guarantee and realize the welfare of the labor. One of the efforts to improve the welfare of labor is the fulfillment of health insurance. The fulfillment of health insurance can be achieved through the provision of adequate health facilities and services for labors. Article 28 H paragraph (1) of the Constitution of the Republic of Indonesia Year 1945 Second Amendment states that “Health care is the human right and one of the elements of well-being that should be realized in accordance with the ideals of the Indonesian people” (Kusumo, 2016).

In accordance with Article 34 paragraph (3) of the Act of 1945, the Fourth Amendment, sounds: "The state is responsible for the provision of health care facilities and public service facilities are feasible, including for labor". The provision of facilities and decent health care will support health insurance programs particularly in manpower development. Thus, the efforts to continue to develop health supplies and services in the national social security system become one of the things that must be considered.

The organizers of the Social Security Program were mandated in the Constitution of the Republic of Indonesia Year 1945 as stipulated in Article 28 H

paragraph (3) which states: "Everyone has the right to social security which allows the development of his or her self as a dignified human being" and in Article 34 paragraph (2) which states that: "the State shall develop the Social Security System for all citizens and empower the weak and incapable in accordance with human dignity". In 2004, the Government issued the Law No. 40 of 2004 on National Social Security System (Navigation). The Social Security Act provides a comprehensive social security for all Indonesian people. Therefore, at the end of 2011, the law is also regulated the Social Security Agency (BPJS).

The law is reflected in Q.S. Al-Baqarah (2): 185, which reads:

يُرِيدُ اللَّهُ بِكُمُ الْيُسْرَ وَلَا يُرِيدُ بِكُمُ الْعُسْرَ

Meaning: "Allah desires ease for you and does not desire difficulty for you."

The above verse explains that convenience is something that is desired by Allah swt., and vice versa. Difficulty is something that is not desired by Allah swt. Thus, people are required by Allah swt. in order not to complicate themselves in running the business. For that reason, the social security or insurance business is a program to prepare and plan for life in the future.

The Act No. 24 of 2011 on BPJS mandates governing body transformation, PT Askes transformed into BPJS Kesehatan while PT Jamsostek transformed into BPJS Ketenagakerjaan. BPJS Kesehatan will provide health insurance while BPJS Ketenagakerjaan provides accident insurance, pension insurance, old age insurance, life insurance, and labor termination. BPJS Ketenagakerjaan have a motto that is as

“Menjadi Jembatan Menuju Kesejahteraan Pekerja” (Become a Bridge Towards Worker Welfare), it is also applied in the vision and mission to be performed by every employee. Various things need to be done by this firm to be able to move to achieve all market targets in the form of increasing number of BPJS product service users and satisfaction from customers who use these various service products (Kusumo, 2016).

BPJS Ketenagakerjaan in their work over the last 41 years has proven that social security program of labor is one of the instruments of wisdom labor though, especially in providing basic protection for workers against social economic risks arising from workplace accidents, disability, pregnancy, maternity, old age and death. BPJS Ketenagakerjaan become the part of the national development especially in the field of employment. The national development that has created jobs and opportunities for labor, also provide protection for workers who carry out their work. Although on one side BPJS Ketenagakerjaan has the obligation to meet public needs, but as a business entity, BPJS Ketenagakerjaan must strive to achieve its short-term goals or strategic objectives so as not to burden the state finances.

This is relevant with the research of Wheelen and Hunger (2012) finding that the firm strategic goal is the achievement of the firm competitive advantage, with short-term goal is the achievement of profit. Furthermore, they said that if the firm suffered a loss, it will lead to failure in achieving organizational goals. In case, the firm short-term goals are not achieved. The failure to achieve this short-term goal is caused by the implementation of the management control system has failed and was not effective.

Management control system is a tool used by a management organization to achieve organizational goals (Anthony and Govindaranjan, 2007). According to Widener and Selto (1999), a management control system is designed to assist management in planning and controlling the activities of the organization. Furthermore, the function of management control system is to influence the behavior of employees and managers in a way motivates. The function of management control system is affecting the behavior of managers with a way to motivate, provide the right incentives, reward the achievement of manager (Blocher, Chen and Lin, 2001).

Management control system in every organization is contingent on the internal and external factors (Cadez and Guilding, 2008). While Hoque (2004), explains that the key to formulate a management control system is to understand the dependency of the management control system towards the various components. Therefore, management control system is influenced by factors such as competitive behavior, the nature of the industry and changes in the business environment. Expected implementation of the strategy to be effective in achieving firm goals both short-term goals and long-term through good management control system (Sitorus and Timbul, 2007). Thus, if the profit is not achieved, it is suspected that there is a failure in the application of management control system and improper strategy implementation.

According to Anthony and Govindarajan (2007), the management control system is an implementation of the strategy pursued by the firm. In other words, the management control system is affected by the business strategy. Business strategy

is the strategy that focuses on the question of long-term and broad about what business will be penetrated by an organization and what is desirable in the business (Coulter, 2012). Muldjono (2012) added that business strategy is the direction or path that an organization will take in carrying out its business mission to achieve its business vision.

Paylosa (2014) said the business strategy is the integrated planning by considering the strategic aspects of the firm. Business strategy affect the entire activity of the firm for all activities of business processes, operations and transactions conducted as well as all business decisions made by managers should be in line with the business strategy (Arieftiara, 2013 in Wardani and Isbela, 2017). In its implementation, it is a process in which strategies and policies geared into action through the development of programs, budgets and procedures. This process requires a change in culture, structure, and management systems across the entire organization or enterprise (Wheelen and Hunger, 2012).

The Strategic Plan of BPJS Ketenagakerjaan's Year 2014-2018 (2018) mentions that BPJS Ketenagakerjaan focuses on the growth and sustainability of the entity's main business, namely providing social protection for the employee. Every year adjustments are made to be able to implement the strategic plans and accommodate changes in business environment assumptions. This perspective shows that the direction of the business strategy must be based on the idea that BPJS Ketenagakerjaan are supposed to be developed regularly in fulfilling their obligations to optimize public services through the implementation of management control system.

However, the implementation of a poor management control system at BPJS Ketenagakerjaan has an impact on its achievements. This fact indicated that BPJS Ketenagakerjaan in Central Java and Special Region of Yogyakarta on August 2017 has just reached new membership target of the firm amounted to 54.86%. The achievement is equivalent to 9,457 companies. In fact, the target set by management for the region of Central Java and Yogyakarta reached 17,239 companies (Pernando, 2017).

The research which examines the influence of business strategy towards management control system was conducted by Karsam (2017) that has similarity topic with this research. This research was conducted again by replacing the object of research into BPJS Ketenagakerjaan in Central Java and Yogyakarta Special Region and redesign the research model. This research used the business strategy as the independent variable, firm performance as the dependent variable, and management control system as the intervening variable. Therefore, this research uses BPJS Ketenagakerjaan object of Central Java and Yogyakarta Special Region which is engaged in insurance services or social security, while the previous research used BUMN objects with the Strategic Industry category. The characteristics and activities of the research object used by Karsam (2017) with this researcher have several differences. Referring to Halim et al (2009), the difference lies in among others:

1. The Absence of Buffer Stock

Inventories at manufacturing companies, in this case, BUMN Strategic Industries, intended to ensure the continuity of production, as well as to ensure

the finished product which is always available when needed by consumers. However, the characteristics of this inventory is not found in the BPJS Ketenagakerjaan as the service industry. The service firm should seek to minimize unused capacity. Costs incurred in the service organization are fixed in short term. The key variable for the service organization is how much capacity that belongs to the firm services as compared to the existing demand for services.

2. Difficulty in Quality Control

BUMN Strategic Industries can check their products before they are sent to the customers and the quality of goods sent can be measured by directly or using certain instruments. While BPJS Ketenagakerjaan cannot do the same thing as goods. Assessment of service quality occurs when the service is provided and often subjective.

3. The Use of Intensive Labor

BUMN Strategic Industries adds automation equipment and production tools with the intention of replacing labor and reducing costs. BPJS Ketenagakerjaan does not do so, but it focuses to further improve service.

4. Multi Unit Organization

BPJS Ketenagakerjaan operates multiple units which are relatively small in different locations. Because these units differ in providing services, special attention is needed to compare the performance of each unit. Techniques such as adjusting the difference are called as data envelopment analysis. These

techniques identify the most efficient units using statistical methods for various permissible differences.

Based on the above background, the researcher is interested to conduct the research with the title of " The Intervening Role of Management Control System on Business Strategy and Firm Performance (An Empirical Study on BPJS Ketenagakerjaan in Central Java and Special Region of Yogyakarta)".

B. Research Scope

The limitations of this research are:

1. This research examines business strategy as the independent variables, firm performance as the dependent variable and management control system as the intervening variable.
2. The sample of this research was the top management of BPJS Ketenagakerjaan in Central Java and Special Region of Yogyakarta.

C. Research Question

Based on the background, the formulated research questions are:

1. Does business strategy have positive effect on firm performance?
2. Does business strategy have positive effect on firm performance through management control system as the intervening variable?

D. Research Objectives

The objectives of this research are:

1. To investigate the influence of business strategy on management control system.
2. To investigate the influence of business strategy on management control system through management control system as the intervening variable.

E. Research Benefit

This research is expected to provide benefits for related parties, there are:

1. Theoretical Benefit

It contributes to add the theory and concepts from the research results to encourage the development of science on business strategy, firm performance, and management control system, especially regarding BPJS Ketenagakerjaan.

2. Practical Benefit

It contributes to provide benefits or input for BPJS Ketenagakerjaan in improving the firm performance, especially on business strategy, firm performance, and management control system to compete.