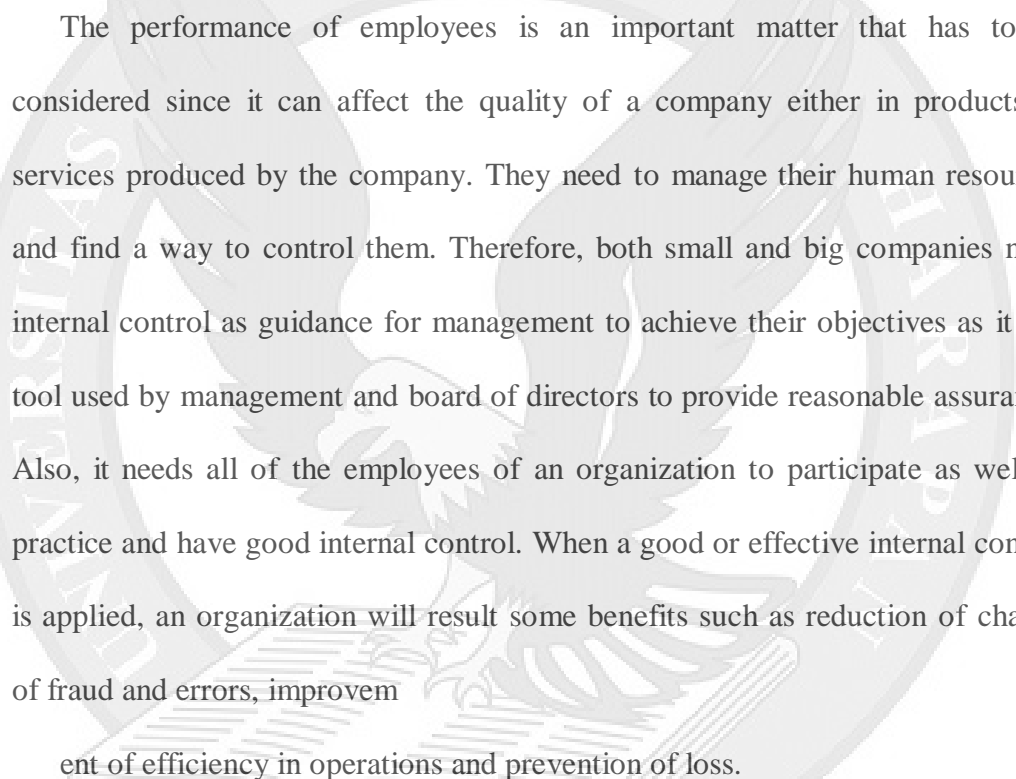


# CHAPTER 1

## INTRODUCTION

### 1.1 Background



The performance of employees is an important matter that has to be considered since it can affect the quality of a company either in products or services produced by the company. They need to manage their human resources and find a way to control them. Therefore, both small and big companies need internal control as guidance for management to achieve their objectives as it is a tool used by management and board of directors to provide reasonable assurance. Also, it needs all of the employees of an organization to participate as well to practice and have good internal control. When a good or effective internal control is applied, an organization will result some benefits such as reduction of chance of fraud and errors, improvement of efficiency in operations and prevention of loss.

Regarding the economy in Indonesia nowadays, Indonesia has the largest economy in Southeast Asia with population of 261.9 million people and unemployment rate of 5.13% with 6.8 million people in the first quarter of 2018<sup>1</sup>.

---

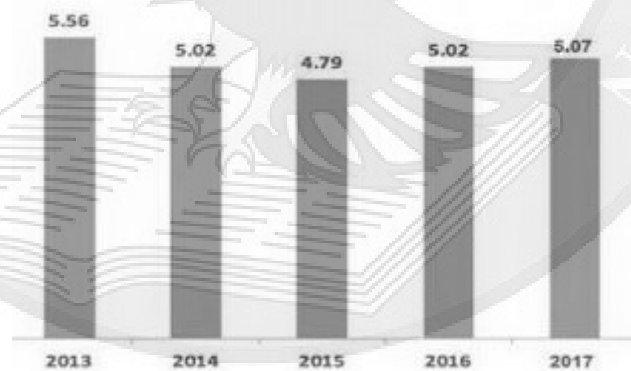
<sup>1</sup>2018 *Trading Economics*

<sup>2</sup> *Indonesia Statistics: Highest Purchasing Power Occurs in Q2 2018*

The unemployment rate has decreased from 5.5% with 7 million people although the population increased from 258.7 million people in the third quarter of 2017. Furthermore, due to the provision of holiday allowances (THR) to civil servants, in the second quarter of 2018 Indonesia has increased their purchasing power to 5.14% from the first quarter that is only 4.95%<sup>2</sup>. According to BPS data (Badan Pusat Statistik), it is also stated that the second quarter of 2018 has the highest rate since the beginning of third quarter in 2014. Besides that, the GNP per capita has also been rising and never declined from 2010 that was only Rp 21.68 millions until 2016 with total of Rp 36.37 million. Moreover, the percentage of economic growth in Indonesia has been increasing since 2014.

Figure 1.1

Indonesia's economic growth (in %)



Source: BPS (Badan Pusat Statistik, 2018)

---

<sup>1</sup>2018 Trading Economics

<sup>2</sup>Indonesia Statistics: Highest Purchasing Power Occurs in Q2 2018

In Indonesia, manufacturing industry is very important as it affects the unemployment rate since every manufacturing company surely needs a large number of employees. One of the biggest manufacturing companies that have succeeded and sell their products domestically and internationally is PT. Nipress Tbk, a manufacturing company that manufactures several types of batteries including automotive, motorcycle, industrial and traction. It is considered as energy generator industry according to the government law of Indonesia No. 14 year 2015 about main plan of national industry in 2015-2035. According to the law, there are some technology necessities that are developed which include precision measurement, high resistance conductor raw materials, process of conductor raw materials, chemical battery and solar cell raw materials, copper alloy, system for solar power plant, and nuclear engineering. The company also belongs to domestic investment or Penanaman Modal Dalam Negeri (PMDN) because it was founded in 1970 and carried out by Indonesian citizens and changed its status in 1991 to public company until now since they cooperate with government. Based on the company's records from 2007 until 2016, they have been increasing their company growth. In the midst of those 10-years, the company had a quite difference in revenue and equity growth. One of the possible reasons they could achieve growth in the company is because the management and board of directors had set goals and applied an effective internal control for their employees. Also when internal control is applied correctly, it can help the company to increase their financial reliability and integrity. These are the sales of industry of energy generator in 5 years.

Table 1.1

Sales of industry of energy generator in 5 years (in millions Rupiah)

Company	2013	2014	2015	2016	2017
PT Sumberdaya Sewatama	1.406.100	1.625.069	1.517.516	1.265.337	996.402
PT Pindad	1.877.510	1.436.680	1.948.820	2.025.440	2.456.120
PT Adaro Energy Tbk	3.285.142	3.325.444	2.684.476	2.524.239	3.258.333
PT Sky Energy Indonesia Tbk	133.407	220.122	302.104	329.263	416.328
PT Indika Energy Tbk	12.889.611	16.563.849	16.383.032	11.572.960	16.403.985

Sources: annual reports, IDX (2015, 2017), fundamental analysis of stocks (edited by researcher)

Researcher chose data from 2013 because according to Bank Indonesia, April 2014, in 2013 Indonesian economy had been challenged with new threats of macroeconomic stability and the sustainability of economic growth. Therefore, this data shows that energy generator industry could maintain their sales until the next 5 years.

Based on the observation in previous paragraphs, researcher will choose the title as “Analysis of Internal Control Application towards Employees’ Performance in PT. Nipress Tbk”.

### **1.2 Research Problem**

There are some problems which will be analyzed in this research, such as:

1. How does PT. Nipress Tbk apply internal control towards their employees?
2. How does internal control affect employees’ performance?
3. How does PT. Nipress Tbk manage their employees’ performance?

### **1.3 Research Objectives**

The following are the objectives of the study:

1. To analyze how PT. Nipress Tbk apply internal control in relation to employees’ performance.
2. To indicate the effectiveness of internal control application towards employees’ performance.
3. To find out how PT. Nipress Tbk manages their employees’ performance.

### **1.4 Significance of the Research**

1. For the writer

The writer will hopefully present more knowledge and understanding regarding internal control and employees' performance and learn its application in a company in real life.

2. For company

The research is expected to provide recommendations to the company and maximize the potential of employees' performance that will contribute positively towards the company.

3. For next researchers

The result of this study is expectedly able to help readers in finding more knowledge in relation to internal control and for other researchers to find this study as a reference in performing internal control in their studies.

### **1.5 Systematic Discussion**

This research consists of 5 chapters as follows:

1. Chapter 1 – Introduction

This chapter includes the background of the research, research problem, research objectives, significance of the research and systematic discussion.

2. Chapter 2 – Theoretical Framework

This chapter presents the theoretical framework of internal control, performance including performance appraisal and performance management, and compensation which will be used in analyzing the case as well. These theories are taken from textbooks and the state law in Indonesia (Undang-Undang).

3. Chapter 3 – Research Methodology

This chapter outlines object of case study which is the background of the company such as company's history, operating activities, organizational structure, company's visions and missions, core values, location, logo, stages of case study, data collection technique and data analysis technique.

4. Chapter 4 – Analysis and Discussion

This chapter explains the application of internal control in a company and how the company concerns about their employees' performance related to the theory in chapter 2.

5. Chapter 5 – Conclusions and Recommendations

This chapter talks about the conclusions from the analysis that have been discussed in chapter 4. This chapter also provides recommendations that are expected to be helpful for the company.