

Review Article

# Good University Governance and Its Implication on Organizational Performance

Joni Dwi Pribadi<sup>1</sup>, Farika Nikmah<sup>2</sup>, Rizka Rahmawati<sup>3</sup>

<sup>1, 2, 3</sup> *Business Administration Department, State Polytechnic of Malang Malang, Indonesia*

Received Date: 13 November 2020

Revised Date: 26 December 2020

Accepted Date: 27 December 2020

**Abstract** - This study aims to analyze the effect of good university governance in relation to organizational performance. The proposed hypothesis was based on a literature study and the empirical references of the previous studies. The data was collected by spreading questionnaires through email. The respondents are the head of the department, head of the study program, head of divisions, sub-division head of all Polytechnics in East Java. The result of this study is expected to add references to a similar study. It can broaden the research area in state Polytechnics and private ones, state universities, private universities, and private or public institutions.

**Keywords** - Good University Governance (GUG), Organizational Performance, Higher Education, College Management, Polytechnic

## I. INTRODUCTION

State college as a working unit under auspices of technical ministry in the central government system should adapt and prepare itself to arrange good management and qualified human resources in all levels, to create a conducive organizational culture to achieve the ultimate organization performance. Good University Governance (GUG) is one of the fundamental scoring systems to increase the university score. It covers all aspect of university organization such as the management of sciences, lecturers, human resources support, students, facilities and academic infrastructures, academic programs, academic information on three fundamental tasks in the university (education, teaching, and public services)(Risanty & Kesuma S, 2019). This concept guides how the management of a good university and how it should place itself in the middle of the public and the nation (Sumarni, 2009). University governance is a guideline for the university to achieve the vision and goals as an institution of professionalism, research, and knowledge (Apriyanti, 2018).

Organization performance measurement is a term of practice done by the organization to increase the competitiveness (Chalmeta, Palomero, & Matilla, 2012), which nowadays broadens not only in measurement but also strengthening the organizational structure and developing the business (Saunila & Ukko, 2013); (Bianchi, Cosenz, & Marinković, 2015). Along with the current

situation, each organization realizes the importance of evaluating performance to keep up with the fast change occurring in society (Taticchi, Tonelli, & Pasqualino, 2013). Apart from satisfying the stakeholders, the measurement is also important for the long term business benefit and optimizing performance (Kotane, 2010); (Bhagwat & Sharma, 2007).

Polytechnic is a vocational higher education institution, which was intended to provide skillful industrial workers in either middle level or the unsupervised job in the early establishment. It started in December 1973 by establishing Mechanical Polytechnic of Swiss. While in Indonesia, the first Polytechnic is Institute Teknologi Bandung that was built as the result of the Agreement made by Indonesia and Swiss. It started to operate in January 1976 by providing Diploma III degree of Polytechnic. The next Polytechnics began to build all over Indonesia in 1982 by taking the Credit and Loan in the World Bank and ADB with some countries like Swiss, Germany, Japan, Australia, New Zealand in some universities, institutes and independent help. And nowadays, there are 43 polytechnics all over Indonesia.

As the demand to keep up with the current development, Polytechnics started to operate independently instead of being part of universities. As a vocational institution, Polytechnic competes with universities to provide competent graduates in the field taken.

Like the other business unit, education institutions also try to give the best service to the stakeholders, students, and society. By applying GUG, it is hoped that the customers are satisfied enough to contribute to the institution to perform better.

## II. THE CONCEPT OF GOOD UNIVERSITY GOVERNANCE AND ORGANIZATIONAL PERFORMANCE

The implementation of Good University Governance (GUG) as part of good governance is expected to positively affect the college service to the stakeholder, including increasing the performance.

### A. Good University Governance

College is one of the education levels that carry out higher education based on the scientific truth, logic,



honesty, justice, advantage, goodness, responsibility, diversity, and affordability (Kassahun, 2010). Managing an institution is different from managing a country and cooperation. There is some part that closely related to values, both in academic and social values. While some other parts need to be placed as a means to support the main purpose. The special thing about college is performing three main functions (tri dharma) of education, holding research, and community dedication.

In doing its function and achieving the purpose, the college has to implement a gppf university governance (GUG) principal (Salmi, 2009). *Good University Governance* (GUG) is a management system that applies good governance. Good university governance is seen as the basic application of good governance in a higher education institution that has been adjusted with the necessary values that should be implemented by the college to fulfill the education purpose in particular and in general. GUG concept pops up as the university management's accumulation problems both in administrative and the ones related to law.

Some principle in good university governance includes (Martini, Wardhani, & Choiruddin, 2018):

- Governing board,
- Autonomy,
- Accountability,
- Leadership and
- Transparency.

The purpose of good corporate governance in higher education is to help the college management understand the role and function of each part of the system to make decisions based on their authority and responsibility.

### **B. Organizational Performance**

The organization's performance can be measured based on financial and non-financial Performance (Ismanto, Widiastuti, Muharam, & Pangestuti, 2020). Financial performance is related to profit, sales, sales growth, market share (Maduekwe & Kamala, 2016); (Bahri, St-Pierre, & Sakka, 2016); (Željko Stojkić & Bošnjak, 2019); (Chapman & Kihn, 2008). Along with the time and effort to fulfill the necessity, performance measurement previously only based on financial performance now starts using non-financial performance. Non-financial performance includes *human capital, knowledge, skills* dan *business culture* (Cecilio, 2008). Later on, research that combines financial and non-financial performance begins to develop. Both performances equalize each other since the business competition is growing tightly and the economic growth is unpredictable.

For the object of this study is a non-profit institution, the performance which is measured is the non-financial performance, and the indicators are (1) technology, (2) input quality or the material used by the organization such as physical environment quality; organization culture, (3) human resources management, including compensation; reward; and promotion.

### **C. The Relation Between Good University Governance and Organization Performance**

Good University Governance is implemented in terms of governance structure, duties and responsibilities determination, and clear reporting lines, all of which can improve organizational Performance (Martini, Wardhani, & Choiruddin, 2018). Good governance is a manifestation of the acceptance of the importance of a set of rules or good governance to govern the relationships, functions, and interests of various parties in business and public service (Cheung & C. Qiang, 2002).

The more comprehensive study with performance within the context of suitability indicates no clear relationship between the structure of governance and Performance (Muktiyanto, Rossieta, & Hermawan, 2018). Good corporate governance in universities is needed to encourage efficiency, transparency, and consistency with legislation. The implementation of good corporate governance needs to be supported by three interconnected pillars, namely the state and its instruments as the regulator, the business world (including university) as market participants, and the community as stakeholders and users of business products and services (Januri, Sari, & Saragih, 2015).

## **III. RESEARCH METHODOLOGY**

This study was done in all Polytechnics all over East Java (18 Polytechnics). The head of the department, head of the study program as the lecturer's representative, head of division and subdivision as the representative of the administration staff. The survey was conducted from October to November 2020 by distributing 150 questionnaires. From those 150, 120 were returned, and 102 questionnaires were declared eligible for the analysis.

The questionnaire data were analyzed using a Likert scale of 5 answer choices, which was spread through email. To test the hypothesis, the SEM PLS path analysis was used. The analysis was conducted to determine the direct relationship between Good University Governance on Organizational Performance.

## **IV. CONCLUSION**

The outer model in PLS was used to measure the validity and reliability to ensure that the model created was qualified. The measurement used the correlation between the indicators with the construct score showed by the loading factor. An indicator with a high loading factor has a higher contribution to explain the latent construct. Indicators consistently and stability reflected the constructs should have loading factor >0,7 and the Cronbach's Alpha is more than 0,7. The validity measurement is seen from the AVE score, which is more than 0,5, which means that the cross-loading score or the latent correlation construct is higher than the indicator correlation score to the other correlation. As a result, the validity model measurement is already fulfilled.

Based on the output, the validity and reliability test toward the variables in this research is as followed:

**Table 1. Validity and Reliability Results**

No	Criteria	Rule of Thumbs	Results of the Research	
			GUG	OP
1	Cronbach's Alpha	>0,7	0.953	0.940
2	Composite Reliability	>0,7	0.910	0.881
3	AVE	>0,5	0.627	0.771

Note: GUG (Good University Governance); OP (Organizational Performance)

Table 1 shows that the variables tested in the research are all fulfilled the requirement, which makes them valid and reliable.

The inner model in PLS analysis was used to test the relationship between the exogen construct and the endogen construct previously hypothesized. And the results are:

**Table 2. Inner Model Analysis**

Variable	R Square
GUG	0.108
Organizational Performance	0.570
$Q^2 = 1 - [(1 - R_1^2) (1 - R_2^2)]$	
$Q^2 = 1 - [(1 - 0.108) (1 - 0.570)] = 0.616$	

This research has found that good university governance positively and significantly affects organizational performance. Thus, it is suggested that organizations that have good governance would improve the performance of the organization. In PLS measurement, both the outer and inner models show that the positive and significant score indicates the effect of the good university governance on the organization's performance. If many aspects are in accordance with the governing board, autonomy, accountability, leadership, and transparency will improve the organization's performance. The findings of the recent study confirmed by previous studies which have revealed that good university governance is positively and significantly correlated with an organizational performance by (Cheung & C. Qiang, 2002); (Januri, Sari, & Saragih, 2015); (Martini, Wardhani, & Choiruddin, 2018); and (Mukhtiyanto, Rossieta, & Hermawan, 2018).

Two limitations emerge and worth noting. First, the study is done by only involved state polytechnic in East Java. Thus, the result of the study is very specific and suffer from general issues. Second, the indicators applied as the performance measurement are limited to non-financial performance, while other indicators are financial, market performance, etc. A more comprehensive result will be got if the study's object is the private institution-which is more profit-oriented. Instead of the government

institutions for the complexity faced, this study is quite different, which was done in state higher education institutions.

**REFERENCES**

[1] Apriyanti.. Internationalization of Islamic Higher Education Institutions Toward Global Competitiveness. 100-105 (2018).

[2] Bahri, M., St-Pierre, J., & Sakka, O.. Performance measurement and management for manufacturing SMEs: a financial statement-based system. 21(1) (2016).

[3] Bhagwat, R., & Sharma, M.. Performance measurement of supply chain management: A balanced scorecard approach. Computer&Industrial Engineering. (2007).

[4] Bianchi, C., Cosenz, F., & Marinković, M.. Designing Dynamic Performance Management Systems to Foster SME Competitiveness according to a Sustainable Development Perspective. Empirical pieces of evidence from a Case-Study. n International Journal of Business Performance Management. (2015).

[5] Cecilio, G. M. Performance management of regional cluster and SEMs cooperation network. Int. J. Business Excellence. (2008).

[6] Chalmeta, R., Palomero, S., & Matilla, M.. Methodology to develop a performance measurement system in small and medium-sized enterprises. International Journal of Computer Integrated Manufacturing. (2012).

[7] Chapman, C. S., & Kihn, L.-A. Information system integration, enabling control and performance. 34. (2008).

[8] Cheung, T., & C. Qiang.. Internal audit at Guangdong Nuclear Power Joint Venture Company Limited. (2002).

[9] Ismanto, H., Widiastuti, A., Muharam, H., & Pangestuti, I. The Impact of Risk and Financial Knowledge, Business Culture, and Financial Practice on SME Performance. 21. (2020).

[10] Januri, Sari, E., & Saragih, F. Factors Affecting Good University Governance: The Concept of Theoretical. (2015).

[11] Kassahun, T.. Rethinking institutional excellence in Ethiopia: adapting and adopting the balanced scorecard (BSC) model. JBAS. (2010).

[12] Kotane, I. Theoretical Aspects of Measurement and Management of Company's Performance. Journal of Social Sciences. (2010).

[13] Maduekwe, C. C., & Kamala, P. Performance measurement by small and medium enterprises in Cape Metropolis, South Africa. 14(2). (2016).

[14] Martini, R., Wardhani, R., & Choiruddin.. Good University Governance and Its Implication on Managerial Performance. 298. (2018).

[15] Mukhtiyanto, A., Rossieta, H., & Hermawan, A. The Effect of Good University Governance and Strategy toward the Performance of Higher Education Institution. (2018).

[16] Risanty, & Kesuma S. (2019). Good University Governance: Experience from Indonesia. Jurnal Perspektif Pembiayaan dan pembangunan Daerah.

[17] Salmi, J. (2009). The Challenge of Establishing World-Class University, Directions in Development Series. Washington, DC: World Bank.

[18] Saunila & Ukko. (2013). Facilitating Innovation CAbility Through Performance Measurement: A Study of Finnish SMEs. Management Research Review.

[19] Sumarni. (2009). Good University Governance dan Implikasinya terhadap Pengembangan Program Studi Pendidikan Agama Islam Fakultas Tarbiyah-UIN Sunan Kalijaga Yogyakarta.

[20] Taticchi, P., Tonelli, F., & Pasqualino, R. (2013). Performance measurement of sustainable supply chains A literature review and a research agenda. International Journal of Productivity and Performance Management.

[21] Željko Stojkić & Bošnjak, I. (2019). An Overview of Performance Measurement Methods in SMEs. International Symposium on Intelligent Manufacturing and Automation. DAAAM International.