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Improving the performance of baitul maal wat tamwil (BMT) employees: Do the principles of good corporate governance (GCG) matter?

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Abstract

Research aims: The role of human resources in Baitul Maal wat Tamwil (BMT) is vital as it is the main driver of all company activities in achieving its goals. This study, therefore, aims to examine the influence of corporate governance (CG) principles on employee performance in BMT.

Design/Methodology/Approach: The object of this study was BMTs in Yogyakarta Province, with the respondents being BMT employees. The data collection technique employed a questionnaire measured by five Likert scales. The data in this study were then processed using the multiple linear regression method.

Research findings: The study uncovered that all CG principles, i.e., transparency, accountability, responsibility, independence, and fairness, positively influenced employee performance.

Theoretical contribution/Originality: This study contributes to the development of BMT management in Indonesia to start or improve the implementation of corporate governance since it positively impacts employee performance.

Practitioner/Policy implication: BMT has challenges related to human resource competence. The organization (BMT) can evaluate the implementation of GCG in its operational activities because it can affect employee performance.

Research limitation/Implication: The study only took samples from Yogyakarta Province. The physical distribution of questionnaires also limited the number of samples that could be collected.

Keywords: BMT; Corporate Governance; Principles; Employee; Performance

Introduction

Baitul Maal wat Tamwil (hereinafter abbreviated as BMT) is a microfinance institution that is one of the mainstays of the community, especially micro-entrepreneurs, for saving and proposing financing. Its location, close to traditional markets or trading centers, makes it easier for society to meet its financial transaction needs. Mashuri (2016) stated that BMT has a key role in developing the Sharia economy in Indonesia by increasing economic business for the lower middle class and providing financing for small and medium enterprises. Nevertheless, BMT must still perform good performance concerning their operational activities. Good service for customers and effective and efficient management activities will affect BMT's overall performance. Specifically, employees as human resources have a significant role in contributing to the success and sustainability of BMT.

The role of human resources in BMT is particularly important because it is the main driver of all company activities in achieving its goals. The performance of an organization is greatly influenced and even depends on the quality and competitive ability of its human resources (Amri et al., 2016). Meanwhile, employee performance can be influenced by the company's system and policies in its operational activities (Osei et al., 2022). Thus, corporate governance (CG) mechanisms and the implementation of CG principles are expected to control management behavior so that company management can balance organizational strength and authority (Puspitasari & Muhammad, 2019).

In BMT, good corporate governance (hereinafter abbreviated as GCG) aims to achieve BMT goals and meet all stakeholders' expectations. The GCG implementation in organizations is expected to improve the performance component regarding systems, processes, planning, and implementation (Laode & Ridzal, 2022). GCG not only ensures that all policies have been implemented but also reduces financial and administrative fraud and improves employee performance quality (Shaker et al., 2020). GCG will improve employee performance through a corporate governance system, where employees implement CG principles in their obligations. According to Ramadhanti and Fitriah (2022), implementing corporate governance principles, such as transparency, accountability, responsibility, independence, and fairness, will influence employee performance and thus improve organizational performance.

Previous studies have found that GC principles can affect employee performance with varying results. Ramadhanti and Fitriah (2022) asserted that the GCG implementation affected the performance of hospital employees in Bandung City. Yuspitasari et al. (2018) revealed that accountability and fairness positively affected employee performance in Bank Syariah Mandiri in Bogor City, while transparency, responsibility, and independence did not influence it. On the other hand, Laode and Ridzal (2022) uncovered that transparency, accountability, and responsibility had no effect, while equality and fairness positively affected employee performance at PT PLN in Baubau City.

This study replicates those studies above with several differences. First, those studies were conducted in various organizations and yielded various results. Nonetheless, only a few studies research BMT. BMT has a cooperative legal entity, so it is often referred to as a Sharia cooperative. Considering the growth of BMT and the vital role of BMT in Indonesian economic development, this study aims to examine the effect of corporate governance principles on the performance of BMT employees.

Moreover, a substantial portion of Indonesia's middle and lower classes influence the progressive development of BMT in Indonesia. Of the total 265 million population, 40% are middle-class, and 20% are classified as lower class, plus approximately 25.67 million people are categorized as poor people or 9.66% of the population (KNKG, 2022). In this case, BMT has the function of developing the people's economy suitable for most of the community, making its existence relevant and very accepted by the Indonesian people.

Second, this research took a case study on BMT in Yogyakarta Province. Yogyakarta has many BMTs with large assets, meaning they perform well. How is the GCG implementation in BMT in Indonesia and whether it influences the performance of employees is very interesting to discuss. This study has the novelty of providing an overview of the impact of CG principles in BMT. CG has been widely implemented in public companies and large organizations. However, the CG implementation in BMT still needs to be studied because no provisions specifically regulate GCG in Sharia cooperatives or BMT. Meanwhile, as a financial institution, BMT contributes to the community's economic growth. Its presence is an alternative for small communities who need financing but have difficulty borrowing from banks because they are not eligible. Furthermore, implementing the GCG system in cooperatives is essential for good performance and internal control (Soebijono et al., 2017). Hence, this study is expected to contribute to the development of BMT management in Indonesia to start or improve the implementation of corporate governance because the objective is to support the organization's performance.

Literature Review and Hypotheses Development

Agency Theory

Agency theory was developed by Jensen and Meckling (1976), who explained the relationship between principal and agent, where the principal gives authority to the agent to manage the company. Agency problems can occur when agents use their authority for personal gain. The principal must have a strategy and system that can direct agents not only to provide the best results for the company and shareholders but also to provide good service to customers or the community (Nidumolu, 2018).

Agency theory is also one of the main theories in corporate governance research (Hidayat, 2020). Corporate governance becomes a system that can regulate relationships between stakeholders to achieve company goals. Effective corporate governance can reduce agency conflict. In addition, corporate governance can encourage maximum use of resources, including human resources. Good employee performance shows that management also has good performance because it can manage human resources well.

Corporate Governance and Its Principles

Corporate governance (GCG) explains the relationship between various elements in a company that determine company performance. According to Laode and Ridzal (2022), implementing GCG is one of the important alternatives expected to consistently overcome various problems caused by conflicts of interest between related parties. Corporate governance for cooperatives is the structure, process, and ethics of behavior used as a guideline in managing cooperatives.

CG has five principles: (1) transparency; (2) accountability; (3) responsibility; (4) independence; and (5) fairness. Implementing corporate governance principles ensures the security of shareholders and the rights of stakeholders and reaches business performance (Burak et al., 2017). Shaker et al. (2020) stated that corporate governance improves employees' job performance. They increase their knowledge to fulfill the standards of corporate governance implementation.

Previous studies have discussed the GCG implementation in BMT. Hidayat (2020) studied the GCG implementation in *Baitut Tamwil Muhammadiyah* (BTM) in Tegal, Central Java, and found that GCG had been carried out well in the organization. The five GCG principles have been implemented, although it still needs improvement for the accountability principle. Darma and Afandi (2021) also stated that corporate governance mechanism is important in Islamic financial institutions (IFIs). IFI has strict rules because it must also refer to Sharia rules. In this regard, CG must be applied in IFI activities, including BMT. Besides, Sholiha (2021) observed GCG at BMT in Situbondo, East Java. BMT has implemented the five GCG principles. Nevertheless, challenges are faced in implementing GCG principles, encompassing commitment and organizational culture, employee understanding of GCG, and lack of internal control. In addition, Yaya and Purnami (2020) evaluated the implementation of corporate governance of one BMT in Yogyakarta Province in two aspects, i.e., financing products and financing monitoring and supervising process. The result demonstrated that the governance in those activities has been carried out well and can encourage the social mobility of customers. Also, Darma and Handoyo (2022) argue that BMT has a key role in helping the welfare of its members through product financing and assistance for the success of its members' businesses.

Baitul Maal Wat Tamwil (BMT)

Baitul Maal Wat Tamwil (BMT) is an institution that manages two main functions, namely *baitul maal* and *baitul tamwil*. BMT has a cooperative legal entity, the Sharia Financial Services Cooperative (KJKS). According to the Decree of the Minister of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, No. 91/Kep/M.KUKM/IX/2004 concerning Guidelines for the Implementation of Sharia Financial Services Cooperative Business Activities, Sharia Financial Services Cooperatives are those whose business activities are financed, invested, and deposited according to the profit sharing method. BMT is a Sharia microfinance institution with the characteristic of carrying out profit-oriented activities with its *baitut tamwil* and socially oriented with its *baitul maal*. *Baitul maal* is more concerned with non-profit fundraising and disbursement, such as zakat, infaq, and shadaqah (almsgiving). On the other hand, *baitul tamwil* alludes to the collecting and distributing commercial funds. BMT carries out activities for developing productive businesses and investments in improving the economic quality of micro and small entrepreneurs by, among others, encouraging savings activities and supporting the financing of economic activities.

Those activities are an inseparable part of BMT as an institution supporting small communities' economic activities under Islamic principles. BMT was established to

facilitate unaffordable communities through the services of Islamic or rural banks. The operational activities are based on profit sharing, buying, selling, and entrustment (*wadiah*). BMT has its market share, namely small communities not reached by banking services and small business entrepreneurs who experience obstacles when dealing with banks. Thus, the existence of BMT is seen as having two main functions: first, as a medium for distributing the funds (assets), such as zakat, infaq, alms, and waqf, and second, as an institution engaged in productive investment, such as bank function. This second function can be understood in addition to functioning as a financial institution; BMT also functions as an economic institution. As a financial institution, BMT oversees collecting funds from the public (BMT members) and financing the needs. Meanwhile, as an economic institution, BMT has the right to carry out economic activities, such as managing trade and economic activities. Hence, implementing the GCG system in cooperatives is crucial for good performance and internal control (Soebijono et al., 2017).

Hypotheses Development

The influence of transparency on employee performance

Transparency exhibits openness in decision-making and disclosing material and relevant information about the organization (KNKG, 2014). Organizations can show transparency by providing sufficient, accurate, and timely information to various parties interested in the organization (Shaker et al., 2020)

Transparency affects the quality of employee performance. The higher the transparency, the higher the performance of employees. The clarity of information BMT employees provide to customers, or clarity of rights and obligations as BMT employees, will encourage employees to work better because they know the positive impact of their performance results.

According to Febriani et al. (2016), company transparency from the agent side can be seen in the company's condition and financial condition, such as determining salaries or making decisions through meetings. While Kurniawati and Wulansari (2021) found that transparency had a positive effect on the performance of employees in the companies in Surabaya, Junaidi et al. (2020) revealed a positive influence of these variables on the employees of the state-owned company in Bengkulu. Therefore, the hypothesis proposed in this study is:

H₁: Transparency has a positive influence on employee performance.

The influence of accountability on employee performance

Accountability refers to the clarity of organs' functions, implementation, and responsibility (KNKG, 2014) so that company management is carried out effectively. Thus, the company's management becomes clear and measurable to assess its suitability

with the interests of the company (agent) and the interests of shareholders (principal) and stakeholders.

As a financing institution, BMT has the responsibility to manage customer funds while distributing them to the right people so that they can provide profitable profit sharing. The accountability aspect that BMT has successfully built will encourage employees to provide the best performance that will affect the organization's performance. According to the theory of planned behavior, individuals tend to behave in ways that others expect of them (Ham et al., 2018). Therefore, implementing accountability will motivate employees to work according to the organization's and customers' expectations.

The higher the organization's accountability, the better the performance of employees because this principle is used for the duties and responsibilities carried out in each job. This is in accordance with previous research, such as Yuspitasari et al. (2018) and Putri and Hutagalung (2020), which uncovered that accountability positively influenced employee performance. Thus, the hypothesis of this study is:

H₂: Accountability has a positive influence on employee performance.

The influence of responsibility on employee performance

The principle of responsibility regulates the fulfillment of employee responsibilities for each assigned task under the laws and regulations (KNKG, 2014). When employees understand their authority and obligations, awareness to complete tasks properly is expected to appear as a form of their sense of responsibility to the organization that impacts their improved performance. In terms of agency theory, agent compliance with regulations will protect the interest of shareholders and create a sense of security for employees so that they can perform at their best.

The higher the responsibility principle is implemented, the better employee performance will be given. This is in line with the previous studies that accountability positively influenced employee performance in the banking industry (Junaidi et al., 2020) and state-owned companies (Febriani et al., 2016). Consequently, the hypothesis of the study was proposed as follows:

H₃: Responsibility has a positive influence on employee performance.

The influence of independence on employee performance

Independence requires the company to be managed professionally without any conflict of interest and without pressure or intervention from any party that is not in accordance with applicable regulations (KNKG, 2014). Shareholders will expect this principle to reduce agency problems on the employee side. The BMT employees entrusted to carry out their duties independently without pressure from other parties are expected to

behave professionally in their work to produce good performance. Employees can work individually or in groups, but the culture of independent principles is expected to motivate employees to perform better.

The higher the level of independence of the organization, the better the performance of employees. This aligns with previous research, such as Junaidi et al. (2020), which reported that independence positively influenced employee performance. As such, the hypothesis of this study is:

H₄: Independence has a positive influence on employee performance.

The influence of fairness on employee performance

The fairness principle refers to fair treatment and equal opportunity in proportion (KNKG, 2014). This principle regulates how BMT, through management, treats employees fairly according to their career path and competence. Febriani et al. (2016) mentioned that an example of fairness in BMT activities is the provision of equal opportunities and promotions for employees regarding career paths. Fair treatment based on the principles of fairness and equality will encourage employee performance improvement because they will get rewards following their rights and competencies, so they always perform their best quality of work.

The fairness principle can also encourage employees to have a good assessment of company policies to shape good intentions and behaviors (Jalili & Ghaleh, 2020) in accordance with the expectations of stakeholders and shareholders. The same expectation between stakeholders, shareholders, and management can reduce agency problems. Yuspitasari et al. (2018) found that fairness positively influenced the employee performance of Islamic banks. A similar result was exposed by Laode and Ridzal (2022), that fairness and employee performance positively influenced the state-owned company. Hence, this study derived the hypothesis:

H₅: Fairness has a positive influence on employee performance.

The research model of this study is illustrated in Figure 1.

Research Method

The object of this study was BMTs in the Yogyakarta Province, with the respondents being BMT employees. Yogyakarta is a province that has succeeded in developing the Sharia economic sector (jogjapro.go.id). Many BMTs are listed in Yogyakarta province; however, this study limited it to BMTs still operating within the study's reach. This was because questionnaires were distributed physically, requiring the researchers to visit one by one BMT to ask about the willingness of BMT to be a research respondent.

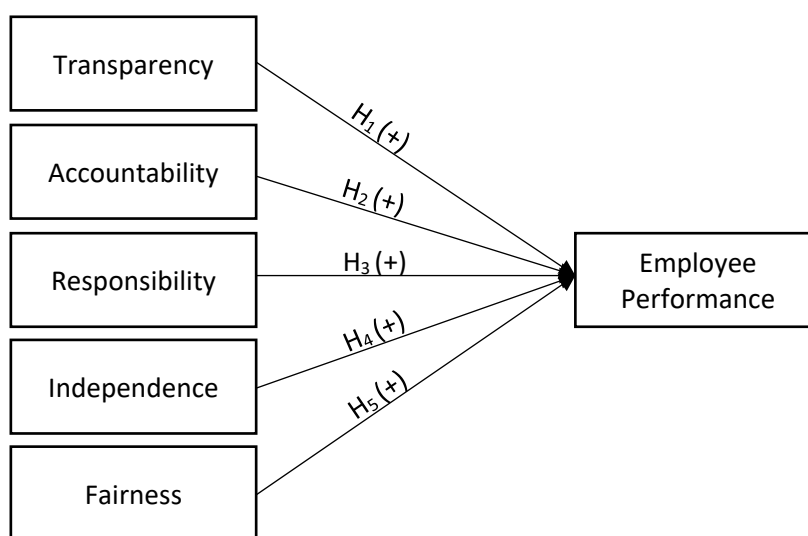


Figure 1 Research Model

A questionnaire data collection technique was measured by a five-point Likert scale, ranging from strongly disagree (score 1) to strongly agree (score 5). This study took the questionnaire from Syah et al. (2018), which also examined the principles of GCG and employee performance. The independent variables in this study consisted of five variables: transparency, accountability, responsibility, independence, and fairness. The definition of each principle is stated by the National Committee of Governance Policy (KNKG, 2014). Transparency is openness in presenting material and relevant information and openness in carrying out the decision-making process. The principle of accountability performs the clarity of function and implementation of accountability of organizational organs so that their management runs effectively. Responsibility refers to the conformity of organizational management with laws and regulations and the principles of healthy cooperative management. The principle of independence is the professional management of the organization without influence or pressure from any party. The fairness principle is fair treatment in fulfilling the rights of stakeholders in accordance with applicable laws and regulations. Meanwhile, the dependent variable in this study was employee performance, measured by several aspects: quantity of work, quality of work, creativeness, initiatives, and personal qualities.

This study also used instrument quality testing in two methods: validity and reliability. According to Sekaran and Bougie (2017), a validity test shows how well an instrument developed measures a particular concept to be measured. Moreover, a reliability test ensures consistency of measurements over time and at various points on the instrument. This study also conducted a classical assumption test consisting of normality, heteroskedasticity, and multicollinearity tests. The data in this study were then processed using the multiple linear regression method, encompassing coefficient of determination (adjusted R^2), F-test, and t-test in accordance with previous research (Febriani et al., 2016; Laode & Ridzal, 2022).

Result and Discussion

BMT used in this study was a BMT that was still active (during the study) and was also willing to receive and distribute questionnaires to its employees. This study distributed questionnaires to 27 BMTs in Yogyakarta Province based on their willingness to complete the questionnaire. The 125 questionnaires were given, adjusting the number of employees willing to fill in according to data from BMTs. From the 125 questionnaires distributed, 117 were returned, and 110 could be processed, showing a response rate of 88%.

Table 1 Validity and Reliability Tests

Variables	Items	Validity	Reliability
		Pearson correlation	Cronbach alpha
Transparency	X1.1	0.690	0.813
	X1.2	0.657	
	X1.3	0.799	
	X1.4	0.733	
	X1.5	0.671	
	X1.6	0.761	
Accountability	X2.1	0.690	0.813
	X2.2	0.657	
	X2.3	0.799	
	X2.4	0.733	
	X2.5	0.671	
	X2.6	0.761	
Responsibility	X3.1	0.749	0.734
	X3.2	0.675	
	X3.3	0.813	
	X3.4	0.779	
Independence	X4.1	0.726	0.747
	X4.2	0.611	
	X4.3	0.742	
	X4.4	0.726	
Fairness	X5.1	0.851	0.815
	X5.2	0.822	
	X5.3	0.803	
	X5.4	0.747	
Employee performance	Y1	0.615	0.839
	Y2	0.732	
	Y3	0.492	
	Y4	0.406	
	Y5	0.677	
	Y6	0.702	
	Y7	0.783	
	Y8	0.715	
	Y9	0.723	
	Y10	0.668	
	Y11	0.450	

This study also conducted validity and reliability tests which the results are presented in Table 1. For the validity test, the values should be higher than 0.3. In contrast, for reliability, the values should be higher than 0.7 (Syah et al., 2018), meaning that the study passed the validity and reliability tests.

Table 2 shows the demographic characteristics of the respondents. The data from Table 2 indicates that respondents in this study varied greatly, with different backgrounds. BMT, often referred to as microfinance, has challenges related to human resource competence. However, the educational level revealed that most employees in this study owned a bachelor's degree, denoting that their education level is quite high and is expected to affect the quality of their performance. In addition, many employees have been working for more than five years. It can also be used as a basis that they already understand the character of the BMT where they work. Moreover, organizational policies and culture are important to maintain service quality and employee performance.

Table 2 Demographic Characteristics of Respondents

Respondent criteria	Total	%
Gender		
Man	69	62.70
Woman	41	37.30
Total	110	100
Age		
< 20 Years	13	11.80
21-30 Years	43	39.10
31-40 Years	32	29.10
> 40 Years	22	20
Total	110	100
Education Level		
Senior High School	21	19.10
Diploma	25	22.70
Bachelor's degree	52	47.30
Master's degree	9	8.20
Doctoral Degree	3	2.70
Total	110	100
Length of Service		
<1 Year	17	15.4
1-5 Years	39	35.4
6-10 Years	43	39.2
>10 Years	11	10
Total	110	100

Descriptive analysis of variables consists of maximum, minimum, mean, and standard deviation values. Table 3 presents the results of descriptive statistics and indicates that the principle of accountability and transparency had the highest average value, suggesting that BMT had implemented this principle. In comparison, the other three principles had almost the same value. However, a minimum score of 7 on the fairness variable denotes that some employees still felt uncomfortable with this principle.

Table 3 Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
Transparency	10	30	23.4636	4.7462
Accountability	12	30	24.6818	3.4798
Responsibility	11	20	17.2273	2.003
Independence	12	19	16.5	1.9711
Fairness	7	20	16.2273	2.9821
Employee Performance	22	52	35.5091	5.5451

This study also tested classical assumption, showing that this study had no problem with the normality, heteroskedasticity, and multicollinearity tests. The hypotheses were examined using multiple linear regression. The results of the statistical analysis are revealed in Table 4. The value of the adjusted R-square was 0.651, which can be interpreted that the independent variables (transparency, accountability, responsibility, independence, and fairness) could explain the dependent variable (employee performance) as much as 65.1%, and the remaining 34.9% is explained by other variables not mentioned in this study. Then, the F-test was performed to see the simultaneous influence of independent variables on the dependent variable. The independent variables had a significant value of $0.000 < 0.05$, meaning that transparency, accountability, responsibility, independence, and fairness simultaneously influenced employee performance.

Table 4 Multiple Linier Regression

Variable	Unstandardized Coefficients		T	Sig.	Adj. R Squared
	B	Std. Error			
Transparency	0.236	0.103	2.284	0.024	0.651
Accountability	0.288	0.142	2.033	0.045	
Responsibility	0.562	0.25	2.243	0.027	
Independence	0.589	0.254	2.319	0.022	
Fairness	0.458	0.165	2.780	0.006	

In this study, a partial test (t-test) demonstrated that transparency positively influenced employee performance. Thus, hypothesis 1 was supported. Transparency gives the employee adequate information for himself and when providing information to customers. Thus, this principle will positively impact employee performance, where each party can obtain the information needed to encourage the right decision. The results of this study are consistent and support the research conducted by Junaidi et al. (2020) and Febriani et al. (2016) that transparency positively affects employee performance.

The result also showed that accountability positively influenced employee performance, supporting the hypothesis. The principle of accountability allows BMT to encourage employee performance because the employees know their duties and responsibilities. This study reinforces the previous research conducted by Putri and Hutagalung (2020) and Yuspitasari et al. (2018).

Since responsibility positively influenced employee performance, hypothesis 3 was accepted. Responsibility indicates fulfilling the employee's responsibility to complete the assigned tasks. If each employee already has his job description, the overall results will affect employee performance and will directly affect BMT's performance to maintain business continuity. The principle of responsibility carried out by BMT must adhere to the principle of prudence and ensure the application of applicable regulations. The results of this study are in accordance with research conducted by Junaidi et al. (2020) and Febriani et al. (2016), that responsibility positively affects employee performance.

Moreover, independence had a positive influence on employee performance. Hence, hypothesis 4 was supported. Employees carrying out their functions, duties, and responsibilities in managing activities in BMT must be free from pressure and influence from both internal and external parties of BMT. Independence denotes that BMT operates professionally without pressure from any party. This principle will increase the convenience and productivity of the employees so that their performance will improve. The results of this study are in harmony with previous research from Junaidi et al. (2020), which states that independence affects employee performance.

Fairness also had a positive influence on employee performance. Thus, hypothesis 5 was supported. The principle of fairness is to treat employees fairly without discrimination. As a result, employees will be satisfied doing their duty, affecting their performance. The fair treatment gives confidence to the employees that BMT will give rewards in accordance with their rights and competencies. Therefore, they always perform their best quality of work, improving their performance. This result supports the study of Yuspitasari et al. (2018) and Laode and Ridzal (2022), who found that fairness positively influenced employee performance.

Further, human resources are one of the challenges in Islamic financial institutions, especially because of BMT's role as a cooperative that aims to prosper its members. BMT management must be able to encourage the application of GCG principles in its operations by identifying activities that can fall within the scope of transparency, accountability, responsibility, independence, and fairness. This study found that all GCG principles positively affected the performance of BMT employees. The positive influence of GCG was not only on organizational performance but also on improved employee performance. In addition, the positive relationship between those variables indicates that implementing GCG principles can encourage good relationships between principals and agents. The agent's efforts in maximizing the performance of human resources are an effort to improve the achievement of BMT performance and to reduce agency conflicts between the agent and principal. The purpose of setting performance goals for an organization is useful not only for performance evaluation at the end of the period but also for managing work processes during the period (Garah et al., 2012). This study focuses on employee performance in an Islamic financial institution, BMT, which differs from previous studies that have discussed a lot in the company. In addition, employee performance in this study was measured in various aspects, so it can be expected to measure employee performance comprehensively.

Conclusion

This study aims to examine the influence of the CG principle on employee performance in BMT in the Yogyakarta Province. The study uncovered that all principles (transparency, accountability, responsibility, independence, and fairness) positively influenced employee performance. This study contributes to BMT's ability to implement corporate governance because it positively impacts employee performance. The government can start supervising CG implementation on BMT because the attention has only been on companies or banks. For customers, applying the CG principle of a BMT can be a benchmark for assessing the extent of employee and BMT performance.

This study has several limitations. First, the study only took samples from Yogyakarta Province, so the results could not be generalized to other regions. Second, there are many BMTs in Yogyakarta, but because not all BMTs were willing to fill out the questionnaire, only 27 BMTs were willing to participate.

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