

The Impact of Total Quality Management in Corporate Governance

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-Abstract

This research paper aims to analyze the influence of total quality management (TQM), in the implementation of good corporate governance. Good corporate governance, the dependent variable, was measured by institutional ownership. Independent variables related to internal control were measured in terms of financing, those pertaining to TQM were measured by market shares and those describing audit committees were measured by the number of audit committee meetings in one year. This research uses data presented in the annual reports of Indonesia Stock Exchange Listed Manufacturing Companies and service companies in the period 2011 to 2013. The evidence shows that TQM have influence on the implementation of good corporate governance.

Keywords: *Total Quality Management , Management, corporate governance*

1 Introduction

In this era of globalisation and intense competition, the concept of ‘total quality’ becomes utmost important, not only in manufacturing sector of industry but also in the service sector. ‘Total quality’ means that the services offered, have to be internally efficient and externally effective. It is in this context, that the question of ‘total quality’ becomes relevant in the management of manufacturing and corporate governance. Thus, total quality management (TQM) is the art of managing the whole to achieve excellence. The aim and philosophy of TQM is not the measurement of quality performance but the continuing and continual improvement of quality through a process of cultural and organisational change. It is people driven and results are evident in terms of improved teamwork, company moral and organisational climate – resulting in improved productivity and profitability (Mohanty and Behera, 1996). TQM aims to connect to the customer at every stage of the business process and is the key mantra for manufacturing industries as well as for the customer-oriented corporate governance.

Implementation of quality initiatives using TQM, Six Sigma, just-in-time (JIT), etc., in manufacturing has increased operational efficiency, brought down manufacturing costs and made companies strategically competitive in many countries. The quality concepts have spread disproportionately across functional areas of product design, production, sales and marketing and finance and administration as reported by Mandal and Gunasekaran (2002). Further, Gunasekaran (2000) in his study on world class manufacturing in small and medium enterprises realises the importance of SMEs in the national economy and applies WCM techniques like TQM, JIT, lean, agile manufacturing, etc., in SMEs with the objectives of improving productivity and quality of manufacturing industries. Also, Rahman and Talib (2008) in their study on Taguchi's parameter design approach for optimising a process (a TQM tool) found it to be very useful technique for measuring different quality characteristics in a process.

Earlier in 1970s, much of the initial attention was directed towards manufacturing practices with little consideration being given to the service sector largely because of the domination of researchers from the engineering and operations disciplines (Redman and

Matthews, 1998). The service sector was also not subjected to the same intensity of foreign competition as its manufacturing counterpart (Evans and Lindsay, 2005) and, in those formative years, service quality was largely the exclusive preserve of large firms. But over the past three decades, the service sector has increasingly received its share of attention with good reasons. First, service has been a key element for many manufacturing industries. The service factor concept fostered the realisation that a factory does not just produce goods but is also produces a blend of services that are integral to each product and plays an important role in meeting the challenges of foreign competition (Khamalah and Lingaraj, 2007). Secondly, the service sector has been growing rapidly in the recent years. In addition, international agreements have created a highly competitive global environment in financial services and other cross-border sectors (Longco and Cox, 1997). In response to increasing customer expectation with regard to quality of service as well as products, quality is becoming as important as price in other service sector on the domestic front (Al-Assaf and Gentling, 1996; Singh and Deshmukh, 1999; Sureshchandar et al., 2001). Samat et al. (2006) explores the

relationship between TQM practices and service quality as well as the relationship between TQM practices and market orientation and contributes significant knowledge to the service industry. This study adds to the literature by bridging the gap and showing the importance of TQM practices in service organisations. There are several research studies that examine and explore the service quality initiatives in service organisations like: Rönnback and Witell (2008), Singh et al. (2006), Bergman and Klefsjö (2007) and Chowdhary and Prakash (2007). Besides this, some other studies that were made on service quality system are quality management in service ecosystem (Riedl et al., 2009; Barros and Dumas, 2006), web service, service level management (Barros and Dumas, 2006), service quality models (Seth et al., 2005), supplier service quality in supply chain (Seth et al., 2006), human service agency (Mersha et al., 2009), etc., that shows TQM is not only limited to product quality improvement but it also covers a wider aspect of quality in different service sectors. Previous empirical studies regarding the linkage between TQM and organisational performance as well as quality have shown significant and positive results. Therefore, it is not surprising that service quality is

progressively occupying centre stage for service organisation regardless of the nature of the business they are in. Initiating and implementing TQM in a service system is a major task. It requires a thorough analysis of customer expectations, an analysis of the current system, process and functions, defining the quality parameters, developing systems of measurement and control and integrating this system with business.

These factors have necessitated the need for present study. The purpose of this study is to overview TQM implementation and to find out its impact in different corporate governance. The focus will be to investigate processes of TQM implementation in various corporate governance. The paper then concludes by examining the effects of TQM implementation on corporate governance performances.

2 Conceptual framework

There is a huge amount of published literature on TQM and its implementation in different corporate governance. This overwhelming volume of literature primarily focuses on the elements of TQM and the approaches taken to assure a successful implementation of TQM program. A dominant theme in this

literature and findings is that TQM is an approach to management that is characterised by the principles of customer focus, continuous improvement and teamwork (Ugboro and Obeng, 2000; Wadsworth et al., 2002; Chan and Quazi, 2002; Hellsten and Klefsjö, 2000; Scharitzer and Korunka, 2000; Young et al., 2001; Woon, 2000; Fok et al., 2001). It is broadly accepted that TQM is a collective management philosophy aimed at continuously improving the performance of products, processes and services to achieve and surpass customer expectations.

2.1 TQM in healthcare industry

Study conducted by Khorramshahgol et al. (1995) identifies and discusses some critical issues in providing high quality service in hospitals and explores the critical role that both TQM and hospital information systems (HIS) can play in this endeavour. For this purpose personal interviews with some hospital officials' in-charge of TQM and ISs were conducted and founded the factors contributing to TQM's success and the role of HIS in this field. Grayson (1992) in his survey stated that almost 60% of healthcare

organisations are responding and implementing a TQM programme. The

study conducted by Sommer and Merritt (1994) evaluates the impact of a TQM intervention on perceptions of workplace attitudes and behaviour for a healthcare organisation. This study indicated an improvement on important measures of organisation climate after only one year of intervention. A study conducted on Turkey public hospitals by Kozak et al. (2007), aims to identify employee's perceptions of implementing TQM in their hospital and to explore whether or not they perceive any problem while implementing it. Result shows that responsibility of both upper-level management and employees have been identified as the most significant effect on employees' perception of the necessity of TQM programs in hospital settings. Other similar studies by Hazilah (2009), Duggirala et al. (2008), Withanachchi et al. (2007), Manjunath et al. (2007) and Arasli et al. (2008) are of interest.

2.2 TQM in food supply and distribution industry

A very different study made by Beardsell and Dale (1999) reports the findings of two major companies in the UK food supply and distribution industry that asses the relevance of TQM in this sector. The focus of the research was two case studies

of major organisations which are considered to be representative of the industry. The study confirms the applicability of TQM in the food supply and distribution industry. Survey-based study made by Scott et al. (2009) on continuous improvement programs in Canadian food sector which comprised of corporate, manufacturers and quality professionals and suggested that more than one-half of the respondent indicates that continuous improvement methodology were used. The list of TQM characteristics identified is not dissimilar to those in other industries. However, as a part of service sector, there is a need of organisations in this business sector to be highly focused on the customer needs and changes in market trends. Other studies on this area done by Grigg and Walls (2007a, 2007b), Alsaleh (2007) and Grigg (1998) are also of great interest.

2.3 TQM in education sector

The concept of TQM is also applicable to academics. Many educators believe that the Deming's concept of TQM provides guiding principles for much needed education reforms. The principle of Smart Teaching, e-learning, JIT teaching, self-improvement and learning, total quality curriculum and transformation plan leads

to a need of effective implementation of TQM in this service sector. The study of Ho and Wearn (1995) developed a TQM model for higher education and training as applicable to TQM in education. The aim was to determine the advantages of TQM and how TQM can be effectively and efficiently applied in higher education institutions (HEI). They developed a TQM excellence (HETQMEX) model for higher education and training based on fundamental concepts of service quality: 5-S, marketing and education quality control, quality control circles, ISO-9000 and total preventive maintenance. The findings showed that most HEIs concentrate exclusively on students and perhaps employees, as customers but neglect the diversity of customer which TQM must satisfy. The research suggested commitment from everyone, competence and continuous improvement as solutions to some significant problems encountered in implementing TQM. Lo and Sculli (1996) applies the TQM concepts to a quality management programme for industrial and engineering managers and covers both the aspects of syllabus design and the operation and monitoring of the programme with this application. The application was based on the ISO-9000 quality assurance management systems.

In another study conducted by Helms et al. (2001) found that some colleges and universities have faced difficulties implementing TQM in higher education because of strong tenure systems in place. The authors present a review of the tenure process in higher education as well as the ongoing evaluation, or post-tenure review process, conducted once the tenure has been achieved. The study links the post-tenure review movement to the pervasiveness of TQM and concludes with suggestions that educational institutions can adopt tenure, post-tenure review and TQM can work compatibly together. Also, Engelkemeyer (1993) categorised the shortcomings of present higher education systems as poor teaching, anachronistic programmes, incoherent curricula, excessive price and growing and inefficient administrative bureaucracies. Lewis and Smith (1994) observed that while ‘accreditation’ and ‘assessment’ in universities focus on only ‘inputs’ and ‘outputs’ of the system respectively, a TQM approach integrates and improves all the three stages – inputs, processes and outputs. With changing pattern of education delivery from face-to-face to online, course content and nature of learners, the concept of quality has become an inherent component of the educational

process for its success. Globalisation of education provides adequate cause for concern to this area. TQM in education is a timely tool, which must be clearly understood, adopted and implemented as soon as possible. Studies done by Bayraktas et al. (2008), Huston (2007), Ali et al. (2008), Khan et al. (2008) and Mahapatra and Khan (2007) in this area are of interest too.

2.4 TQM in banking services

Banking services are perhaps the largest industry that caters to needs of various segments of the population and reflecting the diversity of society. A recent research conducted by Al-Marri et al. (2007) found and examined the CSFs of TQM implementation in the UAE banking sector. Empirical case studies were collected from 250 banks in UAE that have embarked on TQM successfully. Sixteen factors were found to be critical to TQM implementation success. The factors were: top management support, strategy, continuous improvement, benchmarking, customer focus, quality department, quality system, human resource management, recognition and reward, problem analysis, quality service technologies, service design, employees, service capes, service culture and social

responsibility. The research contributes to studies of TQM and service quality in the banking sector context by considering soft issues in its implementation. Vermeulen and Crous (2001) in their research paid attention to the training and education for TQM in the commercial banking industry of South Africa. Only 33 1/3% of the respondents have indicated that their organisations have a well-developed TQM training curriculum. The authors conclude that most organisations give more training in early implementation days and thereafter neglect continuous training. Results showed that TQM will only be successful if all employers, including top management and other managers, are thoroughly educated in all aspects of total quality. Similarly, the studies done by Ahmed (2002), Anderson et al. (1994), Neyer (2000), Herington and Weaven (2007) and Sureshchandar et al. (2002) are of interest in this area.

2.5 TQM in IT/IS

Application of TQM principles to IS can be quite fruitful in improving the quality of products and services for end customer as it helps in decelerating wasteful expenditure in technology for the sake of technology (Ayers, 1993). Abandoning the stereotype mindset that IT/IS system is just

a tool for performing several tasks faster and cheaper. Top management initiatives can streamline procedures to make information more accessible by reducing costs, eliminating bottlenecks and responding to the customer's needs without wasting any time (Reese, 1995).

This can be used to measure, identify, monitor and design such product and service attributes that are of value to the customer by the IS professionals. The study in this area conducted by Rahman and Siddiqui (2006) investigates the TQM-IS relationship. Describes TQM on the basis of five principles: top management commitment, customer-centric advancements, benchmarking, relentless improvement and strengthening the employee base, it aims to analyse the realisation of pragmatic goal by Indian firms through TQM for IS. Methodology adopted was mail survey questionnaires to 300 Indian companies of different classes such as insurance, banking, software, manufacturers, etc. It was found that synergy between TQM and IS is catching fast in India and accrues benefits for improving the quality of product and services – the most common ones being greater customer satisfaction, increased productivity of IS personnel and enhanced quality of services and products. Besides,

this cost and time cutting on production and optimisation of human resources were other benefits as well. Further, Siddiqui and Rahman (2007) describe a study conducted in Indian companies to evaluate the role of TQM of IS in pragmatically realising organisational goals. As the Indian customer becomes more and more brand savy – largely owing to the globalisation and advertising boom, quality consciousness is doomed to increase. The study explains TQM philosophy on the basis of five principles (as mentioned in their earlier study). Methodology adopted was through a questionnaire-based survey of managers. Results were interpreted by multivariable analysis of qualitative responses. The study argues that TQM and IS can be quite fruitful in improving the quality of products and services offered to the end customer. Further, it supports the extent of top management support for TQM in IS.

In order to ascertain the readiness of IS managers to support a TQM strategy, Pearson et al. (1995) investigated in their study the three IS managers' attributes: Does the manager understand the concepts and tool upon which TQM is based? Does the manager believe TQM can have a positive impact on the IS functions and the organisation? And does the manager

believe TQM concepts/tools can be implemented within the organisation? Results of this survey of IS managers indicated that 41% understood the basics of TQM fairly well. IS managers involved in implementing TQM reported there IS function had achieved the following benefits: improved customer satisfaction, enhanced quality of products and services delivered to the customer and increased flexibility in meeting customer demands. It was also reported that these benefits were not achieved until three to five years after TQM initiation. Other similar studies conducted by Jabnoun and Sahraoui (2004) and Mjema et al. (2005) are of interest.

3 Population & sample

A Study is based on small sampling collated from managerial level of both manufacturing as well Service Company.

4 The problem of the study

The study is find out the problems that can be solved by using TQM in corporate governance

5 Objectives of the study

Based on the premise given in the background earlier, it was decided to investigate impact of TQM in corporate governance. The key objectives are: an in-

depth investigation of the implementation of TQM; identifying the critical success factors (CSFs) for adoption of TQM in these corporate governance; analysing how TQM implementation influences an organisation's performance; identifying and correlating the key elements and aspects of TQM in the service industry; constructing the framework for proper implementation of TQM; and exploring what benefits it can bring to these industries.

This study begins with an in-depth literature review on the issues related to TQM, focusing on the impact of TQM implementation and its applicability in different corporate governance in corporate governance. The study also describes how TQM is being used as service tool in different sector and what are its effects and outcome.

After reviewing the voluminous literature, it was classified into various categories depending on the importance, nature of literature available and future requirement for further improvement. The classification categories so chosen are:

TQM in healthcare industry

TQM in food supply and distribution industry

TQM in education sector

TQM in banking services

TQM in information technology/information system (IT/IS).

Selection of these sectors was made as lots of research studies have been done and some of the results and implications were of interest too. Further, this corporate governance is perhaps the largest industries that cater to the needs of the various segments of the population, reflecting the diversity of society (Angur et al., 1999; Beardsell and Dale, 1999; Al-Marri et al., 2007; Rahman and Siddiqui, 2006; Pearson et al., 1995; Yusuf et al., 2007). In addition, these sectors are large enough to capture and represent almost all the critical features of customer-perceived service quality and the critical dimensions of excellence that management may encounter in order to effectively manage a service organisation. However, there is still a need for more contributively work and attention to improve service quality and performance in the corporate governance.

6 Literature view

Agency theory is a foundational feature of corporate governance, in particular about the existence of the committee which is

expected to mitigate the conflict between the agent and the principal. The theory proposes a series of mechanisms to bring together the interests of shareholders and managers such as those for internal oversight by the board of directors and audit committee oversight on behalf of majority shareholders, the internal control and external supervision carried out by external auditors to prepare the financial statements of the company (Fama and Jensen, 1983; Meizaroh and Lucyanda, 2011).

According to Sedarmayanti (2012: 23 in Tiara, 2014), "Good corporate governance is a system, process, and a set of rules that govern the relationship of the various interested parties, especially in the narrow sense, the relationship between shareholders, board of commissioners and board of directors for the achievement of organizational goals".

According to Ministerial Decree No. KEP-117/117 / MMBU / 2002 on the Implementation of Good Corporate Governance in (Tiara, 2014), the principles of good corporate governance are: Transparency (Disclosure), Independency, Accountability, Responsibility (accountability), Fairness (Equality and Fairness) According to Murhadi (2009), a

company needs a mechanism or method to be applied in the company, including the existence of institutional ownership.

7 The study hypotheses

HO: there is significant impact of TQM in corporate governance

8 The research methodology

The population in this study are all manufacturing companies that have published financial statements in the Indonesia Stock Exchange in the period 2011-2013 and issued data on product sales.

The samples in this study were chosen on the basis of the purposive sampling method sampling technique (Rudi, 2013). The selection of a group of subjects in purposive sampling is based on certain characteristics that are known to have a close relation with the characteristics of the population (Rudi, 2013). In other words the sample unit is adapted in light of certain criteria based on objective research so as to achieve the purpose of obtaining an appropriate sample.

The criteria used to select a sample were as follows

- The manufacturing and service companies financial statement issued during 2011-2013
- Company that publishes the amount of product sales
- Of each company and details of manufacturing and service company
- Full data published as a whole during the period from 2011 to 2013

9 Significance of the study

This can be used to measure, identify, monitor and design such product and service attributes that are of value to the customer by the IS professionals.

Application of TQM principles to IS can be quite fruitful in improving the quality of products and services for end customer as it helps in decelerating wasteful expenditure in technology for the sake of technology

10 Data collection

A sampling method was used while collecting data. Based on primary survey Data were also collected through secondary data from the manufacturing companies and service company financial statements and data on the number of sales of products of the company.

11 Data analysis technique

The analytical method used is the method consisting of several steps: test descriptive statistics, classic assumption test (consisting of tests for normality, multi colonarity, autocorrelation, heteroskidastity), and hypothesis testing composed of statistical t-tests, simultaneous significance test (F tests), and coefficient of determination (R^2)

12 Conclusions and Finding

Based on the regression model testing with redundant fixed effect, it could be concluded that random effects modeling (REM) was appropriate. The results from linear regression analysess were as follows:

Table 1 T-Test

| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
|-------|-----------------------------|---------------------------|---|------|
| | | | | |

| | B | Std. Error | Beta | | |
|------------|------|------------|------|-------|-------|
| (Constant) | .289 | .053 | | 5.415 | .000 |
| TQM | .212 | .108 | .205 | 1.958 | .001* |

Dependent Variable: GCG

Predictors: (Constant), TQM

Notes: GCG= *Good Corporate Governance* ,
TQM= *Total Quality Management* , e=
Error

Significance at 10 %

Analyses of data using linear regression could explain the factor that affect good corporate governance. Prior to the analysis, the t-tests statistic and simultaneous significance tests (F tests) were conducted.

Effect Total Quality Management on the Implementation of Good Governance

Total Quality Management had a t-value of 1.958 which is smaller than t table that is equal to 1.990 with a significance level of 0.001 which is less than 0.05 significance level. It can be concluded that H0 is accepted: Total Quality Management has effect on Good Corporate Governance.

13 Recommendations for future research

Total Quality Management, represented by market share has a t-statistic smaller than that stipulated in the t-table at a significance value less than 0.05, i.e., that Ha is accepted. This shows that Total Quality Management has no effect on good corporate governance.

Future studies should be able to develop other variables that can affect the good corporate governance; the present analysis yielded a coefficient of determination equaling 9.6%, which means there are many other factors besides the variables in this study that might be affecting good corporate governance, e.g., Debt to Equity Ratio, Long-term debt to equity ratio, times interest earned.

14 Limitation of the study

The study includes only few companies of manufacturing and service sector secondly study considers only one factor to know its impact on corporate governance.

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