

## The Effect of the Implementation of Organizational Culture and Total Quality Management on the Application of Good Governance (Studies in Lembaga Amil Zakat Indonesia)

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**Abstract:** In Indonesia today, the development of non-governmental organizations (NGO) that manages funds such as zakat, sadaqah and infak flourishes as a tremendous social movements. In fact, the gap between the potential of those funds (Rp. 20 trillion) with the realization is very small (about Rp. 1 trillion). This phenomenon indicates the low performance of Zakat Management Organisation (OPZ, i.e. Organisasi Pengelola Zakat), particularly in the case at the Institute Amil Zakat (LAZ, i.e. Lembaga Amil Zakat). These demands lead challenge for LAZ to employ good governance. Hence, it will leads to the higher accountability and transparency of LAZ itself. So, there is a challenge for LAZ to improve its performance in particularly for OPZ LAZ during fund raising activities. The results of this study are expected to be a reference for the development of models of management (good governance) at LAZ in Indonesia. In this study, the organizational culture, total quality management and good governance were used as variables. The objectives of the study are aimed to evaluate the effect of implementation of organizational culture and total quality management on the implementation of good governance, partially or simultaneously. The research method used in this study was an explanation, and SEM with PLS approach were used for data analysis.

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## 1. INTRODUCTION

In recent years in Indonesia, some issues related to the implementation of the concept of charity as both a religious obligation of zakat individually and as a component of public finances are very popular. Law No. 23 in 2011 on Management of Zakat becomes a stronger legal protection in the management of zakat to support the fact that Indonesia is the largest muslim country (180 million out of 220 million People in Indonesia as Muslim) [1]. These conditions should be a tremendous potential zakat fund. The following data are the potential zakat that can be collected as shown in Table 1.

Table 1: Potential of Zakat Fund in Indonesia

Description	Potential of Zakat Fund	Description	Potential of Zakat Fund
PIRAC (Kompas .2008)	Rp 9,09 trillion	Direktur Thoha Putra Center Semarang,(2009)	Rp 100 trillion
UIN Syarif Hidayatullah (2004)	Rp 19,3 trillion	Baznas (Republika:2005)	Rp 19,3 trillion
Adiwarman &. Azhar Syarief ( 2009)	Rp 20 trillion	FoZ (Forum Zakat:2009)	Rp 20 trillion

In additions, there are 400 LAZ (FoZ) that can be used as alternative collectors for people in zakat funds, amounting to 50956 Amil Zakat (Baznas). Furthermore, Amil Zakat institution could be a medium to bridge the achievement of the potential of zakat in Indonesia. It is estimated that there are about 600 OPZ both LAZDA and UPZ that have been

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developed at both based- mosque and/or companies who have not registered at FoZ (Forum Zakat). However, the development of zakat agency (BAZ /LAZ) has attracted public interest to pay their zakat to such charity institutions. However, the impact is not yet optimal since it is not managed properly. Table 2 presents data relating to the realization of collecting zakat:

*Table 2: Realization of the Collection of Zakat*

No	Description	Amount
1	Depag (2007)	BAZ: Rp 12 miliar, LAZ: Rp 600 billion
2	Depag (2008)	BAZ & LAZ : Rp 900 billion
3	Forum Zakat (FoZ) (2009)	LAZ: Rp 900 billion
4	IZDR (2004-2008)	Rp 61,3 billion

In additions, the law of zakat management has yet to have an impact to public awareness. PIRAC reported that there are 29 million prosperous families, but there are only about 12-13 million who pay the zakat. The picture should be viewed as a challenge for institutions like LAZ to improve their performance particularly in relation to charity fundraising. These challenges must be addressed in order to rebuild the LAZ more professional. Furthermore, it is clear that zakat should be used as a source of revenue for the government to alleviate poverty. In relation to poverty, Table 3 below shows the data of number of poor people in Indonesia.

*Table 3: Number and Percentage of Poor People in Indonesia [2]*

Year	Number of Poor People (million)	Percentage of Poor People
2006	39,30	17,75 %
2007	37,17	16,58 %
2008	41,70	21,92 %

However, despite the existence of those organizations has been raising very fast, a lot of the payers bring their zakat directly to the receivers, such as family members. As a result, the effort to enhance the potential of zakat would still not be achieved. Zakat payment system does not mean bad or not good, but its social impact is still narrow and in short-term nature. The urgency of this research is to seek barriers why large potential zakat in Indonesia is managed improperly, so it will impact on enhancing the performance of the business organizations of Zakat (OPZ) LAZ. The problems from a variety of sources are presented as follows:

1. Agency zakat is considered unprofessional for not applying the principle of accountability and transparency [2].
2. The fund managers are not having good skills, such as competency, trust, and high ethical work [3].
3. Bureaucratic system and good governance are still weak in regard to the management of zakat [4].

In additions, other issues that are required to be fixed are as follows [5], namely (1) Institutional Issues, (2) Legislation issues, (3) collection, distribution and utilization of zakat, (4) Monitoring and reporting, (5) Correlation with ax zakat, (6) Community participation and (7) Sanctions and dispute zakat

From the all descriptions, the obstacles in the management of zakat in Indonesia are very complex. It comes initially from distrust to the institution of zakat (LAZ) [5]. To support this, the management of the institution must be run properly and optimally to achieve the good performance. One of the pillars of the organization in achieving good governance and in improving the performance of LAZ is by designing and implementing the organization's culture. Organizational culture is manifestation of the assumption held, implicitly which is accepted by the group and determine how these groups feel, think and react to its environment. According to Kreitner and Kinicki [6], organizational culture is an important function in the life of the organization, where the culture of the organization serves as a means to unite the members of the organization, consisting of a collection of individuals with different backgrounds.

On the other hand, Flamholtz [7] states that organizational culture give impacts on organizational performance through processes and management systems. Furthermore, the results of the research explained that organizational culture was found to increase the performance of the company through a certain media such as competitive advantage, processes and

management systems or organizational governance (good governance). Finally, Rindang and Asteria Paramita [8] suggests that there is a strong relationship between the cultures of the organization with the implementation of good corporate governance. In line with the results of the research, Haniffa and Cooke [9] found that there was a link between the cultures of the organization through corporate governance of characteristics with particular disclosure. The research was carried out at 167 companies in Malaysia.

Another model that can be applied to support the efforts to achieve the potential of zakat in Indonesia is to implement a Total Quality Management (TQM). TQM is a management model of doing business to achieve organizational management (good governance) through continuous improvement of products, services, people, processes and environments. According Samdin [10], there are several reasons why TQM needs to be applied in the management of zakat by LAZ include: (1) in order to improve competitiveness and excel in competition, (2) generating outputs/LAZ best performance, (3) increasing the confidence muzakis, and (4) to improve the quality of zakat management so as to improve customer satisfaction. Furthermore, Sri Fadilah [11] examined the implementation of internal control and total quality management to the application of good governance.

Based on the background above, this research will study and analyze the effect of the implementation of organization's culture and total quality management on the application of good governance both partially and simultaneously at LAZ throughout of Indonesia.

## **2. LITERATURE REVIEW AND RESEARCH HYPOTHESIS**

### **2.1 Definition, Functions and Benefits of Organizational Culture**

The concept of culture is broad and wide, in which its essential is a pattern of behavior, belief, and all of the thoughts that characterizes the values of the member of the group. Culture in relation to the organization will give a different sense, in which the culture of the organization can be interpreted variously. Kreitner and Kinichi [6] defines organizational culture as a manifestation of the assumption held, implicitly accepted by the group and determine how these groups feel, think and react to diverse environments.

In addition, Robbin [12] defines organizational culture as follows: Organizational culture refers to a system of shared meaning held by members that distinguishes the organization from other organizations. The definition can be concluded that the culture of the organization as a value, beliefs, practices that create a common understanding among the members of the organization. This means that the culture of the organization will lead to a system adopted and accepted by the organization will be a characteristic that differentiates one organization to another.

Organizational culture can be a major competitive advantage when the organizational culture to support the strategy and if the culture of an organization can align the organization with the right environmental challenges. Managing organizational culture is something that is tough but it is important for organizations, because:

1. Culture determines an organization's personality and have a strong influence on the behavior of its members.
2. Culture that can be found in the observed ceremonies, rituals, stories, heroes and symbols of the organization.
3. This culture spread contains values that underlie an organization.
4. In organizations with a strong culture, its members act with the understanding that the achievement of significant organizational objectives.
5. The organization's leaders to make the spread of values and the use of stories, ceremonies, heroes and good language to reinforce these values in their daily lives.

Furthermore, Deal & Keneddy [13] defines organizational culture as the set of common beliefs, attitudes, relationships and assumptions explicitly or implicitly accepted and used throughout the organization to help cope with environment factors and organizationat goals. Kotter and Heskett [14] defines organizational culture prior to first give the definition of "culture" are taken from The American Heritage Dictionary states that culture is more formally defined as the totality of socially transmitted behavior patterns, arts, beliefs, institution and all other products of human work and products of characteristics of a thought or population. On the basis of the definition of "culture", Kotter and Heskett [14] defines organizational culture in two different terminology, namely visibility and resistance to change, as follows: (1) Values that are shared by the people in a group and that growing niche to persist over time even when group membership changes. (2) Corporate culture

represents the behavior pattern or style of an organization that new employees are automatically encouraged to follow by their fellow employees.

From a number of the definition above, it appears that organizational culture has a very strategic role to encourage and improve organizational performance, particularly the performance of management and economics, both in the short and long term. The role of organizational culture as a tool to determine the direction of the organization, directing what should be done and not to do, how to allocate and manage organizational resources and as a means to deal with problems and opportunities of the internal and external environment.

Furthermore, according to Kreitner and Kinicki [6], organizational culture is an important function in the life of the organization. The organizational culture serves as a means of unifying the activities of the members of the organization, which consists of a collection of individuals with different backgrounds. Kreitner and Kinicki [6] states that an organization must fulfill four functions, namely:

- a. Provide an organization's identity to employees.  
The function of an organization's identity is supported by compensation to employees with rewards that encourage innovation, so that employees will try to run with the best commitment.
- b. Facilitate collective commitment.  
In this function every employee feels proud to be part of the organization, so that each employee to be loyal and feel an integral part of the organization, because of the recognition and the opportunity to develop themselves.
- c. Promoting stability of the social system.  
Stability of the social system reflects the extent to which the work environment perceived support, conflict, and change is managed effectively. This strategy helps maintain a positive work environment in the face of adversity with increased stability through organizational culture.
- d. Shape behavior by helping managers feels its existence.  
The function of this culture helps employees understand why the organization does what it should and how organizations achieve long-term goals.

Based on the above, it can be the dimensions of the understanding that the function of corporate culture as a system of values is obtained and developed by the organization of the pattern and the basic philosophy of its founder, which was formed through the process of socialization into the rules that serve as a guide in thinking and acting by all members organizations in an effort to achieve organizational goals. Then, some of the benefits of organizational culture proposed by Basuki [15], that there are five benefits of the culture of the organization, namely:

- a. Benefits to the organization.  
In essence, the organizational culture is a binder for employees, with dependent employees in an organization, it is hoped the desire to remain and excel in the organization. In addition, organizational culture fosters loyalty and dedication of the employees in the organization.
- b. The benefits of the development organization.  
With the culture of the organization, it is expected that both quantitatively and qualitatively organization can be developed. This means that the indicator is not the distribution of the structure or the number of employees, but the increasing capabilities of the organization in anticipation of and sensitive to environmental changes and demands.
- c. The benefit to the development of human resources.  
Humans are a major factor in the organization. Organizational culture, human resources are not only required to comply with the values and norms that apply, but with the values and norms of this, people will be more developed.
- d. Benefits to business development.  
Organizational culture determines how to behave other than for employees, as well as how the organization interacts with the environment. Organizational behavior that leads to change as a result of the influence of organizational culture, in turn, is expected to further expedite business development.
- e. Benefits to customers.  
Customers or the public it serves, is essentially the most important trade partners, because the customer becomes an organizational asset that is not less important than other assets.

To that end, the organization must continue to foster communication, increasing the organization's image in order to remain embedded in the customers. In this connection the organization has the benefit of high culture, respect for customers, an indication that the culture of the organization has been running well.

## **2.2. Characteristics of Organizational Culture**

Organizational culture can also be understood from certain characteristics that are closely related. From the definition of organizational culture that have been raised, it has not been seen any concrete characteristics that can be measured. The main dimensions or characteristics of organizational culture that can be measured as expressed by Robbins [12] include seven characteristics, namely:

1. Innovation and Risk-Taking  
That is the extent of the innovative and employees are encouraged to take risks
2. Attention to Detail  
That is the extent of the employees are expected to exhibit precision (accuracy), analysis and attention to details.
3. Outcome Orientation.  
That is the extent of management focus on results rather than on the techniques and processes used to achieve those results.
4. People Orientation.  
That is the extent of management decisions take into account the effect of outcomes on people within the organization.
5. Team Orientation.  
That is the extent of work activities are organized around teams and not individuals.
6. Agresiveness  
That is how far the person is aggressive and the communicative and instead take it easy.
7. Stability  
Emphasize the extent to which the organization's activities for the maintenance of the status quo as contrasted growth.

Those seven characteristics will describe the organizational culture and the basis for common understanding that of the members of the organization, and reflects the power that should have.

## **2.3 Definition and Components of Total Quality Management**

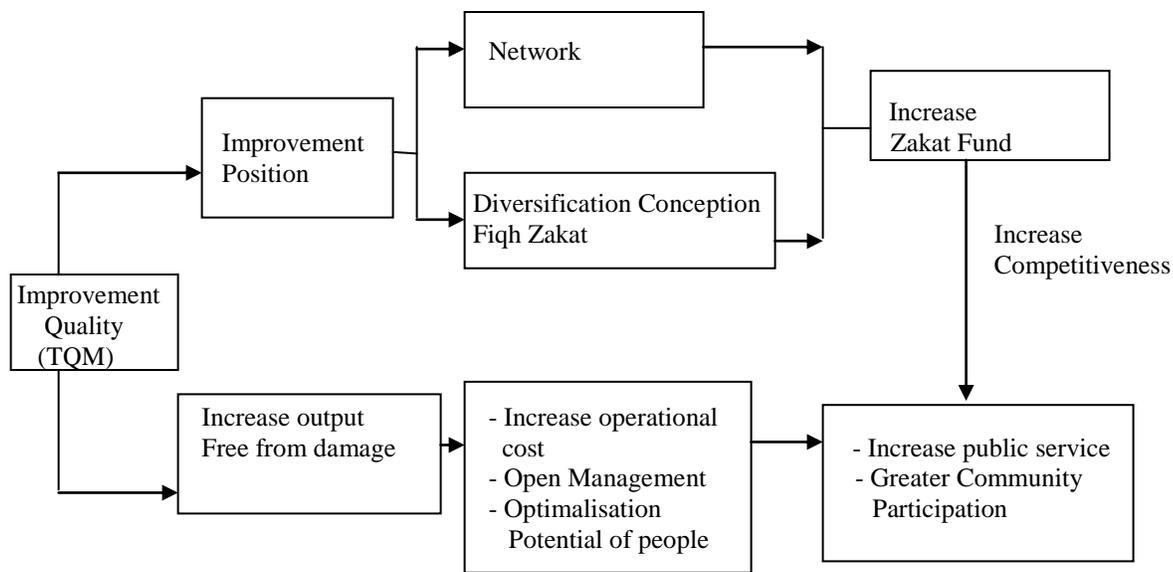
Total quality management (TQM) is a recent breakthrough in the management of all activities aimed at optimizing customer satisfaction through process improvement. Then according to Tenner and Detoro [16], TQM has three basic philosophies that can be drawn as a meeting point of various opinions about TQM, are as follows:

1. Focusing on customer satisfaction (Customer Focus).  
Internal customers are employees following or following departments are involved in the production / creation services. External customers are people or organizations that buy and use the products or services of the company.
2. Empowering and Engaging Employees.  
In the fierce competition, employees are required to have the expertise and know-how in performing their duties. To that end, the company should provide more training and opportunities to be involved in the decision making process.
3. Continuous quality improvement (continuous improvement).  
In the implementation process improvements are implemented based on the Deming wheel plan, do, check and action (PDCA cycle) wheels that rotate continuously to prevent recurrence of damage.

Then, the implementation of TQM in the LAZ, in order to realize a credible institution of zakat, one attempts to do is to implement TQM. Furthermore, especially LAZ, according to Budi [17], the efforts to conduct continuous quality improvement can be achieved in two ways, as follows:

1. LAZ can make a more strategic position in terms of management of the ZIS by means of the conception of fiqh socialize more appropriate.
2. LAZ can improve outcomes in terms free from damage that can hinder agency operations.

Expected to continuous quality improvement are two ways in which LAZNAS can achieve the goal of raising funds from muzakis ZIS and ZIS able to distribute funds to mustahik, and to improve services to the community in an optimal and can ultimately increase participation for the success of the community institutions also enhance competitiveness of the institution in the form of performance.



*Figure 1: ZIS Fund Management Improvement Strategy with an Approach of Total Quality Management [17]*

Based on Figure 1, it is required to increase the quality and to improve the position of the organization by making network and diversifying the conception of fiqh of zakat. In additions, other way to increase the output is as follows: reducing operational costs, implementing an open and transparent management and optimizing the potentials that exist in the community. Such efforts can ultimately improve the public that will ultimately bring greater public participations.

#### **2.4. Definition and Principles of Good Governance**

Many definitions have been delivered by experts and researchers about corporate governance. For instance, the OECD [18] defines corporate governance as the system by which business corporation are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in corporation, such as the board, the managers, shareholders and other stakeholders and spells out of the rules and procedures and for making decision on coporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

The purpose of the definition is that a system used to direct and control the company's business activities. Corporate governance regulate the division of duties, rights and obligations of those who are interested in the life of the company, including shareholders, board members, managers and all members of non-shareholder stakeholders. The goal of good corporate governance as stated in the OECD [18] is as follows: (1) to reduce the gap between those who have an interest in a company, (2) to increase the confidence for investors in making the investment, (3) to reduce the cost of capital, (4) to ensure the commitment of all parties in the management of corporate legal and (5) the creation of value for the company, including the relationship between the stakholders. Furthermore, in order to implement good governance, the need for standards or principles used to guide the company's management practices to enhance the value and viability of the company. Organization for Economic Cooperation and Development [18] has developed the following principles, such as: (a) Fairness, (b) Transparency, (c) Accountability, and (d) Responsibility.

The unit of analysis of this study comprised of LAZ throughout Indonesia and LAZDA/LAZNAS, whose main activity is to perform as the intermediary management of zakat. The principles of good governance used in this study were based on the decision of the Minister of State Owned Enterprises No. 117/M-MBU/2002 [19], applying five principles as follows: (a) responsibility, (b) accountability, (c) fairness, (d) tranparency and (e) independency. A description of each principle is as follows:

1. Responsibility.

Compliance in the management of the company to the legislation in forces and the principles of corporate/ organizational health.

2. **Accountability.**  
Clarity of function, implementation and accountability of the general meeting of shareholders, the board of commissioners or supervisors and directors, and owners of capital sehingga management company to run effectively and efficiently.
3. **Fairness.**  
Fair and equal treatment in fulfilling the rights of stakeholders arising under treaties and laws that apply to ensure that the company is managed prudently for the benefit of stakeholders fairly and to avoid the occurrence of adverse corporate practices.
4. **Transparency.**  
Transparency in implementing the decision making process and in the proposed material and relevant information about the company. Transparency relates to the quality of the information conveyed companies.
5. **Independency.**  
A state in which the company is managed in a professional manner without the help and pressure from local interests that are not in accordance with the legislation in force and the principles of a healthy corporation or organization.

## **2.5 Research Hypothesis**

Based on the theoretical framework, it can be clearly pulled the hypothesis as follows, i.e. there might be an influence of organizational culture and implementation of total quality management to the application of good governance at the Institute Amil Zakat (LAZ) throughout Indonesia.

## **3. APPROACH AND METHODS**

### **3.1. Research Methods and Data Collection Techniques**

The research method used in this study was explanatory research, where it explains the causal relationship among these variables [20]. Furthermore, to obtain the data needed to prove the hypothesis of the study, it requires multiple data collection techniques by questionnaires, interviews and documentations.

### **3.2. Testing Research Instruments**

#### *3.2.1 Validity Testing Instrument (Test of Validity)*

Validity tests were conducted to determine whether the measure has drawn actual measurement. Product moment correlation was used in the calculations. Table 4 shows the results by Pearson product moment correlation (r):

*Table 4: Questionnaire Validity of Test Results*

<b>Variables</b>	<b>The range of values r</b>	<b>R-Critic</b>	<b>Description</b>
Organizational Culture	0,534 – 0,864	0,30	All valid
Total Quality Management	0,524 – 0,884	0,30	All valid
<i>Good Governance</i>	0,431 – 0,869	0,30	All valid

Table 4 shows that the value of each item statement validity index is greater than 0.30, indicating that all of the questions raised are valid and fit for further analysis.

#### *3.2.2. Reliability Testing Instrument (Test of Reliability)*

Reliability can be defined as a characteristic associated with the accuracy, precision and consistency, the Spearman-Brown correlation coefficient.

Table 5: Reliability Test Results Questionnaire Research

Questionares	Number of Questions	Reliability Coefficients	Description
Organizational Culture	29	0,982	Reliable
Total Quality Management	19	0,978	Reliable
<i>Good Governance</i>	20	0,953	Reliable

Reliability test results showed that the three variables studied questionnaires were reliable so that they could proceed to the next analysis.

### 3.3 Target Population and Research Sample

The target population in this research is LAZNAS and LAZDA as listed in FoZ. Proportional stratified random sample was used as sampling technique. The determination of the sample used the formula of Slovin with the error rate (d) of 0.05.

Table 6: Number of Units Samples From Each Strata LAZ

Lembaga Amil Zakat (LAZ)	N	'n
LAZ Nasional (LAZNAS)	18	16
LAZ Region(LAZDA)	32	28
<b>Total</b>	<b>50</b>	<b>44</b>

### 3.4 Design Analysis and Hypothesis Testing

In total of 50 LAZ, 41 LAZ completed the questionnaires, consisting of 14 and 27 LAZDA/LAZNAS.

## 4. RESULTS AND DISCUSSION

### 4.1 Measurement Model and Structural Model

The effect of Implementation of organizational culture and total quality management to application of good governance were analyzed by structural equation modeling with partial least square. Similarly, the covariance-based SEM and the variance-based SEM also created two models, i.e. the measurement model and structural model. Through the measurement model, the reflective indicators will assess the validity of each indicator and test the reliability of the constructed indicators. Furthermore, the indicator with a loading factor of less than 0.50 will be dropped from the model, with the satisfactory composite reliability is greater than 0.70.

Table 7: Factor Loading Indicator Variables of Each Research

Variables	Composite Reliability (CR)	Average Variance Extracted (AVE)
Organizational Culture	0,946 (recommended)	0,713 (presented 71,3%)
<i>Total Quality Management</i>	0,920 (recommended)	0,793 (presented 79,3%)
<i>Good Governance</i>	0,908 (recommended)	0,668 (presented 66,8%)

After describing the measurement model of each variable of the study, it will be further describing the structural models between variables formed and the measurement model. From the result of the merger and the measurement model and the structural model, the full path diagram is shown in Figure 2 below.

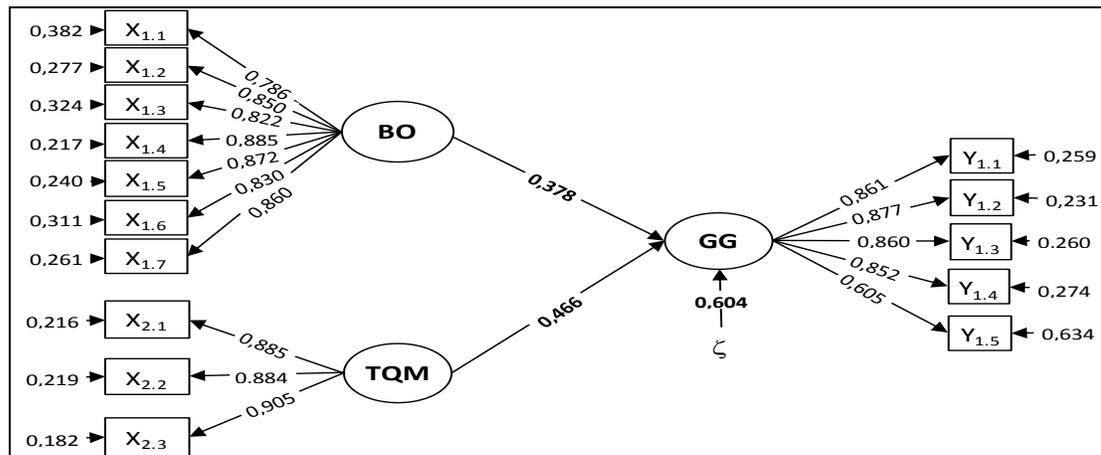


Figure 2: Complete Line Diagram Model (Full Model) Between Variables

The full path diagram model will further test the hypothesis of the study, but it initially requires the path coefficient and the value of the test statistic T for each lane.

Table 8: Coefficient of Each Line Relations Variable

Path	Coefficient	Std.error	T-Statistic*
OC(BO)->GG	0.378	0.149	2.543
TQM->GG	0.466	0.117	3.990

Through the values contained in the path diagram of the structural model among latent variables in Figure 2 can calculate the influence of each variable and the organizational culture of total quality management to the application of good governance and the results are presented in Table 9.

Table 9: Major Variables Effect Organizational culture (OC/BO) and Total Quality Management (TQM) to Application Of Good Governance (GG)

Variables	Path Coefficient	Direct Effect	Indirect Effect	Total
OC/BO	0,378	14,3%	1,8%	16,1%
TQM	0,466	21,7%	1,8%	23,5%
<b>Total Effect In Together (Simultaneous) =</b>				<b>39,6%</b>

Altogether, organizational culture variables and total quality management can explain or effect the changes that occur in the application of good governance by 39.6% and the remaining 60.4% is explained or affected by other factors. Between these two variables, total quality management provides a greater contribution to the application of good governance.

#### 4.2. Hypothesis Testing

Having described the measurement model and the structural model of each variable, it will continue to test the effect of each exogenous variable (independent variable) on the endogenous variable (the dependent variable) in accordance with the existing hypothesis. This section will examine the effect of organizational culture and total quality management on the application of good governance. Jointly effect of organizational culture and total quality management on the application of good governance was tested by statistical hypothesis as follows.

- Ho. All  $\gamma_{1i} = 0$ : Organizational culture and total quality management jointly had no effect on the application of good governance  
 Ha. There  $\gamma_{1i} \neq 0$ : Organizational culture and total quality management jointly effect the application of good governance

*Table 10: Effect of Cultural Significance Tests and Organization Total Quality Management Jointly to the Application of Good Governance.*

Joinly Effect	F <sub>count</sub>	F <sub>0,05 (2;38)</sub>	Conclusion
39,6%	12,457	3,245	There is a significant effect

Table 10 shows that 12.457 of F<sub>count</sub> value is greater than of F table (3.245). It is concluded that both organizational cultural and total quality management significantly affect the application of good governance at 95% confidence level. Furthermore, it follows the researchers' expectation that if the culture of the organization and total quality management are optimally applied, it will increase the the application of good governance. The results of statistical tests have proven the existence of significant influence both variables towards the application of good governance.

#### 4.3. The Effect of Implementation of Organizational Culture to Application of Good Governance

It was hypothesized before that organizational culture affected the application of good governance. Here are the results of the significance test of the hypothesis through statistical hypothesis as follows.

- Ho.  $\gamma_{11} = 0$ : The organizational culture does not affect the application of good governance.  
 Ha.  $\gamma_{11} \neq 0$ : The organizational culture affects the application of good governance.

*Table 11: Test of Significance Effect of Organizational Culture to Application of Good Governance*

Path Coefficient	T <sub>count</sub>	t <sub>critics</sub>	Conclusion
0,378	2,543	1,96	There is a significant effect

Table 11 shows that path coefficient of organizational culture to the application of good governance is 0.378 with a positive direction. Positive path coefficient suggests that a good organizational culture tends to make the application of good governance is also good. Furthermore, t<sub>count</sub> (2.543) is greater than t<sub>critics</sub> (1.96) showing that organizational culture significantly affects the application of good governance.

Organizational culture variables directly contribute to 14.3% of the application of good governance, and indirectly influence its association with total quality management by 1.8%. In total, organizational culture contributes 16.1% or effect in improving the application of good governance. Statistical test results show, according to the researchers' expectations, i.e if the culture of the organization is, better, than the application of good governance is also good. The results of statistical tests have proven the existence of significant influence of organizational culture on the application of good governance.

#### 4.4. The Effect of Implementation of Total Quality Management to Application of Good Governance.

It was hypothesized that implementation total quality management affected the application of good governance. Here are the results of the significance test of the hypothesis through statistical hypothesis as follows.

Ho.  $\gamma_{12} = 0$ : In partial total quality management does not affect the application of good governance.

Ha.  $\gamma_{12} \neq 0$ : Partially total quality management affect the implementation of good governance.

*Table 12: Effect of Total Quality Management Significance Tests Against Application of Good Governance*

Path Coefficient	t-count	t-critics	Conclusion
0,466	3,990	1,96	There is a significant effect

Table 12 shows the variable path coefficient of total quality management to the implementation of good governance at 0.566 with a positive direction. A positive path coefficient reflects that a good total quality management tends to make the application of good governance is also better. Furthermore, the calculated value of t (3.990) is greater than  $t_{critics}$  (1.96) indicating that there is a significant effect of total quality management to the application of good governance.

The direct variable of total quality management contributes 21.7% to the application of good governance, and the indirect organizational culture contributes of 1.8%. Overall, total quality management contributes an increase of 23.5% with the application of good governance. Statistical test results shows that a good total quality management tends to improve the application of good governance. The results of the statistical test has proved the existence of a significant effect of the overall quality management of the application of good governance

## 5. CONCLUSION

Based on data analysis and discussion of research, some point can be drawn as conclusion:

1. Implementation of the organizational culture and total quality management significantly effect on the application of good governance simultaneously and partially.
2. The implementation of total quality management is the most contributor variable on the application of good governance.

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