# THE INFLUENCE LEADERSHIP AND INTERNAL CONTROL ON COMPANY PERFORMANCE THROUGH HUMAN RESOURCES COMPETENCE

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**Abstract:** This study examines and analyzes the influence of leadership and internal control on company performance with human resources competence as a mediating variable at Perumda Delta Sari Sidoarjo. The instrument in the data collection technique was a questionnaire with a Likert Scale. The questionnaires were distributed online to the 65 respondents. They consisted of Structural and functional officers. The data analysis technique used was Structural Equation Modeling – Partial Least Squares (SEM-PLS). The result shows that internal control has a positive and significant effect on human resources competence and company performance. However, leadership has an insignificant effect on human resource competence and company performance. Additionally, human resource competence is proven to mediate significantly the effect of internal control on company performance. Unfortunately, it does not significantly mediate the relationship between leadership and a company performance. The findings indicate that within a public service-based organization such as Perumda Delta Sari Sidoarjo, a strong internal control system that runs effectively has more roles than the effect of leadership style in supporting the improvement of human resources competence, and finally the company performance. Therefore, strengthening in the internal system and developing human resources structurally becomes an essential strategy to improve organizational performance sustainability.

**Keywords**: Leadership, Internal Control, Company Performance, Human Resources Competence

## 1. Introduction

Perumda Delta Tirta Sidoarjo is a Regionally-Owned Enterprise of Sidoarjo Regency which is engaged in providing clean water to the people of Sidoarjo Regency with its business strategy of increasing water production to meet the water needs of the community. The performance of Perumda Delta Tirta Sidoarjo is measured annually based on the Ministry of PUPR.

**Table 1. Performance of Perumda Delta Tirta Sidoarjo for the 2019-2023 Period**

| Aspect | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Financial | 1,04 | 0,98 | 0,98 | 0,98 | 1,04 |
| Service | 0,77 | 0,57 | 0,79 | 0,45 | 0,60 |
| Operational | 1,23 | 1,22 | 1,22 | 1,22 | 1,15 |
| Human Resource Management | 0,51 | 0,47 | 0,47 | 0,47 | 0,43 |
| Jumlah | 3,55 | 3,24 | 3,46 | 3,12 | 3,22 |

**Source : BPKP of East Java Province**

Based on Table 1, it can be seen that the performance based on the Ministry of PUPR in 2023 experienced an increase of 0.10 with the "Healthy" category. Although there was an overall increase, the Operational aspect decreased by 0.07, and the Human Resources aspect also decreased by 0.04. The increase or decrease in company performance is influenced by the leadership in the company. Roscahyo (2013) explains that the leadership style implemented by a leader creates a harmonious relationship by instilling trust in his employees, thus influencing employee performance, which ultimately leads to company performance. Leadership style describes a consistent combination of skills, traits, and attitudes that underlie behavior.

Another factor that influences company performance is internal control. Internal control in the human resources sector is a process designed to ensure operational effectiveness and efficiency, the reliability of financial reporting, and compliance with applicable laws and regulations in human resource management. COSO (Committee of Sponsoring Organizations of the Treadway Commission) defines internal control as a process, effected by the board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in operational effectiveness, reporting reliability, and legal compliance. Lasso (2016) stated that internal control in a company is very important because the bigger the company, the higher the level of employee performance in the company will be, therefore effective and efficient internal control is needed to achieve company goals. The results of previous research conducted by Lestari (2015) showed that internal control has a positive effect on organizational performance.

Another factor that can influence company performance is human resource competency. In order for the human resources owned to become an asset for a company, they must be managed well to be able to create the ability (competence) in carrying out their work so that they can help employees in completing their work according to the targets that have been determined, thereby supporting the achievement of company performance. Research by Nurazizah (2024) shows that human resource competency has a positive and significant impact on company performance.

Improving company performance can be achieved by considering leadership, control, and employee competency. This study will use employee competency as a mediating variable, as previous studies have shown that leadership and internal control have a positive and significant effect on employee competency (Suciningsih & Kusuma, 2023; Mirosea et al., 2022). Therefore, this study will analyze the influence of leadership and internal control on company performance through human resource competency at Perumda Delta Tirta Sidoarjo.

## 2. Literature Review

### Leadership

Robbins (2015) explains that leadership is the ability to influence a group in achieving an organization's vision and goals. Meanwhile, George & Jones (2012) stated that leadership is a process in which an individual has influence over others and can inspire, encourage, motivate and direct their activities in order to achieve the goals of the group or organization. According to Hasibuan (2016), leadership styles include authoritarian, participatory, and delegating.
The leadership indicators based on Fransisca (2022) consist of: 1) Communication, namely the process of conveying clear and open information from leaders to subordinates, creating understanding and trust, 2) Participation, namely the active involvement of employees in decision-making and work processes facilitated by leaders, 3) Motivation, namely the drive within a person, both from within and outside themselves to do a job with high enthusiasm by using all abilities and skills, 4) Transparency, namely the leader's open attitude in conveying information, policies, and processes so as to build trust and reduce uncertainty.

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**Internal Control**

COSO (2013) defines internal control as the influence of the board of directors, management entities and other personnel on the processes that occur as a guarantee in achieving company objectives related to operations, reporting and compliance. According to Arens (2008) the internal control system consists of several policies and procedures specifications designed to provide management with reasonable assurance that important goals and objectives for the company are met. Measurement indicators based on COSO consist of: 1) Ethics, integrity, and commitment to competence in the organization related to the control environment, 2) Periodic evaluation and corrective actions related to monitoring.

**Human Resources Competence**

The definition of competence according to Hutapea & Thoha (2008), is the capacity that a person has that can enable that person to fulfill the requirements of the job in an organization so that the organization is able to achieve the expected results. According to Wirawan (2009), human resource competency describes the characteristics of knowledge, skills, behavior and experience that humans have to carry out a particular job or role effectively. Indicators for measuring human resource competency based on BNSP consist of: 1) Qualifications refer to educational background, training and certifications held to carry out tasks professionally, 2) Technical capabilities refer to practical and specific capabilities needed to carry out management functions, 3) Adaptability refers to an individual's capacity to adjust to changes in the work environment, technology, and new policies in carrying out their duties, 4) Creativity refers to the ability to generate new ideas and innovative solutions in facing challenges, and 5) Target achievement refers to the ability to meet or exceed work targets set by the organization.

**Company Performance**

Martsila and Meiranto (2013) stated that company performance is a measuring tool to determine the value of a company's success in achieving company goals. Efficiency and effectiveness are parameters that can be used to assess company performance. Lestari (2018) explains that company performance is the results achieved by management in accordance with its functions. The goal is to gain the trust of the public, external parties, and the government. The achieved company performance reflects the health or otherwise of a company. Company performance is the company's overall success in achieving predetermined goals and objectives by using resources effectively and efficiently (Rospandani, 2021). Performance measurement indicators based on the PUPR Ministerial Decree consist of: 1) Operational, namely service operating hours and water loss levels, 2) Human resources, namely employee participation in employee education and training

**Research Model**

The research model that describes the influence of leadership and internal control on company performance through human resource competencies is shown in Figure 1 below:

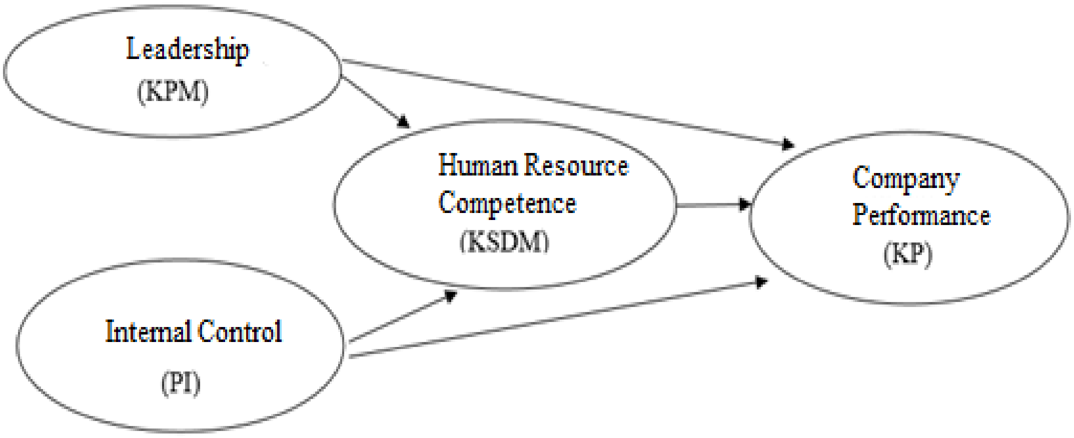


**Figure 1. Research Model**

**Hypothesis**

Based on the background of the problem and research model, the hypothesis in this study is formulated as follows:

H1: Leadership has a significant influence on human resource competency.
H2: Internal control has a significant influence on human resource competency.
H3: Leadership has a significant influence on company performance.
H4: Internal control has a significant influence on company performance.
H5: Human resource competency has a significant influence on company performance.
H6: Human resource competency mediates the influence of leadership on company performance.
H7: Human resource competency mediates the influence of internal control on company performance.

## 3. Method

**Research Design**

The type of research used is quantitative research using a causal research design. Causal research design aims to test the hypothesis of the influence between one variable and another variable. This is in accordance with the objectives of the current research which examines the influence of leadership and internal control on company performance through human resource competencies.

**Population and Sample**

The research population consisted of all 65 permanent employees with positions ranging from assistant manager to manager within the Delta Tirta Sidoarjo Regional Public Company. The sampling method used by the researcher was a saturated sample, so that all members of the population became the research sample.

**Data Analysis**

The data in this study were analyzed using the Structural Equation Modeling (SEM) technique. SEM is used for structured research models through path analysis. Meanwhile, the Partial Least Square (PLS) software has the ability to analyze the relationship between variables in a single test (Ghozali & Latan, 2015).

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## 4. Result and Discussion

**Convergent Validity Test**
The convergent validity test aims to determine the validity of each relationship between an indicator and its construct or latent variable. A loading factor value > 0.6 is still acceptable in convergent validity, while the AVE value has a requirement of more than 0.5. The results of the convergent validity test are shown in Table 2 below:

**Table 2. Convergent Validity Test**

| Variable | Indicator | *Loading Factor* | AVE |
|---|---|---|---|
| Leadership | KPM1 | 0,814 | |
| | KPM2 | 0,857 | 0,852 |
| | KPM3 | 0,910 | |
| | KPM4 | 0,868 | |
| Internal control | PI1 | 0,883 | 0,806 |
| | PI2 | 0,912 | |
| Human resource competence | KSDM1 | 0,803 | |
| | KSDM2 | 0,825 | |
| | KSDM3 | 0,754 | 0,619 |
| | KSDM4 | 0,866 | |
| | KSDM5 | 0,671 | |
| Company performance | KP1 | 0,927 | 0,852 |
| | KP2 | 0,919 | |

Based on Table 2, it shows that all indicators in each variable have a loading factor value of more than 0.6 and an AVE value of more than 0.5 so that all indicators have met the convergent validity criteria.

**Table 3. Reliability Test**

| Variable | Cronbach's Alpha | Composite Reliability | Information |
|---|---|---|---|
| Company performance | 0,826 | 0,920 | Reliable |
| Leadership | 0,893 | 0,921 | Reliable |
| Human resource competence | 0,845 | 0,890 | Reliable |
| Internal control | 0,760 | 0,892 | Reliable |

The results of the reliability test shown in Table 3 are that the Cronbach's alpha and composite reliability values of all variables are > 0.6, so it can be concluded that they are reliable.

**Coefficient of Determination**
The coefficient of determination ($R^2$) measures the model's ability to explain variations in the dependent variable. The $R^2$ value is between 0 and 1. A small $R^2$ value means that the ability of the independent variables to explain the variation in the dependent variable is very limited.

**Table 4. Coefficient of Determination Value**

| | *R Square* |
|---|---|
| Company performance | 0,167 |
| Human resource competence | 0,573 |

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The R Square value for the company performance variable is 0.167, meaning that 16.7% of the variation in company performance can be explained by leadership, internal control, and human resource competency. The R Square value for the human resource competency variable is 0.573, meaning that 57.3% of the variation in human resource competency can be explained by leadership and internal control.

**Test Hypothesis**

The results of the hypothesis test of the direct influence of leadership and internal control on human resource competence and company performance are shown in Table 5 below.

**Table 5. Results of the Direct Effect Hypothesis Test**

| Hypothesis | | Original Sample (O) | T Statistics (\|O/STDEV\|) | P Values |
|---|---|---|---|---|
| H1 | Leadership -> Human resource competency | 0,155 | 1,260 | 0,104 |
| H2 | Internal control -> Human resource competency | 0,740 | 12,911 | 0,000 |
| H3 | Leadership -> Company performance | 0,120 | 0,649 | 0,258 |
| H4 | Internal control -> Company performance | 0,518 | 3,079 | 0,001 |
| H5 | Human resource competency -> Company performance | 0,521 | 2,522 | 0,006 |

Based on the results of the direct influence hypothesis test in Table 5, it can be explained as follows:

**The influence of leadership on human resource competency**

The influence of leadership on human resource competency has a coefficient value of 0,155, furthermore t-statistic of 1,260, and a p-value of 0,104. These results indicate that leadership does not directly significantly improve human resource competency. The test results indicate that H1 is rejected.

**The influence of internal control on human resource competency**

The influence of internal control on human resource competence has a coefficient value of 0.740, furthermore t-statistics of 12,911, and p-value of 0,000. These results indicate that internal control can directly improve human resource competence. The test results indicate that H2 is accepted.

**The influence of leadership on company performance**

Based on the results of the hypothesis testing, it shows that the direct influence of leadership on company performance has a coefficient value of 0,102, a t-statistics value of 0,649, and a p-value of 0,258. These results indicate that hypothesis H3 is rejected.

**The influence of internal control on company performance**

Based on the results of the hypothesis test, the direct influence of internal control on company performance shows a coefficient value of 0,518, t-statistics of 3,079, and p-value of 0,001. These results indicate that H4 is accepted, meaning that there is a significant influence of internal control on company performance.

e-ISSN 2746-5667

**The influence human resource competency on company performance**
Based on the results of the hypothesis test, the direct influence of human resource competence on company performance has a coefficient value of 0,521, t-statistics of 2,522, and p-value of 0,006. The test results show that H5 is accepted so that human resource competency has a positive and significant effect on company performance.

The results of the indirect influence test in this study are presented in Table 6. The test results answer hypotheses H6 and H7.

**Table 6. Results of Indirect Effect Hypothesis Test**

| Hypothesis | | Original Sample (O) | T Statistics (\|O/STDEV\|) | P Values |
|---|---|---|---|---|
| H6 | Leadership -> Human resource competence -> Company performance | 0,081 | 1,103 | 0,135 |
| H7 | Internal control -> Human resource competence -> Company performance | 0,085 | 2,582 | 0,005 |

Based on the results of the direct influence hypothesis test in Table 6, it can be explained as follows:

**The influence of leadership on company performance through human resource competencies**
The results of the test of the indirect influence of leadership on company performance through human resource competency showed a coefficient of 0.081, t-statistics of 1.103, and p-value of 0.135. These results indicate that leadership does not significantly influence company performance through human resource competency, thus H6 is rejected.

**The influence of leadership on company performance through human resource competencies**
The test results of the indirect effect of internal control on company performance through human resource competency showed a coefficient value of 0.386, a t-statistic of 0.778, and a p-value of 0.005. These results indicate that internal control has a positive and significant effect on company performance through human resource competency, thus H7 is accepted.

**Discussion**
**Leadership has no significant influence on human resource competency**
The results of the hypothesis testing indicate that leadership has an insignificant direct influence on human resource competency. This can be explained through the context of an organization that is bureaucratic and procedurally oriented, as is generally the case with Regionally-Owned Enterprises (BUMD). In such a structure, leadership functions tend to be more administrative, emphasizing reporting, supervision, and compliance rather than being a leader who inspires individual competency development. This finding is inconsistent with the research of Suciningsih & Kusuma (2023), which stated that leadership significantly influences human resource competency. However, this study's results align with the research of Marjaya & Pasaribu (2019) that found leadership has no significant influence on human resource competency.

**Internal control has a positive and significant influence on human resource competence**
The results of the hypothesis testing indicate that internal control has a positive and significant effect on human resource competence. At Perumda Delta Tirta Sidoarjo, the internal control system is a crucial pillar in maintaining operational integrity. This includes the implementation of standard operating procedures, performance evaluations, internal audits, and a violation reporting system. The existence of structured internal control provides clarity on work roles and responsibilities so that employees have discipline, procedural compliance, and an orderly work culture that ultimately shapes human resource competence. The results of this study are consistent with those conducted by Mirosea et al., (2022), who found that internal control has a significant positive effect on human resource competence.

**Leadership has no significant influence on company performance**
The results of direct hypothesis testing indicate that leadership has no significant effect on company performance. Leadership style is unable to directly drive improved company performance. This may occur because leadership is more influential in shaping work culture or individual development, but does not automatically improve organizational performance indicators such as operational efficiency or public service. These results are inconsistent with Juvika's (2023) research, which found that leadership has a significant positive effect on company performance. However, these results align with Chairany's (2017) research, which found that leadership does not have a significant positive effect on company performance.

**Internal control has a positive and significant influence on company performance**
The results of the hypothesis testing indicate that internal control has a positive and significant effect on company performance. These results show that the stronger the implementation of the internal control system at Perumda Delta Tirta Sidoarjo, the company's performance will also increase. Company performance, in this case, includes operational and human resource aspects, which are used as performance indicators. Good internal control influences the process of serving customers more orderly, financial reporting becomes more transparent, and the potential for errors or irregularities in the work process can be reduced, which ultimately has a significant impact on improving operational performance. The results of this study are in line with the results of research by Purwaningsih & Amalia (2024) that internal control has a positive and significant effect on company performance.

**Human resource competence has a positive and significant influence on company performance**
The results of the direct effect hypothesis test indicate that human resource competency has a positive and significant effect on company performance. This demonstrates that employee competency is a crucial factor influencing company performance. Competence, in this case, encompasses knowledge, skills, and work attitudes that support task execution. These results align with Nurazizah's (2024) research, which found that human resource competency has a positive and significant effect on company performance.

**Leadership has no significant influence on company performance through human resource competency.**
Leadership has no significant influence on company performance through human resource competency. The indirect influence of leadership on company performance through human resource competency is not effective at Perumda Delta Tirta Sidoarjo. The results of this study indicate that leadership is not strong enough to direct and empower human resources to achieve

optimal company performance. This finding is inconsistent with the research of Dompak et al. (2023) which showed that leadership significantly influences company performance through human resource competency. However, it is in line with the research of Nababan et al. (2020), which found that leadership does not significantly influence company performance through human resource competency.

**Internal control has a positive and significant influence on company performance through human resource competency**

The results of the indirect influence test indicate that internal control has a positive and significant effect on company performance through human resource competency. These results indicate that good internal control can improve human resource competency, which in turn has a positive impact on company performance. Internal control at Perumda Delta Tirta Sidoarjo encourages compliance, but also serves as a learning tool; each audit or evaluation can serve as a mirror that encourages employees to improve their abilities, from procedural knowledge to technical skills and professional work attitudes. In the long term, increased competency contributes to more productive and quality work results, both in terms of operations and service. The results of this study are in line with the research of Suciningsih & Kusuma (2023) which shows that internal control has a positive and significant effect on company performance through human resource competency.

## 5. Conclusion

The conclusion of this study is that the results of the direct influence hypothesis test indicate that leadership has no significant effect on human resource competence and company performance. Meanwhile, internal control has a positive and significant effect on human resource competence and company performance. Furthermore, human resource competence has a positive and significant effect on company performance. The results of the indirect influence hypothesis test indicate that leadership has no significant effect on company performance through human resource competence as a mediating variable. Meanwhile, internal control has a positive and significant effect on company performance through human resource competence. The recommendation in this study is that Perumda Delta Tirta Sidoarjo should pay attention to internal control factors because they impact human resource competence and company performance. Efforts that can be made include strengthening the monitoring function and utilizing monitoring technology.

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