

Chapter 1

Introduction

1.1 Background

Performance Measurement Company objective is to determine the extent of the company's development has been achieved. Knowledge of the current situation is the basis of the company to make repairs and perform the steps to be taken at a later stage. The company's success in the future will be determined by how the investment and management of intellectual or intangible assets such as employee competence, customer loyalty and quality control, rather than focus on how management and investment in physical assets. In making this investment, the success and failure of a company can't be measured in the short term with the traditional financial model (Kaplan and Norton, 2001).

Corporate performance measurement is an important management tool. In the face of competition in the global market, companies must always be encouraged to continuously improve their performance. Any measurement, the condition of the company's business processes can be known. The Balanced Scorecard (BSC) which is a measurement concepts derived directly from the company's business strategy needs to be monitored, as it would allow staff to key success factors for building the company's success. To achieve this success, the company should be motivated to make

sustainable improvements both to the results of performance measurement and benchmark the performance itself. Performance benchmarks in question are a key performance in the Balanced Scorecard (Kaplan and Norton, 2001).

The emergence of Balanced Scorecard is caused due to a shift in the level of competitive business information from industrial competition to competition, thus changing the measuring instrument or reference used by the company to measure its performance. Technology changes and fierce competition in the business world stimulate demand for information. Competition resulting information to help make decisions, their Balance word itself indicates a balance in the management of the organization so that it can run well and is able to improve the performance of the organization well. To realize that it is in the Balanced Scorecard in the concept of introducing a system for measuring the company's performance using certain criteria.

In implementing the strategies that have been set by the company, the performance measurement and its evaluation becomes very important. The company's performance is measured and evaluated to determine whether a company's strategy has been executed properly or not. Besides measuring performance also shows the contribution of the managers of the company as well as being a source of information in evaluating the manager's actions. Performance measurement system which has been implemented by

many companies is a performance measurement system based on traditional approaches that view and assess the performance of the financial angle (Financial aspect) only. But it turns out, an increasingly competitive business environment today demands a performance measurement of non-financial aspects (non-financial aspect) company.

However, performance measurement is based on the traditional approach also has some disadvantages, such as not oriented toward long-term clappers but oriented towards short-term interests. Another disadvantage of this approach is the inability to measure riches in companies that are intangible (intangible assets) and intellectual property (human resources). With the Balanced Scorecard weaknesses earlier can be anticipated by performing measurements on each perspective, so that the disadvantages mentioned above can be reduced.

Generally balanced scorecard was created to address the problem of the weakness of executive performance measurement system that focuses on the financial aspects. Furthermore Balanced Scorecard development and implementation experience, not only as a measure of executive performance, however, extends as an approach in the preparation of strategic plans (Budiarti, Isniar: 2005). The Balanced Scorecard retains a variety of traditional financial measures, but various financial measures are not sufficient to evaluate companies in the information age to create future value

through investment in customers, suppliers, employees, processes, technology and innovation (Norton, 1996: 7)

Originally BSC is used to improve executive performance measurement system. Early use of executive performance is measured only in terms of finance. Then developed into a broad perspective that is four which is then used to measure the performance of the organization as a whole. The four perspectives are financial, customer, internal business process and learning and growth. According to Atkinson, Balanced Scorecard is "A measurement and management system that views a business unit's performance from four perspectives: financial, customer, internal business process, and learning and growth", which means the measurement and performance appraisal management system with four perspectives: financial, customer, internal business processes (Kaplan and Norton, 2001: Chapter 7).

BSC is a management tool that has been proven to have helped many companies in implementing its business strategy. Based on the research results of several studies found that in 2001 about 44% of companies worldwide have been using the BSC with the details of 57% of companies in the UK, 46% in the United States, and 4 as much as 26% in Germany and Austria. In a study by Bain & Company also showed that of the 708 companies on five continents as much as 62% have been using the Balanced Scorecard (Hendricks, 2004). Another survey in the United States by Fortune magazine

estimated that 60% of the 1000 companies have tried to use the BSC. Survey on Finnish companies also showed 31% of respondents have a few different types of systems BSC and 30% implement one of these (Silk, 1998, in Hallman, 2005). This is because the management within the company understand clearly that their activities do influence the success in achieving the vision and mission and strategy of the company, in other words that the activities of the strategy has been the activities of all employees in the company. So that they become a unified whole and can't be separated by a relationships that occur within the company.

Established in 1962, currently PT. X is having 20 branches, 4 stock points and 29 agents that are spread in all major islands of Indonesia. Company X reaches success with premium brand equity, a management with more than 50 years of experience, solid financial capabilities that are growing rapidly, as well as the promising market of Indonesia. Company X is holding company of PT. A (producer) and PT B (distributor). With more than 50 years of business experience, Company X continuously develop its production technology, human resources and marketing efforts, to maintain its place as a renowned industry.

The reason why the company X also uses a balanced scorecard is because the balanced scorecard is a trend in the business world. The fact that now many companies in Indonesia are starting to use the balanced scorecard even another company engaged in the

same field has also begun using a balanced scorecard. Company X wants to make their competitor that is more advanced as their benchmark. Mostly the competitor of Company X already used balanced scorecard. Notice that the impact of balanced scorecard is good and make their competitor progress increase, Company X want to try implement balanced scorecard in their company that hopefully will bring the good impact to Company X as their competitor or even more.

Using the Balanced Scorecard concept that has 5 distinctive in terms of coverage measurement is quite comprehensive, while taking into consideration the financial performance. Balance Scorecard also considers the performance of non-financial performance, the customer, internal business processes, and learning and growth. In addition, the Balanced Scorecard not only measures the final result (outcome) but also measure the final deciding activities (driver).

Therefore, in order to determine the performance, the company can implement the Balanced Scorecard as a strategic-based measurement tools, such as financial perspective, internal business process perspective, customer perspective, and learning and growth. Balanced Scorecard excellence is to be able to give a measure that can be used as a basis for strategic improvements. Based on the background of the problem interesting to study the extent of the success of a company's performance using the Balanced Scorecard

concept. The author feels interested in writing a thesis with the title: *“The Implementation of Balanced Scorecard Method to Employee Performance Measurement”*.

1.2 Research Questions

Based to the background of the study, research questions in this research are:

1. How does the company's performance based on fourth perspective of the Balanced Scorecard?
2. How does the Financial Perspective in Balanced Scorecard contribute to measure the performance of Pt. X?
3. How does the Internal Perspective contribute to measure the performance of Pt. X?
4. How does the Customer Perspective contribute to measure the performance of Pt. X?
5. How does the Learning and Growth Perspective contribute to measure the performance of Pt. X?
6. How the strategic planning should be applied to every perspective of Balanced Scorecard to fit with the vision and objectives of the company.

1.3 Objectives of the Research

The objectives of this study are to explain and describe Balanced Scorecard System and introduced Balanced Scorecard as a

new method to analyse Employee Performance Measurement in PT.
X

1.4 Significance of Research

The author expects this study to provide benefits, including:

A. Academicals Purpose.

1. For students of the Faculty of Economics and Business research is useful as reference material for future research and comparative increase knowledge related to Balance Scorecard.
2. For the next researcher, as a reference for those who will carry out further research about “*The Implementation of Balanced Scorecard Method to Employee Performance Measurement*”.
3. For the author, as a tool to extend and add references about “*The Implementation of Balanced Scorecard Method to Employee Performance Measurement*”.

B. Practical Purpose

1. Assist the Company to obtain benefits in order to improve the quality of existing management so that the main focus on targets and goals can be accomplished.
2. Knowing the steps to be taken on the results of an analysis of the measurement of the performance of the

company for the vision, mission, goals and objectives can be achieved with good.