

CHAPTER 1

INTRODUCTION

1.1. Background of the Research

Business nowadays forces the company to create high level of employee performance for company development. Company should be able to build, organize and increase performance in its environment. The achievement of company's goal depends on many factors like capital, modern technology, or well-equipped facilities and infrastructure. It also depends on people who carry out the work starting from planning, executing, until evaluating which is able to utilize the vital resources owned by company.

Many have said that human resource is the most valuable asset in the company and therefore they must be managed efficiently to ensure increased productivity. The existence of human resource in a company plays a very important role. Human resource has a great potential to run the business activity. Company has to optimize the potential of every employee in order to draw the optimal productivity.

The success of a company is greatly influenced by the performance of its employees. A good company acknowledges its employees and tries to improve their performance. It is because the company knows that if its employees have a high performance; it will affect company performance too in order to achieve company's goals.

In a knowledge-based global economy era, almost 80% of company assets come from intangible assets like human capital (Kaplan and Norton, 2006). Success in business environment require forecasting

and planning efforts to meet information needs of human resource planning in order to support the achievement of the company's target. One such information is the performance appraisal result of the employee. Therefore to manage company business process, a performance appraisal system is required.

Human resource department is created to manage the workforce to be effective and efficient to develop all the abilities that they have in order to achieve company and employee objectives. More specifically, it manages human resources in a company, starting from planning, recruitment, selecting, staffing, training and development, including employee performance appraisal as part of the controlling function of management. Performance appraisal is provided by management to measure the employee performance at a certain period of time.

The company has to measure its employee performance to know if the employee's performance meets the target, is below the target, or exceeds the target. To measure employee performance, company does a performance appraisal. Performance appraisal is conducted to evaluate the job performance of each employee in achieving targets that have been determined. After the appraisal is completed, the next step is to give a reward or punishment for the concerned employee.

Reward will be given to an employee who has a good performance and capable to reach the target, while punishment is a consequence to an employee who is not able to achieve his target. Performance appraisal is a form of motivation and appreciation in the world of work. With appraisal, an employee will be motivated to give his best performance because they

always get the support and appreciation. Performance appraisal system is a very helpful tool to evaluate employee performance.

In the other words, company should create an effective performance appraisal which considers company objectives because the purpose of performance appraisal is to measure employee performance whether the performance is fit and supports company objectives or not. An effective performance appraisal will bring benefits for both company and employee. For company, an effective performance appraisal will help them to know employee performance and decide the best policy like reward and punishment for the employee. For the employee, they can know the feedback of their performance and as input for them to improve their next performance.

PT.X Company is a manufacturer of cigarette premium brand that was established in 1962 in Surabaya with only 10 employees. Over time, PT.X Company became a big company and now has 20 branches, 4 stock points and 29 agents spread throughout Indonesia. Like other companies that have departments supporting company's business activity, PT.X Company also has many departments to support its business activity. One of the departments is Management Organizational Development (MOD) Department that was recently in 2015 which handles organizational development as well as training and development. Management Organizational Development Department is a department under the Human Resource Division which serves to handle and manage individual and organization development especially in individual and system performance. (See Appendix 1)

PT.X Company also has its own objectives and like any other company, PT.X Company also wants to achieve them. In order to achieve their objectives, the company acknowledges the importance of human resource and wants to measure its employee performance with its own performance appraisal system. The company wants to know deeper about the indicators of employee performance. The results of performance appraisal will be used as a guideline to the compensation system, to the promotion scheme, and to decide which training and development program to conduct to improve the employee poor performance.

Currently, PT.X Company uses Forced Distribution Method to measure all of their employee's performance. In Forced Distribution Method, employees are divided into 5 categories that describe their performance at a certain period. PT.X Company uses job classification so the employee can know what kind of job he has and the responsibility that he has to perform.

The performance appraisal system that PT.X Company uses is based on job performance and competencies. The appraisal model is in accordance with the mixed model proposed by Spencer (1993). The assessment of the performance of the employee is not only seen in the perspective of output in terms of quantitative performance, but from the perspective of how the result can be taken. The different perspective that is given can represent the result of the performance and the process of how the employee get that result.

In the mixed model, the balanced weight between job performance and competence can range between 50%- 90% for the performance and 10%-50% for the competence. Nevertheless, the performance appraisal in

PT.X Company has weakness namely that its 9 appraisal indicators with 20 sub indicators are more focused in employee competencies rather than the job performance. The indicator weight between job performance and competencies is 30%- 45% for job performance and 55%- 70% for competence. It is more focused to competencies that are more qualitative rather than the performance that are more quantitative and thus it will be make subjectivity to remain high.

Performance appraisal correlate with many human resource issues, like company objectives, reward, training and development, and career planning. A good performance appraisal should be relevant and supportive of company objectives. The result of performance appraisal is used to give a reward to an employee who has good performance and punish the employee who has poor performance. Also performance appraisal is used to decide training and development program that fit each employee to help them increase their performance. Performance appraisal can be used also as a career planning tool because by performance appraisal, we can know the ability and skill of an employee that in the end will affect his career planning.

The performance appraisal at PT.X Company is not really supportive of the company objectives because the company just uses one performance appraisal to all the employees in company whereas we know that every department has their own objectives to support the company objectives. In the other words, one size does not fit all. Apart from this, the employee does not know about the result of his performance appraisal. They will only get feedback if they ask about it or when the manager is considering increasing of their salary at the beginning of the

year. If they do not get feedback, it will affect their promotion, reward, or career path in the organization because they cannot increase and maximize their next performance thereby losing the opportunity to get promotion, reward, or create a good career path in company.

This study attempts to design anew performance appraisal for PT.X Company particularly at the Management Organization Development (MOD) Department. The new performance appraisal will give more focus to performance rather than competence. The new basic assessment of performance is 70% since the profitability of a company is closely related to the output produced by their employees (a major Key Performance Indicator) and 30% of the process to achieve results due to the factors indicators employee competencies needed to achieve the set targets. The new performance appraisal is expected to provide Key Performance Indicators more in detail as well as suggest more quantitative measurement to increase objectivity. Finally, the new performance appraisal system will assist in the development of a system of incentives like compensation scheme as well as on recommending necessary training and development programs.

1.2. Scope of the Research

The research study is concerned about several human resource issues like productivity, training, career, and payroll especially in company's performance appraisal in so far as these four issues are relevant to Management Organization Development (MOD) Department.

These human resource issues will be the basis for managing employee performance while providing an effective performance appraisal. In this study, the researcher will design a new performance appraisal with new indicators of appraisal and hopefully this new design can be adapted to company objectives. Eventually it can increase company productivity due to higher level of employee performance.

1.3. Objectives of the Research

The objective of this study is to design a new performance appraisal for MOD Department at PT.X Company, created for PT.X Company's conditions with new indicators that also consider company objectives. Besides this, the study wants to suggest possible ways in implementing this new performance appraisal especially related to the compensation system, promotion scheme, and training and development for PT.X Company.

1.4. Research Questions

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

1. How company measure its employee's performance?
2. What kinds of performance appraisal method that company use to measure its employee's performance?
3. What is the relation between performance appraisal and reward, career, training and company objectives?

1.5. Significance of the Research

1. Academic Significance
 - a. It can be used for the application of theories about performance appraisal system to actual working conditions.
 - b. It would be useful as reference for those who intend to do some related research on performance appraisal.
2. Practical Significance
 - a. This research can give contribution to performance evaluation in PT.X Company and help make policies in the future related to performance appraisal.
 - b. It can add knowledge and insight for those companies particularly large ones with small department who want to design performance appraisal as a departmental level.

1.5. Chapter Outline

In this Case Paper, the chapters will be arranged as follows:

Chapter I : Introduction

This chapter describes background of the research, scope of the study, objectives of the research, significance of the research, and chapter outline. In background of the research, the study explains the reasons why the topic has been chosen followed by the scope of the study that describes the areas of research and limitations of the topic chosen. Objectives of the research are about what the study aims to do to answer the problems presented.

Significance of research illustrates the academic and practical importance of the study. And lastly, is about chapter outline that briefly describes contents of each chapter.

Chapter II : Literature Review

This chapter is a description of theories related to the research topic. Theoretical concepts such as performance, performance appraisal, criteria in performance appraisal will be explained in this chapter. The relationship between performance appraisal factors with company objectives and values, as well as the use of performance appraisal to reward system, career and promotion, and training and development will be further discussed in this chapter.

Chapter III : Research Method

This chapter explains the research methodology used in the study. This consists of the research design, type and sources of data, data collection method, and method of analysis. The research design will be descriptive-qualitative with results of the interview and points of observation as sources of primary data and company documents as sources of secondary data.

Chapter IV : Results and Findings

This chapter describes and analyzes the current Performance Appraisal System of PT.X Company in Surabaya. The new factors of performance appraisal that support the achievement of company objectives will be highlighted. The purpose of the new performance appraisal as a guideline for the development of compensation systems, promotion policies, and training and development program will be further discussed.

Chapter V : Conclusion

This last chapter deals with the summary and conclusion of the findings and recommendations related to the effective implementation of the new performance appraisal system at PT.X Company.