Renewal of Performance Management System in Family Company

Agatha Rinta Suhardi*

Faculty of Business and Management, Widyatama University, Cikutra 204A, Bandung 40125, Indonesia

Abstract

Performance Management System needs improvement in the face of the level of competition in the 21st century as increasingly stringent and urgent things need to be done by each company. This paper is a study to see how big a role fixes Performance Management System in improvement of performance family company. The purpose of this paper is to identify and analyze the role of the dimensions that play a role in the Performance Management System. While the performance of the company as a form of evidence that the company uses resources efficiently, focus on continuous improvement and effectiveness organization.

Keywords: performance management system, free trade, performance of the company, family company, renewal of performance management

1. Introduction

Now, free trade increases competition. The implementation of free trade such as AFTA (Asian Free Trade Area), APEC (The Asia Pasific Economic Cooperation), NAFTA (North America Free Trade Area) and agreements of bilateral and multilateral (such as General Agreement on Tariffs and Trade (GATT), European Union, Asean Economic Community) may affect the creation of competition. Companies began to develop their performance management system to improve performance.

The new performance management system needed because of free trade and the decline in profit, scarcity of resources, as well as the growth of new competing countries in Asia Pasific in the early 1980s. Changes in the world economic environment that characterized by the technological revolution and the rise of globalization make the competitiveness of enterprises in creating services more effective and efficient to consumers (Lupiyoadi, 2007:194).

* Corresponding author. Tel.: +62-22-7275855; fax: +0-000-000-0000 .
E-mail address: agatha.rinta@widyatama.ac.id
Traditional or conventional performance measurement systems currently applied to produce information that is too slow, lack of focus, disordered for the manager to make the process of planning and decision making. Measurement of company performance derived from financial and non-financial performance (operational and administrative). Now, non-financial performance based becomes very important because of the increasing interest in higher management levels to find the ‘heart’ of their business operations (Stoop, 1996; Ferdow and De Meyer, 1990; Kenny and Dunk’s, 1989). One of the advantages of the use of non-financial criteria is the variables more easily understood by anyone who visits the operating floor, so that the problems in the process of operation in both the manufacturing and services companies can be identified as soon as possible.

2. Conceptual Framework

Based on Law No. 8 of 1997, 1st clause (1), company is any form of business conducting regularly and continuously with the gain or net income, both held by the individual or entity in the form of legal entity or not a legal entity, which incorporated and domiciled in the territory of the Republic of Indonesia. Lupiyoadi (2007:162), an individual company is a form of business owned and operated by an entrepreneur. Davis (1983) in Lupiyoadi (2007:252) said that the values and influences in the family can help the operation of business and provide benefits for a company in the form of (1) tend to seek to keep humanity in the workplace, (2) focus on the long run, (3) emphasizing quality.

2.1. Performance Management System

Fundamentally, performance management is a series of activities starting from performance planning, monitoring/review of performance, performance assessment and follow-up in the form of rewards and punishment. A series of activities to be carried out in a sustainable manner. According to Baird (1986) definition of performance management is a process of working of a collection of people to achieve the goals that have been established, where the process of this work in sustainably and continuously progress.

According to Directorate General of Budget (2008), performance management is a strategic and integrated processes that support the success of the organization through the development aspects of organizational performance. On implementation, performance management is not only oriented in one aspect but also the aspects of integrated support the course of an organization.

According to Dessler (2003:322), performance management is the process of consolidating the set goals, assessment, and development of performance into a single shared system, which aims to ensure the performance of the employees support the company’s strategic goals. Udekusuma (2007) said that performance management is a management process that is designed to link organizational goals to individual goals in such a way, so that both individual goals and company objectives can be integrated. In this case, the workers not only individual objectives are achieved, but also contribute to the achievement of organizational goals, which makes him motivated and get greater satisfaction.

In other words, performance management is to ensure that activities the organization’s objectives have been achieved consistently in ways that effectively and efficiently. Performance management can focus on the performance of an organization, department, employee, or the process to produce a product or service, and also in other areas. Both at the level of organizations and individuals, one of the key functions of management is to measure and manage performance. Among the ideas, actions and results are on a journey that must be taken. And perhaps the term most commonly used in daily life that illustrate the development of the trip and also the result is a “performance” (Brudan 2010). Performance is a matter of future-oriented, specifically tailored based on the particular conditions of the each organization or individual and is based on a model of causal links between inputs and outputs (Lebas 1995).

2.2. Performance Management System and Company Performance

The meaning and content of the term performance comprehensively discussed by Folan at al (2007), which affirmed the three priorities of the performance:
1. Performance took analyzed by each entity within the scope the environment in which it operates
Performance is always associated with one or more organizational goals defined by the organization to which its performance is analyzed/evaluated based on the goals and targets set and accepted internally rather than on targets that are used by entities outside of himself.

Performance of filtered into the relevant characteristics and recognizable. Bacal (1998) describes five basic views in the performance management system, namely:

1. The integrative model for organizational performance, performance management as an integrative system structure continuous mutual inter-aspects.
2. Focus on process and outcomes, performance management into a system which not only results-oriented (traditional view). The process of becoming one of the important aspects in determining support good results.
3. The involvement of related parties in achieving goals, working as the main subject of business process organization directly.
4. Assessment of the performance objective and hit the targets, performance management includes objective performance assessment and in accordance with the objectives of each part of the organization concerned.
5. Evaluation and learning between superior and subordinate, good performance management is able to provide a measurable performance evaluation results. Information on the results of the evaluation can be a means of learning and decisive corrective action in the future.

There are four main stages in the implementation of performance management by Williams (1998). This step becomes a cycle of performance management are interconnected and support one another.

1. First step: directing / planning, the identification phase of work behavior and basic / base performance measurement is then performed concrete guidance on behavior and planning work towards targets to be achieved, when achieved, and help will be needed.
2. Second step: managing / supporting, is monitoring the implementation of organizational processes. This step focuses on manage, support, and control on the course of the process to comply with the criteria and the process of working on the applicable procedures in an organization.
3. Third step: review / appraising, includes the steps of evaluation. Evaluation is done by review of performance that has been implemented which further performance appraising. This step requires documentation relating to the object being evaluated. Evaluators must be objective and neutral in order to obtain valid results of the evaluation.
4. Fourth step: developing / rewarding, focus on the development and appreciation. The results of the evaluation to guide decision makers to actions that do next. A decision may be corrective measures, reward / punishment, continue an activity / existing procedures and budgeting.

Blumenthal (2003) stated that the increased performance improvement could be the result of one or more of the following aspects:

1. Stability organization related to whether the service can be consistently delivered and organizations continue to survive.
2. Financial stability related to the organization’s ability to meet its short-term obligations, such as the ability to pay bills. Financial stability is often less ignore as an important subject in the builder capacity.
3. Quality of the program (products dan services) that are based on impact indicators, including adequate research about how effective program and management system output.
4. The growth of an organization that is based on the ability to get resources and provide more services. By itself, growth is not an indicator of work.

The purpose of performance management is (Williams, 1998; Armstrong & Baron, 2005; Wibisono, 2006):

1. Set the performance of the organization with a more structured and organized.
2. Knowing how effectively and efficiently an organization’s performance.
3. To assist the determination of organizational decisions relating to the performance of the organization, the performance of part of the organization, and individual performance.
4. Improve the ability organizations with continuous improvement.
5. Encourage employees to work according to the procedure, with the spirit, and so the work optimally productive.

Effective performance management will give some results:

1. Clear objectives for the organization and the processes to identify, develop, measure, and discussed the purpose.
2. Integration widely goal made by senior management with the goal of each worker.
3. Clarity about the aspirations and goals of the organization.
4. Implementation of the ongoing dialogue between management and labor.
5. Development of environment.
6. Companies can achieve the desired results.
7. Encourage personal development.

3. Methodology and Data

This research uses descriptive analysis. The independent variable in this study is Performance Management System (X) and the dependent variable is the Corporate Performance (Y). The next step, these data will be processed through inferential statistics, called the inductive statistics or statistical probability, is a statistical technique used to analyze the sample and the results are applied to the population. These data performed classical assumption test that include normality test, multicollinearity test, autocorrelation test, and heterokedastisitas test. Then these data were analyzed using regression analysis.

3.1. Method of Collecting Data

Method of collecting data is used by using the enclosed questionnaire. Questionnaire is a list of questions to others who are willing to respond (respondents) in accordance with the user’s request (Riduwan, 2008 : 52).

In collecting data, researchers used sampling techniques. The sampling techniques used is stratified judgement sample. In this study, stratification is taken based on the number of employees of each division in the company. While the justification being taken by the respondents work period of more than two years in the company because it is expected to provide an answer as objectively as possible in accordance with their experience.

3.2. Data Analysis

Data analysis techniques in this research using descriptive analysis with data obtained previously performed classical assumption test first. Classic assumption test undertaken include normality test, multicollinearity test, autocorrelation test, and heterokedastisitas test. Then these data were analyzed using regression analysis.

Result of regression equation is an approximation (estimate) of the observations. Therefore, commonly used symbol \( \hat{Y} \) that showing the results of these estimates and distinguish it from Y as a result of observation of the population. Further data processing will use SPSS v.16. In the application, known as the term “coefficient of determination \( (r^2) \)”. The value of coefficient of determination used to check whether there is a tendency early influence between independent and dependent variables, and how much influence it. If the result of \( r^2 \) is equal to zero, or near to zero, maybe form the relationship is not linear tendency.

4. Results and Discussion

The questionnaire distributed to 52 employees in a family company by the proportional number of employees from each division. Characteristics of respondents include divisions, gender, age, education level, length of work.

4.1. Descriptive Analysis

The independent variable in this study is the performance management system (X) while the dependent variable using the company’s performance (Y). Descriptive analysis grouped per variable, with the first described following statement filed manifest variable names, then presented respondents in the form of frequency and percentage of each value in the form of a table and given an explanation based on these data. The maximum score is used the multiplication of the maximum weighting the number of respondents, the results of 208 and a total of a maximum score of 832.
Table 1. Respondents Assessment Criteria for Performance Management System (X)

<table>
<thead>
<tr>
<th>No</th>
<th>Dimension</th>
<th>Category</th>
<th>Cumulative Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>SA</td>
<td>A</td>
</tr>
<tr>
<td>1</td>
<td>Corporate strategy</td>
<td>5</td>
<td>9.6%</td>
</tr>
<tr>
<td>2</td>
<td>Cross-functionality</td>
<td>7</td>
<td>13.5%</td>
</tr>
<tr>
<td>3</td>
<td>Market intelligence</td>
<td>10</td>
<td>19.2%</td>
</tr>
<tr>
<td>4</td>
<td>Employee motivation</td>
<td>13</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>35</td>
<td>16.8%</td>
</tr>
</tbody>
</table>

*SA = Strong Agree, A = Agree, D = Disagree, SD = Strong Disagree

Based on Table 1, we can see that the respondents chosen the market intelligence that has been applied by 67.8%. This means that the intelligence market has a considerable role in implementing performance management systems. Generally 25.6% of respondents agreed and 16.6% disagreed with the variable of performance management system. At the company's strategy, 27.4% of respondents agreed. This shows that the majority of respondents who rate the company's strategy has a clear annual plan, implement the strategic planning process, and rely on management consultants to create a strategy.

30.3% of respondents agreed with dimension of cross-functionality (relationships between departments). This indicates that most respondents considered that the relationship between departments in the company has been running well and realized by the company has many departments that are working together, to encourage discussions between departments, rotate employees as part of the process of human resource development. While 31.7% of respondents agreed with the dimensions of market intelligence. This shows that in general respondents acknowledged that the company serves customers as a king, conduct customer satisfaction surveys on a regular basis, and most employees know who their main competitors. In the dimensions of employee motivation, 25.0% of respondents choose strong agreed. This shows that a small percentage of respondents agree that companies provide a clear career path, doing a job under the job description specified, and the very important thing is to get a fair salary.

Descriptive analysis based on the dimensions can also be done with the following steps:

1. Calculate the distance interval for Performance Management System (X) with 12 items and 52 respondents. From the calculation of the index values obtained minimum in 624, maximum in 2496, interval in 1872, dan distance of interval in 468.

2. Accumulation of respondents to the Performance Management System:

<table>
<thead>
<tr>
<th>No</th>
<th>Sub variable</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Corporate Strategy</td>
<td>369</td>
</tr>
<tr>
<td>2</td>
<td>Cross-Functionality</td>
<td>399</td>
</tr>
<tr>
<td>3</td>
<td>Market Intelligence</td>
<td>423</td>
</tr>
<tr>
<td>4</td>
<td>Employee Motivation</td>
<td>381</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1572</td>
</tr>
</tbody>
</table>

3. Knowing the position of the accumulation of respondents perceptions of Performance Management System:

<table>
<thead>
<tr>
<th>Perception</th>
<th>Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>624 – 1092</td>
</tr>
<tr>
<td>Disagree</td>
<td>1092 – 1560</td>
</tr>
<tr>
<td>Agree</td>
<td>1560 – 2028</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>2028 – 2496</td>
</tr>
</tbody>
</table>

From Table 2 shows that the accumulated value of the respondents’ perceptions of Performance Management
System that is in 1572 and is located in a position to agree perception. This indicates that respondents agree with the Performance Management System which has been implemented by the company.

The following descriptive analysis of corporate performance variable (Y). The maximum score is used the multiplication of the maximum weighting the number of respondents, the results are 208 and a maximum total score is 416.

Table 4. Respondents Assessment Criteria for Corporate Performance (Y)

<table>
<thead>
<tr>
<th>No</th>
<th>Dimension</th>
<th>Category*</th>
<th>Cumulative Scores</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>SA</td>
<td>A</td>
<td>D</td>
</tr>
<tr>
<td>1</td>
<td>Organizational</td>
<td>4</td>
<td>5.8%</td>
<td>20</td>
</tr>
<tr>
<td>2</td>
<td>Innovation</td>
<td>4</td>
<td>5.8%</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>8</td>
<td>7.7%</td>
<td>29</td>
</tr>
</tbody>
</table>

*SA = Strong Agree, A = Agree, D = Disagree, SD = Strong Disagree

From Table 4, we can see that the respondents assess the innovations made by the company are still lacking and needs to be an improvement. Employee motivation affects innovation made by the company because the employees themselves are part of the company. Table 4 above shows that the performance of the most influential organizations on the performance of the company amounted to 53.1% of respondents. When viewed from each category, it amounted to 22.6% of respondents disagreed on the performance of the organization that exists today.

28.9% of respondents generally agreed with the organization's performance. This shows that the respondents are satisfied with the performance of the organization that implemented in communication between managers and subordinates who can run smoothly, communication between employees in different departments that can run smoothly, each giving attention to the complaints that arise between departments. While the 22.1% of respondents strongly disagree with the dimensions of innovation. It shows a small portion of the respondents considered that employees are given the opportunity to deliver new innovations for the development of the company, develop new ideas that emerge, providing funds for the implementation of new ideas that emerge. Descriptive analysis based on the dimensions can also be done with the following steps :

1. Calculate the distance interval for Corporate Performance variable (Y) with 6 items and 52 respondents. From the calculation of the index values obtained minimal 312, maximum in 1248, interval in 936, distance of interval in 234.
2. Accumulation of respondents to the Corporate Performance:

<table>
<thead>
<tr>
<th>No</th>
<th>Sub variabel</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Organizational</td>
<td>369</td>
</tr>
<tr>
<td>2</td>
<td>Innovation</td>
<td>315</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>684</td>
</tr>
</tbody>
</table>

3. Knowing the position of the accumulation of respondents’ perceptions of the Corporate Performance:

<table>
<thead>
<tr>
<th>Perception</th>
<th>Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>312 – 546</td>
</tr>
<tr>
<td>Disagree</td>
<td>546 – 780</td>
</tr>
<tr>
<td>Agree</td>
<td>780 – 1014</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>1014 - 1248</td>
</tr>
</tbody>
</table>

From Table 11 shows that the accumulated value of the respondents’ perceptions of Corporate performance is 684 and is located at the position of perception disagree. This shows that the respondents did not agree to the corporate
performance that has been implemented by the company.

4.2. Testing Data Research

In this study, analysis was used to test the data that is the technique of linear regression analysis. The goal is to find out how big the Performance Management System for Corporate Performance, which the data measuring scale used is the interval scale or ratio scale. Prior to the regression analysis, first performed classical assumption test to ensure that the research data does meet the prerequisites linear regression analysis.

Results of the test the classical assumption of normal distribution of data, not occur multicollinearity, the data has a positive autocorrelation, and does not occur homogeneous. Through processing SPSS, obtained regression equation between the performance management system with the corporate performance is $Y = 0.26X + 5593$ and the influence of the performance management system to corporate performance by 26.8%.

5. Conclusions

Based on the analysis and discussion, it can be concluded that the respondents agreed with the Performance Management System which has been applied by the corporate. 25.6% of respondents agreed with the performance management system has been implemented by the corporate and 67.8% of respondents chosen market intelligence that reflects the performance management system. 22.6% of respondents disagreed with businesses performance and 53.1% of respondents chosen the performance of an organization that reflects the corporate’s performance. Values influence of performance management system for corporate performance is 26.8%. For each increasing of the performance management system, the unit of corporate performance will increase by 0.26 units.

Some inputs that can be given to the company that the company should provide a clearer career paths so that employees can be motivated to continue to improve its performance, the existence of a fair remuneration, corporate profits are rising, followed by an increase in employee benefits, implementing a transparent system of remuneration to employees. In addition, the company should improve the fabric smooth communication between managers and subordinates and between employees in different departments, transferring employees periodically and organize training to improve employee motivation.

References

Lupiyoadi, Rambat (2007). Entrepreneurship From Mindset To Strategy, Jakarta, Publisher of Economics Faculty, University of Indonesia.