# Application Performance Management Impact On Organizational Performance Local Company (Studies In West Java - Indonesia)

Teni Listiani, Dwi Kartini

**Abstract:** This study aimed to analyze the effect on the performance of the company's performance management area. Management performance is measured through three dimensions: performance planning, performance assessment, and feeding it behind. While organizational performance is measured through four dimensions: financial perspective, customer perspective, internal business processes, and learning and growth perspective. The unit of analysis in this research area comprising 30 companies from 23 taps, 6 PD Market, and 1 PD Health. Meanwhile the unit of observation is the top-middle-level managers-down of a total of 360 people. To determine the influence of the variables studied, used Structural Equation Model (SEM) based on the model variant with Partial Least Square (PLS). The results showed that in the enterprise area, performance management affect the performance of the organization, but the effect is not too large.

**Keywords:** Performance Management, Organizational Performance, Regional Company.

## 1. Introduction

Regional companies have an important role in helping local government to perform its functions. The role of regional companies, in addition to providing service to the community, is also expected to contribute to revenue (PAD). However, the company shows the area in general less effective performance. It is based on the fact that shows that there are still many problems that can not be resolved classic. The problems show that the performance of the regional companies are less able to reach the target, experienced by PD Pasar, the Regional Water Company (PDAM), and PD Health. First, PD Pasar, a) Have not been able to get profit in accordance with the target company, so it can not make a significant contribution as one of the sources of revenue (PAD); b) Not being able to manage and develop the traditional markets professionally. Second, the performance of taps. Based on the results of performance evaluation reports on the performance of the company, approximately 23% of taps showed poor performance. The performance assessment is based on the financial aspect, the aspect of service, operational aspects, and aspects of human resources.


- *Teni Listiani, Dwi Kartini*
- *Doctoral Student, Faculty of Economic and Business Padjadjaran University, Bandung, Indonesia*
- *Lecturer of the School of Administration - National Agency for State Administration, Email: tenistiani@yahoo.com.*
- *Lecturer of Padjadjaran University, Bandung, Indonesia*


The demonstrated performance of taps less, still quite a lot of reports that complained about the services provided such as a bill that does not comply with usage, water is not distributed properly, or leakage of the old pipe handling. Third, PD Health, the problems faced is the problem of the budget, the condition number and quality of infrastructure are inadequate and less sophisticated, human resources are less competent, and have not found the proper techniques and mechanisms to manage waste. The factors that led to the company's performance does not meet the target area, due to underperformance manajamen well managed. Thus, each organization engaged in the public sector or the private sector should implement performance management, through the performance planning, performance assessment, and providing effective feedback.

## 2. Review of Literature

### 2.1 Performance Management

To give a theoretical overview, the authors will describe some basic theories of performance management, starting from the definition, implementation of performance management objectives, and how the performance management process carried out within an organization. Term management performance, first used in the 1970s, while the new existence was known in the late 1980s, as a reaction to the negative aspects of the scoring system 'merit-rating' and 'management by objectives (MBO)'. In the 1980s, the orientation of the performance becomes very important, especially in the face of global competition and recession. (Armstrong, 1998: 29, 47). The history of the development of performance management is described by Fowler in 1990 (Armstrong, 1998: 48), as shown in Table 1 below:

**Table 1**
Comparison of Management by Objectives, Performance Appraisal, and Performance Management

| **Management By Objectives** | **Performance Appraisal** | **Performance Management** |
|---|---|---|
| Packaged system | Usually tailor made | Tailor made |
| Applied to managers | Applied to all staff | Applied to all staff |
| Emphasis on individual objectives | Individual objectives may be included | Emphasis on integrating corporate, team and individual objectives |
| Emphasis on quantified performance measures | Some qualitative per-formance indicators may also be included | Competence requiredments often included as well as quantitative measures |
| Annual appraisal | Annual appraisal | Continous review with one or more formal reviews |
| Top-down system with ratings | Top-down system with ratings | Joint process, ratings less common |
| May not be a direct link to pay | Often link to pay | May not be a direct link to pay |
| Monolithic system | Monolithic system | Flexible process |
| Complex paper work | Complex paper work | Documentation often minimised |
| Owned by line managers and personnel departement | Owned by personnel departement | Owned by line management |

***Source:*** *Armstrong, (1998: 48)*

From Table 1 it can be explained that the Management by Objective (MBO), Performance Appraisal and Performance Management, have similarities and differences. Striking differences between the performance management and performance appraisal MBO them is that the performance management process emphasizes the integration of target organizations, groups and individuals; performance management is an ongoing process; not top-down and a flexible process. Performance management is defined by many experts, according to Armstrong (1998: 7) definition of performance management is as follows: "Performance management is a strategic and integrated approach to delivering success to sustainded Organizations by improving the performance of the people WHO work in them and by developing the capabilities of teams and individual contributors. Meanwhile other opinion that according to Mondy (2010: 7): "Performance management is a goal-oriented process that is directed toward ensuring that organizational processes are this place to maximize the productivity of employees, teams, and Ultimately, the organization". Another suggestion is by Noe et. al (2011: 215): "Performance management: the process through the which managers Ensure that employee's activities and outputs Contribute to the organization's goals". Understanding more specific performance management proposed by Axon (2007: 24): "Business performance management encompasses all the processes, information, and systems used by managers to set strategy, develop plans, monitor execution, forecast performance, and report results with a view Achieving sustainable to success no matter how success maybe defined ". Based on some of these opinions, the management performance can be interpreted as a strategic and integrated approach to achieve organizational goals effectively and sustainably by improving the ability of individuals, groups and organizations. Furthermore, according to Armstrong (1998: 8-9) in performance management are concerned problems outputs (results achieved), outcomes (impact of a performance), processes (processes required to achieve the expected results) and inputs (knowledge , skills and competencies) that are expected of those who are involved in an organization both corporately and individually. Performance management process includes activities to build clear expectations and understanding of the work to be done, as well as with regard to communication that is created through the establishment of communication between the climate and subordinate leaders to explain what to expect, providing information on the mission, values and goals of the organization. Still based on the opinion of Armstrong (1998: 52) through performance management are many benefits that can be achieved by an organization for performance management can help in achieving sustainable improvements in the performance of the organization; increase employee motivation and commitment; develop individual capabilities, increase job satisfaction; improve performance and teamwork; establish the relationship between individuals and leaders openly in the communication process; increase opportunities to express the aspirations and expectations of individual work. For further Sink and Tuttle (1990) (Armstrong, 2009: 220) states that in managing the performance of the organization there are five dimensions:

1. Creating a vision for the future;
2. Planning-Determining the present organizational state, and developing strategic to improve the state;
3. Designing, developing and implementing improvement interventions;
4. Designing, redesigning, developing, and implementing measurement and evaluation systems;
5. Putting cultural support systems in place to reward and reinforce progress.

While it is in line with what is proposed Arsmstrong, Ainsworth (2002: 7) argues that there are three important components in the management of performance, namely:

a. Planning performance, namely an agreement on and commitment to the goals or performance targets.
b. Assessment of performance, ie the measurement of actual performance compared to the performance of the intended objective,
c. Mutually corrective and adaptive actions by providing feedback.

From both these opinions, there are similarities and differences. The equation are the elements of performance planning, and performance assessment, while the difference is the element of corrective action and feedback, continuous communication, data collection and observation, as well as training. Planning the performance is the main thing in performance management. Planning begins performance of the existence of a strategic planning organization that sets goals of an organization. Performance planning is a process by which employees and managers work together to plan what to do next year employee, determine how performance should be measured, identify and plan how to overcome obstacles, and achieve a shared understanding of the job. To prepare and produce a good performance planning, according to Stoner (1986: 263), there are four basic steps that must be done, namely: (a) Set a goal or set of goals, (b) Define the current situation, (c) Identify matters things that help and hinder the objectives, (d) Develop an action plan or device to achieve the goal. After making performance planning, performance appraisal is then performed. Based on the opinions Greenberg (2011: 119): "the performance appraisal is the process of evaluating employees on various work-related dimensions". Furthermore, according to Armstrong and Baron performance measures should include the following:

a. Associated with strategic objectives and measure what is important organizational and drive business performance,
b. Relevant to the goals and accountability teams and individuals concerned
c. Focusing on measurable output and completion of tasks and how people act and how their behavior
d. Indicates the data available as the basis of measurement
e. Can be verified by seeking information that would confirm the extent to which expectations can be met.

Assessment conducted in the end will be an input or feedback means for assessing the performance is done, and then can be sustained improvement. Giving feedback is an important thing for the employees so that the time of delivery must also be appropriate. Through providing feedback, employees will know what the strengths and weakness in completing the work. According Plunket (2005: 558): "Feedback: a control that focuses on the outputs or reslut of operations". Furthermore, according to Schermerhorn, (2011: 424): "Feedback is the process of telling someone else how you feel about something that person did or said. The sender should Also Reviews those guidlines to follow the make sure that feedback is always understandable, acceptable, plausible, and constructive ". That is, that the process of providing feedback to provide optimal results, leaders must consider several things including giving feedback is understandable, acceptable, reasonable, and constructive. The purpose of performance management according to Philpott and Sheppard (Armstrong, 1998): "Performance management aims to improve the strategic focus and organizational effectiveness through continuously securing improvements in the peformance of individuals and teams". Another suggestion which describes the performance management process is Pulakos (2004: 5-19). According to the performance management process starting from the planning performance (performance planning). then providing feedback (ongoing feedback). The next stage is the employee input, which is followed by a stage performance evaluation (performance evaluation), and in the end have to do a review of the performance (performance review) for a specified period of what has been done or achieved. The results of the review of the performance can be used as a plan for employee development. More systematically Armstrong (1998: 58) describes the performance management process, as can be seen in the following figure:

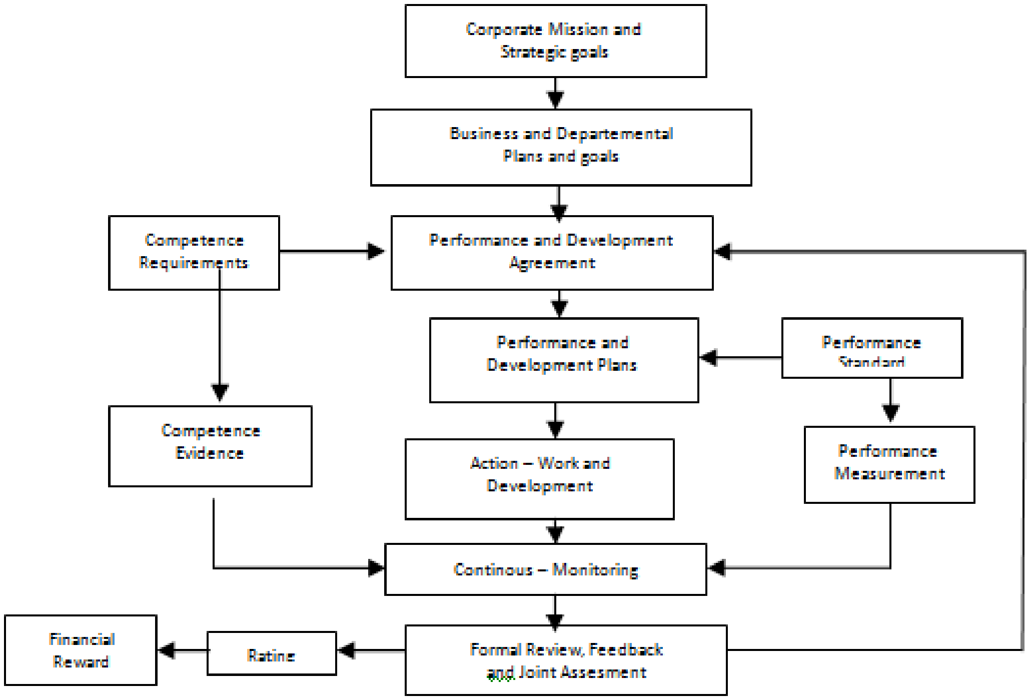


***Figure 1*** *Sequences Performance Management (Armstrong and Baron, 1998: 58)*

Based on the picture, it seems that in the performance management process in which there is a component that is in line with the opinions Ainsworth (2002), namely determination of the organization and elaboration of objectives, measurement of performance, giving feedback. The third component, a reference writer to determine the application of enterprise performance management in the region.

## 3. Organizational Performance

Assessing Organizational Performance organizational performance is necessary to know how big the organizational goals predetermined can be achieved. Understanding organizational performance raised by some opinions. Referring to the opinion of Gibson (1998: 179), the performance of the organization or company's performance is an indicator of the level of achievement that can be achieved and reflects the success of managers / entrepreneurs. To determine the level of effectiveness of the gains compared with a predetermined plan, any public or private sector organizations need to do pegukuran performance. Based on research conducted by Robert S. Kaplan and David P. Norton (Luis, 2007: 9- 13), there are four things that can inhibit strategy is not optimal impact on performance, which are obstacles to the vision, obstacles on the perpetrators, barriers to management, and constraints on resources. Barriers in vision, due to the lack of socialization of the vision that has been built. This can be caused by too high vision, and strategy, which are made too general or too detailed. Barriers actors, due to employees in an organization are not motivated so it does not work efficiently and effectively. Lack of proper incentive system could be the cause of the incompatibility of employee behavior with what is expected of the organization. The next obstacle is the bottleneck management, it happens because of lack of management focus on the discussion and preparation of the strategic, focused solely on the results or achievements of work (result oriented) and give less attention to the process (process-oriented). Measurements of performance were used to assess the performance of an organization depends on how the unit will be assessed and how the objectives will be achieved (Hunger, 2003: 391). Performance measurement can be carried out on various aspects such as finance and human resources performance. With regard to the purpose of performance measurement, Balance Scorecard created by Kaplan and Norton in 1990, is a contemporary management tool that is designed to enhance the company's ability to melipatkagandakan outstanding financial performance on an ongoing basis (sustainableoutstanding financial performance). The word 'balance' is meant to indicate that the performance is measured in a balanced from two perspectives: kauangan and non-financial, short-term and long-term, internal and external. Balanced scorecard complete set of financial measures of past performance with the size of the driver (drivers) future performance. Balanced Scorecard translates mission and strategy into objectives and measures, which are arranged into four perspectives, namely: financial, customer, internal business processes, and learning and growth. The four perspectives of the balanced scorecard provides a balance between short-term goals and long term, the desired result with the drivers of the achievement of these results. More clearly the description, it can be seen in the following figure.

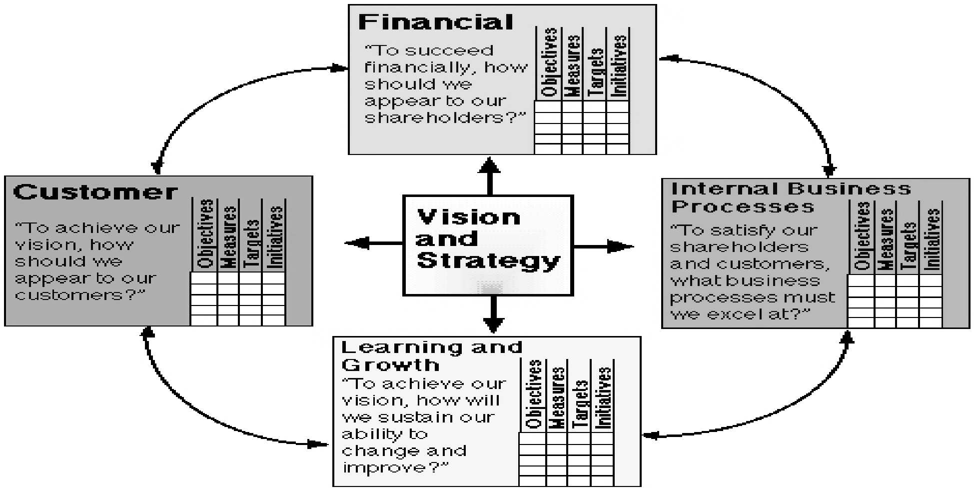


***Figure 2.*** *Translating Vision and Strategy in the Balance Scorecard (Norton and Kaplan, 1996)*

Based on the picture above, it appears that the four perspectives on top of each other are interrelated and will be explained as follows. First the financial perspective. Finance is important for any organization, whether they are profit-oriented and non-profit oriented. According to Luis (2007: 25), the financial approach aimed at short-term, the strategy used is the strategy of increasing productivity, including efforts to repair the structure of costs and optimizing the use of assets. Meanwhile, long-term approach, carried out a growth strategy that includes increased revenue and increased value for customers. The second perspective is the perspective of the customer, in order to know how customers rate the products / services and service organizations. Things were assessed among other attributes of products / services, customer relations, customer satisfaction, image and reputation of the organization. According to (Luis, 2007: 28- 29), to provide a good value in the eyes of the customer can be done three approaches, namely the value proposition, operational excellence, customer intimacy.The third perspective is the internal business processes, which meant there was a series of activities in the business of an internal organization which is often called the value chain which includes new product development, production, sales and marketing, distribution, after-sales service and security and environmental health. Last perspective is the perspective of learning and growth. This perspective focuses on resources, particularly tbsp existing within the organization. There are three main categories are analyzed and measured in this perspective that the competence of the employee, the carrying capacity of technology, culture, motivation and reward. Furthermore, Kaplan and Norton (1996: 128) argues that the purpose of any measurement system should be to motivate all managers and workers to implement the organization's strategy to succeed. Meanwhile, according to Van Assen (2009: 197), use the balanced scorecard to articulate your strategy, and to help align individual, organizational and cross-departmental initiatives to Achieve a common goal. In the era of the 2000s, many companies are implementing the Balanced Scorecard as a strategic framework in the preparation of the strategy map (strategy map). Balanced Scorecard is no longer only serves as a measure of executive performance, but evolved into a core strategic management system. That is, the Balanced Scorecard is used as a tool to translate the mission, vision, goals, basic beliefs, and corporate strategy into a plan of action (action plan) a comprehensive, coherent, scalable, and balanced. In the opinion of Hunger (2003: 392- 398), the most common measurement used in measuring the performance of the company is the ROI (Return on Investment), EPS (Earnings per Share), and ROE (Return on Equity). Other measuring instrument is measuring the value added, assessing shareholders, evaluation of top management, as well as measuring the performance of divisional and functional. Furthermore Plunket (2005: 577-578) suggests that to measure the financial health of a company, can be done through financial ratio. He said: "Financial ratio: the relationship of two critical figures from financial statements - Expressed in terms of ratio, decimal, or percentage - the which helps managers measure a company's financial health and its progress toward goals. Still according to Plunket, financial ratios include: liquidity ratios, profitability ratios, debt ratios, activity ratios. From the dimensions of the local government performance assessment, it appears that the dimensions that are used include the dimensions or perspectives included in the Balanced Scorecard. The dimension is the financial dimension, the dimension of local community satisfaction, the dimensions of the operations, the dimensions of the employee satisfaction, and the last dimension of satisfaction of the stakeholders.

## 4. Methodology

In this study used a quantitative approach, through descriptive research and verification. In the opinion of Sekaran (2010: 105): "A descriptive study is undertaken in order to ascertain and be Able to describe the characteristics of the variable of interest in a situation". Descriptive analysis will be carried out through the calculation of scores to determine the category of each dimension with the help of Excel and SPSS software version 17. Meanwhile, through the verification method, the author can know and mengakaji causal relationships between variables and to test the hypothesis among several variables studied. Data were analyzed by using Partial Least Square (PLS). In this study, the unit of analysis is a regional company that consists of taps, Market PD, and PD Health. Meanwhile the unit of observation is a 360 person company manager level area covering upper, middle and lower.

## 5. Finding and Discussion

Based on the results of research and data processing, obtained a picture that shows how companies implement performance management areas, as well as how the organization's performance has been achieved as a result of the local company's performance management.

### 1. Analysis of Performance Management and Organizational Performance

**Table 2**

Recapitulation Score average Entire Dimensions Variable Corporate Performance Management in West Java Province

| Dimensions | Average Score per Dimensions | Category |
|---|---|---|
| Performance Planning<br>Performance Assessment<br>Feedback | 65.0<br>62.6<br>58.8 | Enough<br>Enough<br>Enough |
| Average score of all dimensions | 62.1 | Enough |
| The size of the observation unit<br>The size of the unit of analysis | 360<br>30 | |

***Source:*** *Data processing questionnaires 2014*

From Table 2, it can be explained that the implementation of performance management in local companies are still included in the category enough. That is, the company is not planning area with a good range of activities to be done, either by individuals or workgroups within a specific period. The local company is still not optimal in a program aimed at improving the understanding of individual work, the company has not been too good area in the performance appraisal process put through a series of individual and work unit that begins with the standard-setting work, judging the performance and then determining the strengths and weakness judging results. Moreover, the provision of feedback is still needed attention both from each leader to consider the content and accuracy of the feedback given, as well as the time of delivery so that will have an impact on performance improvement. Furthermore, based on the following table 3 can be explained how the image of the organization of the company's performance areas that include financial and non-financial aspects.

**Table 3**

Recapitulation Score average Entire Dimensions of Organizational Performance The Local Company

| Dimensions | Average Score per Dimensions | Category |
|---|---|---|
| Financial Perspective<br>Customer Perspective<br>Internal Business Process Perspective<br>Learning and Growth Perspective | 62.0<br>63.3<br>67.6<br>63.1 | Enough<br>Enough<br>Enough<br>Enough |
| Average score of all dimensions | 64.0 | Enough |
| The size of the observation unit<br>The size of the unit of analysis | 360<br>30 | |

***Source:*** *Data processing questionnaires 2014*

Company performance area seen from the financial and non-financial aspects included into the category sufficient assessment. That is, seen from a financial perspective which among others include the increase in profit, revenue growth, efficient use of financial resources, and the use of operational costs still need to be improved. Then viewed from the perspective of the customer, the company still needs to increase the target user community, providing the best service that decrease the level of user complaints. So even seen from the internal business process perspective, local companies still need to make efforts to integrate the service process and improve the quality of service on an ongoing basis in order to be better. Similarly, viewed from the perspective of learning and growth, the company has not been too effective area so it should be better to put more effort in empowering employees, knowledge transfer, and integrate information systems that support the company's innovation process.

### 2. Effects of Performance Management on Organizational Performance

Influence on the performance of the organization's performance management is described in figure 2 Calculation results for 0435 with a path coefficient R2 value of 18.9%. These results indicate that 18.9% change in the organization of the company's performance is explained by the performance management area, the rest is influenced by other variables that are not included in this study.

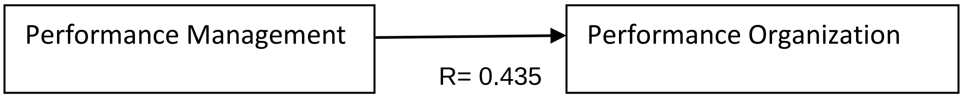


**Figure 2**
Influence on Performance Management Performance Organization

Henceforth, hypothesis test to determine whether the impact of performance management on organizational performance. Hypotheses are set as follows:

**H0:** Performance management does not affect the performance of the organization at regional companies.
**Ha:** Management performance affects the performance of the organization at regional companies.

**Table 4**
Testing Results Effect Against Performance Management Organizational Performance

| **Koef. Jalur** | $t_{hitung}$ | $t_{kritis}$ | **Ho** | **Ha** |
|---|---|---|---|---|
| 0,435 | 2,403 | 1,96 | denied | Accepted |

Based on the statistical test results obtained tcount variable performance management (2.403) greater than tkritis (1.96). Because tcount greater than tkritis, then the error rate of 5% so it was decided to reject Ho Ha accepted. Therefore, based on the test results it can be concluded that the impact of performance management on the performance of the organization at regional companies. From the test results can be explained, if the company's performance management area run through a mature performance planning, performance appraisal and feedback right, can improve the performance of organizations both financial and non-financial performance. The results are consistent with the results Sum Vinh Chau (2008) which shows that performance management at every level of the organization impact on organizational performance and organizational effectiveness. Similarly, the results of research Mc.Donald D, and Smith A (1991), shows that performance management can improve organizational performance through the level of sales, productivity levels, as well as higher profits than before running performance management. The results of other studies that show the influence of performance management on organizational performance is research Sally Selden and Jessica E. Sowa (2011), which indicates that the performance management through performance assessment followed by providing feedback on performance will give a positive result to the organization. While the results of the study B. Bassey Inyang Esu and Benjamin J. (2009) showed business in the public sector have failed due to performance management is not done effectively and efficiently. Some of the results of previous studies conducted in public companies abroad shows that the impact of performance management on organizational performance. This is consistent with a recent study conducted in the company area. As has already been mentioned that the results of this study demonstrate the contribution of performance management on organizational performance improvement of 18.9%. This means that performance management is able to contribute to the improvement of local enterprise organizational performance, although the percentage is not too large.

## 6. Conclusion

Management assessed the performance of the performance planning, performance assessment and feedback, not too effectively implemented in regional companies, especially in terms of providing feedback. So even local company organizational performance assessed from the financial aspect, customer, internal business processes, and learning and growth of organizations still have. Furthermore, from the results of the test, obtained results show that the performance management directly affects the performance of the organization, but the effect is not too large.

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