

DESIGNING PERFORMANCE MANAGEMENT SYSTEM BASED ON INTEGRATED PERFORMANCE MANAGEMENT SYSTEM CASE STUDY MINEN LEATHER

Widodo Kukuh Sujatmiko Husodo and Dermawan Wibisono
School of Business and Management
Institut Teknologi Bandung, Indonesia
Widodo.kukuh@sbm-itb.ac.id

Abstract

Indonesia rated shoe market is worth 29.3 trillion rupiahs, with spending on footwear family unit expands by 47% during the period 2007 to 2012 (Euromonitor International). Minen Leather is a manufacturer of leather shoes and other leather goods. But after running for five years, had several problems, as they can not increase revenue. The purpose of this study was to develop a vocational school, which is output in the form of Key Performance Indicators (KPI), in Minen Leather, to achieve that goal required an understanding of the IPMS Framework and Strategic Management process. The method used to develop the vocational school is to analyze the vision and mission, evaluate the internal and external situation, identify the Critical Success Factors (CSF), choose the variable performance based on the perspective of the framework IPMS. According to the data analysis showed that Minen Leather need to change their vision and mission should be formed to control the activities of the company. Assessment external and internal conditions revealed that Minen Leather should apply the "Hold and Maintain" strategy, the which can be detailed as a market penetration and product development strategy. The results of the analysis of external and internal conditions Minen Leather currently produces nine Critical Success Factors (CSF), which is a factor that must be considered Minen Leather. The CFS ninth translated into fifteen key performance indicator. Then, Strategy has been explored resulting, 20 initiatives to achieve the KPI.

Keywords : Performance Management System, Integrated Performance Management System, Critical Success Factors, Key Performance Indicators, Minen Leather

Introduction

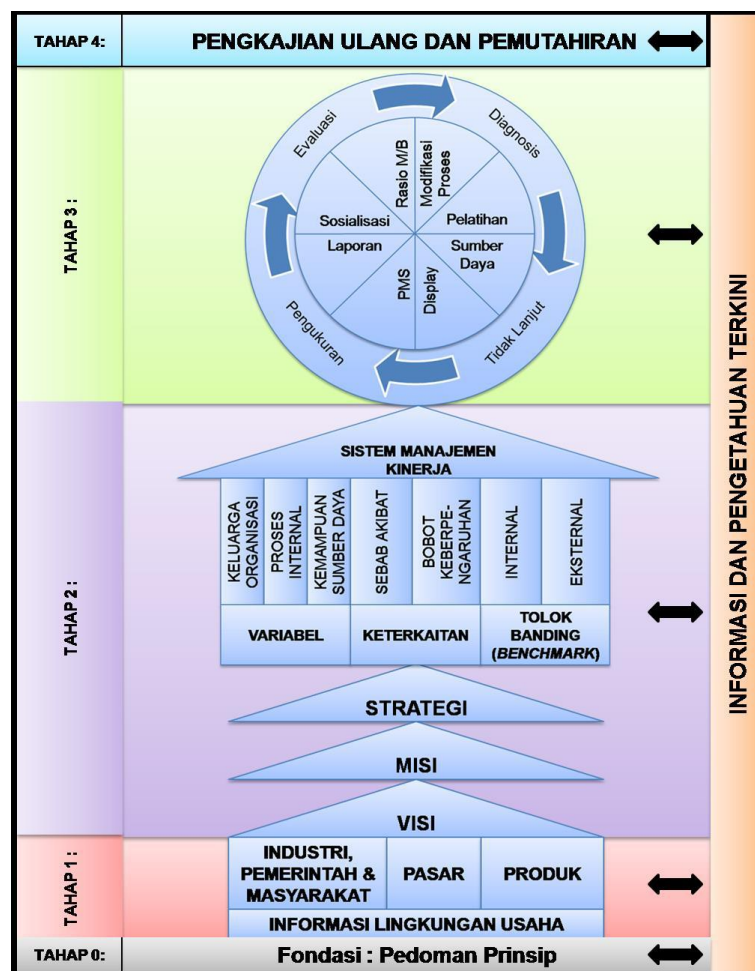
Minen Leather Company is one of a part of Footwear Industry that works to provide some sort of Leather shoes and leather product. The company decides to provide the high-quality leather shoes, such as loafer shoes, oxford shoes, monk strap shoes, boots shoes, and pantofle. And for the bag, they have Backpack, Tote bag, Messenger bag, and Sling bag. And for the wallet, they have bifold, and long wallet. Minen Leather has run the business for six years, and they had done some strategy to sell their product using social media, and consignment in several places. Also, they have already do R&D of product to get the innovative product that will meet the customer wants. But for several years the income of Minen Leather is stagnant. "problems encountered in recent years that our current revenue can not grow up because the sales are already optimal if you will like to add it to spend the extra funding quite a lot." –Riki, CEO of Minen Leather (Dermawan, General Profile of Minen Leather, 2016).

In early 2016, Minen Leather try to gain their equity to enlarge their firm, but the Investor is refuse Minen Leather's Proposal because Minen Leather still lack performance to compete with the competitor. They also do not have a direction that the company should take yet (Dermawan, General Profile of Minen Leather, 2016). By analyzing the information above, Minen Leather need a Performance Management System that can help them to handle their issues. In Indonesia, PMS

frameworks that are often used are The Balance Scorecard, Malcolm Baldrige National Quality Award, and Prism. This research uses Integrated Performance Management System (IPMS) as the PMS framework.

Thoeritical Foundation

Integrated Performance Management System Framework



There five stage of formulation in this Framework as explained by Wibisono (2012). This research only conduct 3 early stage

Step 0: Basic Principle

Understand the knowledge and the principles of PMS should become the foundation of the practitioner. This includes the knowledges of various kind of PMS Framework, the core principles of PMS and context of PMS.

Step 1: Basic Information

Basic information of the environments of the organisation, both internal and external, are needed for developing the PMS. The information may include the organisation, government and society, market and competitors, goods and services which are produced.

Step 2: Design

This step is a process of developing, or analysing current, vision and mission that represents the current condition, availability of resource and the future ambition. The process also includes of exploring the organisation's strategies and choosing a proper framework of PMS. That process is needed for further step of picking the performance variables, linking the variables and choosing the benchmark.

Step 3: Implementation

This step is the implementation of the developed PMS. The important things for this step is that the PMS should be validated, whether it has already accommodate these four things or not; Management, evaluation, diagnosis and corrective actions if the organisation runs out of the determined goals.

Step 4: Improvement

This is the step of evaluating and improving the PMS that has been developed before. The evaluation should consider present information.

In Integrated Performance anagement Syste There are 3 Perspective: Business Result Perspective, Internal Process Perspective, and Resources Capability Perspective

1. Business Result

in this IPMS Perspective, there are two kinds of results. The purpose is to widen the mind-set of the organisation, especially firm, that financial results shouldn't be the only thing they pursue. Business Results are divided into two categories:

- Financial Results
- Non-Financial Results

2. Internal Process Perspective

Internal Process Perspective are that measure Company performance which focus on Company Internal Factor. In this Research Author uses there are three variable: Innovation, Operation Process, and Marketing.

- Innovation
- Operation Process
- Marketing

3. Resource Capability Perspective

This perspective is related to the intangible assets that is owned by the organisation. The resources are able to create changes in the organisation, or firm. Business Results are related to the Resources Availability. The three categories of Resources Availability are:

- Human Capital
- Technological Capital
- Organisational Capital

Strategy Management Formulation

David (2015) explained that the strategic management process consists of three stages: strategy formulation, strategy implementation and strategy evaluation. Strategy formulation starts from developing vision and mission, identifying an organisation's opportunities and threats, determining strengths and weaknesses, defining long-term objective, generating alternative strategies, and choosing particular strategies to execute. The strategy formulation stage includes of deciding what new business to enter, what business to abandon, how to allocate resources, and how to avoid a hostile takeover.

Vision and Mission Analysis

Many organisations develop both a mission and a vision statement. Whereas the mission statement answers the question "what is our activity?" the vision statement answers the "what are we going to become?" It is a certain that every organisation has a unique purpose and reason for being. The vision and mission statements should reflect the declaration of organization purpose.

Internal Factor Evaluation

A summary step of conducting an internal assessment is to construct an Internal Factor Evaluation (IFE) Matrix. This tool summarises and evaluates the main strengths and weaknesses in the functional area of business, and it also provides a basis for identifying and evaluating relationships among those areas. The output of this matrix is the summary of the weighted scores for every lists which represent the organisation's current condition of internal factors.

External Factor Evaluation

An External Factors Evaluation (EFE) Matrix summarises and evaluates economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. This EFE Matrix contains of key external factors as identified in the external audit process, including opportunities and threats. The output of this matrix is the summary of the weighted scores for every lists which represent the organisation's current condition to the external factors.

Internal-External Matrix

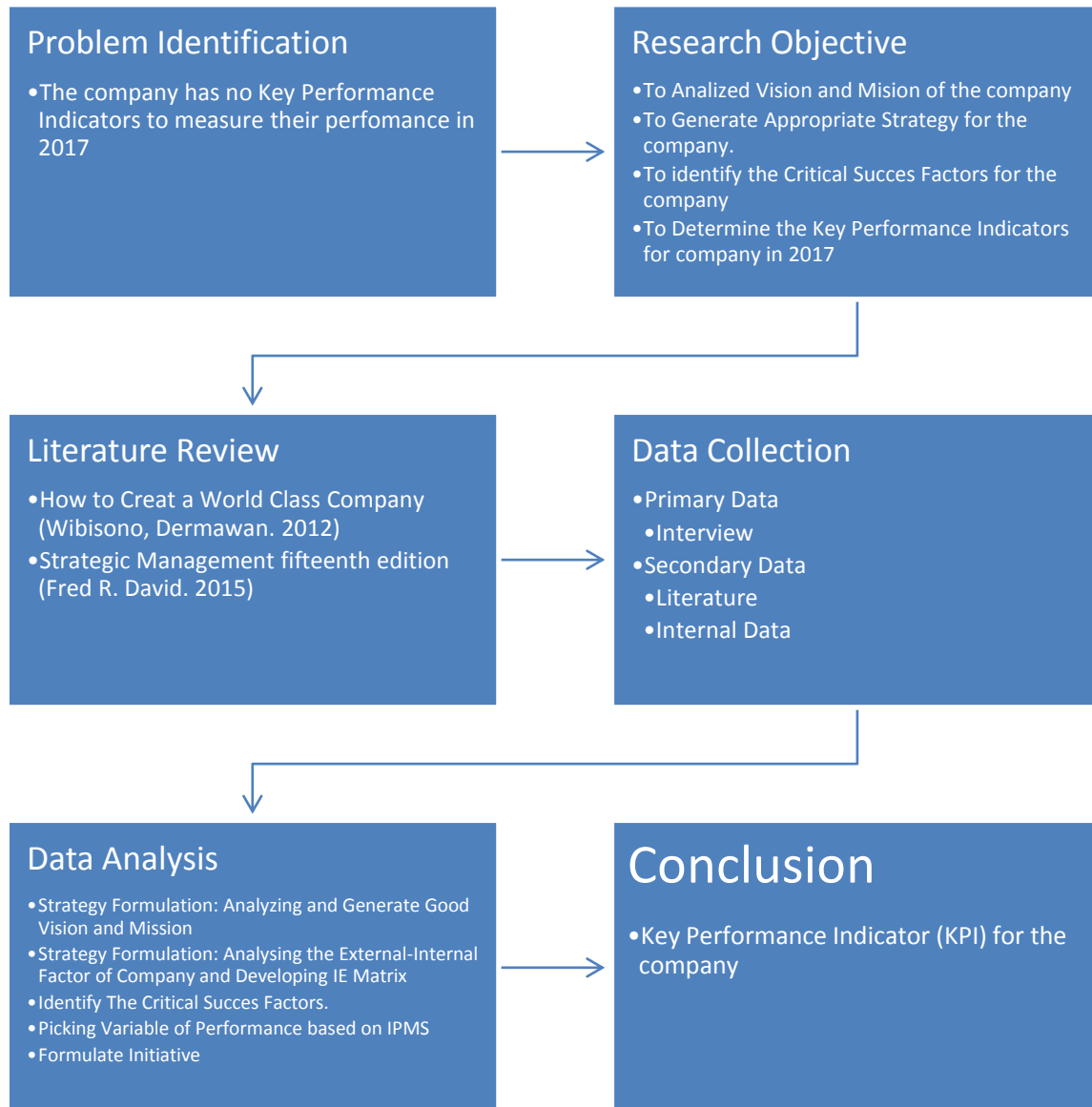
As it explained by David (2015: 270), "The Internal-External (IE) Matrix places an organisation's various division in a nine-cell display." The IE Matrix is based on two dimensions: the EFE total weighted scores on the y-axis and the IFE total weighted scores on the x-axis, which both of them have been constructed before. The IE Matrix can be divided into three major regions that have different strategy implications which are grow and build strategies, hold and maintain strategies, and harvest or divest strategies

Critical Success Factors

Identifying the Critical Success Factors can be considered as "the effort to identify vital issues that very important for an organisation" (Wibisono, 2012: 94). The CSFs are affecting directly to the organisation's condition. They are the key factors that should be measured to know how success the organisation related to the vision, mission, organisation's value and the strategic plan of the organisation. Identifying these CSFs would be explored better by having a discussion with the top management of the organisation, as they do understand what they and the organisation are doing.

Methodology

In this Research Author uses 5 step to reach the objective



Research Finding

Strategy Formulation: Analysis Vision and Mission

From the analysis Minen Leatehr Need to create new Vision and Mission

The Proposed vission is:

Menjadi Perusahaan Produk Kulit Terkemuka dengan Kualitas Tinggi dan Inovatif untuk memenuhi kepuasan pelanggan di Indonesia

To be Indonesian's best Manufacturer that Innovative and High Quality Leather Product to meet the real need of customer.

And the Proposed Mission is:

The following is the development of Minen Leather Mission based on Interview and discussion.

1. *Menciptakan produk sepatu, tas, dan aksesoris dengan kualitas tinggi dengan harga terjangkau.*
2. *Menciptakan sepatu kulit dengan konstruksi terbaik dengan ketahanan yang lama.*

1. Create high quality shoes, bag, and accessories with affordable prices
2. Create the best construction shoes with high durability

Internal Factor Evaluation

No	Internal Factors Evaluation	Weight	Rating	Weighted Score
Strength				
1	Company's give reliable service	0.05	3	0.15
2	Company's situation is comfortable	0.04	3	0.12
3	Organizations can create product from the waste material	0.04	3	0.12
4	Employee competencies is capable to create high quality product and innovative	0.05	3	0.15
5	Bonding between employee and management is very good	0.02	4	0.08
6	Low prices compare to competitor	0.07	4	0.28
7	The company have loyal employee	0.05	3	0.15
8	The Company do research and development product every month	0.03	3	0.09
Weaknesses				
1	The number of employee are too low to handle large amount product (Human Capital)	0.07	2	0.14
2	Less stringent in the planning and budgeting (Management)	0.1	1	0.1
3	Few marketing program that affects to the company's branding and public recognition. (Marketing)	0.1	1	0.1
4	Cost management isn't optimal	0.08	2	0.16
5	Management lacks clear targets achievement	0.1	1	0.1
6	There are gap competency between Senior employee and yunior/young employee	0.07	2	0.14
7	Operation process is take time too long	0.11	1	0.11
8				
Total		1		1.99

The analysis of IFE Matrix is done through the discussion with Minen Leather. Those finite lists are representing the current internal condition of Minen Leather. By the analysis through IFE Matrix, Minen Leather has an average point for their total weighted score, which is 1.99

No	External Factors Evaluation	Weight	Rating	Weighted Score
Opportunities				
1	Minen Leather Located in Bandung, which has a huge market (Socio-Culture F)	0.05	3	0.15
2	Minen easily get a supply of raw materials (Bergaining Power of Supplier)	0.08	4	0.32
3	Leather Minen customers participate in the process of product recognition	0.1	4	0.4
4	ML's Located in Cigadung bandung this location is easy to access	0.07	3	0.21
5	ML has loyal customer (Bergaining Power of Customer)	0.08	4	0.32
6	There are many organization that force their employee to use leather shoes this opportunity to B2B (Socio-	0.09	3	0.27

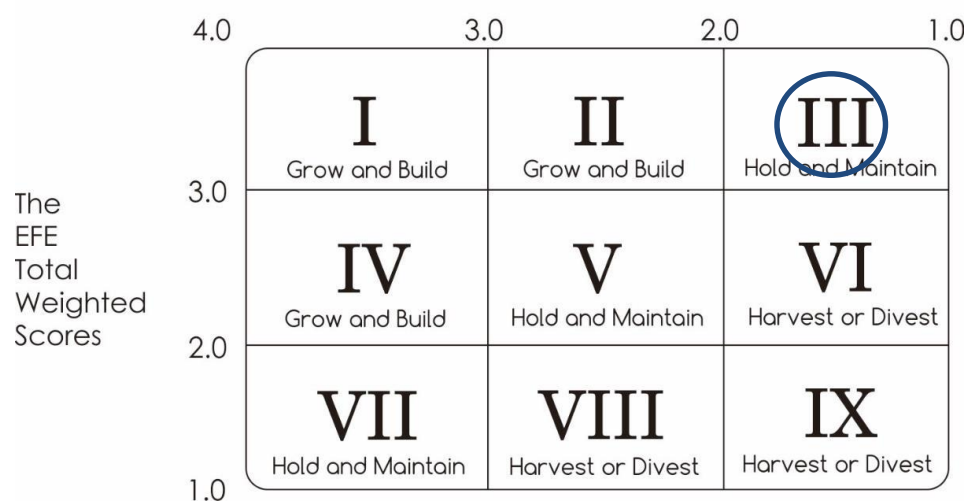
No	External Factors Evaluation	Weight	Rating	Weighted Score
	Culture F)			
7	With the latest technology could be the company accelerates the production process (Technology F)	0.06	3	0.18
8	Government Supporting Leather Craftsmen (Politik F)	0.04	3	0.12
Threats				
1	High Rivalry Competitive	0.09	3	0.27
2	Subtitute Product threats	0.07	2	0.14
3	Minimun Labour Salary (Legal F)	0.04	4	0.16
4	Indonesia's Inflation rate tend to raise each year (Economic F)	0.06	3	0.18
5	Indonesian society more look for product on price aspect than quality aspect (Socio-cultural f.)	0.08	3	0.24
6	Natural disaster that can be unexpected happen. (Environment F)	0.05	1	0.05
7	ML's Location potentially stolen by irresponsible people (around 400 case every year in bandung) (Socio-Culture F)	0.04	2	0.08
Total		1		3.09

The analysis of EFE Matrix is done through PESTEL Analysis and 5 Porter's Force. The analysis is being discussed with the representative of Minen Leather as one validation process of determining the factors and the weighted score. Through discussion session, it is believed that the chosen lists above are affecting Minen Leather. By the analysis through EFE Matrix, Minen Leather has an average point for their total weighted score, which is 3.09

Intenal-External Matrix

The summary of this analysis is Minen Leather, which is placed in cell Three, should "Hold and Maintain" their activity. Strategies for "Hold and Maintain" are Product Development or Market Penetration. Product Development is a strategy that seeks increased "sales" by improving or modifying present products or services, while Market Penetration is activity to increase market share for present products or services in present markets through greater marketing efforts. The strategies will be highly considered for developing the performance management system.

The IFE Total Weighted Scores



Identify Critical Success Factor

Critical Success Factors can be conclude by interviewing, discussing with the management or director of Minen Leather, and observing the condition of company. There are a few issues which are truly vital for Minen Leather that found by interview. Financial Condition, Employee's skills, Production Capacities and Customer Satisfaction are the CSF of Minen Leather. Additionally, the organization information, for example, Financial information and performance information in 2016 must be dissected further to pick up data of "what was the urgent thing" for Minen Leather in 2016. The organization information of Minen Leather in 2016 will give a greater point of view of vital issue that was confronting the Minen Leather right now.

Recalling of strategy analysis (Internal-External Matrix Assessment) in the previous section, the strategy that fits Minen Leather for 2017 is Hold and Maintain. "Hold and Maintain" is best employed into Market Penetration or Product Development strategies. Therefore, the CSFs and the KPIs should be alined to those strategies.

After considering the interview process, the IE Matrix process, the crucial issues of Minen Leather are:

1. **Financial Health**

Financial Health is very critical for company unexptional for Minen Leather that the main goals is profit. Every activity in Minen Leather should have profit goals. Minen Leather should make sure that the annual and monthly income reaching the target.

2. **Customer Satisfaction**

Customer is the important stakeholder for Minen Leather, they are one of actors that do a part of business activity of Minen Leather which is Selling Activity. Keeping them satisfied will benefit the Minen Leather

3. **Productivity**

This factor is to take over the "Production Capacity" and "Production Process Time" issues. The productivity greatly affect business activity Minen Leather. Can be noted that Minen easily to get raw material from supplier, it can increase the productivity. With high productivity, the company can reduce the production time, which can reduce the waiting time for customers and can get the opportunity for more customers.

4. **Employee's Competencies**

One of Core value of Minen Leather is Quality. To achieve quality value, it takes a high-quality products, and required workers with the ability of highly proficient in making the product. Employee skills in making a product is needed because of the difficulty Minen Leather products is very high. So Minen Leather should always keep their workers skills. With the advantage had by company, Minen Leather give salary higher than Minimum Salary Relative, it may motivate the employee to increase the competencies.

5. **Customer Partisipation**

As already mentioned that the customer is important stakeholders. Their participation is very beneficial for Minen Leather, they could become a voluntary marketing agency to distribute the product testimonials on their social media and can invite their friends to buy products Minen Leather.

6. **Innovation of Product**

This factor is the strategy to overcome the "High Rivalry Competitive" Issue that has been explained in 5 Porter's Force section.

With innovation, Minen Leather can give the originality image of the product itself so that customers can easily remember Minen leather products. Innovationis useful to overcome the market saturation, then Minen Leather should constantly improve their product innovation.

7. **Cost Management**

As an organisation in early phase of growing, cost management is one thing that matters. Cost management will affect the financial health and other non-financial output. For

instance, by managing the cost effectively, Minen can ensure the price of product is still maintain to optimize their strength which is "Low Price".

8. Planning and Budgeting

In accordance with weaknesses by Minen Leather is the problem of planning and budgeting. So they make a critical success factor for the later planning and budgeting made variable performance required to make planning and budgeting Minen leather for the better.

The main benefits obtained in preparing the budget of the company is as a tool barometer for management in financial planning in the future. Make a plan how big the budget plan are established and used as a reference tool of financial authorization. A tool to measure the level of achievement of the target firms and cost efficiency.

9. Marketing Promotion Mix

Recalling the generated strategies through IE Matrix, the Market Penetration is one strategy that fit for current Minen Leather's condition. Also one of the major problem/weaknesses is about "Marketing Program Effectivity". It is believed that Market Penetration needs greater marketing efforts and more marketing program that effective.

Identify Performance Variable

The first step to "identify what performance variables are needed" is by matching the CSFs into the sub-perspective of IPMS Framework. Then, the question of "how the CSFs are affecting the organisation" should be answered. Therefore, the explanation of CSFs in the previous sub-chapter are very crucial. The explanation will help us to define what variables that affect the performance of the organisation. The variables called as performance variables.

1. Business Result
 - Financial Results
 - Financial Health (CSF)
 - Non-Financial Results
 - Customer Satisfaction (CSF)
 - Customer Participation (CSF)
2. Internal Process Perspective
 - Innovation
 - Product Innovation (CSF)
 - Operation Process
 - Cost Management (CSF)
 - Asset Management (CSF)
 - Productivity
 - Marketing
 - Marketing Promotion Mix (CSF)
3. Resource Capability Perspective
 - Human Capital
 - Employee Competencies (CSF)
 - Productivity (CSF)
 - Employee Satisfaction (CSF)
 - Technological Capital
 - Technology Utilization (CSF)
 - Organisational Capital
 - Teamwork and Experience Sharing (CSF)

Below is the table that shows the performance variables for each CSF. The objectives of each performance variable is also presented.

Key Performance Indicators

Critical Success Factor	Performance Variable	Objective	Key Performance Indicator
Financial Health	Total Income	To Measure Total Annual Income	Total Annual Income
	Revenue Growth	To Measure the increasing revenue	Annual Revenue
	Profitability	To Measure Profitability	Net Profit
Customer Satisfaction	Customer Satisfaction	To Measure Customer Satisfaction Rate	Customer Complain
	Customer Retention	To Increase Customer Loyalty	Customer Loyalty Rate
Customer Participation	Customer Help in Social Media	To Built Mutual Relation between Customer and Minen Leather	Monthly Customer Post
Product Innovation	Number of Innovation	To develop New Product for Minen Leather	Monthly New Product
	Budget Allocated for Research and Development	To Find the Product that needed by Market	Monthly R&D Budget
Cost Management	Cost-Saving of Event Trip	To Reduce unimportant expenses	Trip Cost
	Decreasing production cost		Production Cost
Planning and Budgeting	Event Budgeting	To strict the expense for event	Fund Absorption
Marketing Promotion Mix	Marketing cost	To optimize the effectivity of Marketing strategy	Effectivity of Marketing cost
Employee Competencies	Employee Training	to increase the employee satisfaction and speed up the production process	order that handled by junior employee
Productivity	Employee Productivity	to Measure the increasing of employee's prodcutivity	Monthly employee's productivity
	Work Efficiency	To Measure the efficiency of work	Monthly Rework

Strategy Initiatives

Key Performance Indicator	Formula	Target	Period	Strategy Initiative	Strategy Initiative
Total Annual Income	Sum of Revenue in one year	>=3600000000	Annually	Focussing on producing product to meet the demand	Concern the customer's participation

Key Performance Indicator	Formula	Target	Period	Strategy Initiative	Strategy Initiative
Annual Revenue	$((\text{Revenue} - \text{Revenue Last year}) / \text{Revenue Last Year}) \times 100\%$	$\geq 5\%$	Annually	Optimize the B2B Market with give them Unique Product.	
Net Profit	$((\text{EBT} - \text{Tax}) / \text{Revenue}) \times 100\%$	$> 35\%$	Monthly	Optimize the Waste material to make additional feature and accessories product	
Customer Complain	$(\text{Total Complain} / \text{Product}) \times 100\%$	≤ 5 complain	Annually	Optimize the Producing quality product	Make a strict Quality Control plan
Customer Loyalty Rate	$(\text{Customer Repeat Order} / \text{total Customer}) \times 100\%$	$> 15\%$	Annually	Make Program to give more treatment for old customer	
Monthly Customer Post	Customer Post in Socmed	1 Post/Customer	Monthly	Give Incentive to the customer who active promote Minen Leather to their Relative	
Monthly New Product	Number of New Product	> 1 Product	Monthly	Make R&D Program continuously	Assess the customer Need to make new Product
Monthly R&D Budget	$(\text{Total Budged allocated for R\&D} / \text{Total Expense}) \times 100\%$	$< 20\%$	Monthly	Evaluate the effectivity of R&D	Use the rejected material to make prototype
Trip Cost	Accommodation+Transportation Cost+Event Price	< 20000000	Per Event	Minimize the accommodation cost	

Key Performance Indicator	Formula	Target	Period	Strategy Initiative	Strategy Initiative
Production Cost	Sum of waste of the material	< 5Kg	Monthly	Optimize the Waste material to make additional feature and accessories product	
Fund Absorption	$((\text{Total Realisation Plan expense} - \text{Budget}) / \text{Budget}) \times 100\%$	$\leq 100\%$	Per Plan	Stick to the plan, be economical	
Effectivity of Marketing cost	$((\text{Total Revenue} - \text{Total Revenue last period}) / \text{Marketing cost})$	$\geq 50\%$	Annually	Evaluate the effectivity of marketing program	
order that handled by junior employee	percentage sum of order that given to junior employee	$> 50\%$	Annually	Involve the junior employee in big order to add their experience	
Monthly employee's productivity	product that can be produced every month each employee	≥ 6	Monthly	Give Incentive to employee who exceed the target	
Monthly Rework	Sum of Product Return because it's manufacturing defect	≤ 5	Monthly	Keep high criteria of sorting the raw material	Make a strict Quality Control plan

The list above is the final result of this research. There are forty-three performance variables that will be concerned by the management. Those performance variables are reflecting the important action that should be done by Minen Leather.

Conclusion

The new Performance Management System are developed 14 objective with 15 Performance Variable that has a Key Indicator for each variable. All Performance variable is should measure how good the Minen Leather's Performance in 2017, and the targets are showing that Minen Leather has already reach the determined performance variable or not. The initiative are the feasible way for Minen Leather to reach the determined target. The discussion with the management, analysis of current external & internal condition of Minen Leather are resulting nine Critical Success Factors (CSF). CSFs are the factors which determine the success of Minen Leather. The nine CSFs are broken down into

fifteen performance variables. The fifteen performance variables are measured by fifteen targets. To accomplish the target, twenty initiatives have been explored. By having new performance management system, vision and mission that suitable with the current condition for Minen Leather. Finally, with new performance management system, vision and mission that suitable with the current condition for Minen Leather. Minen Leather is easier to achieve their goals.

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