

**DESIGN OF CORPORATE PERFORMANCE MANAGEMENT BASED ON
INTEGRATED PERFORMANCE MANAGEMENT SYSTEM
(CASE STUDY: PT. IEV PABUARAN KSO)**

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Abstract. As a growing oil company in KSO (Kerja Sama Operasi) industries, which is a partnership to state oil company Pertamina Upstream (EP), PT. IEV Pabuaran KSO (IEVPABKSO) performance is in need of improvements. As we know, oil price is dropping below US\$ 35 USD/barrel which is close to the lifting cost of crude oil production, which forces every oil company in the market to adjust their strategy and adapt to the situation. IEVPABKSO also suffers a quite big loss in 2015 because of their failed drilling project, which led to zero production and negative profit margin for them, despite their target which to reach positive profit. IEVPABKSO have not yet implemented performance management system in their company, which leads to to inconsistent internal performance of their company. For 2016, the Integrated Performance Management System (IPMS) Framework are being used because of their flexibility to match any companies, whether profit or non-profit. The objective of the of this research is to determine the proper indicators or the KPIs, develop a performance management framework and analyze IEVPABKSO's performance through radar diagram. The data is gathered by focused questionnaire, having discussion with the general manager of IEVPABKSO and analyzing the internal data of the company. The vision and mission of IEVPABKSO will be analyzed by Vision Generator from Wibisono (2012) and the preferable KPIs is all taken from Panduan Penyusunan Indikator also from Wibisono (2011). After analyzing the available data and having discussion the the general manager, we've come to an agreement that vision and mission of IEVPABKSO is already a good vision and mission. The KPIs that resulted from the questionnaire and the discussions with the management consists of 53 preferable KPIs with no Gap and False indicators. From the performance framework and the analysis, we can conclude that IEVPABKSO has a good performance in planning and estimating their costs. They should maintain their conditions and their current performance. Improvements need to be considered as their long-term plan.

Keywords: Performance Management System, Key Performance Indicators, Performance Management Framework, Integrated Performance Management System, Oil Company, IEVPABKSO.

Problem formulation

As of 2014, IEVPABKSO have still not yet generated any profits, despite their target is to always have a positive profit. This is caused by their fail drilling project which made them suffers a big loss. IEVPABKSO also have not yet implemented their performance management system in their company, which sometime leads to failure in achieving their target in certain period of time.

Literature Review

Integrated Performance Management System (IPMS)

There are many frameworks of Performance Management System (PMS) that have been developed since the Malcolm Baldrige National Quality Award, which is the first published framework of Performance Management System. The robust growth of industries these days is also another reason

why the PMS frameworks are updated every time. One of the most common framework used by most industries in the world is the Balanced Scorecard (BSC), which proposed by Kaplan & Norton in 1996. BSC is universal and their framework only provides 4 perspectives which is *Financial, Customer, Internal Business Process, and Learning & Growth*. However, it was criticized by Wibisono in 2012 especially in the in the financial perspective. Wibisono (2012) says that it lacks flexibility to non-profit organization. BSC main assessment is on financial sector, which is not really necessary to non-profit organization.

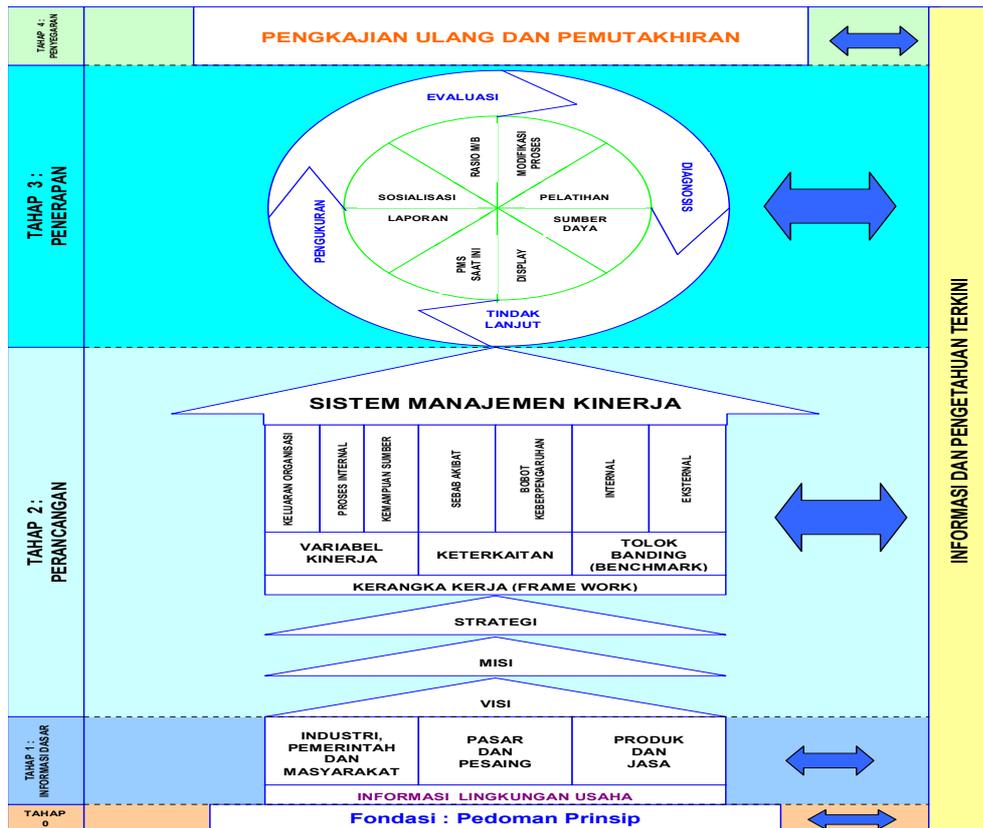


Figure o-1. The Framework of IPMS (Wibisono, 2012)

The figure above explains all stages of developing the framework for performance management system based on the IPMS Framework. There are four steps of developing performance management system as it is explained by Wibisono (2012):

1. Step 0: Basic Principle:
Understand the knowledge and the principles of PMS should become the foundation of the practitioner. This includes the knowledge of various kinds of PMS framework, the core principles of PMS and context of PMS.
2. Step 1: Basic Information
Basic information of the environments of the organization, both internal and external, are needed to develop the PMS. The information may include the organization, government and society, market and competitors, goods and services which are produced.
3. Step 2: Design
This step is a process of developing, or analyzing current, vision and mission that represents the current condition, availability of resource and the future ambition. The process also includes of exploring the organization’s strategies and choosing proper framework of PMS. That process is needed for further step of picking the performance variables, linking the variables and choosing the benchmarks.
4. 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; measurement, evaluation, diagnosis and corrective actions if the organization runs out of the determined goals.

5. 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 Management System framework, there are three perspective of performance variables; Business Results, Internal Business Processes, and Resource Availabilities. Unique thing is about the IPMS, the perspectives are related to each other. In short, good business results comes from good internal business process, good internal business process comes from good resource availability.

Here are the perspectives of IPMS Framework as explained by Wibisono (2012):

- **Business Results**
Most of organization these days, let's say a firm, believe that financial results are the only thing that matters. However, in IPMS perspective, there are two kinds of results, which are the Financial Results and Non-Financial Results. The purpose is to expand the mindset of the organization, especially a firm, which financial result is not the only thing they pursue.
- **Internal Business Processes**
Internal Business Process is related to the activity that happened inside the organization that should be considered. The several processes are Innovation, Operation Process, Marketing, and Aftersales services.
- **Resource Availabilities**
This perspective is related to intangible assets that are owned by the organization. The resources are capable to generate changes in the organization or a firm. The categories of resource availabilities are Human Capital, Technological Capital, and Organizational Capital.

Vision and Mission

Vision is a set of words of phrases that shows goals and dreams from a particular organization or company that wants to be accomplished in the future. In short, it is safe to say that vision is what company wants to be in the future. It would be great if every member of the company acknowledges and understands the vision of their organization and what their organization wants to be in the future. A vision must project the organization's goals for 3 until ten years, because it is crucial to the organization's preservation and long term success. An organization or a company needs vision that could be used as:

- Unification of goals and company's target.
- Fundamental of resource allocation and other controls.
- Tool to form company's culture.

(Wibisono, 2012)

On the other hand, Mission is a set of words that shows company's goals and their reason of existence. Mission also contains products or services that offered by the company (Wheelen, 2004). The goal of mission is to communicate with internal and external stakeholders the reason of the company's existence and where the company headed.

Methodology

The purpose is to give the reader a chronological order of how the research will be conducted and how the conclusions will be made. The research methodology which will be used for this research is

explained in the Figure 3.1.

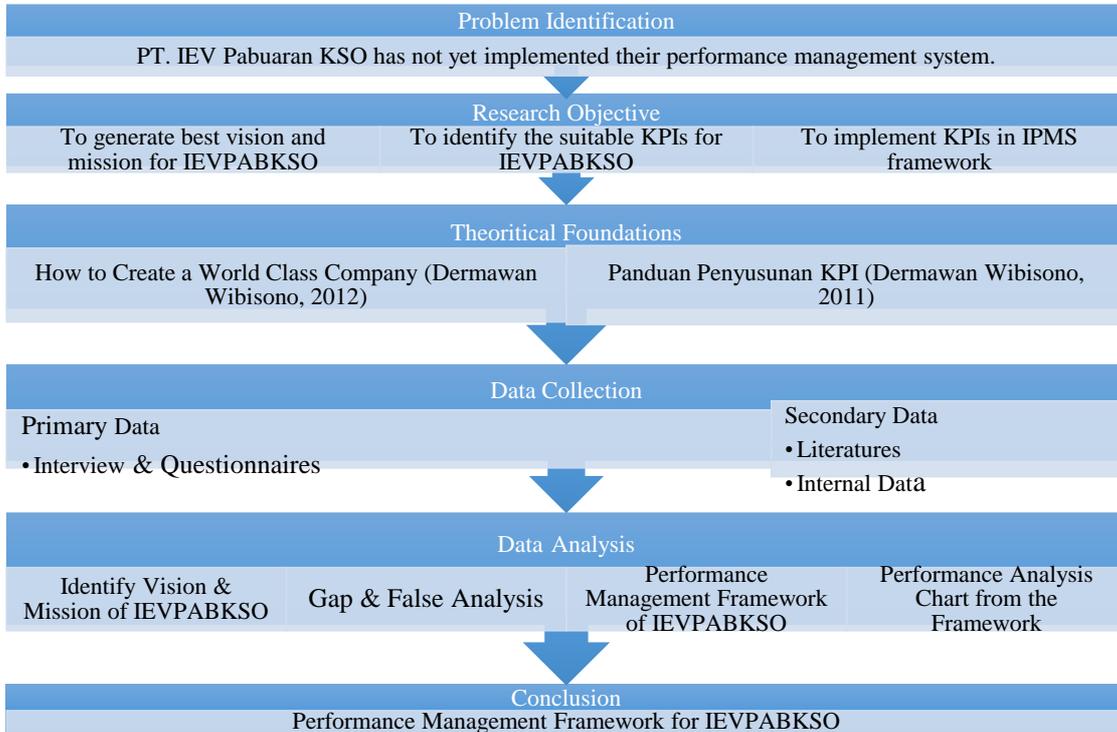


Figure 2. Steps of Research

Research findings

Vision and Mission Analysis

As part of IEV Groups, IEVPABKSO has not yet develop their own vision and mission. Therefore, after discussing with the general manager from the company, IEVPABKSO follows the IEV Group’s vision to be their own vision that fundamentally they implement in their company. The vision is as follow: ***‘We Champion Innovative Solutions to make Energy Affordable and Accessible to all’***

IEV Groups does not have vision, but they have core values, which remind them of their own vision and can help every employee emphasize their vision. The core values it’s as follows:

- **People Oriented**
- **Professionalism**
- **Integrity**
- **Profitability**
- **Health, Safety & Environment Awareness**
- **Innovation**

KPIs for IEV Pabuaran KSO

After questionnaires and discussing the indicators with the general manager of IEV Pabuaran, here are the KPIs for each perspective.

- **Business Results (Financial & Non-Financial)**
Business Results are divided into two kinds of sub-perspectives which are the financial perspectives and non-financial perspectives.

Perspective	Sub-Perspectives	Indicators
Business Results	Financial	<u>Investor</u>
		Investor's Satisfactory Level
		Clear Communication with the Investors
		Communication Frequency with the Investors
		Revenue Growth
		Profit Margin
		Market Capitalization
		Dividend Growth
		Profitability
		Profitability Growth
		Cash Flow
		(Non Current Assets)
		Liability Ratio
		Liquidity Ratio
		Solvability Ratio
ROE (Return of Equity)		
EAT (Equity after Tax)		

The indicators above are based off from the questionnaire and discussion with IEVPABKSO's General Manager. Any unnecessary indicators that are not suitable for the corporate has already been removed from the list of preferable Indicators.

The second sub-perspective is the non-financial indicators. These indicators revolve around relationships with Government and Society, as they are also key indicators which going to boosts up IEVPABKSO's performance.

Perspective	Sub-Perspectives	Indicators
Business Results	Non-Financial	<u>Supplier</u>
		The stability of relationship with the Suppliers
		Planning and Scheduling Stability
		Suppliers Satisfaction Level
		Collaboration Level between Suppliers and Company
		Amount of Suppliers
		<u>Government and Environment</u>
		Government Satisfaction Level
		Corporate Strategy Alignment With Government Policy
		Impact of Corporate Performance Related Share Program Savings Government , Inflation & Interest Rates

		The level of synergy between the Central Government with Local Government (Permit, AMDAL)
		The clarity of Regulation
		Level of Compliance with Environmental Law
		Occupational Health and Safety Assessment
		Spending Levels in Environmental Protection
		Consistency in Government Requirements
		Consumption of Energy and Raw Materials
		Relationship with Government
		Operating Permit Comprehensiveness
		Community
		CSR Program
		Community's Trust towards corporate
		The success of Social Community Environment Development Program
		The approach done by the corporate towards community
		Perception of the Company from the Community
		Local Community Support Level
		Public Relations and Assessment Results Achieved(Outreach)
		Production and Disposal

Performance Analysis of each KPIs

This section of the chapter contains performance analysis in radar diagram for each perspectives and sub-perspectives for IEVPABKSO.

For each of the indicators, researcher will set the standard in order to make the scoring for each indicators easier. For instance, each indicator that have actual data in percentage, will given the scale of 1 through 4. Scale 1 is for 0% until 25%, scale 2 is for 26% until 50%, scale 3 is for 51% until 75%, and lastly, 76% until 100% is for scale 4. Some of the indicators provided with the data that only indicates whether they are positive and negative. For this scale, positive data considered to be in scale 4 and negative data considered to be in scale 1. For all the data that is not available, considered scale 1.

The following are the radar diagrams for each perspective, in the period of 2014-2016:

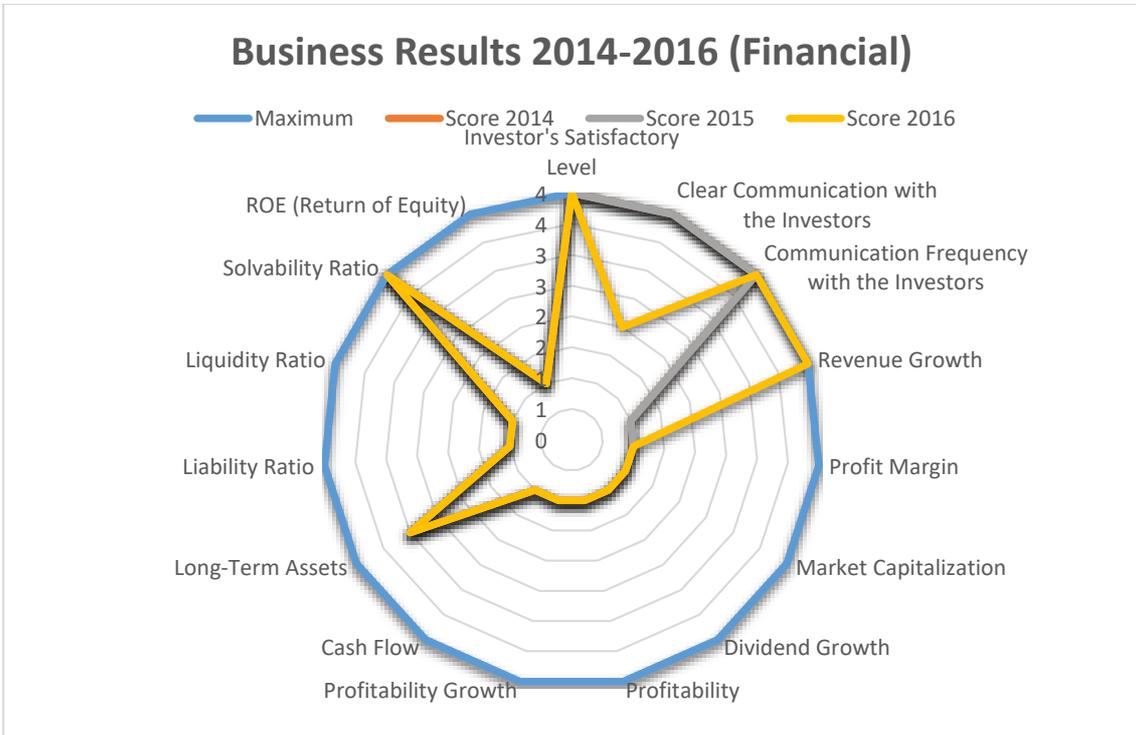


Figure 3. Business Results (Financial, 2014-2016)

Business result of one company with the sub perspective of Financial talks about financial things happening in the company. As we can see above, IEVPABKSO have a strong and firm relationship with their investors. Investors are satisfied with their team and vice versa. For financial things like profit margin and revenue growth scored 1 because the data are unavailable. But the information given is that their profit is still negative. Negative profit is a common thing in oil company, because they are looking for more long term plan. If in the near future IEVPABKSO successfully produce some oil, they are looking at 200% or more profit.

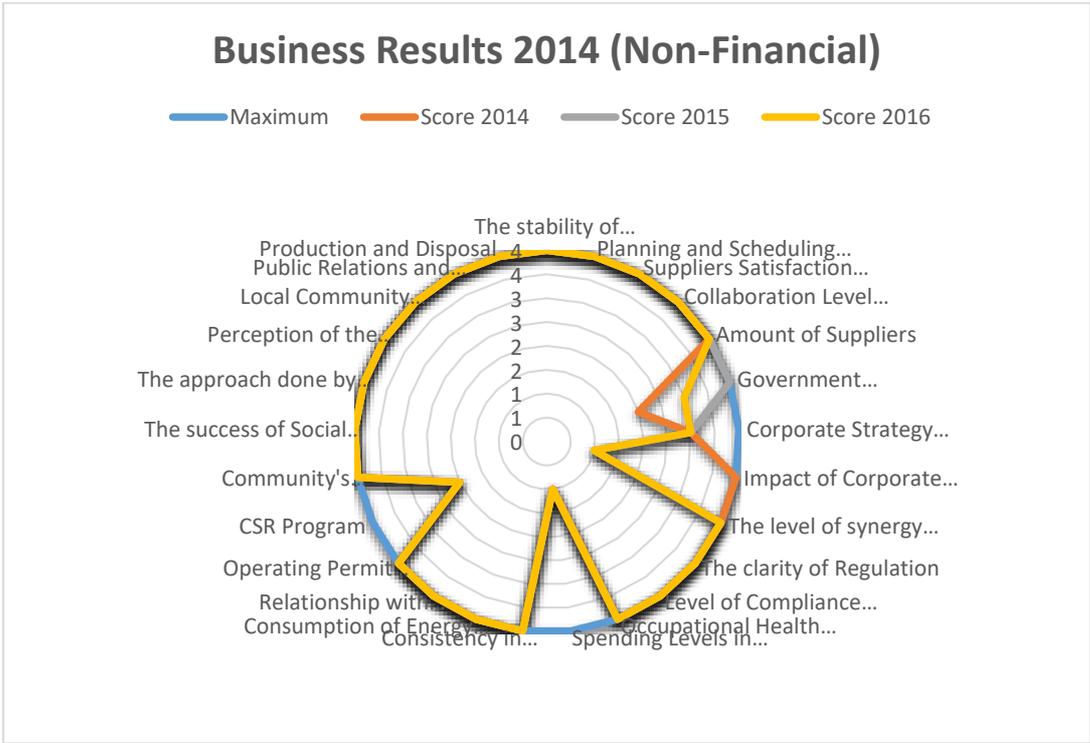


Figure 4. Business Results (Non-Financial, 2014-2016)

IEVPABKSO had always have a good relationship with Government and Supplier. Because IEVPABKSO is an oil company, they always have to follow every regulation provided by the government (AMDAL and other permits). Otherwise, they can't and won't operate their business. They also always have a good relationship with suppliers.

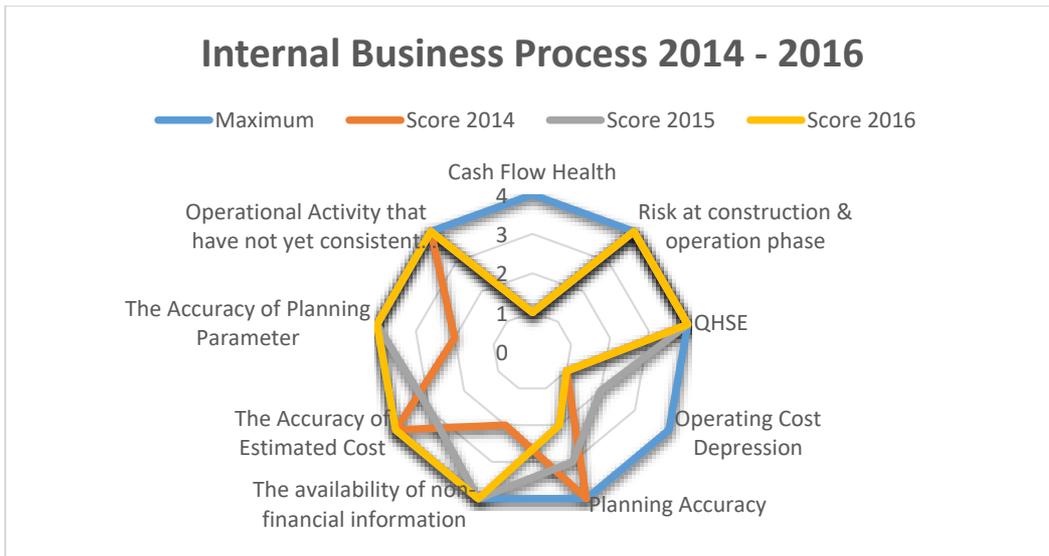


Figure 5. Internal business Process (2014-2016)

Internal Business Process talks about the internal condition of IEV Pabuaran KSO. The diagram shows that they have a really good skill at planning and estimating costs, excels at their QHSE and managing the risks in the field.

The last perspectives which is the Resource Capabilities talks about resources that owned by the company and how well they capable of keeping the operation running well in the company. To IEVPABKSO, the most important resource for their company is their employee. In oil industry, every employee must have a good qualification, because every oil industry seeks quality and accuracy for their operation. The diagram for resource capabilities is as follows.

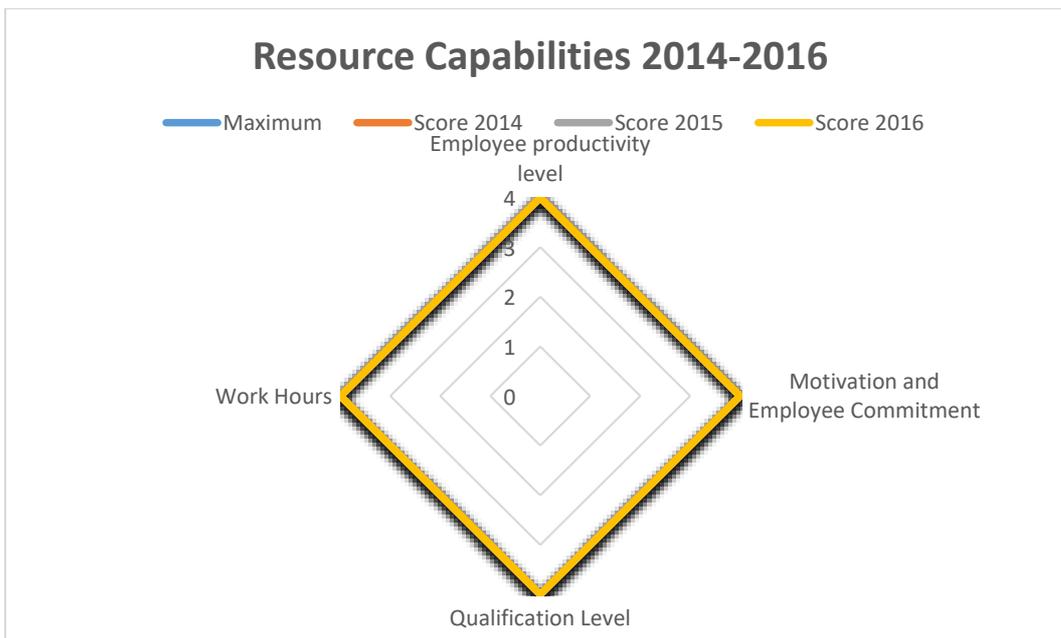


Figure 6. Resource Capabilities 2014-2016

Conclusion

The analysis of vision and mission for IEVPABKSO have meet the vision generator and the rules of good mission by Wibisono (2012). Therefore, IEVPABKSO could follow the vision and mission created by the IEV Group because it is also emphasizes their business operation.

The indicators or the KPIs for IEVPABKSO have been chosen and discussed with the General Manager of the company. He made sure that the indicators that have been chosen is the proper indicators to create the performance management system for IEVPABKSO. In total there is 53 indicators that can be considered as the essentials to increase the performance of the company.

The analysis of the performance of IEVPABKSO shows a various performance output of the company from 2014-2016. Something interesting that we can look at is the profit margin that shows a negative output each year. This is acceptable by the company because oil industry is more interested at long term production that can generate them a lot of profit. In the year 2014-2016, almost every indicator from the business results perspective shows good performance results.

As a final statement, IEVPABKSO should maintain their current performance of the company. It's not time for improvement just yet because they are still growing. But for long-term consideration, improvement is necessary. With a few more successful project, IEVPABKSO could be the best in all of KSO industries.