

CHAPTER I

INTRODUCTION

1.1 Background

The rapid advance in information technology and the free market competition had an impact to business environment an increasingly dynamic and complex. The organizations are required to increase its excellence by producing high quality products and provide a quality service to consumers.

Facing the competitive environment, performance is important factor that needed to be concerned by the organization. Performance in given period can be used as reference to measure the level of success of organization. So, system performance that appropriate and suitable for organization is needed for the organization to compete and develop.

In traditional performance measurement, the measurement is only focusing in financial aspect, because it is easily done. Measuring the performance only from financial aspect is not enough and not summarizes over all the performance. Financial measurement is not sufficient to guide and evaluate performance in the competitive environment. This measurement tends to focus only in short-term goals and ignoring the continuity of the organizations in the long-term. Organizations in globalization era need to determine their strategies to run their business in short-term and also for long-term. The organizations need to know their strengths, weaknesses, opportunities and threats in order to survive in this

current and future environment. Thus, financial measurement needs to be balanced by non-financial measurement.

Kaplan and Norton (2000) said that performance measurement that only focused on financial cannot represent to conclude whether the performance of an organization is perform well or not, because performance measurement that only based financial performance is only lead to short-term interest without concerning the sustainability of the organization for long-term. Even though the financial performance is performing well, it cannot determine whether non-financial aspects such as customer satisfaction, their employee wealth and how the company responsible for their environment as good as the financial performance. Some of organizations nowadays start to concern about the customer satisfaction, and other non-financial aspect. Even now, customer is starting to assess the organization what they do for their environment and how they responsible for the business they run.


Most companies recognize that both financial and non-financial measures can provide useful insights into what is happening in the company. As a result, many companies now use a broad-based measurement approach, called the balanced scorecard, to evaluate performance (Weygandt, Kimmel, and Kieso, 2012). The balanced scorecard can summarize the company performance not only from financial perspective but also non-financial which can make the company survive for long term in tight competition where financial is not only as main orientation.

The balanced scorecard was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. It is used in private, not-for-profit and public sector organizations, of all sizes and types. According to Kaplan and Norton that supported by Mulyadi, (1997) stated that, successful company is not only focused on producing good quality product but also has to satisfy and fulfill the needs of customer and cost effective. This Balanced Scorecard is measure performance from 4 perspectives; financial perspective, customer perspective, internal business process perspective, and learning and growth perspective. Within Balanced Scorecard, managers can measure how their business unit can creating present value yet still concerning the future.

The Balanced Scorecard gives a comprehensive framework that translates the visions and strategy of the company into clear set of performance measurement. The company's vision is developed into company's mission and delivers to all the employees. The mission statement must be motivated and be the core belief of the company and it can identify the products and market.

There are three principles that enable an organization's Balanced Scorecard to be linked to its strategy: (1) Cause-and-effect relationship, (2) performance drivers, and (3) linkage to financial. A properly constructed scorecard should tell the story the story of the business unit's strategy

through such a sequence of cause-and-effect relationships. The measurement system should make the relationships (hypotheses) among objectives (and measures) in the various perspectives explicit so that they can be managed and validated. It should identify and make explicit the sequence of hypotheses about the cause-and-effect relationships between outcome measures and the performance drivers of those outcomes. Every measure selected for Balanced Scorecard should be an element of a chain of cause-and-effect relationships that communicates the meaning of the business unit's strategy to the organization. (Kaplan & Norton, 1996)



PT Semen Padang is corporation that engages in cement industry. PT Semen Padang is the oldest cement manufacturer in Indonesia, was established on 1910 with firstly named *NV Nederlandsch Indische Portland Cement Maatschappij* (NV NIPCM). PT Semen Padang itself has taken place on market cement in Sumatra and has representative offices scattered throughout Indonesia. The geographic position in west coast of Sumatra Island gives the PT Semen Padang benefits to export the products to neighboring countries. As the company keeps continuing to grow from various aspects, performance measurement is extremely important point for PT Semen Padang considering the competitors also develop over time. In determining the company's performance, which is in order to fulfill the vision and mission of the company, is required implementation of Balanced Scorecard that includes four perspectives; financial perspective, customer perspective, internal business process perspective, and learning and growth perspective as a strategic-based measurement tools. Thus,

application of Balanced Scorecard is able to plan the company's strategy to be achieved by the organization for long term.

The cement industry will experience increasing challenges because Indonesia will enter the Asean Economic Community (AEC). It gives opportunity for foreign competitors to expand their business in Indonesia. While in domestic itself, there are new competitors as well. The addition of new competitors along with the increase in the supply of cement is resulting in increased competition among cement companies in Indonesia. At the same time, there was an increase in cement production capacity from existing companies and from new entrants in the cement industry which is resulted on over supply in the domestic market, while cement demand has decreased.

In order to survive with the condition of the market, PT Semen Padang has to set the vision and mission and translates into coherent strategies. The vision and mission must be clear, so the company knows the planning to achieve company's goal in the future. PT Semen Padang needs to determine the appropriate measures and its target, as the target should be planned, measurable and achievable in given period time. Having the integrated target, measurement and objectives, the company will lead the success to achieve company's goal.

Based on the description above, the author would like to know the setting measures targets of Balanced Scorecard approach from four perspectives; financial perspective, customer perspective, internal process

perspective, and learning and growth perspective in PT Semen Padang. Therefore, the title based on this study is **“Analysis of Setting the Measures Target of Balanced Scorecard Perspectives (Case Study in PT Semen Padang)”**

1.2 Problem Statement

Based on the background which has been described above, the formulation of problems for the research are:

1. Does the company develop the Balanced Scorecard Strategy Map?
2. Does the company set the target for each measure of Balanced Scorecard perspectives in line with strategy map?

1.3 Research Objectives

According to the problem statement above, the objectives of this research are:

1. To know whether the company does develop the Balanced Scorecard strategy map.
2. To know whether the company does set the target for each measures of Balanced Scorecard perspective in line with strategy map.

1.4 Research Benefits

1. For the author, this research will give knowledge and understanding related the application of Balanced Scorecard as setting the measures target.
2. For the company, this result of this research is expected to provide information as consideration in implementation of Balanced Scorecard in setting the measures target.
3. For accounting knowledge and subsequent researchers, as a researcher hopes this research will provide the information needed regarding the Balanced Scorecard. Also as a reference for the subsequent researchers.

1.5 Writing Systematic

Writing systematic used in this research is:

Chapter I This chapter is an introduction part which is discussed the background, problem statement, research objectives, research benefits and writing systematic.

Chapter II This chapter is literature review which is discussed about the theory used in this research, such as performance measurement, balanced scorecard and previous researches.

Chapter III This chapter is research methods which is discussed about research design, research object, scope of research, type and source of the data, data collection method and data analysis.

Chapter IV This chapter is data analysis which is discussed about the general description about PT. Semen Padang and discussion regarding the result of setting the measures target of Balanced Scorecard perspectivesin PT Semen Padang.

Chapter V This chapter is closing which is provided the conclusion, limitation of research and suggestion.

