CHAPTER 2

THEORETICAL FRAMEWORK

2.1 Management

These are the definition of Management based on the experts:

Robbins, Stephen and Coulter, Mary (2012) according to them in the book "Management", management consists of coordinating and overseeing the activities of others in purpose to make it done efficiently and effectively.

Stoner (1982) defines management as: The process of planning, organising, leading and controlling the efforts of the organisation's members and of using all other organisational resources to achieve stated organisational goals

George R. Terry in a book entitled "Principles of Management" provides a definition: "Management is a process that distinguishes the planning, organizing, mobilizing the implementation and supervision, using both science and art, in order to complete the goals set before"

So base on desinitions above, we can conclude that management is the process of planning, organising, leading and controlling using the resources (human) to complete the goals.

2.1.1 Management Functions

There are 4 functions of management by Henri Fayol, a French Businessman
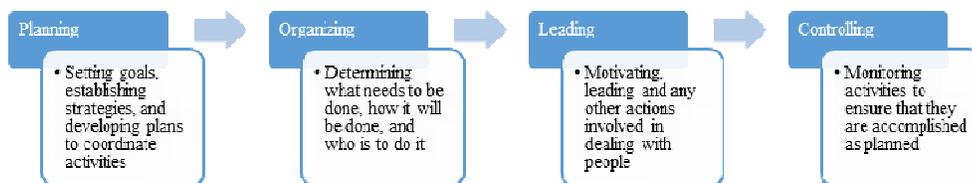
Figure 0-1 Four Functions of Management

(Source: Robbins, Stephen P; Coulter, Mary. (2012) *Management* : 37)

- Planning

  A manager is responsible to create a plan to reach a specific goal and to manage the people so they can work toward the goal

- Organizing

  It is a manager responsibility to determine that the company needs, what to be done and how it will be done and who is to do it.

- Leading

  Direction and motivation are the key factors in directing. A manager should give orders and clear working instruction so the employees now exactly what needs to be done.

- Controlling

  Verifying whether everything is going according to plan and make sure that they are accomplished as planned.

  Those 4 functions are lead to achieving the organization's stated purposes.

2.2 Human Resource

According to M.T.E. Hariandja (2002,2) Human Resources is a very important factor in a company beside the other factors such as capital. According to Sonny Sumarsono (2003,4), human recources contain two meaning. First, it is a corporation or services that can be provided in the production process. In other respects, the effort given by a person in a certain time to produce goods and services. The second meaning, HR human concerns that can work to provide the services or work effort. Being able to work means being able to engage in activities that have economic activity, namely that these activities generate goods or services to meet the needs or the public.

In the context of macro, human resources is a citizen who has entered the age of the labor force that has the potential to behave productively that is able to meet their own needs and their families, which affect the level of welfare in the nation or country. In the context of micro, human resource is the people who work in the environment of an organization called the employee, the employee personnel, leaders / managers, workers, labor, employers, and others.

According to definitions above, we can conclude that human resource is people who has entered the age of labor force that can provide the goods and services and an important asset to a company.

2.2.1 Human Resource Management

Some literatures tried to define the meanings of human resource management as below:

1. Newman and Hodgetts (1998:4), Human Resources Management (HRM) is the process by which organizations ensure the effective use of their associates in the pursuit of both organizational and individual goals.

2. According to Hasibuan (2001:10) the management of human resources is Science and art to regulate relations and role of labor to be effective and efficient, help to achieve the objectives of the company, employees and community.

3. According to Bratton and Gold (2007: 7): HRM is a strategic approach to managing employment relations which emphasizes that leveraging people's capabilities is critical to achieving competitive advantage, this being achieved through a distinctive set of integrated employment policies, programmes and practices. performance evaluation, compensation of employees and good labor relations.

Based on the definitions above, human resource management can be concluded as the system and activities that designed to manage the people to achive the company's goals.

2.2.2 The function of Human Resource Management

According to Foot and Hook (2002:3), the function of HR are:
- Recruitment and selection
- Training and development
- Human resource planning
- Provision of contracts
- Provision of fair treatment
- Provision of equal opportunitites
- Assessing performance of employees
- Employee counselling

- Employee welfare

- Payment and reward of employees

- Health and safety

- Discipline and dealing with grievances

- Dismissal redundancy

HR function was therefore, expected to support the organisation in achieving high performance people management and managing the changes required to improve efficiency, even as many advocated a more strategic role for the function (Wright et al, 1998; Abella, 2004).

2.2.3 Strategic Goals of Human Resources Management

Caliskan (2010;4) stated that HRM need to achieve its strategic goals in order for the company to gain and sustain competitive advantage. The following strategic goals are:

1. To invest in people through the introduction and encouragement of learning processes designed to increase capability and align skills to organizational needs.
2. To ensure that the organization identifies the knowledge required to meet its goals and satisfy its customers and takes step to acquire and develop its intellectual capital.
3. To define the behaviors required for organizational success and ensure that these behaviors are encouraged, valued and rewarded.
4. To encourage people to engage wholeheartedly in the work they do for the organization.
5. To gain the commitment of people to the organization's mission and value.

2.2.4 Challenges in Human Resources Management

According to the Survey of Global HR Challenges: Yesterday, Today and Tomorrow, conducted by PricewaterhouseCoopers on behalf of the World Federation of Personnel Management Associations (WFPMA), there are several challenges that Human Resource Management face :

Challenges	% of Companies
1. Change management	48%
2. Leadership development	35%
3. HR effectiveness measurement	27%
4. Organizational effectiveness	25%
5. Compensation	24%
6. Staffing: Recruitment and availability of skilled local labor	24%
7. Succession planning	20%
8. Learning and development	19%
9. Staffing: Retention	16%
10. Benefits costs: Health & welfare	13%

Figure 0-2 Challenges in Human Resource Management

(Source: (Alliance, 2013))

The 3 major challenges in Human Resources Management:

1. Change Management

   Change management represents a particular challenge for personnel management.

2. Leadership Development

   HR professionals are faced with being expected to provide the essential structures, processes, tools and point of view to make the best selection and develop the future leaders of the organisation.

3. HR Effectiveness measurement

   The job of the employee must be measure to know the result if they have bad or good influence to the company. The tools that can be used to measure the effectiveness are performance management.

2.3 Organization

2.3.1 Definition of Organization

According to Daft, Murphy and Willmott (Daft, et al., 2010) organizations are social entities that are goal directed, are designed as deliberately structured and coordinated activity systems, and, are linked to the external environment.

According to Greenwald, (Greenwald, 2008) Organization is a process by which people coordinate their activity though prearranged agreements or mutually accepted understanding.

2.3.2 Organization Development

2.3.2.1 Organizational development definitions

Beckhard defined organization development as an effort (1) planned, (2) organization-wide, and (3) managed from the top, to (4) increase organization effectiveness and health through (5) planned interventions in the organization's "processes," using behavioral science knowledge (Foster, 2012).

Organization development is interdisciplinary field with contributions from business, industrial/organizational psychology, human resources management, communication, sociology and many other disciplines (Anderson, 2015).

Organization Development definition by Warner Burke is planned process of change in an organization's culture through the utilization of behavioral science technology, research, and theory. (Cummings,Worley, 2009)

Wendell French defined organization development as a long range effort to improve an organization's problem-solving capabilities and its ability to cope with changes in its external environment with the help of external or internal behavioral-scientist consultants, or change agents, as they are sometimes called (Cummings & Worley, 2009)

With the definitions above it can be said that organization development is an effort to change and improve organization's capabilities.

2.4 Balanced Scorecard

Balanced scorecard is found in 1992 by David Norton and Robert S. Kaplan. They introduced the balanced scorecard in Harvard Business Review article. Norton and Kaplan believed that measurement was as fundamental to managers as it was for scientists. If companies were to improve the management of their intangible assets, they had to integrate the measurement of intangible assets into their management systems (Kaplan, 2010).

2.4.1 The four legs of the scorecard

This four legs of scorecard are very important for the managers to be able to plan, implement and achieve their business strategies. The four legs will make the difference between whether your business succeeds or fails. (Hannabarger, et al., 2007)

Source: adapted from *Kaplan & Norton* (1996)

Figure 0-3 Vision and Staregy of BSC

1. Customer scorecard

   Measures your customers's satisfaction and their performance requirements for your organization and what it delivers, wheter it be products or services

2. Financial scorecard

   Tracks your financial requirements and performance.

3. Internal Business Process scorecarrd

   Measures your critical-to-custom process requirements and measures

4. Knowledge, Education, and Growth scorecard

   Focuses on how you train and educate your employees, gain and capture your knowledge, and how you use it to maintain a competitive edge whitin your markets.

2.4.2 Barriers of Balanced Scorecard

According to the Balanced Scorecard Collaborative (Evans, 2002), there are four barriers to strategic implementation:

1. Vision Barrier – No one in the organization understands the strategies of the organization.
2. People Barrier – Most people have objectives that are not linked to the strategy of the organization.
3. Resource Barrier – Time, energy, and money are not allocated to those things that are critical to the organization. For example, budgets are not linked to strategy, resulting in wasted resources.
4. Management Barrier – Management spends too little time on strategy and too much time on short-term tactical decision-making.

2.5   Performance Management

Every company needs to care about their employee. They need to know how the employees' work. Not every employees can do their job well. That's why performance management is needed. Performance management has gained more attention recently due to high competitive business environment.

Performance management is a critical and neccessary component for individual and organizational effectiveness. Performance management is a process needed for improvement to occur. So there must be assessment and feedback to focus our effort to improve. (Cardy and Leonard, 2015: 3). Organisation use performance management to drive behaviours from the employees to get specific outcomes

According to Brumbach (1998) performance management is a process for establishing a shared understanding about what is to be achieved, and how it is to be achived; an approach to managing people which increases the probability of achieving job-related success.

We can conclude that performance management is a process of managing the performance of the employee to achieve the goals that is already set.

2.5.1 Effective Implementation of Performance Management

There are six steps of effective implementation of Performance Management based on Effective Implementation of Performance Management journal. (Mucha, 2011). There are :

a Make the Case for Performance Management

Performance management is a best practice, jurisdictions need to communicate the specific reasons why the organization needs performance management to appointed and elected leaders. this is the only way to achieve commitment. Ultimately, these key stakeholders will need to support the change, or perhaps drive it, so they have to be working toward the same goal – in most cases, an improved organization. Very few efforts succeed without the support of top leadership.

b Identify how performance information will be used

The next step is implementing performance management is not to define performance measures. Long before organizations identify what to measure, they need to determine what performance management will be used for and what the organization is trying to accomplish. Organizations use performance management as part of strategic planning, budgeting, and managing existing personnel, resources, and external relationships and more. Determining the goals of any performance management effort is an essential first step.

c Modify existing processes or create new processes to accomodate performance information.

The third step in implementing performance management is also not to define performance measures. After defining goals for the performance management system, governments need to evaluate specifically how performance management information will be included in business processes to support decision making. The performance management effort should be linked to changes in the existing business process, it is not enough to simply add the performance information on top.

d Develop measures that are appropriate for the situation

Most performance management practitioners differentiate between "output" performance measures and "outcome" performance measure. In general, output measures focus on information related to levels of production. For

example, the number of clients served in a job training program, the number of clients served in a job training program, the number of emergency response calls, and the number of immunizations delivered are output measures. Outcome measures ideally focus on the true result of the service, for example, the percentage of participant in a job training program who reveive and keep employment, the amount of property damage or lives lost in emergencies would be considered outcome measures. While most people think it is better to track outcome measures than output measure, this is not universally true. The information tracked should match the situation to which it is applied. The public is probably more interested in outcome measures to evaluate the overall effectiveness of programs and services, but department managers who manage employee workloads or track efficiency in the department managers might be more interested in output measure. Performance information provides the answer to key questions.

e Focus on change management

Change management refers to developing an approach to managing the people side of the project. Every change inevitably faces some level of resistance. Change management provides a plan for recognizing that resistance, along with other risks to the project, and simplify their effects. Successful change management process include the following steps:

1. Assess the organization's capacity for change
2. Assess implementation risks
3. Assign responsibility for addressing change management
4. Establish a process for cummunication
5. Provide coaching and individual attention to participants
6. Manage resistance by identifying areas of concern and developing specific to target those concerns
7. Celebrate and communicate success

f Evaluate your success and revise your approach

Implementation of performance management in any government is an evolving process. No one establishes the perfect approach on the first attempt, nor would it be feasible for any organization to change that quickly, even if a perfect approach were designed. As staff competencies build, and as the culture of the organization changes to one that demands performance

information to support decisions, organizations should reassess efforts and identify ways to improve. Just as performance measures will be designed to provide feedback on government services, similar feedback should be evaluated on the performance management efforts.

2.6   Performance Appraisal

Performance appraisal is a part of performance management to measure the employees' work. Both performance management and performance appraisal entail setting performance targets, reviewing the achievement of targets and help the employee to meet the target.

Based on Harvard Business Essential, "Performance Management" book, Performance Appraisal is a formal method for assessing how well an individual employee is doing with respect to assigned goals. Longenecker (1997, in Ochoti et.al 2012) describes performance appraisal as the way for organizations to boost employee's motivation and hone their competitive edge.

Another definition of Performance appraisal is defined by Snell & Bohlander (2004:362) as a process, typically performed annually by a supervisor for a subordinate, designed to help employees understand their roles, objectives, expectations, and performance success.

According to Randhawa, Gurpreet (2007), in the book Human Resource Management, Performance Appraisal refers to determine what areas of job the manager should be examining when measuring performance.

So based on definitions above, performance appraisal is continual process to assessing the employee's progress when carrying an action to achive the goals.

2.6.1 The Purpose of Performance Appraisal

There are 3 purposes of Performance Appraisal based on Employee's Performance Appraisal System by P.B.S Kumar:

1. To improve the performance by identifying the weaknesses and strengths of individuals.
2. To set salary and promotion decisions on past performance
3. To identify the potential of the employees.

2.6.2 The Process of Performance Appraisal
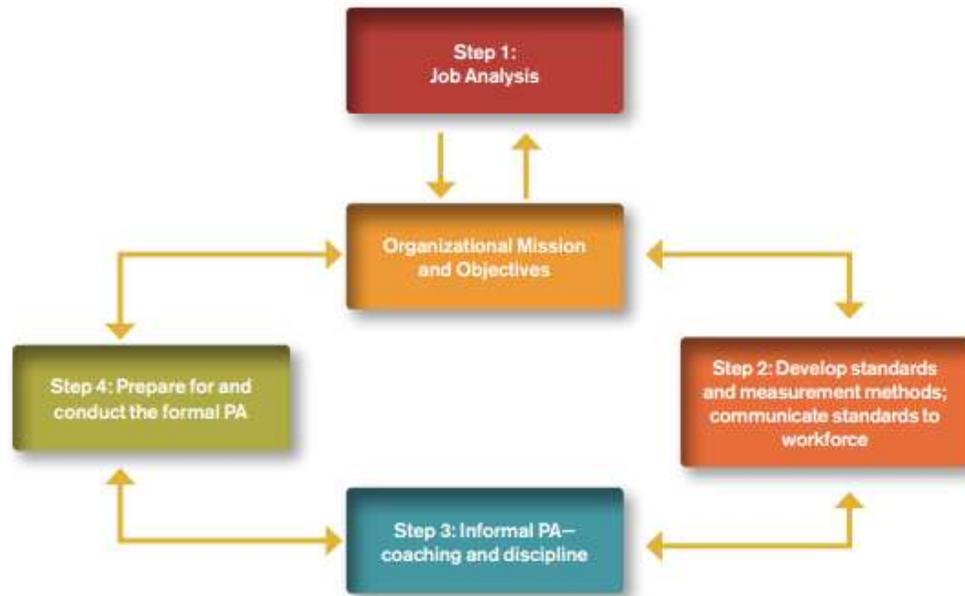
Figure 0-4 The Process of Performance Appraisal

(Source: Lussier, Robert N; Hendon, John R. (2012) *Human Resources Management* : 286)

- Step 1 : Job Analysis

  Job analysis is a process of collecting information about a job. Before we start performance appraisal we should know the job of the empolyee first. We should know that the job must be based on the organisational mission and objectives, the department and the job itself.

- Step 2 : Develop standarts and measurements methods

  The formal performance appraisal involves the use of standard form developed by the Human Resources Department to measure employee performance. Employees need to know the standards what good performance looks like, and they need to be able to measure their own performance.

- Step 3 : Informal performance appraisal coaching and discipline

  Performance appraisal is an ongoing process. People need regular feedback on their performance to know how they are doing. So, the employee know if their work is good or bad, so they can perform better in the future.

- Step 4 : Prepare for performance conduct and the formal performance appraisal

    The common pratice is to have a formal performance review with the supervisor once or twice a year.

    (Robert N dan John R, 2012:286)

2.6.3 Performance Appraisal methods

There are numerous methods to measure the quantity and quality of job performance. All the approaches to appraisal can be classified into past-oriented methods and future-oriented methods.
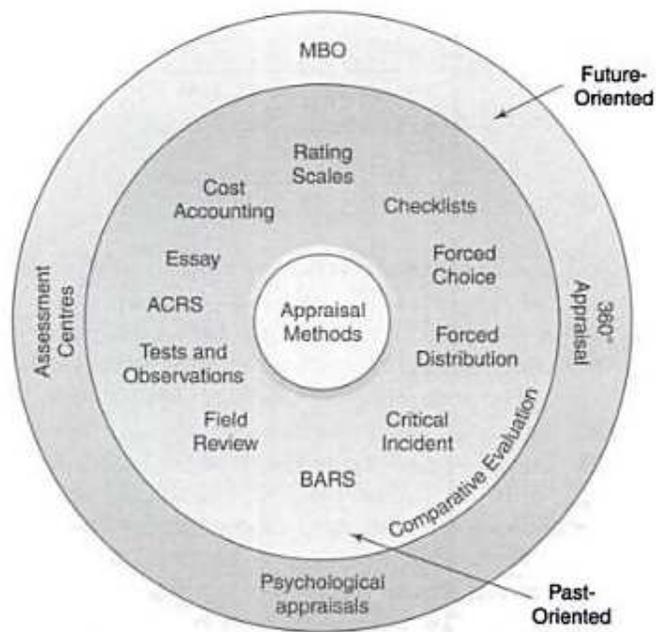
Figure 0-5 Performance Appraisal Methods

(Source: Aswathappa, 2007,p 242)

2.6.3.1 Post Oriented Methods

a. Rating Scales

    The simplest and most popular techniques for appraising employee performance. This system consist of several numerical scales, each representing a job-related performance criterion such as dependability, initiative, output, attendance, attitude, co-operation, and others. Each scale range from excellent to poor.

b. Checklist

This method is about a checklist of statements on the traits of the employee and his job is prepared in two columns, 'yes' column and 'no' column. The rater or the supervisor should do is to toc the 'yes' column if the statement is positive and 'no' column if the answer is negative. At the end, the HR department will do the score.

c. Forced Choice Method

In this method, the supervisor or the rater will be given a seris of statements about an employee. These statements are arranged in blocks of two or more, and the rater indicates which statement is most or least descriptive of the employee.

d. Forced Distribution Method

The forced distribution method seeks to overcome the problem by compelling the rater to distibute the rates on all points on the rating scale. This method operates under an assumption that employee performance level conforms to a normal statistical distibution.

e. Critical Incidents Methods

This method has generated a lot of interest these days. This method focus on certain critical behaviours of an employee that make all the difference betweet effective and non-effective performance of a job.

f. Behaviourally Anchored Rating Scales

Behaviourally Anchored Rating Scales are rating scales whose scale points are determined by statements of effective and ineffective behaviours. The rater or the supervisor need to indicate which behaviour on each scale best describes an employee's performance

g. Field report method

This method is done by people outside the department, usually someone from the corporate office or the HR department. The outsider reviews employee records and holds interviews with the rater or their supervisor.

h. Performance tests and observation

Employee assessment may be based upon a test of knowledge or skills. This method is used to measure potential more than actual performance.

i.   Confidential records

This method is maintained mostly in government departments. This system was highly secretive and confidential.

j. Essay method

In this method, rater or supervisor must describe the employee whitin a number of broad categories, such as, the overall impression of the employee's performace, the promotability of the employee, the jobs that the employee is now able to perform, the strengths and weaknesses of the employee, and the training that the employee need.

(Aswathappa, 2007:243-248)

2.6.3.2 Future-oriented appraisals

a. Management by Objectives

This method is when the supervisor and the employee decide the outcome to be achieved. The goals is used to evaluate employee performance.

b. Psychological Appraisals

This method use Psychologist for evaluations, they assess an individual's future potential and not past performance. The appraisal normally consists of in-depth interviews, psychological tests, discussions with supervisors and review of other evaluations.

c. Assessment centres

This method is now being used for evaluating executive or supervisory potential. An assessment center is a central location where managers may come together to have their participation in job-related exercises evaluated by trained observers.

d. 360-degree feedback

The 360 degree technique is a systematic collection of performance data on an individual or group, derived from a number of stakeholders. '360' refers to 360 degrees in a circle, so the person will assess themselves and also will get the assessment from all stakeholders around him.

(Aswathappa, 2007:248-255)

2.7 Key Performance Indicator

The role of Key Performance Indicator or KPI is important. Many company use KPI to measure the employees's work to achieve their target. KPI is defined as

the primary measure which would provide a snapshot of the performance of an asset, systems, departments, branches or companies within a particular performance area (Mather, 2006).

According to Bruce Clay, KPI can help organisations achieve organisational goals through the definition and measurement of progress. The key indicators are agreed upon by an organisation and are indicators which can be measured that will reflect success factors. Warren (2012:5) also explain KPI is a measurement which evaluates how a company execute its strategic vision.

Griffin (2004) pointed out that there should be a direct link from KPIs to goals, from goals to objectives and from objectives to strategies. Whatever KPI are selected, they must reflect the organisation's goals, the KPI must be the key to its success and they must be measurable. KPI ususally are long-term consideration. KPI can be a number or a ratio.

Hursman (2010) defined the five criteria for effective KPIs:

- Specific
- Measurable
- Attainable
- Relevant
- Time bond

So, KPI is a tool that help the company to measure how successful they are in accomplishing the goals. The data that must be used supposed to be the valid data. Before the KPI is done, the company needs to set the target that they want to achieve so they can focus on the target only.

2.7.1 The function of KPI

The two functions from KPI according to Velimirovic and Sankovic (2010) are:

- Developing and guiding function because the present a base for formulating and implementation of the strategy of the organisation
- Motivation function : induce management to fulfill goals and motivate all stakeeholders to realize those goals and on even higher level. (Pesalj 2006; Stamatovic & Zakic, 2010)

2.7.2 The categories of KPIS

Lind, Andersson, Bergstrom (2008) categorize KPI into 4 part :

- Quantitative KPIs

  Quantitative KPIs are set up to reach financial targets, such as cash reserves, head count, and financial risk limits

- Qualitative KPIs

  Qualitative KPIs are used to measure non-quantitative targets that will improve behaviour of the organisation

- Directional KPIs

  Directional KPIs are used to reach more ambitious or different target that previous, example when changing the group's strategy or objective

- Actionable KPIs

  Actionable KPIs promote rapid and focused change usually during a limited period of rime such as system implementation or a company merger.

2.8   Framework

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