

# CHAPTER I

## INTRODUCTION

### 1.1. Background of the Study

Nowadays, the competition among all industries is getting tougher and more complicated than before. Every company strives to organize its business in the best way and to always survive and stay competitive. Every company must know how exactly it's performance's level is. Performance measurement ensures the managers that all inputs are effective and efficient in order to reach the goals of the company. Traditional measurement system that has already been used by most companies in the past decades only measured a company's achievements from its financial perspective. It makes the manager have only a short-term orientation and ignore other existing factors. Consequently, financial result was usually for a short period because it was not supported by other aspects needed to build a competent business company. Even financial measures have a significant role but they fail to provide an adequate guidance for the action to be taken today and the day after to create future financial value. That's way manager needs a performance measurement system that is up to date and which fits the company's environment in order to achieve the company's goals. Moreover, this system lack of the way to provide the appropriate information needed by the manager to appraise and manage the competence into a competitive superiority. For a number of years, many companies assessed their performance based on their mere financial measures.

The leading business indicators of the performance of a business can not merely be in the form of financial data. Quality, customer satisfaction, innovation, and market share, in fact, often reflect a company's economic condition and growth prospects better than its reported earning does. Traditional approach is no longer appropriate. The rapid change in business requires a performance measurement system which is be more responsive to any circumstance faced in aligning and communicating the strategy the company has planned to achieve its vision. Hence, financial measures alone do not provide a true and fair view of how the business develops. Profit is a good measure, but it does not show how an operation is managed. More and more managements are changing their company's performance measures system to track the non-financial measures and reinforce some new competitive strategies. To address that concern, the manager should nominate several non measurement (customer, internal business process and growth and learning ) to serve as leading indicator of business's perspective.

Every company will have its own key measures and distinctive process for implementing the change. However, making it happen will always requires conceptual preparation, perseverance and the conviction of the CEO that must be carried through when one leading company can demonstrate the longterm advance of its superior performance non-financial measure. Basically, no single measurement can provide a clear performance target or focused attention on the area of a business. Balanced Scorecard (BSC) is an alternative method which combine financial and non-financial measures. Balanced Scorecard is not a replacement for financial measures. It is their complement. It means that Balanced Scorecard is supplement traditional financial

measures with criteria that measured performance form to addition perspectives.<sup>1</sup> After designing whole process of Balanced Scorecard, a company must consider which one should be priority improved because it is not impossible take a high cost for one perspective performance. Here, data of Balanced Scorecard be a supporting data to implement the Objective Matrix. Objective Matrix is particularly appropriate to basic work units, although it can also represent a complete organization. Step by step company improves the performance and the researcher offer the Objective Matrix as a solution chosen to knowing which is perspective to be improved first and tried to visualize those process with the help of Objective Matrix (OMAX) to evaluate the company performance in order to make a company's decision.

Realizing the importance of company's performance, the research will place a particular emphasis on the perspectives and ways to make an advance using Objective Matrix in practice. Regarding many benefits and urgency of evaluating a Objective Matrix to make an company's improvement of performance, the researcher would arrange such a research. The research is named as **“ THE EVALUATION OF COMPANY PERFORMANCE THROUGH IMPLEMENTING OBJECTIVE MATRIX ( A CASE STUDY IN ELITE - PRESTIGE FURNITURE, JOGJAKARTA ) ”**.

## **1.2. Problem Identification**

Many companies already have their performance measurement system that incorporate financial and non-financial measures but they still use it only for tactical

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<sup>1</sup> Kaplan, Robert S. and Norton, David P. (1996). Using The Balanced Scorecard as a Strategies management System. Harvard Business Review, January-February.

feedback and for controlling the short-term operations. The manager might understand that an interest in short-term performance cannot be used to set up a better performance of the company. Balanced Scorecard clearly reveals the value drivers for superior long-term financial and competitive performance. From the point of view, the researcher realizes the importance of financial and non-financial measures in accordance with company performance result. Hence, the focus of this research is to evaluate the company performance of ELITE - Prestige Furniture using Objective Matrix.

### **1.3. Problem Formulation**

The problems to be analyzed are formulated as follows :

1. What kinds of performance is owned by ELITE - Prestige Furniture when the company's performance is analyzed using Objective Matrix?
2. Does Objective Matrix give a better result in increasing the company's performance?

### **1.4. Problem Limitation**

The research is limited to the followings :

1. The research focuses on ELITE - Prestige Furniture, Jogjakarta.
2. The research focuses on evaluating the company's performance by implementing Objective Matrix (OMAX).
3. The research deals with four perspective : financial, customer, internal business process and growth and learning.

### **1.5. Research Objective**

The researcher does this observation in order this observation in order to meet the following objectives:

1. To gain a complete information of company performance,
2. To evaluate the effectiveness of Objective Matrix implementation in achieving the organization's objective.
3. To achieve a comprehensive understanding on the execution of Objective Matrix in ELITE - Prestige Furniture.
4. To evaluate the research findings in the real application using Objective Matrix and to compare them with the theory.

### **1.6. Research Contribution**

This research may derive such benefits that would be explained below :

1. To the researcher, this observation may give knowledge and enriched the scientific experience on how to conduct Objective Matrix in the real application.
2. To the company, this observation may obtain the information whether or not they have already applied performance measurement system appropriately. If not, the company may take some corrective action in the future if needed.
3. The research may also contribute such knowledge to other researchers who are interested in this subject and could also give a comparative mindset between the real application of Objective Matrix Model and the existing measurement system.

### 1.7. Definition of Terms

1. A Performance Measurement is an information system that a manager uses to track business strategy or setting business goals together units with periodic feedback respons.
2. Performance driver is a variable that either influence the probability of succesfully implementing the strategy / provide the largest potential for marginal gain over time.
3. Scorecard is a balance between objective, easily quantified outcome measures and objective, somewhat jugmental, performance drivers of the outcomes measures.
4. Balanced Scorecard is a comprehensive measurement that measures financial and non-financial aspect.
5. Productivity is the measure of how specified resources are manage to accomplish timely objectives stated in terms of quantity and quality.
6. Objective Matrix (OMAX) is a partial productivity measurement system which is developed to monitor the productivity of each part in order to achieve the current objectives.
7. Case Study is a set of real application learning. The researcher conducts the observation directly on the field and get involved with the real subject to obtain data needed.