



UNIVERSITAS INDONESIA

**BALANCED SCORECARD AS AN ALTERNATIVE
PERFORMANCE MANAGEMENT TOOLS:
BANK X CASE STUDY**

THESIS

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**FACULTY OF ECONOMICS
MASTER OF MANAGEMENT PROGRAM
JAKARTA
JUNE 2011**



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**Submitted to fulfill one of the requirements to obtain degree of Master of
Management**

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MASTER OF MANAGEMENT PROGRAM
MM – MBA PROGRAM
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STATEMENT OF ORIGINALITY

This final paper represents my own effort, any idea or excerpt from other writers in this final paper, either in form of publication or in other form of publication, if any have been acknowledge in this paper in accordance to the academic standard or reference procedures

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PREFACE

Alhamdulillah, all praise and gratitude the writer turning to the presence of God Almighty for all the abundance of His blessing and grace so the writer can finish this thesis on time. The thesis is submitted to fulfill one of the requirements to obtain degree of Master of Management at Universitas Indonesia. The writer realizes that the results achieved so far cannot be separated from the help and support from various parties. Therefore, on this occasion the writer would like to express appreciation and gratitude as much as possible to:

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The writer is fully aware that this thesis is far from perfect. Constructive critics, suggestions, and recommendations would cover the knowledge's constraint reflected in this thesis. Hopefully, this thesis provides benefits for the development of science.

Jakarta, June 2011
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ABSTRACT

Name : Artyanto Sutoyo
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Title : Balanced Scorecard as an Alternative Performance Management Tool: Bank X case study

The objective of this research is to design the Balanced Scorecard as an alternative of performance measurement tool to support the company's mission, vision, and strategy to achieve long term competitive strategy. The research was performed with descriptive comparative approach which using the literatures, articles, and references related to Balanced Scorecard, and primary information from the company's financial reports, sales reports, Key Performance Indicators reports, Monthly Performance Review presentation and minutes of meetings, company's survey result, and other internal reports. The measurement of this research is based on four perspective which are financial, customer, internal process, and learning and growth. Based on the analysis, the current performance measurement system in Bank X is more focus on financial perspective. To achieve its long term objective plan, Bank X should consider the other three perspectives of the Balanced Scorecard to get the overall picture of the company. To ensure the four perspective of the Balanced Scorecard work as planned, Bank X should use the Balanced Scorecard as a performance management tool which links to management performance bonus and incentive, and should be reviewed periodically. However this research does not further discuss about the management's performance bonus and incentive scheme based on Balanced Scorecard. Lastly, the strategy map should be cascaded to all business unit and support function to get synergy and alignment.

Key Word:

Balanced Scorecard, strategy, performance management

ABSTRAK

Nama : Artyanto Sutoyo
Study Program : Magister Manajemen - *Master of Business Administration*
Judul : *Balanced Scorecard* Sebagai Alternatif Alat Pengukuran Kinerja Manajemen : Studi Kasus Bank X

Tujuan dari penelitian ini untuk merancang *Balanced Scorecard* sebagai alternatif alat pengukuran kinerja manajemen untuk mendukung misi, visi, dan strategi perusahaan dalam rangka mencapai strategi kompetisi jangka panjang. Penelitian ini dilakukan dengan cara komparasi deskriptif dengan menggunakan literature, artikel, dan referensi yang berhubungan dengan *Balanced Scorecard* dan informasi primer dari laporan keuangan perusahaan, laporan penjualan, laporan *Key Performance Indicator (KPI)*, presentasi review kinerja bulanan dan notulen, hasil survei yang dilakukan oleh perusahaan, dan laporan internal lainnya. Pengukuran dari penelitian ini berdasarkan empat perspektif yaitu keuangan, nasabah, proses bisnis internal, dan pembelajaran dan pertumbuhan. Berdasarkan analisis sistem pengukuran yang ada sekarang lebih fokus kepada perspektif keuangan. Untuk mencapai tujuan obyektif jangka panjang, Bank X harus memasukkan tiga perspektif *Balanced Scorecard* lainnya untuk melihat gambaran perusahaan secara keseluruhan. Untuk memastikan keempat perspektif *Balanced Scorecard* berjalan sesuai rencana, Bank X sebaiknya menggunakan pengukuran kinerja dengan menggunakan *Balanced Scorecard* dikaitkan dengan bonus manajemen dan skema insentif, dan harus di monitor secara berkala. Tetapi pada analisis ini tidak dibahas lebih jauh mengenai perhitungan bonus kinerja manajemen dan skema insentif berdasarkan *Balanced Scorecard*. Pada akhirnya, *strategy map* harus diturunkan ke semua unit bisnis dan pendukung untuk mendapatkan sinergi dan penyesuaian antar divisi.

Kata Kunci:

Balanced Scorecard, strategi, pengukuran kinerja

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CHAPTER 1

INTRODUCTION

1.1 Research Background

Banking sector is a very competitive industry in Indonesia. Based on Bank Indonesia Banking sector recapitulation on May 2010 (www.bi.go.id), the industry listed 122 conventional Banks which consists of State Owned Banks, Private Banks, Foreign Banks, and Regional Developments Banks. Not only very competitive, banking industry also recognized as one of the highly regulated industry. The tight competition is shown by the similarities of products and services that being offered from one bank to another. So in order to win the competition and to get customer loyalty, each bank has to increase its capability to provide the best service in the market.

Currently banks in Indonesia are moving from bricks and mortars to electronic channel such as ATM, Internet Banking, SMS Banking and Telephone Banking. Based on 2010 1st semester report on the Indonesian top 10 banks performance, in order to serve and fulfill their customers' needs, the top banks e.g. Mandiri, BRI, and BCA have already been implemented all the electronic channels such as Internet Banking, SMS Banking and Telephone Banking and supported with huge distribution network from ATM's and branches. So it is not coincidence that based on the same reports, 40% of total third party deposits are lies in these banks.

Based on the Bank Service Excellence survey conducted by Marketing Research Indonesia (MRI), the customer experience from the bank is build by two factors; first is walk-in channel which is the branch and secondly the electronic channel which include ATM, and other electronic channel. The weight of the survey was heavy on the walk- in channel (85%), which shows that customer experience is very much determined by the services provided by the bank's front liner, teller,

customer service, and also the convenience within the branch itself. This opens up an opportunity for small and medium size banks in particular to win customer loyalty. Having a huge network is not the only factor to win customers and grab market share. Providing high level of services and satisfaction to customers in branch is one of the key in winning the competition.

The subject of this thesis is Bank X, a national private bank and listed in Jakarta Stock Exchange. For this purpose, Bank X is categorized as medium size bank, measured by end of 2010 current network where the bank has ~470 conventional branches, ~1,000 ATMs and 1,319 micro outlets across Indonesia. To stay competitive with the “Big Boys” and maintain its competitive advantage, Bank X needs to increase its capability to provide excellent service which equally applied to all distribution networks across Indonesia.

Bank X mission is to be "The Leading Financial Institution in Indonesia" with a significant market presence. To achieve this mission the top management has set up a long and medium term strategy, which later translated into short term strategy on yearly basis. To be the leading financial institution in Indonesia is not an easy task. The management needs to align this strategy to all units in organization.

To help the management to ensure that all strategies are in place and being able to be pushed down to all level in Bank X, a standard management performance measurement is crucial. In this thesis, the writer will introduce the concept of performance management based on Balance Scorecard as an alternative that can be applied as a standard measurement across the Bank. This thesis will analyze how performance management based on Balanced Scorecard will help Bank X to be more productive and efficient in providing service excellence to customers and by the end of the day will increase the market share and profitability.

1.2. Problem Identification

Each segment performance of Bank X is aggregated to the corporate level which represents the performance of the Bank wide as a whole. This performance is influenced by both external and internal factors. External factors such as political condition, government regulation, heavy competition especially many foreign banks has entered the Indonesian market, customer preference, technology, etc. and also internal factors such as standard operating procedures, internal policies, and company's strategy.

Currently Bank X is focus heavily on financial side. All business segments were given a yearly target from the head office based on top management target and decision. On monthly basis there will be a monthly performance review by comparing the actual results with the target (budget). This approach is more focus on the lagging indicators, only focus on the "after the fact" condition without really focusing on the other non-financial perspective.

It is very important that the strategy of the Bank is not only based on one perspective only but also consider the other perspectives. To make sure the strategy is align from management level to all units in the Bank down to customer service and teller, it is very crucial for management to implement a standard performance measurement to both business and support unit in Bank X.

1.3. The Objective of the Research

The objectives of the research are:

1. To evaluate the current measurement system implemented in Bank X.
2. To design a measurement system in Bank X using Balanced Scorecard approach that in line with the company's mission and vision to achieve the company's long term objective.

3. To identify what is required if management would like to implement the Balanced Scorecard approach.
4. Create a synergy and alignment across division in Bank X, which involve business and support units in order to achieve overall company's objectives.

1.4. Methodology

- **Explanatory Research**
The research method will use an observation in Bank "X", analyzing relevant data and information related to current performance measurement and its effectiveness and comparing with Balanced Scorecard approach with reference to literatures and journals.
- **Data collection**
To support this research the data is collected from primary information which is from the internal company such as financial reports, Key Performance Indicators reports, Monthly Performance Review presentation and minutes of meetings, survey result that was conducted by the company, etc.
- **Secondary information** such as books, journal, literatures, newspaper or magazines article and from the World Wide Web.

1.5. Benefits of the Research

The benefits of this research are:

1. For the management of the company
With implementation of Balanced Scorecard as a performance management tool, the top management can see the whole business from the financial and non financial perspective. With the full picture on hand, the management decision making process to achieve long term value creation will be optimum.

2. For the Industry

This thesis can be reference for other banks if they want to implement the Balanced Scorecard as their performance measurement tools by using the four perspectives which are financial, customer, internal business process and learning and growth perspective.

1.6. Thesis Outline

This thesis will be categorized into 5 chapters:

Chapter 1 : Introduction

The preliminary of this thesis that consist of backgrounds, problem statement, objective, and research methodology.

Chapter 2 : Literature Review

The theoretical fundamental is all the references about Balanced Scorecard that is used in this thesis.

Chapter 3 : Company Profile

This chapter will discuss briefly about the company's history, vision, and mission, organization structure, human resources, products and services, distribution network, technology, information system, company's business development and current performance measurements.

Chapter 4 : Analysis and Discussion

This chapter will first discuss industry analysis and its risk to Bank X performance based on Porter's five forces, and the SWOT analysis to identify Bank X strength and weaknesses based with Balanced Scorecard metrics, Bank X strategy and key success factor in winning the competition, and how the four perspective in

the Balanced Scorecard will help Bank X to achieve its long term competitive strategy.

Chapter 5 : Conclusion and Recommendation

This chapter is the conclusion of the analysis on the previous chapter. How the indicators from this research and analysis will help Bank X to use effective performance management system to build a long term value creation.





CHAPTER 2 LITERATURE REVIEW

2.1. Organization Mission, Values, Vision, and Strategy

Organizations today is operating in a very competitive environment, therefore it is essential for organization to devote significant time, energy, human and financial resources and measuring their performance to achieve its strategic goals. Strategic goals are statements of what the organization wants to achieve over the period of the strategic plan (e.g. one year, five years, ten years and so on). It reflects the analysis that starts with creating a mission and vision statement, and then the organization analysis for the environment, strengths, weaknesses, opportunities and threats where it operates. The components of an effective Balanced Scorecard are the organization's mission, core values, vision, and strategy.

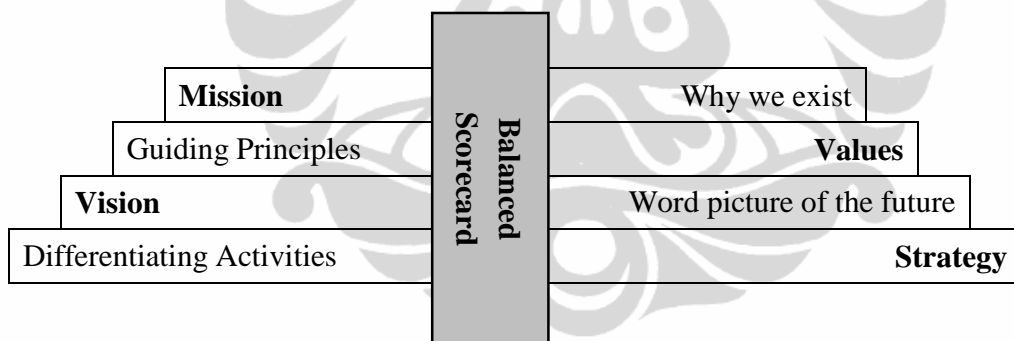


Figure 2.1 The Balanced Scorecard Translates Mission, Values, Vision, and Strategy

Source: Paul R. Niven (2002)

2.1.1. Mission Statement

A mission statement defines the core purpose of the organization—why it exists. The mission examines the reason for existence of an organization beyond simply increasing shareholder wealth, and reflects employee's motivations for engaging in the company's work.

Based on Niven (2002) there are three effective mission statements:

- Inspire change. The company's mission should inspire great change within the organization. It should drive the organization forward, stimulating change and positive growth.
- Long-term in nature. Mission statements should not be for short term period.
- Easily understood and communicated. A compelling and memorable mission is one that reaches the employee, speaks and motivates the employee to serve the organization's purpose.

2.1.2. Values

Competitive advantage can be derived from any number of sources in today's organizations. Superior strategies, innovative products, and exemplary customer service are just some of the many ways in which organizations seek to compete. But for some organizations it is the way they behave that makes the difference and provides the source of their strength. Values are the timeless principles that guide an organization. They represent beliefs within the organization and demonstrated in day-to-day behaviors of all employees. An organization's values make an open proclamation about how it expects everyone to behave. Collins and Porras (1997) suggested that visionary organizations decide for themselves what values to hold, independent of the current environment, competitive requirements, or management fads.

2.1.3. Vision Statement

A vision statement is an aspiration description of what an organization would like to achieve or accomplish in the mid-term or long-term future. It is intended to serve as a clear guide for choosing current and future courses of action. A vision statement is also an inspiration and a framework of all strategic planning. Based on Niven (2006) there are six characteristics of effective vision statements:

- Concise. The very best vision statements are those that grab people's attention.
- Appeals to all stakeholders. A vision statement that focuses on one group to the detriment of others will not win lasting support in the hearts and minds of all constituencies. The vision must appeal to the stakeholders e.g. employees, shareholders, customers, and communities.
- Consistent with mission and values. A vision is a further translation of the mission and the values of underlying importance of the organization.
- Verifiable. The vision statement should be written, so that the company will know when they need to achieve it. Unlike mission and values, the vision would be expected to change because it is written for a finite period of time.
- Feasible. The vision should not be the collective dreams of senior management, but must be grounded solidly in reality.
- Inspirational. A vision represents a word picture of the desired future state of the organization. The vision must first be understandable to every conceivable audience.

The vision has to balance the interests of all groups and portray a future that will lead to wins for everyone involved. The Balanced Scorecard is the mechanism that can be used to track the company's achievement. The principal of the Balanced Scorecard is balance, and more accurately using measurement to capture the correct

balance of skills, processes, and customer requirements that lead to the company's desired financial future as reflected in the vision.

2.1.4. Strategy

Johnson et al. (2008) define strategy as the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations. Strategy is the trigger of Balanced Scorecard framework. Niven (2002) stated there are six key principle of strategy:

- **Understanding.** To get thousands of people in a large corporation or five people on a not-for-profit board moving in the same direction, they must all understand the strategy. How can the implementers of the strategy make sense of the thousands of choices before them if they don't have a firm grasp of the strategy? Leaders must act as teachers and evangelists
- **Different activities.** Strategy is about choosing a different set of activities than the company's rivals, the pursuit of which leads to a unique and valuable position in the market
- **Trade-offs.** Effective strategies demand trade-offs in competition. Strategy is more about the choice of what not to do than what to do. Organizations cannot compete effectively by attempting to be everything to everybody. The entire organization must be aligned around what you choose to do and create value from that strategic position
- **Fit.** The activities chosen must fit one another for sustainable success. The company's assumptions about the business must fit one another to produce a valid theory of the business
- **Continuity.** Although major structural changes in the industry could lead to a change in strategies, generally they should not be constantly reinvented. The strategy crystallizes our thinking on basic issues such as how the

company will offer customer value and to what customers. This direction needs to be clear to both internal (employees) and external (customers).

- Various thought processes. Strategy involves conceptual as well as analytical exercises

To fulfill the above key principle the company is required to perform an external and internal analysis that includes a comprehensive assessment of its own capabilities and performance relative to competitors, as well as to industry trend. The external analysis assess the macroeconomic economic of economic growth, interest rates, currency movements, input factors prices, regulations, and general expectation of the company's role in society. A tool to assess external analysis is using Political, Economic, Social, Technology, Environment, & Legal analysis or known as PESTEL analysis. The internal analysis examines the company's own performances and capabilities.

After both external and internal analysis has been performed, the company may continue to apply SWOT analysis. The SWOT analysis indentifies the company's existing strength and weaknesses, its emerging opportunities, and the threats facing the company. In the example of Kaplan and Norton (2008) a company may structure their SWOT analysis by using BSC perspective.

The Balanced Scorecard provides the framework for an organization to move from deciding to live their strategy to doing it. The scorecard describes the strategy, breaking it down into its component parts through the objectives and measures chosen in each of the four perspectives. The Balanced Scorecard is ideally created through a shared understanding and translation of the organization's strategy into objectives, measures, targets, and initiatives in each of the four Scorecard perspectives. The translation of vision and strategy forces the executive team to specifically determine what is meant by sometimes imprecise terms contained in the strategy.

Table 2.1 SWOT Matrix Organized by Balanced Scorecard Perspective

SWOT Guidance				
	Strength	Weaknesses	Opportunities	Threats
Financial	Current Financial Performance Strength and weaknesses		Revenue growth and productivity improvement opportunities that can close the gap between current performance and the overarching financial objective	Threats to sustaining or improving financial performance; competitor threats that will influence the company's defensive strategy and clarify the extent and velocity improvement required
Customers	Existing strength and weaknesses of the company's value proposition as perceived by customers, competitors and the market		Opportunities to expand the customer base, target new markets, and improve the customer value proposition strategy as perceived by customers and their requirement	Threats from customer and competitors
Process	Strength is the company internal process where the company excel	Weakness in the company internal process and value chain	Opportunities for internal process improvement to achieve opportunities	Threats posed by internal process weakness
Growth	People, Culture, Core competencies, and strategic capabilities strength and weaknesses		Opportunities to develop culture, competencies, and capabilities to enable strategic priorities	Threats and risks to delivering on the strategy due to shortfalls in the capabilities of the people in the company, structure, competencies and culture

Source: Kaplan and Norton (2008)

2.2. Performance Measurement

A starting point for a company measurement effort should be coming from a basic question such as “What information do we need to run the business?”. Performance measures should help the organization to align daily activities to strategic objectives. Performance measures are tools to understand, manage, and

improve organization activities. Franceschini *et al.* (2007) describes that the effective performance measures allow the management to understand:

- How well the company is doing (correct process representation);
- if the company meeting their goals (identification of the goals and the reference standards);
- if the customers are satisfied (control of the process development);
- if the processes are in control (control organization effectiveness and efficiency parameters);
- if and where process improvements are necessary (identification and correction of problems)

As long as business organizations have existed, the traditional method of measurement has been financial. At the turn of the twentieth century, financial measurement innovations were critical to the success of the some companies. Financial metrics of the time were the perfect complement to the machine-like nature of the corporate entities and management. Competition was ruled by scope and economies of scale, with financial measures providing the milestones of success. Financial measures of performance have evolved, and today the concept of economic value added (EVA) is prevalent. This concept suggests that unless a firm's profit exceeds its cost of capital, it really is not creating value for its shareholders. Using EVA as a lens, it is possible to determine that despite an increase in earnings, a firm may be destroying shareholder value if the cost of capital associated with new investments is sufficiently high. Based on Niven (2002) there are some criticisms levied against the overabundant use of financial measures:

- *Not consistent with today's business realities.* Today's organizational value creating activities are not captured in the tangible, fixed assets of the firm. Instead, value rests in the ideas of people scattered throughout the firm, in customer and supplier relationships, in databases of key information, and cultures of innovation and quality. Traditional financial

measures were designed to compare previous periods based on internal standards of performance. These metrics are of little assistance in providing early indications of customer, quality, or employee problems or opportunities

- *Driving by rearview mirror.* Financial measures provide an excellent review of past performance and events in the organization or can be said financial measures is lagging indicators. They represent a logical and summary of activities of the firm in prior periods. However, this detailed financial view has no predictive power for the future. As we all know, and experience has shown, great financial results in one month, quarter, or even year are hardly to indicate of future financial performance
- *Tend to reinforce functional silos.* Financial statements are normally prepared by functional area: Individual department statements are prepared and rolled up into the business unit's numbers, which are ultimately compiled as part of the overall organizational picture. This approach is inconsistent with today's organization in which much of the work is cross functional in nature. The traditional financial measurement systems have no tools to calculate the true value or cost of these relationships
- *Sacrifice long-term thinking.* Sacrificing long-term benefit for short term financial impact. Many change programs feature severe cost cutting measures that may have a very positive impact on the organization's short-term financial statements. However, these cost reduction efforts often target the long-term value-creating activities of the firm such as research and development, associate development, and customer relationship management. This focus on short-term gains at the expense of long-term value creation may lead to sub optimization of the organization's resources

- *Financial measures are not relevant to many levels of the organization.* Financial reports by their very nature are abstractions. Abstraction in this context is defined as moving to another level, leaving certain characteristics out. When we roll up financial statements throughout the organization, that is exactly what we are doing—compiling information at a higher and higher level until it is almost unrecognizable and useless in the decision making of most managers and employees. Employees at all levels of the organization need performance data they can act on. This information must be imbued with relevance for their day-to-day activities

Financial measures are inadequate for guiding and evaluating organizations trajectories through competitive environments. They are lagging indicators that fail to capture much of the value that has been created by some managers in the most recent accounting period. The financial measures tell some but not all. Nevertheless financial statements will remain an important tool for organizations since they ultimately determine whether improvements in customer satisfaction, quality, on-time delivery, and innovation are leading to improved financial performance and wealth creation for shareholders. What we need is a method of balancing the accuracy and integrity of our financial measures with the drivers of future financial performance of the organization.

2.2.1. Lagging and Leading Measures of Performance

The Balanced Scorecard contains a mix of leading and lagging indicators. Without performance drivers, lagging indicators cannot inform the management of how the company hopes to achieve their results. Conversely, leading indicators may signal key improvements throughout the organization, but on their own, they don't reveal whether these improvements are leading to improved customer and financial results.

Table 2.2 Balanced Scorecard Lag and Lead Indicators

	Lag	Lead
Definition	<ul style="list-style-type: none"> • Measures focusing on results at the end of a time period • Normally characterizes historical performance 	<ul style="list-style-type: none"> • Measures that “drive” or lead to the performance of lag measures • Normally measures intermediate processes and activities
Examples	<ul style="list-style-type: none"> • Market Share • Sales • Employee Satisfaction 	<ul style="list-style-type: none"> • Hours spent with customer • Proposal written • Absenteeism
Advantages	<ul style="list-style-type: none"> • Normally easy to identified and captured 	<ul style="list-style-type: none"> • Predictive in nature, and allows the organization to make adjustment based on result
Issues	<ul style="list-style-type: none"> • Historical in nature • Does not reflect current activities • Lack of predictive power 	<ul style="list-style-type: none"> • May prove difficult to identify and captured • Often new measures with no history at the organization

Source: Paul R. Niven (2006)

2.2.2. Operational Steps to Develop Performance Measurement

A performance measure (or indicator) is composed of a number and a unit of measure. The number gives the management a magnitude (how much) and the unit gives the number a meaning (what). Performance measures are always tied to a representation-target. Most performance indicators may be related to the following three types:

- **Effectiveness:** a process characteristic indicating the degree to which the process output conforms to requirements
- **Efficiency:** a process characteristic indicating the degree to which the process produces the required output at minimum resource cost;

- Customer care: the degree to which the process users/customers appreciate the provided performances

To develop a performance measurement system, a proper support organization is required. Based on Franceschini *et al.* (2007) the following operational steps contribute to the organization improvement for the development of performance measurements.

Step 1: Establishing the working group which will activate the performance measurement system

Step 2 : Defining a proper terminology within the organization

In general, in addition to the classifications, indicators can be divided into five categories:

- *Input Indicators*: used to understand the human and capital resources used to produce the outputs and outcomes
- *Process Indicators*: used to understand the intermediate steps in producing a product or service
- *Output Indicators*: used to measure the product or service provided by the system or organization and delivered to customers/users
- *Outcome Indicators*: evaluate the expected, desired, or actual result(s) to which the outputs of the activities of a service or organization have an intended effect
- *Impact Indicators*: measure the direct or indirect effects or consequences resulting from achieving program goals

A second possible classification is based on the temporal moment in which measurements are performed. These types of measurements are defined below:

- *Lagging Measurements*: measure performance after the fact. Project cost performance is an example of a lagging indicator used to measure program performance

- Leading Measurements: are more predictive of future performance
- Behavioral Measurements: measure the underlying culture or attitude of the personnel or organization being measured

Step 3 : Design general criteria

- Keep the number of performance indicators to a minimum
- Process objectives must be understandable and must be developed clearly
- Determine if the cost of the performance indicator is worth the gain
- Assure that the measure is comprehensive
- Consider performing a risk evaluation
- Place greater emphasis on measuring the risk produced by the use of a particular performance indicator, both for short and long-term;
- Consider the weight of conflicting performance measures
- Develop consistent performance measures that promote teamwork
- Performance measures should be designed to maximize teamwork between different organizational elements

Step 4 : How to check performance measures

Franceschini *et al.* (2007) use SMART system for possible check and tests

- S (Specific): It should include measurement assumptions and definitions, and should be easily interpreted
- M (Measurable): It should allow for meaningful statistical analysis
- A (Attainable): The measure should be achievable, reasonable, and credible under expected conditions
- R (Realistic): It should measure fit into the organization's constraints. Is it cost-effective?
- T (Timely): Can the measurement is done in timely manner

Step 5: Benchmarking with other organizations' performance measuring systems.

The point here is to eliminate "reinvent the wheel" and, thus, save time and resources not repeating errors made by other organizations.

2.3. Balanced Scorecard

Balanced scorecard was first introduced in 1996 by Professor Robert Kaplan, from Harvard School and David Norton, consultant. They both put together a research study to evaluate and understand a new method of measuring performance. They see the common method by only rely on financial metrics measurement was not enough for the management to see what's going on in the company. The financial metrics needs to be balanced by non financial perspective. The method of Balanced Scorecard is actually offering the management to see the performance measurement based on these two perspectives. Not only measurement system, Balanced Scorecard also translates the company's strategy to actionable and measurable objectives that can be executed in all level of organization.

Balanced Scorecard is focused on uncovering the main non-financial drivers of the organization. Balanced Scorecard will show the management a way to make strategy actionable. And this is not something permanent and written in stone, Balanced Scorecard framework can be updated and creates a renewable methodology and framework. Balance Scorecard is also a tool for the management to identify the main drivers of the business and provides a quick view on the company's strategic health.

A strategic planning exercise drive for aligning vision, mission, values and strategy. They also discuss items such as competencies, strength, weaknesses and opportunities, and threats (SWOT). This analysis is important to ensure that all elements of the business are incorporated into strategic plan in the marketplace. Balanced Scorecard is a methodology to solve challenges in balancing the theories with its execution. The key word here is "balanced". In some companies management is only focus on financial aspects. Every year a company/ organization will set up a target that is usually translated into yearly budget. By the years going, the performance management will only measured by comparing the actual result to

what have been budgeted at the beginning of the year. This approach will only focus on the short term, and do not see the other potential within the company.

The Balanced scorecard is a framework for integrating measures derived from strategies. While retaining financial measures of the past performance, the Balanced Scorecard introduces the driver of future financial performance. The Balanced Scorecard provides the management with comprehensive framework that translates a company's vision and strategy into a coherent set of performance management.

Traditionally most people will see a measurement is one of the tools to control behavior and to evaluate past performance. However Balanced Scorecard is design for a lot of different way. The Balanced Scorecard can be a way to articulate the strategy into the lower level of the business, to communicate strategy into the business, and to help align the individual, organizational, and cross-departmental initiatives to achieve common goal.

2.3.1.Strategy Map

In the information age, businesses must increasingly create and deploy intangible assets—for instance, customer relationships; employee skills and knowledge; information technologies; and a corporate culture that encourages innovation, problem solving, and general organizational improvements. Even though intangible assets have become major sources of competitive advantage, no tools existed to describe them and the value they can create. The main difficulty is that the value of intangible assets depends on their organizational context and a company's strategy. The value of an intangible asset such as a customer database cannot be considered separately from the organizational processes that will transform it and other assets—both intangible and tangible— into customer and financial outcomes. The value does not reside in any individual intangible asset. It arises from the entire set of assets and the strategy that links them together. To understand how organizations create value in the information age, Kaplan and Norton (1996)

developed the Balanced Scorecard, which measures a company's performance from four major perspectives: financial, customer, internal process, and learning and growth.

Strategy maps show how an organization plans to convert its various assets into desired outcomes. Companies can use the template here to develop their own strategy maps, which are based on the Balanced Scorecard. At far left, from bottom to top, the template shows how employees need certain knowledge, skills, and systems (learning and growth perspective) to innovate and build the right strategic capabilities and efficiencies (internal process perspective) so that they can deliver specific value to the market (customer perspective), which will lead to higher shareholder value (financial perspective). For the customer perspective, companies typically select one of three strategies: operational excellence, customer intimacy, or product leadership.

The best way to build strategy maps is from the top down, starting with the destination and then charting the routes that will lead there. With that information, managers can develop a strategic vision, or what the company wants to become. This vision should create a clear picture of the company's overall goal—for example, to become the profit leader in an industry. A strategy must then define the logic of how to arrive at that destination.

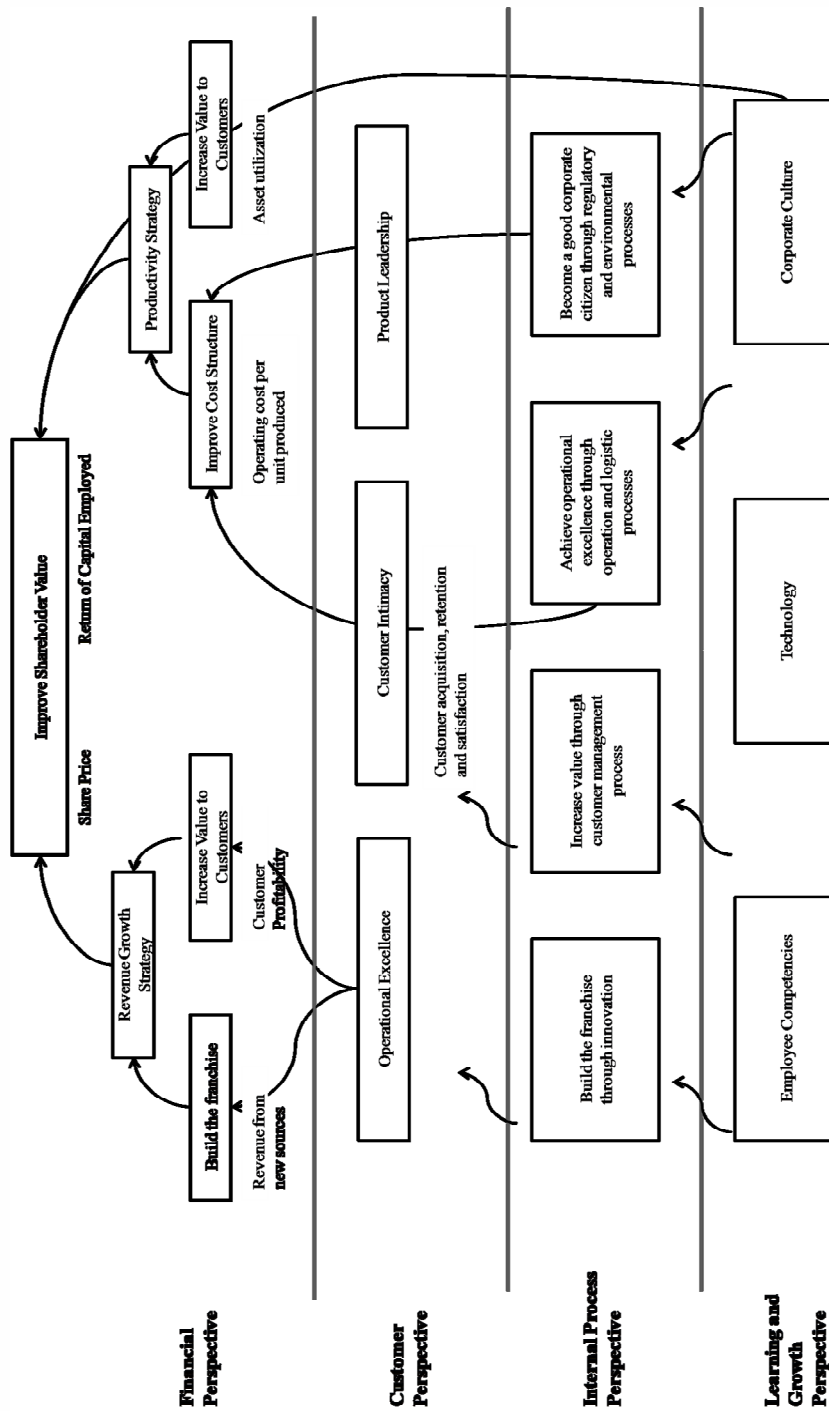


Figure 2.2 The Balanced Scorecard Strategy Map

Source: Harvard Business Review (2002)

2.3.2. Four Perspective of Balanced Scorecard

Kaplan and Norton articulated four perspectives that can guide companies as they translate into actionable items. For each of the perspective there will be strategic initiatives and plan and measurement to see how the action is being implemented.

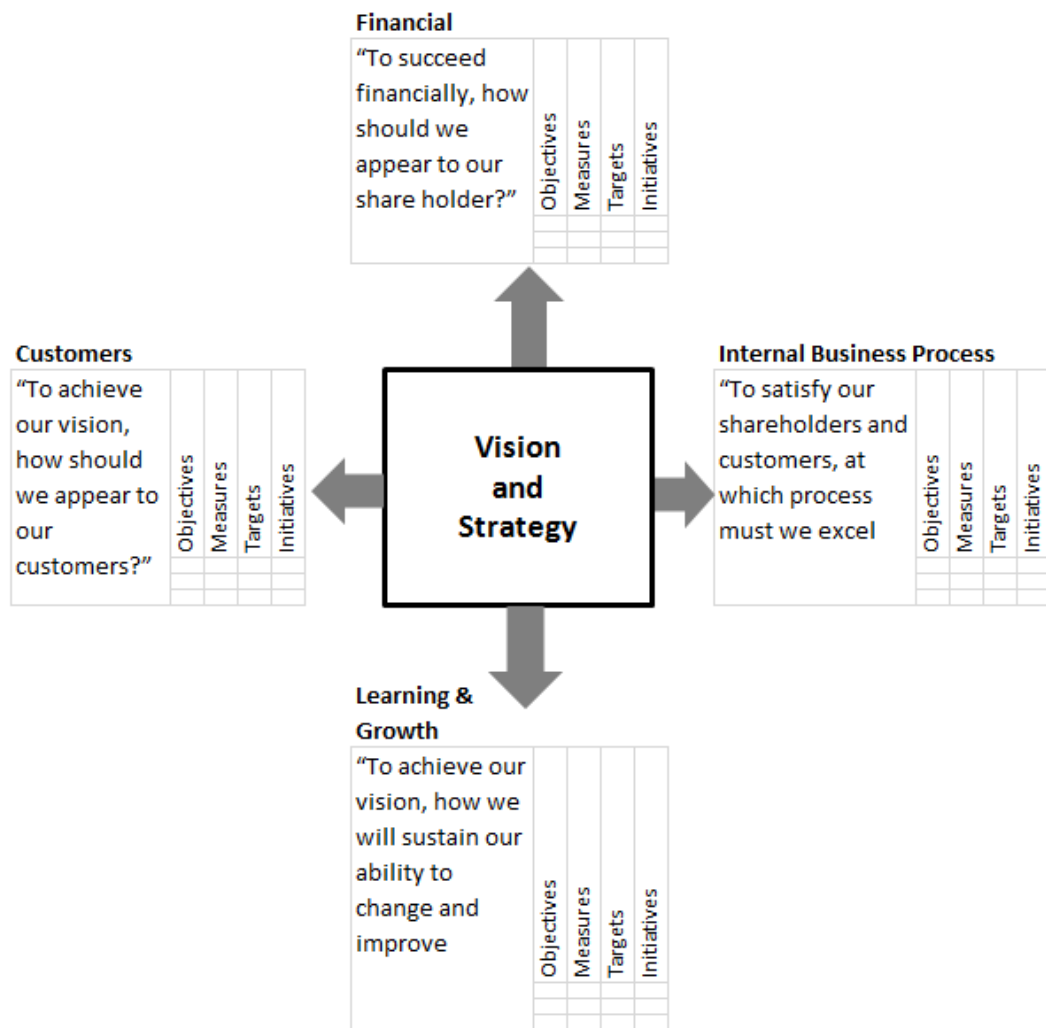


Figure 2.3 The Balanced Scorecard Model

Source : www.balancedscorecard.org, Balanced Scorecard Institute, USA

2.3.2.1. Financial Perspective

Building a Balanced Scorecard should encourage business units to link their financial objectives to corporate strategy. The financial objective serves as the focus for the objective measures in all the other scorecard perspective. Every measures selected should be part of a link of cause and effect relationship that culminate in improving financial performance. The scorecard should tell the story about the strategy, starting with the long-run financial objectives, and then linking them to the sequence of actions that must be taken with financial processes, customers, internal processes and finally employees and systems to deliver the desired long run economic performance.

Financial objective can differ considerably at each stage of a business life cycle. There are three stages to link the financial objective to business unit strategy.

- Growth Stage

Growth is the earliest cycle in the business. A company usually has product or services that a significant growth potential. To capitalize this potential a company has to seriously commit to considerable resources to develop or to enhance the product or services. Business in the growth stage may actually operate with negative cash flow and low current return on investment. The overall financial objective for growth-stage business will be percentage growth rates in revenues, and sales growth in targeted markets, customers group and regions.

Financial objective at the growth stage will emphasize in sales growth – in new markets and to new customers and from new products and services – maintaining adequate spending levels for product and process development, systems, employee capabilities, and establishment of new marketing, sales, and distribution channels.

- Sustain Stage

In the sustain stage, the company still attract for investment and reinvestment, but it is required to earn excellence returns on invested capital. In the sustain stage the business is expected to maintain and grow their market share. Investment projects will be directed more to relieving bottlenecks, expanding capacity, and enhancing continuous improvement. Most business in the sustain stage will use a financial objective related to profitability. This objective can be expressed by using measures related to accounting income, such as operating income and gross margin.

Financial objective in the sustain stage will emphasize traditional financial measurements such as ROE, Operating Income, and gross margin.

- Harvest Stage

In the harvest stage, business has reached a mature phase of their life cycle. The company is no longer doing significant investment, only enough to maintain equipment and capabilities, not to expand or build new capabilities. Any investment project must have a very definite and short pay back periods. The main goal of this stage is to maximize the cash inflow to the company.

Financial objective for the harvest stage will be stressed on cash flow. Any investment must have immediate return and certain paybacks. The focus will be more on to maximize the cash that can be returned to the company from the past investment.

For most organizations, the financial themes of increasing revenue, improving cost and productivity, enhancing assets utilization, and reducing risk can provide the necessary linkage across all the four scorecard perspective. In financial measurement most companies use ROI, ROCE, EVA or some other value based metrics as the high level financial objective. Mostly there are two basic strategies to drive company financial performance which are growth and productivity.

The revenue growth strategy focuses on developing new sources of revenue and profitability. There are two components of revenue growth:

- a. Build the franchise with revenue from new markets, new products, and new customers; and
- b. Increase value to existing customers by deepening relationships with them through expanded sales

The productivity strategy also usually has two parts:

- a. Improve the company's cost structure by reducing direct and indirect expenses, and
- b. Improve assets utilization, use assets more efficiently by reducing the working and fixed capital needed to support a given level of business

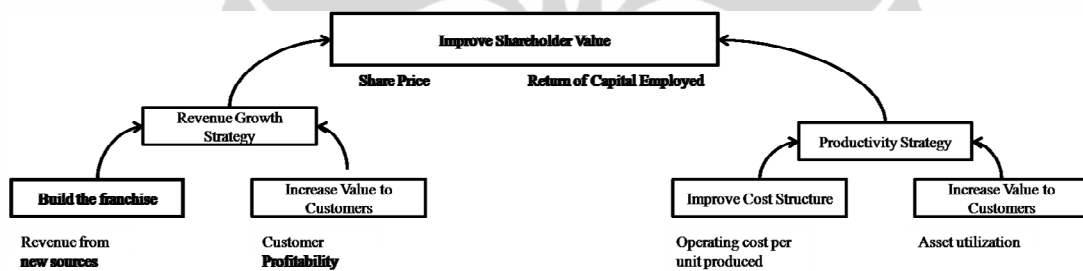


Figure 2.4 Building The Strategy Map: The Financial Perspective

Source : Kaplan and Norton (2001)

In general, the productivity strategy yields results sooner than the growth strategy. But one of the principal contributions of a strategy map is to highlight the opportunities for enhancing financial performance through revenue growth, not just by cost reduction and improved asset utilization. Also, balancing the two strategies helps to ensure that cost and asset reductions do not compromise a company's growth opportunities with customers.

2.3.2.2. Customer Perspective

The core of any business strategy is the customer value proposition, which describes the unique mix of product and service attributes, customer relations, and corporate image that a company offers. It defines how the organization will differentiate itself from competitors to attract, retain, and deepen relationships with targeted customers. The value proposition is crucial because it helps an organization connect its internal processes to improved outcomes with its customers.

In the customer perspective of the Balanced Scorecard, companies identify the customers and market segments in which they have chosen to compete. These segments represent the sources that will deliver the revenue component of the company financial objective. The customer perspective enable the company to align their core customers outcome measures – satisfaction, loyalty, retention, acquisition, and profitability – to targeted customer and market segment. The value propositions represent the driver, the lead indicators, for the core customer outcome measures.

In the past, companies only focus on their internal capabilities, emphasizing product performance and technology innovation. However this strategy may no longer work in the market. A company that did not understand their customers will eventually found that competitors are eating up their market share. So it is clear that if an organization would like to achieve long-run superior financial performance, the organization must create and deliver products and services that are valued by customers.

Customer perspective of the Balanced Scorecard translates organization's mission and strategy into specific objectives about targeted customers and market segments that can be communicated throughout the organization. Market Segmentation is a very important factor in a strategy formulation process. Using and in-depth market research should reveal the different market or customers segment, and their preference along dimension like price, quality, functionality, image, reputation, relationship and service. The company's strategy can then be defined by

those customers and market segment that the company's choose to target. The Balanced Scorecard, as a description of a company's strategy, should identify the customer objective in each targeted segment.

Kaplan and Norton (2001) stated that typically, the value proposition is chosen from among three differentiators:

a. Product Leadership

A Product leadership company pushes its products into the realm of the unknown, the untried or the highly desirable for example Apple

b. Customer Intimacy

A customer intimate company builds bonds with its customer; it knows the people it sells to and the products and services its needs

c. Operational Excellence

Operational Excellence Company delivers a combination of quality, price, and ease of purchase that no other corporation can match.

Companies strive to excel in one of the three areas while maintaining threshold standards in the other two. By identifying its customer value proposition, a company will then know which classes and types of customers to target.

Below template shows how to translate this generic strategy concept into the strategy maps used for Balanced Scorecards design.

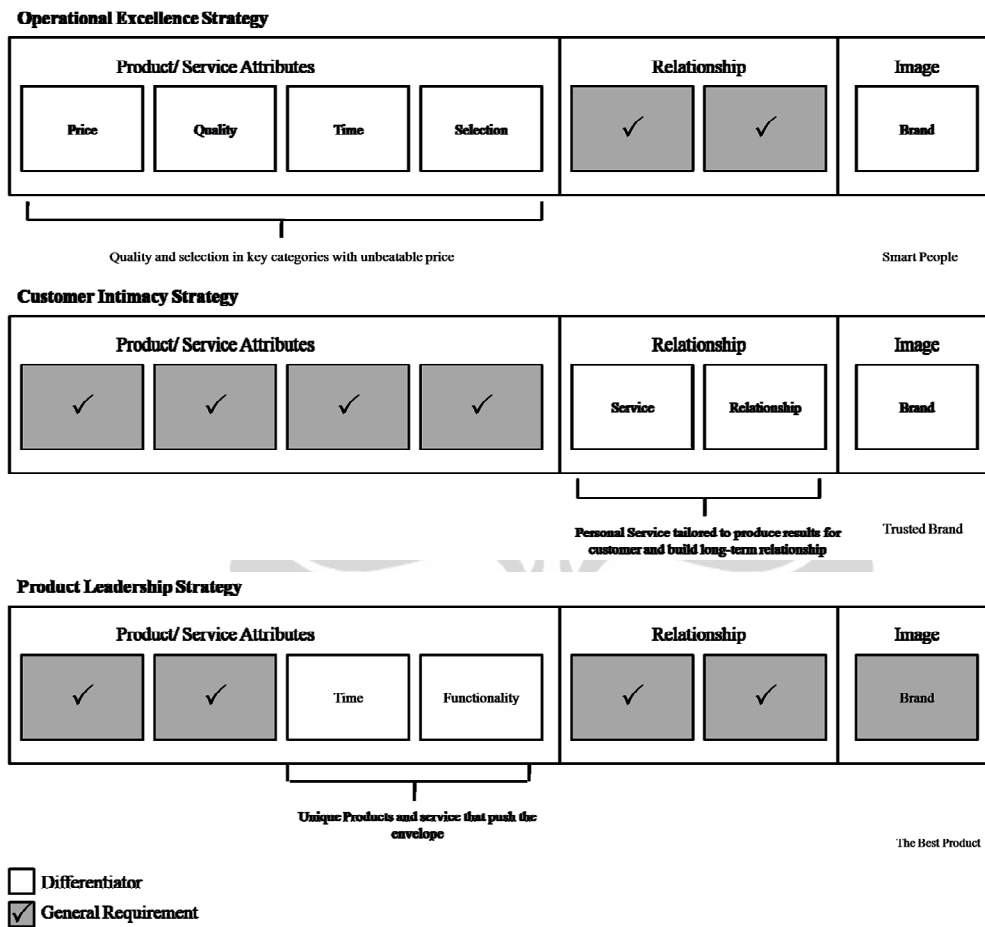


Figure 2.5: Building The Strategy Maps: The Customer Value Proposition

Source: Kaplan and Norton (2001)

2.3.2.3. Internal Process Perspective

Once an organization has a clear picture of its customer and financial perspectives, it can then determine how they can achieve the differentiated value proposition for customers and the productivity improvements to reach its financial objectives. The internal process perspective captures these critical organizational activities, which fall into four high-level processes: build the franchise by innovating with new products and services and by penetrating new markets and customer segments; increase customer value by deepening relationships with existing customers; achieve operational excellence by improving supply chain management, the cost, quality, and cycle time of internal processes, asset utilization, and capacity management; and become a good corporate citizen by establishing effective relationships with external stakeholders.

Porter (1996) stated that the essence of the strategy is in the activities-choosing to perform activities differently or to perform different activities than rival. Porter claims that “activities are the basic units of competitive advantage”. The art of developing a successful and sustainable strategy is ensuring alignment between an organization’s internal activities and its customer value proposition. Each business process has a unique set of processes that creating value for customers and producing financial result. The generic value chain model gives a basic from company to develop their internal business process perspective which encompasses three principal business processes.

All of these processes are important and must be performed well by every organization. But companies only need to excel at the one process that has maximum impact on its customer value proposition.

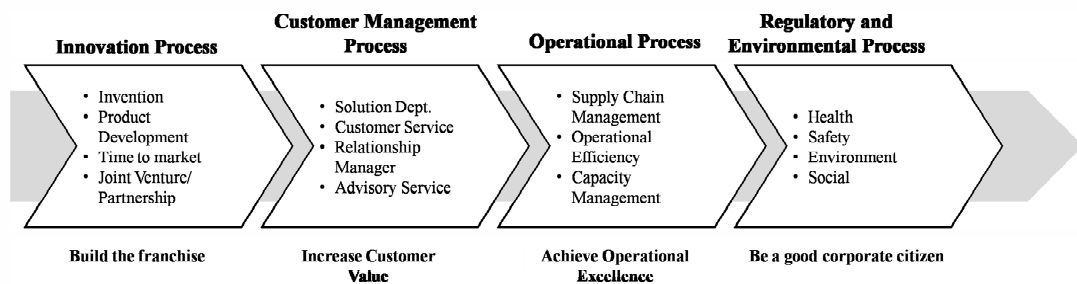


Figure 2.6: Building A Strategy Map: A Generic Organization's Value Chain

Source: Kaplan and Norton (2001)

A *Product Leadership* strategy will require a leading edge innovation process that created new products with best in class functionality and brought them to market rapidly. A *Customer Intimacy* strategy on the other hand requires excellent customers management processes such as relationship management and solution development. The innovation process would be motivated by the needs of targeted customers, focusing on those new product developments and service enhancement. A strategy for *operational excellence* emphasizes measures of the costs, quality, and cycle time of operating processes, excellent supplier relationship, and speed and efficiency of supply and distribution process.

2.3.2.4. Learning and Growth Perspective

The foundation of any strategy map is the learning and growth perspective, which defines the core competencies and skills, the technologies, and the corporate culture needed to support an organization's strategy. These objectives enable a company to align its human resources and information technology with its strategy. Specifically, the organization must determine how it will satisfy the requirements from critical internal processes, the differentiated value proposition, and customer relationships.

The learning and growth strategy defines the intangible assets needed to enable organization activities and customer relationships to be performed at ever higher level

of performance. Kaplan and Norton (2001) there are three principal categories for this perspective:

1. Strategic competencies: The strategic skills and knowledge required by the workforce to support the strategy
2. Strategic technologies: The information system, databases, tools, and network required to support the strategy
3. Climate for action: The cultural shifts needed to motivate, empower and align the workforce behind the strategy

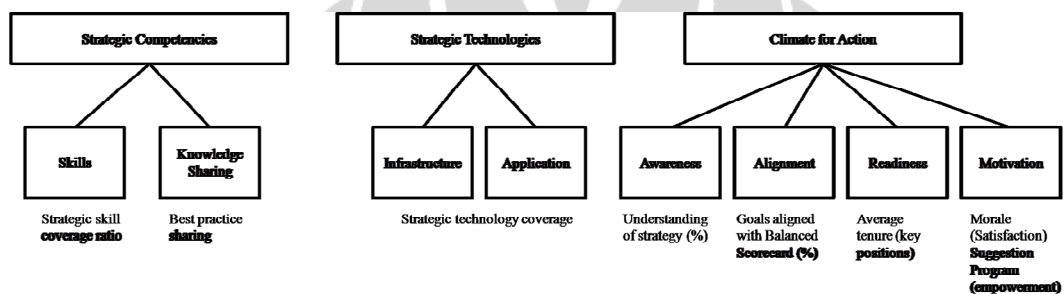


Figure 2.7: Building The Strategy Map: The Learning and Growth Perspective

Source: Kaplan and Norton (2001)

By treating the learning and growth strategy after the three other perspectives have been defined, management can align their human resources, information technology, and corporate climate objectives with requirements from the strategic business process and customer differentiation strategy. The human resources strategy also required significant training for the staff, complemented by ongoing evaluation programs. The employee satisfaction measure on the scorecard recognized that the employee had to be the true partner of the strategy.

Schmeisser et al (2003) demonstrates that the perspective of Balanced Scorecard can be linked to human capital. The approach is important to evaluate and recognize the intangible assets within the company. Schmeisser et al (2003) introduced the employee profit contribution to give a measurement of the employee contribution to the scorecard. The approach is to analyze how far certain costs from the personnel department caused revenues. The employee profit contribution may be

used to support the strategic planning, since it reveals starting points to increase the company's profitability.

In knowledge-based organizations, the ability to improve business process, consistent with customer value proposition, depends on the ability and willingness of individuals to change behavior and focus their knowledge on the strategy. Learning and growth perspective is a foundation other perspective in the Balanced Scorecard. This perspective is the source of support of financial breakthrough. The learning and growth initiatives are the ultimate drivers for strategic outcome.

Table 2.3: Knowledge Management Strategies

Customer Intimacy	Product Innovation	Operational Excellence
<ul style="list-style-type: none"> • Capture knowledge about customers • Understand customer needs • Empowerment frontline employees with information they need • Ensure that everyone knows the customer • Make company knowledge available to customers 	<ul style="list-style-type: none"> • Reduce time to market • Commercialize new products faster • Ensure that ideas flow (e.g. from customer service to R&D) • Reuse what other parts of the company have already learned 	<ul style="list-style-type: none"> • Reduce cost • Improve quality • Move know-how from top-performing units to others

Source: Kaplan and Norton (2001)

2.4. Key Performance Indicators

Key Performance Indicator (KPI) is an industry word for a kind of Measure of Performance. KPIs are commonly used by an organization to assess its success or the success of a specific activity in which it is engaged. A KPI is a financial or non-financial measurement used to quantify advancement towards strategic objectives set as element of a Strategic Business Plan by techniques such as the Balanced Scorecard. KPI can be used as a part of Balanced Scorecard. Balanced Scorecard

measures business using several basic groups. Each group has indicators inside, and KPI is the best tools to measure each of indicators in the scorecard. However, this will differ depending upon the nature of the business and its strategic objectives, especially those involving difficult to quantify activities. KPIs is different between one organization to the other. A KPI offers the most significant performance information that enables organizations or their stakeholders to recognize whether it is on track or not. KPIs serve to decrease the intricate nature of organizational performance to a small number of key indicators so as to make it more digestible for the employee.

To choose the accurate KPIs is dependent upon having a good understanding of what is significant to the organization. What is significant frequently depends on the department measuring the performance - the KPIs helpful to a Finance Team will be quite different to the KPIs allotted to the sales force. Due to the need to develop a good understanding of what is significant, performance indicator choice is often directly associated with the use of various techniques to assess the current state of the business, and its key activities. These assessments frequently lead to the identification of potential improvements; and as a result, performance indicators are normally associated with 'performance improvement' initiatives.

The KPI should signify a defined business process and the process must have clear goals or performances requirements. There must be a quantitative/qualitative measurement of the results, and comparison with the performance requirements. There should be a method for examining variances and altering processes to accomplish the goals.

Based on Parmenter (2010) there are seven characteristic of KPI:

- a. Are nonfinancial measures (e.g., not expressed in dollars, yen, pounds, euros, etc.)
- b. Are measured frequently (e.g., 24/7, daily, weekly)

CHAPTER 3

COMPANY PROFILE

3.1. The Indonesian Banking Industry

In the past two years the Indonesia's banking sector has successfully weathered the global financial crisis. The Asian crisis during 1997- 1998 has changed the behavioral pattern of companies to keep low debt levels, minimized currency risk and built up savings. BI should also be credited as it was effectively keeping inflation in check while providing stimulus to encourage growth. This was also supported by improving regulatory framework providing greater transparency and better governance.

Continued improvements to Indonesia's economic fundamentals have enabled the banking sector to expand aggressively since the outset of 2010. By the end of 2010, commercial banks' loans grew 23% to Rp 1,766 trillion, a significant increase compared to the 10% growth recorded last year. Higher loan growth, outpacing deposits growth, has resulted in higher LDR. At the end of 2010, LDR stood at 75.2%, higher than last year's position of 72.9% but was lower than the ideal range of 78%-100% expected by BI. Throughout the year, third party deposits increased by 18.5% to Rp 2,339 trillion. Time deposits still made up most of the mix, accounting for 46% of total deposits, while current accounts and saving accounts contributed 23% and 31%, respectively (PT Bank X Annual Report 2010).

The banking sector delivered satisfactory results with ROAA stood at 2.9% as compared to 2.6% in 2009. Net income was at Rp 57 trillion, up 27% from the last year profit of Rp 45 trillion. In the beginning of the year, banks enjoyed high margins as downward movement on interest rate was faster compared to declines in lending rate. However, this was reversed in the middle of the year as cost of funds increased. Pressure was intensified when BI increased the statutory reserves requirement in the

last quarter of the year. Nevertheless, NIM was still at a satisfactory level and stood at 5.7% compared to 5.6% last year. The sector has become more efficient as well. Although the industry made a lot of investment for future growth, Operations Expenses/Operations Income ratio slightly went down from 87% to 86%.

Table 3.1. Indonesian Banking Industry 2010 Performance

	2009	2010	Δ YoY
Commercial Banks (<i>Rp. Trillion</i>)			
Loan	1,436	1,766	23.0%
Third Party Deposit	1,974	2,339	18.5%
LDR	72.9%	75.2%	2.3%
Net Income (<i>Rp. Trillion</i>)	45.0	57.0	26.7%
NIM	5.6%	5.7%	0.1%
Cost to Income Ratio	87.0%	86.0%	-1.0%
ROAA	2.6%	2.9%	0.3%

Source : Bank X annual reports

Competition is expected to be more intense as most banks are in fast gear to grab more market share. This, along with competition for liquidity and capital to fuel growth may result in margin compression. On asset quality, NPL will be contained or continue to improve given the improving economic environment. Whilst challenges on how the industry will cope with inflation remains, The Bank believe that the economic fundamentals are solid and the government and BI will be able to curb rising inflation. The government has eliminated tariffs on imports of some basic needs and BI has recently raised the benchmark rate by 25 bps to 6.75% and is expected to increase to 7% in 2011.

Based on recapitulation of banking industry in Indonesia, as of May 2010 the number of Commercial Bank was 122, with 4 government state owned banks and 118 private Banks.

Table 3.2 Indonesian Commercial Bank per May 2010

Banking Industry	Number of Banks
Government Owned	4
Regional Development Banks	26
Commercial Banks	83
Commercial Bank Syariah	9
Total	122

Source: Bank Indonesia (<http://www.bi.go.id>)

The top ten banks account for 65% of the banking sector assets. As of 2010 Mandiri's total assets expanded 9.4% to Rp 411 trillion, maintaining its position as the country's largest bank by total assets. Most of the top 10 Banks grew by double digit year on year show a very high competition in the industry.

Table 3.3. Top 10 Banks Assets in FY 2010

Total Assets FY10	Trillion IDR	Δ YoY	Market Share	Δ YoY
Mandiri	410.6	9.4%	13.6%	-1.2%
BRI	395.4	24.2%	13.1%	0.6%
BCA	323.3	14.2%	10.7%	-0.4%
BNI	241.2	6.3%	8.0%	-0.9%
CIMB Niaga	142.9	33.7%	4.8%	0.5%
Danamon	113.9	17.6%	3.8%	0.0%
Panin	106.5	39.6%	3.5%	0.5%
Permata	74.0	31.7%	2.5%	0.2%
BII	72.0	22.6%	2.4%	0.1%
BTN	68.3	16.8%	2.3%	0.0%

Source : Bank Indonesia – Indonesian Bank Statistic

Third Party Deposits top three banks accounted for 30% of total deposits, while top ten banks accounted for approximately 67%. In the same period most of

the top 10 banks grew double digit year on year shows each bank are very aggressive in generating funding from the society.

Table 3.4. Top 10 Banks Third Party Fund FY 2010

Total Third Party Deposit FY10	Trillion IDR	Δ YoY	Market Share	Δ YoY
Mandiri	332.7	11.0%	14.2%	-1.0%
BRI	328.8	29.0%	14.1%	1.1%
BCA	277.5	13.4%	11.9%	-0.5%
BNI	189.4	0.4%	8.1%	-1.5%
CIMB Niaga	117.8	36.6%	5.0%	0.7%
Danamon	80.2	18.4%	3.4%	0.0%
Panin	75.1	33.3%	3.2%	0.4%
BII	60.0	26.2%	2.6%	0.2%
Permata	59.5	30.1%	2.5%	0.2%
BTN	47.5	18.2%	2.0%	0.0%

Source : Bank X Internal Reports

3.2. Company Profile

Bank X was established in 1956 under the name of Bank K Indonesia. The name was then changed to its present name in 1976. In 1988, Bank X became a foreign exchange bank and a year later was publicly listed in the Jakarta Stock Exchange (now Bursa Efek Indonesia).

In the wake of the Asian financial crisis in 1998, Bank X was placed under the supervision of the Indonesian Bank Restructuring Agency (IBRA) as a Bank Taken Over (BTO). In 1999, the Government of Indonesia, through IBRA, recapitalized Bank X with Rp 32.2 trillion of government bonds. Within the same year PT Bank PDFCI, another BTO, was merged with Bank X as part of the restructuring program of IBRA. In 2000, Bank X completed another merger with eight other BTOs. As part of this merger package, Bank X received a second recapitalization from the

government through a capital injection of Rp 28.9 trillion. As the surviving entity, Bank X emerged from the merger as one of the country's largest private banks.

Today, Bank X emerges as one of the largest and strongest financial institutions in the country. As a universal bank, Bank X has developed broadly diverse businesses, ranging from micro banking, retail banking to SME & commercial banking and corporate banking, as well as consumer automotive financing, general insurance and consumer goods financing through its subsidiaries. With over 50 years of experience, Bank X continues to strive to 'make things happen' for its customers – its brand promise. As of December 2010, Bank X ranked as the sixth largest bank in Indonesia in terms of total assets and market capitalization, with the second largest branch network consisting of over 2,300 branch offices and outlets in the country.

3.3. Vision, Mission and Values

Bank X vision: "We care and enable millions to prosper". Bank X is committed to listen to the needs and aspiration of the people, both customers and employees, and thrives to help them fulfill their dreams and to prosper.

Bank X Mission:

- Bank X aims to be "The Leading Financial Institution in Indonesia" with a significant market presence.
- A customer centric organization covering all customer segments, each with a unique value proposition, centered on sales and service excellence, supported by world class technology.
- Bank X is aspiring to be an employer of choice and to be respected by customers, employees, shareholders, regulators and the community.

Bank X Values:

- Caring
Giving a genuine concern for the well-being and advancement of others will bring out the best within the organization.
- Honesty
Always hold the truth to ourselves and others without any hidden agenda.
- Passion to excel
Always dare to come up with better ways of doing things, to achieve the best result, whilst mitigating the risk involved and without compromising the solidity of the company.
- Teamwork
Leverage the diversity amongst the employee as the strength of the company's team to achieve common goals.
- Disciplined professionalism
Deliver responsibility with the highest standards of ethics and professionalism, through disciplined people, disciplined thoughts and disciplined actions.

3.4. Organization Structure

The Chief Executive (CEO) of Bank X is responsible to the Annual General Meeting of Shareholders and on operational basis the CEO is supervised by Board of Commissioner. Reporting to the CEO there are 7 business directors which represents consumer business, syariah and transaction banking, micro segment, treasury and capital market, multi financing which include motor, car, and white goods financing and insurance. To support the business and to ensure that the business is run properly and comply with central bank regulation, there are 6 directors reporting to the CEO who are responsible for operation, risk, information technology, human resources, finance, and compliance.

As a customer centric organization Bank X serves wide range of products, for business and consumer segment. For business segment Bank X serve corporate, commercial, Small Medium Enterprises (SME), and mass market. As for individual segment Bank X serves affluent and middle income segment, and mass employed.

3.5. Human Resources

In many industries, especially banking, human resources is one of the key success factor to determine a success of a bank. In order to attract and retain the best talent in the market Bank X tries to continuously offering exciting career opportunities. The Bank runs a computerized assessment system to help its recruitment and promotion processes. This system not only serves as an effective tool for large-scale recruitment initiatives, but is also useful for managing a database for data analytics. By the end of 2010, total employee of Bank X and subsidiaries reached 53,402 including 16,971 non permanent employees.

In 2010 Bank X restarted annual Employee Engagement Survey (EES) to measure the expectations of the employee with the management. The total respondent in 2010 reached 35,000. Bank X EES is considered as one of the largest ever climate surveys in the country. Survey outcomes, which will be delivered in early 2011, will form scorecards to measure how well teams within Bank X perform and describe action plans for improvement.

As one of the key success factor of Bank X, in 2011 Bank X will continue working on achieving a higher level of employee engagement to deliver lower employee turnover, higher productivity and better financial performance. Equally important, Bank X will keep seeking opportunities to improve employee productivity, among others by pushing toward more synergies and by reducing duplication of efforts.

In order to seek the best talent within the company, in 2010 Bank X is strengthening the internal hiring program, both to fill available positions and to give

even more growth opportunities to internal talents. Finally, Bank X will continue the development of Knowledge Management, aiming to promote sharing of valuable organizational insights, reduction of redundant work and retention of intellectual capital. To keep pace with the industry growth, and to support Bank X growth, the number of employee of Bank X increased by 28% from 2008 to 53,402 employees in 2010.

Table 3.5. Bank X Employees Profile

	EOP 2008		2009		2010	
	Amount	%	Amount	%	Amount	%
Post Graduate	624	1%	587	1%	575	1%
Bachelor	28,141	68%	27,234	65%	34,487	65%
Diploma	8,432	20%	8,382	20%	11,155	21%
Senior High School	4,166	10%	5,195	12%	7,003	13%
Junior/Elementary School	254	1%	217	1%	182	0%
Total	41,617	100%	41,615	100%	53,402	100%

Source: Bank X 2010 Annual Report

3.6. Key Success Factor

In order to be competitive in the industry, the following is some of key success factor of a Bank to maintain its market presence and maintain competitiveness.

3.6.1 Products and Business Segment

Bank X is a customer centric with differentiated financial services provider. Bank X offers many lines of banking products to retail customer, small medium enterprises and corporate through big networks, credit cards, debit cards, ATM, Internet banking and Hand Phone banking, payment process, and treasury products.

Bank X Retail Banking continued to consolidate its role in serving individuals in the mass affluent segments with a comprehensive range of deposit, loan, investment and bancassurance products, while being the principal source of funding for all Bank X lending engines. Starting 2006 Bank X aggressively acquires customers' through heavy marketing campaign and direct gift. With this strategy Bank X is successfully increased its Saving Account by Compounded Annual Growth Rate (CAGR) 17% in 2010.

In credit card business Bank X continue to apply the time tested strategy grow its card business, which is to provide highly customized products and services to different market segment. This include a variety of utility bills from electricity to fixed line telephone and internet; special cash back offering on spending; and a host of privileges and special offers for dining, travel and entertainment. Bank X affinity cards continue to draw the enthusiasm of followers of the English premier football league with the Manchester United, Arsenal, and Liverpool cards all providing highly distinctive and attractive features to their respective fans.

Micro businesses are widely considered to be one of the backbones of the country's domestic economy, a segment estimated to comprise more than 45 million households across Indonesia. Dana Simpan Pinjam (DSP) customers include sellers and stall owners in more than 2,000 traditional or wet markets across the country, small traders and home industries, food hawkers, small scale workshops, mom-and-pop stores and other kinds of small businesses, many of whom had no previous access to banking services.

DSP offers loans between Rp 1 to 500 million, presented with clear promise of speed, simplicity and convenience from loan processing, approval to loan repayment. This proposition has proven to attract many micro businesses who valued DSP's on average three-day loan approval turnaround, served by highly competent, disciplined and service oriented workforce at the outlets.

Bank X Small & Medium Enterprise (SME) Banking serves businesses with an annual sales turnover of Rp 2 to 40 billion and loan sizes ranging from Rp 500 million to 10 billion. SME customers can access a full range of suitable banking products through its extensive national network which offers a fast, flexible and simple business process. The Bank's commercial customers consist of business entities with annual sales turnover of Rp 40 to 500 billion and loan sizes of Rp 10 to 100 billion.

Syariah Banking's products and services range from Syariah Saving Accounts, Syariah Current Account, Syariah Time Deposit to investment product, which are widely considered as among the best available in the market. In 2010 Syariah business continued to develop its business by focusing mainly on serving the needs of cooperatives and small businesses in the trading and distribution sectors. Bank X Syariah is one of syariah banks that can provide highly tailored products to fully satisfy the needs of cooperatives and small businesses.

Bank X Corporate Banking business serves big companies with annual sales turnover above Rp 300 billion. These are corporations in industries critical to the development of the domestic economy. Within the Bank's overall strategy, Corporate Banking plays a crucial role as the channel for Bank X to serve large corporations and as the entry point for developing its financial supply chain services.

3.6.2 Distribution Network

As a consumer bank, Bank X distribution network plays a vital role in supporting the Bank's ability to grow sustainably and respond competitively against any market change. Bank X vast delivery channel network consists of a total of 1,498 operational branches and a selection of alternative channel services, including ATM machines, as well as Internet, mobile banking and call center services. Bank X branches and ATMs are conveniently located in strategic locations across the country.

In 2010, Bank X increased its number of ATMs by 28% to 1,083 ATM machines nationally. Bank X has successfully migrate a big portion of transactions at the branches to alternative channels. The recently introduced Internet Banking service continues to generate positive response from the market and now processes on average over one million transactions per month.

Entering 2011, Bank X will double its efforts in expanding the network by adding more ATMs and branch offices. Bank X will continue enhancing its quality of service, among others by developing faster transaction processing at the branches and introducing electronic bank statement delivery to current account and savings account customers.

3.6.3 Information Technology

In 2007 Bank X launched the New Core Banking System (NCBS) and was fully implemented in 2010. After rolling out NCBS to 212 conventional (including Syariah) branches in 2009, NCBS was rolled out to an additional 285 conventional branches by June 2010 and Adira Kredit's 48 branches by August 2010. In all, over 4.6 million accounts and 1,592 branches across different regions and businesses have been successfully migrated into the NCBS, well within the targeted time frame. With the completion of the NCBS project, Bank X now has a reliable and scalable IT platform that allows faster, flexible and more secure transactions within the Bank's entire branch infrastructure. Bank X continued to improve its electronic channel service with the expansion of its ATM network by 28% that now comprises 1,083 ATM machines nationally. Bank X is significantly increased the usage of Internet Banking service that now has reached on average over one million transactions per month. The footprint for micro banking business was also widened with the addition of 43 Pasar Model Units, 5 Cluster Offices and 32 Mobile Teller units. A new system has been successfully developed to support Syariah Banking's new venture, Gadai Emas Syariah. The system was already rolled-out in 10 pilot branches in July 2010. In 2011, Bank X remain committed to support the expansion of branch and ATM

footprint with the addition of over 250 new ATMs, 45 CDMs as well as new conventional branches for the consumer banking and more outlets for the micro banking business..

3.7 Business Performance

3.7.1. 2010 Performance

Bank X reported Net Profit After Tax (NPAT) posted a strong 88% growth to Rp 2,883 billion compared to Rp 1,532 billion in 2009, driven by considerable strong business growth in line with the country's favorable environment. Return on Asset (ROAA) reached 2.8% while Return on Average Equity (ROAE) stood at 18.5%. Bank X capital structure remained robust with consolidated Capital Adequacy Ratio (CAR) of 16%, well above the regulatory requirement. The micro business, small and medium enterprises grew by 24% to Rp 26,565 billion and account for 32% of our total loans. The automotive financing business rose by 60% to Rp 30,675 billion.

Table 3.6. Bank X Net Income and Key Ratio

	Full Year 2009	Full Year 2010	YoY
Net Income (Rp. Billion)	1,532	2,883	88%
NPL	4.47%	3.02%	-1.45%
ROAA	1.50%	2.79%	1.29%
ROAE	11.24%	18.51%	7.27%
Cost to Income	49.80%	49.70%	-
LDR	88.76%	93.82%	5.06%
CAR	20.7%	16.0%	-4.70%

Source: Bank X 2010 Annual Report

By the end of 2010, Bank X consolidated CAR stood at 16.04% compared to 20.65% a year earlier, with risk weighted assets for credit risk, market risk and operational risk of Rp 96,938 billion, 43% higher than a year earlier. Such increase of the risk weighted assets was primarily contributed by the increase of risk weighted

assets for credit risk by 25% from Rp 67,018 billion to Rp 83,886 billion. This is on top of the risk weighted assets for operational risk of Rp 12,489 billion that was implemented in 2010. CAR both for the Bank only and as consolidated were well above the required BI level of 8% for the years ended 2010 and 2009.

3.7.2. Balance Sheet Performance

In 2010, Bank X total assets grew 20% to Rp 118,207 billion compared to Rp 98,598 billion in 2009 mainly driven by loan expansion and other banks placement. Loans which occupied 68% of the total asset grew markedly by 31% to Rp 79,931 billion from Rp 61,022 billion a year earlier. By the end of 2010, Bank X total outstanding loans (including consumer financing) grew by 31% to Rp 82,658 billion (gross) with 5% market share compared to Rp 63,278 billion a year earlier. Loans expansion was in line with the positive notes of the country's macroeconomic indicators as well as the Bank's strategy to ride the optimistic momentum.

Table 3.7. Assets Performance Bank X

<i>Rp Billion</i>	FY 2009	FY 2010	YoY
Liquid Assets	24,878	28,754	15.6%
Loan (gross)	63,278	82,658	30.6%
Provision for Bad Debt	-2,256	-2,727	20.9%
Loans (net)	61,022	79,931	31.0%
Fixed Assets	1,550	1,771	14.3%
Others	11,148	7,751	-30.5%
Total	98,598	118,207	19.9%

Source : Bank X annual report

Loan expansion was mainly driven by the mass market segment which accounted for 58% of the total loan portfolio, reaching Rp 47,846 billion in 2010 compared to Rp 34,083 billion a year earlier, accounted for 54% shares. Mass market loans continued to increase solidly on the back of automotive financing and micro lending.

Table 3.8. Loan Performance Bank X by Segment

<i>Rp Billion</i>	FY 2009	FY 2010	Year on Year
Wholesale	7,790	10,690	37.2%
Consumer	4,924	4,483	-9.0%
SME & Commercial	16,481	19,639	19.2%
Mass market	34,083	47,846	40.4%
Total	63,278	82,658	30.6%

Source : Bank X annual report

3.7.3. Third Party Fund Performance

Bank X comprised third party funds (Current Account, Savings Accounts and Time Deposits) and long term borrowings/professional funding such as bonds issued, and sub debt. Bank X booked 21% increase in total funding to Rp 92,401 billion by the end of 2010 compared to Rp 76,252 billion in the previous year on the back of a strengthened funding franchise that boosted CASA as well as the bonds issuance in the last quarter of 2010.

Table 3.9. Funding Performance Bank X

<i>Rp Billion</i>	FY 2009	FY 2010	Year on Year
Third Party Funds	68,419	80,986	18.4%
Long Term Borrowing	7,833	11,415	45.7%
Total	76,252	92,401	21.2%

Source : Bank X annual report

By the end of the year, CASA to funding ratio accounted for 40% against 33% in 2009. The growth in CASA was aligned with the Bank X strategy to strengthen its funding franchise through re-branding, promotion and network infrastructure enhancements such as ATMs. During 2010, 237 additional ATM machines were added to Bank X ATM network, increasing Bank X total ATMs to 1,083 against 846

a year earlier. Meanwhile, time deposits recognized 6% increase to Rp 48,581 billion from Rp 45,651 billion last year, contributing 60% of the Bank's total third party funds. Based on business segment classification, the consumer sector delivered the highest contribution to third party funds with 65% share, followed by SME and Commercial, Wholesale, and Mass Market with 22%, 12%, 1% shares, respectively.

Table 3.10. Third Party Funds Performance Bank X

<i>Rp Billion</i>	FY 2009	FY 2010	Year on Year
Current Account	7,398	10,972	48.3%
Savings Account	15,370	21,433	39.4%
Time Deposits	45,651	48,581	6.4%
Total	68,419	80,986	18.4%

Source : Bank X annual report

3.8 Current Measurement

Currently the business measurement system in Bank X is more focus on financial aspects which are realization versus budget analysis. Business budget is prepared on yearly basis and are fixed for the whole year. During the budgeting process each segments in Bank X will submit its disbursement, volume, revenue, operating expense and NPL target to the head office for consolidation in Bank Wide level. Management in Bank X will use the submitted budget or target as a monthly performance monitoring tools through Monthly Performance Report (MPR) meeting.

To translate the budget into action, each of the segments will cascade the approved budget (national level) to branch. Particularly for Consumer Banking segment each of the branches will be given a target with certain kind of Key Performance Indicators (KPI). The KPI in each of the activity is weighted based on the consumer segment target. The KPI is usually a generic target for each branch without really take into account the real potential of each branch. This may have created some issues with branches that have their own uniqueness but at some

particular time do not align with company's overall target. For example, Branch A is very strong in generating fee based income from investment products, when the target of consumer banking is to generate low cost funding (Current Account and Saving Account - CASA) for liquidity purpose, this particular branch will be pushed to generate CASA and on the other hand may lost the opportunity to gain high Fee Income.

Consumer Branch performance monitoring systems in Bank X consider 5 aspects:

1. Third Party Fund Raising

One of the functions of the Bank is to generate funding from society. The main target of Bank X is to generate low cost funding volume (CASA). However based on the current measurement system high cost funding (Time Deposits) is not taking into account when calculating the branch measurement.

2. Loan Aspects

In order to perform intermediary function, banking industry will distribute back the funding it generates to society through credit loan. Interest income that generated through loan is one of the biggest sources of revenue of the Bank.

This aspect measures the loan growth which involves:

- Retail/ Consumer Loan
- Credit card
- Loan quality

The current measurement system only considers the loan growth regardless the number of customer being disbursed. Since the target was a generic target set up by the Head Office, it does not consider which branch that have potential to disburse certain type of loan for example mortgage or credit cards.

3. Profitability Aspects

Branch profitability is measured by two important things Revenue and Cost. Revenue of a branch is being rolled up to consumer segment level and at the end to bank wide level; therefore each branch capability in generating revenue is very important. There are two components of revenue side, one is Net Interest Income which is generated from the Assets and Third Party Fund that being generated from the branch and the second is Fee Income which mainly coming from the branch's customer transaction e.g. bill payment, RTGS, LLG, etc.

Second aspect is the cost. At the head office level the cost of each branch is pre-determined based on historical data and general growth target. The measurement of the cost effectiveness is based on actual spending versus budget. Each branch must ensure that they should operate as efficient as possible to maintain the cost level below plan.

4. Customer Engagement Index

Human Sigma Program seeks to develop engaged employees who will do the right things to acquire and retain engaged customers that contribute to positive and sustainable business outcomes. The Human sigma program is way to measure Branch performance through its Customer and employee engagement.

5. Branch Fulfillment Assessment (BFA) and Business Process Assessment (BPA).

BFA is an assessment to monitor service and physical readiness of a branch based on corporate standard, e.g. the greetings were done properly, physical branch such as brochure and customer form completeness.

BPA is to measure the business process in the branch, to see all activity in the branch e.g. account opening, deposit withdrawals, bank transfer etc. is already meet the corporate standard.

The current measurement system is effective enough to meet the short term targets which more focus target achievement and profit. However it has not address how to achieve the long term target. Below is the short list of why the current measurement systems have not address the potential of long term potential of each branch.

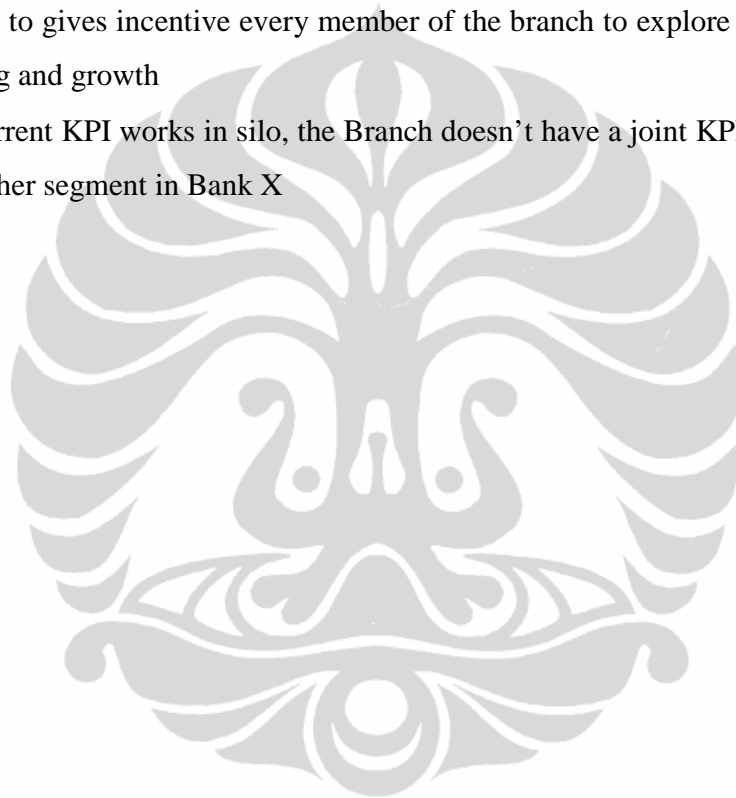
- Mostly focus on financial side which is comparing the target versus realization
- The weight of each item on the scorecard is only based on the yearly target of the company. Bank X has not perform a comprehensive review the optimum weighted each branch may have

Table 3.11. Bank X Branch Scorecard 2010

Description	Kategori	KPI	Description	Weighted	Period
PBO/RM	Financial	Points	Achievment Point is based on selling products	80.0%	Monthly
	Non-Financial	Customer	Customer engagement (Human Sigma)	20.0%	Semester
Branch Manager	Financial	CASA	Realization of incremental Average CASA YTD vs Incremental Average CASA target	25.0%	Monthly
		Revenue	Actual Revenue YTD vs Target Revenue YTD	25.0%	Monthly
		Branch Cost	Target branch cost YTD vs Actual branch cost YTD	10.0%	Monthly
		Thematic KPI	KPI is based on quarterly basis	10.0%	Monthly
	Non Financial	Customer	Customer engagement 10% index (Human Sigma)	10.0%	Monthly
		People	Employee engagement index (Human Sigma)	10.0%	Monthly
		Process	BFA: Branch Fulfillment Assessment, BPA: Business Process Assessment.	5.0%	Monthly
		Process	Branch Office Review Findings	5.0%	Monthly

Source : Bank X internal report

- There is no clear correlation from one item and another to support long term and sustainable growth. The weighting process is heavy on lagging indicators instead of leading indicators
- Short term focus and based on yearly basis, thus not reflected the overall company long term objective
- Do not give the opportunity for learning and growth, there is no specific scoring to gives incentive every member of the branch to explore more on the learning and growth
- The current KPI works in silo, the Branch doesn't have a joint KPI that shared with other segment in Bank X



CHAPTER 4

ANALYSIS AND DISCUSSION

4.1. Bank X Strategy Formulation

Bank X strategy formulation is started with the vision and mission of the company. As stated in chapter three, Bank X vision is “We care and enable millions to prosper” with missions:

- “The Leading Financial Institution in Indonesia” with a significant market presence.
- A customer centric organization covering all customer segments, each with a unique value proposition, centered on sales and service excellence, supported by world class technology.
- Bank X aspires to be an employer of choice and to be respected by customers, employees, shareholders, regulators and the community.

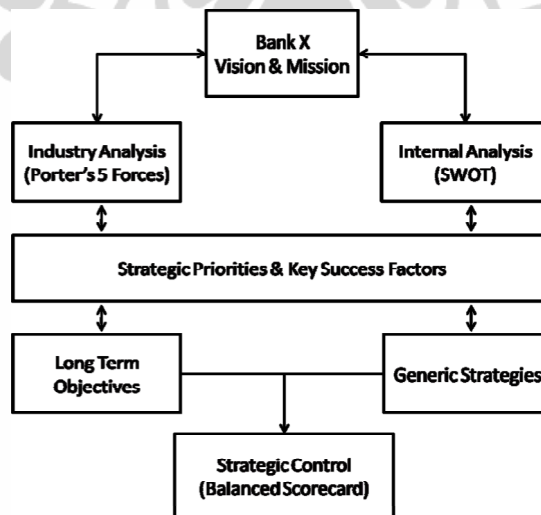


Figure 4.1 Bank X Strategic Management Model

Source : Prepared by Author

The external environment of Bank X will be discussed by using the Porter's 5 forces, and the internal analysis will be discussed by using SWOT matrix based on Balanced Scorecard Perspective.

Bank X is a customer centric organization which building advantage through providing differentiated service provider to business and individual segment. The key success factors of Bank X a large network distribution for both its Funding and Lending engine, at the same time providing service excellence and providing convenience with fast and reliable service to its customer, keep in front in providing Technology and Information System, keep innovative and competitive products, and develop highly qualified individuals in the Bank.

The long term objective in Bank X is to create sustainable profitability through revenue growth and efficiency and productivity strategy. These are supported by the other three non-financial perspective which are customer, internal business process and learning and growth perspective. In the following discussion the cause and effect relationship between these perspectives will be depicted by the strategy map. The generic strategy of Bank X is a combination of differentiation by providing differentiated financial services to its customer and overall cost leadership by focus on efficiency and productivity strategy.

In order for management to identify and evaluate of any performance deviation, a performance management tools that integrate strategic goals, operating outcome, customer satisfaction, and continuous improvement is essential. Based on Pearce II and Robinson, Jr (2009), Balanced Scorecard is a management control system that enables companies to clarify their strategies, translate them into action, and provide quantitative feedback as to whether the strategy is creating value, leveraging core competencies, satisfying the company's customers, and generating financial rewards to its shareholder.

4.2. Industry Analysis

To determine a strategy, it is very important for the company to have a comprehensive assessment of its own capabilities and performance relative to the competitors as well as the company's positioning in the industry. The external analysis assesses the macroeconomic environment of economic growth which includes interest rates, currency exchange, regulations, and general expectations of the organization role in society.

Based on Michael Porter's framework of industry level examination are divided into five forces:

a. Industry Rivalry

As of May 2010 it is recorded 122 banks and 3,179 branches across Indonesia. The number of branches has increased by 197 branches from 2,982 branches in 2009. This shows that the existing players still expanding their network distribution, which makes difficult for the new player to keep up with the existing players. With so many players in the industry including foreign banks, the banks are in competition on launching new and attractive products, expanding their distribution channel both branch and electronic channel in order to increase their market share. Tight competition is also required the bank to increase their service level and building a strong image to gain market share.

As mentioned in the chapter 3, the top ten banks account for 65% of the banking sector assets. As of 2010 Mandiri's total assets expanded 9.4% to Rp 411 trillion, maintaining its position as the country's largest bank by total assets. Most of the top 10 Banks grew by double digit year on year show a very high competition in the industry. On the deposit side, the Third Party Deposits of top three banks (Mandiri, BRI, and BCA) accounted for 30% of total deposits, while top ten banks accounted for approximately 67%. In the same period most of the top 10 banks grew double digit year on year shows each bank are very aggressive in generating the third party fund.

In banking industry existing rivalry is considered to have a **high impact** to the market presence and profitability of Bank X. The top 10 banks are still competing to gain more market share and customer base.

b. Threats of New Entrance

Banking industry is a highly regulated and very competitive industry. The regulatory capital from Bank Indonesia required minimum capital of Rp.100,000,000,000. Banking is a business that is build based on trust. Not only required a strong capital, brand image also plays a very important role to be successful in the industry.

Below are entry barrier when entering the Banking industry:

- **Economic of Scale**
As of May 2010 it is recorded 122 banks and 3,179 branches across Indonesia. The number of branches has increased by 197 branches from 2,982 branches in 2009. This shows that the existing players still expanding their network distribution, which makes difficult for the new player to keep up with the existing players.
- **Government and Bank Indonesia Regulation**
The impact of economic crisis in 1998 and some cases of bank fraud that were revealed lately makes the government put more attention to the industry. Minimum CAR requirement, legal lending limit, and risk management are things that are very closely monitored by the government and the central bank.
- **Product Differentiation**
Most of the banking products are similar from one bank to another. From the product side most banks are competing with intensive marketing, offering gimmicks to customer, point rewards, etc. To win the customer acquisition and customer loyalty, the bank also competing in service area, from building

customer convenience in branch to big investment in electronic channel such as ATM, internet banking, mobile banking etc.

- Human Capital

To be successful in the industry, a bank needs to be supported by qualified and professional human resources. For the new entrance to recruit experienced professional in the banking industry will be costly. On the manpower supply, since the new entrance is considered risky, they will ask for premium to cover the risk of moving from one established bank to the new one. If the new entrance chooses to recruit un-experienced employee, they will be required to invest on training and time and of course will required a learning curve before the new employee are ready to be put in the field.

The threat of new entrance is considered to have a **medium impact** to the market presence and profitability of Bank X. For the new entrance, building customer base and loyalty will require time and learning curve before the new entrance obtain market trust.

c. Availability of Substitutes

High level of interest rate makes the business sector to seek other alternatives that provide them with competitive rates. Financing Company, direct investment, pawn broking, etc are some alternatives for business people to get competitive interest rate.

Banking industry has known very prudent in providing loans to the customer, both corporate and individual. This is open a opportunity for financing company and direct investment to become one of the options for the customer to have other source of fund. However the availability of substitutes are considered **medium impact** to Bank X market presence and profitability, due to customers still prefer banking industry compared to other financial institution.

d. Bargaining Power of Buyers

In banking industry the buyers are the lenders/debtors. Loan industry particularly in consumer business where the lending products are in the form of credit cards, mortgage, personal loan etc, we can notice the competition is getting tighter among the top banks. In credit card business, in order to get customer acquisition and loyalty, most of the top banks put a heavy promotion on discounts, services, convenient etc. And for other type of loan e.g. Corporate, Commercial and the SME's, due to high competition the debtors has alternatives to get the lowest interest rate from the market.

The bargaining power of buyers is considered to have a **high impact** to Bank X financial sustainability. In a competitive market, where other banks and other financial company give competitive interest rate, Bank X has no choice to also make their interest rates competitive and the same time to put more effort in marketing and promotion.

e. Bargaining Power of Suppliers

The supplier in banking industry is the capital owner and funding customer. As an intermediary, a bank needs to generate third party funds from the society and provide loans to retail or household and real industry such as Small Medium Enterprise and Corporate. The competition of generating third party funds between banks are getting stiffer where most banks has invested in intensive marketing campaign, direct gift and point rewards for customer, and lottery system that offer luxury prizes such as car, houses, travel etc. The switching cost from one bank to another is relatively very low gives an opportunity to customer to go on and off with a bank before decided on their most preferable bank.

Based on the above the bargaining power of suppliers is considered to have a **high impact** to Bank X financial sustainability.

From the 5 five forces that will impact to the market presence and profitability of Bank X, the industry rivalry, bargaining power of buyers and suppliers are considered high. The top banks still work hard to increase their market shares and expand their customer base. This is shown by the many programs, innovation, service excellence, etc that being offered by these banks. Due to low switching cost, the customer as a supplier of a fund has the alternative to move their fund from one bank or another which creates the instability in the Bank funding structure. With many players in the market, the rates are becoming more competitive, which gives the customer alternatives to choose the most competitive rates in the market.

Threat from new entrance and availability of substitute are considered to have a medium impact to Bank X market presence and profitability due to Bank X already have a big customer base and possess a reputable name in banking industry.

4.3. SWOT Analysis

To win the competition the bank should recognized its strength and weaknesses. Strength, Weaknesses, Opportunity, and Threat (SWOT) analysis is used by the company to identify the company's existing strength and weaknesses and later will help the company to translate strategy into action.

Below is SWOT matrix based on Balanced Scorecard Perspective in Bank X

a. Financial Perspective

- **Strengths**

In 2010 Bank X booked Net Income by Rp.2.8 Trillion or 88% increased from 2009. Net Interest Margin (NIM) stood at 11.29% though the earning assets yield has dropped by 170bps to 16.6% in 2010, Cost of Funds also decreased by 180bps to 5.5% in 2010. Industry margin for the past 5 years was at 5.6% - 5.8%. Bank X high NIM was mainly driven by high yield from mass market segment.

- Weaknesses

CASA to Funding ratio for Bank X was at 40% still lower than CASA to Funding ratio industry at 70%.

Bank X Cost of Fund is highly depended on high cost deposits which, which can make the NIM not stable.

- Opportunities

Bank X's micro loan 2 Years Compounded Annual Growth Rate (CAGR) was 18.2% above 2 Years CAGR of the industry 10.6%. Market share in 2010 stood at 5.79% increased by 57bps compared to previous year. With strong brand and big network distribution Bank X has to the opportunity to increase market share.

On liabilities side, Bank X third party fund was Rp.80.2 trillion, grew by 18.4% from last year. With 3.4% market presence in the industry, Bank X has a big opportunity to grow.

- Threats

Due to high yield offered in the micro industry, currently there are many new players entering the micro industry. With so many players in the market there are potential risks the banks lowering their interest rate to get customer base.

The competition is also heavy in deposit industry, where most banks offering programs to customer that may lead to higher cost of fund.

From this two factors Bank X pressure in the interest rate and high cost of fund, Bank X is facing margin compression that may lead to financial instability.

b. Customer Perspective

- Strengths

Bank X is considered as customer centric organization which serves differentiated financial service. Bank X always tries to deliver customized products and services that suit targeted customer segments, each with a unique value proposition and risk management philosophy. In this way, Bank X ensures that customer needs are properly supported and inherent risks are fully considered. Bank X strong image in the society as one of the big bank in Indonesia has developed a significant trust.

Bank X distribution channel is considered one of the largest in the industry. With a large distribution channel e.g. branches, ATM and electronic channel offers convenience to the customer to do banking with Bank X.

Bank X commits to deliver service excellence to its customer. This is proven by the award Bank X has received from Infobank and Marketing Research Indonesia (MRI) as one of the best 10 banks in service excellence.

- Weaknesses

The pricing and marketing procedure is very conservative in Bank X and sometimes can be very bureaucratic. From external point of view, some will see that Bank X cannot beat the market in terms of pricing and promotion, and always step a behind from the competitors.

Bank X has not fully implement customer profitability, so many of the products offered with standard pricing and seem to be not competitive.

- Opportunities

As a customer centric organization, Bank X has the opportunity to offer a one stop financial solution to every customer, because Bank X has the capability and expertise to provide different kind of customer with different needs.

Cross sell initiative is one was to increase the value of Bank X existing customer, by giving the opportunities to try Bank X other products and services.

Most of Indonesian societies choose a bank based on its branch image and transaction capabilities. Bank X has built its positioning in the market which is very important to win market share.

- Threats

Due to a very competitive environment in the banking industry and low switching cost for the customer, especially for third party fund product, the bank needs to do extra effort to retain the customer by providing them with high interest rates and offer other gifts that will eventually increase the cost of fund and lowering the Net Interest Margin. This condition will risk the Bank X sustainable profitability.

Currently the top banks are competing to provide service excellence to their customer. Marketing Research Indonesia (MRI) has performed Bank Service Excellence Monitoring (BSEM) to the 19 top banks in Indonesia in 5 cities (Jakarta, Denpasar, Makassar, Lampung, and Malang). The scoring system was done through mystery shopper to measure the service delivery and customer experience is each of the banks. The two measurements was done through walk in channel (Branch) and Electronic Channel (ATM, phone banking, SMS Banking, and internet banking). Based on this survey Bank X was in the 9th position (from 19 banks that being surveyed) with total score of 78.86%. With other Banks are trying to maintain a service excellence to the customer, Bank X should target to improve the MRI score to get customer convenient when doing banking with Bank X.

c. Internal Process Perspective

- Strengths

Bank X is always put continuous effort to centralize process to achieve efficiency and create dynamic space for customers experience and satisfaction.

As one of the commitment to deliver reliable and scalable system that allows faster, flexible, and more secure transaction within the branch infrastructure, Bank X has currently launched the New Core Banking System (NCBS) that will provide superior service quality to customers and improve speed to market of new products and service.

- Weaknesses

The process weaknesses are categorized from 2 part: (1) Silo mentality among segment (2) Long decision making process due to bureaucracy

1. Each segment in Bank X is work in silo. Each segment will only consider their own profitability. The cross selling system is not fully implemented in Bank X. There are times that customer were confused when two segment from Bank X offering the same products with the different rates to the same customer. For example of this case is SME segment and Consumer segment. Customer B is a business man that being approached by Consumer segment to open a Saving Account for his/her daily operational activities. SME segment on the other hand see this customer as business man and being offered to open account while offering a higher rates of saving accounts compared to what were being offered by the Consumer segment. This case will be minimized if there's a mirroring performance for the 2 segments, for example the Consumer segment can later on referring to SME's if the business man required a working capital loan or other loan.

2. Bank X has a very large organization structure, for both business and support function. In performing initiatives, programs, and projects the business have to get approval from many parts of support function in the Bank, e.g. compliance, financial control, legal etc. However sometimes the approval process takes some times, and sometimes it is very important for business to have a quick decision to execute certain programs or initiatives.

- Opportunities

Bank X has more than 23,000 ATM networks which include ATM Bersama network and ALTO which located in 33 provinces. With huge distribution network, opens an opportunity for Bank X to become the ATM for all banks, which offer transfer to all banks, bill payment, and other service that use ATM Bersama and ALTO networks.

- Threats

Currently competitors are very aggressive in expanding distribution channel and launch innovative products to increase their market share. Most banks are now aware the importance of the service excellence to gain market share. Currently the service excellence to the customer is not only provided by private banks but now state owned bank also provide high quality service to its customer. From the survey done by MRI 2 of the State Owned Bank (Mandiri & BNI) has managed to rank the top 5 of the service excellence survey.

d. Learning and Growth Perspective

- Strengths

Bank X is a learning organization, with rising competition in the job market, it is imperative for Bank X to continue strengthening its ability to attract and develop its people. In 2010, a total of 8,000 training programs were launched and attended by over 70,500 participants.

- Weaknesses

The manpower planning system and career path in Bank X is far from perfect. The career path system is somehow clearer for the sales force than the support function (back office). The career path and promotion system in the sales organization is based on their achievement versus target. This is open an opportunity for high performer to be a branch manager or area manager level. However the for the support function, Bank X has yet have a clear system for career development.

- Opportunities

By having highly skilled professional in banking industry, the customer will feel comfortable in doing banking with Bank X, as the bank representative always try their best to fulfill customer financial needs.

On the Information and Technology point of view, Bank X always tries to be in front in the technology. With the implementation of the new IT platform (New Core Banking System), Bank X now has a reliable and scalable IT platform that allows faster, flexible and more secure transactions within the Bank's entire branch infrastructure.

- Threats

The competition in banking industry is not only limited to the getting more customer to increase market share, but also to retain best talent in the Bank. The employee turnover ratio in Bank X has reached double digit back in 2008 due to the accelerate growth of the micro industry. High demand of professional in micro business forced the bank to lose best talent to the competitor.

4.4. Bank X Strategies

Bank X is a customer centric organization which provide differentiated service provider to business and individual segment. With the expectation of economic growth in 2011, Bank X loans still sees the opportunity to grow and improve market share. However due to intense competition among the top 10 banks, there will be a risk of margin compression in the year ahead.

To stay competitive Bank X has built several priorities:

- **Achieve Financial Performance through loan and deposit growth by putting a high target across all segments.** CASA to funding ratio will be a challenge for Bank X. With current CASA to funding ration of 40%, Bank X would like to see the opportunity to improve CASA to funding ratio to 50%.
- **Pursue cross selling opportunities**
The number for customer base in Bank X opens an opportunity for cross selling activities across segment. Bank X doubled its cross-selling efforts, encouraging customers to try out other products and services in Bank X and also bundling more products across business lines.
- **Human capital management**
Human capital is an integral part to determine the success of the strategy. Bank X put a specific strategy to attract best talent in the market and to develop its key people. Bank X also focuses in creating the right environment to retain people. Thousands of trainings have been roll out to ensure the key people are well trained and up to date with current development.
- **Introduce new business initiatives**
To be a full customer centric organization, and commitment to promote innovation, Bank X launched a pilot project of pawn broking in some of its branches as the Bank's potential new venture.

4.5. Key Success Factors

To win the competition in the industry every company needs to identify its key success factors. Based on the SWOT analysis there are few key success factors that can be identified for Bank X.

- Large Network Distribution

As one of the top 10 banks, Bank X has a large network distribution with 470 conventional branches, 1,083 ATM, supported with internet banking and mobile banking, and 1,319 micro banking outlets. To add a new feature in its servicing line, starting early 2011, Bank X offered Cash Deposit Machine (CDM) to its customer for their convenience to do banking with Bank X.

With the size of the network distribution Bank X would like to offer convenience with fast and reliable service to its customer. In today competition the easiness of customer to get banking products and services is very crucial to keep and improve the Bank's market share.

- Reliable Technology and Information System

In order to give the best service to its customer, information and technology plays a very important role to increase the level of services to the customer. Bank X realized that the up to date information and technology system is essential to win the market share. One of the way that show the commitment of Bank X to keep the IT systems up to date is the implementation of the New Core Banking System (NCBS) which is the scalable IT platform that allow faster, flexible and more secure transaction within entire branch infrastructure.

- Innovative and Competitive Products

Bank X is one of the banks that keep innovating in of Saving Account, Time Deposit, Credit Cards, etc. For Saving Account Products Bank X offers a very competitive product that offers no administration fee, insurance, free transfer fee and direct gift, all bundled in one product. For other Saving Product, Bank X is

also focus to affluent segment which offer them convenience when doing transaction in Bank, provide them with airport lounge, etc. As for the Time Deposit, Bank X also offers a very competitive rate in the markets. In Credit Card product, Bank X is now starting to be aggressive in marketing ads, campaign, and promotion and also starting to offer other interesting program.

- **Professional Human Resources**

Human resources are very important factors in determining the success of the company. To become the leading financial services group in Indonesia, Bank X strives to attract, train and retain the best talents in the market.

The Bank runs a computerized assessment system to help its recruitment and promotion processes. This system not only serves as an effective tool for large-scale recruitment initiatives, but is also useful for managing a database for data analytics. Bank X completed the enhancement of Human Resources (HR) application with features to support recruitment, development, promotion and retention decision making.

4.6. Balanced Scorecard Bank X

A Balanced scorecard will help the management of Bank X to achieve its long term strategy with corresponding objectives and measures. The Balanced Scorecard helps the management to evaluate the company from the four key perspectives. As stated in chapter three, the Bank X vision is “We care and enable millions to prosper” with missions:

- “The Leading Financial Institution in Indonesia” with a significant market presence.
- A customer centric organization covering all customer segments, each with a unique value proposition, centered on sales and service excellence, supported by world class technology.

- Bank X aspires to be an employer of choice and to be respected by customers, employees, shareholders, regulators and the community.

The strategies priorities of Bank X which are loan and deposits growth, cross selling opportunities, human capital management, and new business initiatives can be translated in to action by through the four perspectives of the Balanced Scorecard which are financial, customer, internal business process, and learning and growth perspective.

4.5.1. Financial Perspective

Currently Bank X is in sustain stage, the Bank is continuously on the stage of continuously growing, in term of network, products, process, etc and on the other hand is expected to deliver excellence return from the invested capital. To measure the management performance, Bank X uses traditional financial measurements such as ROAA, ROE, Operating Income, Cost to Income ratio etc.

As a profit-maximizing company, Bank X retains the financial perspective as the ultimate objective. Financial perspective largely indicates whether a company's strategy and its implementation and execution are contributing to stockholder value creation. Bank X uses financial perspective as a tool to describe financial risks, such as a negative cash flow, cost and investment strategies, or the maximum permissible amount of accounts receivable. Essentially, the financial perspective is comprised of mostly traditional instruments of management control in the form of financial measures and key ratios.

Financial Perspective of Bank X is to increase revenue growth and increase efficiency and profitability. To achieve the strategy several things needs to be done.

Bank X strategies to increase revenue are based on the following:

1. Sustainable Loan and Deposit Growth

Loan is the biggest source of income of Bank X. Interest income represents 80% of total Bank X revenue, so it very important for the Bank to forecast sustainable loan growth in the long run. Bank X Net Interest Margin (NIM) slightly improved to 11.3% from 11.1% last year. Net interest income in 2010 grew by 5% to Rp 9,908 billion due to lower cost of funds (from 7.3% to 5.5%) and a slight increase in the average loan balance despite strong loan growth (31% y-o-y).

Micro businesses are considered to be one of the backbones of the country's domestic economy. The segment estimated to comprise more than 45 million households across Indonesia. Micro business customers include sellers and stall owners in more than 2,000 traditional or wet markets across the country, small traders and home industries, food hawkers, small scale workshops, mom-and-pop stores and other kinds of small businesses, many of whom had no previous access to banking services. Bank X loan engine is on mass market segment which

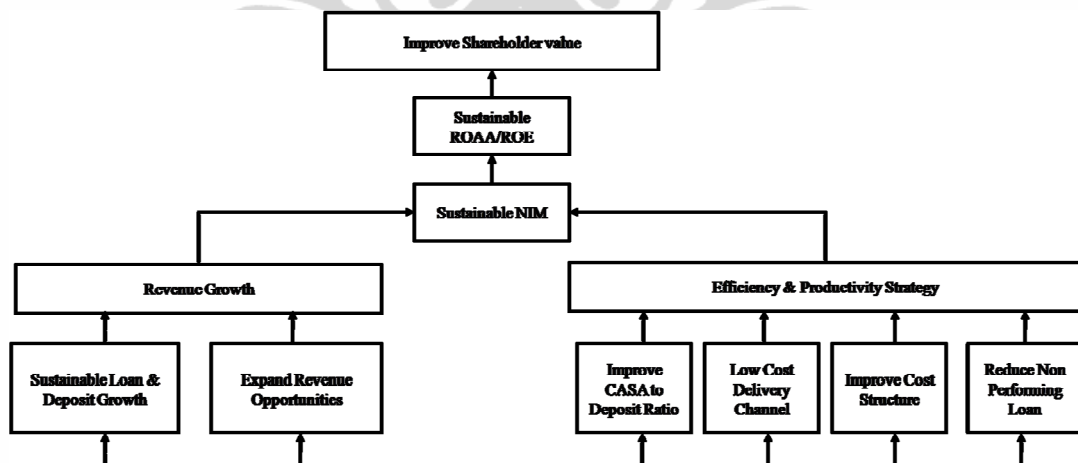


Figure 4.2. Bank X Financial Perspective

contribute 58% of total Bank X loan. The mass market segment grew by 40% to 47.6 Trillion in 2010.

From 2010 trend consumer loan of Bank X did not grow as fast as the industry growth. Consumer loan in Bank X declined by -9% to Rp. 4.48 in 2010. The trend is relative inverse with the consumer loan industry. In the past 5 Years consumer loan grew by CAGR 20.4% from 2005 to 2010. Based on the historical growth and by seeing the high level of tendency in customer spending, Bank X still has a big room to grow in consumer loan.

Bank X deposit stood at Rp. 81 trillion increased by 18.4% YoY. Bank X 3 Years CAGR was 11.74% still below than industry 3 Years CAGR of 15.7%. With 3.4% market share in 2010, Bank X still has room to grow.

2. Expand Revenue Opportunities

One way to expand revenue opportunities is by increase fee based income generating capability. By offering different kind of wealth management product, such as bancassurance, investment banking products, to annual fee from credit cards, increase bill payment capabilities are all activity that will generate fee based income.

Bank X strategies to increase efficiency and productivity are:

1. Maximize Deposit Portfolio Mix to Get Favorable Cost of Fund

CASA to Funding Bank X at the end of 2010 was 40%, still lower than the industry at the average of 54%. By referring to this ratio Bank X still have a lot of room for Cost of Fund maximization by improving the CASA to Deposit ratio.

2. Low Cost Delivery Channel

Bank X is now moving from bricks and mortars towards to electronic channel. Compared the investment in the branch channel, the investment on the E channel can reduce the cost of transaction in the long run.

3. Reduction on NPL

Asset quality of a loan is measured by Non Performing Loan (NPL) ratio. Though 50% loan of Bank X is generated from micro business which perceived to have higher risk than other segment, Bank X has managed its NPL level the same as the industry.

4. Improve Cost Structure

Cost to Income ratio is a measurement to calculate the total company's cost relative to total income in a given year. Cost to Income ratio is used for measuring operational efficiency. Cost to Income ratio of Bank X stood at 49.7% slightly improved from last year by 10bps. With the risk of margin compression due to competition, Bank X needs to improve its cost to income ratio

4.5.2. Customer Perspective

Competition in banking industry is getting stiffer every day. All the players in the banking industry are competing to provide innovative products and services to the customers. To deal with this situation, it is very essential for Bank X to keep innovating and maintaining high level of service to give value to its customer. With competitive products and excellent service quality, the bank will expect to get high customer satisfaction and loyalty, and eventually increase market share

In 5 years time Bank X aimed to reach to be the top 5 in terms of Assets and Third Party Fund. The 5 on 5 means to reach rank 5 in term of assets, loan, and third party fund. To be the top 5 in term of in term of assets, Bank X needs to grow by 27% (assuming the industry and competitors will grow based on their 3 Years Compounded Annual Growth Rate) to gain market share of 6.3% (2010 Market Share 3.8%). In term of third party deposits Bank X needs to grow by 32% (assuming the industry and competitors will grow based on their 3 Years Compounded Annual Growth Rate) to gain market share of 6.6% (2010 Market Share 3.5%).

Bank X positioned itself as a customer centric organization and provides differentiated financial services to its customers from different segment. The value proposition offered by Bank X to its customers cover:

1. Operational Excellence

On the lending side, Bank X provides convenience through clear guidelines of speed, simplicity and convenience from loan processing, approval to loan repayment. This proposition has proven to attract many micro businesses who valued Bank X as an average three-day loan approval turnaround, served by highly competent, disciplined and service oriented workforce providers.

For Deposit product, Bank X adopts the concept of community banking, where the sales team and the branch are focus on the needs of the businesses and families where the bank holds branches and offices.

Currently Bank X is position itself as a one stop financial service provider. Which allow the customer to get all financial services and solution in every Bank X branch distribution network.

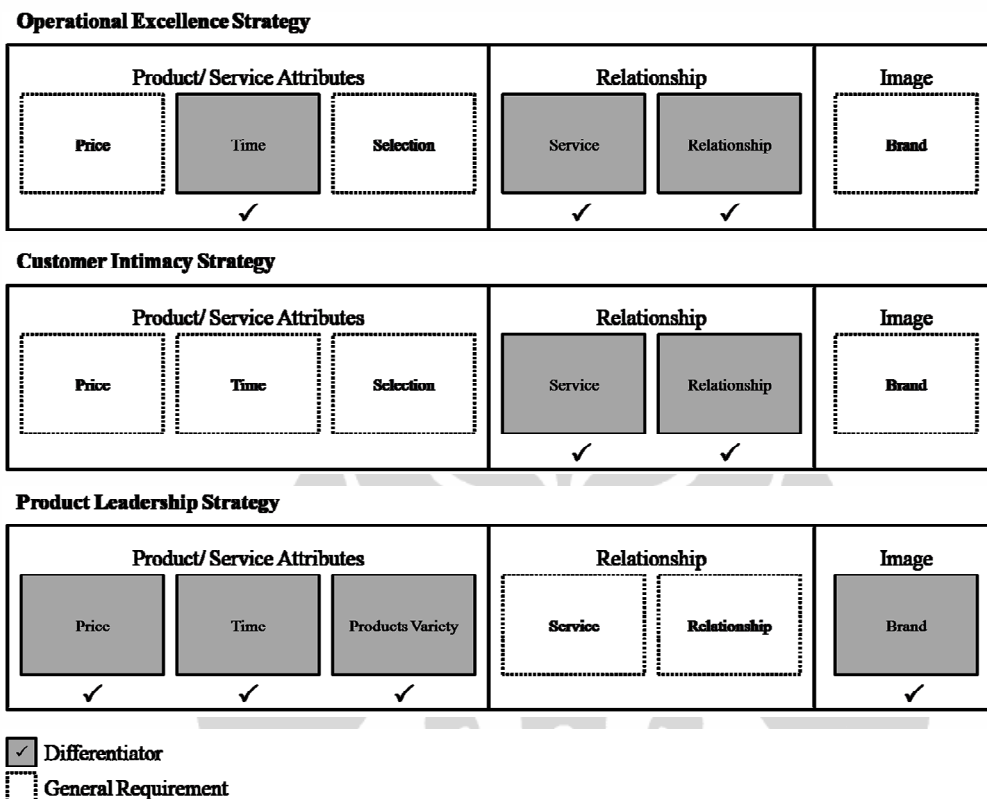


Figure 4.3. Bank X Customer-Value Proposition

2. Customer Intimacy

To increase the customer satisfaction level, Bank X aimed to become “Your trusted provider of total financial solutions throughout your lifetime. Anytime and anywhere. In doing so Bank X strive to be a one stop service provider which serves the middle class and affluent segments by meeting their savings requirements, transaction, wealth management and their lending needs.

As part of building customer intimacy, Bank X is always tries its best to provide excellence service and providing its customer with easiness in accessing the Bank through:

- Electronic channel such as ATM, Internet Banking and Mobile Banking
- Bank X Access Center, which enable customer to do transaction via telephone
- Customer Care Unit.

Number of distribution channel is one of determination factor for product accessibility. For Retail Banking, in order to generate low cost deposits (CASA), Bank X has invested in electronic banking, such as ATM, Cash Deposit Machine (CDM), internet banking, mobile banking, etc. And not leaving conventional branches where customer can do traditional banking activities. In 2010 Retail Banking has 470 branches with 1,083 ATM, and planning to expand 89 new branches and 300 ATM & CDM in 2011. In micro business, a big network distribution is essential to make sure that the customer has the flexibility to get the loans they required to run their business. By the end of 2010 micro segment have 1,319 outlets which cover approximately 2,000 traditional or wet markets across the country, small traders and home industries, food hawkers, small scale workshops, mom-and-pop stores and other kinds of small businesses.

Bank X Customer Care Unit is a dedicated, centralized unit tasked to handle customer complaints filed through telephone, e-mail, fax, web-site, and the mass media. To ensure prompt response in complaint handling, the Bank establishes its Service Level Agreement (SLA). SLA ensures that all complaints are handled professionally based on the defined SLA standards set by the Bank.

Customer perspective can be measured through customer survey. The process of the customer survey can be done both externally and internally. Market Research Indonesia (MRI) and Infobank have published the quality of banking service for the year 2011. Based on the survey done by mystery shopper method through walk in channel, automatic teller machine (ATM) and other E-channel (phone banking, mobile banking, and internet banking), from the 19 banks (4 government owned banks, 12 commercial banks, 3 foreign banks) in 5 cities (Jakarta, Denpasar, Malang, Makassar, and Lampung). Based on the survey Bank X's rank has improved to rank 6 in 2011 from rank 10 last year, with total score of 78.86% improved from last year score of 75.18%.

Banking products is relatively similar from one Bank to another. Bank X needs to put their effort to continue fulfilling their customers' financial needs through innovative products. To understand the customer needs better, Bank X could perform a random survey to its customer and hold a focus group discussion to get customers input in as a based to enhance its existing product feature or new product development. To maintain consistency and keeping the Bank up to date on the customer's needs, the initiative should become a regular activity for the Bank.

3. Product Leadership

In banking industry innovative products and excellence customer service are two important factors in winning customer loyalty. As a customer centric organization which offer variety of products to different segment, Bank X always try it best to provide its customer with high level of services and financial needs. In the deposits side, Bank X offered what is so called no-admin fee saving product, current account with direct gift. For the term deposit product Bank X offered a very competitive price and flexibility for its customer to choose their tenor. In the loan side Bank X offered wide range of products from mass, retail, and corporate segment.

In term of services Bank X always try its best to offer excellence service to its customer supported with trained professional in banking industry. With large network and strong distribution capacity, Bank X tries to make sure that customer will get comfortable and the flexibility of getting Bank X products and services.

4.5.3. Internal Process Perspective

To achieve Bank X customer objectives, and ultimately the financial objectives, a performance measurement to track the key internal processes and activities that support customer value proposition is one of the key successes.

The internal processes for Bank X that support the strategy are the following:

1. Continuous Innovation

To maintain customer loyalty and winning market share, Bank X need to keep innovating in order to keep up with the industry. Banking products is relatively similar from one bank to another. Bank X challenge is to keep the innovation, bring them to market rapidly and communicating the new product to the customers. To keep customer satisfaction level high, Bank X also need to be innovative in term of service. The new branch look and feel and how the customer service greet the customer, is one of the way to make customer feels comfortable when visiting one of Bank X branch. The way the bank communicates its products and Bank X other competitive advantage through attractive marketing campaign, direct gift, program, etc. is also one of the ways to attract potential customer.

Strategy	Continuous Innovation	Customer Management Process	Operational Process
Product Leadership	<ul style="list-style-type: none"> • Product Innovation • Existing Product Enhancement • Expedite time to market 		
Customer Intimacy		<ul style="list-style-type: none"> • Relationship management • Cross-sell initiatives • Advisory Service 	
Operational Excellence			<ul style="list-style-type: none"> • Process efficiency by optimizing IT resources • Supply chain management

Figure 4.4. Bank X Internal Process Perspective

2. Increase Customer Value through Customer Intimacy

Customer management is part of the internal business process perspective that will derived customer satisfaction level that will eventually expected to increase the market share of Bank X. For the Bank to know the financial needs of their customers through building customer relationship management (CRM) capacity, is expected to build customer's intimacy. The long term objective in Bank X is to create sustainable profitability through revenue growth and efficiency and productivity strategy. The factors to build revenue growth are by sustainable loan and deposit growth and expand revenue opportunities. These are built through customer acquisition and deepening, and the customer relationship management will help to increase the customer intimacy and by the end are expected to create long term relationship between the Bank and its customers.

Customer Relationship Management (CRM) is part of the Bank to manage interactions with its customer. It involves using technology to organize, automate, and synchronize business processes—principally sales activities, but also for marketing, customer service, and technical support. The overall goals are to find, attract, and win new customer and retain those the company already has.

Customer profitability is one of the tools to identify high potential customer. Once the customer has been identified, Bank X can see a better picture of its customer behavior. This approach will open opportunity for Bank X to offer the products that fits the customer needs with a competitive price. Cross sell initiative has not been fully implemented in Bank X. With a big customer base, also means a big opportunity for successful cross selling initiatives in Bank X.

As part of providing one stop financial solution to its customer, Bank X also provide advisory service to the customer at the same time to explore the customer's financial needs.

3. Operational Excellence

Operational excellence built through process efficiency and internal process capacity. Process efficiency should be supported with strong IT resources. In order to support its operation and business process Bank X has formed Information Technology Steering Committee (ITSC) which responsible for ensuring alignment between its business strategy and IT strategy.

4. Become a Good Corporate Citizen

Bank X Corporate Social Responsibility (CSR) is organized through close coordination between the Bank and Bank X care foundation. To deliver its mission effectively, the foundation adopts internationally accepted best practices from world-class non-profit organizations. This includes the establishment of a Board of Trustees, consisting of highly reputable and prominent individuals who are concerned about Indonesia's sustainable development.

4.5.4. Learning and Growth Perspective

The value creation in most of the organization is dominated by the influence of human capital. People—their knowledge and means of sharing it—are what is driving value in the company. The learning and growth perspective gives the foundation as the basic of the other three perspectives. The learning and growth perspective needs a long term commitment and investment from the company, since it is related with people, corporate culture and technology development.

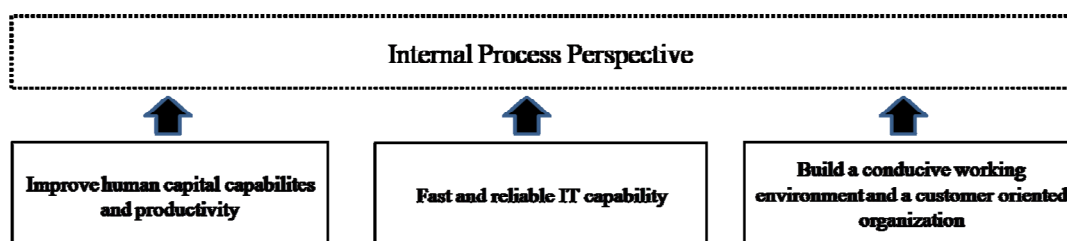


Figure 4.5. Bank X Learning and Growth Perspective

To hear what the employee opinion to the company and management, Bank X restarted the annual Employee Engagement Survey (EES) in 2010 to measure the management against the expectations of the employees.

The following are the initiatives performed by Bank X for the Internal Process Perspective:

1. Employee Competencies

In developing the human capital Bank X continuously focus on creating a positive environment to keep employee satisfaction high. Bank X committed to help their employee to maximize their strengths, by continuously developing their talents, and giving them new challenges.

Bank X Corporate University is the central hub of the Bank's people development activities. The corporate university consists of five different academies: Leadership & Culture School, Sales & Service School, Credit & Risk Management School, Operation & Technology School and Financial Industry School. Each school is headed by a dean who usually also holds a senior position within the Bank's organization. The corporate university also runs e-learning portal, where employees can participate without leaving their workplace. Bank X took the employee development through training seriously, in 2010 there were approximately 8,000 training and workshop programs were organized nationwide. Total training man days reached 165,000 man days, a 41% increase from 117,000 man-days in 2009.

Bank X continuously promotes the internal hiring program, both to fill available positions and to give even more growth opportunities to the Bank's talents. For that, Bank X will put more efforts to increase its employee average skill index, which in the future will facilitate more cross-functional talent transfer.

2. Information System Effectiveness

Bank X information technology developments have a vision to build a world class IT Platform to be consistent with Bank X's business goals. After the completion of NCBS project in 2010, Bank X now has a reliable and scalable IT platform that allows faster, flexible and more secure transactions within the Bank's entire branch infrastructure. The new platform will also allow the Bank to provide superior service quality to customers and improve speed to market of new products and services.

Simultaneously, Bank X continued to improve its electronic channel service with the expansion of its ATM network by 29% that now comprises 1,083 ATM machines nationally. The Internet Banking service has now reached on average over one million transactions per month. Sales Prospecting Application and Mobile Collection Application systems were implemented in 2010 for Bank X micro business.

3. Corporate Culture

To promote conducive working environment, a new Corporate Culture unit was formed under the Human Resources Division in 2010, specifically with the task to develop a positive culture based on Bank X values.

4.7. Bank X Strategy Map

The Balanced Scorecard strategy map integrates the four perspectives into a strategic objective of the company. The growth theme in the financial perspective is realized through the increase in market share, sustainable loan growth, and expands revenue opportunities. For the efficiency and productivity strategy, Bank X have potential to low the cost of fund from the improvement of CASA to Funding ratio and low cost delivery channel by promoting the customer to do more transaction on electronic channel, and improve cost structure. An improvement in assets quality and reduction on the non performing loan will reduce the provision expense for the Bank.

The success of financial perspective is supported by the success of other perspective. The customer perspective is the heart of the strategy, defines how the growth will be achieved. The customer value proposition is based on the competitiveness of the price of the products that being offered, the timeliness of customer in receiving the products, and also the availability of different kind of financial solution in Bank X. To communicate the product of Bank X to the customer, it is required to have a skill full professional that has a good communication skill that will help them to convince the customer to do banking with Bank X.

Customer perspective should be supported with a good internal business process perspective. Continuous innovation should not be only for product side but also service. Service excellence is one of the key of the success to get customer loyalty. Every aspect in Bank X should work hand in hand to provide excellence service, expedite credit processing, effective promotion, provide one stop financial solution to customer and provide a satisfactory after sales service which by the end will increase market share. The learning and growth perspective defines the competencies of the professional in the bank, up to date Information Technology, and good working environment or climate to support the above high priority processes and activities.

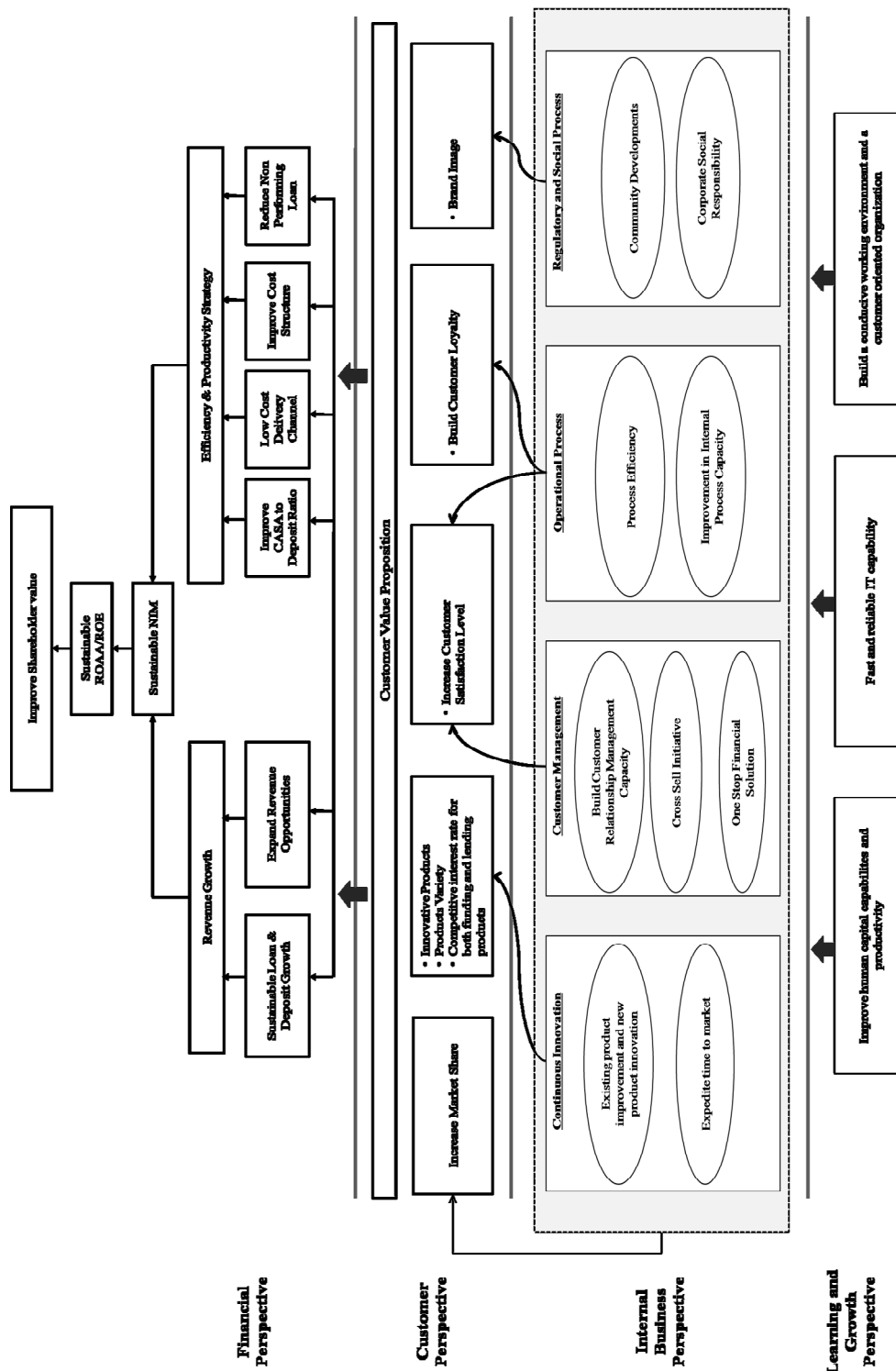


Figure 4.6. Bank X Strategy Map

4.8. Balanced Scorecard Measurement

To make sure each of the perspective in the Balanced Scorecard implemented as per plan, a performance measurement is required as a milestone to see if the strategic planning works based on plan.

- Financial Perspective

Financial metrics should be derived as direct translations of the organization's strategy. Strategies are concerned with the differentiating activities that ultimately lead to success, and therefore the Bank would expect a wide variety of measures in each of the Scorecard perspectives. Bank X focus financial measures related to two areas: growth strategy and efficiency and productivity strategy.

Table 4.1. Financial Perspective Measurement

Strategy Objective	Strategic Measurement
Increase Profitability	ROAA, ROE
Loan Growth	% of Loan Growth and Loan Market Share
Deposit Growth	% of Deposit Growth and Deposit Market Share
Improve Cost structure	Cost to Income Ratio
Improve Assets Quality	Improvement of % NPL
Improvement in Cost of Fund	Improvement in CASA to Funding ratio

The long term share holder value is measured by the sustainable ROAA/ROE which delivered through revenue growth and efficiency and productivity strategy. To build its sustainable revenue growth by increasing market share, Bank X committed to grow its loan and deposit franchise faster than the industry. Bank X is aspired to become the top five in terms of loan and deposit share in the country. In 2015 Bank X aimed to reach to be the top 5 in terms of loan and third party fund. In loan side, Bank X needs to grow by 26% (assuming the industry and competitors will grow based on their 3 Years Compounded Annual Growth Rate) to increase its market share to 5.8% in 2015 compared to 4.7% in 2010. On the third party deposits Bank X needs to grow by 32% (assuming the industry and

competitors will grow based on their 3 Years Compounded Annual Growth Rate) to gain market share of 6.6% in 2015 compared to 3.4% in 2010.

In order to achieve its financial perspective target, several action plan needs to be taken:

- Continuous investment in high yielding business
- Aggressive while remain prudent in loan disbursement
- Maximize market intelligence capability to seek for new market opportunities
- Increase capabilities in generating fee income trough utilization ATM as a payment point, increase investment and bancassurance product etc.
- Increase its funding franchise especially on the low cost funds
- Customer's education to move branch transaction service to electronic channel
- Implement the work program by applying spending priorities to maintain cost to income ratio

- Customer Perspective

As a customer centric organization Bank X provides differentiated financial services to its customer from different segment. Increasing customer value is an important factor for the bank to maintain long term relationship with its customer.

It is important for the Bank X to maintain customer's convenience in accessing its product and service. Market share of Bank X network distribution such as branch, ATM and other distribution channel relative to the industry should be periodically measured to ensure the market presence and customer convenience is very well maintained. By keeping up to date on customer's need, will push Bank X to keep innovative in new and existing product development.

Table 4.2. Customer Perspective Measurement

Strategy Objective	Strategic Measurement
Product Accessibility	% Network Distribution Market Share
Innovative Products	Customer's take up rate of the new products
Increase Customer Satisfaction Level	Customer Satisfaction Index
Increase Customer Loyalty	Customer Loyalty Index
Provide Excellence After Sales Service	Reduction of customer complaints
Improve Brand Image	Brand Awareness Index
Customer Growth	% Number of Customer Acquired
Corporate Social Responsibility	Increase in the number of social activities Increase in the number of volunteers

As a service provider in financial industry, it is important for the bank to know the level of customer's satisfaction and to measure the bank's relationship with its customer. The measurement is done through market research and customer's survey. Bank X use below measurement to measure the relation with its customer:

- Customer Satisfaction Index,
- Customer Loyalty Index,
- Number of customer's complaints

The marketing effectiveness on Bank X brand image and promotion strategy is measured by:

- Brand Awareness Index
- Number of Customer's Acquired

Becoming a good corporate citizen will improve the brand awareness in the society. As part of performing social responsibility, Bank X through its foundation promotes sustainable development based on community driven activities and volunteerism.

- Internal Process Perspective

Bank X Retail Banking aspired to be the customers trusted provider of total financial solutions throughout the lifetime. Anytime and anywhere. To achieve this unique value proposition Bank X will act as a One-stop-shop that provide all the financial solution to the customer and provide operational excellence by providing simple, fast and convenience process to the customer and also accessibility and availability for customer in the case of complain or other queries.

Internal perspective of Bank X is determined by the sensitivity and the speed of the company to respond to customer's needs and changes in business environment from its key people and process to deliver innovative and competitive product and service excellence to its customer.

To fulfill the need of its existing customer, Bank X needs maximize the cross selling effort to encourage potential existing customers to know more about other Bank X products based on their financial needs. Every segment inside the Bank need to cooperate to make sure the cross sell program runs. Each of the segments may ask leads to other segment to retrieve information about their customer which may fit with their segment profile. The procedure may also be implemented through Customer Relationship Management (CRM).

Once the potential customer become the customer of the Bank, the Bank needs to make sure that the customer feel convenience in doing banking with Bank X. Most customers required fast and reliable service in branch. Bank X must have a standard to measure each touch point time spend, from the customer walk into the branch until they finish the transaction in the branch.

After sales service is very important to keep the customer's satisfactory level. Bank X has prepared an infrastructure that customer may call in the Bank in 24/7 without customer physical appearance in the branch.

A reliable services supported by the Information and Technology capacity is very crucial in maintaining service excellence. The Bank should maintain its capabilities to maintain the system downtime as minimum as possible.

Table 4.3. Internal Process Perspective Measurement

Strategy Objective	Strategic Measurement
Product and Service Innovation	Number of products and service initiatives launched
Process Improve in Customer Service	Bank Service Excellence Index
Build CRM capacity and Cross Sell initiatives	<ul style="list-style-type: none"> • % of customer being cross sell • Customer's Take up rate
Improvement in distribution channel capacity	<ul style="list-style-type: none"> • % of ATM and Core System downtime • Improvement in processing time

- Learning and Growth Perspective

The strategic theme of learning and growth perspective is to provide an infrastructure to achieve the other three perspectives. The infrastructure will include human capital, information technology, and company's culture.

The improvement of human capital is measured based on the training man days that is provided by the company and the number of employee attending the training. In 2010 Bank X has reinitiated Employee Opinion Survey, where the bank measures their employee expectations and satisfaction across the organization. The results from the survey will be used to develop plans for improvement. And also for improvement, on the same year Bank X also restarted its annual Employee Engagement Survey (EES), where the bank measures itself against the expectations of its people. The survey outcomes, which will be delivered in early 2011, will form scorecards to measure how well teams within the Bank perform and describe action plans for improvement.

On Information and Technology the Bank needs to provide a fast and reliable service to its external and internal customer. Integrated database and accessibility

are very important to build a good operation process. In order to keep up the phase, an investment in the new technology is very important for Bank X to maintain and improve its service level. With a large network presence and also big number employee, the Bank needs to build an integrated IT system to support its business growth.

Table 4.4. Learning and Growth Perspective Measurement

Strategy Objective	Strategic Measurement
Improve the capability of human capital	<ul style="list-style-type: none"> • Training man days • % Top and low performer composition
Motivation and alignment	<ul style="list-style-type: none"> • Employee Opinion Survey • Employee Engagement Survey
Increase loyalty	% of employee turnover rate
Provide reliable IT infrastructure	% of IT investment over total Bank's capital expenditures

4.9. Balanced Scorecard Implementation in Bank X

The management in Bank X is getting used to the traditional budgeting processes which more focus just on the lagging indicators, such as business growth, and Profit and Loss. The assumption was made based on historical financial performance and future initiative without thoroughly looking at the true potential in the company. Another issue in the current budget system is that it only prepared on yearly basis without really looking on the company's long term goal, and not flexible in the case of changes in macroeconomic assumption, e.g. interest rate, foreign currency, etc.

The management should start a system that is more focus on the long term shareholder value creation and link the strategy into operation. To continue with the initiatives a special task force needs to be formed to setup the ground rules and measurement system that needs to be followed by every unit in Bank X. The task force itself should be consisted with a highly competence people on their field. The

team should be formed with the mix of expertise from key division e.g. Business unit, Finance, Operation, Information Technology and Human Resources.

The main job of the task force is to formulized and develops a Balanced Scorecard to convert business plans into operation metrics, target, and action plan. And also to setting up a measurement system, monitoring and reporting tools to the management.

The implementation of Balanced Scorecard can be done in multiple steps such as short term (yearly basis), or long term (five year period) and should be supported by every unit in Bank X. The management at first should give a general picture to senior team member, and to middle management level of what is the company trying to achieve in the long run, and what is the high level strategy based on the four perspective of Balanced Scorecard to achieve that goal. Based on the information, each business unit and support group must come up with their unit's strategic plan based on the four perspectives to support the management strategy.

Every end of year there should be an evaluation on the four Balanced Scorecard perspectives in every unit. The task force should ensure that realization is still in line with the company's long term goal. Every year should also be a mile stone in getting the long term plan. The yearly budget should now not only become a target but also a miles stone whether the long term strategy is still on track.

To make sure that the strategy is cascading down to all employees, Bank X needs to communicate this strategy extensively and systematically throughout the company. This is a very big challenge for the company. As part of the management commitment to implement and communicating the strategy throughout the bank, a special intranet page which explains about the purpose of the Balanced Scorecard, instruction, presentation, and training module should be in place. Or for those who do not have any access to the internet, an internal company's magazine is also one of the tools to communicate the initiatives to the employee.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

Below conclusion can be withdrawn based on analysis from previous chapter:

- In evaluating performance measurement of the company, the management of Bank X put more focus on financial perspective. Management discussions were about budget deviation and its causes. The medium and long term planning process of Bank X was also prepared by focusing more on the financial perspective e.g. portfolio growth and profitability.
- Non-financial perspectives are already conducted in the company such as employee survey, customer engagement index, technology development and innovation etc. However management discussion on the business performance did not take into account the non-financial perspective, so most unit did not fully utilize the information generated from the other perspective. By seeing the situation it seems that the financial perspective and non-financial perspective are two different measurement systems, and do not have direct correlation between one another.
- Therefore the management requires a performance management tools that can balance the financial and non-financial perspective to achieve its long term strategic objective. With implementation of Balanced Scorecard as a performance management tool, the top management can see the whole business from the two perspectives. With the full picture on hand, the management decision making process to achieve long term value creation will be optimum.

5.2. Research Limitation

In preparing this research, there are some limitations as follows:

- The research is more focus on the corporate level of Bank X.
- This research was based on the writer's observation on management presentation and discussion on the company's strategic planning and performance measurement process. In performing this research, the writer did not directly interact with the company's management through internal discussion, interview or questioners.
- The cause and effect relationship of this research is based on assumption; therefore the output of the implementation of the Balanced Scorecard may come to a different result.

5.3. Recommendation

Other than becoming the leading financial institution in Indonesia the other points of the Bank X's mission is related to customer centric organization and to become the employer of choice which in line with the customer perspective and learning and growth perspective of the Balanced Scorecard. Therefore it is essential for management to have measurement tools that oversee the non-financial perspective to achieve its mission.

With the Balanced Scorecard implementation as an alternative performance management tools to measure overall company's performance, several action plan need to be taken to ensure the success of the Balanced Scorecard implementation in Bank X.

- A special task force should be formed that consist of highly qualified people from Business Unit, Finance, Operation, Information Technology and Human Resources department. The focus of the task force should be based on the

ultimate financial perspective. One task force should be responsible on business growth initiatives and the other will be more focus on operational excellence which focuses on efficiency and productivity.

- Cascading the corporate scorecard to business and support unit to get inputs based on their business and organization characteristic. And finalize the strategy map with its strategic objective, measurement and action plan based on business and support unit input.
- Bank X organization consists of multiple businesses and support unit, therefore creating alignment between the two are very important to determine the success of the implementation of the Balanced Scorecard. Cascading the strategy map to business unit should be done vertically and horizontally across all business units. Operational excellence, strict cost management, and reduce complexity by agreed Service Level Agreement (SLA) across business support is also important to support business growth.
- The company's medium and long term strategic plan should be prepared based on the four perspective of the Balanced Scorecard, and the yearly financial budgeting process should be based on the financial perspective that already set up when preparing the long term strategy plan.
- The Balanced Scorecard should be a main discussion in internal annual business review by management. The annual review session should be treated as milestone to see whether the company is on track in achieving its mission and vision. As an additional of the monthly performance review by the management, a quarterly review on the Balanced Scorecard is also recommended to see the market condition, competition, and overall performance.
- To ensure the success of Balanced Scorecard implementation the overall company strategy and program should be clearly communicate to all employees. The role of Information and Technology to disseminate the Balanced Scorecard

information, instruction, strategic measurement etc to all employees is very important and can be part of building learning and growth perspective.

- To make sure the Balanced Scorecard implementation works as plan, the management's annual bonus should be measured by the weighted average of each perspective in the Balanced Scorecard. However due many measurements in the Balanced Scorecard, the management needs to determine the most critical measurement that should be linked with bonus or incentive system calculation.
- Lastly, management long term commitment to improve company's performance and create a good working environment for the employee is very essential to ensure the success of Balanced Scorecard implementation.

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Appendix 1
Industry – Asset Growth Forecast

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2015	2015
	(Actual)	(Actual)	(Actual)	(Actual)	(Forecast)	(Forecast)	(Forecast)	(Forecast)	(Forecast)	(Forecast)	Market Share
Assets	1,986,798	2,311,012	2,501,593	3,008,198	3,454,278	3,966,506	4,554,692	5,230,098	6,005,659		
Industry	306,563	340,181	375,239	410,619	452,632	498,944	549,994	606,268	668,300	11.1%	3
Mandiri	204,009	250,134	318,447	395,396	492,977	614,640	766,329	955,453	1,191,253	19.8%	1
BRI	218,615	246,702	283,182	323,345	368,407	419,750	478,247	544,897	620,835	10.3%	4
BCA	184,463	200,974	226,911	241,169	263,709	288,356	315,307	344,777	377,000	6.3%	5
BNI	54,733	69,305	106,889	142,932	196,829	271,050	373,258	514,008	707,831	11.8%	2
CIMB Niaga	86,684	104,842	96,806	113,861	124,696	136,563	149,558	163,791	179,378	3.0%	8
Danamon	51,384	63,628	76,270	106,508	135,800	173,148	220,768	281,485	358,899	6.0%	6
Panin	39,131	5,422	56,213	74,040	91,576	113,265	140,092	173,271	214,310	3.6%	7
Permata	50,941	54,068	58,737	72,030	80,847	90,742	101,850	114,316	128,309	2.1%	10
BIl	NA	NA	58,481	68,334	79,847	93,300	109,019	127,387	148,849	2.5%	9
BTN											

Appendix 2
Industry – Loan Growth Forecast

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2015 Market Share	2015 Rank
	(Actual)	(Actual)	(Actual)	(Actual)	(Forecast)	(Forecast)	(Forecast)	(Forecast)	(Forecast)		
Loan	1,002,012	1,307,688	1,437,930	1,765,845	2,132,942	2,576,355	3,111,947	3,758,883	4,540,308		
Industry	114,361	161,130	206,117	241,020	309,014	396,190	507,958	651,258	834,984	18.4%	1
BRI	125,280	156,900	178,043	217,809	261,903	314,924	378,678	455,339	547,519	12.1%	2
Mandiri	82,503	112,686	122,991	153,116	188,164	231,235	284,166	349,211	429,146	9.5%	4
BCA	87,774	111,044	119,991	132,431	151,891	174,210	199,808	229,168	262,843	5.8%	5
BNI	41,843	50,117	82,158	102,715	138,560	186,914	252,142	340,133	458,831	10.1%	3
CIMB Niaga	53,330	66,898	63,278	82,658	95,658	110,703	128,114	148,264	171,583	3.8%	7
Danamon	29,026	36,588	41,284	55,705	69,225	86,026	106,906	132,853	165,097	3.6%	8
Panin	25,989	34,880	41,243	51,529	64,735	81,325	102,168	128,352	161,246	3.6%	9
Permata	22,352	32,022	40,719	51,458	67,946	89,718	118,465	156,423	206,545	4.5%	6
BTN	28,189	34,757	37,114	50,065	60,630	73,424	88,918	107,681	130,404	2.9%	10
BII											

in Rp Billion

Appendix 3
Industry – Deposit Growth Forecast

Description	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010 (Actual)	2011 (Forecast)	2012 (Forecast)	2013 (Forecast)	2014 (Forecast)	2015 (Forecast)	2015 Market Share	2015 Rank
	3Y CAGR										
Deposit	1,510,834	1,753,292	1,973,042	2,338,824	2,705,564	3,129,811	3,620,582	4,188,308	4,845,057		
Industry					15.7%						
Mandiri	235,802	273,566	299,722	332,728	373,196	418,585	469,495	526,597	590,644	12.2%	2
BRI	164,997	201,093	254,790	328,779	413,727	520,622	655,137	824,407	1,037,411	21.4%	1
BCA	189,178	209,535	244,666	277,534	315,354	358,327	407,157	462,640	525,685	10.8%	4
BNI	145,567	162,775	188,656	189,351	206,698	225,634	246,304	268,869	293,500	6.1%	6
CIMB Niaga	45,108	51,560	86,258	117,820	162,259	223,458	307,740	423,812	583,662	12.0%	3
Danamon	58,047	75,373	68,419	80,986	90,494	101,118	112,990	126,255	141,078	2.9%	7
Panin	31,364	46,254	56,307	75,055	100,391	134,280	179,609	240,239	321,336	6.6%	5
Permata	NA	42,803	45,751	59,512	70,173	82,744	97,566	115,044	135,653	2.8%	8
BII	NA	43,712	47,515	59,979	70,258	82,300	96,404	112,927	132,280	2.7%	9
BTN	NA	NA	40,216	47,547	56,214	66,462	78,577	92,901	109,836	2.3%	10

- c. Are acted on by the CEO and senior management team (e.g., CEO calls relevant staff to enquire what is going on)
- d. Clearly indicate what action is required by staff (e.g., staff can understand the measures and know what to fix)
- e. Are measures that tie responsibility down to a team (e.g., CEO can call a team leader who can take the necessary action)
- f. Have a significant impact (e.g., affect one or more of the critical success factors [CSFs] and more than one BSC perspective)
- g. They encourage appropriate action (e.g. have been tested to ensure they have positive impact on performance)

A KPI should tell you what action needs to take place. A KPI is deep enough in the organization that it can be tied to a team. Planning and action must be based on accurate measures of a company's KPIs.