

# “Evaluating the Effectiveness of Performance Management Systems to Move Towards Become a Digital Company”: Case Study PT. XYZ (SOE Company in Indonesia)

Alimah Azmi and John Welly

## ABSTRACT

The era of digitalization requires State-Owned Enterprises (SOE) in Indonesia to carry out digital transformation. PT. XYZ is a state-owned company engaged in Electronics for Industry and Infrastructure in Indonesia. The Ministry of SOE has implemented the Seven Elements of Human Capital Architecture to increase competitiveness in the face of current digitalization. One of the architectural elements that is carried is the Performance Management and Rewarding System. Currently PT. XYZ still uses the traditional performance management system whose use is ineffective due to several factors including non-integrated data; manual processing takes a lot of time only for administrative functions and does not have a major impact on employee development. This brings a question whether the performance management used by PT. XYZ is currently in accordance with the SOE company plan to move toward becoming a digital company. In carrying out digital transformation, a broader is needed culture in companies that instill a digital mindset in the company's values. Based on the digital cultural framework promoted by CIGREF, the authors adapted this framework to measure the readiness of digital culture and the effectiveness of PT XYZ's performance management system. The seven dimensions measured in PT XYZ's digital culture are Viability, Openness, Knowledge, Agility, Trust, Interdependence, and Responsibility. Three dimensions measured in the Performance Management System of PT. XYZ stands for Openness, Knowledge, and Agility. Primary data to analyze and research this question were collected from the results of an interview with one of the HR and GA employees of PT. XYZ as well as the distribution of questionnaires. The survey also shows that the effectiveness of PT. XYZ's performance management system in moving towards a digital company is at a medium level with levels for the dimensions of Openness, Knowledge, Agility as well as medium. The recommendation to improve the effectiveness of the current performance management system is to digitize a performance management system that supports the needs of a performance management system as well as improvements in each cycle of the performance management system.

**Keywords:** Digital Company, Performance Management System, Digital Culture, Digitalization.

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## I. INTRODUCTION AND RESEARCH OBJECTIVES

Currently, the world has entered the era of digital transformation. The presence of digital technology in the era of Industry 4.0 forces companies in Indonesia to enter the flow of digitalization. Many companies in Indonesia are slowly starting to change their business model from conventional to digital to adapt, including State-Owned Enterprise (SOE) Company in Indonesia. To implement digitization in all business lines of SOE companies, the Ministry of State-Owned Enterprises Indonesia has

established “Technology Leadership” as one of the pillars in the five priorities of the State-Owned Enterprises Ministry. Technology Leadership has a description of leading globally in strategic technology and institutionalizing digital capabilities such as data management, advanced management, big data, artificial intelligence, and others [1]. In adopting digital transformation, the strategy of the Ministry of SOE is focused on three (three) main areas, namely processes related to understanding changes in customer interaction patterns (customer experience), digitizing internal processes (operational processes), and

changing business models adopting digitalization (business model) [2]. Digital company as a company that creates “new business designs by blurring the digital and physical worlds.” or as a company in which value creation is significantly based on digital technologies [3].

PT.XYZ is one of the State-Owned Enterprises (BUMN) companies that is engaged in the electronics business for industry and infrastructure. In 2019, PT. XYZ designs formulations in the face of the digitalization era through the implementation of an ERP System. Starting with this digital program, it indicates that PT. XYZ has started to carry out a digital transformation. Besides that, through product innovation in the energy and infrastructure sector, PT.XYZ continues to strive to meet Indonesia's practical needs in digital era. In addition to product development, improving the internal process is also an important factor so that companies can move towards becoming a digital company. To realize a more effective, efficient, transparent, and accountable IT-based HR management, the Ministry of SOE is designing seven elements of the human capital architecture for all SOE companies in Indonesia.

According to Alex Denni, former Deputy of HR and Information Technology, *one of the biggest challenges in the transformation of SOE human capital is “aligning reward and performance management systems between one SOE company and another because currently only a few “rich” SOE companies who already have good performance management and remuneration system* [3].

PT.XYZ is one of SOE Company that still uses a traditional performance management system. There are several weaknesses in the performance management system currently implemented at PT.XYZ, especially in terms of time effectiveness. In line with the transformation of SOE Human Capital, the effectiveness of the current performance management system must be evaluated so that in the future PT.XYZ can follow the transformation that will be carried out. Quoting Deborah Ancona, MIT Sloan School professor in the Cap Gemini Report “Digital Culture Challenge” in 2018, “Leadership often underestimate the importance of culture”. Culture is the most important source of competitiveness in a company. If the company does not have a strong cultural foundation and not aligning employees with digital vision, the progress of digital transformation, no matter how big the transformation is, the benefits will not be maximized [4].

#### A. Statement of Problems

Based on the Global Human Capital Trends report published by Deloitte in 2017, Traditional year-end assessments, which have been used since the 1970s, are clearly out of use today [5]. Based on the former interview with middle staff for organizational development and remuneration in the HR and General Division PT.XYZ, the company also found a similar issue in 2020. PT.XYZ is still using a traditional performance management system. The data has not been integrated and the implementation of feedback from superiors to employees is still rare to be done because there is no time to do it. Besides that, employees cannot monitor their progress at any time because there is no transparent system or platform that can show the progress of performance in real-time. However, the application of this

technology does not guarantee that the problem of the current performance management system at PT.XYZ will be resolved practically. Many companies find it difficult to deal with this change (digital transformation) because their corporate culture is not ready to face digital transformation. Based on the existing issues, the author focuses this research on evaluating the current performance management to prove whether the current management performance and corporate culture are running following the state-owned company strategy that wants to go digital.

#### B. Research Objectives

Based on the statement of problems, the study aims to know PT.XYZ's readiness in implementing digital culture and to evaluate whether the current performance management system is following the direction the company wants to move towards digital.

## II. RESEARCH METHODOLOGY

In this study, the study literature was sourced from journals, articles, and books. Then, to find problems in the company, primary data was collected through interviews and questionnaires. Secondary data is used as supporting data from internal company documents as well as annual reports. The design of the questionnaire is an adaptation of the CIGREF digital culture framework designed by CIGREF Company to know the state of the company's digital culture and to measure the organization's progress in terms of its performance management system. In this questionnaire, respondents are asked to provide a score on the statement given. The score given is the respondent's assessment of the current real conditions in the company. 5 scales can be chosen by the respondent. The meaning of the scale is 1 (totally disagree); 2 (disagree); 3 (neutral); 4 (agree); and 5 (totally agree). This questionnaire was distributed via Google form. In this questionnaire, there are seven dimension to analyze the digital culture readiness and three dimensions to analyze the effectiveness of current performance management system in PT XYZ. From each dimension, it is then developed into several statements that will support the dimension statement, hereinafter referred to as the sub-dimension. In measuring each dimension, the author takes the average value of each sub-dimension or statement given. After taking the average value of each dimension, the score is classified into three levels: low (average score 1,000-2,333), medium (2,334-3,667), and high (3,668-5,000). This questionnaire was distributed to 75 respondents who were employees of PT. XYZ which comes from 8 divisions and 5 different business units.

## III. DIGITAL CULTURE READINESS

In measuring digital culture, there are seven dimensions adapted from the CIGREF Digital Culture Framework [6]. The seven dimensions are viability, openness, knowledge, agility, trust, interdependence, and responsibility. Viability dimension concerns the reliability of infrastructures and processes in ensuring business continuity and retaining the trust of customers, employees, and another stakeholder. Openness dimension concerns the capacity to manage and

make good use of different kinds of information are needed both inside and outside the organization. Knowledge dimension concerns the company ability to generate value by using the available knowledge inside and outside the company. Agility dimension concerns a strike balance between anticipation (through market intelligence), creativity (in products and service), and delivery (through innovation). Trust dimension concerns ability to create engagement, based on authenticity and exemplary inside and outside the organization. Interdependence shows the company ability to form collaborations and alliances in order to establish creative business models and mutually satisfactory solutions between different stakeholders. Responsibility dimensions

shows the company's capacity to control digital-related consumption and takes into account the diversity that exists within the company [6].

Each dimension is then mapped into several levels, namely low, which means that the company has not implemented these dimensions at all, medium which means the company has started implementing these dimensions and high which means the company has implemented these dimensions. The higher the score generated from each dimension shows the higher the reality of implementing the seven dimensions at PT. XYZ. One example of leveling in the digital culture as a whole is shown in the following table.

TABLE I: DIGITAL CULTURE LEVELLING

Variable/ Dimension	Low	Medium	High
Digital Culture	Company's digital culture was not yet ready for implementing digital culture. The company have not shown the values, behavior, leadership style, and practices that reflect the digital culture	Company's digital culture was almost ready for implementing digital culture. The company has shown some values, behavior, leadership style, and practices that reflect digital culture.	Company's digital culture was almost ready for implementing digital culture. The company has shown all values, behavior, leadership style, and practices that reflect digital culture.

Based on the results of a questionnaire regarding employee assessment of the implementation of digital culture, the data is shown in the following table.

TABLE II: DIGITAL CULTURE RESULT

Variable	Dimensions	Average score	Dimension Level
Digital Culture	Viability	3,660	Medium
	Openness	3,607	Medium
	Knowledge	3,500	Medium
	Agility	3,407	Medium
	Trust	3,754	High
	Interdependence	3,547	Medium
	Responsibility	3,567	Medium

Based on the acquisition of the score for each dimension, the summation is then divided according to the number of dimensions, resulting in an average value for digital culture variables of 3.577 or at the medium level. At this level, it shows that the state of the company's digital culture was almost ready for implementing digital culture. Companies have shown that some values, behavior, leadership styles, and practices reflect digital culture but not fully ready for implementing digital culture because for fully ready the minimum score obtained is 3,668.

The dimension that shows the highest score is trust. In the three lowest ranks, the dimensions of Interdependency, Knowledge, and Agility are crucial in forming digital DNA in a company. To improve *interdependence dimension*, steps that can be used by PT.XYZ is form a cross-functional teams. With the composition of employees who have different multi-disciplines, work creativity increases because they do not see it from the point of view of just one division. Each member can provide perspectives or alternative solutions to problems.

The *knowledge dimension* become the second lowest rank in digital culture readiness. To improve the company's competence in knowledge dimensions, steps that PT.XYZ can take is building a digital skill of the employee. Facing digital transformation, simply having sophisticated technology is not enough. Companies must also invest in employee digital skills. Not all employees are fluent in the

use of technology. Therefore, the company should facilitate training for all existing divisions and employees. With this investment, employees feel more involved in the process of digital transformation because they already have skills that are related to the digital transformation they will face.

*Agility* is the key to digital transformation. When we think about digital culture, the first word that comes to our mind is "agility". The rapidly changing digital transformation also forces the business itself to change rapidly. In this research, the agility dimension shows the lowest score than the other dimension. This shows that digital and technology are still not being fully utilized as catalysts for innovation that can provide benefits for companies. To improve this situation, PT.XYZ needs to respond to the signals offered by digital and think like a startup to find a way to run fast. The role of the leader in instilling the mindset that digital transformation requires cultural and behavioral changes such as calculated risk-taking, increased collaboration, and customer-centricity are also urgently needed. Cultivating a digital mindset can start from thinking critically about how digitization can affect their business in either the short term or long-term plans.

#### IV. PERFORMANCE MANAGEMENT SYSTEM EFFECTIVENESS

Starting from 2018, PT.XYZ used the Individual Performance Targets that consists of various Key Performance Individuals (KPI) variables for the employee performance appraisal system. KPI derived from Management, Division, Section, until to Individual employees. The assessment is carried out every semester and per year. In measuring performance management system effectiveness, there are three dimensions. The three dimensions are openness, knowledge, and agility. Openness dimensions show the company ability to have a clear objectives and measurements and conduct appraisal by the collection of performance information from various sources to increase objectivity. Knowledge dimension show company ability to use the performance management system not only for administrative purpose but also to add value, develop a mindset, and the desired behavior. Agility dimension show

company ability to shape the way they set expectations and evaluate performance results, rely heavily on coaching and feedback, and look for new technologies that make performance management easier. The higher the score

generated from each dimension shows the higher the reality of implementing the seven dimensions at PT. XYZ. One example of leveling in the performance management system as a whole is shown in the following table.

TABLE III: PERFORMANCE MANAGEMENT SYSTEM LEVELLING

Variable/ Dimension	Low	Medium	High
Performance Management System	The implementation of a performance management system is still traditional; it has not shifted to a modern performance management system. The current performance management system is not by the company's goals to become a digital company	The implementation of performance management systems is now starting to shift to modern performance management systems. The current performance management system is not fully in line with the company's goals to become a digital company	The implementation of performance management systems now is shifting to the modern performance management system. The current performance management system is following the company goals to move towards becoming a digital company

Based on the results of a questionnaire regarding employee assessment of the implementation of performance management system, the data is shown in the following table.

TABLE IV: PERFORMANCE MANAGEMENT SYSTEM RESULT

Variable	Dimensions	Average score	Dimension Level
Performance Management System	Openness	3,397	Medium
	Agility	3,264	Medium
	Knowledge	3,660	Medium

Based on the acquisition of the score for each dimension, the summation is then divided according to the number of dimensions, resulting in an average value for digital culture variables of 3.440 or at the medium level. At this level, it shows that the implementation of performance management systems is now starting to shift to modern performance management systems, but the current performance management system is not fully in line with the company's goals to become a digital company. The dimension that shows the highest value is the dimension of knowledge, which is at the medium level. The dimension that shows the lowest values is the dimension of agility, which is at the medium level also but with a lower score than other dimensions.

The result for agility dimension on performance management system show the lowest score. Based on the questionnaire result, 61% of respondents think "agree or strongly agree" if the implementation of an agile performance management system provide more benefits for employees and the company. A characteristic of an agile performance management system is that it uses technology to set transparent and flexible objectives while providing regular, timely, multi-source feedback. For traditional organizations like PT.XYZ, this transition is a huge challenge. PT.XYZ was structured primarily for stability as a state-owned enterprise corporation, involving a static, siloed, structural hierarchy. With the most powerful governance bodies at the top, priorities and decision rights flow downwards. To capture value for shareholders, these companies work through linear planning and control. While such a structure can be strong, it also rigid and slow moving. However, it does not mean that the company cannot make an improvement on its performance management system. Several processes that can be improved by PT. XYZ to improve the functionality of the performance management system currently in use in order to align with company goals that want to move toward become a digital company are:

#### A. Goal Setting

Performance goal setting can be shown from forming the vision, mission, or the company objective. The performance management system policy and its implementation must be in line with the company's business strategy and vision. In implementing digital transformation, company also need a digital vision. Currently, only the SOE ministry has the main priority for SOE Ministry which shows that SOE companies are ready to move towards digital transformation. The sound of the priority or purpose of the point "technology leadership" is: "Leading globally in strategic technology and institutionalizing digital capabilities such as data management, advanced management, big data, artificial intelligence, and others" [1].

Whether in the vision, mission, values, and objectives that are carried out by PT.XYZ, there is no one that clearly implies that this company is transforming digitally. The company should have a holistic digital vision that can explain how the company can become the most trusted world-class technology company. Formulating a compelling digital vision is indeed challenging. After digital vision was formed, top management translated the digital vision into a set of measures and performance targets to monitor progress towards digitization and to drive desired outcomes.

In determining employee goals, PT.XYZ has paid attention to SMART criteria (Specific, Measurable, Achievable, Realistic, and Time-bound). Apart from having to pay attention to the "SMART" criteria, several recommendations that can be applied by PT.XYZ in determining goal settings are:

- Make a clear goal, clear goals will motivate employees to do their best at their jobs. Clear goals means that the employee know what expectation that company want employee to achieve. Involving the role of employees in goal setting is an important process because it can motivate employees for sustainable development
- Make a dynamic goal setting due to uncertain external and internal environmental conditions. Offer flexibility to fit the overall goal year to accommodate any changes business priorities in both business units and organizational level. Apart from linked to strategy, performance objectives must adapt to changing market conditions. Regular review of goals at least twice a year (per semester) will help ensure that individuals believe that the system is fair and has a positive impact on performance management.

### B. Invest in Real-time Feedback Software

The performance management system has multiple functions, one of which is the development purpose. The role of a leader is needed to achieve this function. In managing performance management at PT.XYZ, leaders are required to have a role in monitoring work progress, providing feedback, providing coaching both formally and informally, and developing employee competencies. Providing performance feedback is essential because it enables individuals to learn about their strengths and weaknesses, identify training needs, and make better decisions about work assignments.

The number of workers based on age, shows that 371 employees or 71% of PT XYZ's employees are millennial (born in 1981-1996). Millennial tendency is to work fast, get feedback quickly, and want their work to be challenging [7]. Currently, the world is still dealing with a pandemic. The remote working policy is implemented in almost all companies in Indonesia, including PT.XYZ. By working remotely, visibility into employee performance is likely to be reduced. In addition, the intensity of direct coaching and providing feedback will definitely decrease. Therefore, in addition to year-end assessments, organizations must also introduce new ways of working such as daily check-ins and real-time feedback. Illustrations of applications or software that can be used by PT.XYZ are shown in the following figure.

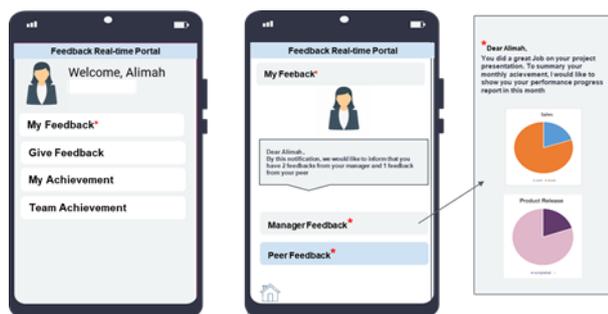


Fig. 1. Real-time feedback display illustration.

Real-time feedback is an element of an agile performance management system that allows employees and managers to record each other's feedback at the moment rather than waiting for performance review at the end of year or semester. Sometimes if the review is conducted once a year, employee is enabled get good enough feedback or there is a missed evaluation because to evaluate the performance in the last six months is not easy. To develop real time feedback, companies are required to invest in technology because to develop this facility requires support from applications or supporting software. But this can also be one of the steps for PT.XYZ to face digital transformation through digitizing the company's internal processes, especially in the development of performance management.

### C. Annual Review

Usually in the conversation discussion on the annual review, the manager only focuses on evaluating the achievement of performance for the next semester or one year. To improve the process in this annual review, it can be made into two sessions, namely the performance review session in the annual review which can be used as two

sessions, namely a discussion of past performance achievements and a discussion of strategies for improvement in the following months. This year-end conversation can be done face to face between managers and staff or through discussion forums with small groups to shorten the time. To control the progress of performance achievement, each manager should have their recapitulation for each staff in the form of a logbook or excel recap so that when the next manager changes, the new manager can still monitor the progress of his staff and avoid subjective assessments.

### V. CONCLUSION

The average score of digital culture variables is 3,577 or medium level. At this level, the state of the company's digital culture was almost ready for implementing digital culture. The average score on the variable performance management system evaluation is 3,440 or medium level. At this level, the implementation of performance management systems is now starting to shift to modern performance management systems, but the current performance management system is not fully in line with the company's goals to become a digital company. To improve the current performance management system, PT. XYZ need to digitize the system using an application and reformulate goals as well as designing digital vision and changing the focus during annual reviews.

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