

Does BSC Represent an Organizational Development? Evidence from Indonesian Manufacturing Firms¹

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ABSTRACT

The competition and dynamics of the macro-economy have certainly pushed companies to pay attention into their survival rates. Businesses have to maintain focus on multiple issues instantaneously, from shaping visionary management, skills improvement, quality excellence, and better efficiency rate, for instance, to externalities beyond firms' control (Indra & Anantadjaya, 2011). It is, undoubtedly, aside from the sign toward better governance (Bank Negara Malaysia, 2013; Clarke & dela Rama, 2008), a major task to simultaneously maintain and balance these requirements.

Historically, focusing only on financial performance was considered sufficient. At that time, it was understood that superb financial performance was the key success factor toward survivability. As time passes, combinations of measurements may have to be incorporated to provide a much clearer picture of the firms' performance (Kaplan & Norton, 2008). Though financial performance may guarantee some level of viability, however, those measurements may actually ignore the longer-term implications on the movement toward intangible assets (Colombo & Grilli, 2005; Sampurno, 2006) as the new drivers in cash flow generation (Carroll & Hunter, 2005; Colombo & Grilli, 2005; Stancic, Todorovic, & Cupic, 2012; Starovic, Cooper, & Davis, 2004). The new "guidelines" on intangible assets and the intellectual assets of companies (Capasso, 2004), which may include high quality of services, effective internal business processes, customer satisfaction, customer loyalty, employees' skills, employees' motivational level and employees' talents and experiences (Council Positive People Kerala, 2010), may have to be included in the firms' performance indicators (Kaplan & Norton, 2005).

Using the perspective of Balanced Scorecards ("BSC"), with a consideration also on the "extended" version of BSC, which includes the environmental issues toward sustainability, and focusing on publicly-listed manufacturing firms in Bursa Efek Indonesia ("BEI"), this study attempts to note the performance of firms in such an industry sector. It is expected that the BSC (Kaplan, 2010) is able to provide an overview on firms' performance, not only from the financial perspective, but also from other relatively intangible perspectives. Also, it is expected that such combinations represent better governance, which depends on proper corporate culture (Nooteboom, 2002), and eventually becomes the evidence on organizational development.

Keywords: Balanced Scorecard, performance, intangible assets, financial indicators, non-financial indicators, organizational development, manufacturing firms, governance.

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1. INTRODUCTION

In today's globalization era, not only the level of competition gets tighter, but also the dynamics becomes more prominent among firms, which push into the creation of borderless economy (Indra & Anantadjaya, 2011; Ball, Geringer, Minor, & McNett, 2010; Evans, Pucik, & Bjorkman, 2011). In the region of South East Asian region, for instance, when member countries of the Association of Southeast Asian Nations ("ASEAN") and China started to run ASEAN China Free Trade Agreement ("CAFTA"), competition plays at a much higher complexities (Indra & Anantadjaya, 2011). One immediate complexity is the ease of exports and imports among countries. These follow the plausible concerns that foreign products are cheaper than the locally-made products (Rotaria, 2010).

As people have experienced, borderless economy has certainly created positive impacts (Evans, Pucik, & Bjorkman, 2011). However, it has increased complexities and dynamics for firms to deal with in their daily operational activities. On one side, borderless economy pushes for endless opportunities. On the other side, it brings constant challenges. Businesses that cannot commit themselves on flexibilities, and multi-tasking requirements, may be eliminated from the market (Ball, Geringer, Minor, & McNett, 2010; Evans, Pucik, & Bjorkman, 2011).

To survive, businesses have to focus on flexibilities and multi-tasking abilities in all level of managerial hierarchy. It is not the time to just simply discuss the vision of the top management, but the round-table-discussions may have to include factors, such as; proper translations of the visions into real actions for each division, quality management, labor-pool improvement, sophisticated control systems, and many other aspects that conform to the initial vision (Anantadjaya S. P., 2007; Ball, Geringer, Minor, & McNett, 2010; Kaplan & Norton, 2007; Rotaria, 2010). It is apparent that achieving those factors require hard-work. Internal factors of the firms, such as; rigid bureaucracy, and minimal labor skills, for instance, may not support the viability of firms (Anantadjaya S. P., 2007; Ball, Geringer, Minor, & McNett, 2010; Kaplan & Norton, 2007; Rotaria, 2010).

Traditionally, there are firms that maintain emphasis onto the financial measurements. The presence of globalization requires modifications on measuring key success factors for firms. To assess firms' strategic performance is actually more just focusing on financial measurements alone. Non-financial measurements, such as; relationships with customers (Putra, Nawangwulan, Seancho, & Pitaloka, 2012), internal processes, learning and growth, should also be included (Kaplan & Norton, 2000). Firms should focus on the overall business strategy to ensure the proper "mix and match" between tangible assets and intangible assets of the firms (Kaplan & Norton, 2005; Kaplan, 2010). One noticeable impact of globalization is the push toward acknowledgement on intangible assets (Anantadjaya S. P., 2007; 2009; Kaplan & Norton, 2005; Kaplan, 2010; Indra & Anantadjaya, 2011). This is to say that globalization has pushed toward the acknowledgement on quality of services, effectiveness of internal business processes, customer satisfaction, customer loyalty, employee competency, and many other intangible factors (Anantadjaya S. P., 2007; 2009; Kaplan & Norton, 2005; Kaplan, 2010).

To stay ahead of globalization, and business dynamics, firms should adopt the integrated management tools. For this reason, this study uses BSC as one of management tools to be adopted by firms since BSC offers an intention to understand about potential influence toward firm's performance. Though there are numerous claims toward BSC, this integrated management tool have been adopted by world-class firms (Kaplan, 2010; Kaplan & Norton,

2005; 2008; Mulyadi, 2001; Rotaria, 2010).

According to the Jakarta Stock Exchange Industrial Classification (“JASICA”), all publicly-traded firms are categorized into 9 industry sectors. As previously mentioned, this study focuses only on the publicly-listed manufacturing firms. This study covers only the period of 2005 to 2010.

2. LITERATURE REVIEWS

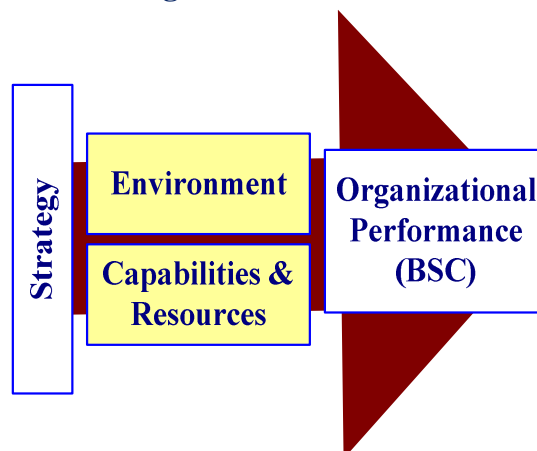
The following literature reviews are used as the theoretical foundation in building-up arguments towards balancing scores and firm’s performance.

2.1. STRATEGIC MANAGEMENT

It has become a public knowledge that to maintain, and/or otherwise improve survivability, firms have to incorporate a constant control system to juggle the dynamics on internalities and externalities, particularly trying to match up the available resources and capabilities with the environment. Aside from the external vibrant, which can potentially have both the devastating and positive impact toward firms, the internal paradoxes alone may create huge hurdles for the management team, which may include contrasting concepts such as; short-term vs. long-term planning, business process vs. manufacturing process, efficiency vs. effectiveness, customer service excellence vs. financial constraints (Ball, Geringer, Minor, & McNett, 2010; Evans, Pucik, & Bjorkman, 2011). Such paradoxes are in-line with the aim of strategic management (Hubbard, Rice, & Beamish, 2008; Pearce II & Robinson, 2011).

Hubbard, Rice & Beamish (2008) define “strategy” as series of decisions that carry impact into medium and long-term activities. This includes the actual combinations of resources and implementation toward value creation on stakeholders (Anantadjaya & Yudha, 2010; Nasmul, 2011; Rotaria, 2010). In this regards, “strategic management” refers to as a process in making better decisions via accurate formulation of series of action plans, and future-oriented game-plans, which are expected to offer additional values to customers (Friday & Friday, 2003; Hubbard, Rice, & Beamish, 2008; Mulyadi, 2001; Pearce II & Robinson, 2011; Anantadjaya & Yudha, 2010; Nasmul, 2011). It becomes the basic framework for managers in making various managerial decisions (Friday & Friday, 2003; Hubbard, Rice, & Beamish, 2008; Mulyadi, 2001; Pearce II & Robinson, 2011).

Figure 1: ESC Model



Source: (Hubbard, Rice, & Beamish, 2008; Pearce II & Robinson, 2011)

In addition, Hubbard, Rice & Beamish (2008), and Pearce II & Robinson (2011) state that in formulating and implementing a strategic management process, there are suggested models, which commonly encircle around; firms' missions, analyzing internalities and externalities, matching firms' resources to externalities, identifying the most desirable option, selecting a set of long term objectives and grand strategies, developing annual objectives and short term strategies to conform to the selected set of long term objectives, implementing the strategic choices by matching the budget of the company and the tasks, people, structures, technologies, and reward systems, and evaluating the success of strategic process as an input for future decision making. Those suggested model show the integrated processes among work units. Hence, the Environment-Strategy-Capabilities ("ESC") model becomes an important concept for management in achieving firms' objectives, fulfilling stakeholders' needs, and surviving the competitive rides, as shown in the illustration, Figure 1: ESC Model.

2.2. THEORY OF THE FIRM

The above strategic management perspective is aligned with the notions developed by the progressions on the theories of the firm; from the classical theory of the firm, the growth theory of the firm, the entrepreneurship theory of the firm, and the resource-based theory of the firm. All these underlying theories have experienced substantial enhancement in evaluating firms. In fact, by mid 1980's, several writings have introduced a new way of looking into an organization from its resources, both productive and unproductive, to maintain continuous growth. To win competition, by means of increasing firm's competitive advantage (Anantadjaya, Nawangwulan, Sibarani, & Riwoe, 2011; Thompson, Gamble, & Strickland III, 2004; Sampurno, 2006), speed and flexibility are crucial leverage factors (Anantadjaya, Nawangwulan, Sibarani, & Riwoe, 2011; Foss & Klein, 2004; Morrison, 1996; Thompson, Gamble, & Strickland III, 2004; Venkartraman & Ramanujam, 1986). Flexible responses are required to positively affecting the firm's performance (Rigby & Rogers, 2000).

The perspectives of the resource-based theory of the firm, in particular, indicate that firm's resources directly represent capabilities of the firm (Bridoux, 2004). This includes the competence level of internal human capital in managing all resources represents the key ingredient to succeed (Anantadjaya, Nawangwulan, Sibarani, & Riwoe, 2011; Anantadjaya S. P., 2009; Berger & Bonaccorsi di Patti, 2003; Nawangwulan, Anantadjaya, & Yogaswara, 2006). Further analysis on the theory reveals that resource-based theory of the firm points-out that firm's performance is not driven by characteristics of any industry settings. Rather, firm's performance discloses the unique firm's resources and capabilities of the firm in making a good use of market opportunities² and stay ahead of the competition (Bridoux, 2004; Cardy & Selvarajan, 2006; Carroll & Hunter, 2005; Colombo & Grilli, 2005; Foss & Klein, 2004).

Firm's resources cover all aspects of resources within a firm. This may include assets, capacity, skills, competence, business processes, systems and procedures. This is the reason why firms are often said to have sustainable competitive advantage when firms are able to deliver continuous value-creation strategy³. Those value-creation strategies (Anantadjaya,

² Examples on market opportunities include; technological advancement (Taylor, 2010), consumers' preferences and tastes (Putra, Nawangwulan, Seancho, & Pitaloka, 2012), globalization, and innovation (Ball, Geringer, Minor, & McNett, 2010; Evans, Pucik, & Bjorkman, 2011). These may revolutionize the degree of competition and the level of competitiveness of products/services in the market into geographical expansions, market development, or restrictive geographical boundaries (Hamsal, 2006; Yogaswara, Nawangwulan, & Anantadjaya, 2006), including increasing the competitive advantage via combination of resources among business units (Bridoux, 2004; Cardy & Selvarajan, 2006; Carroll & Hunter, 2005; Colombo & Grilli, 2005; Foss & Klein, 2004).

³ Value-creation strategy should include value-added benefits, unique, rare, relatively difficult to imitate, and relatively difficult to find substitutes (Anantadjaya & Yudha, 2010; Frederica, 2012; Hamsal, 2006; Hubbard, Rice, & Beamish, 2008; Nasmul, 2011; Pearce II & Robinson, 2011; Sampurno, 2006; Stancic, Todorovic, & Cupic, 2012; Thompson, Gamble, & Strickland III, 2004).

Nawangwulan, Sibarani, & Riwoe, 2011; Anantadjaya & Yudha, 2010) are relaying similar messages as Morrison's second curve⁴ in mid-1990's (Morrison, 1996).

2.3. BALANCED SCORECARD

In 1992, Kaplan and Norton introduced the concept of BSC for the first time (Kaplan & Norton, 2000) to evaluate multiple perspectives in firm's performance. Though there are constant debates concerning the effectiveness of BSC in noting the firm's performance, nonetheless, it represents a viable approximation in both firms' tangible and intangible assets (Anantadjaya S. P., 2007; Indra & Anantadjaya, 2011; Kaplan & Norton, 2007). In addition, BSC is also an integrated management system since it combines multiple perspectives in implementing the organizational strategy by means of linking strategy and communication across various departments (Kaplan & Norton, 2007). In recent years, the development of BSC has also included the fifth element of environment, which may likely influence the level of firm's sustainability (Alewine & Stone, 2013). This fifth element is debatable as people may include it in the previously-set four elements (Dias-Sardinha, Reijnders, & Antunes, 2002). The reason is simply due to the nonfinancial data in relation to environmental issues, such as; tonnage of emissions, percentage of carbon dioxide, volume of methane, or kilograms of wastes, which are proven difficult in accommodating such figures into the financial measures of the existing BSC.

2.3.1. Financial Perspective

The financial perspective has an important role to note firm's performance (Anantadjaya S. P., 2007; Indra & Anantadjaya, 2011; Irala, 2007). Gvozdanovic (2004), and Indra & Anantadjaya (2011) indicate the common financial measures to determine the correlation between strategy implementation and improvement on the firm's bottom-line; revenue growth, cost reduction, productivity improvement, asset utilization, net income, cash flow and total asset (Anantadjaya S. P., 2007; 2009; Gvozdanovic, 2004; Kaplan & Norton, 2005; Indra & Anantadjaya, 2011).

Specifically, Kaplan and Norton (2000) indicate 3 stages in identifying the firms' financial objectives;

1. Growth stage, whereby firms focus on growing potential resources.
This is the time when firms seek to develop products/services, enhance operating capabilities, improve distribution channels, sustain global networks, and deepen customer relationships. The focus on this stage is continuous sales growth, undoubtedly.
2. Sustaining stage refers to the time that firms focus on financial profitability.
This is the time that firms concentrate on maintaining market share to generate bulky bottom-line. A handful of financial aspects at this stage include; operating income, gross margin, return on investment, return capital employed, and economic value added (Bearley, Myers, & Marcus, 2009; Berger & Bonaccorsi di Patti, 2003; Carroll & Hunter, 2005; Chesnick, 2000; Colombo & Grilli, 2005; Frederica, 2012; Hamsal, 2006; Indra & Anantadjaya, 2011).
3. Harvest stage reflects the collection period that follows previous investments.

⁴ Morrison's second curve attempted to differentiate between the traditional and contemporary ways of doing things within firms. In the unstable economy, there are new conditions, new ideas, new technology, and new consumer that are demanding products and services to be delivered faster than ever, better than ever, and cheaper than ever. Also, the new consumer group demands products and services to be available at anytime and anywhere the consumer want them. Any new products and services are basically demanded with much shorter product life-cycles (Morrison, 1996).

The target at this stage is to maximize cash inflow and generate substantial cushions toward working capital (Kaplan & Norton, 2005). Several appropriate measurements in this stage are; operating cash flows, working capital, return on investment, operating income, and economic value added (Bearley, Myers, & Marcus, 2009; Berger & Bonaccorsi di Patti, 2003; Carroll & Hunter, 2005; Chesnick, 2000; Colombo & Grilli, 2005; Frederica, 2012; Hamsal, 2006; Indra & Anantadjaya, 2011).

In terms of financial aspect, ratio analysis is a common quantitative gauge (Bearley, Myers, & Marcus, 2009; Ross, Westerfield, & Jordan, 2008). Several notable ratios to measure firms' position and capability include (Bearley, Myers, & Marcus, 2009; Ross, Westerfield, & Jordan, 2008); (1) liquidity ratio, which assess the firms' short-term obligation and the speed of the asset conversion into cash, (2) profitability ratio, which assess the firms' operating success during a particular period, and (3) asset utilization ratio, which assess firms' effectiveness in asset allocations to generate sales. Nonetheless, there are countless measures to use in approximating the financial perspective of BSC.

2.3.2. Customer Perspective

Customer perspective is regarded as the main part of BSC. In this perspective, firms do not have choices, but to understand the customers' needs and wants, including ways to ensure their long-lasting positive experience (Cooper K. C., 2002; Temporal & Trott, 2001; Verhoef & Langerak, 2002). This is simply due to the fact that any failures in delivering products and services to boost customer satisfaction, the generation of income would stay as mere illusions. In a prolonged situation like this, firms may be eliminated from the marketplaces (Gvozdanovic, 2004). Since BSC attempts to measure both sides of tangibility and intangibilities, customer measurement is also crucial. In fact, the ability to measure customer profitability and/or otherwise referred to as customer value⁵, may prove beneficial for firms.

According to previous studies by Anantadjaya (2007; 2009), Bose and Thomas (2007), Haryanto (2005), Indra & Anantadjaya (2011), Kaplan & Norton (2000), Putra, Nawangwulan, Seancho & Pitaloka (2012), Ross, Westerfield & Jordan (2008), and van Triest, van Raaij, Bun & Vernooij (2007), the following parameters may be used as proxies on the goodness of customer perspective for any given firms; (1) market share (such as; numbers of customer, expenses, sales, product lines, or product mix), (2) customer retention (such as; marketing expenses, or customer activation programs), (3) customer acquisition (such as; number of new customers, new orders, or aggregate increase in sales), (4) customer satisfaction (such as; level/index of customer satisfaction, product returns, or numbers of complaint), and (5) customer profitability (such as; discounts, net sales, or sales returns).

2.3.3. Internal Business Process Perspective

Internal business perspective concerns with process of the firms, aside from the routine production processes. It usually starts with the identification of customers' needs and wants, to the physical delivery of products/services. The main reason of this perspective is to evaluate the effectiveness of the internal processes in creating continuous competitive advantage. In a way, this perspective gears toward meeting the expectations of both customers and shareholders. Through the evaluation of this perspective, it is also expected that value creation for customers are shown (Gvozdanovic, 2004). Haryanto (2005), and Kaplan & Norton (2000) state three basic business processes for firms; (1) innovation, which refers to the analysis toward customers and create products/services that fulfill the customers'

⁵ The creation of customer value may dependent on product/service attributes, customer relationship, image and reputation (Kaplan & Norton, 2000).

wants, (2) operation, which refers to the actual production of products/services, and physical deliveries of those products/services by maintaining efficiency, consistency, and timely, and (3) post-sale services, which refer to after-sales activities in the attempt to keep the customers. Hence, Bose and Thomas (2007), Gvozdanovic (2004), Haryanto (2005), Indra & Anantadjaya (2011), Ross, Westerfield & Jordan (2008) mention that employee productivity, allowance for losses, relationships with suppliers, creditors, debtors, and other third parties, may be used to represent the internal business process perspective.

2.3.4. Learning and Growth Perspective

Learning and growth perspective may represent the driving force for firms in achieving the objectives in the first three perspectives (Anantadjaya S. P., 2007; Haryanto, 2005; Indra & Anantadjaya, 2011; Mulyadi, 2001; Rotaria, 2010). Three different categories to evaluate the learning and growth perspective include; (1) employee capabilities, which emphasizes on employee satisfaction, ability of the firm in keeping the employees, and the level of productivity, with some suggested indicators such as; number of employees, salary level, and cost of training (Evans, Pucik, & Bjorkman, 2011; Indra & Anantadjaya, 2011), (2) information system capabilities, which emphasizes on effective business processes (Kaplan, 2010; Kaplan & Norton, 2007; Kaplan & Norton, 2005), and (3) motivation, empowerment, and alignment (Indra & Anantadjaya, 2011; Bose & Thomas, 2007; Skarp, 2011).

From a slightly different perspective, Kaplan and Norton (2000) indicate three factors to support the learning and growth perspectives; (1) employee satisfaction, which emphasizes on employee satisfaction toward firm's performance (Cooper K. C., 2002; Temporal & Trott, 2001; Putra, Nawangwulan, Seancho, & Pitaloka, 2012; Verhoef & Langerak, 2002), (2) employee retention, which emphasizes on employee loyalty, and can be measured based on employee turnover (Putra, Nawangwulan, Seancho, & Pitaloka, 2012; van Triest, van Raaij, Bun, & Vernooij, 2007), and (3) employee productivity, which emphasizes on employees' morale, innovation, and working process (van Triest, van Raaij, Bun, & Vernooij, 2007).

This learning and growth perspective may also be perceived as the stepping-stone toward reaching the ultimate financial perspective. That is, the appropriate coordination in learning and growth perspective may influence the smooth internal business process. As the internal business processes are running smoothly, it is expected that service operations and goods productions are delivered in-time to customers. This pushes-up the level of customer satisfaction. As customers are more satisfied, it is expected to even provoke the urges to return and re-purchase. This automatically creates loyalty. Such re-purchase and loyalty expand the organizational revenues.

2.3.5. Environmental/Sustainability Perspective

As indicated by Alewine & Stone (2013), another perspective on BSC should include the environmental issues toward sustainability. Too many environmental issues have occurred throughout the history of mankind, which may have impacted organizational performance over time. From natural disasters to various man-made misfortunes, including the concepts on corporate social responsibilities (Afiff & Anantadjaya, 2013; Schermerhorn, 2011; Dias-Sardinha, Reijnders, & Antunes, 2002), the environmental issues may have been another perspective to be pondered upon, and thus, included in BSC considerations. For instance, volcano eruptions (Irawan, Tarigan, Barnugroho, Deva, & Keswara, 2013; Rozi, Irawan, Deva, Setyawan, & Setiawan, 2013), city waste management (Surjaya, 2013), flood/erosion (Safutra, 2013; Setiyadi, 2013; Syarief, 2013), riots/residents' clashes (Ridwansyah, 2013), demonstrations (Surjaya & Irawan, 2013), shortages in raw materials (Huda, 2013), and

corruptions (Hendra, 2013; Ramdhani & Lalu, 2013a; 2013b; Abdurrahman & Bahtiar, 2013; Lalu, 2013), may have their own share toward reducing the maximum potentials in organizational performance. For the organizations, the potential delays in production processes due to such incidents may accumulate to huge environmental costs. Though the environmental costs may accumulate and become a financial burden for firms, nevertheless, those environmental costs may not be incorporated into the measurements of BSC, as a tool to approximate the organizational performance. Hence, unless the four-perspective of BSC incorporates the environmental costs, BSC may unlikely mirror the true condition of organizational performance.

Hence, some notable parameters to approximate the environmental costs and/or the sustainability of firms include; social responsibility considerations (Schermerhorn, 2011; Dias-Sardinha, Reijnders, & Antunes, 2002), particularly CSR initiatives on environment⁶ (Afiff & Anantadjaya, 2013), governance issues, mainly on the executive decisions concerning the external turmoil, and to counter such instability.

2.4. FIRMS' PERFORMANCE

As stated previously, BSC combines financial and non-financial figures that allow managers in making necessary evaluation on what is really happening inside firms (Indra & Anantadjaya, 2011; Kaplan, 2010; Spulber, 2009). Previous studies also indicate that the BSC model may be seen as the cause and effect relationships among the four perspectives (Anantadjaya, 2007; Chesnick, 2000; Kaplan, 2010), and the additional fifth element of environment/sustainability perspective (Alewine & Stone, 2013). Starting from skills as a proxy in learning and growth perspective, the internal business process can be improved. Improvements on internal business process can have a positive impact toward cycle time, or turn-around time on business processes. The smooth service operations and/or goods productions are expected to induce customer loyalty, particularly when these are coupled with the notion of second curve of faster, better, and cheaper (Morrison, 1996). In turns, higher customer loyalty brings about a higher liquidity, higher turnover, higher leverage, higher return on capital employed, and higher return on investment, for instance (Anantadjaya, 2007; Chesnick, 2000; Kaplan, 2010). This can be further translated into the triple bottom line of profit, people, and planet, which is otherwise known as firm's performance on economic, social, and environmental categories (Schermerhorn, 2011).

Hence, in terms of firm's performance, common parameters may be used as proxies. Some common parameters from the firm's financial statements, including ratios, are certainly fit for noting the level of firm's performance.

Based on the above theoretical analysis, it can be hypothesized that

H₁: there is a positive influence between the perspectives of BSC toward firm's performance.

2.5. ORGANIZATIONAL DEVELOPMENT

From the field study of organizational behaviors and development, it is apparent that the any progressions and advancements in organizations may be considered as improvements. Such improvements may be considered as important elements that supports the strategic intention in organizational development. This appears in conformation with the general description of what organizational development is all about. Organizational development represents the

⁶ Environmental performance index include; quality of environmental policies, environmental management systems, and environmental reporting, which are commonly rated from 0 to 3, where "0" refers to "not stated", "1" refers to "few stated", "2" refers to "slightly stated", and "3" refers to "completely stated (Afiff & Anantadjaya, 2013).

intentions of the management to include all divisions/business units to increase the organizational-wide effectiveness and efficiency via well-planned/organized interventions into internal various processes (Organization Development Network, 2011; Carroll & Hunter, 2005).

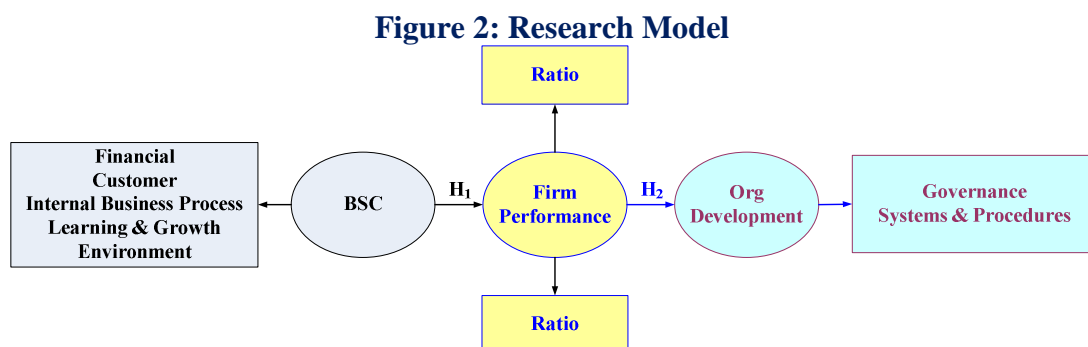
Referring to the general definition on organizational development, undoubtedly, product development (Khalid & Asadullah, 2013), product quality (Ondieki, Bisanda, & Ogola, 2013; Mihalyi, 2004), education (Cardy & Selvarajan, 2006; Nooteboom, 2002; Ondieki, Bisanda, & Ogola, 2013) mirror the organizational development. It is certainly expected that such product development, improvement on product quality, and/or level of education may eventually lead organizations into sustainability. Among others, the increase understanding on corporate governance (Partners With El Salvador, 2010; Taylor, 2010; Skarp, 2011), whereby firms are controlled and constantly monitored to reach the maximum outcomes (Kiarie & Minja, 2013), is just another example, for instance. Also, as previously mentioned, the increasing level of flexible responses (Rigby & Rogers, 2000) is yet another sign for organizational development (Skarp, 2011; Taylor, 2010). The enhancement on internal systems and procedures is also a sign toward institutional development, mainly toward increasing level of professionalism in management planning and control systems (Djordjevic, 2013; Pienaar & Penzhorn, 2000). Such higher level of professionalism in management planning and control systems is expected to support the intention toward betterment in corporate governance (Kiarie & Minja, 2013; Pienaar & Penzhorn, 2000). Aside from those signs, undoubtedly, as previously mentioned, social responsibility considerations (Schermerhorn, 2011; Dias-Sardinha, Reijnders, & Antunes, 2002), particularly CSR initiatives on employees and community development (Afiff & Anantadjaya, 2013), and governance issues (Bank Negara Malaysia, 2013; Council Positive People Kerala, 2010; Kiarie & Minja, 2013; Stancic, Todorovic, & Cupic, 2012), particularly on standards, mechanism on accountability, mechanism on transparency (Clarke & dela Rama, 2008), including monitoring and controlling schemes (Frederica, 2012; Clarke & dela Rama, 2008) can also be used to approximate the betterment efforts inside organizations.

Based on the above theoretical analysis, it can be hypothesized that;

H₂: there is a positive influence between firm's performance toward organizational development.

2.6. RESEARCH MODEL

This study attempts to evaluate the strengths of cause and effect relationships among BSC's perspectives, including their influences toward firms' performance, and organizational development, as shown in the illustration. In order to create approximations on the model, various estimators are integrated in the model, from BSC, financial management, and organizational development.



The differences between this study and numerous previous studies are;

1. This study incorporates the environmental/sustainability issues, as the fifth element on BSC.
2. This study relies on market ratios to approximate the firm's performance.
3. This study attempts to relate to organizational development.
4. This study combines previous studies in CSR, organizational performance, and organizational development. Some indicators used in the previous studies are also incorporated into this study.
5. This study focuses on the publicly-listed manufacturing companies in BEI.

Using some previous studies on BSC, the following indicators are used to represent each of the BSC's perspectives in this study; (1) net income, cash/cash equivalent, and total assets for financial perspective (Gvozdanovic, 2004; Kaplan & Norton, 2005; Ross, Westerfield, & Jordan, 2008), (2) total sales, accounts receivables, and marketing expenses for customer perspective (Bose & Thomas, 2007; Haryanto, 2005; van Triest, van Raaij, Bun, & Vernooij, 2007), (3) employee productivity⁷, numbers of business networks⁸, and allowance for losses⁹ for internal business process perspective (Bose & Thomas, 2007; Gvozdanovic, 2004; Haryanto, 2005; Ross, Westerfield, & Jordan, 2008), (4) salary/benefits expenses, and training/education expenses for learning and growth perspective (Evans, Pucik, & Bjorkman, 2011; Kaplan, 2010; Kaplan & Norton, 2007; 2005), and (5) social responsibility considerations, particularly on environmental issues¹⁰ (Afiff & Anantadjaya, 2013) for environmental perspective.

In terms of firm's performance, since there are countless proxies to use, as studied previously, this study emphasizes on the use of few selected financial measurements, as discussed by Damodaran (1994), and was partly incorporated as well by Frederica (2012); (1) enterprise value¹¹ ("EV") (2) earnings before interests, tax, depreciations, and amortizations ("EBITDA"), (3) price-earnings ratio ("PER"), and (4) price-to-book-value ("PBV").

To approximate the organizational performance, this study relies on the parameters on CSR initiatives in employee and community development (Afiff & Anantadjaya, 2013), and governance issues (Bank Negara Malaysia, 2013; Council Positive People Kerala, 2010; Kiarie & Minja, 2013; Stancic, Todorovic, & Cupic, 2012), including monitoring and controlling schemes (Frederica, 2012; Clarke & dela Rama, 2008). To maintain simplicity and adhere to accuracy, the various elements on CSR initiatives in employee¹² and community development¹³ are grouped as "standards" in this study.

⁷ Employee productivity attempts to show the approximate amount of sales that can be generated by each of the employees. It is expected that this simple calculation is able to show the level of firms' internal business processes (Indra & Anantadjaya, 2011).

⁸ Business networks represent the firms' business associations to assist and support the operations. This includes; office branches, representative offices, points of service, and kiosks. It is expected that the total numbers of business networks are able to show the level of firms' internal business processes (Indra & Anantadjaya, 2011).

⁹ Allowance for losses is similar to the allowance for doubtful accounts. It represents the amount of money that firms set aside as a financial cushion for the potential future losses on accounts receivable. Since these figures are actually related to accounts receivable, it is expected that as the firms' accounts receivable rises, the allowance for losses is also increased. Though this seems negative, however, it indicates and mirrors the actual rise of financing facilities (Indra & Anantadjaya, 2011).

¹⁰ Parameters of environmental performance index include; quality of environmental policies, environmental management systems, and environmental reporting (Afiff & Anantadjaya, 2013).

¹¹ Enterprise value refers to the firm's economic value, or otherwise known as the take-over price. It represents a better calculations than just a mere market capitalization, since EV takes into account the preferred stocks, debts, basically measures the "take-over" price that investors may end-up paying upon acquisition (Frederica, 2012).

¹² Parameters of employee performance index include; health and safety training (Frans, Anantadjaya, & Lahindah, 2013), equal employment opportunities, employee relations, systems toward job creation, and job security (Afiff & Anantadjaya, 2013).

¹³ Parameters of community development/performance index include; safeguard the environment, support on human rights, eliminate child

3. RESEARCH METHOD

This research combines descriptive and causal research (Ghauri & Gronhaug, 2005; Cooper & Schindler, 2008; Sekaran, 2003; Zikmund, 2003), to provide descriptions on BSC's 5 perspectives, including the relationship of BSC toward firms' performance. Also, this study attempts to evaluate the likelihood of such BSC elements and firm's performance provide any relationships toward the formation of organizational development. The data used in this study was collected from secondary data, mainly from financial information of publicly-traded firms, companies' annual reports, and internet. The relationships among variables are analyzed based on the structural equation modeling.

3.1. POPULATION AND SAMPLE

The population in this study is all publicly-listed manufacturing firms in BEI. Based on the Jakarta Stock Exchange Industrial Classifications ("JASICA"), there were 127 publicly-listed manufacturing firms as of December 31, 2010. Nonetheless, only 99 firms were used in this study since the remaining 28 firms did not meet the criteria of having financial statements and annual reports for the whole period of 2005-2010. All these 99 firms are incorporated into this study.

3.2. STATISTICAL TESTS AND GUIDELINES

This study involves quantitative analysis, whose statistical tests are necessary. The reliability and validity testing rely on Cronbach Alpha¹⁴ and KMO and Bartlett's Test¹⁵. In addition to those tests, Pearson correlations are also incorporated in this study to sufficiently satisfy the statistical principles. To satisfy the causal relationship among variables, however, a comprehensive path analysis, or structural equation modeling is used.

4. DATA ANALYSIS

4.1. INDUSTRY OVERVIEW

This study concentrates on the publicly-listed manufacturing firms in Indonesia. According to JASICA, all Indonesian publicly-listed firms are segregated into several categories; (1) agriculture, (2) mining, (3) basic industry and chemicals, (4) various industry, (5) consumption goods, (6) property and real estates, (7) infrastructure, utility and transportation, (8) banking and finance, and (9) trading, services, and investments. Of those firms, this study concentrates only on the publicly-listed manufacturing firms, which are comprised from the following sub-categories; plantations, farming, fisheries, coal, oil/gas, metal/mineral, ceramics, chemicals, plastics and packaging, animal feed, logging, pulp and paper, automotive, textile/garment, footwear, cable, electronics, food and beverages, cigarettes, pharmaceuticals, cosmetics and household, property and real estate, building constructions, energy, telecommunications, transportations, and non-building constructions.

4.2. STATISTICAL ANALYSIS

Table 1 shows the level of reliability of data used in this study. Out of a total of 495 arrays of data, which were built-up from 99 manufacturing publicly-listed firms over a 6-year period,

labor, adopt codes of ethics, enter into partnerships with NGOs, display openness and transparency in relationships with customers, employees, community groups, and governmental organizations, promote diversity in the workplace, help communities solve their social problems, and consult with community residents on business plans and strategies (Afiff & Anantadjaya, 2013).

¹⁴ Reliability test attempts to measure internal consistency of variables. For a parameter on reliability testing, Indra & Anantadjaya (2011), including Yamin & Kurniawan (2009) indicated that a higher value than 0.7 is preferred since it is considered satisfactorily reliable.

¹⁵ For a parameter on validity testing, Yamin & Kurniawan (2009) indicated five categories; marvelous (>0.9), meritorious (0.8-0.9), middling (0.7-0.8), mediocre (0.6-0.7), and unacceptable (<0.5). Undoubtedly, the higher the number, the more valid the data used in the research.

from 2005 to 2010, the reliability is 0.897. Since this value is higher than the prescribed limit of preference of 0.7, then it is considered satisfactorily reliable (Yamin & Kurniawan, 2009). This indicates that the data can be used for further statistical processes.

Table 1: Reliability Statistics (based on Cronbach's Alpha)

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.735	.897	21

Source: SPSS

The validity of data is tested using the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, and Bartlett's test of sphericity. Table 2 indicates the result of KMO measure of sampling adequacy shows a relatively high value of 0.822. Since this value is considered high (Yamin and Kurniawan, 2009), the available data is considered valid for further testing. Likewise, the significance of Bartlett's test shows the number 0.00. Since it is lower than 0.001 (Yamin & Kurniawan, 2009), it is appropriate for further testing.

Table 2: Validity Statistics (based on KMO and Bartlett's Test)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.822
Bartlett's Test of Sphericity	Approx. Chi-Square	1102.126
	Df	276
	Sig.	.000

Source: SPSS

Table 3 shows the results from data processing in AMOS software. As any other studies, which were based on AMOS software, this study focuses on the results for default model¹⁶, instead of saturated model¹⁷, or independence model¹⁸. Though the value of Chi-square may not be zero, as prescribed in the goodness of fit index, it may still be considered marginal. Hence, it is considered valid for further analysis. The values of some selected goodness of fit from GFI, AGFI and NFI show satisfactorily figures of 0.853, 0.833, and 0.841 respectively.

Table 3: Results of Data Processing in AMOS

Criteria	Goodness of fit index	Results	Ratings
Chi Square	Closer to 0	1.112	Marginal
GFI	Closer to 1	0.853	Good
AGFI	Closer to 1	0.833	Good
NFI	≥ 0.90	0.841	Good

Source: (Ghozali, 2004; Santoso, 2009; Schumacker & Lomax, 2004)

The following Figure 3: Structural Model shows the relationships among variables used in this study. Since the level of reliability and validity are considered acceptable, this model can be used to address the hypotheses. First, though the strength of relationship between BSC to firm's performance is lower than expected, it shows a positive level of influence. Second, though the strength of relationship between firm's performance to organizational development is lower than expected, it shows a positive level of influence. Just like the previous studies,

¹⁶ Default model refers to the actual model with no exceptions or special cases (Santoso, 2009; Schumacker & Lomax, 2004).

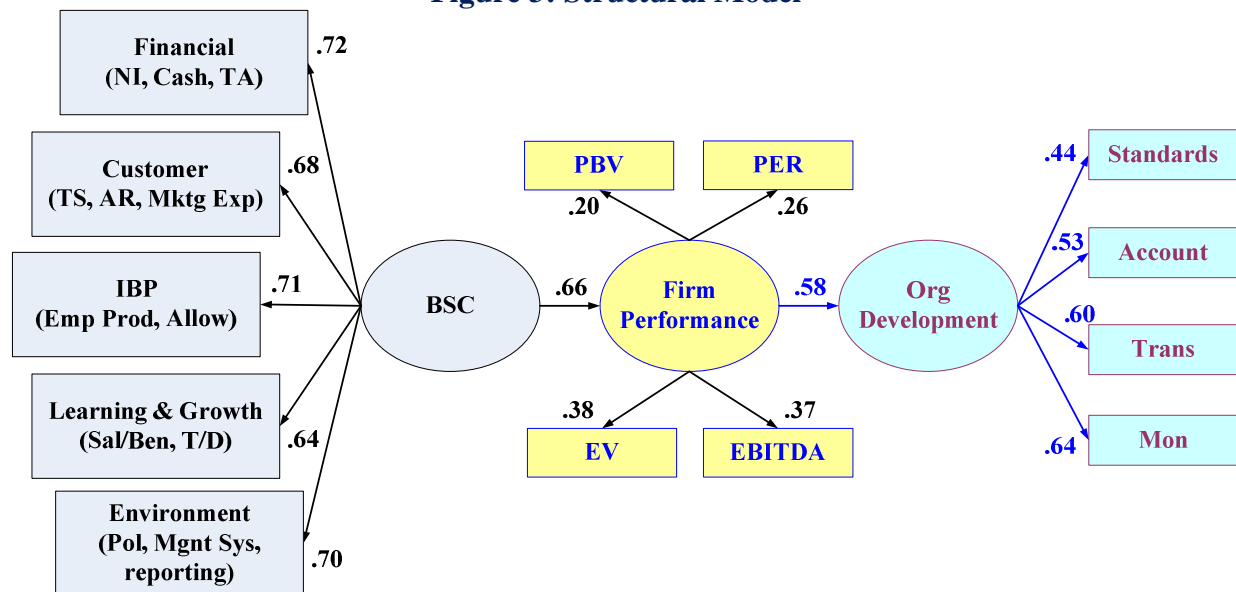
¹⁷ Saturated model refers to a model with zero degree of freedom and more parameters (Santoso, 2009; Schumacker & Lomax, 2004).

¹⁸ Independence model assumes that the observed variables are not correlated with each others, and expects to provide a poor fit to any set of data (Santoso, 2009; Schumacker & Lomax, 2004).

such results support the positive impact of implementation of BSC inside firms to push-up the level of firm's performance and organizational development.

Though the levels of influence are expected to be much higher, a positive relation of 66% from BSC toward firm's performance, and 58% from firm's performance toward organizational development are considered sufficient. The elements of BSC show relatively moderately strong explanatory powers. However, elements of firm's performance and organizational development appear poor in explaining the stage/condition of the firm's performance and/or organizational development.

Figure 3: Structural Model



Source: AMOS

For BSC and its elements, it can be analyzed as follows;

1. The results of the structural model do not appear to conform to the literature studies as expected. Particularly, conforming to the claim on hierarchical-structure of BSC whereby learning and growth perspective should serve as the basis of other perspectives (Chesnick, 2000; Kaplan, 2010). Sequentially, the building blocks should follow the logical expectation from learning and growth perspective, to internal business process perspective, to customer perspective, and to financial perspective. Somewhere in between should be the position of environmental perspective to sustain firms. Though the level of influence may place learning and growth perspective at the bottom of the building blocks, nonetheless, the logical sequence is out of order. From the top-down, however, the financial perspective remains at the top of the building blocks.
2. Concentrating from the values of influences of BSC indicators, it appears that the learning and growth of employees are funneled through directly to the increase in customer perspective. The level of salary/benefits and the combinations of employees training and development programs may have appeared successful in boosting the level of firms' total sales, and credit sales. These are transferrable as an improvement in sales turnover. Looking it from a different angle, the level of salary/benefits and training/development may have the power to boost productivity in marketing expenses, which bring about impact on sales productivity. From this stage, as the customer perspective progresses, the comprehension on environmental issues appears to expand. The environmental policy,

environmental management systems, and environmental reporting become better formulated. Along with the better formulated environmental policy, environmental management systems, and environmental reporting, the internal business process becomes smoother. Since employees may have increase their understanding toward work and tasks, the level of employee productivity increases, and the amount of allowances, though may be increase in nominal figures, but in percentage, such allowances improve. With improved policies, systems and procedures, the internal business process can be carried-out much more smoothly. The betterment in internal business processes may eventually boost the level of performance in production processes as well, at least in terms of accurate recording and product/material handling.

3. Surprisingly enough, the details on BSC's perspectives show that the environmental issues play a competing importance, at 70% influence. Though the level of influence of learning and growth perspective is unexpectedly lower, internal business process and financial perspectives show their explanatory powers at 71% and 72%, respectively. Hence, these indicators of BSC appear to be the foundation of BSC, at least in the publicly-listed manufacturing firms. Though the overall values are merely similar among all the perspectives, the trio "financial perspective", "internal business process perspective", and "environmental perspective" appears to provide a stronger foundation on BSC, in this case.

For firm's performance and its elements, it can be analyzed as follows;

1. Though it is expected that the values are much higher for firm's performance, EV and EBITDA appear as the stronger indicators to be emphasized, at 38% and 37% explanatory power. In other words, the overall performance of publicly-listed manufacturing firms can be evaluated more from "enterprise value" and "earnings before interests, taxes, depreciations, and amortizations".
2. As having the highest explanatory power, EV seems to conform to the common financial knowledge whereby it states that EV represents a better estimate for firm's value (Chesnick, 2000; Frederica, 2012; Nasmul, 2011; Anantadjaya & Yudha, 2010; Rotaria, 2010; Hubbard, Rice, & Beamish, 2008; Damodaran, 1994; Stancic, Todorovic, & Cupic, 2012). From the management perspective, increment in firm's value may likely due to better internal performance. Such internal performance may induce larger awareness and thus, influence higher market capitalizations. The higher value of market capitalization may be translated into improvement in firm's EBITDA (Bearley, Myers, & Marcus, 2009; Capasso, 2004; Chesnick, 2000; Damodaran, 1994; Nasmul, 2011; Frederica, 2012; Indra & Anantadjaya, 2011; Rotaria, 2010; Stancic, Todorovic, & Cupic, 2012). *Ceteris paribus*, this is what the fundamentalists claim to be the contributing effect (M Securities, 2013; Janssen, Langager, & Murphy, 2013).

For organizational development and its elements, it can be analyzed as follows;

1. Though it is expected that the values are much higher, at 64% explanatory power, monitoring appears to be the most influential indicator to approximate organizational development. At 60% explanatory power, transparency plays an important role as well in contributing toward shaping means of organizational development. The combination of these two influential indicators provides sufficient evidence that the existence of internal governance, which most likely includes the betterment of organization-wide systems and procedures, indicates some level of internal improvement (Organization Development Network, 2011; Carroll & Hunter, 2005; Clarke & dela Rama, 2008). Hence, it conforms

to the notion of organizational development (Partners With El Salvador, 2010; Taylor, 2010; Skarp, 2011; Djordjevic, 2013; Pienaar & Penzhorn, 2000).

2. At 53% explanatory power, accountability may have to be considered as well. Though it is lower than expected, nonetheless, it may become a growing interest to ponder upon. As firms grow, and the externalities demand stricter governance, accountability takes up a growing important role as well in managerial functions. Since the sources to document accountability are basically secondary, it may not be revealing the actual accountability of firms, as intended in this study, particularly, in associations to organizational development toward sustainability. Though it may be difficult to perform into publicly-listed firms due to their sizes, locations, and bureaucracy, nevertheless, to really use accountability as a proxy onto organizational development, primary observations may have to be directly conducted.
3. The results of statistical relationships among variables and indicators show that standards only have a mere 44% of explanatory power toward the creation of organizational development, or boosting the level of organizational development. It is actually unexpected. Logically speaking, the better standards are formulated and implemented inside organizations, the better the development of firms. As previously mentioned and originally formulated in the attempt of running this study, the so-called standards include numerous issues of; (1) CSR initiative in employee, which are; health and safety training (Frans, Anantadjaya, & Lahindah, 2013), equal employment opportunities, employee relations, systems toward job creation, and job security (Afiff & Anantadjaya, 2013), (2) and CSR initiative in community development, which are; safeguard the environment, support on human rights, eliminate child labor, adopt codes of ethics, enter into partnerships with NGOs, display openness and transparency in relationships with customers, employees, community groups, and governmental organizations, promote diversity in the workplace, help communities solve their social problems, and consult with community residents on business plans and strategies (Afiff & Anantadjaya, 2013). Hence, considering those issues, which make up the “standards” element, this may be the source that may have limited the explanatory power. A closer analysis into such issues, they are competing and/or contradictory, in terms of money flow. The general notion of CSR initiatives, in whatever terms and/or purposes, basically involves cash-out. In the short-term, such cash-outflows are regarded as disadvantages for firms. This may simply due to the fact that CSR initiatives are relatively tied into mid to long-term objectives. This means that whatever CSR initiatives that firms may have done today, the outputs and/or results may not be directly encountered immediately. Since those CSR initiatives in employees and community development make-up the “standards”, and the “standards” are used to approximate the level of organizational development, the explanatory power of “standards” slides. The conflicting interests between CSR initiatives and organizational development prevail. From the standpoint of “standards”, those CSR initiatives carry negative cash-flows for firms. From the standpoint of organizational development, positive cash-flows are certainly the objectives. Hence, the 2 conflicting ideas diminish the level of explanatory power of “standards” toward “organizational development”.

5. CONCLUSIONS AND RECOMMENDATION

5.1. CONCLUSION

Referring to the above analysis, it is safe to conclude that BSC has a moderately positive influence towards firm's performance at a total value of 0.66. This indicates that what is

actually happening inside firms, including the emphasis on environmental issues, the firm's performance is 66% influenced. Hence, firm's performance jumps along with improvement in BSC's elements. As shown in the illustration, undoubtedly, firm's financial condition lead to better performance. Also, other perspectives provide superb support toward the creation of balanced scores.

It is also safe to conclude that the firm's performance influences 58% onto the creation of organizational development. From the market ratios, EV and EBITDA appear to contribute more. Though the levels of explanatory power are relatively minimal, they remain sufficient to show impact onto the creation of firm's performance.

5.2. RECOMMENDATION

Firms should maintain focus on the elements of BSC, perhaps, as a mere guidelines and controlling check-list. Also, the emphasis on EV may prove beneficial to approximate the firm's performance. The growing concentration on corporate governance may not be overlooked to sustain the organizational development into years to come.

Undoubtedly, this study is far from flawless. Improvements can always be made. Improvements are always necessary. Future studies may want to emphasize on using more variables and indicators for each of the BSC's elements, or simply use different combinations for each of the BSC's elements, including investigating the use of variations for the environment perspective. Expanding the scope of analysis by incorporating more financial years may also be pursued to note the mid and long-term objectives of CSR initiatives and/or noting the impact of environmental issues and costs toward BSC and/or firm's performance. Gearing the future research toward qualitative study may also be beneficial to document the managerial objectives, concerns, plans, styles, cultures, and strategic views toward organizational development and sustainability. Though this study has attempted to incorporate market ratios and CSR initiatives on the research model, the use of more externalities may always be interesting to increasingly record the variations between fundamental and technical-based analysis on firms. As noted in previous studies, smaller firms may also be emphasized for comparisons onto the publicly-listed firms. Nonetheless, the statistical evidences have shown a snapshot of what had happened in the publicly-listed manufacturing firms in Indonesia during 2005-2010 among the trio of BSC, firm's performance, and organizational development.

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