

# Organizational Performance: Toward Excellent Public Services on State Owned Banks in Indonesia

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## *Abstract*

*The objective of this paper is to discuss the organizational performance. Specifically, this paper discuss the organizational performance in order to improve the public service on the Indonesia state owned bank environment. Over the past five years, the performance of state owned banks shown positive improvement. The performance growth also triggered an increase of its services to the public. The performance of organization is related to how effective organization in moving towards the fulfillment of its objective, mission and how effective the organization in carrying its objective and mission. In general, the objective, vision and mission of state owned banks is always prioritizes public satisfaction as their main customer. While, the mission of state owned banks in general is to consist of providing excellent service to customers by professional human resources and conducting the best banking activities to support the economic improvement of society. Therefore, based on the mission of state owned banks it can be concluded that the improvement of will increasing the achievement of this organization mission, that is excellent financial services to the public by using professional and competence human resources and best facilities.*

*Keywords: organizational performance, excellent public services, state owned banks, Indonesia..*

JEL G21, L20, L25

## **1. Introduction**

Improved organizational performance and profitability of domestic market share is become one of the main focus of organization in the world and a trigger for organizational success. Through the performance measurement, an organization can focus on areas that need to be improved by evaluating how each process is done correctly (Hatry, 1999). The performance measurement also important as one of the control mechanism in the organization, which aims to improve the working motivation, achievement of the organization objectives and measurements that

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provides information related to the behaviors and performance of the organization (Kaplan, 2010). Therefore, performance is a mechanism that increases the chances of an organization successfully executing the strategy and also the core of control and monitoring activities (Anthony & Govindarajan, 2003).

Indonesian state owned banks as a public organization have a central role in the economy of a country, it is because this institution is the primary and essential source for external financing in a business across the country. According to the *Undang-Undang Nomor 19 Tahun 2003*, concerning state-owned enterprises, state owned bank as part of Indonesian state owned enterprises is a business entity which is majority or mostly owned by the government of Indonesia through direct participation derived from separated government assets. Moreover, state owned banks is a limited company, which capital is divided into shares majority or at least fifty one percent)of shares owned by the Republic of Indonesia. In general, state owned banks is intended to contribute to the development of the national economy, provide financial services to the public, pioneering business activities that can not be implemented by the private sector and cooperatives, and provide guidance and assistance to entrepreneurs, cooperatives, and public.

In recent years, the role of the banking industry in Indonesia is significant in the financial system with a share of more than 78 percent. Based on the important role, the banking becomes essential and strategic for the economic development of the country. In term of individual and in a banking system, the performance of the bank is expected to contribute greatly to the economy. Starting from this point, in the end it should be ensured that the role of banks in the economy can implemented properly as well as efficient. An efficient and good banking condition is an absolute requirement for a bank to perform its intermediation function properly (Isdianto, 2015). According to *Peraturan Bank Indonesia (PBI) Nomor 13/1/PBI/2011* on the assessment soundness level of the banks, the bank performance is one of the factors involved in assessing the soundness level of a bank in addition to risk factors. The Bank Indonesia Regulation stipulates that bank performance consists of three elements covering the implementation of good corporate governance, profitability, and capital. Hence, measuring performance in state owned banks is a crucial focus for both the government and the bank's management. In particular, this institutions is focusing on their efforts in the market segment that would provide potential benefits and improve performance (Isdianto, 2015). According to Dwiyanto (2005), organizational performance in term of public organization is expected to productivity improvement, enhance responsiveness, increasing the responsibility and public accountability, as well as improving the quality of services to the public. Public service is any form of public service activities carried out by government agencies, regional, and environment of state-owned enterprises as well as regional

owned enterprises, in the form of goods and services both in the context of addressing the needs of public as well as in the implementation of the statutory provisions.

This paper seeks to discuss the organizational performance in the Indonesia state owned banks. Specifically, this paper will look into the organizational performance in order to improve the public service that will be discussed in the following section. This paper is organized as follows. Section 2 discusses about the overview of organizational performance. Section 3 covers the Indonesian state owned banks. Section 4 discusses about improving the organizational performance and public services in the Indonesian state owned banks, and Section 6 provides the conclusion of this paper.

### **Overview Of Organizational Performance**

The concept of organizational performance is based upon the notion that the organization is an association of a productive asset, including human, physical and capital resources, for achieving organizational objectives (Barney, 2002; Carton & Hofer, 2006). Lusthaus, Adrien, and Carden (2002) states that every organization should strive to fulfill the objective with acceptable expenditure of resources while guaranteeing the long term sustainability. The concept of organizational performance illustrates that any public organization will provide excellent services to the community and performance measurements can be made by using existing performance indicators to determine if the organization is already implementing their duties properly and to evaluate the achievement of organizational goals (Hatry, 1999). Organizational performance is an overview of the organization work in achieving its objectives, which is influenced by the organization's resources. Those resources may include physical resources such as human resources and intangible resources such as regulations, information, and policies (Ruky, 2002).

In public organization context, Kim (2005) noted that the concept of organizational performance refers to whether the organization does well in discharging the administrative and operational functions pursuant to the mission and whether the organization actually produces the actions and outputs pursuant to the mission or the institutional mandate. Organizational performance in an organization is influenced by several factors. According to Ruky (2001), organizational performance cannot be separated from the factors that can influence it.

### **Organizational Performance and Public Services in the Indonesian State Owned Banks**

In the context of state owned bank environment, according to *Surat Sekretaris Kementerian Badan Usaha Milik Negara Nomor: S-08/S.MBU/2013* concerning the submission guidelines for determination of key performance indicators and superior performance assessment criteria, the key performance indicators is the foundation and reference in the management of state owned enterprises toward achieving excellent performance. Additionally, this regulation described three important roles of the key performance indicator in strengthening the competitiveness of state owned banks:

- a. Improve the capability and performance, both financial and non-financial
- b. Facilitating the communication and sharing of information on best practices
- c. Serves as a work tool for understanding and managing performance and for guiding planning and organizational learning

Public organizations such as state owned banks are generally oriented to provide excellent service to the public. According to Dwiyanto (2005), in order to improve performance measurement in public sector organizations, it should consider several important indicators:

- a. Productivity, the concept of productivity not only measures the level of efficiency, but also the effectiveness of the service. Productivity is understood as the ratio of input to output.
- b. Quality of Service, public (community) satisfaction may considered as parameter for assessing the performance of public organizations
- c. Responsiveness, responsiveness is the ability of the organization to recognize the needs of the public, set the agenda and priorities of service and develop public service programs in accordance with the needs and aspirations of the public (community)
- d. Responsibilitas, responsibilitas explain whether the implementation of the activities of public organizations are conducted in accordance with the principles of good administration or in accordance with the policy of the organization, both explicit and implicit
- e. Accountability, public accountability shows how the policies and activities of public organizations represent the public interest.

In order to improve the performance of public service organization, Kumorotomo (1995) suggests several factors that can be used as guidelines, among others:

- a. Efficiency  
Efficiency involves consideration of the success of the public service organization in making a profit, utilizing the factors of production as well as the derived consideration and economic rationality.
- b. Effectiveness  
Is the purpose of establishing the organization of public services achieved? It is closely related to the organization of technical rationality, values, mission, organizational goals and the functions of development agents.
- c. Justice  
Justice questions the distribution and allocation of services organized by public service organizations.
- d. Responsiveness  
Unlike the business of private companies, public service organizations are part of the state's or government's response to the public's needs. Therefore, the criteria of the organization as a whole must be accountable in order to meet these criteria of responsiveness.

According to Lusthaus et al. (2002), the performance of organization is related to how effective organization in moving towards the fulfillment of its mission and how effective the organization in carrying its mission. For instance, the effectiveness of the major program in an organization should consider the effectiveness of the public expectations, and effectiveness in providing best services to the public. In general, the vision of state owned banks is always prioritizes public satisfaction as their main customer. While, the mission of state owned banks in brief consist of (1) conducting the best banking activities to support the economic improvement of society, (2) providing excellent service to customers by professional human resources by implementing good corporate governance practices, and (3) provide optimal advantage and benefits to interested parties. Therefore, based on the mission of state owned banks it can be viewed that the improvement of organizational performance on the state owned banks environment would eventually increasing the achievement of this organization mission, that is excellent financial services to the public by using professional and competence human resources and best facilities. In general, improving existing services quality is emphasized on the following aspects (Arsimurti, 2013), among others:

- a) Structural.  
Organizational structural improvements should be made from top management level to lower management.

- b) Operational.  
A sales organization will be able to realize customer needs if the operational improvement is implemented directly, which means the quality of service is also implemented.
- c) Vision.  
An organization should understand the direction of the organization by identifying what to do and who will implement it.
- d) Service strategy.  
It is the organization's way of improving the service so that the vision can be realized. The service strategy should consider the customer behavior, customer expectations, customer image, customer loyalty, and customer alternatives.

Specifically, Gaspersz (1998) explained that improving the quality of service may include the following dimensions:

1. Timeliness of service related to waiting time and process.
2. Quality of service related to the accuracy of service.
3. Quality of service is related to the politeness and friendliness of the business.
4. Quality of service related to the responsibility in handling customer complaints.
5. Quality of service is related to the number of officers who serve and other supporting facilities.
6. Quality of service related to location of service, availability of information, and other guidance.
7. Quality of service related to environmental conditions, cleanliness, communication tools, and others.

In the context of Indonesian state owned banks environment, Bank Indonesia (2011) recommends several factors that may consider in order to improving banking performance, as follows:

- a) Risk profile  
Risk profile factors include the assessment of inherent risk and quality of risk management implementation in the banking operations of various risks, such as (1) credit risk, (2) market risk, (3) liquidity risk, (4) operational risk, (5) legal risk, (6) strategic risk, (7) compliance risk, and (8) reputation risk.
- b) Good Corporate Governance  
Constitutes the entire assessment of the Bank's management for the implementation of good corporate governance principles. In general, the purpose of the implementation of the good corporate governance principles in Indonesian banking are as follows:

1. Increase the trust and quality of the best service to the public
  2. Improve the growth of the financial services industry and financial system stability, and
  3. Placing the Indonesian banking at the level of playing field, which is aligned to other international financial institutions.
- c) Earnings  
Earnings factors include the assessment of earnings performance, earnings sources, and sustainability earnings of banking.
- d) Capital  
Capital factors includes capital adequacy ratio and capital management of the banks.

Thus, the performance of state owned banks may actually viewed through various dimensions such as dimensions of accountability, efficiency, effectiveness, responsiveness and responsibility. Bank Indonesia also provide several guidance includes risk profile, good corporate governance, earning, and capital. Various literature that discusses the performance of public service organizations basically have a substantial similarity that is to measure the level of achievement that have been done by the organization (Estuningsari, Setyanto, & Efranto, 2013). This is because, the performance is a concept that is composed of various indicators that vary according to the focus and context of its use.

### **Conclusion**

This paper discuss the organizational performance and improve the quality of public service on the Indonesian state owned bank environment. State owned bank as part of state owned enterprises is a business entity which is majority or mostly owned by the government of Indonesia through direct participation derived from separated government assets. Performance of organization is related to how effective organization in moving towards the fulfillment of its objective, mission and how effective the organization in carrying its objective and mission. In general, the objective, vision and mission of state owned banks is always prioritizes public satisfaction as their main customer. While, the mission of state owned banks in general is to consist of providing excellent service to customers by professional human resources by implementing good corporate governance practices, and conducting the best banking activities to support the economic improvement of society. Therefore, based on the mission of state owned banks it can be concluded that the improvement of performance on the state owned banks environment will increasing the achievement of this organization mission, that is excellent financial services to the public by using professional and competence human resources and best facilities. Moreover, to maintain the performance and excellent service, state

owned banks can be measured through various dimensions, includes risk profile, good corporate governance, earning, and capital. In addition, state owned banks may also consider several factors, for instance accountability, efficiency, effectiveness, responsiveness and responsibilitas dimensions.

This paper is expected to contribute to the development of literature on organizational performance, especially in the context of public organizations such as state owned banks. This paper is also expected to provide an overview of the performance of state-owned banks at this time and also its contribution in an effort to improve the excellent service to the public. Moreover, this paper provides some suggestions that can be considered by managers, policymakers and investor in Indonesia.

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