

**Balancing the Firms' Scores:
A Performance and Control Study in Indonesian Financing Industry**

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Abstract

Given the nature of today's business dynamics, and to keep the sufficient survival rate, businesses have to focus on various factors, such as; visionary top management, labor skills improvement, best product's quality, efficient production process and advance systems. External forces portray another set of impediments by themselves. It is certainly a major task to maintain and balance these requirements.

Traditionally, firms have paid closer attention to financial performance indicators only. It was, then, believed that good financial performance was the key success factor toward potential growth. However, as time passes, combinations of measurements ought to be incorporated to evaluate all aspects of the firms. Financial indicators may guarantee short-term profitability, but those same measurements may ignore the longer term. The movement toward intangible assets may have to be taken into account as the new drivers in cash flow generation. The intangible assets and the intellectual assets of the company, 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 may have to be included in the firms' performance indicators (Anantadjaya, 2007; Kaplan and Norton, 2004).

Concentrating on the publicly listed financing firms in the Bursa Efek Indonesia ("BEI"), this paper attempts to use the Balanced Scorecards ("BSC") in noting the performance of firms in such an industry sector (Anantadjaya, 2007; Kaplan and Norton, 2005). It is expected that the BSC is able to provide a clear picture on firms' performance, including the communication channel, and control systems, not only from the financial perspective, but also from other relatively intangible perspectives (Anantadjaya, 2007; Kaplan and Norton, 2005).

Keywords: balanced scorecard, performance, control, intangible assets, financial indicators

1. Introduction

Regardless of various definitions on globalization, its very nature has certainly changed the “structure” of the world. Ball, et al (2010) and Evans, et al (2011) claim that globalization has created a borderless economy. It is reflected by increasing numbers of cooperation among countries in extracting common benefits, or usually referred to as mutual benefits. Though borderless economy has pushed for many positive impacts, particularly concerning the actual removal of economic barriers among countries, however, business practices have become more complex and dynamics. It pushes for endless opportunities. On the contrary, it brings constant challenges. Businesses that cannot commit themselves on multi-tasking requirements, those businesses may be eliminated from the industry (Ball, et al, 2010; Evans, et al, 2011).

In order for businesses to survive in the midst of globalization, businesses have to focus on several important factors, such as; visionary top management, labor skills improvement, top quality products, efficient production processes and advanced systems (Anantadjaya, 2007; Ball, et al, 2010; Indra, 2011; Kaplan and Norton, 2007). However, though it sounds straight-forward, attempting to achieve those factors is totally a different ball-game. Many aspects may physically slow-down the successful accomplishment. Perhaps, a complex bureaucracy, out-of-date technology, and sub-standard labor skills. Hence, it becomes vital for businesses to constantly improve the strategy and management systems (Anantadjaya, 2007; Ball, et al, 2010; Indra, 2011; Kaplan, 2010; Kaplan and Norton, 2005; 2007).

To date, a lot of firms put much of their emphasis on financial indicators only. Such financial indicators are an important key success factor for firms. However, this approach is regarded insufficient today. Firms should focus on the overall business strategy to ensure the overall sight of the business operations, particularly in trying to “mix and match” both tangible assets and intangible assets, which are already available in the firms (Anantadjaya, 2007; 2009; Indra, 2011; Kaplan and Norton, 2005; Kaplan, 2010). In fact, one impact of globalization is the push toward acknowledgement on intangible assets (Anantadjaya, 2007; 2009; Indra, 2011; Kaplan and Norton, 2005; Kaplan, 2010). 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, 2007; 2009; Indra, 2011; Kaplan, 2010).

One of the ways to stay ahead of globalization and/or competition is to adopt the integrated management tools. This study relies on BSC as one of management tools to be adopted by firms (Kaplan and Norton, 2005; Mulyadi, 2001). The concept of BSC was originally introduced by Kaplan and Norton in 1992. Today, BSC has been adopted by world-class firms (Kaplan, 2010; Kaplan and Norton, 2005; 2008).

BSC is not only as a system to measure business operation in the company, but it is also used to control a company's strategy (Indra, 2011; Kaplan and Norton, 2007). BSC is more about communication, information sharing, and learning systems (Anantadjaya, 2007; 2009; Kaplan, 2010). BSC transforms the company's mission and strategy to measurable and tangible objectives. BSC is regarded as a comprehensive tool since it considers 4 perspectives; financial, customer, internal business process, and learning and growth. BSC attempts to cover both the tangible assets, and the intangible assets, including the intellectual assets, which may have become the drivers of company's performance in the future (Kaplan and Norton, 2005; 2007; 2008; Kaplan, 2010; Mulyadi, 2001).

BSC offers a unique attraction to really understand more about its applications, particularly in terms of its potential influence toward firm's performance. According to the Jakarta Stock Exchange Industrial Classification (JASICA), all publicly-traded firms are categorized into 9 industry sectors. This study focuses only on sub-category of financing institutions, within the JASICA's banking and finance industry classification. This study covers only the period of 5 years, from 2006 to 2010.

2. Literature Reviews

2.1. Strategic Management

Today's business environment has becoming more complex and dynamics. To maintain survivability, firms have to incorporate a constant control system to note the dualities; short-term vs. long-term planning, internal process vs. external influence, financial constraints vs. customer service, efficiency vs. effectiveness, and many other paradoxes (Ball, et al, 2010; Evans, et al, 2011). It certainly mirrors the aim of strategic management (Pearce and Robinson, 2011). Generally, strategic management represents a systematic approach in

formulating and implementing strategy (Indra, 2011; Pearce and Robinson, 2011). Also, strategic management is often regarded as a process in making better decisions via accurate formulation of firms' strategies, action plans, and future-oriented game-plans, which are expected to offer values to customers (Friday and Friday, 2003; Mulyadi, 2001; Pearce and Robinson, 2011). It becomes the basic framework for managers in making various managerial decisions (Friday and Friday, 2003; Haryanto, 2005; Mulyadi, 2001; Pearce and Robinson, 2011). Moreover, Pearce and Robinson (2011) state that in formulating and implementing a strategic management process, there are suggested models, which commonly encircle around; firm's mission, internal analysis, external environment, matching firm's resources to the external environment, 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.

2.2. Balanced Scorecard

As previously mentioned, in 1992, Kaplan and Norton introduced the concept of BSC for the first time. Since its birthday, BSC proposes multiple perspectives in looking into the firm's performance. That is, noting and maintaining the firm's scores balanced between financial and non-financial aspects, long-term and short-term, internalities and externalities (Anantadjaya, 2007; Kaplan and Norton, 2007; Mulyadi, 2001; Pearce and Robinson, 2011; Pienaar and Penzhorn, 2000). Though the traditional management measurements remain intact, BSC is actually attempting to focus on both tangible and intangible assets of the firms (Anantadjaya, 2007; Kaplan and Norton, 2007). It is expected that managers can have a better picture on how the firm is really doing, including the capability to answer four basic questions; (1) how should the company appear to the shareholders?, (2) how should the company appear to the customers?, (3) what kind of business processes that the company should be able to perform well?, and (4) how can the company continue to improve? (Irala, 2007)

2.2.1. Financial Perspective

Although non-financial figures are believed to have significant impacts, financial records are the traditional measurement to note the firm's performance. The reason is simple. It is simply due to the ability to show a correlation between strategy implementation and improvement on the firm's bottom-line (Anantadjaya, 2007; Irala, 2007). Gvozdanic (2010) indicates that there are commonly used financial measures to determine the correlation between strategy implementation and improvement on the firm's bottom-line, which are revenue growth, cost reduction and productivity improvement, and asset utilization. Undoubtedly, the ultimate goal for the firm is a constant increase in the actual return of the firm's assets. More simply, net income, cash flow and total asset can certainly be used to note the financial perspective of the firm (Anantadjaya, 2007; 2009; Gvozdanic, 2010; Harahap, 2002; Indra, 2011; Kaplan and Norton, 2005; Ross, et al, 2008).

2.2.2. Customer Perspective

Customer perspective is regarded as the main part of BSC. If the firm were unable to deliver products and services to conform to the customer satisfaction, the generation of income would likely stay as dreams and illusions. In a situation like this, any firms may be eliminated from the marketplaces (Gvozdanic, 2010). Since BSC attempts to measure both sides of tangibility and intangibilities, customer measurement is also crucial. According to previous studies by Anantadjaya (2007; 2009), Bose and Thomas (2007), Haryanto (2005), Indra (2011), Ross, et al (2008), and Triest, et al (2007), market share (numbers of customer, expenses, sales, product lines, product mix), customer retention (marketing expenses), customer acquisition (number of new customers, new orders, aggregate increase in sales), customer satisfaction (level/index of customer satisfaction, product returns, numbers of complaint), and customer profitability (discounts, net sales) can be used to evaluate the goodness of customer perspective for any given firms.

2.2.3. Internal Business Process Perspective

Internal business perspective signifies the whole process from the identification of customers' needs to the actual delivery of products or services. This perspective is useful to boost the effectiveness of the process to create constant competitive advantage. It is also expected that this perspective is able to show value creation for customers (Gvozdanic, 2010). Haryanto (2005) states three basic business processes for firms – innovation, operation, and post-sale service. Hence, employee productivity, allowance for losses, relationships with suppliers,

creditors, debtors, and other third parties may be used to signify the internal business process perspective (Bose and Thomas, 2007; Gvozdanovic, 2010; Haryanto, 2005; Indra, 2011; Ross, et al, 2008).

2.2.4. Learning and Growth Perspective

Learning and growth perspective may have become the driver in supporting the firms in achieving the objectives in the first three perspectives. This perspective focuses on basic resources to achieve the firm's long term objectives (Anantadjaya, 2007; Haryanto, 2005; Indra, 2011; Mulyadi, 2001). There are three principal categories for learning and growth perspective; (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, et al, 2011; Indra, 2011), (2) information system capabilities, which emphasizes on effective business processes (Indra, 2011; Kaplan, 2010; Kaplan and Norton, 2007; 2005), and (3) motivation, empowerment, and alignment (Indra, 2011).

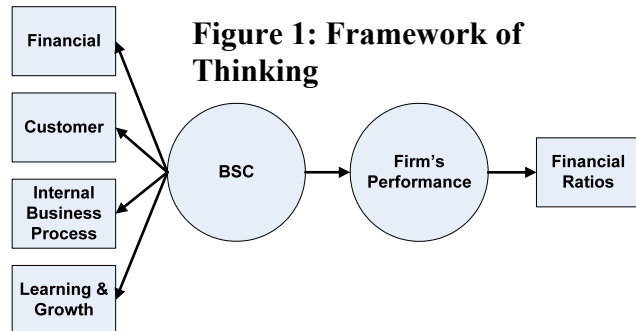
2.3. Company Performance

In order to measure the performance of the firm, the perspective of BSC demands satisfactory level of implementation of management system (Indra, 2011; Kaplan and Norton, 2007). As stated previously, the BSC's model combines both financial and non-financial figures to allow managers to really evaluate what is happening inside firms (Indra, 2011; Kaplan, 2010). Previous studies also indicate that the BSC's model may be seen as the cause and effect relationships among the four perspectives (Anantadjaya, 2007). One particular study can be used as an example here to note such a cause and effect relationships among perspectives (Anantadjaya, 2007; Chesnick, 2000; Kaplan, 2010). Building on from the employee skills as a factor to measure learning and growth perspective, the internal business process within a firm can be improved. The betterment on internal business process can certainly influence the on-time delivery, which induce the level of customer loyalty, and bring 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).

2.4. Framework of Thinking

Based on the above reference, this study attempts to note the relationship among BSC's perspectives and their influence toward firm's performance, as shown in the following illustration. In order to create approximations on the model, various estimators are integrated in the model, mainly from the field of financial management.

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 (Anantadjaya, 2007; 2009; Gvozdanovic, 2010; Harahap, 2002;



Indra, 2011; Kaplan and Norton, 2005; Ross, et al, 2008), (2) total sales, accounts receivables, and marketing expenses for customer perspective (Anantadjaya, 2007; 2009; Bose and Thomas, 2007; Haryanto, 2005; Indra, 2011; Ross, et al, 2008; Triest, et al, 2007), (3) employee productivity¹, numbers of business networks², and allowance for losses³ for internal business process (Bose and Thomas, 2007; Gvozdanovic, 2010; Haryanto, 2005; Indra, 2011; Ross, et al, 2008), and (4) numbers of employees, salary/benefits expenses, and training/education expenses (Evans, et al, 2011; Indra, 2011; Kaplan, 2010; Kaplan and Norton, 2007; 2005).

The following indicators are used to represent the firm's performance via selected financial ratios (Ross, et al, 2008); (1) current ratio and net working capital to assets for liquidity ratio, (2) total debt, debt-to-equity, and equity multiplier for financial leverage ratio, (3) receivable turnover, net working capital turnover, fixed asset turnover, and total asset turnover for turnover ratio, and (4) profit margin, return on asset, and return on equity for profitability ratio.

2.5. Research Questions and Hypotheses

¹ 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.

² 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.

³ 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.

Referring to the above framework of thinking, the following hypotheses are developed;

H ₁	:	Customer perspective is the most dominant element of BSC.
H ₂	:	BSC strongly influences the company's performance.

3. Research Method

This research combines descriptive and causal research (Ghauri and Gronhaug, 2005). The descriptive research provides descriptions on BSC's 4 perspectives. It should reveal the actions that firms have taken within the perspectives' boundaries. Also, the causal research provides information on the influence of BSC toward the firms' performance.

The data used in this study was collected from secondary data. On one side, since this study focuses on publicly-traded firms, all the financial information is widely available. On the other side, the required data was also gathered from several sources, such as; textbooks, journals, websites, and companies' annual reports.

3.1. Population and Sample

Publicly-listed firms within the finance industry in BEI are divided into several sub-sectors; banking institutions, financing institutions, securities institutions, insurance institutions and other finance institutions. In this study, the population is limited to the sub-sector of financing institutions.

Within the financing institution sub-sector at BET, there are 11 firms. Out of the total of 11 firms, a total of 7 firms are selected to represent the financing institution sub-sector. The basic reason for choosing a total of 7 firms is simply due to the uniformity of financial information during the same period of 2006-2010. They are; (1) PT. Adira Dinamika Multi Finance, Tbk, (2) PT. BFI Finance Indonesia, Tbk, (3) PT. Buana Finance, Tbk, (4) PT. Clipan Finance Indonesia, Tbk, (5) PT. Mandala Multifinance, Tbk, (6) PT. Trust Finance Indonesia, Tbk, and (7) PT. Wahana Ottomitra Multiartha, Tbk.

3.2. Statistical Tests and Guidelines

Since this study involves quantitative analysis, statistical tests become necessary. In order to check the reliability and validity of the data, this study relies on Cronbach Alpha and KMO

and Bartlett's Test. A higher value than 0.7 is considered satisfactorily reliable (Yamin and Kurniawan, 2009). With regard to the KMO and Bartlett's Test, Yamin and Kurniawan, (2009) indicate that the result is classified into five categories; marvelous (>0.9), meritorious (0.8-0.9), middling (0.7-0.8), mediocre (0.6-0.7), miserable (0.5-0.6) and unacceptable (<0.5). 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, a path analysis is used.

4. Data Analysis

4.1. Industry Overview

According to Asosiasi Perusahaan Pembiayaan Indonesia ("APPI"), financing companies started to exist in Indonesia in 1974. This sector of business has been growing in parallel with the increase in buying power. According to decree of the President of the Republic of Indonesia no. 9/2009, the main business activities in financing institution can be divided into several types, which are; (1) leasing, which covers; financial lease and operating lease, (2) factoring, which refers to the sales of firm's accounts receivable, (3) consumer finance, which includes; financing for vehicles, house, house appliances, and electronics, and (4) credit card.

As previously mentioned, 7 firms were selected in this study to represent the financing institution sub-sector at BEI. Those firms are; (1) PT. Adira Dinamika Multi Finance, Tbk, which concentrates on vehicle financing, (2) PT. BFI Finance Indonesia, Tbk, which concentrates on vehicle and heavy-equipment financing, (3) PT. Buana Finance, Tbk, which concentrates on leasing, consumer finance, and factoring, (4) PT. Clipan Finance Indonesia, Tbk, which concentrates on leasing, consumer finance, and factoring, (5) PT. Mandala Multifinance, Tbk, which concentrates on motorcycle finance, (6) PT. Trust Finance Indonesia, Tbk, which concentrates on leasing and consumer finance, and (7) PT. Wahana Ottomitra Multiartha, Tbk, which concentrates on motorcycle finance.

4.2. Balanced Scorecard

The following data analysis encircles around 4 perspectives of BSC, which are based on the best approximations of indicators, as previously mentioned.

4.2.1. Financial Perspective

Financial figures should be regarded as the most important element in trying to show the condition of a firm, or group of firms in a particular industry. In this financial perspective, 3 measures are used; net income, cash and cash equivalent and total asset. As shown in the following table, the general trend is increasing at an average of Rp. 213 billion for net income, Rp. 143 billion for cash, and Rp. 2.3 trillion for total assets during the period of 2006-2010.

Industrial Averages						
Rp millions	2006	2007	2008	2009	2010	Average
Net Income	132,165	102,693	222,037	270,033	340,041	213,394
Cash & Cash Equivalent	89,139	109,553	188,823	155,164	173,716	143,279
Total Assets	1,746,591	2,189,531	2,332,334	2,097,851	3,247,988	2,322,859

Table 1: BSC – Financial Perspective (Industrial Averages)

Source: Financial Statement, modified, 2006-2010

4.2.2. Customer Perspective

Customer perspective provides a snapshot of customers' responses toward the firms' products and services. In financing industry, firms must be implemented to constantly maintain and attract new customers. The main strategy is providing the best services, such as; partnerships with banks to facilitate and/or provide alternatives for customers, setting-up help desk to handle problems and feedback, and maintaining good communication with customer through various media.

In this customer perspective, 3 measures are used; total sales, accounts receivable, and marketing expenses. As shown in the following table, the general trend is increasing at an average of Rp. 639 billion for total sales, Rp. 1.92 trillion for accounts receivable, and Rp. 17.9 billion for marketing expenses during the period of 2006-2010.

Industrial Averages						
Rp millions	2006	2007	2008	2009	2010	Average
Total Sales	461,249	563,606	721,118	749,501	699,540	639,003
Accounts Receivable	1,485,035	1,820,094	1,801,524	1,595,837	2,900,181	1,920,534
Marketing Expense	10,541	10,201	14,932	17,969	35,922	17,913

Table 2: BSC – Customer Perspective (Industrial Averages)

Source: Financial Statement, modified, 2006-2010

The table shows uniformities among indicators. As the average of total sales rise, the firms' accounts receivable also jumps. Perhaps, such increments were heavily due to the substantial increase in marketing expenses.

4.2.3 Internal Business Process Perspective

Internal business process perspective focuses on the internalities of the firms in order to create competitive advantage. Three basic business processes are worth noted; innovation, operation and post sales service, to support the survivability of the firms. In financing industry, firms with some forms of innovation could excel. One firm, for instance, offers several financing alternatives beyond the regular financing and car financing, such as; trendi, direct sales, Maxi, SeRu, and Baloon payment. The purpose is simply to broaden the target market. Taking advantage of the internet and online banking facilities, firms have tried to maintain relationships with dealerships/showrooms to provide alternative payment method via automatic installment payment system, for instance. With regard to the post-sales services, financing firms have attempted to open new business networks to maintain convenience and closeness to customers.

In this internal business perspective, 3 measures are used; employee productivity, numbers of business networks, and allowance for losses⁴. As shown in the following table, the general trend is increasing at an average of Rp. 325 million for employee productivity, 102 business networks, and Rp. 78.4 billion for allowance for losses during the period of 2006-2010.

Industrial Averages						
	2006	2007	2008	2009	2010	Average
Employee Productivity (Rp millions)	345	320	349	309	297	325
Numbers of Business Networks	69	80	100	105	157	102
Allowance for Losses (Rp millions)	37,843	69,836	77,051	90,679	116,489	78,379

Table 3: BSC – Internal Business Process Perspective (Industrial Averages)

Source: Financial Statement, modified, 2006-2010

⁴ From the comparison of the two components (allowance for losses and accounts receivable), it is apparent that the average of allowance for losses is less than 8% out of the total accounts receivable.

4.2.4. Learning and Growth Perspective

Learning and growth could be seen as the driver in achieving firms' objectives. This perspective focuses on human resources within the firms. The pool of motivated, qualified, and energetic human resources may optimize firms' performance.

In order to maintain and constantly improve the firms' performance, firms may have decided to add more employees to support the expansion of the firms, offering an appropriate salary and benefit schemes, and conducting training, which often includes; basic training, functional training, qualification training, general training and leadership training (Annual Report, 2006-2010).

In this learning and growth perspective, 3 measures are used; numbers of employees, salaries and benefits expenses, and training expenses. As shown in the following table, the general trend is increasing at an average of Rp. 325 million for employee productivity, 102 business networks, and Rp. 78.4 billion for allowance for losses during the period of 2006-2010.

Industrial Averages						
	2006	2007	2008	2009	2010	Average
Numbers of Employee	2,762	3,451	4,085	4,647	6,776	4,344
Salaries and Benefits Expenses (Rp millions)	88,817	118,881	178,731	197,917	259,686	168,807
Training Expenses (Rp millions)	3,099	3,819	3,834	3,235	5,022	3,802

Table 4: BSC – Learning & Growth Perspective (Industrial Averages)

Source: Financial Statement, modified, 2006-2010

4.3. Industry Performance

To satisfy the purpose of this research, industry performance relies on various financial ratios and stock prices. Since this study focuses on 7 firms as samples, the performance uses the industrial averages of those 7 financing institutions. The financial ratios consist of mainly the basic financial ratios, as commonly referred to in many financial management studies – liquidity ratio, financial leverage ratio, turnover ratio and profitability ratio (Ross, et al, 2008).

4.3.1. Liquidity Ratio

In terms of liquidity ratio, this study emphasizes on current ratio⁵ and net working capital to total assets⁶.

Industrial Averages						
	2006	2007	2008	2009	2010	Average
Current Ratio (in times)	3.31	2.64	2.64	3.12	2.82	2.91
Net Working Capital to Total Assets (in percent)	56.76	54.03	51.87	60.24	51.75	54.93

Table 5: Liquidity Ratio – Industrial Averages

Source: Financial Statement, modified, 2006-2010

The table above shows the firms' averages to cover their short-term liabilities during the period of 2006 to 2010. Though there are variations during the 5-year period, all the results indicate that firms are considered liquid to cover the short-term liabilities. The averages of net working capital to total assets also show high figures of more than 50%. This confirms the financial ability to pay obligations on time.

4.3.2. Financial Leverage Ratio

In terms of financial leverage ratio, 2 ratios are used as the representations (Ross, et al, 2008); total debt ratio⁷, and debt-equity ratio⁸.

Industrial Averages						
(in times)	2006	2007	2008	2009	2010	Average
Total Debt	0.56	0.60	0.58	0.48	0.57	0.56
Debt-to-Equity Ratio	2.08	3.78	2.97	1.81	2.21	2.57

Table 6: Financial Leverage Ratio – Industrial Averages

Source: Financial Statement, modified, 2006-2010

The table shows changes in the average of total debt of around 56% during the five years. Since this is the case of financing industry, the percentage of around 50 percent in total debt ratio is still a safe position based on the regulation of the Ministry of Finance of the Republic of Indonesia. The table also shows the movement of debt-equity ratio during five years

⁵ $Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$

⁶ $Net\ Working\ Capital\ to\ Total\ Assets = \frac{Net\ Working\ Capital}{Total\ Assets}$

⁷ $Total\ Debt\ Ratio = \frac{Total\ Assets - Total\ Equity}{Total\ Assets}$

⁸ $Debt - Equity\ Ratio = \frac{Total\ Debt}{Total\ Equity}$

time. Though there was inconsistency of variations in the figures, the industrial average indicates 2.57x. This means that for every Rp. 1,000 of equity, there is approximately Rp. 2,570 of debt. As in the case of total debt, in accordance with the decree of the Minister of Finance of the Republic of Indonesia no. 84/PMK.012/2006, this industrial average of debt-to-equity ratio is regarded safe⁹.

4.3.3. Turnover Ratio

In terms of turnover ratio, 4 ratios are used as the approximation (Ross, et al, 2008); receivables turnover¹⁰, net working capital turnover¹¹, fixed asset turnover¹² and total asset turnover¹³.

Industrial Averages						
(in times)	2006	2007	2008	2009	2010	Average
Receivable Turnover	0.30	0.30	0.39	0.39	0.22	0.32
Net Working Capital Turnover	0.51	0.52	0.64	0.58	0.53	0.56
Fixed Asset Turnover	10.85	12.18	12.16	10.49	7.27	10.59
Total Asset Turnover	0.25	0.23	0.27	0.29	0.20	0.25

Table 7: Turnover Ratio – Industrial Average

Source: Financial Statement, modified, 2006-2010

Except for the fixed asset turnover, though there were slight increases, overall, the table shows that changes in both ratios were relatively stable over time.

4.3.4. Profitability Ratio

In terms of profitability ratio, 3 ratios are used as the approximation (Indra, 2011; Ross, et al, 2008); profit margin¹⁴, return on assets¹⁵ and return on equity¹⁶.

⁹ A maximum of 10x is the upper limit of debt-to-equity.

$$^{10} \text{Receivables Turnover} = \frac{\text{Sales}}{\frac{\text{Accounts Receivable}}{\text{Sales}}}$$

$$^{11} \text{Net Working Capital Turnover} = \frac{\text{Sales}}{\text{Net Working Capital}}$$

$$^{12} \text{Fixed Asset Turnover} = \frac{\text{Sales}}{\text{Net Fixed Assets}}$$

$$^{13} \text{Total Asset Turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

$$^{14} \text{Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

$$^{15} \text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Industrial Averages						
(in percentage)	2006	2007	2008	2009	2010	Average
Profit Margin	32.07	25.28	26.77	32.09	39.66	31.17
Return on Assets	7.72	5.67	8.05	9.75	7.87	7.81
Return on Equity	19.45	0.68	18.65	19.40	20.41	15.72

Table 8: Profitability Ratio – Industrial Average

Source: Financial Statement, modified, 2006-2010

The above table indicates an increasing trend for all elements of profitability ratio. This is an indication on the level of firms' abilities in generating profits by making efficient and effective use of the available resources.

4.3.5. Stock Price

Since stock price represents how much the market is willing to pay for the firms' stocks, it can be considered as one of the plausible measurements in firms' performance (Indra, 2011; Ross, et al, 2008). Generally speaking, the higher the stock price, the better the perception of the market toward firms' performance. The stock prices are derived from the year-end closing price of the 7 firms in the financing sub-industry at BEI. Though the averages of stock price, as shown in the following table, are not able to provide detailed picture on the performance of the industry, nonetheless, the general overview can certainly be analyzed. The following table shows that the average stock prices have increased significantly from Rp. 852/share to Rp. 2,616/share. From the fundamental perspective, an increase in the stock price corresponds to improvements of performance in the last five years.

Industrial Averages						
(in rupiah per share)	2006	2007	2008	2009	2010	Average
Stock Price	852	751	519	1,387	2,616	1,225

Table 9: Stock Price – Industrial Average

Source: Yahoo! Finance, modified, 2011

4.4. External Economic Factors

In order to really understand the whole situation in terms of firms' performance, it may be important to also note on the conditions of the externalities. For sure, the general state of economy in Indonesia is likely influencing the choices and buying behaviors of its residents.

¹⁶ $Return\ on\ Equity\ (ROE) = \frac{Net\ Income}{Total\ Equity}$

This study relies on only inflation rate and interest rates during the same period of 2006-2010.

Externalities Averages					
(in percentage)	2006	2007	2008	2009	2010
Inflation Rate	6.60	6.59	11.06	2.78	6.96
Interest Rate	9.75	8.00	9.25	6.50	6.50

Table 10: Inflation Rate in Indonesia

Source: Badan Pusat Statistik Website, 2011

The table above shows that there was a substantial increase on the inflation rate from 6.6% in 2007 to 11% in 2008. This indicated that the general price level jumped. This may slow down the economy and lower the general buying power of the residents. From the interest rate perspective, a relatively high rate occurred from 2006 to 2008 before it dropped to 6.5% per annum. This indicated a tight monetary policy whereby the government of Indonesia was attempted to lower the money supply to safeguard the value of Rupiah. During this 3-year period, financing industry was heavily challenged to continuously maintain existence in the marketplaces, and keeping the bottom-line relatively bulky.

4.5. Statistical Analysis

4.5.1. Descriptive Analysis

Descriptive analysis shows the basic characteristic of the data.

	N	Range	Minimum	Maximum	Mean	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Net Income	112	1.75E+12	-2.82E+11	1.47E+12	2.13E+11	5.95E+10
Cash	112	6.16E+11	2.49E+09	6.19E+11	1.43E+11	2.68E+10
Total Assets	112	7.42E+12	1.80E+11	7.60E+12	2.32E+12	2.72E+11
Total Sales	112	2.74E+12	3.83E+10	2.78E+12	6.39E+11	1.14E+11
Accounts Receivables	112	6.41E+12	1.67E+11	6.58E+12	1.92E+12	2.31E+11
Marketing Expense	112	1.70E+11	8.23E+07	1.70E+11	1.79E+10	5.62E+09
Employee Productivity	112	6.62E+08	4.59E+07	7.08E+08	3.25E+08	3.42E+07
Network Number	112	547	3	550	102	19.88
AFDA	112	3.52E+11	1.34E+10	3.65E+11	7.84E+10	1.25E+10
Employees	112	24300.00	92.00	24392.00	4344.37	974.81
Salary Expense	112	9.18E+11	5.51E+09	9.24E+11	1.69E+11	3.69E+10
Training Expense	112	2.00E+10	9.30E+07	2.01E+10	3.80E+09	8.91E+08

	N	Range	Minimum	Maximum	Mean	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Current Ratio	112	6.39	1.19	7.58	2.9087	.26505
NWC to TA	112	.69	.15	.84	.5493	.03190
Total Debt Ratio	112	.69	.26	.95	.5569	.03497
DER	112	17.14	.35	17.49	2.5702	.60804
Receivables Turnover	112	1.15	.12	1.27	.3199	.04450
NWC Turnover	112	1.66	.13	1.79	.5562	.07552
FA Turnover	112	24.79	4.49	29.28	10.5874	.92828
TA Turnover	112	.56	.09	.65	.2474	.02234
PM	112	.99	-.29	.69	.3117	.03167
ROA	112	.34	-.06	.28	.0781	.01167
ROE	112	1.63	-1.11	.52	.1572	.04308
Stock Price	112	11912	88	12000	1217.46	383.95
Valid N (listwise)	112					

Table 11: Descriptive Statistics

Source: SPSS

From the descriptive statistic table above, it can be seen that each of the variables used in this study has its own characteristic. Since the range of data is greatly varied, the standardized values are used in further processes.

4.5.2. Reliability Testing

The available data is tested for its reliability. There are 112 different data used in this study, which are gathered from 7 firms within the financing sub-industry during the 5-year period of 2006-2010 (quarterly data). The adjacent tables show that 100% of the data are considered valid. The reliability of data is also confirmed using Cronbach's Alpha of about 91%. This means that the available data is significantly reliable to be used for further analysis.

4.5.3. Validity Testing

The validity of data is tested using the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, and Bartlett's test of sphericity. Though the result of KMO measure of sampling

		N	%
Cases	Valid	112	100.0
	Excluded ^a	0	.0
	Total	112	100.0

a. Listwise deletion based on all variables in the procedure.

Table 12: Case Processing Summary

Source: SPSS

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.718	.906	24

Table 13: Reliability Statistic

Source: SPSS

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.612
Bartlett's Test of Sphericity	Approx. Chi-Square	1758.257
	Df	276
	Sig.	.000

Table 14: KMO and Bartlett's Test

Source: SPSS

adequacy is not significantly high, at least it suggests that the available data is adequate for further processes (Indra, 2011; Yamin and Kurniawan, 2009). The significance of Bartlett's test shows the number 0.00. This means that Bartlett's test is considered highly significant since it is lower than 0.001 (Indra, 2011; Yamin and Kurniawan, 2009). Hence, it is appropriate for further testing.

The data are also used to test communalities¹⁷ of variables. The communalities table suggests that out of 24 variables, there is only 1 variable, AFDA at 49.9%, that is not well defined by the prospecting factors. This shows that AFDA may have to be eliminated from further analysis.

4.5.4. Path Analysis

Once the available data is considered valid and reliable, the path analysis is run to see the relationships among variables. From the result of AMOS model, as illustrated below, it is apparent that BSC influences the firms' performance as much as 0.50. Nevertheless, though BSC shows 0.50 influence toward firms' performance, the model fit of AMOS results do not really conform to the prescribed standards of fitness (Ghozali, 2004; Santoso, 2009; Schumacker and Lomax, 2004; Wijaya, 2009). The output of model fit in AMOS is summarized in the table below.

	Initial	Extraction
Net Income	1.000	.964
Cash	1.000	.898
Total Assets	1.000	.932
Total Sales	1.000	.961
Accounts Receivables	1.000	.934
Marketing Expense	1.000	.858
Employee Productivity	1.000	.797
Network Number	1.000	.971
AFDA	1.000	.499
Employees	1.000	.946
Salary Expense	1.000	.956
Training Expense	1.000	.817
Current Ratio	1.000	.751
NWC to TA	1.000	.908
Total Debt Ratio	1.000	.915
DER	1.000	.942
Receivables Turnover	1.000	.970
NWC Turnover	1.000	.813
FA Turnover	1.000	.746
TA Turnover	1.000	.970
PM	1.000	.915
ROA	1.000	.951
ROE	1.000	.793
Stock Price	1.000	.859
Extraction Method: Principal Component Analysis.		

Table 15: Communalities

Source: SPSS

Model	GFI	AGFI	PGFI	RMSEA	NFI	TLI	CFI
Default model	0.266	0.123	0.223	0.406	0.301	0.262	0.329

Table 16: Model Fit Summary

Source: AMOS

Further analysis indicates that there are adjustments to be made into the variables used in this study. As previously mentioned, elimination of some variables may be necessary. To

¹⁷ Communalities provide details on the ability level of a particular variable to explain the variance (Indra, 2011; Yamin and Kurniawan, 2009).

support the previous statistical findings on AFDA, for instance, the following regression weight table also indicates that AFDA should not be used in the model since its p-value is insignificant. In addition, fixed asset turnover, net working capital turnover, net working capital to total asset, and current ratio are considered insignificant as well at the level of α of 0.05.

			Estimate	S.E.	C.R.	P
Performance	<---	BSC	0	0	3.26	0.001
Total Assets	<---	BSC	1			
Cash	<---	BSC	0.112	0.017	6.715	***
Net Income	<---	BSC	0.238	0.038	6.244	***
Total Sales	<---	BSC	0.481	0.071	6.809	***
Accounts Receivables	<---	BSC	0.701	0.162	4.325	***
Marketing Expense	<---	BSC	0.019	0.004	4.949	***
Employee Productivity	<---	BSC	0	0	-4.126	***
Network Number	<---	BSC	0	0	7.523	***
AFDA	<---	BSC	0.004	0.01	0.358	0.721
Employees	<---	BSC	0	0	7.612	***
Salary Expense	<---	BSC	0.167	0.022	7.693	***
Training Expense	<---	BSC	0.003	0.001	5.786	***
ROA	<---	Performance	1			
ROE	<---	Performance	1.706	0.512	3.329	***
Stock Price	<---	Performance	16218.078	3987.275	4.067	***
PM	<---	Performance	1.789	0.265	6.739	***
TA Turnover	<---	Performance	1.337	0.183	7.317	***
FA Turnover	<---	Performance	0.179	11.37	0.016	0.987
NWC Turnover	<---	Performance	0.583	0.869	0.671	0.502
Receivables Turnover	<---	Performance	2.797	0.333	8.411	***
DER	<---	Performance	-24.185	6.877	-3.517	***
Total Debt Ratio	<---	Performance	-1.462	0.357	-4.095	***
NWC to TA	<---	Performance	0.704	0.422	1.671	0.095
Current Ratio	<---	Performance	6.738	3.7	1.821	0.069

Table 17: Regression Weights

Source: AMOS

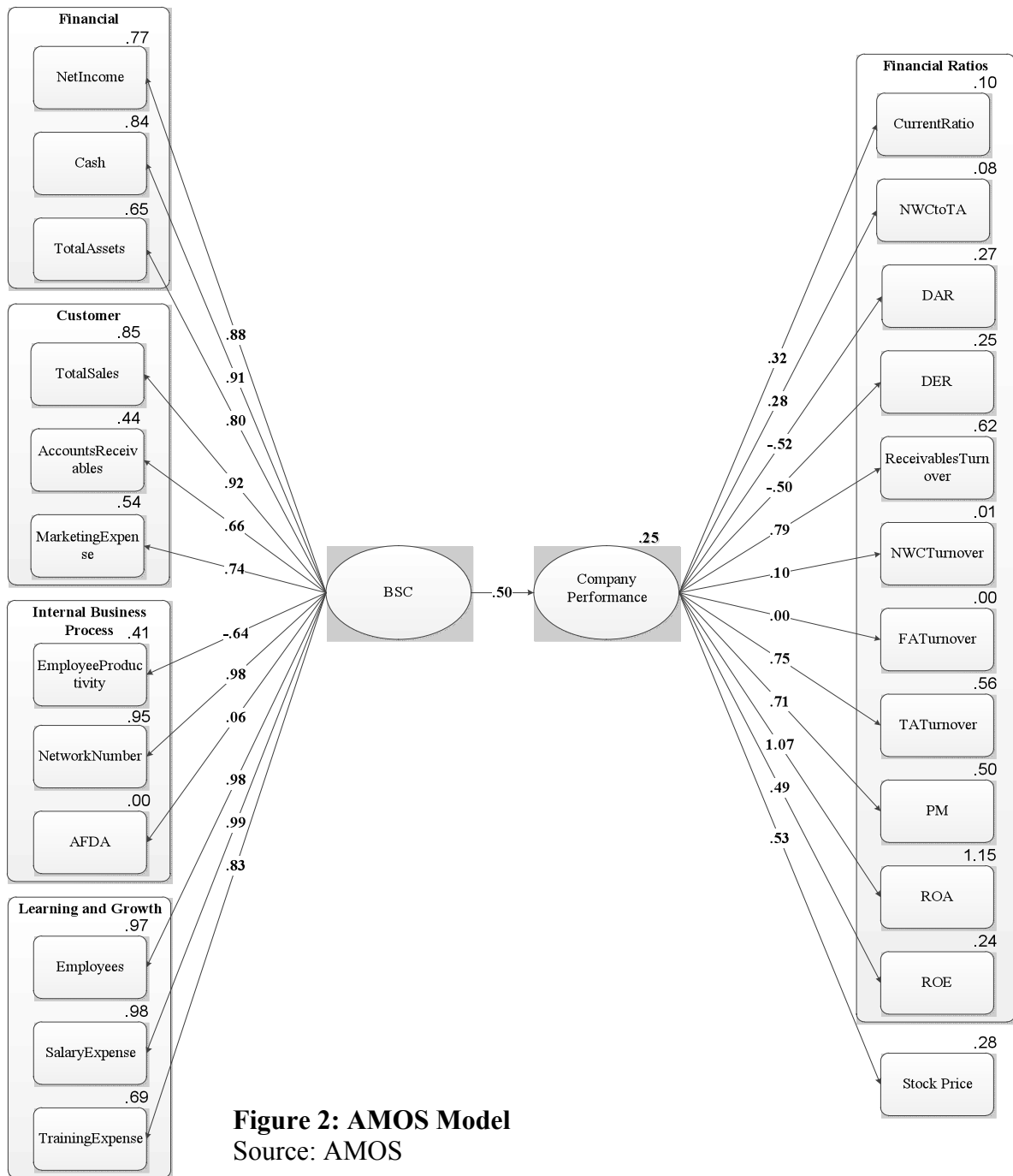
The table of modification indices shows that there are possibilities of improvement in the

model fit if the following variables were to be connected to each other. This indicates influences among variables, whose influences were not explicitly drawn in the initial model.

			M.I.	Par Change
e23	<-->	e24	19.247	0.179
e19	<-->	e23	18.433	-0.055
e18	<-->	e21	13.402	9.095
e5	<-->	e6	14.232	1.45018E+22
e3	<-->	e10	15.897	-1.34538E+14
e3	<-->	e7	12.175	1.55618E+19
e2	<-->	e12	12.631	1.14589E+20
e1	<-->	e5	32.493	9.36274E+23

Table 18: Modification Indices

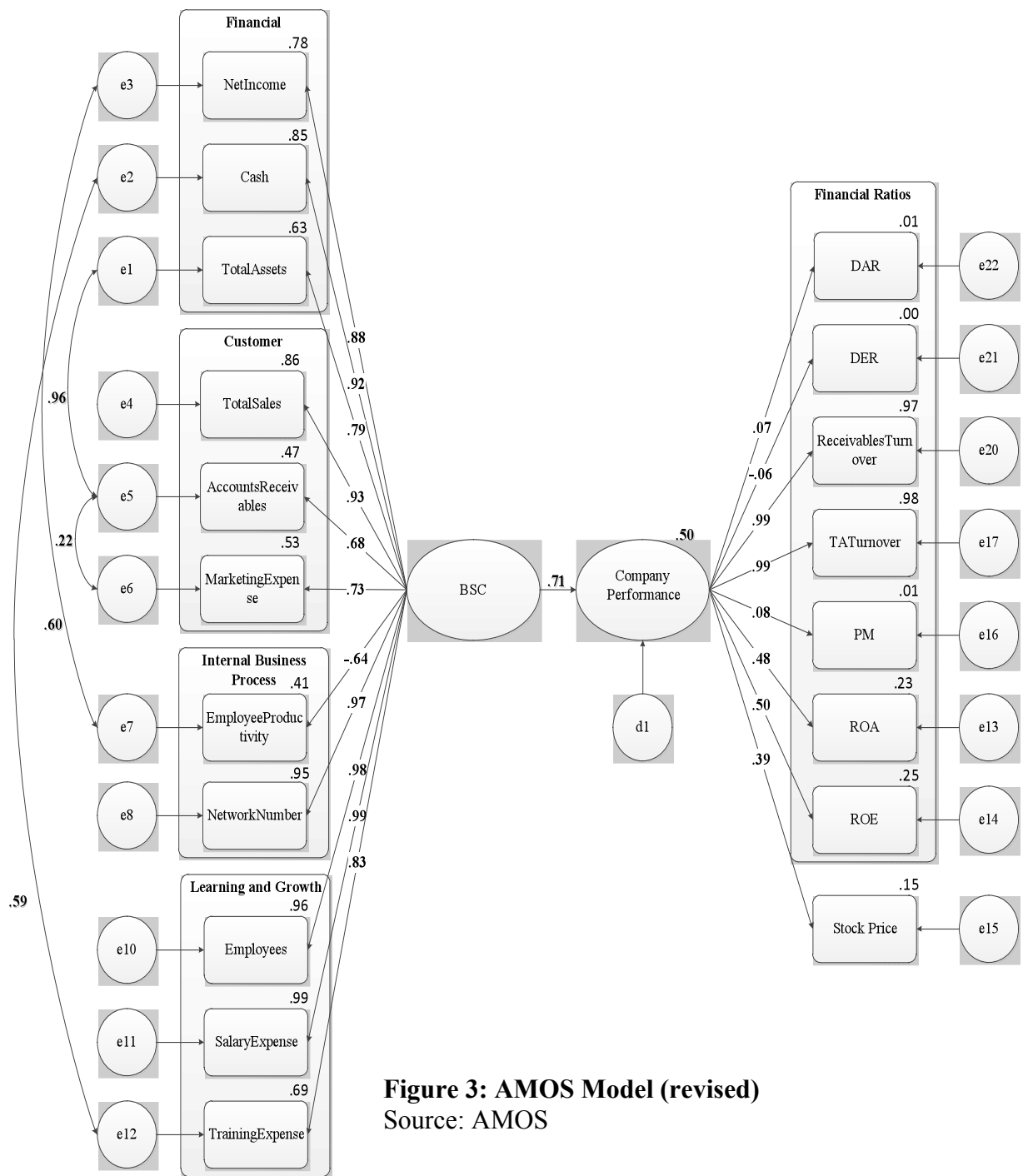
Source: AMOS



Based on the result between those elements, variables have been

is necessary to provide correlations shown. However, since some of the shown on the AMOS model.

Following the elimination of some variables, and adding some co-relational arrows in the model, the model is reanalyzed using AMOS. The result from the analysis of the model is shown below.



From the result of path analysis, the influential value of BSC to the financial ratios in the revised model. Though the model fit may not be perfect, the revised model fitness shows improvement. Since this is an applied research in business and management fields, this study pays a particular concern on the overall improvements in the

in improvement of the revised model. delines, the revised

model, and not just a mere statistical result. This is not to say that the results in statistics are ignored. The statistical results are used as the guiding principles, particularly in attempting to fit the model into the practicalities in firms.

Model	GFI	AGFI	PGFI	RMSEA	NFI	TLI	CFI
Default model	0.266	0.123	0.223	0.406	0.301	0.262	0.329
Default model (revision)	0.323	0.131	0.252	0.425	0.432	0.378	0.462

Table 19: Comparisons of Model Fitness

Source: AMOS

The above table shows the comparative results on model fitness between the initial model and the revised model. It is apparent that all the criteria of model fitness have increased. Though those models' fitness still fall below the prescribed standards, it is safe to conclude that the revised model provides a better fit, indeed.

Hence, this revised model can be used to address the proposed hypothesis. In relation to the first hypothesis, "customer perspective is the most dominant element of BSC", unfortunately the statistical results indicate that learning and growth perspective is the most dominant element of BSC, at the co-relational value of 0.98, 0.99, and 0.83, for numbers of employees, salary expenses, and training expenses, respectively. From those results, it can be concluded that learning and growth perspective is the most dominant perspective of BSC in the financing institutions. It means that the first hypothesis should be rejected since customer perspective is not the most dominant perspective in BSC. With regard to the second hypothesis, "BSC strongly influences the company's performance", fortunately the statistical results support such a hypothesis. At the total value of 0.71, which is considered as relatively strong (Yamin and Kurniawan, 2009), as the strength of influence of BSC toward firms' performance, it means that as firms become more balanced, organizational performance increases. Hence, the second hypothesis should not be rejected since the implementation and/or measurement of BSC strongly influences the company's performance.

5. Conclusion & Recommendation

5.1. Conclusion

Based on the statistical results, it is safe to conclude that;

1. Learning and growth perspective prevails as the most dominant element of BSC in

financing firms. This actually follows the common expectation that employees' skills act as the driver in the organizational performance. At least, in the financing firms, it is evident that skills trigger domino-effect in other perspectives of BSC. Perhaps, this conforms to the increasingly important role of intangible assets, particularly intellectual capital of human resources in companies.

2. BSC has a considerable influence toward company's performance at a total value of 0.71. This indicates that what is actually happening inside firms based on financial perspective, customer perspective, internal business process perspective, and learning and growth perspective, the firms' performance is 71% influenced. Simply, it states that as the firms become more "balanced" in their measurements between tangible and intangibilities, company's performance jumps.

5.2. Recommendation

It becomes apparent that firms should be emphasizing on learning and growth perspective to enjoy the bulky bottom-line. At least, this is true for financing firms during the period of 2006-2010. Based on the variables used in this study, firms should focus on the number of employees (as a way to support the newly-opened outlets), competitive level of salary and benefits (as a way to push for efficiency and effectiveness of work performance), and implementing various training to staff (as a way to improve product knowledge and soft skills in dealing with vastly unique characteristics of potential clients).

This study is far from perfect. Future study can certainly use more data, by simply covering more financial years, expanding the scope of analysis into other industrial categories at BEI, as well as incorporating interviews with the management and customers of those firms. Utilizing more variables, including macro economic data, may also be considered to seek out the relationships, and obtain the bird's eye view into the industry. An emphasis into smaller firms and/or younger organizations may also be attempted in the future to note the potential differences. Nonetheless, this study is able to provide a snapshot of what had happened in the publicly-listed financing sub-industry in Indonesia.

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