

EKSEKUTIF

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Key Performance Indicators Identification Through Critical Success Factors in a Freight Forwarder Company: Transportation Division of PT Varia Usaha

Basuki dan Ganis Arimurti

Efisiensi Profitabilitas Bank yang Terdaftar Pada Bursa Efek Indonesia

Nailul Authoritsa, Siti Aisjah, dan Sumiati

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KEY PERFORMANCE INDICATORS IDENTIFICATION THROUGH CRITICAL SUCCESS FACTORS IN A FREIGHT FORWARDER COMPANY: TRANSPORTATION DIVISION OF PT VARIA USAHA

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ABSTRACT:

PT. Varia Usaha is one of the freight forwarder companies in Indonesia. It has three other businesses such as Cement Distributor, Mining, and Industrial Goods but this research will be focusing on its Transportation Division as a freight forwarder. With the complexity and dynamics work in the road, the company needs a proper performance measurement. In assessing the performance, the company focuses only on the financial statements for management using traditional financial measurement and range indicators for the drivers. The company needs a new performance measurement. This research aims to determine what the businesses Critical Success Factors are? How to use the CSF results to identify the company's Key Performance Indicators? Research conducted using non mainstream approach by collecting data obtained from interviews, both with the managements as well as the customers, financial statements, and other supporting document review data. The research limitation is this research is merely determines the appropriate performance measurement in the company, without the implementation in the further step. The research result of using Critical Success Factors concept as the basic guidance in determining Key Performance Indicators showed that the company has seven factors that need more attention and focus in their business process with three major aspects. Three major aspects are Safety, On-Time Delivery, and Precise must be able to work in an effective and efficient manner.

Key words: *performance measurement, critical success factors, and key performance indicators.*

ABSTRAK:

PT. Varia Usaha adalah salah satu perusahaan freight forwarder di Indonesia. Memiliki tiga bisnis seperti Distributor Semen, Pertambangan, dan Industri Barang, tetapi penelitian ini fokus pada Divisi Transportasi sebagai freight forwarder. Dengan kompleksitas dan dinamika pekerjaan, perusahaan

memerlukan pengukuran kinerja yang tepat. Dalam menilai kinerja, perusahaan fokus pada laporan keuangan untuk manajemen dengan menggunakan indikator pengukuran dan berbagai keuangan tradisional. Perusahaan membutuhkan pengukuran kinerja baru. Penelitian ini bertujuan untuk mengetahui faktor kritis kesuksesan bisnis dengan menggunakan hasil CSF untuk mengidentifikasi Key Performance Indicators perusahaan. Penelitian yang dilakukan menggunakan pendekatan non arus utama dengan mengumpulkan data yang diperoleh dari wawancara, baik dengan manajemen serta pelanggan, laporan keuangan, dan review dokumen data pendukung lainnya. Keterbatasan penelitian ini adalah hanya menentukan pengukuran kinerja yang tepat dalam perusahaan, tanpa implementasi langkah selanjutnya. Hasil penelitian menggunakan konsep CSF sebagai pedoman dasar dalam menentukan Key Performance Indicator menunjukkan bahwa perusahaan memiliki tujuh faktor yang perlu perhatian lebih dan fokus dalam proses bisnis mereka dengan tiga aspek utama: keselamatan, On-Time Delivery, dan Precise yang bekerja secara efektif dan efisien.

Kata kunci: *pengukuran kinerja, critical success factors, dan key performance indicators.*

INTRODUCTION

Throughout the 1990s, the growing level of global competition intensified the challenges for Managers who need to consider more effective ways of achieving competitive advantage and improving organizational performance (Baines and Langsfield-Smith, 2003). Today's business world has grown rapidly and creates conditions of a high competitive market. Consequently, this situation encourages companies to continually make improvements in all areas in order to have a high competitiveness of its products or services. The key to compete in the global marketplace is the ability of the company to manage their objectives in the right track.

Hansen and Mouritsen (2007) stated that "the new manufacturing paradigm, which we conceptualise as, integrated manufacturing, focuses upon the lateral flow of products and services, and thereby confronts management accounting ideals hierarchical flows of information for planning and control". They divided factory type into two types, namely, conventional and focused factory. Furthermore, companies must continually strive to prepare and refine its business

strategies in order to survive, and still remain as players in the market, and be the market leader in the competitions. A leading company must have several goals, and make sure that their employees are consistently doing their works in order to meet the goals effectively and efficiently. The company performance will deliver an output that could become the image of the company itself. It is important for a company to make sure and maintain that their performances are based on the standards, in line with the company's objectives and strategies, and also resulting the best outputs. Top managements has the responsibility to compile the strategies and make sure that the strategies have been well-distributed, well-known, well-implemented, and been obeyed in order to reach its success. One important factor that is used to assess the company's success is through the measurement of company's performance. Chenhall (2007) stated that "performance measurement is at the heart of organizational control". Performance measures can articulate organizational purpose and strategy. Traditional performance measurement systems typically use only financial measures. "It has been derived from financial relationships within income statements and balance sheets" (Chenhall, 2005).

The use of performance measurement in a company is essential as it also defines the strategic linkages to integrate performance across organizations, communicates objectives and measures to a business unit, aligns everyone within an organization so that all employees understand how what they do to supports the strategy (Kaplan and Norton, 1992). It also could be used to provide a basis for compensation, and provide feedback to senior management if the strategy is working. Performance measurement will help the top management to control, to make sure that the employess, teams, or even individuals doing the right things to the business (Durden, et al., 1999). Performance management could also help the lower management not only to understand about the company's goals but also have deeper understanding on how to reach the company's goals. This is important for the company that most of the employees are not those who work behind the desks, rather than those who spend the daily work hour in the fieldwork comparing to the employees that work hours inside an office.

PT Varia Usaha is one of the PT. Semen Indonesia's subsidiary companies which located in Gresik. It has four different business divisions covering: public transportation, general trading (including export import domestic inter island, agency, distributor), industry and development, rental, mining and expedition services or transportation or freight forwarder company. The reason why this research will focus on the transportation division is because the transportation has high complexity activities comparing to the other, such as the number of human resources involved as the business covered many aspects to be considered such as the routes' condition, government policies, and many others. Transportation division also have a high value of asset used in the business itself since the prices of the trucks are costly and also the maintenance will be cost-consuming. The dynamic works of the company must be followed by the appropriate tools to control and make sure that the employees works are stay in the line and also have a definite boundaries about the way to reach the goals.

Currently, the company does not have any particular system, dashboards, or tool to measure their employees' works which somehow difficult to deal with if we want to notice the progress, activities, and other important factors. Key performance indicators as one of the measurement methodology, can be applied for evaluating, planning and organising management as an effort for the management towards excellence. Griffin (2004), as cited by Iveta (2012), pointed out that there should be a direct link from KPIs to goals, to objectives and to strategies. As the research will be focused on one division of the company, a critical success factor can be used to help the management to set the goal and boundaries and deliver it from the top to the bottom level of management. According to Eccles (1991), critical success factor will be determined from the analysis of the company's environment and industries then it will ease the management to set and implement the strategies as the major drivers of competitive success in the industry has been discovered.

Considering the background above, then the problem statements of this research are: 1) What are the Critical Success Factors for the Transportation

Division in PT. Varia Usaha?; 2) What are the possible Key Performance Indicators through the use of critical success factor in the Transportation Division of PT. Varia Usaha in order to enhance the company's performance? Furthermore, the aim of research is to propose the new performance measurement in the company.

KEY PERFORMANCE INDICATORS

According to Hubbard et al. (2008), critical success factor is the critical drivers necessary for competitive success in an industry. While O'Brien and Marakas (2011) stated that critical success factor is a small number of key factors that executives consider critical to the success of the enterprise. These are key areas which successful performance will assure the success of the organization and attainment of its goals. Martin and Wainright (2005) stated that elaborate critical success factor is one of a limited number of organizational activities that, if done well, will contribute most to the success of the overall performance of the firm or function. Whereas Wheelen and Hunger (2012) define as "variables that significantly affect the overall competitive position of a company within a particular industry." Thompson (2001) illustrate that if organization want to satisfy their stakeholders, especially their customers, while outperforming their rivals, their competitive offering should comprise: 1) The ability to meet the recognized key success factors for the relevant industry or market; 2) Distinctive competencies and capabilities which yield some form of competitive advantage; 3) The ability and willingness to deploy these competencies and capabilities to satisfy the special requirements of individual customers, for which a premium price can often be charged.

Mazzucato (2002) stated that to survive and prosper in an industry, a firm must meet two criterias: it must supply what customer want to buy and it must survive competition. Hence, those can be asked by two questions: 1) What do customers want?; 2) What does the firm need to do to survive competition? To

answer the first question we need to look more closely at customers of the industry and view them as the basic rationale for the existence of the industry and as the underlying source of profit. The second question requires that the firm examine the basis of competition in the industry.

According to Caralli (2004), "critical success factors can be obtained from five sources since the domain of every business and the CSFs in many organizations can be differ". The sources are: 1) the industry in which the organization competes or exists; 2) an understanding of the organization's peers; 3) the general business climate or organizational environment; 4) problems, barriers, or challenges to the organization; 5) layers of management. Critical success factors is shortly connected to the Five Forces framework, which is important to look at the competitive advantages.

According to Anthony and Govindarajan (2004), critical success factors have characteristics, which are: 1) Very important in describing the succeed and failure in every business; 2) Can change rapidly, although it is not manager's intentions; 3) Unpredictable change; 4) This is very significant when a change occurs, quick responses need to be performed; 5) Measurable variables.

Moreover, the hierarchy of CSF by Caralli (2004), describe two levels of CSFs; enterprise CSFs and operational unit CSFs. In this research, the researcher will be focused on Operational Unit CSFs as it 'described and known as a company's department, division, subdivision, or any other grouping activities that have a common function and goals'. This research focus not for the company as a whole but only on one division in the company, Transportation Division.

Hubbard et al. (2008), stated "KPI is the measurement of key variables of organisation, unit and individual performance". Whereas according to Jerold (2003), KPIs are those actions and activities required for the firm to achieve its strategy and hence maximize its value. Key performance indicators (KPIs) help an organization define and measure progress toward organizational goals. Parmenter (2009), list seven characteristics of KPIs from an extensive analysis and through discussions with over 3,000 participants in their KPIs workshops that cover most organization types in the public and private sectors such as: are non-financial

measures, are measured frequently, are acted on by the CEO and senior management team, clearly indicate what action is required by staff, are measures that tie responsibility down to a team, have a significant impact, they encourage appropriate action.

KPIs, both financial and non-financial, are critical element of effective communication for the company in order to be aware of its progress towards its goals. Choosing relevant KPIs requires thinking to be aligned with the strategies and objectives. Harvey (2000), as cited by Iveta (2012), confirmed that no matter which KPIs are used, they should mirror the business strategy and be reformulated periodically to adapt to the changing environment. In order to know about where is the position of Transportation Division in its business and what strategy should be implemented, SWOT and SPACE (Strategic Position and Action Evaluation) analysis are used.

SWOT ANALYSIS

According to Beckman and Rosenfield (2008), in SWOT analysis firms asses the threats and opprtunities present in the external environment and by creatively matching them with the strengths and weaknesses of the organization, determine where they should be positioned to obtain competitive advantage. In this research SWOT analysis will be used and scored. The position of a company in the framework will show what appropriate strategy should be used.

SPACE ANALYSIS

SPACE matrix is one of management tools to determine what strategy should be taken considering the company's position shown in four-quadrant framework. Rowe, et al., (1989) as cited by Thompson (2001) have developed a model based on four important variables: the relative stability or turbulence of the environment, industry attractiveness, the extent of any competitive advantage, and the company's financial strengths.

SPACE Matrix is the analysis upon two these internal strategic dimensions and two external strategic dimensions:

1. Internal Strategic Dimensions
 - a. Financial Strengths (FS)
 - b. Competitive Advantage (CA)
2. External Strategic Dimensions
 - a. Environment Stability (ES)
 - b. Industry Attractiveness (IA)

Scores are awarded for each factors, then put into the four-quadrant framework.

METHOD

The research was performed in August 2012 to January 2013 in the Transportation Division only of PT. Varia Usaha. As this research will not focusing on hypothesis testing, this research use exploratory case study approach using Yin's case study research model. The research problem is about "constructing the design of performance indicator through the use of critical success factor in the transportation sector of PT. Varia Usaha in order to enhance the company's performance".

According to Bungin (2005) qualitative research is research that aims to understand the phenomenon of what is experienced by the subject research such as perception, behavior, motivation, action, and others are holistic way of description in the form of words and language in a specific context in which natural and by utilizing various methods. This research was started by analyzing, understanding, and digging more about the company's environment, elements and many other data to identify the Critical Success Factor for designing a set of Key Performance Indicators, and furthermore to become the performance benchmarks or measurements. Data collection by using observation for about one month, and interview to management, in average, took 30 minutes per informant. Four 4 management were chosen as informants, and then two confirmatory emails have been sent to major customer. Data analysis was conducted using data triangulation

by comparing data resulted from observation, interview, and documentation, and then building explanation from such sources in narrative style.

RESULTS

Transportation division in PT. Varia Usaha is the second biggest division based on sales after Division of Cement and Building Material trading. The services of Transportation Division are not merely oriented on cement products, but also non-cement products. The non-cement cargo can be served according to the amount of cargo and destinations expected by the customers. The non-cement products which have served by the division are quite different in variety from various customers. The products include Copper Slag, Gypsum, Fly Ash, Stone Trass, Coal, Limestone, Cement in Jumbo Bags, Fabrication Goods, Construction Goods, Wood, Paper, Iron Bars, Ceramics, and others. PT. Varia Usaha is built as a strategic partner of Semen Gresik Group to fulfill PT. Semen Indonesia's needs of distribution or forwarder. Transportation division is closely related to the Maintenance Division which responsible in supporting the activities of Transportation Division in maintenance of vehicles and heavy equipments owned and operated by the company. Business process in freight forwarder business is mostly concerning about the delivery process. PT. Varia Usaha especially Transportation division as forwarder company or shipping agent has several procedures or set of logically business activities related to the business that combine to deliver value to customers such as:

1. Handling of accidents

As a company that runs in a transportation sector, accidents somehow cannot be avoided. Therefore we need to look further about the accident handling procedures to search for any possibilities for the critical success factors. Whenever the accidents happened by any of the vehicles owned by PT. Varia Usaha, the driver or person in charge of the vehicle should contact the accident coordinator or administrator (LAKA Transport) directly or

indirectly as soon as possible. LAKA officers conduct a physical check to the location then make and complete the documents and then handed over to officers of taxes and insurance. Furthermore, Taxes and Insurance officers report the files to the Insurance Company for claims purposes. After the physical check to the crime scene LAKA officer have to make sure about the freight status whether the vehicle needs to be brought to the police station, or not. They can request assistance and maintenance from internal security. Assistance Unit or Unit Security Maintenance then takes security precautions, evacuation, calculating cost estimates and other processes. The possible cost arises from this event are: Cost of evacuation, Police costs, Opponents or victim's assistances, and other costs.

2. Trucks maintenances

The driver has the responsibility to report any damage or maintenance need of their trucks to the administration of Transportation division and further the Transportation division will report to the Maintenance division to get maintenance service order. The Maintenance division will then check the condition of the trucks and conduct the repair and maintenance process. Having maintenance done, inspection, tests, and quality control were conducted to make sure that the truck is ready to be operated. The possible event occurs in the maintenance process is unavailability of specific spare parts and specialist for specific jobs so that third party (other garage) need to get involved.

3. Human resources admission

Human resource division covers all divisions in the company. Therefore any additional needs in the human resource, Transportation division needs to report to the HRM division. After the proposal is authorized by the Board of Directors, HRM division will start to find employees that fulfill the requirements. After the documents has been filtered, tests will conducted, including: theories, practical tests, interviews, and health tests. If the

candidates pass the test, HRM division will make employee's status, wages, and placement plan as authorized by the directors.

By understanding these business processes the identifying of critical success factors will be easier to get it will also help defining what the important activities in the company are. Before defining the CSFs, SWOT and SPACE analysis used to determine the current position of the company. Based on the company's data for 2011-2015 planning, the SWOT analysis are scored and calculated to be used in order to determine the current position of PT. Varia Usaha. The method been used to analyze is SPACE Matrix. SPACE Matrix is a strategic management tool that focuses on strategy formulation related with the company's competitiveness position.

In this research the most suitable strategy in accordance with the company's position in SPACE matrix is growth as the position shows in aggressive area. According to Caralli (2004), "critical success factors can be obtained from five sources since the domain of every business and the CSFs in many organizations can be differ". The sources are:

1. The industry in which the organization competes or exists,
The transportation division in PT. Varia Usaha runs its business as a freight forwarder in Indonesia. As a service company and a company that owned significant amount of tools as assets (armada of trucks), service delivery and performance of the assets used for business considered as a critical success factors.
2. An understanding of the organization's peers
The characteristic that the company has among its peers is the good maintenance and standard operational procedure. The well-maintained trucks are important in freight forwarded business activity as it related to the cost of any broken trucks. Customers often choose the company that could provide better safety for their products before they send it.
3. The general business climate or organizational environment
Government regulatory about freight forwarder and traffic policies is some factors which the organization has very little control or ability to actively

manage. But therefore since it cannot be avoided, responsive actions must be considered in the progress.

4. Problems, barriers, or challenges to the organization

The main problem in delegating trucks for job orders in PT. Varia Usaha is the situation of the road and also warehouse location. Situation in the warehouse will determine what type and what size of trucks should be used. Condition of the route is also essentials in selecting proper trucks because some trucks are not able to go through ascending road turns.

5. Functional Issue (layer of managements)

PT. Varia Usaha deals with approximately one thousand driver, therefore performance measurement is needed along the business moreover the distinctive personnel in handling specific matters during the delivery such as insurance handling, accident handling, etc.

As a company that runs in a freight forwarder business, PT. Varia Usaha needs to define what are the most important aspects in the business. Critical Success Factors will help the company to define the key events that will be established and monitored. By the interviews the CSFs are safety (for both standard operational procedures and safety for the goods), precise, and on time delivery. The following contents will explain about the CSFs found:

1. Safety

Safety in this matter includes the safety condition of their cargo and therefore relate to the safety of the delivery or standard operational procedures. The possible relations to safety are:

- a. Condition of the Cargo. The company needs to make sure that the cargo is well-handled. Once the contract deal is made, a freight forwarder has the full responsibility of the cargo they deliver.
- b. Driver's ability and Standard Operational Procedure before delivery. Each driver will be evaluated and placed based on their ability in driving and handling their trucks or cargo. Before the delivery, every drivers needs to get briefing or preparations.

2. Precise

The term precise in this matter is that the delivery has the right armada with the right tasks and also deliver the goods in the right place. The possible relations in a precise delivery are:

- a. **Condition of the Route.** It is important to consider all aspects to determine the cost of freight in this company. The cost of freight will be depends on the condition of the cargo and the condition of the route. Condition of the route need to be considered in determining type and size of trucks to run. The calculation of costs will define the efficiency of the delivery process.
- b. **Warehouse Location.** In this matter customer's involvement is needed. Some of the warehouse may not suitable for specific type of trucks; therefore to avoid more additional costs in handling such situation, trucks selection process must be determined by the warehouses location.

3. On-time delivery

The delivery service on each jobs need to be on time. The timing of delivery is one important matter to be taking care of. The related matter for on-time delivery is:

- a. **Accident Handling.** Accidents in the roads somehow cannot be avoided. The more time needs to manage an accident, the more time the delivery will be. Accident will also somehow lead to insurance and cargo handling. In some situation the cargo must be removed and replace to the other trucks since the first truck are not able to operate after the accident. Insurance of the truck must also be done shortly because the more time in handling the insurance, the more time needed to wait for the truck to be productive.
- b. **Lead-Time in Loading Activities.** The lead time in freight forwarder industry is not about the time the order placed until the goods received by the customers, but it is when the loading and unloading cargos in the warehouse. The queue during the loading and closing time in warehouse destination during unloading must be considered.

- c. **Government's Involvement.** In order to deliver the goods on time, the company needs to make sure that the driver has not been stopped or not experiencing any obstacle during the delivery process. Government's involvement could be one major matter that could hold an armada during their job by the governments' policies. Therefore cargo limitation and truck selections must be considered.

CONCLUSION

These KPIs is to help the management set the target and monitor the processes in delivery mostly in the safety of the goods shipped. The KPIs in safety: 1) Percentage of damaged goods shipped reduced, 2) Average score points of customer satisfaction increased, 3) Conduct annual training and seminar both from the internal and external party such as regulator and police departments, 4) Initiate briefing before every shipments duties.

The three factors that affect the timing in the delivery are accident, the time needed in loading and unloading or lead-time, and government policy. The KPIs on these aspects are: 1) Range of duration for handling reduced (accident), 2) Percentage of cost for accident handling to revenue decreased, 3) Reduced lead time duration, 4) Percentage of cost caused by lead time activities, 5) Range of duration for handling reduced (government policy), 6) Percentage of cost for handling.

The last aspect of the CSFs will be measured by the proper selection of trucks in each jobs based on the age, capability, type, and related costs.

The researcher realizes there are some limitations in doing this research are:

1. This research define the Critical Success Factors in the company based on the information obtained from the management and then identify the possible KPIs regarding those CSFs. Based on the qualitative data obtained, bias still needed to be considered.

2. The researcher rely on company's data regarding to the SWOT and SPACE analysis which have been used to determine the company's long term strategic planning. This research did not justify the data.
3. This research only designs the KPIs for transportation division, without implementing them. The effects on financial aspects will not be tested.
4. The lack of information because of the dynamic work in the company. Information about the cost incurred in the businesses, timing in the delivery process and the information about the routes of delivery.

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APPENDIX

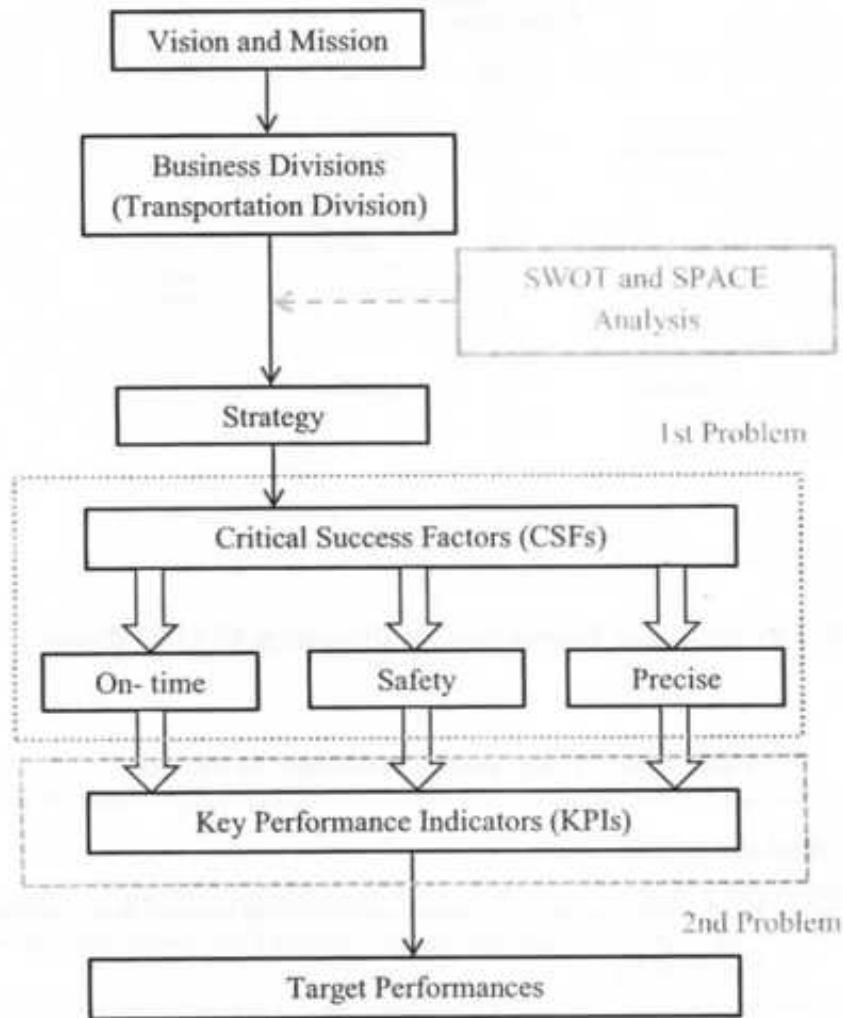
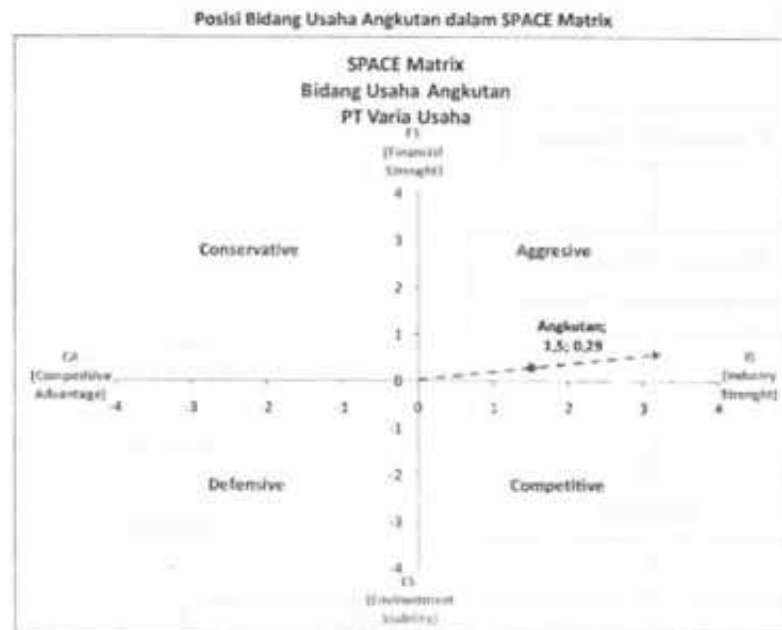


Figure 1. Research Framework



Sumber : Bidang Usaha Angkutan (diolah)

Figure 2. The Position of Transportation Division in SPACE Matrix

Table 1. Key Performance Indicators in Precise

Precise (proper truck delegations)	
Definition of measure	Develop effective delivery process and monitoring by considering condition of the route and warehouse location. Determine the classification of each truck to each task.
Frequency	Annually
Calculation and Target	Applicable Before the implementation, trucks must be classified on each type, ability, and also ages. Therefore the management will know how much percentage of cargo filled the quota. This matter is to help the management in delegating proper trucks for the right task and run the business in effective and efficient manners. The handling duration must be in reviewed and authorized by responsible person to assess the route, trucks, and cargos on each delegation.

Table 2. Key Performance Indicators in Safety

Safety	% of defects and broken products during shipment	Safety Induction
Definition of measure	The level of broken goods shipped must be counted since the level of cost incurred because of this matter becomes company's responsibility to change the goods damaged after shipments.	Customer must be delivered with the best quality of service. Employees need to understand their contribution to fulfill customers' needs in their daily work.
Calculation	Company should instruct one responsible person to count and check for the goods before and after the shipment. Every replacement cost of damaged goods must be calculated in percentage of total damage goods per shipment.	By conduct training, safety induction, and other development before shipment. Qualitative survey.
Frequency	Annually By conducting annually performance measurement in this matter, company will be able to overcome any difficulties regarding to the cause of damaged products and many other possibilities	Annually and before shipment

Table 3. Key Performance Indicators in On- Time Delivery

On- Time Delivery	Fast Accident Handling (Insurance , Cargo, and Vehicle handling)	Lead Time (Loading and Unloading)	Government Policy
Definition of measure	Since on time delivery become the critical success factor that the company must achieve, time handling must be done smoothly and the company must be responsive for any unexpected activities	During loading and Unloading cargos, lead time must be minimized. Contract volume in PT. Varia Usaha must be achieved and therefore Lead Times must be omitted.	Government's policies are beyond management control. Therefore company must be able to minimize the risks and threats of regarding the policies.

Calculation	Range of duration for handling (type of accident, damages, and violation must be classified) % of cost for accident handling to revenue	Clear range of depart and arrivals times. Duration of loading and unloading	Range of duration for handling % of cost for handling Each armada in task, must be 100% compliance with the regulations and monitored before and after shipment
Frequency	Annually		