

Performance Management Framework For Medium-Sized Enterprises in Service Sector

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Abstract

The aim of this literature study is to propose a conceptual performance management framework for medium-sized companies in the service sector at Bandung and its surroundings. Performance management is important for small and medium-sized enterprises in Indonesia in anticipation of global competition in the ASEAN region, which is called ASEAN Economic Community (AEC), at the end of 2015. The medium-sized companies in the service sector facing many limitations such as lack of human resource capabilities. In addition, all of the services sector in Indonesia which become AEC priorities, is far behind compared to other Asean countries. It should be anticipated with relevant performance management framework for medium-sized companies in the the service sector, in order to improve the performance of employees, the company's growth and to achieve a competitive advantage. The role of the company's strategic plan needs to be considered for proposing the dimensions of performance management. Performance management need be linked to the capability of human resources because of the employee's performance of the service company depends on the employee's ability in providing and delivering services and service to satisfy customers directly. Service quality is one of the employee performance in the service sector that can improve competitive advantage. This performance management framework will be followed up by empirical research in medium-sized companies in the service sector at Bandung and its surroundings, to be used as a prototype for other regions of Indonesia.

Keywords: performance management, medium-sized enterprises, capabilities, performance, Service quality, competitive advantage

I. INTRODUCTION

The company has a clear goal and exert every effort to achieve it in a way that is systematic and efficient. Companies need to utilize, empower, and managing its resources optimally to achieve the expected performance of the company. Therefore we need a performance management that are relevant and conducive to achieve it.

Performance management is not only viewed from the performance of the financial side, but also includes the non-financial performance (Schlafke et.al, 2013, 2). It means that the company's performance can be seen from the performance of financial, human resources, creativity and product innovation, market share, and others. In my opinion, human resources is the most important capital of the company. Without people, the company will not be able to run because people operate and activate other resources, make and decide the company's strategic plan, decide how to achieve the goal, running the company's operations, produce goods and services, evaluating performance and evaluate it.

Chen (2011,1) also said the same thing that human resources are the most important resource for the company to survive and develop and determine the competitive advantage of a company against other companies. According to Noe et.al (2000,276), companies can achieve competitive advantage through its people, so it must manage the overall behavior and performance results achieved by employees.

People make the company exist, survive and grow, people can differentiate the company to be different and better than the competitors, so it is necessary to manage the behavior and performance results of its human resources in order to achieve the vision, mission, strategy of the company and achieve competitive advantage.

Every employee has hope, desire, intelligence and different claimants that should be managed well by planning, organizing, actuating and controlling, so they can exert they potential and give their best contribution to the achievement of the company' objectives that benefit individuals, groups and organizations. Whatever the company's performance targets, it must be requires the support of the good performance of employees to achieve it. The company's performance depends on how the productivity of individual performance and the performance of the group worked together to create a synergy to achieve company goals. The performance management of employees should be made as good as possible because each employee's effort determining individual performance, group performance and the company's performance.

According to Noe, et al, (2000 : 276), Anderson (2006,3), Mondy (2008, 210), Chen (2011,1), Robbins (2014, 421), the definition of performance management from are as follows : performance management is central to gain competitive advantage, establishes performance standards used to evaluate employee performance, maximize productivity of employees, teams and ultimately the

organization, ensure that employees' activities and outputs are congruent with organization's goal. Performance management also a process in which managers and employees reach a consensus on responsibilities, goals, and how to achieve success, strengthening practical management and driving employees to gain excellent performance. During the process, managers is actively monitoring to individual, team and organization performance to continuously improve.

According to Chen (2011,1), human resource management includes seven aspects : human resource planning, job analysis, recruitment, performance management, compensation management, training and development, and employee relationship management. Here, performance management is the core of whole system, which connects closely with every ring of human resource management.

I interested in the topic of performance management because performance management is the core of modern human resource management which are closely linked with every aspect of human resource management. Then performance management related to employee performance and is a central factor to achieve a competitive advantage.

Indonesia will face globalization era in the Association of South East Asian Nations (ASEAN) at the end of 2015. It is important for companies to achieve a competitive advantage in order to survive in the increasingly free competition in the era of the ASEAN Economic Community (AEC). According to the ASEAN Economic Community 2015 Book (Ministry of Commerce of the Republic of Indonesia), AEC blueprint contains four main pillars : (1) ASEAN as a single market, supported by elements of the free flow of goods, services, investment, skilled-employees and capital flows; (2) ASEAN as a region with high economic competitiveness, (3) ASEAN try to develop small and medium-sized enterprises; (4) The ASEAN region is fully integrated with the global economy. Competition and uncertainty is inseparable. MEA will make the business environment becomes increasingly complex, uncertain, and business competition is more difficult. Globalization causes consumers have more product alternatives so they can choose which product best suit their needs and desires. Company should improve employees performance in order to achieve and fulfill consumer expectations (Williams: 2002.4). This affect customer satisfaction so they will buy the product again and refer others to buy the company's products.

One of the MEA priority is the development of small and medium businesses. Among micro, small and medium-sized enterprises in Indonesia, the 1997/1998 economic crisis and the 2008 global crisis gave most pressure impact to medium-sized enterpris than to micro and small enterprises,

because micro and small enterprises have cheaper overhead cost, more specific market segmentation, as well as the amount of capital is more limited, the system is more simple, and less amount of employees, so the entry and exit barrier on micro and small enterprises are more easily than on medium-sized businesses. If their business fails, it is easier for them to switch to other businesses (Ministry of MSMEs). For medium-sized businesses, we can not predict whether MEA will become an opportunity or a threat. That's why I am interested for reviewing performance management in medium-sized businesses.

According to Hidayat (2008, 331), there is liberalization of 12 priority sectors in the scheme of the MEA. Indonesia have good capabilities in the five sectors, while the seven other sectors left behind other ASEAN countries, included all service sectors. Indonesia Human Development Index and College Gross Participation Ratio (www.otda.kemendagri.go.id , www.kemendikbud.go.id) are lower than other ASEAN countries. Indonesia is the country with the largest number of workers (40.6%, www.infobanknews.com/2014) in ASEAN but Indonesia has fewer workers with tertiary education background compared with Singapore, Philippines and Malaysia. Low levels of tertiary education in Indonesia led to the lower proportion of the workforce in the service sector compared with other countries. While the service sector with higher added value at Singapore, Malaysia and the Philippines, support economic activity of that countries. That's why I am interested for reviewing performance management in service sector of medium-sized businesses.

Service sector of medium-sized enterprises Indonesia will face higher competition with other workers in Southeast Asia because they have employees with higher levels of education, knowledge, skills and abilities. I interested to examine how performance management framework of human resources in the medium-sized businesses of the service sector could be relevant for anticipate the global market in the era of MEA. Education level is one of the factors that influence human resource capabilities, while capabilities is one of the factors that determine employee performance to achieve competitive advantage. Lack of capability requires a relevant performance management to anticipate it. One of the performance in the services sector is service quality. Consumer perceptions of the service quality will give good feedback for manager to improve company's human resource performance. In the subsequent chapter will be quoted literature related to performance management, the relationship between performance with capability, and service quality. Related to the service quality, I have yet to found a journal that connect it to performance management. Moreover, I have yet to find a journal of performance

management framework that is suitable for medium-sized enterprises in the service sector at Indonesia.

II. LITERATURE FRAMEWORK

2.1. PERFORMANCE MANAGEMENT

The definition of performance emphasis to a set of performance results produced during a specific time period, and did not refer to the personal characteristics, or the competence of workers (Bernardin, 2003). For an employee, performance is the achievement of work results (quantitatively and qualitatively), as well as delivery of actions and behaviors needed during the work process period. Individual performance supports the group's performance and group's performance supports the performance of the company, all are coordinated to achieve the vision, mission, strategies and objectives of the company.

Noe et. al (2000:276) states that generally performance management system is divided into three parts as follows :

1. Defining performance : specify which aspects of performance that are relevant to the organization, especially through job analysis.
2. Measuring the aspects of performance.
3. Feeding back performance information to employees through performance feedback sessions so that they can adjust their performance to the organization goals.

According to A Handbook for Measuring Employee Performance (published by Office of Personnel Management USA,2001:4), performance management is the systematic process of planning work and setting expectation, continually monitoring performance, developing the capacity to perform, periodically rating performance in a summary fashion, and rewarding good performance.

Performance management consist of planning, monitoring, measuring, controlling, (revise planning and orrect actuating) giving feedback and reinforcement of performance. According to Noe et.al (2000,119), doing job analysis is important in defining performance. According to Chen (2011,1), job analysis is an important base for performance management. Job analysis is to establish the job responsibilities of certain position, by which forming key indicators for evaluating the performance of the position. These indicators are standards for evaluating the performance of employees in the position.

Job analysis provides the information required in the job description, job specification dan job performance standard. According to Noe et.al. (2000,119), job description is a list of the tasks, duties and responsibilities (TDRs). Job

specification is a list of the knowledge, skills, abilities, and other characteristics (KSAOs) that an individual must have to perform the job.

Job analysis is the main foundation for performance management. In the job analysis, we make key performance indicator (KPI) standard to evaluate the performance of each job. Job description attached to the position, not to the person who occupy the position. Any person who occupies a certain position has duties, obligations and responsibilities that have been determined before. So people who occupy specific positions will have specific authority, duties and responsibilities. To do every tasks, duties and responsibilities related to each position, it takes a minimum requirement of the employee who has relevant capability to do it. Each employee has its own job specification which is attached to him. Job description is observable while the job specification can not be directly observed but could be visible when the employees do their job description. Job analysis also generates key performance indicators that contains job performance standards to be achieved by each position, that will be compared with the real performance in order to evaluate employees performance.

Performance measurement is part of the performance management. Measurement and assessment of performance alone is not enough. First reason, it is impossible for manager assessing employee's job without define job performance standards before. Job performance standard will be compared to the real performance when monitoring and assessing performance. Second reason, performance measurement only assess the results, whilst processes and work behavior during the work period cannot be assessed without monitoring process. Therefore, before the assessment or measurement of performance at the end of the period, manager need to monitor employee's performance from the beginning till the end of the work period. By monitoring the performance, employees receive continuous feedback, minimize deviation with direct correction from manager, and employees trying to achieve performance targets in accordance with job performance standards. At the end of the period of performance, managers assess and evaluate performance to ascertain whether the collection of results, processes and behavior in the working period is in accordance with minimum standards that have been set. Therefore, managers need detailed information about minimum standards TDRs that should be accomplished in every job. Assessment would be good if the performance achieved at least equal or above the job performance standard. Performance assessment should be continued with performance feedback session and giving corrective action for any performance deviation . Giving performance feedback needs to be reinforced by strengthening performance in the form of reward for performance

equal or above the performance standard, or punishment if performance is below the standard. According to Ferreira dan Otley (2009,263), comprehensive performance appraisal system consist of :

- Identify and communicate vision and mission
- Identify key success factors
- Illustrate organization structure
- Highlight the strategy, organization plan and how to implement the plan
- Identify and illustrate key performance measures
- Identify performance target which is relevant with the key performance measures
- Identify existing performance evaluation process
- Setting rewards for target achievement
- Illustrate information flow to support performance management activities

Ferreira and Otley states that vision and dan mission are part of performance management. They make the framework of performance management more comprehensive comparing to Noe and Office of Personnel Management USA. The expansion is that after setting up the vision and mission of organization, a company needs to make key success factor, build up organizational strategy, setup key performance measurement, and needs to manage information flow. However, the author does not agree with Ferreira and Otley that strategic planning of a company is a part of performance management. It is because strategic planning is setup earlier than performance management. Strategic planning is a process where a top manager determines the whole purposes of organization purposes (vision, mission, strategy) and how to attain it. Strategic planning is a reference for the entire functional body of Human Resource Management. It means that strategic planning that is already setup needs to be supported by the availability of qualification and performance of human resources that match the needs. One of it is by setting performance management.

The above argumentation of Ferreira and Otley responded differently by Schlafke et.al (2013,7) that states the framework expansion of the performance management by Ferreira and Otley is incomplete because it is not related to the use of Performance Management Analytics (PMAs). According to Schlafke (2013,4-5), Performance Management Analytics/PMAs can improve the effectiveness of Performance Management Systems/PMSs. PMAs is usable in all areas of management function, such as research and development, human resource, marketing. In a competitive market, a company has to understand the business dynamic, value creation, market opportunity and threat, to create competitive advantage. Company has to make sure to use right

and qualified data before they find a way to use the data and information for supporting performance management.

Here are the framework of business analysis that is multilayer performance management framework taken from Schlafke et.al (2 013,8-9) in order to improve performance management :

1) Layer A : capture. Consists of performance drivers that involve input, process, output and outcome. It can be tangible or intangible.

2) Layer B : couple. Grouping performance drivers and showing the relation between them. The causal relation can be made for different indicators.

3) Layer C : control. Feedback loops is allowed to revise regularly in order to make it continuous learning. Feedforward loops can be used for planning purpose.

4) Layer D : communicate. Consists of communication in performance drivers (internally and externally), control action and the forming back of performance management system. From Schlafke et.al quotes above, the expansion of performance management that is stated by Ferreira will find difficulties to get competitive advantage if a company rarely measure performance using appropriate analytical tools. The analytical framework of a business stated by Schlafke et.al will become the development of the existing PMSs. The usage of PMAs helps to improve the PMSs. Before implementation, it is necessary to make sure first that the existing data is qualified and the decision making using the processed data from analytical tools will better than nothing at all.

PMAs tries to find performance indicator in every category of input, process, output and outcome. PMAs uses data and analytical method in comprehending and controlling relevant business dynamic. Internal and external factors that affect the organization need to be included as well. Something that will become a challenge for performance management is finding the relation between different indicators and also finding suitable tools to analyze and identify Key Success Factor that will influence the expected outcome, when making causal relation in each category of input, process, output and outcome. The development of PMSs in becoming PMAs needs obviously the expertise of employee in processing and analysis of the data. According to author's opinion, PMAs can be used for large enterprises that have employees with high capabilities. For medium-sized enterprises, the framework of business analysis will be hard to applied if the educational level of employees is low. However, the author agrees with the need of making the category of input, process, output, and feedback, especially for the performance appraisal system that has vital role toward the effectiveness of performance management.

According to Waal (2007,1), the duty of a manager

is to make the realization of purposes by creating excellence performance in the midst of competitiveness pressures, which is more extreme. Often, the performance management practice ignores the behavioral factor. Therefore it is necessary to combine performance instrument (for instance making performance indicator) with behavioral factor, that possibly make a company attain full benefit from performance management. Strategic performance management of development cycle consists of 3 stages, they are : 1) Design a strategic management model; 2) Design a strategic reporting model; 3) Design a performance-driven behavioral model.

Performance management needs to define Critical Success Factors (CSFs) and Key Performance Indicators (KPIs), or Balanced Scorecard (BSC), and pay attention on the instrument and behavioral factor. Stages in the Strategic Performance Management Development Cycle needs to be made repeatedly to renew and improve the strategy making and structural and cultural reporting, based on what the organization learns about in every stages (learning process). Applying strategic performance management of development cycle will result in performance-driven organization where individuals will work to attain the best performance.

The author is interested in behavioral factor as a part of performance, besides results and working process. It's already quoted from author's research (Nuraida,2009). Key performance indicators are output from defining performance within the stages of performance management.

Chen (2011,3) suggests to develop an effective performance management for Small and Medium-sized enterprises in China as follow :

1. Confirming strategy planning from the organization
2. Developing performance appraisal system scientifically
3. Choosing incentive that makes sense and effective

Compensation is not just emphasized on material incentive alone, but it also needs to be put as emotional incentive, which is a strong emotional bound between supervisor and subordinate, between peers, in order to make them in one accord and improving working solidarity for the company. Emotional incentive can give better result than material incentive.

4. Strengthening training

Performance management involves many aspects, these are strategic planning, communication and feedback in implementation process, and the usage of performance appraisal result. The quality of managers and subordinates determines the success and the effectiveness of performance management. Manager is the backbone in promoting and implementing system, while other employees are direct participants that will get benefits from the

training. Performance management training for manager and employees is very useful to avoid the subjectivity thoughts and to make performance appraisal becoming more effective.

If medium-sized enterprises pay less attention on what relevant performance indicator that will be driving strategic planning of the company, it will then make the employees less understand to the target to achieve. It is difficult to drive employee to dedicate their life to the achievement of strategic planning of the company, and in turn performance appraisal will be hard to be valid and reliable, since it will not reflect the strategic planning of the company. The owners of medium-sized enterprises need to think to make performance appraisal system, which is more scientific in order to make it valid and reliable. However, this will be difficult to do if the capability of the owners as well as the employees is low. Without good communication between supervisor and subordinate during the process of performance appraisal, misunderstanding will happen easily. It is because the employees will think that performance appraisal is just a way to curb and oversee them, to pointing out their mistakes as reasons to punish them by cutting off their salaries/wages. Performance management is made to strengthening performance by giving appreciation upon good performance (financial and nonfinancial). The different of compensation system and position will determine the structure of compensation and proportion of the compensation. Besides that training is needed to improve competency and character of all employees, including the managers that directly overseeing subordinate as well as the company performance.

Waal and Chen state the importance of performance appraisal and training in supporting performance management. According to Mondy (2008, 210), although every function of human resource give contribution to the performance management, training and performance appraisal will play vital role in its process. Performance appraisal is a formal system to review and evaluate individual or team performance, which take place once a year. According to Chen (2011,1), the importance purpose of performance management is to know the strengths and weaknesses of the employee's performance when they work and improve performance. Training is an important part after doing performance appraisal. According to Anthony and Govindarajan (2008), performance appraisal system is aimed to implement organizational strategy. Judge and Ferris (1993,80), also Selvarajan and Cloninger (2008,39), states that performance appraisal is one of human resource management function that is very important.

Performance appraisal and training plays vital roles in improving the effectiveness of performance management. Performance appraisal reflects the successful or unsuccessful of a company in

achieving the strategy of organization. If performance appraisal is well implemented, all employees, supervisors, human resource department and the organization will get benefits from it. The successful of performance appraisal will make sure each individual effort gives contribution toward the focus of the strategic of organization. Another reason of why performance appraisal is one of the most importance human resource function is that performance appraisal can be used to improving performance, giving performance feedback, reinforcement of performance, and so on, as stated by Werther and Davis.

According to Werther and Davis (1996:340), performance appraisal is the process by which organizations evaluate individual job performance. According to Selvarajan and Cloninger (2009,398), performance appraisal is a tool to provide feedback in order to improving performance. According to Werther and Davis (1996:341), the benefit of performance appraisal is improve performance, compensation adjustments, placement decisions, training and development needs, career planning and development, staffing process deficiencies, informational inaccuracies, job-design errors, equal employment opportunity, external challenges, and giving feedback to human resources.

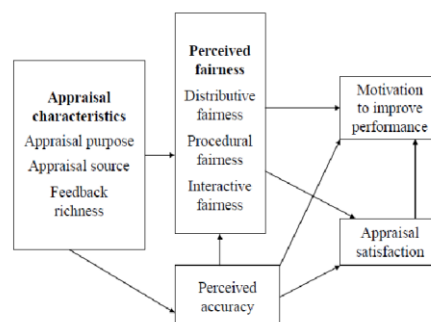
Appraisal/measurement of performance is important to evaluate employee's performance, and is used to give feedbacks to employees and company, whether it already fulfill the minimal standards expected by the company. By this, the employees will get input to give correction, maintain, improving performance, and to give feedback on how good the human resource function works.

According to Nuraida (2009,20), it is necessary to make systematic and scientific performance appraisal system, which include input, process, output and feedback. Input to the performance appraisal system is information derived from the job analysis, which include job description, recruitment and selection result, and job performance standard. According to Nuraida (2009,25), the process of performance appraisal is adjusted to the purposes to achieve and the benefit of the performance, socialization of performance

appraisal system to be understood and giving motivation to the employees. These all need administrative procedure on performance appraisal. These also need supervision and performance appraisal during performance appraisal period. These will use appraisal method that include the choice of the instrument; performance aspects using standard reference and the weights of appraisal that already setup before; comparing the result of performance with the performance standard, performance period, and determine who will get involved in the performance appraisal. The output of performance appraisal will include the score of real performance from comparing with the performance standard, so that it can be assessed whether the performance meet the expectation of the organization. If this does not meet, it obviously needs to find the factors that impeding performance to be corrected in the future. The follow up of performance appraisal will include how feedback is delivered, who will give, and when, correction of bad/less and appreciation for good performance, and how to give support to maintain, improve, and develop good performance.

Nuraida et.al (2009, 76-80) found that performance appraisal system in a university X had not yet given satisfaction to the full-timer lecturers, whether from the side of the rater or ratee. Therefore it does not yet give effective and positive influence factors toward performance improvement. Selvarajan and Cloninger (2011,2) found that for a better organizational performance needs an employee that feels satisfied. One of the findings result from the research of Selvarajan dan Cloninger (2011,16) is that satisfaction upon performance appraisal related positively with the motivation of employees to improve their performance. According to Jawahar (2005,9), satisfaction upon feedbacks of the performance appraisal will influence positively toward the next performance; influence toward the commitment of manager and organization; influence toward job satisfaction and reduce resignation of employees. According to Karimi et.al (2011,1), performance appraisal system of non-profit organization influence the employee's satisfaction. Here is the conceptual model from the research of Selvarajan and Cloninger (2011).

Figure 1
The Relationship Between Performance Appraisal Characteristics And Perceived Reactions Of Employees To Appraisal Characteristics And Appraisal Outcome



The strong influence of cultural factors in Mexico cause not all of the hypothesis from Selvarajan and Cloninger (2011,3) could be accepted. Administrative decision based on seniority, making appraisal purpose has no effect on anything. The research findings are:

- Appraisal source: multisource appraisals positively effect on distributive justice, procedural justice and interactive justice.
- Feedback richness: positively effect on procedural justice and interactive justice.
- Perceived fairness / justice appraisal:
 - o Procedural justice and interactive justice : positively effect on satisfaction appraisal and motivation to improve performance
- Perceived accuracy / appraisal appraisal accuracy : positively effect on satisfaction and motivation to improve performance
- Performance appraisal satisfaction : positively affects motivation to improve performance

Related to the mentioned above, Mondy (2008,210) said that performance assessment and training contribute substantially to the effectiveness of performance management, then Mondy states that training and development is the core of a continuous effort to improve the competence of employees and

organizational performance. Training improve the knowledge, skills, abilities, and behaviors needed in the current job. Development also improve and update knowledge, skills, abilities, and behaviors needed in the current work and managerial positions in the future. The focus of development is to prepare employees to keep pace with the changes and growth of the organization. According to Chen (2011.1), after the performance assessment is completed, then the manager and employee should make plans to enhance employee performance based on personal desire to grow and current performance.

Job specification consists of knowledges, skills, abilities, other characteristics/KSAOs (Noe et.al:2000,119). Job specification affect the competence of employees. Employee competency can be improved through training and development in order to improve the performance of individuals, groups and organizations.

The summary of factors related to performance appraisal and general concept of performance management framework will be as illustrate in this figure.

Figure 2

Factors Affecting and Affected by Performance Appraisal

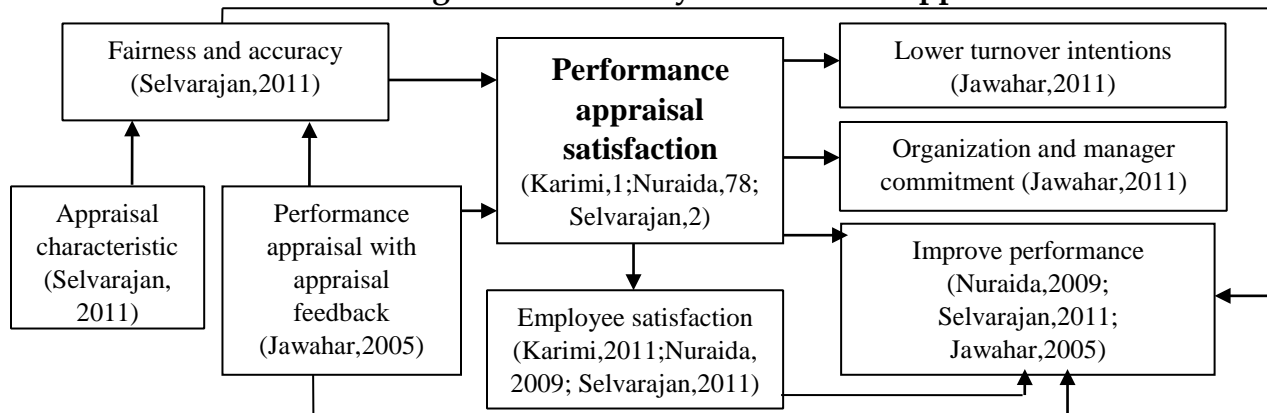
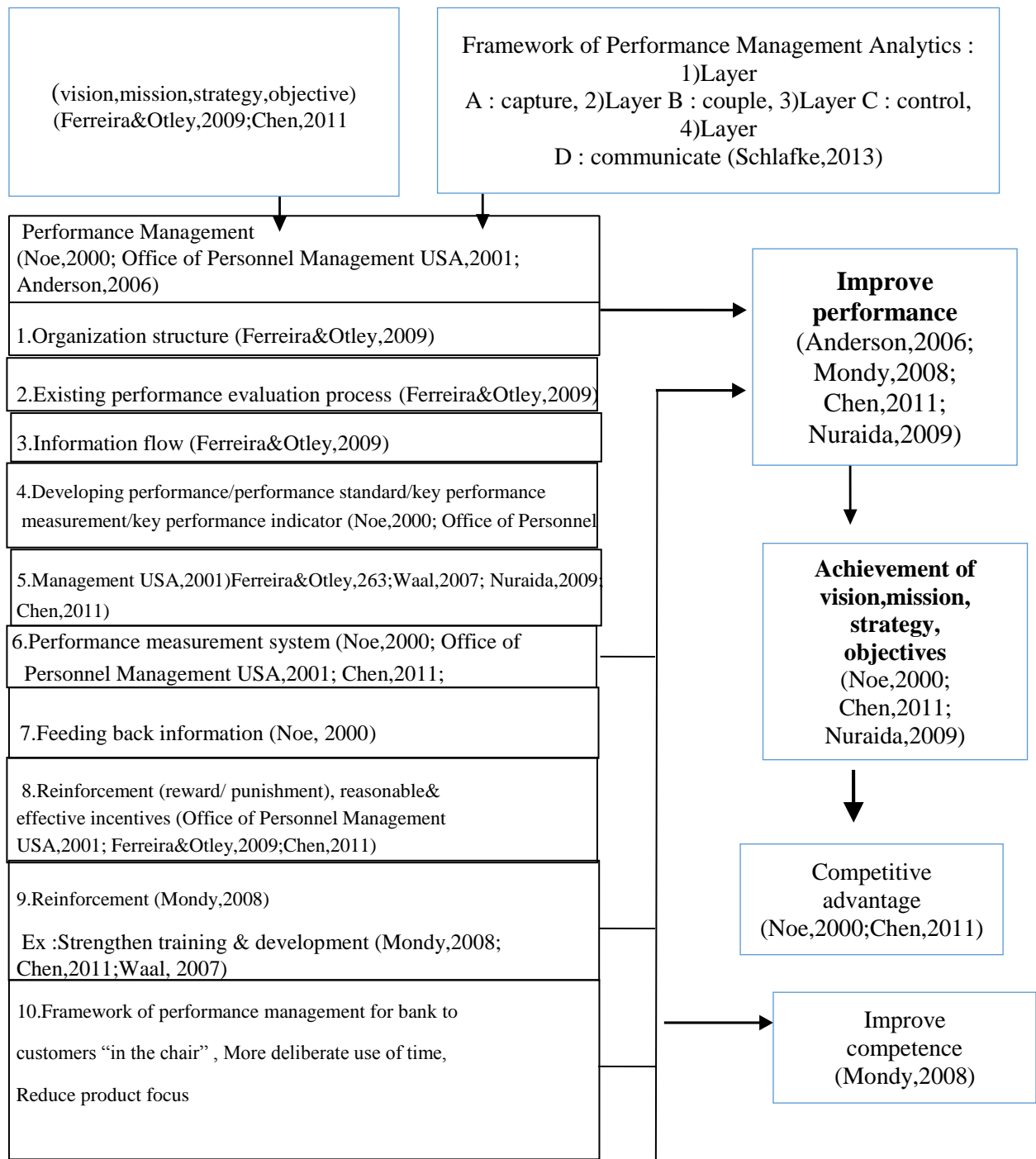


Figure 3
General Performance Management Concept



2.2. CONNECTION BETWEEN CAPABILITIES AND PERFORMANCE

According to Day (1994, 37), capabilities have been defined as complex bundles of skills and accumulated knowledge that enable firms to coordinate activities and make use of their assets to create economic value and sustain competitive advantage.

Resources consist of human resource, money, materials, machines, property, land, etc. Meanwhile, capabilities are a set of resources possessed by a company that work together and are coordinated to create added value, to become the company's investment, and to induce competitive advantage creation.

According to Dierckx and Cool (1989, 1504), SBUs that build appropriate capabilities can achieve competitive advantage, maximize the company's growth and performance. DeSarbo says (2007,2), the connection between resources, capabilities, and performances is the basic of Resource Based View (RBV). According to Jiao et.al (2013,189), capabilities have a positive effect on performance. Resources' capabilities affect a company's performance. Performance management and capabilities are there to increase performance and competitive advantage. The author is interested in human resource capabilities because human resource capabilities are the most important assets possessed by a company that can be utilized to

achieve competitive advantage.

Finding of Ray et.al (2004,12) in service companies (insurance companies) is that climate and managerial IT knowledge has a positive effect on customer service's performance and make it competitive advantage.

Every human resource capability improvement gives a positive effect to performance improvement, company growth, and competitive advantage. Without sufficient capabilities, it is difficult for a company to have a maximum performance to create creativity and innovation and to gain competitive advantage.

The connection between capabilities in resource based view and HRM strategy, as written by Andersen (2010,3), is that if the product life-cycle keeps shortening, then expensive efforts to protect resources by means of patent and copyright will become less attractive. It would be better off to find means to make the company's resource capabilities become hard to imitate by competitors. Hence it is important to make a strong connection between company's resource capabilities, employees, and other key human resources. To connect human resource management practice to company's strategic direction is crucial and important to do by human resource management strategy makers. There are two functions of human resource management strategy, which are: (1) to increase organizational learning, to build capability strategy that is different from the company's resources, (2) to implement employee retention strategies to prolong competitive advantage. A conclusion by Andersen is that: (1) diversification of capabilities , not diversification of markets served, (2) create value together with customers , based on resources owned , rather than the products supplied to consumers , (3) competitive advantage is almost always described with human resources , so that it is important to integrate human resource management practices with a management strategy to build and maintain a competitive advantage , (4) while imitating a successful competitor , if not possibly imitate without new resources , then look

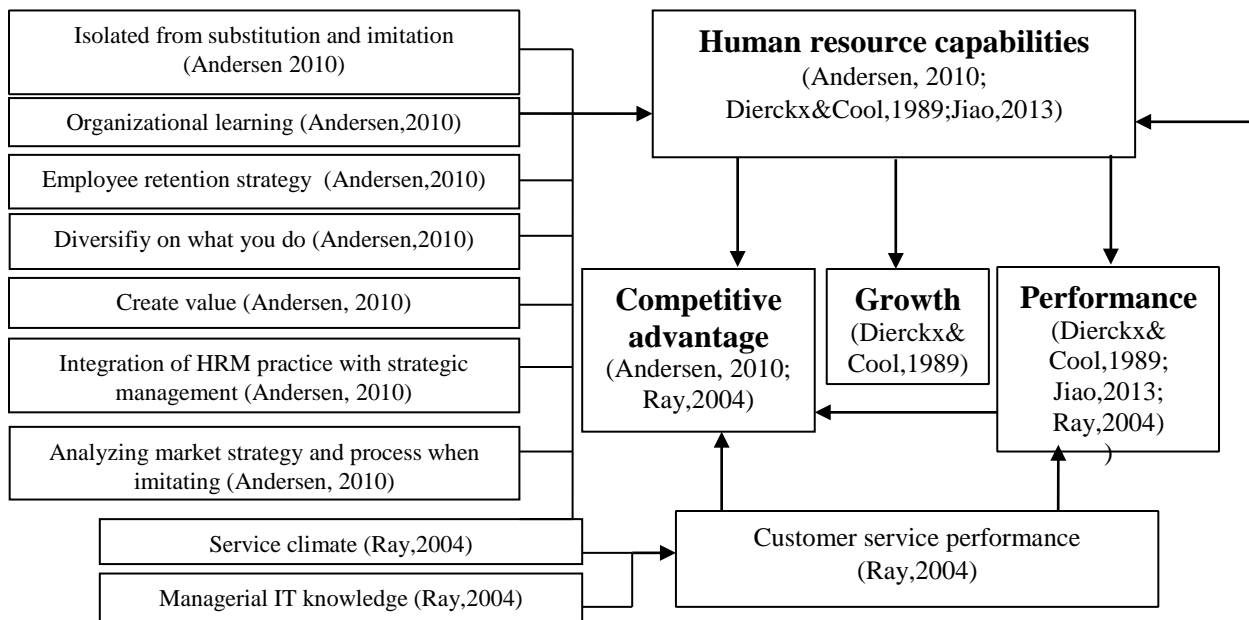
for other possibilities on how to obtain resources.

The competitive advantage is almost always associated with human resources because human is the main asset of an organization that is able to make creativity and innovation , as well as to mobilize other resources that exist within the organization. According to Hartanto (2009 : 557) , human capability consists of competence and character . Competence is everything that is owned by individuals, that is acquired/absorbed from the communication from the outside (outside in), in order to be successful in carrying out their work . While the character is a human potential and the virtues possessed by someone and is emitted from the inside out, which is in line with the philosophy, mission, goals, values, and good culture existing in the company, in order to realize common goals.

Humans have the ability, skills, knowledge, character, personality, etc., which are difficult to observe and difficult to assess absolutely. Knowledge is the initial capital of attitude, while management skills can be motoric and non motoric. Ability can be either cognitive (verbal, logical, numeric) and physical. Every individual has different attributes, such as the capability in the form of inherent character and competence, meaning that cannot be stored, cannot be borrowed and are not easy to imitate. Capabilities are broader than job specification because it is directed into a competitive advantage. Companies can seek a competitive advantage by increasing the capability of its people. Companies need to retain employees who have high or professional capability by making them feel satisfied with the company. If companies find a retention strategy that makes employees feel at home and satisfied, then the employees will feel at home and loyal to the company and are passionate about providing services and satisfying customers.

From the literature mentioned above, the author takes some factors that can be applied to increase human resource capabilities, as illustrate in this figure:

Figure 4 Strategy of Increasing Human Resource Capability



2.3. SERVICE QUALITY

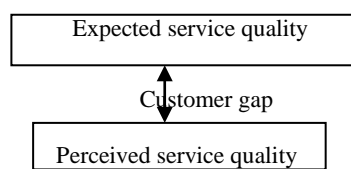
According to Rungi (2013, 14): regression shows that in service companies there is greater performance deviation (62-83%) compared to manufacturing companies (10-24%). According to Zeithaml et.al, service quality reflects the customer's perception of: reliability, assurance, responsiveness, empathy, and tangibles (2006: 117). Quality of service is a form of employee performance, especially in a service company. Each person has different capabilities so that different people can provide different services as the form of performance despite the similar resulting output standard. The quality of service that employees generate directly to the consumers will determine consumers' perception of the service quality of the company as a whole.

Compared to other ASEAN countries, education level and productivity of Indonesian labors are relatively lower. Job vacancies in medium-sized enterprises engaged in the services sector are

mostly filled by employees with primary and secondary education levels. This is unfavorable since the service sector relies heavily on human resources in serving and satisfying customers because services are consumed by customers when they are given by the employees. With limited capability that is owned, it is worried that the performance of such services provided by employees of medium-sized businesses to consumers losing competitiveness to those given by employees of companies in other ASEAN countries.

According to Shahin (2006.2), quality of service is the extent to which the service meets the needs or expectations of the consumer. If the expectation is greater than performance, then consumers' perception of service quality is lower and there will be consumer dissatisfaction. According to Zeithaml, et.al (2006.33-34), the customer gap is the difference between customer expectations with perceptions.

**Figure 5
The Customer Gap**



Sumber : Zeithaml, et.al (2006,34)

If the consumer's perception of service quality is the same as the expectation, then the consumer will be satisfied. If the consumer's perception of service quality is greater than expected, then the consumer will be very satisfied. If the consumer's perception of service quality is lower than the expectation, then the consumer will not be satisfied.

At companies that provide services, employees are the spearhead of the companies, because it is employees who give and send services directly to

consumers and determine consumer satisfaction. The same employee may not be consistent in providing services because of the condition of internal and external influences. Moreover if the services are provided by different employees. Dimension definition of each service quality according to Zeithaml, et.al. (2006, 117):

“Reliability is the ability to perform the promised service dependably and accurately

2. *Responsiveness is the willingness to help customers and provide prompt service*
3. *Assurance is the knowledge and courtesy of employees and their ability to inspire trust and confidence*
4. *Empathy is the caring, individualized attention the firm provides its customers.*
5. *Tangibles is the appearance of physical facilities, equipment, personnel, and communication materials."*

According to Kotler and Keller (2009: 384), the core of each TERAR is as follows:

1. Reliability: providing services as promised, reliable for consumers, solving problems, providing timely service, maintain no mistakes.
2. Responsiveness: to keep customers stay informed on when the service will be provided, providing services fast, desire to help consumers, readiness to respond to consumer demand.
3. Assurance: employees will raise consumer confidence in the services provided, make consumers feel safe in every transaction, always be polite, employees have the knowledge to answer customer questions.
4. Empathy: give attention to every customer, employee pay attention when handling transactions with consumers, prioritizing the interests of customers at heart, suitability and comfort of working hours.
5. Tangibles: modern equipment, facilities look visually appealing, employees' appearance is neat and professional, the material required in the service looks interesting visually.

According to Srikanthan and Dalrymple (2003.126), poor quality of service delivery will build a reputation of not paying attention/treating customers well. It will be difficult to change and affect the reputation of the university as a whole in the eyes of the community, funders and employers. According to Smith, et.al (2007.2), reliability is the most important dimension for all consumers and to give a big improvement on the quality of service. According to Yee, et.al (2008.2), employee satisfaction significantly affects the quality of service and customer satisfaction, which in turn will affect the profit of the company.

Wardhono and Nuraida (2010,66) found that opinion leaders of a study program at university X assign good perception on the variable of empathy, responsiveness, reliability and assurance of university X's lecturer. This influence opinion leaders to refer University X's study program to other persons. Examples of reliability in the research of Wardhono and Nuraida's (2010.15) are: the information given to the student by the administration staff; lectures, mid-test, and final test timeliness; timeliness of administrative staff's services to students as promised; Study Program X's curriculum as a whole; the quality of handouts, modules, and books written by the lecturers of

Study Program X.

From the quotes above, it can be analyzed that the quality of service can distinguish one service company with other service companies that sell similar service products. Performance of quality of service (tangibility, empathy, reliability, assurance, responsiveness) to companies that produce services becomes an important aspect to demonstrate the competitive advantage and quality of the company. Of the five service quality above, according to the author, the one with the widest scope is reliability, as it relates to the provision of services and the promised service accurately and accountably (related to aspects of service product, people as service providers, as well as the provision of services). All matters relating to empathy, responsiveness and assurance are concerned with people. Tangibility is associated with physical evidence/physical manifestation that can be seen by the five senses. The examples of people related tangibility are appearance and body language.

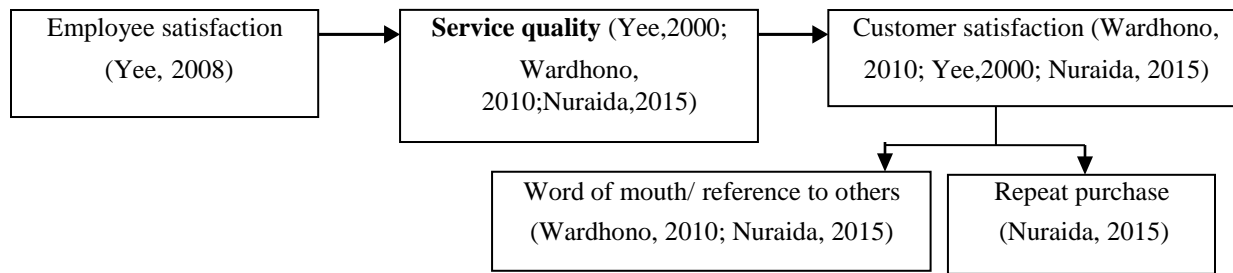
Nuraida et.al. has done research on the effectiveness of the full-time lecturer performance appraisal system and opinion leader perceptions on the quality of the services provided by the full-time lecturer at the same university. As mentioned in the previous section, the performance assessment is one component of performance management that can improve performance. From the research on performance assessment effectiveness at the University X

(Nuraida, et.al, 2009.62), it is found that the lecturers are not satisfied with the performance appraisal so as not to give the effect of improving performance. But there are other factors beyond the performance appraisal, which led to the positive perception of opinion leaders on service quality performance generated by lecturers at the University X. One of the causes of lecturers' willingness to give a good performance is training and development factor. It supports Figure 3 above saying that training and development is one factor that can improve performance in the form of service quality (in addition to performance management).

Nuraida et.al (2015,69) conducted research on TERAR and satisfaction at Soekarno-Hatta International Airport with benchmarking to Changi and Hong Kong Airports (Skytrax assessment is ranked number 1 and 4). The aim is to facilitate the analysis and provide inputs for PT Angkasa Pura that wants to increase Customer Satisfaction Index (Annual report of PT Angkasa Pura II. 2012). Overall, consumers' perception on TERAR at Soekarno-Hatta airport is under Changi and Hong Kong so that it affects consumer satisfaction that is also under Changi and Hong Kong. To improve the CSI (Customers Satisfaction Index), Soekarno Hatta airport needs to improve all aspects of TERAR in order to attract domestic and foreign tourists and to improve the image of Indonesia in the eyes of foreign people.

From various literature and researches that are related to service quality, it can be concluded that:

Figure 6 Factors Affecting and Affected by Service Quality



3. DISCUSSION, PROPOSITION, AND

One of the AEC's priority is development of small medium-sized enterprises. Indonesia divides small medium-sized enterprises become 3 criterias, that is micro, small, and mediumsized enterprises (MSMEs). Almost all of them were proven survive in the time of monetary crisis in 1997 and in the global crisis in 2008. What is the difference between medium-sized enterprises from micro and small enterprises? According to the law Chapter 6 UU No. 20 of 2008, the criteria of MSMEs in Indonesia are as follow :

1. Micro Enterprises: having assets of maximum IDR 50,000,000,- excluding land and premises; or having an annual turnover of maximum IDR 300,000,000,-
2. Small Enterprises : having assets of more than IDR 50,000,000,- up to maximum IDR 500,000,000,- excluding land and premises; or having an annual turnover of more than IDR 300,000,000,- up to maximum IDR 2,500,000,000,-
3. Medium-sized enterprises : having assets of more than IDR 500,000,000,- up to maximum IDR 10,000,000,000,- excluding land and premises; or having an annual turnover of more than IDR 2,500,000,000,- up to maximum IDR 50,000,000,000,-

The Central Bureau of Statistic (BPS) gives definition of small medium-sized enterprises according to the employment number. Small enterprises are business entities that employ 5 to 19 workers; medium-sized enterprises are business entities that employ 20 to 99 workers.

In order to know the situation and condition of medium-sized enterprises, the author wants to know the strengths and the weaknesses of it. Since medium-sized enterprises are one criteria of MSMEs, the author gets all information regarding the MSMEs, and not merely about medium-sized enterprises only. From the statement released by the Minister of Cooperation, Small and Medium-sized enterprises of the Republic of Indonesia, the roles of micro, small, and medium-sized enterprises (2009) are as (1) The main player in various sector of the economy activities, (2) The biggest employment provider, (3) The importance player in advancing local economy activities and in empowering

CONCEPTUAL MODEL

community, (4) New market maker and innovation sources, (5) contributing and maintaining the balance of payments through export activities.

Besides that, MSMEs have strength in using natural resources, labor intensive, local economy resources base, and not depending on import activities. Its role is also significant in creating Gross Domestic Product (GDP), improving export value and national investment value. In 2012 MSMEs sector contributes to 56% of GDP and of 10% export value. (www.kemenkeu.go.id, 2012). Until 2012 the total number of MSMEs in Indonesia is 56,7 million units and it absorbs approximately 107,6 million work forces (www.depkop.go.id , 2013). According to Setyawan (www.academia.edu , 2007), the number of MSMEs in this country is an evidence of how MSME is very tough to survive in several waves of crisis that happened in the past, such as economy crisis in 1997-1998 and global financial crisis in 2008 that shook the economy of Indonesia. This toughness is proven because when many large enterprises got bankrupt and lay off many of its workers, MSMEs on the contrary was able to absorb unemployment people to work again.

Hence, it is clear that MSMEs could survive during economy crisis and was able to get recovery faster than large enterprises. Getting attention to the strengths of the MSMEs, we now may conclude that MSMEs have big potency in sustaining the foundation of national economy. Besides these strengths, MSMEs have also several weaknesses.

My focus is on medium-sized enterprises because according to the past experience while there was monetary crisis and global financial crisis, apparently medium-sized enterprises were more vulnerable in facing problems and difficulties comparing to micro and small enterprises.. Nevertheless, medium-sized enterprises have unique characteristic, which is different from large enterprises. Therefore, the performance management of the medium-sized enterprises has to be based on needs, situation, and condition that the enterprises face. The Performance management of medium-sized enterprises is not supposed to be the same as of large enterprises. Since the owners and workers of the medium-sized enterprises are mostly of loweducated background people, it is necessary

to make the performance management of medium-sized enterprises simpler in order to make it applicable and less complicated in daily basis.

Several literatures about performance management may not be applied fully well by MSMEs, such as the follow up of performance appraisal, etc. It seems difficult for the medium-sized enterprises to apply it because they have a lot of limitation to do. This fact is stated clearly by Hudson et.al (2001,1), that small and medium-sized enterprises show characteristic, which is solely different from mostly large enterprises. Therefore, it is strongly advised to build performance appraisal system, which is relevant and able to identify suitable processes when designing and applying the strategy of performance appraisal system.

According to Tambunan (12-13), most of MSMEs are run by poor families that make these businesses as their primary and secondary financial resources, and hence the poverty has become serious problem. The main barrier of MSMEs is the limitation of financial limit and marketing. Their access to get financial credit is also difficult and it becomes the biggest barrier in improving their performance. They do not have power to explore market they are serving. In fact, few small enterprises have capabilities to do innovation. However, in general they have limited capital and skills. The owners of small and medium-sized enterprises mostly have primary education level. This implies to the difficulties of having innovation for such MSMEs. What L, Tedy, et.al. (2008,53) found that the management problem of MSMEs in Yogyakarta was mostly of them have no written business plan, but they put this into their minds only.

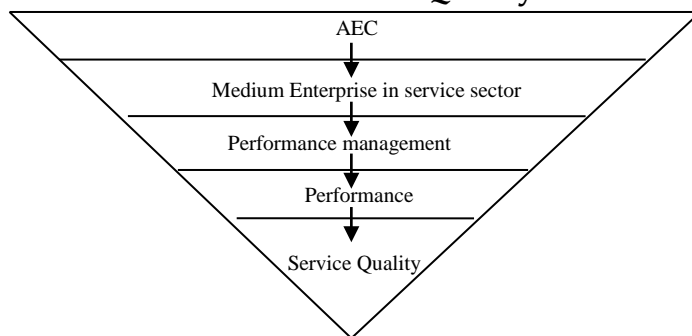
A lot of MSMEs are able to live and survive because of persistency, faithfulness, willing to learn better from past experiences, and work hard. Not from

education. In 1997/1998 when monetary crisis and 2008 global financial crisis were happened, these MSMEs survived well. With all these opportunities, threats, strengths, and weaknesses, the big question that remain at the moment is whether MSME in Indonesia will later be able to sustain in facing tighter competition from other countries during period of ASEAN Economic Community (AEC) .

The strategy to improve the product competitiveness is necessary to be based on the pillars of competition with the basis of : (1) value; (2) innovation; (3) efficiency; (4) differentiation (Krisnamurthi, 2003). Of course, it is not easy to face the competition challenge in the free market of AEC era. With the opportunity, threat, and limitation, the medium-sized enterprises need to think about the strategy on how to maximize its performance of the human resources. The performance of human resources needs to be managed well in order to give support to the purpose of the enterprises. It is importance to anticipate, in which medium-sized enterprises in service business have lack of capability of the human resources in facing globalization, by one of it, it's necessary making a relevant framework of performance management that make it sustainable, improve performance, and drive it to get competitive advantage in the times of AEC. It is known that the performance management affects to the employee's performance in general, in order to make the business grows and develops to get the competitive advantage. One of the employee performances is giving services to the customer. Services are obviously available in a service business, because employees at the same time delivering service and services directly to satisfy customer. The author's thinking as in the figure 7 below.

Figure 7

AEC, Medium Enterprise in service sector, Performance management, Performance and Service Quality



Furthermore, the author tries to make the proposal a performance management framework for the boss/owner /manager of medium-sized businesses in the services sector, to manage the performance of their human resources.

Performance management is affected by strategic plan of business, that is the vision, mission, and the

strategy itself, which is designed by top manager or owner. Strategic plan designed to achieve the determined purposes of the organization for the long term. Based on strategic planning, manager make company's objective in the shorter term and the ways to achieve it, like strategy for objective, policy, procedure, rules, and budget.

So strategic plan will become a reference for all of the functional aspects of human resources management, from planning, recruitment, selection, training, development, performance management, compensation, industrial relation, and the security, health occupational safety (HOS/K3). Performance management is needed to support the achievement of the vision, mission, and strategy of the business gradually and continuously. Ideally, vision, mission, and strategy are determined after the business analyzes Strength, Weaknesses, Opportunities, and Threats. Vision is hope or the dream in the future which is expected to happen in several certain things and in a certain period. Mission is an attempt or added value to be manifested in order to fulfill the vision. Strategy is a choice or a way to fulfill the vision in order to create competitive advantage (at least different or better than the competitor). Clear vision, mission, and strategy will cover all of the company's operational function from top level to the lowest levels in creating planning until controlling in order to achieve these vision, mission, and strategy of the business.

Performance management consists of five dimensions. The first dimension is defining performance. Performance is a work result that is achieved by an employee for a certain job and certain period of time. In attaining the result, cannot be separated with the the working process as well as the attitude showed by employees during the working period. Input of performance is defined as capability of employees. The performance of all employees need to be managed in an effective and efficient way, in which this needs to relate performance management with the capability of the human resource of the medium-sized enterprises so that it will be able to achieve competitive advantage. It means that the approach of human resource capability is one of the ways to manage an employee's current performance in order to get competitive advantage. The employee's capability is consist of competence and character of the employee (Hartanto, 2009:557). The competence consists of knowledge, skill (such as technical skill, leadership, and communication skill), and ability (cognitive, physical). Examples of character are attitude, behavior, personality, working experience. The various human resources of the medium-sized enterprises need to be integrated in such a way to reach the expected capability of an employee. The author puts the capability strategy of human resources into performance management framework is in order to anticipate competitive advantage. Since human resources of medium-sized enterprises can create added value, creativity, and innovation that result in differentiation and efficiency, these will contribute to competitive advantage. In order to get competitive advantage, it will be better if employees are able to give added value which is unique and specific, so none of competitors have or able to copy it. Diversification of capability needs to

be adjusted with the demand and the change of competitiveness situation. In order to survive and develop, medium-sized enterprises need professional employees, having good performance, and faithful to the company. Then, it is important to find strategy maintaining professional employees. Technology grows very rapidly over time and it can help working more effective and efficient. In the era of globalization with the growth of high technology, employees need to improve their capabilities of relevant technology, because technology will support their job and performance. Service climate needs to be intensified in order to maintaining customer's satisfaction. The owners of medium-sized enterprises also need to cultivate the learning process so that employees can continue to develop the potential and improve their performance.

Performance management is an important thing to do, because a manager can make sure that all employees have capabilities to adjust to the needs, perform works as expected, and contribute toward the purposes of organization. In the journal quoted above, capability improves performance. In this performance management framework, the author puts capabilities into the defining performance, performance appraisal system, and utilization of performance appraisal.

In process of defining performance, manager should analyze job to elaborate relevant information regarding job description, job specification and job performance standard. Involving employees in the job analysis will make them feel their opinions are appreciated. Job analysis will be used and implemented by the employees, and therefore their participation will make them easier to implement and evaluate it.

Output defining performance are job description, job specification and job performance standard of service and services many jobs, which are explained in the form processes, behaviors, and working results. Service quality consists of tangibility, empathy, reliability, assurance, and responsiveness which can be elaborated into several dimensions such as already written above. In making job performance standard, it is necessary to know the key success factor of every work in order to make key performance indicator. Valid and reliable key performance indicator that fit to the purposes of the company will make employees understand what they must do and what target has to be achieved. Job performance standard contains of key performance indicators which set up minimum target that has to be achieved in every tasks, duties, and responsibilities of each employee's job. It will be used by manager to monitoring dan measuring performance in the next steps. It means it is already available the performance standard to be compared with the real working performance.

After defining performance (planning), then it continues to monitoring. Given feedback will be explained together with coaching and counseling

from direct supervision of the employees, with a purpose to improve capabilities. Feedback from the manager is given periodically and continually in order to know whether the target of performance is well achieved or not, this needs an observation and good communication between managers and subordinates. Giving continual feedback will make the employees easily identify their problems or mistakes, and therefore immediately get solutions to solve it in order to avoid error protracted. In the process, it may need informal training from the supervisor to the subordinate, whether on the job training or off the job training.

At the end period, manager needs to measure the outputs of employee performance comparing with a job performance standard. Deviations could happen and are not detected during monitoring process. Performance appraisal is an evaluation of real performance aspects compared to the minimum standard criteria that has determined. According to Nuraida (2009,20-25), performance appraisal is one of performance management component that is very important, and hence it is necessary to make scientific system to support it. The input of performance appraisal system consists of information resulted from the job analysis, which are job description, job specification and job performance standard. The process of performance appraisal is based on the purposes to achieve, the socialization of performance appraisal system, administration procedure of the performance appraisal, appraisal method (instrument, aspects of performance to be assessed, comparing performance result with performance standard, performance period, people that get involved in the performance appraisal), and performance appraisal action to improve capabilities. Output of the performance appraisal consists of statement or score compared to performance standard, and knowing the factors impeding performance. The follow up action of the performance appraisal consists of when, how and who will give feedback upon the performance, correction upon bad/less performance, appreciation upon good performance, also support in order to maintain, improve, and develop good performance. Feedback is useful to improve the capabilities and performance. Feedback can be given by face to face interview, coaching and counseling. The purpose of performance appraisal system is to improve capability of employees in order to improve performance.

Reinforcement of performance can be implemented by giving reward and punishment. Reward is important to reinforce actions which are expected to be maintained and repeated again. On the other hand, punishment is necessary to reduce unexpected actions in order not to be repeated again.

Utilization of performance appraisal is important to get better results, by improving/renewing/correcting performance appraisal system; adjustment to compensation

system; adjustment and correction to the needs of training for the old and new employees; giving development opportunities to the old employees with good performance, achieve the target and have potency to be developed for individual and company's benefit; also correct recruitment and selection process. Training and development is setup to improve the employee's capabilities. We need to pay attention on the correction of recruitment and selection process, because staffing activities such as recruitment, selection, and placement will determine the quality of human resource of the organization. Therefore, it is importance to manage it effectively and efficiently. A good performance management design will not end up in the optimal and expected results, if the input does not have capability as expected.

Service quality is one of performance appraisal form of the employees in service company. Service quality determines customer's satisfaction. Service quality will become important aspect to show the quality of the company in improving competitive advantage in the midst of the competitive era. In general, customer can measure and give perception over the dimension of service quality that already delivered by an employee. Related to performance appraisal, performance aspects that can be assessed consist of working results (quantitative and qualitative), process and behavior. If it is related to service quality, according to the author opinion, it consists of :

Empathy : related to attitude, behavior, process
 Reliability : related to attitude, behavior, process, results
 Assurance : related to attitude, behavior, process, results
 Responsiveness : related to attitude, behavior, process, results.

Tangibility that relates to human is not so many like the other service quality. For example physical appearance and body language. These two things are related to attitude, behavior and process.

Performance management is directed to improve performance, including service quality in the service sectors. The result of work, working process, and behavior that are delivered to customers will also determine the satisfaction of the customers. Therefore, service quality factor is one of performance in service company and become a strategy in determining the level of success, proving the quality of the company, and being one factor to gain competitive advantage. The approach of service quality is essential for medium-sized enterprises to survive and success in competition.

If this performance management framework implemented effectively and efficiently, it is possible to get good performance management that can improve the employees performance (results, process, behaviour), including customer's perception of service quality. This of course, will give positive impact to the company's growth of the medium-sized enterprises, and will attain the competitive advantage.

The performance appraisal may involve several raters, like manager, peers, subordinate, customer, and the employee itself. When this is related to service quality, the customer's assessment is not only for an employee, yet it will be an assessment of the service quality delivered by all employees in general. Customer's perception over the performance of the employees' service quality may become inputs and feedbacks for manager/supervisor regarding the service quality given by the employees.

According to Flamholt and Randle (2007,26), there are 7 stages of growing cycle of an organization. The first stage is new venture, when small business has just started. The second stage is expansion, when selling, revenue, market share, and number of employee are increasing. The third stage is professionalism, when objectives, process and organization function are formalized. The fourth stage is consolidation, when the company undergoes transitional period toward an organization that is managed professionally, using working system and manage organizational culture. The fifth stage is diversification, which is developing new product in the served market. The sixth stage is integration, which is building infrastructure to back up multi units of organization. The seventh stage is lowering and revitalization, which is develop again all of the organizational level to make sure the sustainability of the organization. Stage one to stage three are more appropriate for small organizations, while stage four to seven more appropriate for large organizations and longstanding. The author chose stage one to stage three as indicators of medium-sized businesses growth.

The author combines indicators of the competitive advantage resulting from the performance of employees, from the opinion Krisnamurthi (2003) and Hopes (2003), those are rare, value, continuous innovation, efficiency, differentiation, rarely produced/owned by competitors, difficult to imitated and substituted by a competitor. Moreover, the author adds market share and higher profits than competitors.

The propositions are as follows:

P1: Company's strategic plan affects performance management

P2: Performance management affects employee performance and company P3: Employee performance affect the company's growth

P4: Employee performance affects the competitive advantage.

Thus the conceptual models will be illustrated on the page 20.

4. SUMMARY

With such limitations listed above, of course, is not an easy thing for mid-sized enterprises to produce products and services that are closer to the demands and standards of the AEC, and change challenges of the free flow of goods and services in the AEC era

become real profits. Increasingly dynamic environment is a challenge for mid-sized businesses to survive and compete. Do not wait until the loss of competitive advantage and make it as a reason for the consequences of change. Since the company is still in the mid-size scale, managers should seek to fend off the threat before it becomes larger and heavier anticipated.

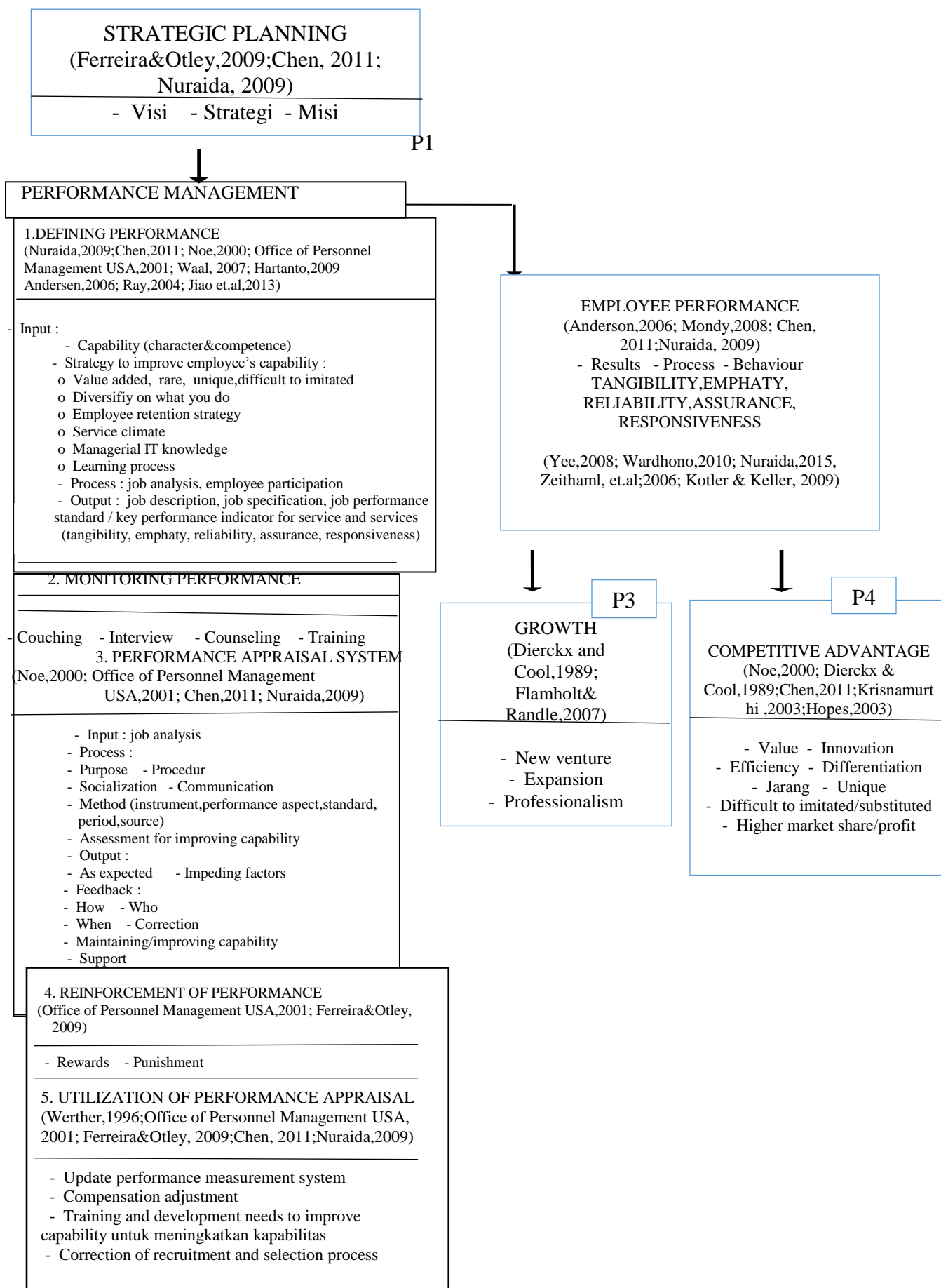
Whatever the strategic plan made by a medium-sized enterprises in service sector to anticipate the competition, it will related to human resource because human resource must be prepared to support and execute a strategic plan to realize the company's vision and mission. Perseverance, persistence, willingness to learn from experience, and hard work, not yet enough to face the competition that will happen. To be able to survive and compete, one way to achieve it is through the performance management, which is a central to achieve competitive advantage and become a core function of the overall human resources management. Good performance management should ideally be able to illustrate what, when, and how the contribution of each employee can support the company's overall success.

Medium-sized businesses need to continuously seek or even create an opportunity to make a strategic plan that could create creativity and innovation to be elaborated into performance management. The company's strategic plan affects performance management. The dimensions of performance management consists of define performance, monitoring performance, performance measurement system, reinforcement of performance and utilization the results of performance appraisal. The capability of personnel affects the service employees who directly serve and satisfy consumers. Therefore the performance management framework needs to be created through the efforts of increasing the capability through monitoring performance, performance measurement system, and utilization the results of performance appraisal. Good performance management will improve employee performance which is consist of results, processes and behavior. Including performance in the form of quality of service consists of tangibility, empathy, reliability, assurance, responsiveness. Service quality is an important aspect to improve competitive advantage to differentiate between one company with other companies, and to shows the quality of the company. Enhancing the performance of employees is expected to contribute to the company's growth and achieving competitive advantage.

The author interested in following up on this literature study to further empirical research by conducting confirmatory analysis to test whether the proposal of performance management framework would be suitable for medium-sized companies in the service sector in Bandung and its surroundings.

The aim is to provide a prototype to similar companies outside Bandung and its surroundings.

Figure 9
Conceptual Model



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