

**The Effect of Performance Management Practices and Company Size to Innovation and the Impact on Organizational Performance Case Study: Regional Public Hospitals at South Kalimantan Indonesia**

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**Abstract**

*This study aims to analyze the effect of performance management practices and company size on innovation and its impact on organizational performance in 12 regional public hospitals in South Kalimantan, Indonesia. This research contemplates that performance management practices in innovation so that it has impacts on improving organizational performance.*

*The population of the study is the managers of 12 regional public hospitals in South Kalimantan. The research sampled 241 respondents. Data analysis techniques use path analysis to support direct and indirect for organizational management.*

*The results of this study indicate that the implementation of management is related to organizational performance through direct development of 0,778 and an indirect effect of 1,406 relating to the direct involvement of management to the organization of greater improvement, the hypothesis which states that financial management planning supports organizational performance through innovation is proven in this research. The direct effect of management size on organizational performance is 0,095 and the indirect effect is 0,128, which means that the direct effect on organizational performance is smaller than the indirect effect, so the hypothesis that increases company size on organizational support is proven to support this research. The novelty in this study reveals the research that needs to be done to support innovation at regional public hospitals in South Kalimantan in terms of administration, facilities, and infrastructure as well as human resources.*

**Keyword's: implementation of performance management, company size, innovation, organizational performance**

**Introduction**

Regional public hospitals are currently a Public Service Agency (BLU) which is an agency within the government that was formed to provide services to the community in the form of goods or services sold without prioritizing profits and in carrying out its activities based on the principles of efficiency and productivity. Regional public hospitals are public sector organizations that are not solely for profit (non-profit-oriented) but are organizations established to provide services to the public. Public demands on the quality of hospital health services have become a fundamental problem faced by some regional public hospitals in Indonesia and also in South Kalimantan. The theory underlying the thinking in this research is agency theory and goal-setting theory which states that several factors that cause an increase in organizational performance are clear goals and measurable results needed by

detailing short-term goals and long-term goals so that the focus is only on organizational functions and providing incentives can improve performance. Measuring performance in regional public hospitals by knowing the amount of work done, the level of achievement of targets whether service or product work, the efficiency of work units, quality or accuracy of work done, number of innovations or new ideas by work units, reputation work units, and work unit employee morale. Organizational performance increases with the practice of performance management (Verbeeten dan Spekle, 2013).

Innovation is defined as the application of new and significant products or process improvements (good and service), new marketing methods or organizational methods in business practices, workplace organizations or external relations (OECD, 2005) Measurement of innovation in the public sector is a new aspect. Innovation is important and needed by public sector organizations because it makes public sector organizations more efficient, effective in the use of resources and quality oriented to service delivery (O'Donnel,2006). Based on Walker's research, Jeanes and Rowlands (2002) state that public sector organizations must be encouraged to innovate. Two important things emerge from public sector innovation, namely advancing the public interest and creating public value. Organizational performance increases with innovations in the public sector. The size of the company shows the company's activities that the company has (Sunarto,2009). Company size in public sector organizations is an important determinant in performance management practices (Chenhall,2003). Economic theory states that performance management practices will be more effective in small organizations. Company size is the scale used in determining the size of a company. Companies with large scale will tend to innovate more compared to companies with small scale. Based on agency theory, company size can be measured by the number of employees or labor, total assets, and sales volume. In this study, company size is measured by the number of employees, the type of hospital and the amount of budget for innovation.

## Literature Review

### *Organizational Performance*

Performance refers to something related to the activities of doing work which includes the results achieved (Outley, 1999, Bastian, 2001:239) provide the definition "Performance is a description of the level of achievement of an activity or program or policy in the form of goals, objectives, mission and vision organization contained in the formulation of a strategic scheme (strategy planning) of an organization. In general, performance is an achievement that can be achieved by an organization within a certain period. Performance is also a multidimensional construct; the measurement also varies depending on the complexity of the factors that shape performance. Some researchers argue that performance should be defined as the outcome of work itself (an outcome of work) because work results provide a strong link to the organization's strategic objectives, customer satisfaction and economic contribution (Verbeeten, 2008). Organizational performance is divided into qualitative performance and quantitative performance (Carter et al. 1992: 36). Quantitative performance refers to quantitative aspects such as the use of resources (budget or economic use), the amount of output produced and efficiency. Qualitative performance refers to operational quality such as accuracy (Carter et al.1992) and also strategic capacities such as innovation and long-term effectiveness (Newberry and Pallot, 2004; Kaplan, 2001; Klot and Martin, 2000).

### *Innovation*

Innovation is a complex concept (Walker et al.2002). Innovation is defined as the awakening and application of new ideas, not just new product problems, new services or new processes and new ways to solve problems. Innovation is not a simple fact to generate ideas but includes the application, integration into system processes and monitoring results in the long run. Innovation cannot automatically produce good results, it represents both individual and collective achievements. Innovation is defined as the application of new and significant products or process improvements (good and service), new marketing methods or organizational methods in business practices, workplace organizations or external relations (OECD, 2005). In this definition, there are four types of innovation namely product innovation, process innovation, marketing innovation, and organizational innovation. Product innovation involves new or significantly increased goods or services, process innovation involves new or significantly improved production or delivery methods, marketing innovation involves new marketing methods that involve

significant changes in product or packaging design, product placement, product promotion or designation price, organizational innovation involves the introduction of new organizational methods in company business practices, workplace organizations or external relations.

### *Performance Management Practices*

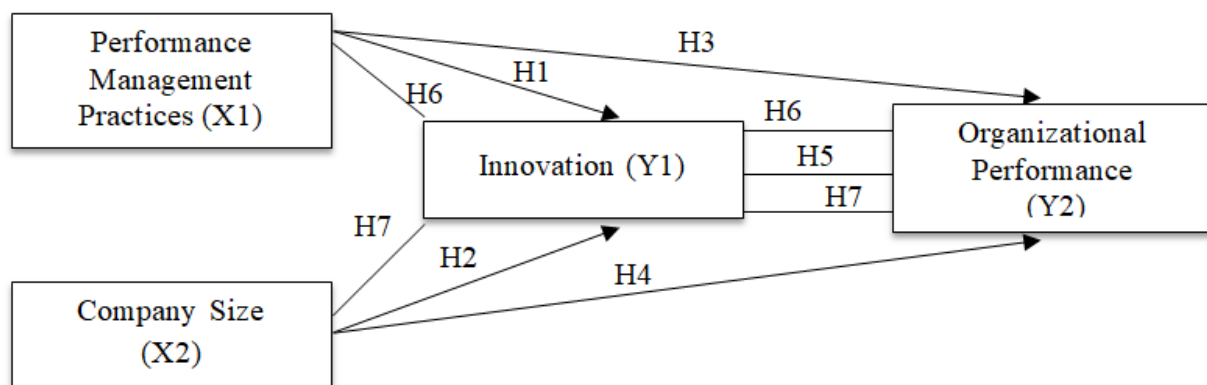
The latest effort to improve performance in the public sector is known as New Public Management (NPM). The impact of performance management practices on public sector organizations is influenced by institutional factors. Performance management practices (Hood,1995,1991) include setting goals to be achieved, allocating satisfaction rights, and measuring and evaluating performance (Heinrich, 2002; Ittner and Larcker, 2001, Otley, 1999). Besides, the use of incentives can improve organizational performance (Bonner and Sprinkle, 2002). Performance management practices consist of clear and measurable goals and incentives. Performance management practices can be defined as the process of setting goals, choosing strategies to achieve these goals, sharing authority in decision making and how to measure and evaluate performance (Verbeeten, 2008). Performance management practices are applied to improve organizational performance. Performance management practices can serve several political and managerial objectives (Propper and Wilson, 2003; de Bruijn, 2002; Kloot and Martin, 2000). These goals affect each other. The mission definition, clear goals help each employee understand what the organization wants. By measuring performance concerning clear organizational goals, politicians and public managers must be able to empower the public for what purpose public finances are used (transparency or accountability goals). Public sector organizations can use organizational performance measurements to improve performance (learning objectives). Performance measurement systems can be the basis for compensation of government officials (the purpose of assessing).

### *Company Size*

Company size in public sector organizations is an important determinant in performance management practices (Chenhall,2003). Economy Theory believes that performance management practices will be more effective in small organizations (Dewatripont et al. 1999). Increasing size can positively influence the adoption of the use of performance management practices for company size in public sector organizations Indicators of company size are information about the number of employees serving in public sector organizations. In this study, the type of regional public hospitals is also one measure to assess the company and the budget required by the hospital to innovate. This type of classification is based on the number of available inpatient rooms, the availability of medical resources and also medical equipment to improve hospital services.

### **Research Framework and Hypothesis**

*The conceptual framework of this study is as follows:*



**Figure 1. Concept Research Model**

### *Hypothesis formulation:*

H1: Performance management practices affect innovation

H2: Company size influences innovation

- H3: Performance management practices influence organizational performance
- H4: Company size influences organizational performance
- H5: Innovation influences organizational performance
- H6: Performance management practices influence organizational performance through innovation
- H7: Company size influences organizational performance through innovation

This research is quantitative research with an explanatory research approach which is guided by a questionnaire. This research was conducted at regional public hospitals in South Kalimantan, totalling 12 hospitals spread across 10 municipalities. The population in this study is the manager of the regional public hospital in South Kalimantan, amounting to 276 people. The sample of this study was the population, but at the time of the study, 276 questionnaires were filled in and received by the researchers as many as 241 respondents. This study uses forty-three questionnaire items. Respondents' answers were then tabulated and then tested for validity and reliability to determine the level of validity of the questionnaire items against the variable to be measured.

Data analysis techniques in this study are descriptive analysis and path analysis. Following is the path analysis application on research variables, namely the practice of performance management and company size on organizational performance through innovation. Hypothesis testing using multiple linear regression models, testing of the model using the coefficient of determination ( $R^2$ ) is needed to measure how far the model's ability to explain endogenous variables is determined  $KD=R^2 \times 100\%$ . Individual significance test (t-test) shows how far the influence of one exogenous variable in explaining endogenous variables if other exogenous variables are not taken into account or are considered constant. The significance of path analysis is based on the value of t arithmetic and t table, i.e. if the value of t arithmetic  $>$  t table, then  $H_a$  is accepted and  $H_0$  is rejected, meaning that the independent variable has a significant impact on the dependent variable. If t arithmetic  $<$  t table, then  $H_a$  is rejected and  $H_0$  is accepted, meaning that the independent variable does not have a significant impact on the dependent variable. The significance is based on the probability value or p-value, i.e. if the value of  $p > 0.05$ , then  $H_0$  is accepted and  $H_a$  is rejected, meaning that it is not significant. If the value of  $p \leq 0.05$ , then  $H_0$  is rejected and  $H_a$  is accepted, meaning that it is significant.

## Results

Based on the results of the validity test showed that all research variables (performance management practices, company size, innovation, and organizational performance) count  $>$  r-table of 0.126 so that all questionnaires are said to be valid. The reliability test results of all constructs or variables of this study have been shown as a reliable measurement, this means that all items of questions used to measure each construct are reliable. Cronbach's Alpha value of each construct is very good above 0.6.

Descriptive test results of performance management practices and company size on organizational performance through innovation are as follows.

**Table 1. Statistik Description Test**

| Variable                         | Mean  | Std. Deviation | Minimum | Maximum |
|----------------------------------|-------|----------------|---------|---------|
| Performance Management Practices | 92.49 | 13.245         | 53      | 115     |
| Company Size                     | 12.38 | 2.303          | 8       | 15      |
| Innovation                       | 40.14 | 6.114          | 23      | 50      |
| Organizational Performance       | 27.58 | 3.995          | 15      | 35      |
| Valid N (list wise)              |       |                |         |         |

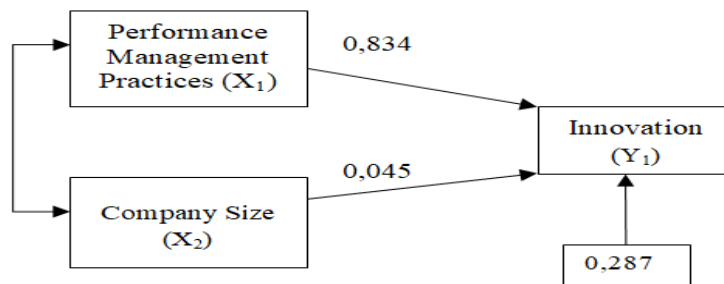
Based on the results of research that became observations indicate that the standard deviation of all variables below the average means that the practice of performance management, company size, innovation can improve organizational performance.

The path analysis results are as follows:

**Model 1**

**Table 2. Sub Structure Test Results 1**

| Variable                         | Regression Coefficient | Value t | Value p |
|----------------------------------|------------------------|---------|---------|
| Performance Management Practices | 0,834                  | 23,503  | 0,000*  |
| Company Size                     | 0,045                  | 1,256   | 0,210*  |
| R                                | 0,845                  |         |         |
| R square (R2)                    | 0,713                  |         |         |
| Value p                          | 0,000                  |         |         |



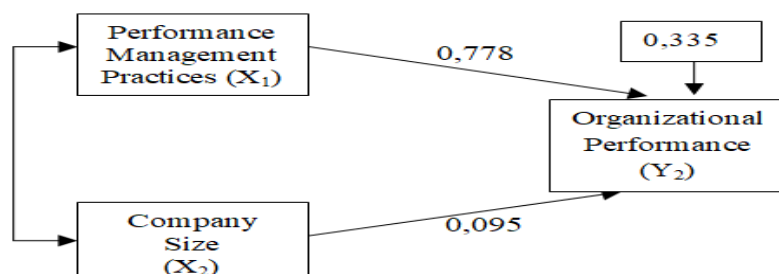
**Figure 2. Sub Structure 1**

The first hypothesis stating that performance management practices affect innovation can be seen from the variable of performance management practices having a coefficient value of 0.834 and a significance value of 0.000 < 0.05, which means that the variable of performance management practices influences the proven innovation in this study. The second hypothesis which states that company size affects innovation can be seen from the variable company size has a coefficient value of 0.045 and a significance value of 0.210 > 0.05 which means that the company size variable has an effect on innovation not proven in this study. Based on the value of R square is 0.713 this shows that the contribution or contribution of the influence of the variable performance management practices and company size variables to innovation amounted to 71.3% while the remaining 28.7% is the contribution of other variables not included in the study. Meanwhile, the value of e1 can be found using the formula  $e1 = \sqrt{1-0,713} = 0.287$ .

**Model 2**

**Table 3. Sub Structure Test Results 2**

| Variable                         | Regression Coefficient | Value t | Value p |
|----------------------------------|------------------------|---------|---------|
| Performance Management Practices | 0,778                  | 19,701  | 0,000*  |
| Company Size                     | 0,095                  | 2,414   | 0,017*  |
| R                                | 0,803                  |         |         |
| R square (R2)                    | 0,645                  |         |         |
| Value p                          | 0,000                  |         |         |



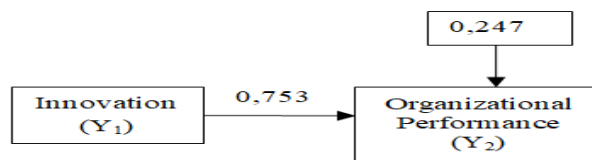
**Figure 2. Sub Structure 2**

The third hypothesis which states that performance management practices affect organizational performance can be seen from the variables of performance management practices having a coefficient value of 0.778 and a significance value of  $0.000 < 0.05$ , which means that performance management practice variables affect organizational performance as evidenced in this study. The fourth hypothesis which states the size of the company affect the performance of the organization can be seen from the variable company size has a coefficient value of 0.095 and a significance value of  $0.017 < 0.05$  which means that the variable size of the company influences the organizational performance as evidenced in this study. Based on the value of R square is 0.645 this shows that the contribution or contribution of the influence of the variable performance management practices and company size variables to organizational performance is 64.5% while the remaining 35.5% is the contribution of other variables not included in the study. While the value of  $e_2$  can be found by the formula  $e_2 = \sqrt{1 - 0.645} = 0.335$ .

**Model 3**

**Table 4. Sub Structure Test Results 3**

| Variable      | Regression Coefficient | Value t | Value p |
|---------------|------------------------|---------|---------|
| Innovation    | 0,753                  | 17,684  | 0,000*  |
| R             | 0,753                  |         |         |
| R square (R2) | 0,567                  |         |         |
| Value p       | 0,000                  |         |         |

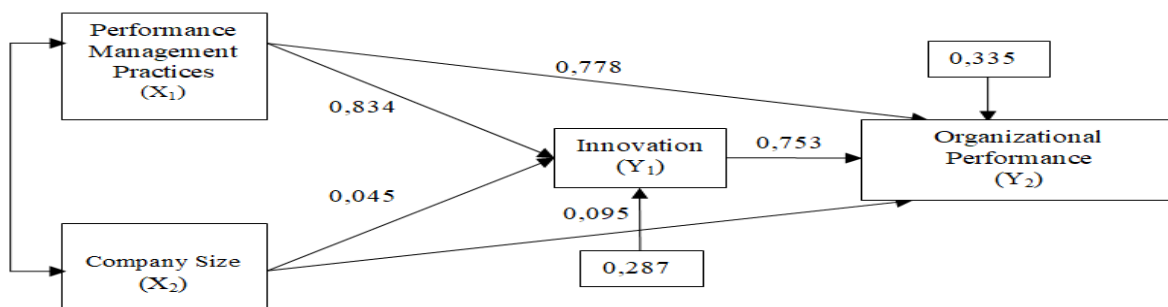


**Figure 3. Sub Structure 3**

The fifth hypothesis which states that innovation influences organizational performance can be seen from the innovation variable having a coefficient value of 0.753 and a significance value of  $0.000 < 0.05$ , which means that the innovation variable influences organizational performance is evident in this study. Based on the value of R square is 0.753 this shows that the contribution or contribution of the influence of innovation variables on organizational performance by 75.3% while the remaining 24.7% is the contribution of other variables not included in the study. While the value of  $e_3$  can be found by the formula  $e_3 = \sqrt{1 - 0,753} = 0.247$ .

**Model 4**

Of the three sub structural models, 1,2,3 are combined into one so that the following model is obtained.



**Figure 4. Structure Research Model**

The sixth hypothesis which states that performance management practices affect organizational performance through innovation is known to the direct effect given by the variable performance management practices on organizational performance by 0.778. While the indirect effect of performance management variables through innovation on organizational performance is the multiplication between the beta value of the performance management practice variable on the innovation variable with the innovation beta value on the organizational performance variable ( $0.834 \times 0.753 = 0.628$ ) so that the total effect value ( $0.778 + 0.628 = 1.406$ ). Based on the calculation results, it is known that the value of the direct effect of performance management practice variables on organizational performance variables is smaller than the indirect effect of performance management practice variables on organizational performance through innovation. The hypothesis which states that performance management practices affect organizational performance through innovation is proven in this study.

The seventh hypothesis which states that company size affects organizational performance through innovation is known to the direct effect given by the company size variable on organizational performance by 0.095. While the indirect effect of company size variables on organizational performance is the multiplication of the beta value of company size on the innovation variable with the innovation beta value on organizational performance ( $0.045 \times 0.753 = 0.033$ ). Obtained a total effect value ( $0.95 + 0.033 = 0.128$ ). Based on the calculation results, it is known that the value of the direct effect of company size variables on organizational performance variables is smaller than the indirect effect of company size variables on organizational performance through innovation. The hypothesis that company size influences organizational performance through innovation is proven in this study.

### Conclusion and Discussion

This study aims to describe and analyze the effect of performance management practices and company size on innovation and its impact on organizational performance. This research was carried out in 12 regional public hospitals in South Kalimantan. The results of the descriptive analysis explained that the hospital that became the observation of the research used the practice of performance management properly and correctly in accordance with organizational goals, this means that every regional public hospital in South Kalimantan had carried out the mission and vision of the hospital as outlined in clear and measurable organizational goals. Likewise, the application of incentives in the regional public hospitals that were the observations of this study, although not all hospitals apply incentives in their operational activities. The number of employees from the hospitals that were observed in this study did not affect the innovations carried out because the innovations carried out on average regional public hospitals depend on the availability of funds and the budget for innovation.

Based on the results of the path analysis it can be concluded that the performance management practices affect innovation, which means that the more optimal the organization implements performance management practices in accordance with clear and measurable organizational goals in accordance with the organization's vision and mission, it will affect the opportunities for innovation in the organization. The size of the organization which is the size of the company consisting of the number of employees, the type of hospital and the available budget is not the only reason for innovation, which means the size of the company in this study does not influence the organization to innovate. This research is in line with Verbeeten's research (2008) which shows that public sector organizations face a trade-off between achieving short-term goals such as efficiency, quantity produced and long-term goals such as quality of determination, innovation, and enthusiasm for work. It can be concluded that research in performance management practices influences innovation. Performance management practices and company size affect organizational performance. Following the Goal Setting theory that performance management practices will help organizations improve the performance of their organizations. The results of this study are in line with research by Spekle (2013) which states that performance management practices will help managers to achieve targeted outputs in performance. So that performance management practices affect organizational performance. Performance management practices make the organization focus on what must be achieved following the goals set by the organization. Likewise, the size of the company, the size of the organization will affect organizational performance. The results of this study are in line with research by Verbeeten (2008) which states that company size influences organizations to implement performance management practices and have an impact on organizational performance.

Innovation affects organizational performance which means that the more organizations implement innovation optimally, organizational performance can improve. The results of this study are in line with research by Walker (2006), Hadjimanolis (2000) and Droge and Vickrey (1994) which state that the application of innovation in organizations which is appropriate following the needs of the organization influences the organization's performance improvement.

Innovation can mediate the effect of performance management practices and company size on organizational performance, which means that the optimal application of performance management practices and company size can improve organizational performance if supported by innovation in public organizations, especially for regional public hospitals in South Kalimantan. This is supported by the results of statistics stating the value of the relationship of the direct effect of performance management practices and company size on organizational performance is smaller than the value of the indirect relationship of performance management tactics and company size on organizational performance through innovation, the hypothesis that the practice of performance management and company size is influential on organizational performance through innovation has proven in this study.

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