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Performance Measurements: From Accounting to Shared Values

By Iriyadi¹

Abstract

Continuous sustainability is very important for the company's going concern. Performance measurement is conducted to assess the company effort to maintain its survival and to convince the stakeholders that the company's sustainability is maintained well. The shared value measurement is a new approach for performance measurement. In this paper, various popular performance measurement approaches are discussed to give an overall understanding. Interestingly, shared value will enhance competitive advantage of the company and advance the economic and social conditions around the company simultaneously.

Keywords: Performance Measurement, Accounting Based, Shared Values Based

Introduction

An entity is established with the hope to survive continuously and to keep its infinite sustainability. Periodically, each quarter, each semester, or at least every year, an entity presents the financial statements reporting, including its going concern report (Kartikahadi *et al.*, 2012: 47; IAI, 2012: 5; Bapepam-LK, 2012). However, in an era of high involvement of stakeholders in monitoring company's environmental and social sustainability, the process of communication between companies and investors needs to be refurbished. Gradually, the company is required to reformulate the new models of value creation. Starting with the identification of social problems, gaps and opportunities for new products and services, the entity conducts modeling and tracking the progress targets, then ends with the evaluation results. Finally, the validation of it is that the allocation of resources generate high economic returns for both companies and social environment.

Definition and Measurement of Performance

The performance is defined as a process or a result of the work that can be observable and measurable. Performance measurements are not about the future. It measures the actions taken to date and not include the value of future expectations, since they may not materialize (Carton, 2004: 7). In relation to the financial reporting, the IASB (2010: 10) stated that general purpose of financial reports are not designed to show the value of a reporting entity, but they help existing and potential capital providers to estimate the value of the reporting entity. Accordingly, the financial statements are information of accountability and stewardship of manager's past events and as the financial statements addressed to multi-constituent, performance appraisal becomes multi-dimensional (IAI, 2012: 3; Carton, 2004: 47; IASB, 2010: 47). For example Le and Chizema (2011: 73) explain two types of financial performance measurement, i.e the accounting-based performance measurement and the market value-based performance measurement. Performance is entity's organizational capability to use resources efficiently and effectively to achieve the goal (Kartikahadi *et al.*, 2012: 47; Daft and Marcic, 2009:10). Performance is also interpreted as the outcome of the management process, from strategic planning phase through to implementation phase (Fauziet *al.*, 2010: 1346; Daft, 2008: 216). But the core of organizational performance is the value creation (Carton, 2004: 3).

Performance is the total value of the entity that created by the company and the amount of benefits received by each of the company's stakeholders (Harrison and Wicks,

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2013: 102). The value created is a function of the quality of skills and expertise, *i.e.* the ability to learn and to respond to the environment (Jones, 2003: 4-5). Long-term performance of the entity continues to survive and to grow, due to the scheme of creating a cooperative relationship between the company and stakeholders (Philip, 2003, in Harrison and Wicks, 2013: 102). Hill and Jones (2012: 28) argue that an important part of the strategy making process is ensuring that the company maintains the support of the key constituencies - or stakeholders - upon which it depends for its functioning and ultimate survival. Cooperative relationship between the company and stakeholders is illustrated as follows:

**Table 1. Illustration of Cooperative Relationship
Between The Company and Stakeholders**

Stakeholder	Contribution to the Organization	Inducement to Contribute
<i>Inside:</i> Shareholders Managers Workforce	Money and capital Skills and expertise Skills and expertise	Dividends and stock appreciation Salaries, bonuses, status, and power Wages, bonuses, stable employment, promotion
<i>Outside:</i> Customers	Revenue from purchase of goods & services	Quality and price of goods and services
Suppliers Government	High-quality inputs Rules governing good business practice	Revenue from purchase of inputs Fair and free competition
Unions Community General public	Free and fair collective bargaining Social and economic infrastructure Customer loyalty and reputation	Equitable share of inducements Revenue, taxes, and employment National pride

(Source: Jones, 2003: 32)

Stakeholders, both internal and external, are motivated to participate with the organization for the benefit (inducement) received exceeds or equals the cost (contribution). One exception is that contribution may be higher than the benefits received for the reason of national pride, the (Jones, 2003: 31-32; Hill and Jones, 2012: 85-86). Along with Hill and Jones (2012) and Jones (2003), Carton (2004: 3) states "So long as the value created ... is equal to or greater than the value expected by Reviews those contributing the assets, ... the organization will continue to exist" , However, the value created by organization depends on the perception of resource providers. "Therefore, value creation, as defined by the resource provider, is the essential overall performance criteria for any organization. How that value is created is the essence of most "(Carton, 2004: 3).

In regard to the dynamic environment, organizations may not be able to satisfy all the desires of stakeholders. Therefore, managers must determine the priority of the most critical stakeholders, so that companies can continue to survive and prosper (prosper) (HillandJones, 2012: 29).

Based on the explanation above, it can be supposed that the essence of the organization is to create value. While the existence and sustainability efforts of an organization are determined by the ability of managers to set priorities in creating value as perceived by stakeholders which value is the benefits exceed or equal to their contribution. Measurement of organizational performance can be explained by the performance over a specified period (Neely, Gregory & Platts, 1995; Bititci, Carrie and McDevitt, 1997 in Al-Matari *et al.*, 2014). Spitzer (2007: 21) states that performance measurement is a powerful factor, functional, and positive influence on the organization. The results of performance measurement is a starting point for change and as the basis of more effective value creation process (Coffey, 2010: 110; Jones, 2003: 32; Carton, 2003: 3). Even Spitzer (2007: 21) believes that if the performance measurement used properly, it can provide greatest benefits among other aspects of management.

However Gocejna (2015: 28) argues that the effectiveness of performance measurement depends highly on the truth (correctness) performance measurement. Likewise Spitzer (2007: 21) states that the "dark side" of performance measurement that intentionally or unintentionally, abused, distorted, or manipulated, will be very bad as this performance measurement results will be used to establish a next strategic decision.

According to Hill and Jones (2012: 32) there are five characteristics establish standards for performance assessment: (1) precise and measurable, (2) address crucial issues, (3) challenging but realistic, and (4) specify a time period. While Meyer (2003: 6) argues that performance measurement must meet five requirements, namely (1) parsimony, (2) predictive abilities, (3) the pervasiveness, (4) stability, and (5) applicability to compensation.

According to Harrison and Wicks (2013: 108), there are three popular approach to performance measurement, namely (1) the perspective of shareholder-based financial performance, (2) the balanced scorecard, and (3) the triple bottom line and shared value.

The Perspective of Shareholder-Based Financial Performance

According to the perspective of shareholders' theory, the main task manager focused on maximizing shareholder value (Harrison and Wicks, 2013: 109; Asaf, 2004: 3; Pfarrer, 2010: 86). Shareholders' theorists believe that the community will benefit if the company run efficiently. The wealth of the company *i.e.*, outside business activity and outside expertise manager, would impact negatively the community in the long term (Pfarrer, 2010: 86-87).

Shareholders, especially as the founder of the company, should be given the highest priority over other interested stakeholders. Shareholders do not have a specific contract with the company, thus they are entitled to claim only the remainder net assets (residual claimants) (Harrison and Wicks, 2013: 109). Position as residual claimants also shown by the accountant who does not treat capital investment cost of ordinary shareholders (common shareholders' equity of capital) as an expense when computing the net income of the company (Wahlen *et al.*, 2011: 297).

The manager as agent of the owner, is expected primarily to enhance shareholder value over the long term. Shareholders expect a return (returns) of dividends and increasing share price gains (capital gains) (Martin *et al.*, 2007: 25; Wahlen *et al.*, 2011: 297).

Performance measurement based on financial statements are the basis of objective measurement. "... Traditional accounting favors items that can be objectively measured ..." (Fridson and Alvarez, 2011: 41). Financial ratios are indicators of performance and risk as well as signals on the future performance. (Wahlen *et al.*, 2011: 50). Further Fridson and Alvarez (2011: 41) argues that financial performance measurement based on accounting data can measure objectively and also avoid dispute.

"Unfortunately, future earnings and cash flows are unobservable. Moreover, calculating the present value requires selecting a discount rate representing the company's cost of capital. Determining the cost of capital is a notoriously controversial subject in the financial field, complicated by thorny tax considerations and risk adjustments. The figures needed to calculate economists' equity are not, in short, the kind of numbers accountants like to deal with" (Fridson and Alvarez, 2011: 41).

Generally, accounting basis financial performance measurement consists of earnings per share (EPS) and return to ordinary shareholders (rate of return on common shareholders' equity / ROCE) (Wahlen *et al.*, 2011: 50). EPS measures the performance of managers generate income for any shares owned by shareholders. EPS is obtained by dividing the profit after deducting preferred stock dividends by the number of shares outstanding. While ROCE measures the success rate of manager in using fund from residual claimants. ROCE is represented in the magnitude/percentage net profit value of common shareholders divided by average capital value of ordinary shares during the year (Wahlen *et al.*, 2011: 50,

297). However, EPS and ROCE has not shown the extent of creating value for the company manager (Wahlen *et al.*, 2011: 297).

"There is no profit unless you earn the cost of capital" (Peter Drucker in Pettit, 2000: 4). The classical economist Alfred Marshall (1890) also states "... the real meaning of a business owner's profit: What remains of his profits after deducting interest on his capital at the current rate ..." (Grant, 2002: 3). Aglietta and Reberieux (2006: 35) adds "Only financial profitability over and above this cost is considered to create value".

Accounting profit is not economic profit, so it does not show the real value creation. Economic profits or residual income (Holler, 2010: 3), or abnormal income (Wahlen *et al.*, 2011: 297-198) is defined as earnings that (1) can cover the entire cost of production and implementation of business operations, and (2) generate returns normal to owners who invest capital (Grant, 2002: 3).

Value creation occurs when the amount of ROCE is greater than the cost of capital (cost of capital). Instead, ROCE lower than the cost of capital means that the manager does not create, even damage the value of the company (Wahlen *et al.*, 2011: 297). Calculating the cost of capital usually uses the last applicable interest rate (at the current rate) (Grant, 2002: 3), or central bank interest rate (Asaf, 2004: 11).

Residual income (RI) is the difference between the level of net income available to ordinary shareholders (% ROCE) at a cost of capital (% Cost of capital) or $RI = \text{Net Income available to Common Shareholders} - (\text{Cost of Equity Capital} \times \text{Beginning Common Shareholders' equity})$ (Wahlen *et al.*, 2011: 297). Value-added or residual income (RI) also can be formulated as a total capital (total of capital / TOC) invested multiplied by the difference in return on capital (r) with the cost of capital (c), or $RI = \text{TOC} \times (r - c)$. Shareholder value is created when the return on capital (r) exceeds the cost of capital (c) (Meyer, 2003: 46).

If the capital comes from several sources and most of the capital have a market price, weighted average cost of capital (WACC) must be determined. The determination of WACC can use the book value or the market value. If it is determined at book value, the data sources are financial reporting data, whereas if it is determined using the market price, then the data sources are available market price data (Walsh, 2006: 277). Below is an illustration of the determination of the WACC.

Funds	(\$000s)	Book weights	After-tax costs	Weighted costs
Owners' funds	4,204	62%	12%	7.44%
Long-term loans	1,000	15%	7%	1.05%
Short-term loans	1,544	23%	5%	1.15%
	6,748	100%		9.64%

↑
 These costs are assumed for this example

↑
 Weighted average cost of capital WACC

Figure 1. Illustration of The WACC Determination

(Source: Walsh, 2006: 277)

Based on the illustration above, it can be inferred that the manager creates value for shareholders when ROCE greater than 9.64%.

The measurement of company performance based on residual income accounting was developed by management consultant Stern Stewart & Co. and known as economic value added (EVA) ®. The concept and measurement of EVA is similar but not identical to the

residual income (Wahlen *et al.*, 2011: 298). Calculation of residual income is a "basic" EVA because without accounting adjustments (Epstein and Widener, 2010: 111)

The main difference between the accounting data based EVA and the residual income is that the determination of EVA needs adjustments to the value of capital and profit accounting, because that accounting earnings do not reflect the economic value (ACCA, 2011: 1). Three major financial statements adjustments made in EVA method are converting accrual to cash accounting, correcting "too tight" (strict) financial reporting standards which reduces the desire managers make long term investments, and correcting nonroutine transactions (ACCA, 2011: 1; Holler, 2010: 3; Asaf, 2004: 45). To produce EVA, there are 164 adjustments or corrections of financial reporting data (Holler, 2010: 3; CIMA, 2002: 8).

Weaknesses of using EVA as a measurement of performance-based value (value-based metrics) is its subjectivity, its much effort, time and expense, and its certain difficulty level in the application (Asaf, 2004: 45; CIMA, 2002: 8), therefore, values based performance measurement such as EVA is normally used to supplement the accounting-based performance measurement, not as a replacement. "It is for this reason that the value-based performance measures such as EVA ... usually supplement, rather than replace, more traditional accounting-based performance measures" (CIMA, 2002: 8).

Likewise Maditinos (2006: 11-12) argues that Dodd and Chen (1996 and 1997) research results, suggest "... if a company wants to adopt the philosophy of EVA® as a corporate performance measure, it might want to consider using RI instead ... RI provided almost identical results to EVA®, without the need of accounting adjustments advocated by Stern Stewart & Co".

The Perspective of Balanced Scorecard Approach Performance Measurement

According to Kaplan (2010: 2) and Harrison and Wicks (2013: 109), from the perspective of value creation (value creation), measuring instruments of financial performance does not provide the specific and measurable basis of what manager to do to increase the total value in the short or medium term. Limitations of financial performance measurement leads managers to think less about integration efforts increase value creation through the role of stakeholders (suboptimal condition).

Harrison and Wicks (2013: 109) and Asaf (2004: 321) state that the critical challenge for companies is to maintain the balance of the performance of short, medium and long term. Performance measurement model that provides "balance" perspective, both from the financial and operational aspects, is the Balanced Scorecard.

Balanced Scorecard (BSC) was introduced firstly in an article of Business Review Harvard in 1992, and until 2007 it has been adopted by thousands of companies, whether private, public companies, and non-profit entities worldwide. BSC is used to motivate, measure, and evaluate the companies' financial and non-financial performance (Kaplan, 2010: 2-4) and also used as a tool to articulate, execute, and monitor the company's strategy (CIMA, 2002: 8).

BSC consists of four perspectives, namely financial perspective, customers perspective, internal business processes perspective, and learning and growth perspective (CIMA, 2002: 8; Kaplan and Norton, 2006: 6 -7). Each BSC perspectives are intertwined in a chain of causal relationship, e.g., training programs to upgrade the skills of employees (learning and growth perspective) is associated with the process of improving services to customers (internal processes) that brings on customer satisfaction and loyalty (customer), and ultimately results in increased revenue and profit (finance) (Kaplan and Norton 2006: 6-7).

Thus, although it involves a non-financial dimensions, BSC still in the conception of the theory of value creation from the perspective of shareholders theory. Kaplan and Norton

(1992) states that "... the primary dependent variable is still financial returns" (Harrison and Wicks, 2013: 110)

The Perspective of Triple Bottom Line

Hill and Jones (2012: 28) argues "An important part of the strategy making process is ensuring that the company maintains the support of the key constituencies - or stakeholders - upon which it depends for its functioning and ultimate survival". Epstein and Widener (2010: 12) argues sustainability of companies such as Nike, Procter & Gamble, The Home Depot, and Nissan mainly because they incorporate social and environmental considerations in every strategic decision makings. Freeman (1984: vi, 31-32) argued that the initial concept of stakeholders is " those groups without whose support the organization would cease to exist", includes shareholders, employees, customers, suppliers, lenders and society.

The term "stakeholder" was used firstly by Stanford Research Institute (now called as SRI International, Inc.) in 1963 (Freeman, 1984: 31). However Elkington (1997: 167) states that stakeholders include "emerging stakeholders" such as consumers, trade associations and coalitions, professional and academic organization, community and environmental groups, also include "surrogate stakeholders" such as the planet's biosphere, the world population, and future generations.

Triple Bottom Line (TBL) is the idea of Elkington (1997) that advocated assessment of corporate performance from the perspective of economic, social, and environmental value added. According to Elkington (1997: 4), companies can no longer use the "competitive reasons" not to apply the triple bottom line.

The rationale of Elkington (1997) is a reflection of concern about the social and environmental problems such as cannibalism among companies (merge or de-merge), global warming, ozone depletion, damage to marine areas of fisheries, infant and maternal mortality. UN's Global Environmental Outlook (1996) states that the environmental conditions are already at the stage of "emergency" (Elkington, 1997: 20). While the national survey on the quality of life in Norway found that the perception of life quality between the years 1960-1970 increased, but then decreased since 1970. Similarly, in the United Kingdom found that the perception of life quality dropped dramatically from 1975 to 1990. The New Economics Foundation (NEF) argues that: "... Despite a 230% increase in GNP over the period and a near-doubling in consumer spending, the costs of commuting, pollution, policing, and cumulative environmental damage all rose significantly ... Increasingly, companies will need to use such measures to assess their net contributions to society's real wealth (Elkington, 1997: 93).

Elkington (1997: 92-93) recognizes that in many respects, the concept of TBL is still "black boxes". One step ahead to achieve TBL is the sustainability reporting. Ernst & Young (2014) emphasized that the measurement of value creation on the impact of social and environmental capital investment becomes a challenge for the organization because of five reasons: (1) a lot of technique, but there is no consensus over them; (2) there is no global standard guidelines for measuring the value of money "monetized", so that the consistency and comparability is still very weak, (3) measurement involves many assumptions, (4) there is no standard of value and what should be disclosed; (5) it is too lengthy and detailed disclosure of risk to investors' understanding.

Creating Shared Value

Besides TBL Elkington (1997), lately Porter and Kramer (2011) proposed the concept of "shared value" as an approach to performance measurement. TBL approach and shared value, both are still in the label corporate social responsibility (CSR) (Harrison and Wicks, 2013: 110).

The concept of shared value was introduced firstly by Porter and Kramer (2006 and 2011) in articles of the Harvard Business Review (Moore, 2014: 3). Shared value is the company's policy and practical to enhance competitive advantage and advance the economic and social conditions simultaneously in the communities where the company conducts sales and operations (Porter and Kramer, 2011; Porter, 2011: 6; Moore, 2014: 3).

Porter stated that shared value happens when companies integrate social issues and face challenges to create economic value. In practical terms, though the company continues to implement a strategy of value creation for shareholders, the chorus also involves community (Peppercom, 2014: 1).

Porter and Kramer asserted that shared value is not philanthropy nor CSR. Shared value is not distributing the existing value, which is the core philanthropic activities, but it is the creation of new value for shareholders and communities (Peppercom, 2014: 2).

Shared value is not separate from the company's strategy, and is focused on building a reputation, such as CSR (Peppercom, 2014: 2-3; Moore, 2014: 3). The creating shared value/CSV is integrated with efforts to create profitability and competitive position of companies (Moore, 2014: 3). The difference between CSR and CSV explained by Porter and Kramer (2011) as follows:

Table 2. The difference between CSR and CSV

Corporate Social Responsibility	Creating Shared Value
<ul style="list-style-type: none"> ▪ Values: doing good ▪ Citizenship, philanthropy, sustainability ▪ Discretionary or in response to external pressure ▪ Separate from profit maximization ▪ Agenda is determined by external reporting and personal preferences ▪ Impact limited by corporate <i>footprint</i> and CSR <i>budget</i> 	<ul style="list-style-type: none"> → Value: economic and societal benefits relative to cost → Joint company and community value creation → Integral to competing → Integral to profit maximization → Agenda is company specific and internally generated → Realigns the entire company budget

(Source: Porter and Kramer, 2011)

Application Procedure CSV

CSV can be applied by the company in three levels. The first level is reconceiving products and markets. The second level is redefining productivity in the value chain. The third level is building supportive industry clusters at the company's locations (Porter and Kramer, 2011; Biswas *et al.*, 2014: v).

The first level of CSV application, "reconceiving products and markets", includes the redesign of products and services to meet the "gap" or unmet social needs. The fulfillment of social needs is essentially an opportunity for differentiation, innovation, and growth of products, services, distribution, and new market (Porter, 2011: 12). On the second level of CSV application, "Redefining productivity in the value chain", the company redefining productivity in the value chain, *e.g.*, Nestle is providing advice about farming practices, making itself as the bank guarantor, providing quality laboratory and becoming a crops buffer. India Univelor provides micro-credit training, so it creates communities of 45,000 entrepreneurs covering 100,000 villages in 15 states of India (Porter and Kramer, 2011). At the third level of CSV application, "building supportive industry clusters at the company's locations", the company is building a support group/community around an industrial site, *e.g.*, "Coca-Cola's Coletivo initiative in Brazil creates shared value by increasing the employability of low income youth while strengthening the company's retail distribution channels and brand strength to increase of local product sales" (Porter and Kramer, 2011).

After implementation, the next important thing to do is measuring. CSV measurements according to Porter *et al.*, (2011: 2-4) has four steps as follows.

1. Step 1: "Identify the social issues to target" is systematically screening disparities and social needs that have not been resolved, and to analyze compliance with the three

levels of CSV. The result is a prioritized list of social issues to be targeted strategies shared value.

2. Step 2: "Make the business case" is developing a solid business case based on the analysis and research of social improvements directly related to business performance improvement. This step includes an identification of the activity of the target, details of activities, and as well as the costs that may arise because of the possibility of shared value. Then the model that connects business potential, social costs relative to the cost is made (this modeling step called potential value creation step). The end result of this step is the decision-making, whether this model of value creation will be executed or not.
3. Step 3: "Track progress" is using a business case as a roadmap. Based on the case and roadmap, the desirable progress target and accompanied suggestions for performance improvement processes are tracked. This step also includes tracking the activity of input, process and output of business, as well as financial performance (especially income and costs) compared with the projections that have been targeted.
4. Step 4: "Measure results and use insights to unlock new value" is focusing on the validation of the impact of social relationships on the business, and determine whether the expenditure or allocation overall economic resources of companies generate good returns, both for companies and social environment.

Based on these four steps, ranging from target identification, models creation, progress monitoring, till results measurement, the understanding and learning are obtained, and the analysis results will disclose information and recommendations about opportunities for the creation of further value by improving the strategy and execution of shared value.

Further consideration is that measuring the success of the implementation of CSV is a repetitive process that can not be done only in one period, nor separate from the measurement of business performance (Porter *et al.*, 2011: 2). The concept of shared value measurement is ultimately expected to isolate business strategy formula that triggers social impact, or vice versa. This new value creation process is expected to help create a new form of dialogue between companies and investors (Porter *et al.*, 2011: 18) and also more broadly other stakeholders.

The illustration of relationship model between the level of CSV, business performance and social impact that is suggested by Porter and Kreamer (2011: 4) as follows:

**Table 3. Illustration of The Relationship Model
Between the Level of CSV, Business Performance and Social Impact**

Levels of Shared Value	Business Results	Social Results
Reconceiving product and markets: How targeting unmet needs drives incremental revenue and profit	<ul style="list-style-type: none"> - Increased revenue - Increased market share - Increased market growth - Improved profitability 	<ul style="list-style-type: none"> - Improved patient care - Reduced carbon footprint - Improved nutrition - Improved education
Eedefining productivity in the value chain: How better management of internal operations increases productivity and reduces risks	<ul style="list-style-type: none"> - Improved productivity - Reduced logistical and operating costs - Secured supply - Improved quality - Improved profitability 	<ul style="list-style-type: none"> - Reduced energy use - Reduced water use - Reduced raw materials - Improved job skills - Improved employee incomes
Enabling cluster development: How changing societal conditions outside the company unleashes new growth and productivity gains	<ul style="list-style-type: none"> - Reduced costs - Secured supply - Improved distribution infrastructure - Improved workforce access - Improved profitability 	<ul style="list-style-type: none"> - Improved education - Increased job creation - Improved health - Improved incomes

(Source: Porter and Kreamer, 2011: 4)

Nevertheless, there are some barriers in CSV implementation. The first barrier that could potentially be encountered in the implementation of the CSV strategy is the outcome of the value creation of social activity have no direct impact on the financial performance of the company in short term. Moreover, the results of previous studies indicate that the average length of a CEO served is only three years, which is very short-term oriented. It is not surprising that average CEO is a "short-termism". Second barrier, the independent board or BOD's "risk-averse" attitude makes them discount the probability of CSV success. This can be overcome by presenting the professional, experienced, and objective expertise, e.g., from a reputable non-profit organizations that understands the long-term benefits of CSV. It is very good for the company, that the overlapping CEO and member of the board of commissioners understands the social issues. Third barrier, measuring and reporting social activities are generally perceived "less transparent" due to the difficulty in observing them (unobserved) compared to financial performance measurement. To overcome this, the company must conduct a strategy of combining the measurement technique has been applied by other success company as the reference of "best learning" model in the relationship between the achievement of social performance and financial performance (Peppercorn, 2014).

Conclusion

Based on the description above, it can be concluded that the performance measurement is an essential measurement of value creation. The value creation measurement from a financial perspective emphasizes the relationship between economic profit with residual income. The shared value measurement focuses on the benefits received by social environment both the financial and nonfinancial performance, such measurement model approach suggested by Porter and Kramer (2011), which integrates social and environmental issues with business performance.

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2. Bukti Korespondensi Revisi Artikel (Tanggal 27 Februari 2016)

Re: Re: Re: Re: Re: Re: Article Submission

Dari: Serials Publications (India) (serialsjournals@gmail.com)

Kepada: d_iryadi@yahoo.co.id

Tanggal: Sabtu, 27 Februari 2016 pukul 18.17 WIB

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We have replaced your previous paper with the new one.

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ID: IJABER-2016-23055

Title: "Performance Measurements: From Accounting to Shared Values"

Author : Iriyadi

Re: LETTER OF ARTICLE ACCEPTANCE

Dear Author,

We have completed the review of your paper submitted to the "International Journal of Applied Business and Economic Research" (ISSN:0972-7302).

I am happy to inform you that your paper mentioned above has been accepted for publication in the Vol.14, No.2 (2016) of the journal International Journal of Applied Business and Economic Research (IJABER).

Thank You very much for your interest and submitting your work. Hope to work for you in the near future.

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PERFORMANCE MEASUREMENTS: FROM ACCOUNTING TO SHARED VALUES

Iriyadi^{1,2}

Abstract: Continuous sustainability is very important for the company's going concern. Performance measurement is conducted to assess the company effort to maintain its survival and to convince the stakeholders that the company's sustainability is maintained well. The shared value measurement is a new approach for performance measurement. In this paper, various popular performance measurement approaches are discussed to give an overall understanding. Interestingly, shared value will enhance competitive advantage of the company and advance the economic and social conditions around the company simultaneously.

Keywords: Performance Measurement, Accounting Based, Shared Values Based

INTRODUCTION

An entity is established with the hope to survive continuously and to keep its infinite sustainability. Periodically, each quarter, each semester, or at least every year, an entity presents the financial statements reporting, including its going concern report (Kartikahadi *et al.*, 2012:47; IAI, 2012:5; Bapepam-LK, 2012). However, in an era of high involvement of stakeholders, it is necessary for companies to provide a...

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DEFINITION AND MEASUREMENT OF PERFORMANCE

The performance is defined as a process or a result of the work that can be observable and measurable. Performance measurements are not about the future.

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It measures the actions taken to date and not include the value of future expectations, since they may not materialize (Carton, 2004: 7). In relation to the financial reporting, the IASB (2010: 10) stated that general purpose of financial reports are not designed to show the value of a reporting entity, but they help existing and potential capital providers to estimate the value of the reporting entity. Accordingly, the financial statements are information of accountability and stewardship of manager's past events and as the financial statements addressed to multi-constituent, performance appraisal becomes multi-dimensional (IAI, 2012: 3; Carton, 2004: 47; IASB, 2010: 47). For example Le and Chizema (2011: 73) explain two types of financial performance measurement, i.e the accounting-based performance measurement and the market value-based performance measurement. Performance is entity's organizational capability to use resources efficiently and effectively to achieve the goal (Kartikahadi *et al.*, 2012: 47; Daft and Marcic, 2009:10). Performance is also interpreted as the outcome of the management process, from strategic planning phase through to implementation phase (Fauzi *et al.*, 2010: 1346; Daft, 2008: 216). But the core of organizational performance is the value creation (Carton, 2004: 3).

Performance is the total value of the entity that created by the company and the amount of benefits received by each of the company's stakeholders (Harrison and Wicks, 2013: 102). The value created is a function of the quality of skills and expertise, *i.e.* the ability to learn and to respond to the environment (Jones, 2003: 4-5). Long-term performance of the entity continues to survive and to grow, due to the scheme of creating a cooperative relationship between the company and stakeholders (Philip, 2003, in Harrison and Wicks, 2013: 102). Hill and Jones (2012: 28) argue that an important part of the strategy making process is ensuring that the company maintains the support of the key constituencies - or stakeholders - upon the which it depends for its functioning and ultimate survival. Cooperative relationship between the company and stakeholders is illustrated as Table 1.

Stakeholders, both internal and external, are motivated to participate with the organization for the benefit (inducement) received exceeds or equals the cost (contribution). One exception is that contribution may be higher than the benefits received for the reason of national pride, the (Jones, 2003: 31-32; Hill and Jones, 2012: 85-86). Along with Hill and Jones (2012) and Jones (2003), Carton (2004: 3) states "So long as the value created ... is equal to or greater than the value expected by Reviews those contributing the assets, ... the organization will continue to exist" , However, the value created by organization depends on the perception of resource providers. "Therefore, value creation, as defined by the resource provider, is the essential overall performance criteria for any organization. How that value is created is the essence of most " (Carton, 2004: 3).

Table 1
Illustration of Cooperative Relationship Between The Company and Stakeholders

<i>Stakeholder</i>	<i>Contribution to the Organization</i>	<i>Inducement to Contribute</i>
<i>Inside:</i>		
Shareholders	Money and capital	Dividends and stock appreciation
Managers	Skills and expertise	Salaries, bonuses, status, and power
Workforce	Skills and expertise	Wages, bonuses, stable employment, promotion
<i>Outside:</i>		
Customers	Revenue from purchase of goods & services	Quality and price of goods and services
Suppliers	High-quality inputs	Revenue from purchase of inputs
Government	Rules governing good business practice	Fair and free competition
Unions	Free and fair collective bargaining	Equitable share of inducements
Community	Social and economic infrastructure	Revenue, taxes, and employment
General public	Customer loyalty and reputation	National pride

Source: Jones, 2003: 32

In regard to the dynamic environment, organizations may not be able to satisfy all the desires of stakeholders. Therefore, managers must determine the priority of the most critical stakeholders, so that companies can continue to survive and prosper (prosper) (HillandJones, 2012: 29).

Based on the explanation above, it can be supposed that the essence of the organization is to create value. While the existence and sustainability efforts of an organization are determined by the ability of managers to set priorities in creating value as perceived by stakeholders which value is the benefits exceed or equal to their contribution.

Measurement of organizational performance can be explained by the performance over a specified period (Neely, Gregory & Platts, 1995; Bititci, Carrie and McDevitt, 1997 in Al-Matari *et al.*, 2014). Spitzer (2007: 21) states that performance measurement is a powerful factor, functional, and positive influence on the organization. The results of performance measurement is a starting point for change and as the basis of more effective value creation process (Coffey, 2010: 110; Jones, 2003: 32; Carton, 2003: 3). Even Spitzer (2007: 21) believes that if the performance measurement used properly, it can provide greatest benefits among other aspects of management.

However Gocejna (2015: 28) argues that the effectiveness of performance measurement depends highly on the truth (correctness) performance measurement.

Likewise Spitzer (2007: 21) states that the “dark side” of performance measurement that intentionally or unintentionally, abused, distorted, or manipulated, will be very bad as this performance measurement results will be used to establish a next strategic decision.

According to Hill and Jones (2012: 32) there are five characteristics establish standards for performance assessment: (1) precise and measurable, (2) address crucial issues, (3) challenging but realistic, and (4) specify a time period. While Meyer (2003: 6) argues that performance measurement must meet five requirements, namely (1) parsimony, (2) predictive abilities, (3) the pervasiveness, (4) stability, and (5) aplicability to compensation.

According to Harrison and Wicks (2013: 108), there are three popular approach to performance measurement, namely (1) the perspective of shareholder-based financial performance, (2) the balanced scorecard, and (3) the triple bottom line and shared value.

The Perspective of Shareholder-Based Financial Performance

According to the perspective of shareholders’ theory, the main task manager focused on maximizing shareholder value (Harrison and Wicks, 2013: 109; Asaf, 2004: 3; Pfarrer, 2010: 86). Shareholders’ theorists believe that the community will benefit if the company run efficiently. The wealth of the company*i.e.*, outside business activity and outside expertise manager, would impact negatively the community in the long term (Pfarrer, 2010: 86-87).

Shareholders, especially as the founder of the company, should be given the highest priority over other interested stakeholders. Shareholders do not have a specific contract with the company, thus they are entitled to claim only the remainder net assets (residual claimants) (Harrison and Wicks, 2013: 109). Position as residual claimants also shown by the accountant who does not treat capital investment cost of ordinary shareholders (common shareholders’ equity of capital) as an expense when computing the net income of the company (Wahlen *et al.*, 2011: 297).

The manager as agent of the owner, is expected primarily to enhance shareholder value over the long term. Shareholders expect a return (returns) of dividends and increasing share price gains (capital gains) (Martin *et al.*, 2007: 25; Wahlen *et al.*, 2011: 297).

Performance measurement based on financial statements are the basis of objective measurement. “... Traditional accounting favors items that can be objectively measured ...” (Fridsonand Alvarez, 2011: 41). Financial ratios are indicators of performance and risk as well as signals on the future performance.

(Wahlen *et al.*, 2011: 50). Further Fridson and Alvarez (2011: 41) argues that financial performance measurement based on accounting data can measure objectively and also avoid dispute.

“Unfortunately, future earnings and cash flows are unobservable. Moreover, calculating the present value requires selecting a discount rate representing the company’s cost of capital. Determining the cost of capital is a notoriously controversial subject in the financial field, complicated by thorny tax considerations and risk adjustments. The figures needed to calculate economists’ equity are not, in short, the kind of numbers accountants like to deal with” (Fridson and Alvarez, 2011: 41).

Generally, accounting basis financial performance measurement consists of earnings per share (EPS) and return to ordinary shareholders (rate of return on common shareholders’ equity / ROCE) (Wahlen *et al.*, 2011: 50). EPS measures the performance of managers generate income for any shares owned by shareholders. EPS is obtained by dividing the profit after deducting preferred stock dividends by the number of shares outstanding. While ROCE measures the success rate of manager in using fund from residual claimants. ROCE is represented in the magnitude/percentage net profit value of common shareholders divided by average capital value of ordinary shares during the year (Wahlen *et al.*, 2011: 50, 297). However, EPS and ROCE has not shown the extent of creating value for the company manager (Wahlen *et al.*, 2011: 297).

“There is no profit unless you earn the cost of capital” (Peter Drucker in Pettit, 2000: 4). The classical economist Alfred Marshall (1890) also states “... the real meaning of a business owner’s profit: What remains of his profits after deducting interest on his capital at the current rate ...” (Grant, 2002: 3). Aglietta and Reberieux (2006: 35) adds “Only financial profitability over and above this cost is considered to create value”.

Accounting profit is not economic profit, so it do not show the real value creation. Economic profits or residual income (Holler, 2010: 3), or abnormal income (Wahlen *et al.*, 2011: 297-198) is defined as earnings that (1) can cover the entire cost of production and implementation of business operations, and (2) generate returns normal to owners who invest capital (Grant, 2002: 3).

Value creation occurs when the amount of ROCE is greater than the cost of capital (cost of capital). Instead, ROCE lower than the cost of capital means that the manager does not create, even damage the value of the company (Wahlen *et al.*, 2011: 297). Calculating the cost of capital usually uses the last applicable interest rate (at the current rate) (Grant, 2002: 3), or central bank interest rate (Asaf, 2004: 11).

Residual income (RI) is the difference between the level of net income available to ordinary shareholders (% ROCE) at a cost of capital (% Cost of capital) or $RI = \text{Net Income available to Common Shareholders} - (\text{Cost of Equity Capital} \times \text{Beginning Common Shareholders' equity})$ (Wahlen *et al.*, 2011: 297). Value-added or residual income (RI) also can be formulated as a total capital (total of capital / TOC) invested multiplied by the difference in return on capital (r) with the cost of capital (c), or $RI = \text{TOC} \times (r - c)$. Shareholder value is created when the return on capital (r) exceeds the cost of capital (c) (Meyer, 2003: 46).

If the capital comes from several sources and most of the capital have a market price, weighted average cost of capital (WACC) must be determined. The determination of WACC can use the book value or the market value. If it is determined at book value, the data sources are financial reporting data, whereas if it is determined using the market price, then the data sources are available market price data (Walsh, 2006: 277). Below is an illustration of the determination of the WACC.

Funds	(\$000s)	Book weights	After-tax costs	Weighted costs
Owners' funds	4,204	62%	12%	7.44%
Long-term loans	1,000	15%	7%	1.05%
Short-term loans	1,544	23%	5%	1.15%
	6,748	100%		9.64%

↑
 These costs are assumed for this example

↑
Weighted average cost of capital WACC

Figure 1. Illustration of The WACC Determination

(Source: Walsh, 2006: 277)

Based on the illustration above, it can be inferred that the manager creates value for shareholders when ROCE greater than 9.64%.

The measurement of company performance based on residual income accounting was developed by management consultant Stern Stewart & Co. and known as economic value added (EVA)®. The concept and measurement of EVA is similar but not identical to the residual income (Wahlen *et al.*, 2011: 298). Calculation of residual income is a "basic" EVA because without accounting adjustments (Epstein and Widener, 2010: 111).

The main difference between the accounting data based EVA and the residual income is that the determination of EVA needs adjustments to the value of capital

and profit accounting, because that accounting earnings do not reflect the economic value (ACCA, 2011: 1). Three major financial statements adjustments made in EVA method are converting accrual to cash accounting, correcting "too tight" (strict) financial reporting standards which reduces the desire managers make long term investments, and correcting nonroutine transactions (ACCA, 2011: 1; Holler, 2010: 3; Asaf, 2004: 45). To produce EVA, there are 164 adjustments or corrections of financial reporting data (Holler, 2010: 3; CIMA, 2002: 8).

Weaknesses of using EVA as a measurement of performance-based value (value-based metrics) is its subjectivity, its much effort, time and expense, and its certain difficulty level in the application (Asaf, 2004: 45; CIMA, 2002: 8), therefore, values based performance measurement such as EVA is normally used to supplement the accounting-based performance measurement, not as a replacement. "It is for this reason that the value-based performance measures such as EVA ... usually supplement, rather than replace, more traditional accounting-based performance measures" (CIMA, 2002: 8).

Likewise Maditinos (2006: 11-12) argues that Dodd and Chen (1996 and 1997) research results, suggest "... if a company wants to adopt the philosophy of EVA® as a corporate performance measure, it might want to consider using RI instead ... RI provided almost identical results to EVA®, without the need of accounting adjustments advocated by Stern Stewart & Co".

The Perspective of Balanced Scorecard Approach Performance Measurement

According to Kaplan (2010: 2) and Harrison and Wicks (2013: 109), from the perspective of value creation (value creation), measuring instruments of financial performance does not provide the specific and measurable basis of what manager to do to increase the total value in the short or medium term. Limitations of financial performance measurement leads managers to think less about integration efforts increase value creation through the role of stakeholders (suboptimal condition).

Harrison and Wicks (2013: 109) and Asaf (2004: 321) state that the critical challenge for companies is to maintain the balance of the performance of short, medium and long term. Performance measurement model that provides "balance" perspective, both from the financial and operational aspects, is the Balanced Scorecard.

Balanced Scorecard (BSC) was introduced firstly in an article of Business Review Harvard in 1992, and until 2007 it has been adopted by thousands of companies, whether private, public companies, and non-profit entities worldwide. BSC is used to motivate, measure, and evaluate the companies' financial and non-financial performance (Kaplan, 2010: 2-4) and also used as a tool to articulate, execute, and monitor the company's strategy (CIMA, 2002: 8).

BSC consists of four perspectives, namely financial perspective, customers perspective, internal business processes perspective, and learning and growth perspective (CIMA, 2002: 8; Kaplan and Norton, 2006: 6 -7). Each BSC perspectives are intertwined in a chain of causal relationship, *e.g.*, training programs to upgrade the skills of employees (learning and growth perspective) is associated with the process of improving services to customers (internal processes) that brings on customer satisfaction and loyalty (customer), and ultimately results in increased revenue and profit (finance) (Kaplan and Norton 2006: 6-7).

Thus, although it involves a non-financial dimensions, BSC still in the conception of the theory of value creation from the perspective of shareholders theory. Kaplan and Norton (1992) states that "... the primary dependent variable is still financial returns" (Harrison and Wicks, 2013: 110).

The Perspective of Triple Bottom Line

Hill and Jones (2012: 28) argues "An important part of the strategy making process is ensuring that the company maintains the support of the key constituencies - or stakeholders - upon the which it depends for its functioning and ultimate survival". Epstein and Widener (2010: 12) argues sustainability of companies such as Nike, Procter & Gamble, The Home Depot, and Nissan mainly because they incorporate social and environmental considerations in every strategic decision makings. Freeman (1984: vi, 31-32) argued that the initial concept of stakeholders is " those groups without whose support the organization would cease to exist", includes shareholders, employees, customers, suppliers, lenders and society.

The term "stakeholder" was used firstly by Stanford Research Institute (now called as SRI International, Inc.) in 1963 (Freeman, 1984: 31). However Elkington (1997: 167) states that stakeholders include "emerging stakeholders" such as consumers, trade associations and coalitions, professional and academic organization, community and environmental groups, also include "surrogate stakeholders" such as the planet's biosphere, the world population, and future generations.

Triple Bottom Line (TBL) is the idea of Elkington (1997) that advocated assessment of corporate performance from the perspective of economic, social, and environmental value added. According to Elkington (1997: 4), companies can no longer use the "competitive reasons" not to apply the triple bottom line.

The rationale of Elkington (1997) is a reflection of concern about the social and environmental problems such as cannibalism among companies (merge or de-merge), global warming, ozone depletion, damage to marine areas of fisheries, infant and maternal mortality. UN's Global Environmental Outlook (1996) states

that the environmental conditions are already at the stage of “emergency” (Elkington, 1997: 20). While the national survey on the quality of life in Norway found that the perception of life quality between the years 1960-1970 increased, but then decreased since 1970. Similarly, in the United Kingdom found that the perception of life quality dropped dramatically from 1975 to 1990. The New Economics Foundation (NEF) argues that: “... Despite a 230% increase in GNP over the period and a near-doubling in consumer spending, the costs of commuting, pollution, policing, and cumulative environmental damage all rose significantly ... Increasingly, companies will need to use such measures to assess their net contributions to society’s real wealth (Elkington, 1997: 93).

Elkington (1997: 92-93) recognizes that in many respects, the concept of TBL is still “black boxes”. One step ahead to achieve TBL is the sustainability reporting. Ernst & Young (2014) emphasized that the measurement of value creation on the impact of social and environmental capital investment becomes a challenge for the organization because of five reasons: (1) a lot of technique, but there is no consensus over them; (2) there is no global standard guidelines for measuring the value of money “monetized”, so that the consistency and comparability is still very weak, (3) measurement involves many assumptions, (4) there is no standard of value and what should be disclosed; (5) it is too lengthy and detailed disclosure of risk to investors’ understanding.

Creating Shared Value

Besides TBL Elkington (1997), lately Porter and Kramer (2011) proposed the concept of “shared value” as an approach to performance measurement. TBL approach and shared value, both are still in the label corporate social responsibility (CSR) (Harrison and Wicks, 2013: 110).

The concept of shared value was introduced firstly by Porter and Kramer (2006 and 2011) in articles of the Harvard Business Review (Moore, 2014: 3). Shared value is the company’s policy and practical to enhance competitive advantage and advance the economic and social conditions simultaneously in the communities where the company conducts sales and operations (Porter and Kramer, 2011; Porter, 2011: 6; Moore, 2014: 3).

Porter stated that shared value happens when companies integrate social issues and face challenges to create economic value. In practical terms, though the company continues to implement a strategy of value creation for shareholders, the chorus also involves community (Peppercorn, 2014: 1).

Porter and Kramer asserted that shared value is not philanthropy nor CSR. Shared value is not distributing the existing value, which is the core philanthropic

activities, but it is the creation of new value for shareholders and communities (Peppercorn, 2014: 2).

Shared value is not separate from the company's strategy, and is focused on building a reputation, such as CSR (Peppercorn, 2014: 2-3; Moore, 2014: 3). The creating shared value/CSV is integrated with efforts to create profitability and competitive position of companies (Moore, 2014: 3). The difference between CSR and CSV explained by Porter and Kramer (2011) as follows:

Table 2
The difference between CSR and CSV

<i>Corporate Social Responsibility</i>	<i>Creating Shared Value</i>
▪ Values: doing good	→ Value: economic and societal benefits relative to cost
▪ Citizenship, philanthropy, sustainability	→ Joint company and community value creation
▪ Discretionary or in response to external pressure	→ Integral to competing
▪ Separate from profit maximization	→ Integral to profit maximization
▪ Agenda is determined by external reporting and personal preferences	→ Agenda is company specific and internally generated
▪ Impact limited by corporate <i>footprint</i> and CSR <i>budget</i>	→ Realigns the entire company budget

(Source: Porter and Kramer, 2011)

Application Procedure CSV

CSV can be applied by the company in three levels. The first level is reconceiving products and markets. The second level is redefining productivity in the value chain. The third level is building supportive industry clusters at the company's locations (Porter and Kramer, 2011; Biswas *et al.*, 2014: v).

The first level of CSV application, "reconceiving products and markets", includes the redesign of products and services to meet the "gap" or unmet social needs. The fulfillment of social needs is essentially an opportunity for differentiation, innovation, and growth of products, services, distribution, and new market (Porter, 2011: 12). On the second level of CSV application, "Redefining productivity in the value chain", the company redefining productivity in the value chain, *e.g.*, Nestle is providing advice about farming practices, making itself as the bank guarantor, providing quality laboratory and becoming a crops buffer. India Univelor provides micro-credit training, so it creates communities of 45,000 entrepreneurs covering 100,000 villages in 15 states of India (Porter and Kramer, 2011). At the third level of CSV application, "building supportive industry clusters

at the company's locations", the company is building a support group/community around an industrial site, e.g., "Coca-Cola's Coletivo initiative in Brazil creates shared value by increasing the employability of low income youth while strengthening the company's retail distribution channels and brand strength to increase of local product sales" (Porter and Kramer, 2011).

After implementation, the next important thing to do is measuring. CSV measurements according to Porter *et al.*, (2011: 2-4) has four steps as follows.

1. Step 1: "Identify the social issues to target" is systematically screening disparities and social needs that have not been resolved, and to analyze compliance with the three levels of CSV. The result is a prioritized list of social issues to be targeted strategies shared value.
2. Step 2: "Make the business case" is developing a solid business case based on the analysis and research of social improvements directly related to business performance improvement. This step includes an identification of the activity of the target, details of activities, and as well as the costs that may arise because of the possibility of shared value. Then the model that connects business potential, social costs relative to the cost is made (this modeling step called potential value creation step). The end result of this step is the decision-making, whether this model of value creation will be executed or not.
3. Step 3: "Track progress" is using a business case as a roadmap. Based on the case and roadmap, the desirable progress target and accompanied suggestions for performance improvement processes are tracked. This step also includes tracking the activity of input, process and output of business, as well as financial performance (especially income and costs) compared with the projections that have been targeted.
4. Step 4: "Measure results and use insights to unlock new value" is focusing on the validation of the impact of social relationships on the business, and determine whether the expenditure or allocation overall economic resources of companies generate good returns, both for companies and social environment.

Based on these four steps, ranging from target identification, models creation, progress monitoring, till results measurement, the understanding and learning are obtained, and the analysis results will disclose information and recommendations about opportunities for the creation of further value by improving the strategy and execution of shared value.

Further consideration is that measuring the success of the implementation of CSV is a repetitive process that can not be done only in one period, nor separate

from the measurement of business performance (Porter *et al.*, 2011: 2). The concept of shared value measurement is ultimately expected to isolate business strategy formula that triggers social impact, or vice versa. This new value creation process is expected to help create a new form of dialogue between companies and investors (Porter *et al.*, 2011: 18) and also more broadly other stakeholders.

The illustration of relationship model between the level of CSV, business performance and social impact that is suggested by Porter and Kreamer (2011: 4) as follows:

Table 3
Illustration of The Relationship Model

<i>Levels of Shared Value</i>	<i>Business Results</i>	<i>Social Results</i>
Reconceiving product and markets: How targeting unmet needs drives incremental revenue and profit	- Increased revenue - Increased market share - Increased market growth - Improved profitability	- Improved patient care - Reduced carbon footprint - Improved nutrition - Improved education
Eedefining productivity in the value chain: How better management of internal operations increases productivity and reduces risks	- Improved productivity - Reduced logistical and operating costs - Secured supply - Improved quality - Improved profitability	- Reduced energy use - Reduced water use - Reduced raw materials - Improved job skills - Improved employee incomes
Enabling cluster development: How changing societal conditions outside the company unleashes new growth and productivity gains	- Reduced costs - Secured supply - Improved distribution infrastructure - Improved workforce access - Improved profitability	- Improved education - Increased job creation - Improved health - Improved incomes

Source: Porter and Kreamer, 2011: 4

Nevertheless, there are some barriers in CSV implementation. The first barrier that could potentially be encountered in the implementation of the CSV strategy is the outcome of the value creation of social activity have no direct impact on the financial performance of the company in short term. Moreover, the results of previous studies indicate that the average length of a CEO served is only three years, which is very short-term oriented. It is not surprising that average CEO is a "short-termism". Second barrier, the independent board or BOD's "risk-averse" atitudemakes them discount the probability of CSV success. This can be overcome by presenting the professional, experienced, and objective expertise, *e.g.*, from a reputable non-profit organizations that understands the long-term benefits of CSV. It is very good for the company, that the overlapping CEO and member of the board of commissioners understands the social issues. Third barrier, measuring

and reporting social activities are generally perceived “less transparent” due to the difficulty in observing them (unobserved) compared to financial performance measurement. To overcome this, the company must conduct a strategy of combining the measurement technique has been applied by other success company as the reference of “best learning” model in the relationship between the achievement of social performance and financial performance (Peppercorn, 2014).

CONCLUSION

Based on the description above, it can be concluded that the performance measurement is an essential measurement of value creation. The value creation measurement from a financial perspective emphasizes the relationship between economic profit with residual income. The shared value measurement focuses on the benefits received by social environment both the financial and non financial performance, such measurement model approach suggested by Porter and Kramer (2011), which integrates social and environmental issues with business performance.

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