

Portrait of Performance Measurements: A Case Study in Micro Organization

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Abstract

Introduction/Main Objectives: This study elaborates on the use of a comprehensive performance measurement mechanism by considering the financial and non-financial aspects of micro-organizations. **Background Problems:** The performance measurement mechanism is one of the main factors that can promote goal congruence. However, not all performance measurement mechanisms can promote long-term organizational goals. It's because the orientation is only limited to a financial perspective. The use of non-financial performance measurement is considered quite complex so it cannot be used at all levels of the organization, especially in the micro-organizations. **Novelty:** Most of the research examines from the side of the middle and upper-middle-class organization level, both in the field of commercial and non-commercial studies. There is still limited research that considers the level of micro-scale organizations. **Research Methods:** This research uses a qualitative method with a case study approach. **Finding/Results:** The results showed that the balanced scorecard (BSC) is a performance measurement mechanism that is not easy to use in micro-level organizations. Efforts to design performance measures require several adjustments to achieve optimal performance measures. **Conclusion:** The implementation of a balanced scorecard in micro-enterprises is possible. However, limited resources in micro-enterprises are a determining factor in the ability to read potential and threats to form a scorecard. Determination of measurement weights needs to be studied in depth according to the conditions of each business.

Keywords: Balanced Scorecard, Goal Congruence, Micro Organization, Optimal, Performance Measure,

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1. Introduction

Performance and performance measurement are crucial factors to support the achievement of organizational goals (Kusufi et al., 2020). Organizations should no longer measure performance

based on traditional measurements that only refer to the financial perspective (Wisnubroto et al., 2008). Moreover, the role of non-financial performance measurement cannot be ignored (Anthony & Govindarajan, 2014). This is because non-financial aspects can be a driving factor for analyzing competitive advantage. Therefore, several organizations have begun to pay attention to the balanced scorecard method.

A balanced scorecard is a tool for assessing performance whose concept is a balance between a financial perspective and a non-financial perspective with a future orientation. The application of the balanced scorecard may help management to measure the success of the business unit in carrying out value creation activities at present by always paying attention to the interests of the next period. Moreover, the weak performance measurement that focuses only on the financial aspect is also considered less able to explain the company's condition comprehensively under internal needs (Kaplan & Norton, 1996). Thus, a balanced scorecard is needed between financial and non-financial aspects in measuring company performance.

Christiana (2013) explains that the implementation of comprehensive and adequate performance measures can help management measure the extent to which the strategy has been achieved. Moreover, a comprehensive performance appraisal is also required to establish alignment of goals between the company as an organization and its employees at the individual level (Anthony & Govindarajan, 2014). Kaplan & Norton (1996) explained that the balanced scorecard is a fairly comprehensive performance measurement mechanism that can be used in all business sectors.

The development of research that has studied has explored the use of balanced scorecards in the scope of commercial companies ranging from the banking and non-banking sectors such as Wisnubroto et al (2008), Christiana (2013), Son (2005), Devani et al (2015), Fitria & Ardiansyah (2019), Sipayung (2009), Nurjaman (2013), Pratikno & Rahardjo (2020), Husain et al (2021), Sari & Arwinda (2015), Surya et al (2018), Wardokhi (2020), Prasetyo (2018), Karyadi (2017), Saraswati, et al (2014). Other studies not only consider balanced scorecards in the commercial sector, but also non-commercial ones such as Trihastuti & Kristenningsih (2012) which examines the BSC perspective on the performance of Regional General Hospitals. Besides, Pramono (2013) examines the perspective of the balanced scorecard on educational entities.

Although several studies have examined the use of balanced scorecards at various levels of organizations and businesses. However, most of the research examines from the side of the middle and upper-middle-class organization level, both in the field of commercial and non-commercial studies. There is still limited research that considers the level of micro-scale organizations. Thus, this study attempts to complete the gap from previous research by examining the balanced scorecard-based performance measurement mechanism at the micro-enterprise level.

This research uses a qualitative method with a case study approach. The conditions in the field are presented, interpreted, and analyzed based on the basic concepts of a balanced scorecard. The research findings show that the adoption of a balanced scorecard can be effective in micro-enterprises. However, it should be noted that there are challenges in forming optimal performance measurements, namely performance that is difficult but possible to achieve. One of the keys to the success of using the balanced scorecard in micro-enterprises lies in the suitability of optimal performance measurement that is well conveyed at all levels of employees. This research contributes to three main strands. First, theoretically, this research answers the implementation of balanced

scorecard-based performance measurement in micro-organizations. Second, this research complements the previous research gap which is still limited to reviewing the implementation of balanced scorecards in micro-organizations. Third, practically this research can be used for management, especially for the same level of organization in implementing a balanced scorecard as a basis for measuring performance.

Specifically, the writing of this article starts from the introduction and continues with a literature review, research methods, and discussion until the end, namely the conclusion.

2. Literature Review

A balanced scorecard should encourage business units to link their financial goals to corporate strategy. The financial perspective serves as a focus for goals and measures from other perspectives. Each measure chosen must be part of a cause-and-effect relationship that leads to an increase in financial performance (Kaplan & Norton, 1996). The balanced scorecard clearly describes strategy, starting with long-term financial goals and then linking them to a sequence of actions to be taken with financial, customer, internal, and employee processes and systems to deliver the desired long-term economic performance (Kaplan & Norton, 1996). In general, companies increasing income, increasing costs and productivity, improving asset utilization, and reducing risk can provide the necessary link to the four scorecard perspectives. Financial perspective and measures should play the dual role of determining the expected financial performance of the strategy, and function as the primary target for goals and measures from all other scorecard perspectives (Kaplan & Norton, 1996). There are four balanced scorecard perspectives, namely financial perspective, customer perspective, internal business process perspective, and learning and growth perspective.

First, the financial perspective considers three stages of the business life cycle with different targets and thus emphasizes different measures (Kaplan & Norton, 1996). The three stages of the cycle are, first growth is the initial stage of the company's life cycle. Second, sustainability, most companies are at this stage make investments and reinvestments that are expected to generate a fairly high return on capital. Third, harvest, the company reaches maturity in its life cycle, where the company harvests the results of the investment made in the previous stages. Three financial themes drive business strategy, namely event growth and mix, cost reduction or productivity increase, asset utilization, or investment strategy (Kaplan and Norton, 1996).

Second, the customer perspective enables the company to align the core results of measuring satisfaction, loyalty, retention, added value, and profitability with target customers and market segments (Kaplan & Norton, 1996). The customer perspective also enables companies to identify and measure explicitly the value proposition of target customers and market segments. Thus, the customer perspective in the balanced scorecard translates the organization's mission and strategy into specific goals about target customers and market segments that can be communicated throughout the organization. (Kaplan & Norton, 1996).

Third, the internal business process perspective is an important part of identifying the most important processes to achieve goals for all internal and external parties including customers (Kaplan & Norton, 1996). The internal business process perspective illustrates one of the sharpest differences between the balanced scorecard and traditional performance measurement systems (Kaplan & Norton, 1996). Traditional performance measurement systems focus on controlling and

improving responsibility centers and departments (Kaplan & Norton, 1996).

Fourth, the learning and growth perspective provides the infrastructure to achieve the three perspective goals. Goals in the learning and growth perspective are the drivers for achieving excellent results in the first three scorecard perspectives (Kaplan & Norton, 1996). A balanced Scorecard not only emphasize investment in new equipment or research and development of new products but the organization must invest in the company's infrastructure consisting of people, systems, and procedure. In other words, the objectives of the learning and growth perspective provide the infrastructure (workers, systems, and procedures) as the drivers that enable the goals and performance that are outstanding in the previous three perspectives to be achieved. (Kaplan and Norton, 1996).

3. Method, Data and Analysis

This study uses a qualitative method with a case study approach. Creswell (2014) explains that the case study approach is a research strategy to investigate a program, activity, process, or group of individuals. In this research, complete information collection using data collection procedures under the specified time. The use of a case study approach in this research aims to obtain in-depth information about the potential for the implementation of the balanced scorecard as a basis for measuring performance in micro-enterprises.

This research site is one of the micro-enterprises engaged in manufacturing that produces traditional packaged drinks. In this research, it is called a micro-enterprise "X"¹. The informants in this study were the owners and employees of the X micro-enterprise. The criteria for informants in this study include business owners because they are directly related to the supervision of the production process, providing compensation, and measuring sales performance and employee performance. In addition, employees act as informants because they are directly related to the main business activities and are the main objects in the performance evaluation process.

Interviews in this study were conducted with the owners and employees in an unstructured manner. The use of unstructured interviews was carried out to obtain more in-depth information about the conditions at the research site. The procedure for collecting data in this study is under what Creswell (2014) conveyed, including observations, interviews, and documentation. First, observations are made by observing directly in the field to capture the phenomenon to be studied. Second, the interview was conducted by giving initial questions and then conducted in an unstructured manner. Third, Documentation is done by collecting qualitative documents which are complementary to the use of observation and interview methods in qualitative research, which can be in the form of writing, pictures, and so on.

Creswell (2014) explains that in qualitative research, data collection and analysis must take place simultaneously or simultaneously. Furthermore, Creswell (2014) explains that data analysis is an ongoing process throughout the research. Therefore, there are several data analysis efforts carried out in this study, namely data collection based on certain categories, data interpretation processes, data pattern formation, and data alignment from several sources then performs an analysis.

4. Result and Discussion

¹ As agreed with the research site, the name of the business has been changed.

The success of the company can be determined by how it is used to manage intellectual assets in a company. Everything related to operational activities must be integrated into customer-oriented business processes. This can be done by implementing a balanced scorecard. As Kaplan & Norton (1996) explained that the balanced scorecard requires business people to think creatively and innovatively. BSC is a performance measurement method that measures company performance from four perspectives which include financial perspective, customer perspective, internal business process perspective, and learning and growth perspective (Kaplan & Norton, 1996).

In previous studies, it was explained that the application of the balanced scorecard method in the company resulted in a significant-good impact on the company (Christiana, (2013); Devani et al (2015); Fitria & Ardiansyah (2019), Pratikno & Rahardjo (2020); Husain et al (2021); Sari & Arwinda (2015); Surya et al (2018); Wardokhi (2020); Prasetyo (2018); Karyadi (2017). In addition, the biggest reason many companies apply the balanced scorecard method to measure their company's performance is that this method has a very large effect on human behaviour inside and outside the organization. Kaplan & Norton (1992) explained that performance measurement on financial measures was not sufficient to answer the company's needs (Kaplan & Norton, 1992).

The balanced scorecard method is a company performance measurement using four perspectives which include a financial perspective, a customer perspective, an internal business process perspective, and a learning and growth perspective. Based on the results of the author's analysis through the interview process and direct observation of micro-enterprises, X has not yet measured the company's performance using the balanced scorecard method. However, if assessed from a financial perspective, micro-enterprise X has increased. This is based on the owner's statement that the company has returned its capital in the 3rd month after the business was started. However, if it is examined more deeply, even though from a financial perspective it has always been increasing, if the company still does not carry out an analysis from another perspective, the potential threat of a decline can occur. This is because the rapid development of information can make an increase in revenue does not mean an increase in business. After all, the analysis of changes in costs, customer satisfaction, and loyalty cannot be ignored.

Furthermore, the second perspective is the customer perspective. Based on the results of the author's analysis through the interview process and direct observation of micro-enterprises, X has not yet measured the company's performance using the balanced scorecard. However, if judged from the customer's perspective, which is based on the benchmark of customer impressions and messages that have been accommodated by business owners, it turns out that most of them feel "Unsatisfied" with the services provided by the company. That at this time, the owner also said that the company was thinking about the right strategy to increase customer loyalty. If analyzed more deeply, when the results of the company's performance measurement based on the customer's perspective on micro-enterprises X has not yet measured the company's performance using the balanced scorecard, it is considered less good. This is because basically, they use a lot of conventional methods that only focus on short-term profits. Therefore, they set aside other perspectives that will affect business continuity in the future.

The next perspective is the perspective of internal business processes on micro-business X, based on the results of the author's analysis through the interview process and direct observation of micro-business X. which is still a traditional orientation. Based on the results of the interview with

the owner, it turns out that the company rarely makes breakthroughs, even though there are lots of competitors out there who threaten the sustainability of the business in the future. For this reason, if the balanced scorecard is applied to Micro X SMEs, certainly, X Microenterprises will always think of innovations as breakthroughs that will make the company superior to competitors, and this will automatically be a guarantee of sustainability. company for the future.

Learning and growth perspective, based on the results of the analysis of the interview process and direct observation of micro-enterprises X, if assessed from the perspective of learning and growth if it is based on the benchmark of the amount of training provided by the company for employees based on interviews with the owner, said the company so far has never provided training to employees to develop the abilities of their employees. This has an impact on the services provided by employees to customers to be less than optimal, besides that employees are also unable to provide creative innovations that can improve the company's performance in the future.

The implementation of a balanced scorecard for micro-enterprises is not easy. The results of observations made show that efforts to harmonize all performance measurements are complex things. The limited resources available for micro-enterprises make their analytical capabilities limited. Analytical ability is the main key in making a scorecard that is under business conditions. The limited understanding of the concept of customer loyalty in micro-organizations is the reason that the potential threat to future earnings declines cannot be ignored. Moreover, the limitations of efforts to innovate due to a short-term profit orientation make innovation efforts unable to run optimally.

4 Conclusion and Suggestion

The implementation of a balanced scorecard in micro-enterprises is possible. However, limited resources in micro-enterprises are a determining factor in the ability to read potential and threats to form a scorecard. X microenterprises are only oriented to traditional performance measures. However, the use of a balanced scorecard is still possible to use with existing limitations. Determination of measurement weights needs to be studied in depth according to the conditions of each business. This research has limitations including the focus of the study on micro-enterprises that are only engaged in manufacturing. This is because the manufacturing industry has the most complex scheme so it is possible to represent other industries. Meanwhile, other types of businesses have different characteristics and uniqueness so they may have different potentials. Future research may consider using the business in other fields that have the potential to have different uniqueness.

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