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Micro, Small And Medium Enterprises Performance Indicators – Possible Application In The 5.0 Society

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ABSTRACT

Small, and Medium Enterprises (MSMEs) have an important role for economic development, especially in providing employment and income distribution, but their real contribution is still considered low due to inconsistencies in their performance indicators. This study is intended to explore subjective and objective performance indicators applied by both external and internal SME stakeholders. Data were collected using a comprehensive literature review. The results reveal that financial performance such as return on investment and return on assets exist as the main indicators for objective performance while creating jobs, a better life and wealth for families for subjective performance indicators. Further suggestions and avenues for future research in society 5.0 are discussed.

Keywords: 5.0 Society, msmes, objective performance, subjective performance

1. INTRODUCTION

Society 5.0 is a new social concept that is characterized by the use of technology in supporting human life and at the same time being centered on humans themselves (Harayama, 2017; Fukuyama, 2018; Žižek, Mulej, & Potocnik, 2021). In such a knowledge-intensive society, technology plays an important role in building an information integration architecture—an architecture that allows data to be easily collected, synthesized, and then integrated with information in highly heterogeneous fields (Pereira & Serpa, 2018; Pereira et al, 2020; Zengin, et al, 2021). Technology facilitates the process of creation, development and sharing of knowledge to achieve harmony with all that is achieved through scientifically proven methods that have proven results, and innovation (Carayannis, Draper & Bhaneja, 2020).

Micro, Small and Medium Enterprises (MSMEs) have an important role in the economy (Eliasson, Hansson & Lindvert, 2012; Añón-Higón. 2015; Cucculelli, & Bettinelli, 2015; Ebrahimi & Mirbargkar, 2017; Baneline, 2021). The existence of SMEs in Indonesia is very important and is considered by the government because SMEs are able to accommodate a large number of workers and are a source of income for people from the lower middle economic class.

The productivity of SMEs in an area will certainly have implications for the availability of jobs and of course will reduce the number of existing unemployed. SMEs are businesses that are able to survive shocks, as evidenced by the time of the economic crisis where many large-scale businesses were destroyed, but SMEs were able to survive and could even be said to be a savior belt from the impact of the crisis. In society 5.0, Small and Medium Enterprises become even

more important. Small and medium enterprises will become the center of community business activities.

However, to survive, each SME unit is required to have the ability to adapt, agility, mobility, and react quickly and accurately to environmental changes. Adaptability is a key word in the life of society 5.0, which requires the fact that mutation, change and evolution are constant things that can be observed every day, which is also reflected by infrastructure, knowledge and skills. Adaptability, agility and reactivity are critical and require the implementation of industry 4.0, using additive techniques that use less resources for production.

Efforts to understand the contribution of SMEs to society, the performance indicators of SMEs in the community situation becomes very important. In general, performance can be divided into two main groups, namely objective performance and subjective performance. Objective performance in the form of financial performance such as the rate of return on investment is relatively easy to measure. However, subjective performance measures are still relatively difficult to do and rarely used.

To the best of our knowledge, no studies have been conducted to comprehensively identify subjective and objective performance indicators. Performance Measurement Systems in Small and Medium Enterprises (SMEs) is still an area where little research has been done (Máñez-Castillejo et al. 2010; Eliasson, Hansson, and Lindvert 2012; Cucculelli and Bettinelli, 2015; Mason, et., 2015; Banelienė, 2021; Beisland, et al., 2021). Until now, empirical and theoretical studies in performance measurement in SMEs have not been very well known, which can be noted in the lack of publications when comparing the two individual topics alone (Garengo et al., 2005). This study aims to identify the indicators used by the company today and the possibility of their application in society 5.0.

2. THEORETICAL BASIS

2.1. Performance Measure

Objective measures (eg productivity) are based on more verifiable facts. However, the results of previous studies have found that the power of objective information measures does not fully measure organizational performance in a broad perspective. Semrau, Ambos and Kraus (2016) suggest that it is difficult to capture all the relevant dimensions that must be covered by objective measures. Typically, company performance can be measured by Return on Assets (ROA), Return on Equity (ROAE) and Return on Investment (ROI) when archived data is available (Terzioski, 2010). In addition, Tavassoli and Karlsson (2016). defines firm performance as the ability of an entity/business/company to produce results within a predetermined dimension in relation to a target. To avoid misguided management, organizations should focus on selecting performance indicators that are mostly related to their strategy.

Another thing that managers should keep in mind during indicator selection is that they should relate these selected indicators to their vision, mission and business objectives (Walker, Chen, and Aravind, 2015). This will produce strategic performance indicators that support senior management in pointing towards the desired strategic direction (. Therefore, the indicators are very dynamic, and the selection of important profitable performance indicators is related to the concept of “critical success factors”. To be successful, every organization must define performance indicators and performance measures that are strategically relevant to the situation (Heckl and Moormann 2010). Subjective performance measures (eg customer satisfaction) are based on opinions or perceptions, which cannot be assessed or audited by an independent party but are collected through surveys and interviews (Singh et al., 2016). According to Gibbs et al. (2004), subjective measures can be used to reduce bias and reduce risk. Their results indicate that the subjective measure positively affects managers' satisfaction with the pay scheme. Du et al. (2017) provide evidence that replacing old performance measures with new ones introduces

subjective adjustments in the decision-making process. Moreover, subjective measures are useful in aligning individual goals with those of the firm (Hayes et al., 2005).

2.2. Existing performance measures

2.2.1. Financial performance

Financial measures have historically been the best measures to evaluate a company's performance, such as the physical value of sales and profits or the percentage return on equity and assets. External shareholders are very concerned about this kind of performance and they pressure companies to use financial measures for internal performance measurement (White 1996).

Cost of goods sold/sales, residual cost as % of total sales life, Accounts Receivable Turnover, cash flow, inventory level, accounts receivable, net profit, sales, number of profitable customers, return on equity, sales per product, sales growth rate, return on assets and return on capital is used as a financial measure of organizational performance.

2.2.2. Cost

External stakeholders are more concerned with cost-based performance measures, so that's why organizations use a cost accounting system that includes efficiency and effectiveness measures, an attempt to link internal performance measures with external ones (White 1996). Neely and Platts (2005) have identified production costs, value added costs, selling prices, operating costs and service costs as measures of performance costs. White (1996) has identified relative costs to competitors, perceived relative costs of performance, production costs, capital productivity, labor productivity, machine productivity, total factor productivity, total product cost as a function of lead time, direct labor costs, labor costs indirect, percentage increase in labor, relative labor costs, labor productivity, labor efficiency, material costs, inventory costs, scrap costs, repair costs, quality costs, design costs, relative R&D costs, distribution costs, overheads and transactions per product as a related measure of cost strategy.

De Toni and Tonchia (2001) have identified material costs, labor costs, machine energy costs, machine material consumption costs, inventory costs, machine saturation, total productivity, working capital productivity, value added productivity and value added productivity/employee costs as measures of organizational performance costs.

2.2.3. Quality

Quality is the key to the success of any organization. Customers demand quality products and organizations that are able to produce quality products at lower costs win the competition. Quality is determined mainly at three levels of input, output and throughput or process quality. Most organizations focus on quality because they have made promises to their customers about the quality of their services and products (Heckl and Moormann 2010; Badri et al. 1994).

Bianchini, Pellegrino, and Tamagni, (2018) hve discussed eight dimensions of quality, namely: features, reliability, suitability, durability, serviceability, aesthetics, and perceived quality. Among these dimensions, conformity has empirical evidence with quality. Gosselin (2005) has discussed customer satisfaction, input quality, output quality, cost quality and number of customer complaints as quality measures.

Yang (2016) discusses machine reliability, rework, quality system costs, customer satisfaction, returns, input and output quality, product reliability, and machine reliability as quality. According to Neely and Platts (2005) performance, features, reliability, suitability, technical durability, serviceability, aesthetics, perceived quality, humanity, and value are measures of quality.

2.2.4. Flexibility

Flexibility is defined as the organization's ability to perform multiple tasks at a given level of resources such as, manpower, machines etc. (Love & Roper, 2015). Ciriaci, Moncada-Paternó-Castello, and Voigt, (2016) have discussed that material quality, output quality, new product, modified product, deliverability, volume mix and resource mix are the most valid measures of flexibility. Spithoven, Vanhaverbeje, Roijakkers, (2013) have identified volume flexibility, mix flexibility, product modification flexibility, process modification flexibility and expansion flexibility as measures of performance flexibility.

Sahut and Peris-Ortiz (2014) have identified perceived flexibility, flexibility relative to competitors, process flexibility relative to competitors, perceived relative product flexibility, factory response time to product mix changes, product cycle time, set-up time, time to change tools, change tools, assembling or moving equipment, percentage increase in the average number of setups per day, perceived relative volume flexibility, ability to multitask efficiently, percentage of programmable equipment, percentage of slack time for equipment, labor, percentage of products using the system pull, breakdowns caused by breakdowns and vendor lead times as measures related to the flexibility performance strategy of a manufacturing organization.

2.2.5. Time

Time is a very important determinant of SMEs performance. De Toni and Tonchia (2001) have identified manufacturing lead time, delivery lead time, maturity date performance, delivery frequency and production recognition rate as measures of time performance in their article. Chavez-Avila and Gallego-Bono (2020), have identified time to market, distribution lead time, delivery reliability (to clients), supply lead time, supplier delivery reliability, production lead time, standard operating time, actual operating time, lead time, setup time, lead time moving, inventory turnover, order execution time and average (flexibility) as a measure of time indicators.

Expósito and Sanchis-Llopis, (2019) have used lead time, cycle time, time from customer's recognition of the need for delivery, order processing time, response time, percentage on time for rush work, document processing time, material lead time, mileage, cycle time decisions. , time lost waiting for a decision, percentage of first competitors to market, break-even point time, time from idea to market, average time between innovations, number of changes in the project and engineering time as a strategic measure of time. Foreman-Peck, (2013) has named the time indicator as speed in his research.

2.2.4. Security

In recent years there has been an awareness that the reliability of complex work systems in safely achieving organizational goals depends on the structure of the work as well as the technical arrangements (Fernandes & Paunov, 2015). Parmenter (2009) has identified in his book that the level of perception of risk and safety, the rate of accidents, the level of employee cooperation, the safety attitude of managers and employees, the level of physical risk of employees in the workplace and the level of safety information as the main measure of safety. In the UK, the main safety measures of performance are time lost to accidents, and accident rate (Flin and O'connor 2000; Mearns et al. 2003).

2.2.5. Employee satisfaction

Employee satisfaction is the key to success for any organization. If employees are satisfied then there will be satisfied customers and overall organizational performance will increase (Giang, 2022). Goedhuys and Veugelers, (2012) view that analysis of absenteeism, % of staff age working flexible hours, turnover rate, new recruits who are employee references, employee satisfaction per survey, effectiveness of complaint resolution, empowerment index and remaining staff tenure are measures -steps to check employee satisfaction in any organization.

2.2.8. Learning and growth

Leaning and growth gives organizations a competitive advantage over their competitors. It occurs because learning organizations continue to train their employees with new technological advances (Nieto, & Santamaria, 2010). Olivari, (2016). mentions in his book that % age managers have IT literacy, %age employees have the necessary education, employees are dismissed because of this year's performance, employees are certified for skilled job functions or positions, investment for training, number of internal promotions, managers having performance management training, number of new staff, training time (days/year) and number of research papers produced are measures by which organizations can check their performance in terms of learning and growth.

The more organizations that tend to engage in innovation the more they develop new product development projects (Prajogo, McDermott, & McDermott, 2013).

2.2.9. Environment/social performance

Organizations owe something to the society in which they operate and the realization of this responsibility is actually a social responsibility or we call this corporate social responsibility. Socially responsible organizations do take steps for the well-being of the communities in which they operate (Ramdan et al., 2022).

Psychogios and Prouska, (2021) have mentioned in their book that discharges from production to the environment, waste and scrap generated, dollars donated to the community, percentage of local residents in the total workforce, number of media coverage events, number of photographs in newspapers, number of sponsorships undertaken by organization, number of environmental complaints received in a year, % of current project age that is environmentally friendly and environmental safety awards are tangible measures of environmental/social performance of manufacturing organizations.

2.2.10. Customer satisfaction

Higher customer satisfaction improves financial performance by increasing the loyalty of existing customers, reducing price elasticity, lowering marketing costs through word of mouth, reducing transaction costs, and improving organizational reputation (Rosenbusch, Brinckmann, & Bausch, 2011). Sok, O'Cass, and Miles, (2016) claim that out of stock, revenue earned from top customers in a week, number of complaints, customer loyalty index, lost customers, new customers, number of customer referrals, market share in terms of customers, on-time delivery, product quality, number of quality assurance services issued and the frequency of orders is a measure of customer satisfaction.

2.2.11. Delivery reliability

Saunila (2016) has proposed perceived relative reliability, relative reliability against competitors, percentage of on-time delivery, due date compliance, percentage increase in the portion of delivered promises fulfilled. Percentage of orders with wrong quantities, schedule accomplishment, average delay, percentage reduction in lead time per product line, percentage increase in output, percentage reduction in purchase lead time and percentage reduction in average service turnaround per warranty claim as a measure of delivery reliability. There is little difference between researchers on measures of delivery reliability.

In summary, there are many indicators available in the literature that can be applied to measure the performance of organizational processes. During the late twentieth century, most organizations focused more on efficiency, and less on effectiveness. Performance measurement serves to reduce costs rather than increase organizational profits related issues.

3. RESEARCH METHODS

This study is a literature study. A systematic review of the literature on diversity management was carried out by: searching using relevant keywords (Merriam and Grennier, 2021). Specific keywords such as company performance, SME performance, subjective performance and objective performance. To access relevant articles, the author mainly searches the relevant databases on Proquest, Sage Premium and Willey Online.

This paper provides a comprehensive review of quantitative, qualitative, and theoretical studies published in journals and selects articles that meet the desired criteria.

4. RESULT AND DISCUSSION

From the literature search, it was found that the indicators used to measure the performance of SMEs include aspects of cost, finance, quality, time, flexibility, delivery reliability, security, customer satisfaction, employee satisfaction, social responsibility and growth and development.

4.1. SME Performance Indicator Findings

Cost indicators are mainly related to the efficiency and effectiveness of the use of available resources. The cost factors include labor costs as a percentage of sales, costs relative to competitors, quality improvement costs, overhead costs, percentage of total production costs, service/warranty costs, scrap costs as a percentage of sales age, materials costs, distribution costs, value added costs. per unit, operating costs per unit Cost of Goods Sold/Sold. All of these cost indicators are relative to competitors

Financial performance indicators in the form of receivables turnover, optimal cash flow, optimal cash supply, smooth receivables collection, net profit, percentage of sales relative to competitors, number of profitable customers, return on equity, sales by product, sales growth rate, asset returns, and return of capital used

The performance indicators of SMEs in the quality group include product performance, product features, product reliability, machine reliability, output quality, input quality, conformity to customer requirements, technical durability / expected life, ease of service and quality perceived by customers

Performance measures in time groups include production cycle time, order processing time, response time required in customer service, service transfer time, waiting time, order completion time, entry time to market, and output time. Performance measures in this time group can be in comparison with competing companies, it can also be with certain benchmarks made by the company.

Performance measures of SMEs in the Flexibility performance group include product volume flexibility. material mix flexibility, product modification flexibility, expansion flexibility, ability to multitask, workforce flexibility, new product development, job classification, and lot size flexibility.

Delivery reliability, reliability relative to competitors, perceived delivery reliability, percentage of on-time deliveries, average delays, percentage of incorrect order times; percentage reduction in waiting time, percentage increase in age in output, percentage of on-time delivery and on-time delivery achievement schedule.

Security measures include the level of perceived risk and security, accident rate, level of employee cooperation, employee safety attitudes, level of physical risk in the workplace, level of security information.

Performance measures through customer satisfaction include customer loyalty index, product quality assurance, service quality, order frequency out of stock, number of customer

complaints lost, number of new customers, number of customer referrals, market share in terms of customers and on-time delivery.

Indicators of employee satisfaction include low absenteeism, the percentage of staff working age with flexible hours, low employee turnover, new employee recruitment references, employee satisfaction every time a survey, effectiveness of completion of the empowerment index and tenure of staff who have quit.

Social performance measures include the number of dollars donated to the community, the percentage of age of the local population in total employees, the number of media coverage events, the number of photos on Sponsor's paper carried out, the disposal of waste to the environment, waste and waste produced, the number of annual environmental complaints, the number of environmentally friendly projects and the number of environmental safety awards.

Measurement of learning and growth performance in the form of information technology literacy owned by employees, employees with the required education, certified employees for positions that require special skills, number of training hours attended, number of research papers produced, amount of investment for training, number of internal promotions Number of staff new and length of time in training (days/year).

5. CONCLUSION

Performance measures of SMEs Performance related to cover aspects of cost, finance, quality, time, flexibility, reliability of delivery, security, customer satisfaction, employee satisfaction, social responsibility and growth and development. Employee performance Labor diversity, freedom of association, child labour, turnover rate, absenteeism, compensation & benefits; performance/community involvement, skills transfer, technology transfer, complaints, community reinvestment, philanthropy, taxes.

An assessment of the literature on this topic recommends several directions in how business performance measures in small and medium-sized enterprises can be linked, coordinated and managed. The literature shows that subjective measurement is the best alternative to objective measurement in evaluating a company's business performance. It is very difficult for researchers to accurately estimate a company's business performance, mostly when using questionnaires sent by mail.

This is because the data will be subject to measurement error due to the confidential nature of the data and the variance in accounting procedures between participating companies. The use of objective performance appraisals can increase the likelihood of having hidden errors that researchers must avoid in order to obtain correct performance data. Existing literature indicates that subjective or perception-based performance appraisals are regularly and comprehensively used in the study of the social sciences.

This assessment is acceptable, because it shows a high positive correlation with the objective measure. However, the equivalence of assumptions between subjective and objective performance measures is debatable. This study proposes that future research should try to develop new measures and specific performance systems that can be assessed to accurately measure business performance.

The new measurement and system should also be focused on SMEs and the implementation of subjective measurements. Moreover, it is highly recommended that future research should develop new appropriateness frameworks and conduct empirical tests for business performance indicators. This study can significantly contribute to science by examining and expanding the taxonomy of SME performance, and in explaining further research involving business performance, especially for small and medium-sized enterprises.

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