



RESEARCH ARTICLE

Proposed Design of Knowledge-Based Performance Management System for SME Clothing Brand

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Abstract

CV. MD is a Bandung-based SME clothing brand founded in 2003, offering products such as T-shirts, pants, bags, shoes, caps, and accessories. With nine stores and numerous resellers across Indonesia, the company faces challenges like production delays, employee disengagement, and competition. This study proposes implementing a Knowledge-Based Performance Management System (KBPMS) to improve performance. The KBPMS framework is structured into five phases: (1) Foundation (2) Background Information; (3) Design Process; (4) Implementation Process; and (5) Refreshment. The focus of this study is on the design process. Twenty-one Key Performance Indicators (KPIs) were developed across three perspectives of KBPMS: business results, internal processes, and resource capabilities. The Analytic Hierarchy Process (AHP) was used to prioritize the KPIs importance. An implementation plan was also outlined for future use. Adopting KBPMS will enable CV. MD to monitor performance, reduce delays, improve productivity, and strengthen its competitive edge.

Keyword: *Performance Management System, KBPMS, KPI, AHP, SME*

Introduction

By 2023, Micro, Small, and Medium Enterprises (MSMEs) are crucial to Indonesia's economic growth, comprising approximately 66 million businesses and accounting for 99% of all business units (Kadin Indonesia, 2024). MSMEs employ around 117 million workers, representing 97% of the national workforce, and contribute significantly to the country's GDP, making up 61% and totaling IDR 9,580 trillion.

Despite their significant contribution, MSMEs face several challenges that hinder their growth and profitability. According to Tambunan (2008), these challenges include limited working capital, marketing difficulties, restricted access to finance, inadequate technological and managerial skills, low productivity, and resource constraints. These barriers limit MSMEs' ability to compete with larger enterprises and restrict their potential for long-term sustainability.

Effective performance management is a major key for the sustainable growth and competitiveness of SMEs. Ates et al. (2013) emphasizes the necessity for performance management systems that are specifically tailored to the unique characteristics and competencies of SMEs. Unlike larger corporations, SMEs often prioritize internal operations and short-term planning over long-term strategic initiatives, which can hinder their ability to adapt and grow. Gruenbichler et al. (2021) confirm this perspective, noting that many SMEs do not perceive performance management as essential to their business operations. Contributing factors include a lack of knowledge about performance management practices and insufficiently qualified personnel to implement these systems effectively. The absence of a structured performance management framework can lead to operational inefficiencies,

reduced productivity, and missed growth opportunities, making it challenging for SMEs to align their operations with strategic goals.

Since the mid-1990s, various frameworks and approaches for performance management systems have been developed, predominantly designed for large-sized companies (Bianchi, 2015). These frameworks often fail to address the specific needs and constraints of SMEs. SMEs require a performance management system that is both simpler and more intuitive, enabling easier implementation for businesses with limited resources and expertise. A tailored approach that addresses these specific needs can significantly enhance the system's applicability and effectiveness, fostering growth and boosting competitiveness in the Indonesian market.

This study examines CV. MD, a Bandung-based SME clothing brand founded in 2003. The company offers a variety of products, including T-shirts, pants, bags, shoes, caps, and accessories, specifically designed for metal and skateboard enthusiasts. With nine stores and numerous resellers across Indonesia, the company has experienced growth but faces challenges that hinder its ability to meet customer demand. These challenges include production delays, vendor issues, and low employee engagement, all of which impact cash flow and customer satisfaction. Rising competition from larger firms further erodes its market share. The root cause of these issues is the absence of a Performance Management System (PMS). Without a system to track performance, monitor productivity, and align employees with strategic goals, delays and inefficiencies persist. This study aims to explore how implementing a tailored PMS can improve operational performance, optimize processes, and enhance competitiveness.

Literature Review

Performance Management System

Performance Management Systems (PMS) are continuous processes that involve identifying, evaluating, and improving both individual and team performance to align with an organization's strategic objectives (Aguinis, 2009). However, conventional PMS that primarily emphasizes financial performance is increasingly viewed as inadequate in today's

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competitive environment. Wibisono (2016) argued that conventional PMS are outdated due to their focus on past performance, short-term orientation, lack of flexibility, and failure to promote improvement.

Organizations adopt various performance management frameworks to align employee efforts with strategic goals. Common global PMS frameworks include:

1. *The Balanced Scorecard (BSC)*
Developed by Kaplan and Norton (1992), BSC evaluates performance through four perspectives: financial, customer, internal processes, and learning and growth.
2. *Performance Prism*
Neely et.al (2000) propose Performance Prism, which emphasizes the reciprocal needs of organizations and stakeholders. Its five perspectives: stakeholder satisfaction, stakeholder contribution, strategies, processes, and capabilities, offer comprehensive coverage.
3. *Malcolm Baldrige National Quality Award (MBNQA)*
Established in 1987 by U.S. Congress, MBNQA provides criteria for performance excellence across nine categories, including: organization description, leadership and governance, operations, workforce, customer and markets, finance, strategy, organizational learning, community relationship (NIST, 2024). It fosters a culture of continuous improvement and excellence but may require significant resources for implementation. Knowledge-Based

In Indonesia, some companies still attempt to adopt global performance management systems (PMS) fully, facing challenges mainly due to the qualitative nature of certain questions and the limited availability of expert guidance (Wibisono, 2010). Wibisono also notes that these global frameworks require adjustments, such as defining appropriate performance indicators and refining benchmarking processes. This underscores the need for a contextual approach to PMS, particularly for Indonesian SMEs.

Knowledge-Based Performance Management System (KBPMS)

Developed by Wibisono (2006), KBPMS combines BSC's simplicity with Performance Prism's stakeholder focus. It evaluates performance through three perspectives: business results, internal processes, and resource capabilities. The KBPMS perspective and its aspect can be seen in the table. 1. KBPMS uses 5 steps: (1) foundation, (2) Background Information, (3) Design Process, (4) Implementation, (5) Refreshment. Its clarity, adaptability, and benchmarking approach make it practical for diverse industries especially in Indonesia. KBPMS framework can be seen in fig 1.

Therefore, KBPMS framework by Wibisono (2006) is chosen for proposed performance management system for CV. MD, because this framework is comprehensive while also easier and simpler to utilized by Indonesian company especially SME in Indonesia.

Table 1. KBPMS Perspective

Perspectives	Aspect
Business Result	Financial
	Non-Financial
Internal Process	Innovation
	Operations
	Marketing
Resources Capabilities	After Sales
	Human Resources
	Technological Resources
	Organizational Resources

Method

Conceptual Framework

In this study, the development of a performance management system for CV. MD will follow the KBPMS

conceptual framework. This framework provides a structured approach to diagnosing and addressing company challenges, guiding the design of an effective performance management system. The KBPMS framework consists of five key steps, as illustrated in Fig 1.

Data Collection and Analysis Method

This research uses both primary and secondary data to ensure comprehensive and accurate findings. Primary data are collected through structured or semi-structured interviews with key stakeholders, including the business owner/director, division heads, and staff at CV. MD. These individuals are directly involved in the company's daily operations, ensuring that the performance management system aligns with the company's objectives. Secondary data are gathered from internal company sources, such as the company's profile, financial reports, and other relevant documents, to support and validate the primary data. This combined approach strengthens the study's reliability and depth.

Descriptive analysis is applied to financial data and company performance metrics, including the company's vision, mission, and strategy, to ensure alignment between the performance management framework and the organization's strategic objectives.

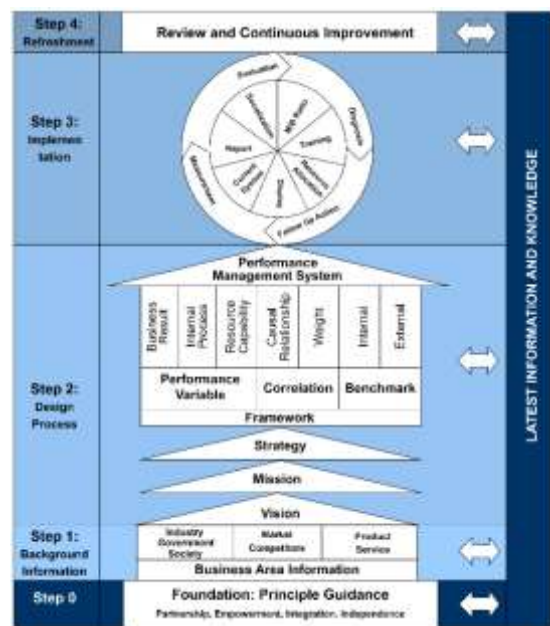


Fig 1. KBPMS Framework

Results and Discussion

Designing Performance Management System

Developing the performance management system with KBPMS encompasses five steps. The proposed performance management system for CV. MD is outlined as follows:

1. Step 0: Foundation

To design an effective PMS, four foundational principles and five key rules must be considered. The four foundational principles are:

Partnership with Stakeholders: Engage all stakeholders—management, employees, consumers, and suppliers—in understanding and supporting the new PMS to foster a culture change and achieve performance improvements.

Empowerment of Employees: Leaders should empower employees at all levels to contribute based on their capabilities, aligning their activities with departmental goals to enhance overall performance.

Integrated Performance Improvement: Employees should view each work process as valuable, fostering a sense of

belonging and ensuring all departments' efforts are interconnected.

Independence: An internal team with decision-making authority should develop a PMS tailored to CV. MD's specific needs and priorities.

Following these four principles, there are five essential rules for designing performance management systems that must be considered, as they form the foundation of PMS design:

Easy to Understand: The PMS should be simple, clear, and easy to implement, focusing on performance enhancement rather than complex metrics.

Long-Term Orientation: The system should balance financial and non-financial elements, supporting long-term sustainability and competitiveness.

Time-Based Feedback: Real-time data should be used for immediate feedback, allowing for quick responses to performance deviations.

Continuous Improvement: The system should support continuous improvement, incorporating benchmarking both internally and against industry standards.

Quantitative Approach: Use quantitative metrics for clarity and ease in making improvements, rather than relying on qualitative assessments.

2. Step 1: Background Information

The design of the performance management system for CV. MD requires background information on the business environment. The internal and external business environment of CV. MD was analyzed using a SWOT analysis. The summary of SWOT can be seen in Table 2.

Table 2. SWOT Analysis

Strength	Weakness
<ul style="list-style-type: none"> Skilled employees to deliver innovative product Good brand reputation for authentic designs Loyal customer base High marketing and promotion budget 	<ul style="list-style-type: none"> Lack of a formal HR department Slow cash flow due to finished products that cannot be sold until the release date
Opportunities	Threat
<ul style="list-style-type: none"> Collaborations with influencers Can diversify into multiple business line, not just focused on clothing. 	<ul style="list-style-type: none"> Intense competition in the clothing market and new entrant with bigger capabilities Economic downturn impacting consumer spending

In addition to the SWOT analysis, PESTLE and Porter's Five Forces analysis are also used to assess the external business environment. The summary of the analysis can be seen in Table 3.

Table 3. Summary of PESTLE and Porter's Five Forces Analysis

PESTLE	
Political	The Indonesian government has introduced safeguard duties of 100% to 200% on imports like footwear, clothing, textiles, cosmetics, and ceramics, effective June 2024. This aims to protect local SMEs from cheaper imports, promote domestic products, and encourage SMEs to improve quality and competitiveness (Reuters, 2024).
Economic	Indonesia experienced deflation from May to September 2024, with inflation in September at 1.84%, within the target range. The deflation suggests weak demand and reduced purchasing power (Bank Indonesia, 2024).

Social	For a clothing brand targeting 15-40-year-olds into metal music and skateboarding, understanding their lifestyle is key. This audience values dark, edgy aesthetics and durable clothing.
Technological	The brand is already established on platforms like Tokopedia, Shopee, and its own website, reaching Indonesia's metal and skateboarding communities.
Legal	Tax compliance is critical for any business, including adhering to corporate tax, VAT, and employee taxes to avoid legal issues. Businesses must also comply with labor laws (UU No.11 Tahun 2020) regarding wages, working conditions, and employee rights
Environmental	Environmental factors, such as droughts and crop failures, can affect the availability and cost of materials like cotton and leather. Changing weather patterns have recently driven up cotton prices, with Indonesia's reliance on imports making it vulnerable to global fluctuations.

Porter's Five Forces

Threat of New Entrants	low entry barriers in the fashion industry, where new brands can easily leverage e-commerce platforms. However, loyalty from metal and skateboarding fans create a natural barrier (Moderate)
Bargaining Power of Suppliers	While there are multiple suppliers for clothing materials, the brand's reliance on specific, high-quality inputs for its unique designs gives suppliers some leverage (Moderate)
Bargaining Power of Buyers	Although the brand targets a niche market, customers can easily switch to competitors offering similar product (High)
Threat of Substitute Product	Consumers can find alternatives like second-hand clothing, other local brands, or mass-produced fashion (High)
Rivalry Among Existing Competitors	Numerous local and international brands are competing in the same space. (High)

3. Step 2: Design Process

The design of the performance management system will consider the company's vision and mission, corporate strategy, performance variables and indicator, variables linkage, and benchmarking.

Vision and mission

CV. MD currently lacks a clear vision, making it difficult to align objectives and inspire stakeholders. To address this, the author worked with the director to create a vision: *"To be the leading clothing brand with authenticity and trust, driven by passion and inspiring creativity rooted in metal culture."*

Similarly, the company does not have a defined mission. After discussing with the director, the proposed mission is: *"To create authentic and high-quality clothing that embodies the spirit of metal culture, while empowering our team to innovate and deliver exceptional value to our customers."* This mission provides a clear direction for operations and long-term growth.

Corporate Strategy

The strategy for CV. MD is developed through a process that incorporates background information, aligns with the newly proposed vision and mission, and discussions held with the management. Based on these discussions, all company's strategies will be categorized into three perspectives of KBPMS: business result, internal process, resources capability. The strategy map for CV. MD can be seen Fig 2.



Fig 2. Strategy Map

Performance Variable and Indicator

These performance indicators are developed in collaboration with the company, considering its vision, mission, and strategy outlined in the previous section. A summary of the performance variables and indicator can be seen in table 4.

Table 4. Performance Variables and Indicators

Perspective	Aspect	Variable	Indicator (KPI)	
Business Result	Financial	Profitability	Revenue Growth	
			Net Profit Margin	
			Return on Asset	
			Return on Equity	
			Liquidity	
	Non-Financial	Customer Satisfaction	Customer Satisfaction Score	
			Employee Satisfaction Index	
			Turnover Rate	
			Vendor Satisfaction	
			Vendor Satisfaction Index	
Internal Process	Innovation	Product Innovation	Number of New Products	
			New Product Introduction Time	
	Operation Process	Production Reliability	Completion to Quality Specification	
			On-time completion	
	Marketing	Customer Acquisition	New Customer Growth	
	After sales services	Customer Complaint Resolution	Complaint Resolution Rate	
	Resources Capability	Human Resources	Employee	Employee Productivity
				Training Course Relevance Rate
Technology Resources		Availability of Technology	Technology Availability Rate	
			Organizational Resources	Leadership
Teamwork	Teamwork Quality Score			

Variable Linkage

Analyzing the correlations among all performance variables can help identify which indicators influence others. This insight allows the company to make well-informed decisions when developing improvement plans. These relationships can be categorized into vertical (indicators within the same level) and horizontal (indicators across different perspectives) as depicted

in Fig 3. However, due to constraints in time and data availability, this study focuses solely on vertical relationships analyzed through the Analytical Hierarchy Process (AHP).

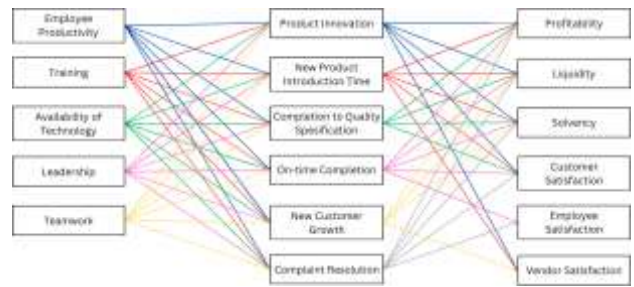


Fig 3. Variable Linkage

The AHP Priority Calculator was used to determine weight for each performance indicator across different levels, in accordance with the result of focused group discussion with key persons in corporate level. In the discussion, the key persons should express their preferences among pairs of elements. Each pairwise assessment is calculated as follows: 1- Equal Importance, 3- Moderate importance, 5- Strong importance, 7- Very strong importance, 9- Extreme importance. Performance indicator weights provide a structured, strategic approach to measuring and managing performance, ensuring that efforts are concentrated on what matters most to the organization



Fig 4. Indicator Weighting

Benchmarking

Benchmarking is conducted to determine the target performance for CV. MD. In this study, the benchmarking process involves comparing the company's performance against industry standards or averages to gain insights into best practices and competitive positioning. The external benchmarks provide a clear reference point for assessing CV. MD's current standing and potential areas for improvement. To refine and validate these targets, discussions were held with key company stakeholders, ensuring that the established performance goals align with both industry expectations and the company's strategic objectives. Due to limitations in available data and the absence of established performance management practices, many performance indicators have yet to be measured. Table 5 presents a summary of the performance targets for all indicators in CV. MD.

Table 5. Benchmarking to Identify Target Performance

KPI	Benchmark	Target
Revenue Growth	CAGR last 5 years: 3%	35%
	Expected growth in 2 years: 10.12% (NYU, 2024)	
Net Profit Margin	Global Apparel Industry: 12% (NYU, 2024)	12%
Return on Asset	US Apparel Industry: 8%	8%
	(CSI Market, 2024)	
	Fast Retailing (Uniqlo): 11%	
Return on Equity	Global Apparel Industry: 17% (NYU, 2024)	17%
	Fast Retailing (Uniqlo): 20%	
Current Ratio	For most industries aim for 1.5 – 2.0 (Business Queensland, 2021)	1.5
	Fast Retailing (Uniqlo): 3.0	

Debt to Equity Ratio	Indonesia Apparel Industry: 0.66 (IDX, 2024) Fast Retailing (Uniqlo): 0.73	≤1.0
Customer Satisfaction	CSAT Score: 90-100: Excellent 70-90: Good 50-70: Fair 0-50: Needs Improvement (Retently, 2024)	90%
Employee Satisfaction	ESI Score: 80-100: Very high 70-79: High 60-69: Acceptable 50-60: Low 0-50: Very low (Linkedin, 2022)	90%
Turnover Rate	Industry Average: 10.6% (Linkedin, 2022)	5%
Vendor Satisfaction	VSI Score: 80-100: Very high satisfaction 70-79: High 60-69: Acceptable 50-60: Low 0-50: Very low (Adopts the same scoring system from ESI)	90%
Number of New Product	At least 1 More than 25% of total revenue across industries comes from the launch of new products (McKinsey, 2017)	4 Issues
New Product Introduction Time	UNIQLO Introduction Time: 1 year Source: UNIQLO Business Model 2023	6 Month
Completion to Quality Specification	100% completion should be within specification (Neely, 2002)	100%
On-time Completion	100% on time completion should always be the aim (Neely, 2002)	100%
New Customer Growth	New Customer Growth Rate: <8%: Low 8%-15%: Moderate 15%-25%: Good >25%: Excellent Source: Taglab (2024)	20%
Complain Resolution Rate	Complain resolution rate: World-class: ≥ 80% Average Industry: 68% Source: Surveypal (2023)	100%
Employee Productivity	Pan Brothers: Rp 345,540,033 2023 Revenue: 9,345,843,072,000 2023 Employee: 27,038 Source: Pan Brother Annual Report (2023)	Rp257.000.000 translate to 35% increase in productivity
Training Course Relevance Rate	N/A	100%
Availability of Technology	N/A	100%
Leadership	N/A	90%
Teamwork Quality	Teamwork quality scores above 80% indicate high teamwork quality (Hoegl et al, 2001)	90%

After establishing the target based on the benchmark, the current performance of the CV MD can be displayed and compared to the target. An illustration of the CV MD's performance, assessed from the three perspectives of KBPMS using available data, can be presented in a radar chart, as shown at fig. 5 until fig. 7



Fig 5. Business Result Display



Fig 6. Internal Process Display

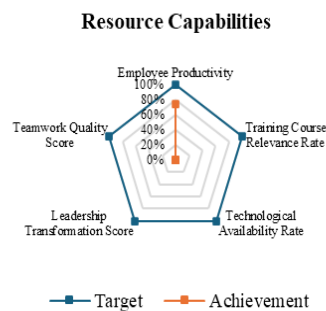


Fig 7. Resource Capabilities Display

Step 3: Implementation

Performance management system implementation is built on four key pillars: (1) performance measurement, (2) evaluation of the results, (3) diagnosis to pinpoint areas for improvement, and (4) follow-up actions to address the identified issues. The designed performance management system must consider several factors, including (1) the existing performance management system, (2) the reports required by the new system, (3) the process of introducing the new system across the organization, (4) cost-benefit analysis for each activity involved in its implementation, (5) training required for implementing performance management system, (6) resource allocation for executing the new system, and (7) clear communication displays for all employees.

The implementation plan for the new PMS at CV. MD is detailed in Table 6. The process starts with a preparation phase, which is followed by leadership and communication training for top and middle management. In the preparation stage, the PMS PIC will organize and coordinate activities and sessions, along with the required tools. The leadership training is designed to strengthen the company's leaders, enabling them to fulfill their roles as respected and influential figures within the organization. This will empower them to effectively lead the implementation process and act as change agents. The entire implementation plan is expected to span approximately three months.

Table 6. Implementation Plan

Activities	PIC	Target Audience	Duration (Days)
Preparation Process	PMS PIC (Director)	-	5
Leadership and communication training	Leadership Trainers	Top & middle management	3

Presentation on findings of basic information (external and internal analysis)	PMS PIC (Director)	Top & middle management	1
Vision, mission, strategy awareness program	PMS PIC (Director)	Top & middle management	1
General introduction and overview on performance management system	PMS PIC (Director)	Top & middle management	1
Presentation on performance management framework (indicators, measures, target, benchmark)	PMS PIC (Director)	Top & middle management	1
Training of PMS to head of each division (indicators, measures, record keeping, reporting format)	PMS PIC (Director)	Head of each division	5
Strategic planning in response to the new PMS for each division	PMS PIC (Director)	Head of each division	5
Vision, mission, strategy awareness program: employee level	Head of each division	All Employees	3
General introduction and overview on performance management system: employee level	Head of each division	All Employees	5
Implementation Trial Phase	Head of each division	All Division	30
Evaluation, diagnosis and follow up action plan	PMS PIC (Director)	Top & middle management	Continuous process

Step 4: Refreshment

According to the KBPMS framework, the final phase of the performance management system is referred to as "refreshment." This phase involves reviewing, updating, and refining the system to ensure it continues to align with the **company's evolving needs**. An effective performance management system must remain flexible and adaptable, allowing it to serve its primary purpose: maintaining the company's agility and competitiveness in a dynamic business environment. This study limited to design process only.

Limitation Of the Study

This study has several limitations that should be considered when interpreting its findings. First, many key performance indicators (KPIs) of CV. MD's current performance were not measured, as the company lacks an established performance management system. Second, the research is limited to the design and planning phase of the performance management system and does not cover its implementation or evaluation of its effectiveness after the implementation within the company. As a result, the findings focus on theoretical and strategic recommendations for system development,

Conclusions

CV. MD is facing several operational challenges that hinder its growth and ability, including vendor dependency delay, low employee motivation, and product release. Knowledge Based Performance Management System (KPMS) was designed to address these issues by aligning all individuals with the **company's strategic goals and improving overall performance**. The implementation of KBPMS serves as the most suitable PMS

framework for CV. MD due to its simple, structure, and clear guideline for development, implementation, and refinement.

By integrating relevant Key Performance Indicators (KPIs) within the three perspectives of the KBPMS (Business Results, Internal Processes, and Resource Capabilities). CV. MD can effectively monitor performance, identify bottlenecks, and implement corrective actions. Each KPI is assigned specific targets to establish clear performance objectives that align **with the company's strategic goals. To ensure these targets are both ambitious and attainable, benchmarking is done by evaluating current performance against internal standards as well as industry averages. Additionally, adopting best practices from leading companies helps in setting competitive standards and encourages continuous improvement. Involving stakeholders across the company ensures that the KPIs are relevant and support the company's overall mission and vision.**

Recommendation

For future studies or companies looking to implement a performance management system (PMS), it is recommended that CV. MD or similar organizations first gather initial feedback through the implementation of the PMS, moving towards the "refreshment" phase of the KBPMS framework. This phase involves reviewing and refining the system to **ensure it remains aligned with the company's evolving needs**. Additionally, implementing an incentive program alongside the PMS can help strengthen the system by motivating employees and aligning their efforts with strategic goals. It is also crucial to cascade key performance indicators (KPIs) from the corporate level down to the shop floor level to ensure alignment across all levels of the organization and drive consistent performance improvements.

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