

Developing the European Foundation for Quality Management for MSME Performance Measurement (A Case Study of MSME Managed by ‘Preman Super’ Community in Malang City)

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ABSTRACT

Preman Super, which stands for Perempuan Mandiri Sumber Perubahan (Independent Women as a Source of Change), is a community of housewives and informal workers which aims to empower the community members to become independent women. This community embraces MSMEs. The MSMEs run by the Preman Super community are growing businesses in a competitive marketplace so that it requires improvement efforts such as through performance appraisal or evaluation. This study used the European Foundation for Quality Management (EFQM) to measure the performance of the MSME. The EFQM model is based on two criteria, namely enablers and results. Enablers consist of leadership, people, strategy, partnership and resources, processes, and products and services, while results consist of customer results, people results, society results, and business results. This study modified the scoring matrix of RADAR by adding key performance indicators (KPI) because the dimensional targets of the criteria of results can be evaluated if each sub-criterion has a key performance indicator (KPI). The EFQM model with a modified RADAR scoring matrix was used as a performance measurement tool for MSMEs managed by Preman Super community. The final score of the MSME performance was 270, meaning that the company was in phase II, i.e., a process-oriented organization.

Keywords: *EFQM, performance measurement, MSME, Preman Super*

I. INTRODUCTION

The free trade policy applied in Southeast Asia demands all areas of the business to improve continuously. A continuous improvement can increase competitiveness. It also applies to Micro, Small and Medium Enterprises (MSMEs). MSME is one of the pillars of Indonesia's economy. In this era of the ASEAN Economic Community (AEC), the increase in imports has encouraged the local MSMEs to improve their competitiveness.

In Malang city, there is a community of housewives and informal workers which aims to empower the community members to become independent women. The community is called Preman Super which stands for Perempuan Mandiri Sumber Perubahan (Independent Women as a Source of Change). This community embraces MSMEs. It consists of about 300 women in Malang who are divided into groups, each of which consists of 5-10 people. The groups run small and medium enterprises under joint management (Dahlia, 2014).

The MSMEs run by the Preman Super community are growing businesses in a competitive marketplace so that they require improvement efforts such as through performance appraisal or

evaluation. Performance appraisal is a way of measuring the contributions of individuals within an organization (Hamzah et al., 2015). So far, MSMEs only assess or measure their performance conventionally, i.e., based on a method using limited financial indicators, such as sales, income, and profits. According to Kaplan & Norton (2000), employing such approach certainly does not guarantee the company to create economic value in the future. On top of that, the wide and flexible scope of business is already a challenge.

In fact, the MSMEs run by the Preman Super community require a performance measurement system that is relevant to the current business environment. The performance measurement must be a comprehensive system that provides a more thorough and accurate assessment result. Evaluating past performance is one of the most common and practical ways for a business to improve its performance. This kind of assessment is essential to determine the necessary efforts for future improvement.

This study used the European Foundation for Quality Management (EFQM) to measure the performance of the MSME run by the Preman Super community. The model assists organizations or companies in assessing performance and focus

on performance improvement (An Overview of the EFQM Excellence Model, 2012). Watson (2002) stated that the EFQM model provides a quality system which has a mechanism for achieving continuous organizational improvement. The EFQM model is beneficial to be a diagnostic tool or standard or 'health' examiner of either a business activity or process (Andersen et al. 2000). Another advantage of EFQM model is that it helps an organization to discover its strengths and identify the areas that can be improved (EFQM Self Assessment Workbook, 2001). Identifying areas for improvement importantly contributes to guiding the organizations to take specific corrective actions to improve their performance (Pupius et al., 2003). It is highly dissimilar to the Balanced Scorecard (BSC) model, which is another performance measurement model focusing on the final result (Rillo, 2004). The EFQM model is also favorable as an inter-organizational performance benchmarking tool. It is an advantage over the performance prism model that does not explicitly address benchmarking procedures in the performance measurement process (Wibisono and Kosasih, 2010). Benchmarking is valuable to encourage improvements in organizational performance (Andersen et al., 2000). The key to a successful implementation of the EFQM model is the availability of facilities and supportive management, bottom-up approach, orientation towards programme improvement, specific programmes, and reliable internal networking (Boele et al., 2008).

The EFQM model is based on a framework of nine criteria, five of which are grouped into the criteria of enablers and the rest is included in the group of results. The enablers include what an organization performs, and the results cover what it achieves. Thus, the results are generated or caused by the enablers. Enablers consist of leadership, people, strategy, partnership and resources, processes, and products and services, while results consist of customer results, people results, society results, and business results (An Overview of the EFQM Excellence Model, 2012).

An organization needs a structured model to manage the above nine criteria. One structured model used as an evaluation method is a scoring matrix known as RADAR (Results, Approach, Deployment, Assess and Refine). With the use of RADAR, an organization needs to determine the results that it aims to influence the strategy, and

policy and decision-making. The results should include the overall organizational performance. Furthermore, an organization must have explicit approaches to achieve its results. A series of approaches should indicate what the organization needs to do to achieve its goals. The approaches should then be implemented practically, which is called as a stage of deployment. An excellent organization should implement the approaches on a systematically proper scope. To ensure a good implementation of the approaches, it is necessary to assess and refine both the approaches and their deployment. The RADAR concept is implemented via a questionnaire to assess the performance improvement of an organization. The questionnaire is structured and divided into nine sub-criteria. The performance values of an organization can be obtained from the result of each criterion of the questionnaire.

This study modified the scoring matrix of RADAR which was used as a pre-evaluation and parameter in the assessment, especially in the criteria of results. The results criteria can be evaluated if each question point has a key performance indicator (KPI). The EFQM model with a modified RADAR scoring matrix was used as a performance measurement tool for MSMEs managed by Preman Super community.

European Foundation for Quality Management

The European Foundation for Quality Management (EFQM) was established in 1988, which subsequently initiated the European Quality Award (EQA) to encourage European companies to compete in the global marketplace. The EQA was first bestowed in 1992. It consists of two parts: the European Quality Award, given to the most successful applicant in the field of quality management in Western Europe, and the European Quality Prize awarded to some other companies that demonstrate remarkable abilities in quality management by fulfilling the award criteria (Amalia et al., 2008).

The EFQM model is based on a framework of nine criteria, five of which are the enablers and four are included in the criteria of results. Such criteria have a fixed appraisal as presented in Table 1. The EFQM model can be seen in Figure 1.

Table 1 Distribution of Scores among the Criteria in the EFQM Model (EFQM Self-Assessment Workbook, 2001)

| Criterion | % | Maximum Point |
|-----------------------------------|----|---------------|
| Enablers consist of: | | |
| 1. Leadership | 10 | 1 |
| 2. People | 8 | 0,8 |
| 3. Strategy | 9 | 0,9 |
| 4. Partnership & resources | 9 | 0,9 |
| 5. Processes, products & services | 14 | 1,4 |
| Results consist of: | | |
| 6. Customer results | 20 | 2 |

| | | |
|---------------------|------------|-----------|
| 7. People results | 9 | 0,9 |
| 8. Society results | 6 | 0,6 |
| 9. Business results | 15 | 1,5 |
| Total | 100 | 10 |

In the context of EFQM, leadership concerns the role of a leader in determining the organization's future and making it happen. Leaders should be able to play their role, put values and inspire all the time. They should ensure that the organization is on the right track to success (An Overview of the

EFQM Excellence Model, 2012). Strategy, another criterion in the EFQM model, relates to how an organization implements its vision and mission by developing a strategy that focuses on stakeholders. Policies, plans, objectives, and processes should be developed to employ the traditional strategy.

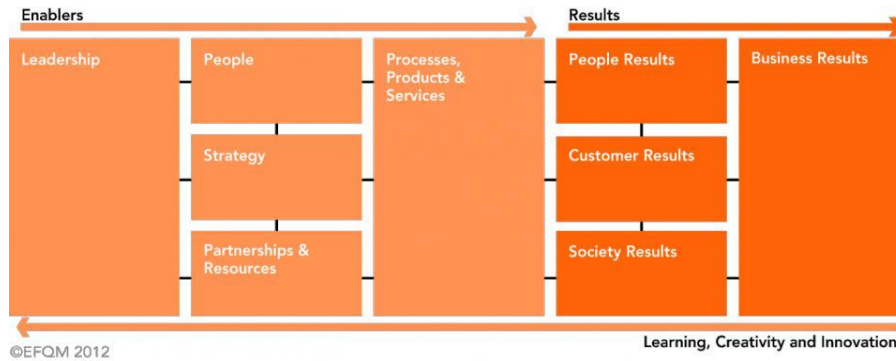


Figure 1 The EFQM Excellence Model (www.efqm.org)

The EFQM model demands organizations to value the contribution that people make and build a culture that encourages the achievement of personal and organizational goals. Organisations should develop employees' abilities, build commitment, motivate, and improve their skills and knowledge to achieve organizational goals. The EFQM method also considers the organization's approach to the partnership and resources criteria. It is necessary to deliberate on the planning and management of the external partnerships, suppliers and internal resources supporting the organizational strategy and efficient operational processes. Moreover, the process, product & service criteria include the design process, management, and improvement to provide increased value for customers and other stakeholders.

The criteria of customers results, people results, society results and business results in the EFQM model concern how organizations can promote outstanding results and even achieve beyond the needs and expectations of customers, employees, relevant stakeholders in the community, and business stakeholders in the organization.

Each criterion in the EFQM model consists of sub-criteria. The sub-criteria are 66 in total. The enablers group comprises 34 sub-criteria, whereas the results group has 32 sub-criteria.

sub-criteria using a system known as RADAR (Results, Approach, Deployment, Assessment, and Refinement). For assessing each approach, RADAR has specific values that must be considered. The enablers criteria are assessed by the dimensions of approach, deployment, and assessment and refinement, while the results dimension measures the results criteria as a part of the RADAR logic. A set of approaches should be sound and integrated, which means that the approaches should be appropriate and can support the strategy. Deployment is assessed by how systematic the approaches are implemented (done in accordance with organizational goals). Assessment and Refinement are to evaluate the deployed approaches by measurement of results, learning activities, and improvement.

Results element is a part of RADAR that is applied to the results criteria. Such element is assessed based on trends (examining trends thoroughly from year to year), targets (reviewing whether targets have been accomplished), comparisons (making comparisons with other organisations), causes (analysing results associated with an increase in the enablers), and scope (determining whether the results achieved are in accordance with the relevant area). All of these specific elements are assessed by the following guidelines (Usman et al., 2008):

RADAR System

The EFQM model provides an organizational performance assessment on nine criteria and 66

- 1-20 : there is no evidence or just anecdotes
- 21-40 : there is some evidence
- 41-60 : there is adequate evidence
- 61-80 : there is clear evidence
- 81-100 : there is extensive evidence

All criteria are assessed in accordance with the RADAR concept. All the specific scores are then averaged out to get each sub-criterion score. The score ranges from 0 to 1000. For the final

assessment of all criteria, the average score of sub-criterion is calculated and multiplied by the maximum point in each criterion. The RADAR concept can be found in Figure 2.

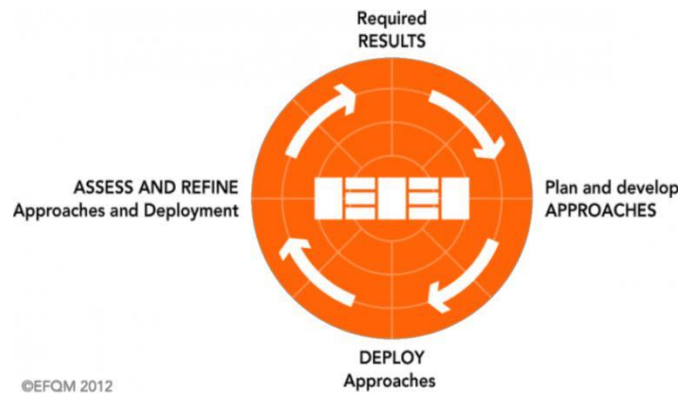


Figure 2 RADAR (www.efqm.org)

Performance appraisal of each criterion has a certain level. The enablers criteria group uses the term 'phase,' while the results group uses the term 'level.' The position of each development phase and evaluation level indicates the orientation of the organization. The total score in the EFQM model

is the overall score obtained from the nine criteria. The score of each criterion is obtained by multiplying the achieved score by the maximum point of each criterion. Table 2 presents the score classification of the EFQM Model associated with organizational orientation.

Table 2 Scores of the EFQM Model and Organisational Orientation

| Score | Organisational Orientation |
|-------------|--|
| 0 – 200 | Product orientation |
| >200 – 400 | Process orientation |
| >400 – 600 | System orientation |
| >600 – 800 | Chain orientation |
| >800 – 1000 | Orientation on integrated quality management |

II. METHODOLOGY

The EFQM model aims to help organizations to boost their performance. The model was used to measure the performance of one of the MSMEs run by Preman Super community. The selected MSME was a banana chip company. Its products are marketed and distributed to shops and souvenir centers in the city of Malang. Also, this company also receives direct orders from consumers. This research was conducted in several steps, namely (1) literature review and observation,

(2) EFQM model development, (3) data collection and processing, (4) analysis of results and (5) conclusion.

The EFQM model was developed by modifying the scoring matrix of RADAR to be used as a pre-evaluation and parameter in the assessment, especially for the results criteria. The results criteria can be evaluated if each point of question has a key performance indicator (KPI). The KPI was structured in an attempt to transform the dimensions of results in the RADAR concept into a quantitative measure. This quantitative measure could balance the RADAR concept that tends to be

qualitative. This effort was made by considering the desired evaluation objectives in the dimension of targets in the results criteria group. The KPI would address the strategic objectives of a criterion, which would be a quantitative measure for the dimensions of targets of the criteria of results, and would represent the appropriate performance measure.

The data collection was done by administering assessment questionnaire to the MSME board of directors. It was followed up by interview and review of the questionnaire results. The interview was carried out to explore or cross-check the information required in the scoring. The questionnaire results that relate to the enablers criteria were evaluated from three dimensions, namely approach, deployment, and assessment and refinement.

The measurement of the approach, deployment, and assessment and refinement dimensions was done based on the scale defined by the EFQM model in the scoring matrix (EFQM Self-Assessment Workbook, 2001). The results of assessment questionnaire about the results criteria were evaluated from the dimensions of the trend, target, comparison, cause, and scope. In assessing the targets in the results criteria, the results of assessment questionnaire and the KPI as a quantitative measure were used. There were 18 KPIs used in this study, covering each criterion of the results criteria.

In addition to distributing questionnaires to the MSME board of directors, the researchers also distributed questionnaires to the employees and customers of the company. The questions in the questionnaires were based on the needs of the KPI. Before the distribution, the questionnaire was tested for its validity and reliability.

The development was analyzed to evaluate the developed EFQM model. The researchers analyzed the degree of success after the model was implemented in a field trial. The analysis was also done on the measured performance of the MSME, and reasonable efforts are necessary to improve the performance.

III. RESULTS AND DISCUSSION

Figure 3 and 4 present the results of the performance measurements based on the enablers and results criteria. Figure 3 illustrates the development phase of each sub-criterion of the enablers group, which was evaluated by three dimensions: approach, deployment, and assessment and refinement. Figure 4 shows the evaluation level of the sub-criteria of the results group. This group was evaluated based on five dimensions, namely trends, targets, comparisons, causes, and scope. The scores of targets dimension were obtained from the KPIs and assessment questionnaire results.

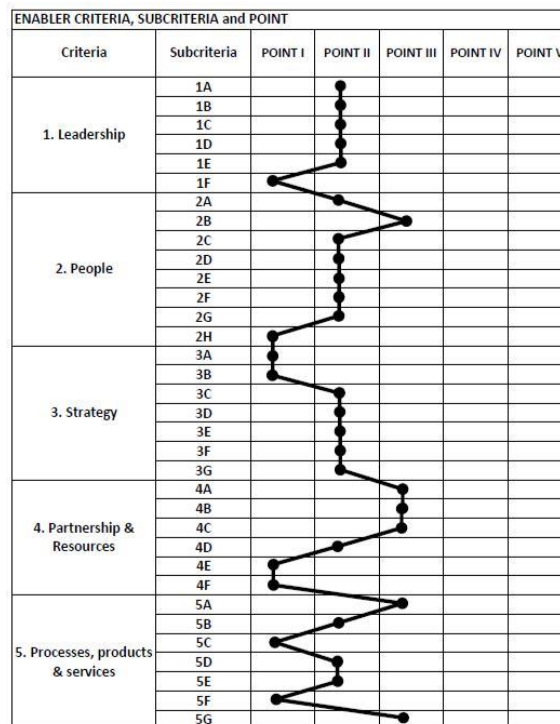


Figure 3 Performance Measurement Results of the Enablers Criteria

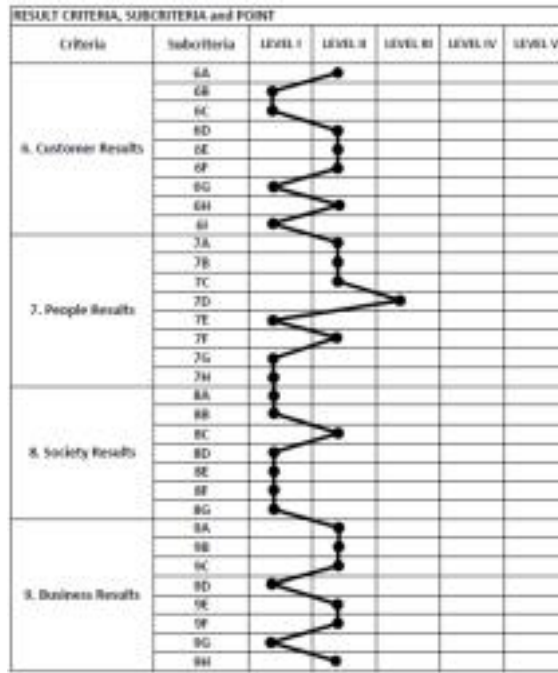


Figure 4 Performance Measurement Results of the Results Criteria

Table 3 shows the scores and points of performance measurement of each criterion. The final score was obtained by multiplying the achieved score by the maximum point of each criterion.

Table 3 Performance Measurement Score

| Criterion | Max Point | Score | Final Score |
|-----------------------------------|-----------|-------|-------------|
| 1. Leadership | 1.00 | 267 | 267 |
| 2. People | 0.80 | 263 | 210 |
| 3. Strategy | 0.90 | 271 | 244 |
| 4. Partnership & Resources | 0.90 | 300 | 270 |
| 5. Processes, products & services | 1.40 | 271 | 380 |
| 6. Customer results | 2.00 | 200 | 400 |
| 7. People results | 0.90 | 250 | 225 |
| 8. Society results | 0.60 | 129 | 77 |
| 9. Business results | 1.50 | 238 | 356 |
| Total Score | | | 270 |

The final score of the performance measurement achieved by the MSME was 370. Based on the orientation of the organization, the company focused heavily on the process. The characteristics of a process-oriented organization included a considerable concern for the production process and its control as the primary concern. The company had already had performance assessment approaches, but the framework was not comprehensive. The implementation was less efficient and less thorough. There had been efforts to evaluate each approach and its implementation, but they were still limited. Contributions to organizational goals were quite significant.

Improvement efforts depend on the weaknesses of the approach. The organization had been able to identify and measure the performance indicators despite the weaknesses. The measurements were limited, and the targets were mostly not achieved or not transparent. In order to improve the conditions, the performance level should be increased, and the key enablers affecting the performance need to be identified.

The results of performance measurement on an MSME managed by the Preman Super community showed that the company still applied a process-oriented approach. The reasons for the

performance measurement results were discovered by using the RADAR concept, focusing on performance conditions on each criterion. In general, the RADAR showed that the performance scores of enablers and results criteria were low. The average scores of approach, deployment, and

assessment and refinement were respectively 292, 239 and 293, while those of trends, targets, comparisons, and scope were 190, 290, 140, 199 and 204, respectively. Table 4 and 5 present the score of each dimension for all enablers and results criteria.

Table 4 Scores of Dimensions in Enablers Criteria

| Criterion | Dimension | | |
|--------------------------------|-----------|------------|-------------------------|
| | Approach | Deployment | Assessment & Refinement |
| Leadership | 283 | 250 | 268 |
| People | 275 | 238 | 275 |
| Strategy | 300 | 228 | 286 |
| Partnership & Resources | 316 | 250 | 334 |
| Processes, Products & Services | 286 | 228 | 300 |

Table 5 Scores of Dimensions in Results Criteria

| Criterion | Dimension | | | | |
|------------------|-----------|--------|------------|-------|-------|
| | Trend | Target | Comparison | Cause | Scope |
| People Results | 167 | 312 | 122 | 200 | 200 |
| Customer Results | 263 | 350 | 138 | 250 | 250 |
| Society Results | 116 | 171 | 100 | 130 | 128 |
| Business Results | 212 | 325 | 200 | 214 | 238 |

The comparison of dimension scores in the two different criteria can be seen in Figures 5 and 6.

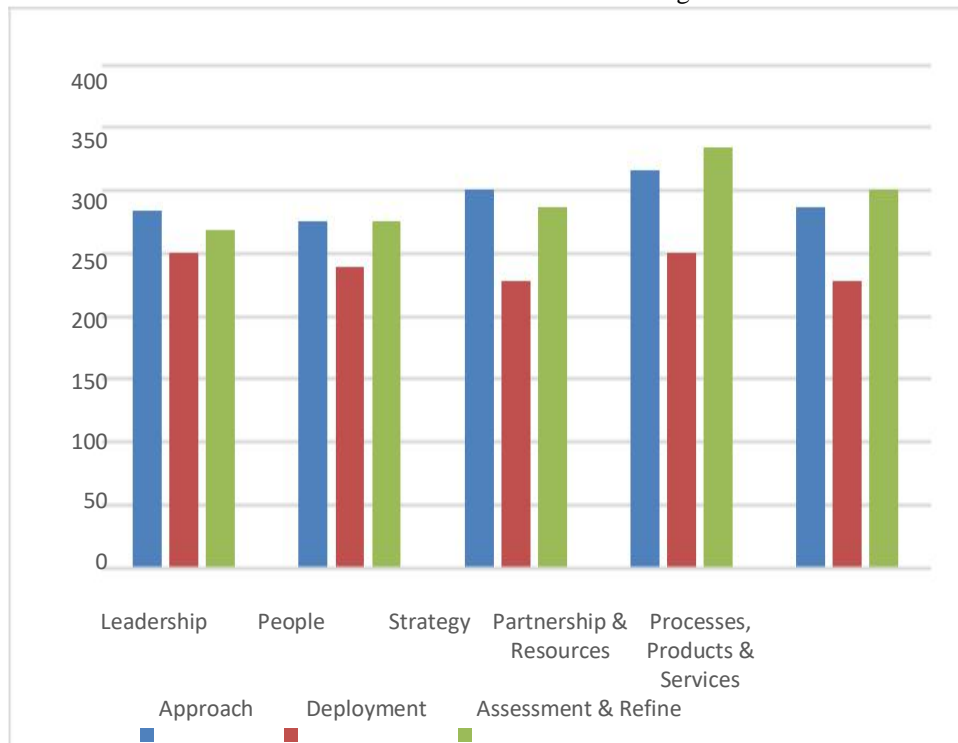


Figure 5 Comparisons of Dimension Scores in Enablers Criteria

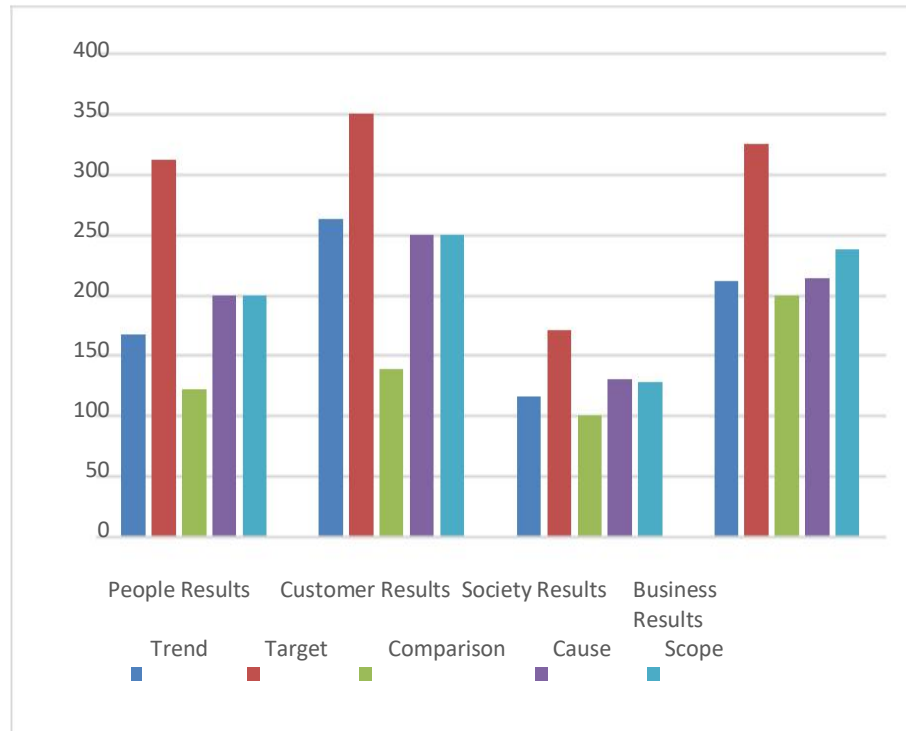


Figure 6 Comparisons of Dimension Scores in Results Criteria

Figure 5 shows that the MSME experienced the same situation in relation to all enablers criteria, namely lack of approach, deployment, and assessment and refinement dimensions. It had weaknesses and thus required improvement efforts. There was a lack of sufficient approach and framework for management. In fact, the approach was limited and "traditional." Deployment efforts were relatively unsuccessful, less consistent and not evaluated accordingly. Therefore, significant improvements in the dimensions of approach, deployment, and assessment and refinement are necessary. Improvements can be made by evaluating a criterion of a low-scored dimension. For instance, active relationship building or networking should be encouraged to improve leadership. Real business relationships can be established through active and effective communication skills. Building a mutually beneficial relationship with other companies is meeting each other's needs. The approach also applies to other criteria with needs and objectives that have not been achieved. An analysis of the performance criteria was performed to explore opportunities to improve the criteria. Leadership criterion got a performance score of 267. The performance score was influenced by three measurement dimensions, i.e., approach, deployment, and assessment and refinement. The average score was 292 for approach, 239 for deployment, and 293 for assessment and refinement. Thus, the weakest dimension of leadership was deployment. The MSME needs to monitor and evaluate the leadership deployment, such as the role of the board of directors in establishing relationships with the MSME stakeholders and positively

influencing employees, especially motivating them.

The people criterion had a performance score of 263. To improve the performance of this criterion, the MSME should develop the knowledge and skills of the employees. The results showed that the deployment dimension had the lowest performance score compared with other dimensions. Therefore, increasing the knowledge and the ability of employees is essential because the quality of human resources is one of the contributing factors in improving the productivity of an organization (Saefudin and Wahyuningsih, 2017).

Improvement efforts for enablers criteria can be made as follows:

For strategy criterion, the MSME needs to improve the top-down communication so that the policy and strategy can be conveyed and understood by the stakeholders.

For partnership and resources, it is necessary to build new and active business relationships to make a broad and flexible networking.

For processes, products, and services, the MSME should design and manage processes by taking the needs of the stakeholders into account.

The results criteria group also had a low score. The comparisons dimension had the lowest score in each criterion because its performance was not compared with other organizations/MSMEs. The society results had the lowest score. It is because the MSME has not set indicators that can assess the environment.

The same evaluation should be done in other criteria, such as:

For customer results, the MSME needs to measure the customer loyalty and observe complaints and suggestions.

For people results, the MSME needs to have indicators to monitor employee satisfaction. It should also create indicators to assess and improve employee productivity.

For business results, the MSME needs to have indicators that measure sales and market performance, overall productivity and operational performance, and product innovation.

IV. CONCLUSIONS

This paper describes the philosophy, methods, and applications of the EFQM model. It also outlines the measurement model and the evaluation system of the EFQM model. In particular, this paper illustrates the application of the model in performance measurement of an MSME managed by the Preman Super community. The targets dimension in the results criteria of RADAR was modified by adding Key Performance Indicator (KPI) because it enables the evaluation of each sub-criterion. The final score of the MSME performance was 270, meaning that the company was in phase II, i.e., in the form a process-oriented organization. To sustainably improve the performance, the company needs to give more attention to the performance. Insufficient attention to the results does not guarantee the improvement of performance, especially in the long term. Therefore, the dimensions of approach, deployment, and assessment and refinement for all enablers criteria should be developed in addition to the dimensions of results.

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