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MEASURING ORGANIZATIONAL PERFORMANCE AND THE ROLE OF PERFORMANCE MANAGEMENT USING PROFITABILITY RATIO

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Abstract

The purpose of this research is to find out how PT. X applies performance management and performance as a measuring tool. The data collection method in this research is library research. In its implementation, Library Research is carried out by reading, studying and taking notes on various literature or reading materials that are appropriate to the subject matter, then filtered and outlined in a theoretical framework of thought." (Kartini Kartono: 1998). The conclusion that can be drawn is Company PT X in the 2018-2022 period there were increases and decreases, this condition was related to Covid 19 where external factors such as the occurrence of Covid 19. The highest profitability occurred in 2018. By looking at these data, the performance of the PT company can be assessed. X is good. Because PT X controlling the cost of goods or production costs, and PT X from the profitability ratio description has been able to produce efficiently.

Keywords: organizational performance, management performance, profitability ratio

Introduction

PT X, a company in Jakarta, is a company operating in the retail business sector. In carrying out its operations PT. X applies performance management and performance as a measuring tool. PT.X understands that in the business world, performance is a driving tool that can create success or achieve predetermined organizational goals. Employees often do not pay attention to these things, except when the condition of the organization experiences a downturn. Too often employees do not know how bad their performance is, resulting in a decline in organizational performance creating a crisis in their company.

Agus Dwiyanto in his book entitled Public Bureaucratic Reform in Indonesia explains that organizations will run well if they carry out their management functions appropriately. This can be called organizational management. Company organizations require good organizational management. However, company management must also be good, then it is likely that the company's goals can be achieved. Organizational management can be understood from the meaning of the words 'management' and 'organization. Nugroho (2017) defines Management for Business, Public and Non-Profit Organizations, management is the process of planning, organizing, implementing, and supervising the resources owned by the company. Various resources consist of labor, finance, natural resources, knowledge, and others.

The target to be achieved by management is to achieve the company's targets in an effective and efficient manner. Meanwhile, the definition of organization itself is interpreted as a collection of people who work together and interact with each other and

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have important roles, tasks, and functions within this group. It can be interpreted that organizational management is the process of planning, organizing, implementing, and monitoring organizational resources, where each person has important tasks, roles, and functions to achieve organizational goals.

According to My Accounting Course, the definition of organizational management is management activities carried out to fulfil company goals, including dealing with existing problems. The management function in organizing is considered an important function. Because management creates an organizational system that makes it easier for management to control and supervise the ongoing organization. So, management itself can find out where management deficiencies lie so that they can be corrected, and management goals can be achieved.

Quoting from the book Organizational Management (Theory and Cases) by (Astuti, 2019), it divides seven organizational functions, namely: Planning is the most important function of organizational management. This can be interpreted as planning to determine the achievement of goals or objectives, how to develop and form them. Planning is also the best way to achieve goals and implement organizational strategies. Meanwhile, organizing Organizing refers to the relationships between individuals in an organization. Organizations have a relationship with the capabilities and resources used to achieve organizational goals. The staffing element is the most important resource in an organization. Personnel has the duties of recruiting, selecting, acquiring, training, and evaluating employees. Employees are one of the determinants of an organization's success in achieving its goals.

Direction (Directing) is usually carried out by the manager. Direction is giving instructions, guiding, and reviewing employees, as one way of achieving goals. In carrying out direction, managers need to pay attention to various things related to the organization and HR behavior because they determine the success of the organization, apart from staffing. Meanwhile, the Motivation function is needed to encourage HR to improve the organization's work ethic. Motivation is needed so that employees can do their work well, so that the company's goals are achieved. The Implementation (Actuating) function is the function of carrying out what has been previously planned. The implementation function is carried out for the activities of a group of people in an organization to achieve organizational goals. The final function of these seven functions is the monitoring function. The supervisory function is defined as the manager's job of supervising the process of implementing activities by employees. The monitoring function also includes determining whether organizational goals can be achieved by planning and implementing these activities.

Meanwhile, organizational management structure is the arrangement or relationship between parts of an organization. In implementing the management span of control, an organizational structure is needed to achieve company goals. Organizational structures usually take the form of diagrams that explain the various employee positions in an organization. This is done so that employees understand whose job it is to make reports and who oversees supervising and giving commands.

In this organizational structure, the main director serves as the leader of the company. The director must be responsible to the main director. In carrying out his duties, the director supervises the marketing manager, manager, and production manager. Each manager oversees a division according to his field. The marketing manager leads the marketing division to carry out production marketing. Production is usually led by a production manager supervising employees in the production sector. The main duties of the production manager are responsible for the goods production division of a company. Meanwhile, the role of managers in the organization is to help the company achieve its desired goals. Managers play a role in carrying out management stages or functions in an organization. If organizational management is good, then the goals of the organization or company can be achieved. Managers and directors play a role in determining what activities or steps are considered efficient and effective for the company.

Organizational Performance

Organizational performance is a measuring tool to measure how much an organization is performing. Dwyanto (2021) stated several things as follows, namely: 1. Productivity is an individual's personality characteristics that appear in the form of mental attitudes and contain the meaning of the individual's desires and efforts to always try to improve the quality of his life. 2. Quality of service. Many negative views are formed about public organizations, arising from public dissatisfaction with the quality of services received from public organizations. Therefore, satisfaction from the community can be a parameter for assessing organizational performance. 3. Response The organization's ability to recognize and meet community needs. Responses need to be included in performance indicators because they directly describe the organization's ability to carry out its mission and goals. 4. Responsibility explains whether the implementation of public organization activities is carried out in accordance with correct administrative principles or in accordance with organizational policies, both explicit and implicit. 5. Accountability (Accountability) shows how much the policies and activities of public organizations are subject to political officials elected by the people. According to this concept, public accountability can be used to see how much the policies and activities of public organizations are consistent with the wishes of the public (Dwiyanto, 2021).

So performance means a group of people in an organization with their respective authority and responsibilities in order to achieve goals or a group of people and individual employees who are in business entities or government institutions who carry out functions or tasks. While the performance of an organization is of course determined by individuals or apparatus within the organization, there are several factors determining work performance or individual performance that are very clear in determining the performance of the organization, and from these five theories the success of the organization in carrying out its goals and tasks which they carry out, has the aim of solving welfare problems. Suyadi Prawirosentono defines performance as something that influences the performance of an organization, is as follows:

The definition of performance can also be interpreted as the work results achieved by a person or group of people in an organization in accordance with their respective responsibilities and authority. In order to achieve the goals of the organization concerned legally, without violating the law and in accordance with morals and ethics" (Gultom, 2014).

Performance management

To better understand what performance management is, we can refer to the opinions of the following experts:

1) Robert Bacal
   Bacal (1999), defines performance management as continuous communication carried out in partnership between an employee and his direct superior. This includes all activities to establish expectations and a clear understanding of the work to be done.
2) Michael Armstrong
   Armstrong (2004), performance management is a strategic and integrated approach to providing sustainable success to an organization by improving the performance of employees who work in it and by developing the capabilities of teams and individual contributors.
3) Sheila Costello
   Sheila (1994) defines performance management as the basis and driving force behind all organizational decisions, work efforts and resource allocation.
4) Gary Schwartz
   Gary S (1999), defines performance management as a management style that is based on open communication between managers and employees regarding goal achievement, providing feedback from managers to employees and vice versa, as well as performance appraisal.
5) Lloyd Baird
   Lloyd B (1986), the definition of performance management is a work process of a group of people to achieve predetermined goals, where this work process takes place continuously and continuously.

Profitability

The profitability of a company can be assessed in various ways depending on the profits and assets or capital that will be compared with each other. The aim of the profitability ratio is to assess the company's ability to make a profit or gain in a certain period. Apart from that, the profitability ratio also provides a measure of the level of effectiveness of a company's management as shown by the profits generated from sales or investment income (Kasmir, 2019). Meanwhile, Prihadi defines profitability as the ability to generate profits (Farasi, 2022).

Moreover, the purpose of this research is to find out how PT. X applies performance management and performance as a measuring tool.

Research Methods

The data collection method in this research is Library Research. In its implementation, Library Research is carried out by reading, studying and taking notes on various literature or reading materials that are appropriate to the subject matter, then filtered and outlined in a theoretical framework of thought" (Kartono, 1998).

The literature study method involves a comprehensive review and analysis of existing literature, including books, articles, and other relevant sources, to gain a deep understanding of the topic. This method includes the following steps:
1) Identification of Relevant Sources: The first step is to identify and gather relevant literature, such as books, articles, and other publications, related to the topic of interest.
2) Review and Analysis: The gathered literature is then thoroughly reviewed and analyzed to extract key information, concepts, and findings related to the research topic.

3) Synthesis of Information: The next step involves synthesizing the information obtained from the literature review to develop a comprehensive understanding of the topic and identify key themes, trends, and gaps in the existing literature.
4) Citation and Referencing: Throughout the literature study, it is essential to accurately cite and reference the sources used to ensure academic integrity and provide proper credit to the original authors.

Results and Discussion

PT X understands that good management is the key to the welfare of society consisting of various organizations. The results of research carried out by Markos & Sandhya (2012) regarding the key to successful performance is employee engagement. Employee involvement is a key factor in the positive performance of an organization. One aspect that is key in management is how managers can recognize the role and importance of the parties who will support the achievement of company goals. The costs incurred for human resources are the most dominant compared to expenditures on other resources. In increasingly tight competition in the global market, many business organizations are affected by disasters, suffer losses, and even suffer bankruptcy, which is caused by the low productivity of human resources in these business organizations.

Problems that befall business organizations can be resolved by finding the main causes that give rise to these problems. The cause of this problem is due to business organizations implementing performance management. Therefore, performance management is an important means of getting better results in organizations, teams, and individuals within an agreed framework in planning goals, targets, and standards. Performance output refers to the level of individual success in carrying out tasks and the ability to achieve agreed or predetermined goals. Work assessment becomes a formal system for reviewing and evaluating individual or teamwork. In the explanation, performance measurement is an important variable in management as part of efforts to improve performance itself (Wang, 2014). For this reason, performance measurement is very important because without measurement it is impossible for an organization to know the development of the company it manages. So, it can be concluded that performance measurement or performance management must be preceded by a correct understanding of the essence of performance itself. Therefore, it can be concluded that performance is the basis or foundation of the entire process of performance assessment and management.

Inaccuracy in defining performance does not mean that performance assessment and management is not wrong. Based on the results of research conducted by Suhartono (2012), it is said that to achieve the goals of performance management, business organizations must develop supervision in making improvements to work management.

Furthermore, from research conducted by Azmy (2019) developing strategic human resource management to support organizational competitiveness: a performance management perspective, the results obtained were that leadership, motivation and work stress simultaneously had a significant effect on employee performance. Meanwhile, according to Rohaga (2014), the implementation of performance management still has shortcomings, namely: the management stages have not been fully implemented in accordance with existing provisions, the focus of implementation is still limited to the performance assessment stage.

The implementation of performance management in organizations has the aim of providing tools or methods by which better results can be obtained for individuals and work teams by understanding and managing performance on one goal and frame of objectives, standards, and planned competency requirements. According to Sunarto (2015) performance management implemented in organizations has several benefits, namely: (1) to improve performance in achieving organizational, team and individual employee effectiveness. (2) To develop employees through effective processes and continuous development. (3) Satisfying the needs and expectations of all organizational stakeholders, owners, management, employees, customers, and society, and (4) regarding communication and involvement of the entire organization regarding various information about the organization's vision, mission, values, and goals. Work management implemented through the employee performance assessment process has many benefits for all parties, namely for those being assessed (employees), for being assessed (superiors) and for the organization (Rivai et al., 2011).

The benefits for employees assessed are increased motivation, job satisfaction, clarity of expected work standards, feedback on performance, knowledge of weaknesses and strengths and others. Meanwhile, for superiors, the benefits obtained are the opportunity to measure employee performance and plan improvements, providing opportunities to develop monitoring systems, identify new ideas, plan opportunities for rotation and changes in staff work. Furthermore, the benefits for the organization are improving all existing units, increasing harmonious relationships between employees and work teams, recognizing existing problems in the organization, establishing company culture and others.

Castello (2014) defines performance management as supporting the overall goals of the organization by linking the work of each worker and manager to the overall mission of the work unit. If each worker understands what is expected of them and has the support necessary to contribute to the organization efficiently and productively, their sense of purpose, self-esteem and motivation will increase. So, performance management requires cooperation, mutual understanding and open communication between superiors and subordinates.

In making a decision whether a business entity or company has good quality, there are two most dominant assessments which are used as the basis of reference to see whether the business entity is implementing good management principles. Usually, companies look at the financial performance in the financial reports held by the company concerned. Performance is a description of the level of achievement of the implementation of an activity/program/policy in realizing the goals, objectives, vision, and mission of an organization as stated in the formulation of an organization's strategic scheme (strategic planning)" (Bastian, 2010).

Usually, a company assesses its success through the company's financial performance, which is one of the bases for assessing the company's financial condition which is carried out based on analysis of the company's financial ratios. The parties who have an interest really need the results of measuring the company's financial performance to be able to see the condition of the company and the level of success of the company in carrying out the company's success in carrying out its operational activities. Each company has different performance due to the scope of the business it runs.

There are several stages in analyzing financial performance, namely: (1) review of the financial reports, with the aim that the financial reports that have been prepared are in accordance with the application of the rules that apply to the accounting system, so that the results of the financial reports can be accounted for, (2) The analysis and application of the calculation method here is adjusted to the conditions of the problem being carried out so that the results of the calculation will provide a conclusion in accordance with the desired analysis, (3) comparison with the calculation results that have been obtained from various other companies (Fahmi, 2011).

In assessing the company's financial performance and achievements, it is necessary to carry out financial analysis, which is a benchmark, namely using a ratio that connects two financial data with each other. For this reason, it is necessary to carry out analysis using various financial ratios to provide a better view of the company's condition and company achievements. The use of various ratio analyzes will be able to explain or provide an overview of the company's financial position, especially if comparative ratio figures are used as standards.

The output resulting from measuring work performance can be used as a tool for evaluating management's performance so far, whether they have worked effectively or not. The results of this measure can be used as reference material for future profit planning, as well as the possibility of replacing new management, especially after the old management has failed. For this reason, the profitability ratio is often referred to as a measure of management performance (Kasmir, 2019). Apart from that, it is used as a comparison to assess the condition of a company in generating profits, namely through profitability analysis. (Kasmir, 2019) states that financial performance measurement standards for assessing profitability are according to industry averages, namely: (1) NPM above 20%, (2) ROA above 30%, (3) ROE more than 40%.

Measuring Company X's Performance Using Profitability Ratios 2018 – 2022

PT X's operational activities aim to obtain maximum profits. In generating this profit, of course the company carries out sales activities of both goods and services. For this reason, PT Because the profitability ratio is a ratio that describes the company's ability to earn profits through all existing capabilities and resources such as sales activities, capital, cash, employees, branches and so on (Harahap, 2011). The next definition of Profitability Ratio is a ratio to assess a company's ability to generate profits (Kasmir, 2019). Investors prefer companies with high profitability ratios because investors think that with a high profitability ratio, the company can provide high returns on investment so that the company makes more comprehensive financial report disclosures to convince investors.

The higher the profitability ratio means the higher the company's ability to earn profits and the better its financial performance. Thus, the picture of company performance when analysed using the profitability ratio is that of the three companies This means that the company's performance is good based on Gross Profit Margin (GPM) ratio analysis. This ratio can be used to determine the gross profit from each item that the company has marketed. Gross profit margin is a ratio that measures the efficiency of controlling the cost of goods or production costs, indicating the company's ability to produce efficiently (Faruk & Habib, 2010).

In testing performance, Pt X using the formula according to Henry (2012) in his book Financial Report Analysis, there are generally 4 profitability ratios, namely:

1. ***Gross profit margin***:

$$GPM = \frac{Sales - (Cost\ of\ Good\ Sold)}{Sales} X\ 100\%$$

2. ***Net profit margin*:**

$$NPM = \frac{Earning\ After\ Tax\ (EAT)}{Sales} X\ 100\%$$

In measuring the amount of business income, it is sometimes called net profit that comes from each sale. This ratio shows how well the company's operating costs are managed. Furthermore, this ratio also shows whether the company has generated enough sales to cover fixed costs and leave a decent profit.

3. ***Return on investment* (ROI)**:

$$ROI = \frac{Earning\ After\ Tax\ (EAT)}{Total\ Asset} X\ 100\%$$

Roi is a ratio that measures the profit on the company owner's investment (Return on the owner's investment). This ratio is used for analysis and final evaluation to determine investment decisions in the company**.**

4. ***Return on equity* (ROE) :**

$$ROE = \frac{Earning\ After\ tax\ (EAT)}{Shareholders'\ Equity} X\ 100\%$$

Below is described the company's financial condition as a basis for calculating profitability using the Gross Profit Margin Ratio (GPM). The data displayed is net sales and Cost of Goods Sold (COGS) between 2018 and 2022, because the GPM ratio is a comparison between net sales after deducting COGS and net sales.

Table 1. Sales Data and Cost of Goods Sold (COGS) Company X

No	**2018**		**2019**		**2020**		**2021**		**2022**	
1	COGS	Sales	COGS	Sales	COGS	Sales	COGS	Sales	COGS	Sales
	1.81	2.24	1.88	2.24	2.20	2.60	3.08	3.28	3.05	3.37

Tabel 2. Gros Profit Margin (GPM) Company X 2018-2022

Company Name	Code	Years				
		2018	2019	2020	2021	2022
PT X	BMAR	99.80%	24.22%	17.42%	15%	7.35%

Based on the data above using the Gross Profit Margin Ratio calculation, the largest ratio in 2018 was 99.80%.

Overview of Company Performance Using Profitability Ratios for Company X

As the definition explained by Srimindarti (2004) states that company performance is a complete display of the condition of the company during a certain period, it is a result or achievement that is influenced by the company's operational activities in utilizing the resources it has. The explanation of company performance is a general term used for some or all the actions or activities of an organization in a certain period.

The company's operational activities aim to obtain maximum profits. To obtain these profits, of course the company carries out sales activities of both goods and services. In this research, the measurement of company performance is measured by the profitability ratio. The profitability ratio is a ratio that describes the company's ability to earn profits through all existing capabilities and resources both in terms of cash sales, capital, number of employees, number of branches and so on (Syafri, 2008). The profitability ratio measuring tool is a ratio to assess a company's ability to generate profits (Kasmir, 2019). Investors prefer companies with high profitability ratios because investors think that with a high profitability ratio, the company can provide high returns on investment so that the company makes more comprehensive financial statement disclosures to convince investors. The higher the profitability ratio means the higher the company's ability to earn profits and the better its financial performance.

The performance of the company analyzed using profitability ratios in this research is company What the author did was fluctuations in increases and decreases. This is caused by external influences, namely Covid 19. Therefore, it can be concluded that the performance of the company PT. X is good based on Gross Profit Margin (GPM) ratio analysis. Meanwhile, the aim of the analysis using profit margin is aimed at seeing and knowing two aspects, namely the company's gross profit based on the goods the company sells. The second is to look at the company's efficiency, because gross profit margin is a ratio that measures the efficiency of controlling the cost of goods or production costs, indicating the company's ability to produce efficiently (Alarussi & Gao, 2023).

Conclusion

Based on the discussion stated previously, the conclusions that can be drawn are; (1) company Judging from the profitability ratio in the 2018-2022 period, there were increases and decreases, this condition is related to Covid 19 where external factors such as the occurrence of Covid 19. The highest profitability occurred in 2018, and (2) by looking at these data, the performance of the PT company can be assessed. X is good. Because the company is seen in controlling its cost of goods or production costs, and company from the profitability ratio description has been able to produce efficiently.

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