

KPI-Based Incentive System and Individual Performance Assessment in "A" Organization in Surabaya

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ABSTRACT

This study focuses on the role of objectivity in individual performance appraisals and the use of the KPI (Key Performance Indicators) system in determining HR incentives. This activity is done to encourage work motivation of "A" organization human resources in the industrial 4.0 era and society 5.0 and working conditions that have been affected by the Covid-19 pandemic. This effort aims to optimize organizational performance. The design of this incentive system is proactive and systemic in accordance with the development of work technology used by the organization and the human resource readiness to realize all works. This study applies qualitative analysis, the analytical hierarchy process (AHP) method, and a scoring system. The results of this study indicate that the change in the incentive system initially resulted in a bit of resistance, but after several months, HR accepted it as an adequate and objective system in determining the incentives received by HR even though it was carried out during the Covid-19 pandemic. In the first four months, achievement of organizational performance increased to an average of 22% compared to before using this incentive system. In the future, it is hoped that the existence of this incentive system will spur high motivation to work so that organizational performance will be better in the future.

Keywords: *Performance Appraisal, Key Performance Indicators, Work motivation and organizational performance.*

1 INTRODUCTION

The industrial revolution led to a fundamental change in life and work processes, where advances in information technology can be integrated into the world of life and impact scientific disciplines. The emergence of the industrial revolution 4.0 created a phase of technological advancement. In the industrial revolution 4.0, manufacturing technology has entered the trend of automation and data exchange. This includes cyber-physical systems, the internet of things (IoT), cloud computing, and cognitive computing. At present, digital technology in the industrial revolution 4.0 has an impact on human life, so-called society 5.0. This world will enter the society 5.0 era. Society 5.0 is

defined as a human-centered society that balances economic progress by solving social problems through a system that profoundly integrates cyberspace and physical space. It should also be remembered that this concept, during the industrial revolution 4.0 (the use of technology, data, and automation), is related to humanism in Society 5.0, which will be the essential capital for this concept to be accepted by the people of Indonesia and even the world. The society 5.0 focus is an excellent opportunity for Indonesia to accelerate the transformation of its society. Indonesia has no issue in conquering the industrial revolution 4.0 and society 5.0. In fact, these two moments must be combined into a national blueprint. KPIs help organizations measure and define the progress of activities in order to achieve goals

that are successfully achieved. KPIs are quantitative measures that reflect the organization's critical success factors. Key Performance Indicators (KPIs) are quantifiable measurements that reflect the critical success factors of an organization. They are performance assessment tools that identify the extent of achieving the desired parameters in the industrial production lines, which is of major importance for the manufacturing company's success (Denton 2005). KPIs represent a landmark that helps company employees and managers understand the relevance of their work and the results. They can be predefined or chosen by the company management in order to assess the competence and how they assume the individual business goals. If the implementation is needed, in 90% of the cases, respondents fully or partially correlate the reward of employees with their KPI results. This leverage leads to a breakdown of discipline at the department level, strategic objectives, teams, and individuals to focus their efforts towards achieving activity performance. Key Performance Indicators must be quantifiable (measurable). If a KPI is of any value, there must be a way to define and measure it accurately.

Performance appraisal is the strength of performance management which in turn affects the organization's performance. It helps to identify and overcome the problems faced by the employees on his/her works (Mackey, 2000). According to Nurse (2005), performance appraisals have an equal probability of having a destructive impact on the organization and employee performance. There are five critical elements in performance appraisal: assessment objectives, appraisers, assessed employees' roles, measurement, and assessments (Cummings & Worley 2005). Werther & Davis (1996) reveal that performance appraisals benefitting the assessed organization and employees, namely performance improvement, compensation adjustment, placement decision, training and development needs.

Meanwhile, the integration between KPI and HR Performance Appraisal (SPK) be-

comes more realistic because it combines core work performance, namely the work achieved and work support performance, such as discipline, creativity, togetherness in a work team, and so on. HR will be more serious in working through a formalized performance appraisal system because it impacts individual compensation. For this reason, the integration of the KPI assessment with the SPK becomes the basis in determining the individual performance value (NKI), which is then used to calculate the amount of the financial incentive received. This formulation is more objective and has a profound impact on HR's seriousness to work.

1.1 *The Profile of Object ("A" Organization)*

"A" organization, as this study object, is a saving and loan cooperative or can be categorized as a non-bank financial institution. This "A" organization applies the togetherness principle to its members and helps increase the welfare of its members. A management consultant considers this organization to have the same growth and development as the previous year. The growth and development of this organization are not significant, as evidence that it only has an office in one province of East Java as the previous. Ideally, it should have offices in some provinces in Indonesia. Moreover, the results of an audit show that the organization's growth is minimal due to the low performance of human resources and some of the employees have no proper competencies for their position. In 2018, a management consultant was hired to revamp the management, formulate better organizational performance assessments, and create a new performance assessment system. This activity is implemented after this consultant tries hard to reframe the board and all employees' mindsets. This assessment combines two things: individual performance and KPI. Initially, employees ignore the consultant, but as time goes by, the employ-

ees accept it so that this future cooperative workforce becomes better. The implementation and use of the system alignment in this performance assessment will be discussed in this paper are the successes, obstacles, and benefits to forming new energize for this cooperative to grow in the future with a variety of competitive advantages. The management hopes that combining KPIs and performance appraisals to measure an individual's actual performance will improve performance. Moreover, this will affect the incentives received by employees and demonstrate the principle of fairness in work.

The research questions are as follows:

- a. How to measure the fairness and objective of individual performance that spur an increase in motivation and work spirit of employees?
- b. How to create the system and calculate the nominal incentive system based on the KPI and Performance Appraisal Measurement results?

2 RESEARCH METHOD

The approach used in this research was the qualitative approach of inductive theory building through a single case study (Eisenhardt & Martin 2015), and this single-case research is expected to exploit significant phenomena under extreme conditions. The data collection used multiple data sources. Multiple data sources were required to support the validity and reliability of the data obtained. There are six sources of case study data, namely documents, records, interviews, direct observation, participant observation, and physical devices. The use of multiple data sources and instruments was also intended for triangulation purposes, i.e., cross-checking to improve data accuracy. The data analysis procedure was done in three steps through in-depth interview, observation, and document analysis.

3 RESULTS AND DISCUSSION

Conceptually, the employee performance value is determined by assessing 2 (two) factors: (1) KPI assessment results and (2) performance appraisal results. The KPI assessment proposed is basically a unit consisting of 2 (two) components: the performance assessment results and the KPI assessment result for each individual or employee according to their respective positions. The weight of each component is 60 % for the KPI assessment, and 40% for the performance appraisal. According to the designated major performance areas, the KPI assessment's weight is higher to urge employees to produce real performance. The final results will be used to determine the incentive amount to be received by employees in accordance with the specified period. The pattern for determining the incentive amount is carried out with the same pattern, namely performance-based for both the management, the head of the work unit and the executor.

Furthermore, the incentive amount is determined after the manager or work unit leader makes a performance presentation quarterly and is followed up with a performance appraisal of success or failure in realizing the work plan quarterly. Each set incentive amount will be valid for the next six months until the next quarterly presentation. Therefore, the incentive amount received can be higher or lower, depending on the performance achieved. The management will make a decision letter regarding the incentive policy based on the management status, position group, grade, and employment status.

4 CONCLUSIONS

In the performance evaluation carried out in August 2020, when performance measurement was first implemented using a combination of KPI and performance appraisal, it turned out to have a significant impact on increasing work motivation and performance improvement even though it was still 22%

during the Covid-19 pandemic. This was higher than the expectation of the previous leaders, considering that the KPI-based incentive system and performance appraisals are being carried out for the first time. Leaders must work extra hard to calculate the incentive amount for each worker, starting from socializing the system to all work unit leaders, training them to fill out the KPI sheet and performance appraisal to evaluate the real performance of each employee in each work unit. When employees received incentives, some asked how incentives are calculated, and the team can explain in detail and received significant acceptance from employees. Even the first experience of using this incentive system gave employees an understanding and awareness that the organization's sustainability is very dependent on their performance. For this reason, employees became more aware that the era of receiving incentives in accordance with contributions to the organization is a fair system. During the implementation of this incentive system, there are many obstacles, especially administrative constraints and understanding problems, but thanks to a solid team and willingness to learn from the team and leaders, this incentive system can eventually run beyond the previous expectations. The success in implementing this incentive system reform is due to the mutual awareness of both leaders and employees in protecting the organization from declining income due to the Covid-19.

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