

Research on the Multiple Level Performance Management System Based on KPI

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Abstract: This paper uses key performance indicator method to study issues related to the design of enterprise performance indicator system, aiming to improve organizational performance and employee performance. This method is capable of grasping key behaviors and contents of organizations and employees, does not deviate from the organizational strategic objectives, construct the key performance indicator system of enterprises, and plays a role of evaluation and behavior-orientation.

Key words: KPI; Weight; Strategic objectives

1 Introduction

Key performance indicator (KPI) is a very popular term in current human resource field, as well as an emerging method to determine performance evaluation indicator in recent years. It refers to grasp 20% of the key behaviors and contents of the organization and employees close-knit to the realization of organizational objectives for evaluation on the basis of the Eighty-Two Rule while the evaluation indicators and contents of employees are being prepared. KPI originates from Britain. Since the UK construction industry began to study and prepare KPI system in order to accurately evaluate the organizational and employee performance in 1998, studies on KPI have been widely applied to various fields. Zheng Haihang and Yin Jianfeng of China carried out deep studies to the characteristics of KPI. Xiong Yingzi and Liu Shuang summarized problems easily occurred to the design of KPI. On the basis of the illustrations of the connotations of KPI, this paper will analyze the process and methods of the establishment of KPI systems at different levels.

KPI aims to control and measure key enterprise activities and its core effects by the establishment of the evaluation evidence and indicators of the individual and organizational contributions to key performance in the decomposed and quantitative KPI system. The evaluation contents reflected in KPI system ultimately depend on organizational strategic objectives, further refining and developing the organizational strategic objectives, and are adjusted with the evolution of the organizational strategic objectives. While KPI is prepared, it shall be precise, critical and effectively decomposed. In confirming the standard indicator system, it shall be quantitative or behavior-like if it is difficult to be quantitative. And only in this way, can effective communications such as work expectations, work performance and future development, etc. be carried out through the platform KPI between employees and managers.

2 Establishment of KPI System

KPI is a systematic indicator system, including three aspects: enterprise-level KPI, department-level KPI, and individual KPI.

2.1 Establishment of enterprise-level KPI

While designing and establishing enterprise-level KPI, we usually have three typical thoughts and methods: External-oriented Method (also called Benchmark Management Method); Internal-oriented Method (Key Design Method for Success); and Balanced ScoreCard (BSC).

(1) External-oriented method

External-oriented Method is also called Benchmark Management Method. This method means to compare the key performance behaviors of the enterprise with those of the most competitive enterprises or the most leading and prestigious enterprises in the industry, analyze the reasons of excellent performance of the benchmark enterprises, and base on this to form the key performance indicators and standards that make the sustainable development of the enterprise.

The external-oriented method is in fact a method of studying and imitating the performance indicator determination way of advanced enterprises. However, the gap shall be analyzed during the study and imitation period, and the difference in business scale as well as the influences of economic cost and corporate culture, etc. shall be considered in confirming the performance indicators and standards.

(2) Internal-oriented method

The basic thought of this method is to analyze the key result areas (KRA) that lead to the success and leading marketplace of the enterprises, and then decompose KRA into key performance factors (KPF). In order to quantify and analyze these factors, factors shall be decomposed into indicators—KPI. Take a travel agency for an example.

Table 1 Enterprise-level KPI of One Travel Agency

KPI Dimension	KPI Factor	KPI
Market leader	Market competitiveness	Current reception delegations
		Current reception passengers
		Current operating income
	Marketing force	The number of new customers
		New business sales growth rate
Brand influence	Effectiveness of marketing	
Customer service	Customer satisfaction	Customers' brand awareness
		The number of customer complaints per delegations
	Customer resource management	Customer file management
Profit growth	Accounts receivable	The speed and duration of fund recovery
		The number of bad debt
	Expense control	Office expenses
		Business entertainment expenses
Net profits	Goal achievement rate of net profits	
Organizational building	Personnel	Turnover rate of key personnel
	Discipline	Implementation of corporation policies
	Culture	Overall satisfaction index of staff

(3) Balanced ScoreCard

Balance ScoreCard changes enterprise vision and strategies into objectives and evaluation indicators in the four aspects of finance, customers, internal procedures, and study and development, thus realizing all-round control and management of the enterprise performance.

2.2 Establishment of department-level KPI

The fulfillment of enterprise objectives needs department support. Therefore, enterprise-level KPI shall be distributed or decomposed to corresponding departments to form department-level KPI. Specific procedures are: After obtaining and decomposing enterprise-level KPI, we can adopt the BSC principle — ask departments to respond to organizational strategies and strategic objectives according to their respective duty positioning — to determine department objectives under the guidance of organizational strategies. During the preparation process of the department strategic objectives, departments undertake not only the duty of directly decomposing enterprise-level KPI, but also the duties of the organizational construction of the department itself and work improvement, etc. Therefore, SWOT analysis of the department shall be conducted prior to the determination of the strategic objectives of the sector.

One decomposition method is usually conducted according to the duties undertaken by different departments, and the other decomposition method is conducted according to the nature of work or the main procedures of each sector.

(1) Establish KPI system according to different duties of departments

This evidence mainly emphasizes the duties undertaken by the department to decompose enterprise objectives so as to formulate evaluation indicators.

Table 2 Department-level KPI

Department	Indicator Weight	Indicator Name
Marketing Department	Market share	Sales growth rate, market share, sales target achievement rate
	Customer service indicators	Instant complaint handling rate, customer follow-up rate, customer turnover rate, completeness rate of customer files
	Management safety indicators	Loan recovery rate, product flow rate, ratio of input and output of sales cost

Production Department	Cost indicators	Productivity, loss of raw materials, equipment utilization, equipment productivity
	Quality indicators	One-time pass rate of finished products
	Management safety indicators	Turnover rate of raw materials and stores
Purchasing Department	Cost indicators	Purchasing price index, turnover rate of raw material inventory
	Quality indicators	One-time pass rate of supplier delivery
Human Resource Department	Management safety indicators	Natural turnover rate of personnel, completion rate of training programs, training coverage, fulfillment rate of staffing demands

(2) Establish KPI system based on nature of work or main procedures

Work Category	Work Type	Indicator Name
Management service	Finance and economics	Responsibility budget expense control, expenditure audit failure rate, high fund completion rate
	HR development	Turnover rate of personnel, fulfillment rate of staffing demands, completion rate of training program, turnover rate of core talents
Market	Marketing support	Market share, brand recognition, complaint handling rate, completeness rate of customer files
	Marketing	Achievement rate of sales objectives, sales growth rate, loan recovery rate and timely completion rate
	Purchase	Fulfillment rate of procurement task, one-time pass rate of supplier delivery
Technology	Production	Technical service satisfaction, stop hours in case of production equipment failure
	R&D	Design loss rate, timely completion rate of single projects, etc.

2.3 Determination of individual or post KPI

After decomposition, department-level KPI gradually becomes feasible and measurable individual KPI. And to implement these indicators in real terms, individual KPI shall be combined with departmental responsibilities.

In addition, decomposition of personnel performance objectives needs some internal and external supports and aids. At first, functions and posts shall be defined in process and organizational structure. Secondly, unite the cognition of the company particularly immediate supervisors about performance evaluation and management. At last, set up smooth and effective performance communication channels.

KPI is generally divided into the following four categories: quantity, quality, cost and time limit. And performance evaluation is usually conducted in these four aspects. And the preparation of specific individual or post performance indicators usually takes into consideration the two aspects: concerns on results and process behaviors. However, the weight of result indicators and behavior indicators is different due to different duty ranges undertaken by personnel at different levels. Senior managers usually undertake the responsibility of results and the work contents are to evaluate the decision-making and management indicators, therefore performance indicators shall focus on result indicators. And primary personnel is usually not responsible for results or the impacts of primary personnel are mainly determined by their codes of conducts reflected in the process of completing tasks, therefore it is important to control the behaviors of primary personnel. So, to primary personnel, behavior indicators take up a big proportion in our design of performance indicators. Furthermore, the higher the position of senior manager is, the less the quantity of KPI is, and the more the number of KPI of primary personnel

is, the stronger the process is.

3 Conclusion

In fact, the effective implementation of KPI performance management system is a strategic step. During the implementation process, enterprises need strong support of relevant systems. Therefore, during the establishment process of KPI system, many unexpected problems inside or outside of the enterprise may occur. And how to handle these problems during the implementation process is extremely important.

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