

DESIGN OF INCENTIVE SETTING SYSTEM BASED ON KEY PERFORMANCE INDICATOR (KPI) AND INDIVIDUAL PERFORMANCE ASSESSMENT OF EMPLOYEES IN ORGANIZATION “A”, 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 was done in order to build an increase in the work motivation of human resources of “A” organization in the industrial era 4.0 and society 5.0 as well as working conditions that were affected by the Covid 19 Pandemic. This effort was made so that the achievement of organizational performance can be optimal. The design of this incentive system is proactive and systemic in accordance with the development of work technology used by the organization and the readiness of human resources to realize all works. This study uses qualitative analysis and the Analytical Hierarchical Process (AHP) method and uses a scoring system. The results of this study indicate that the change in the incentive system initially gave a little resistance but after several months it became accepted by HR as an adequate and objective system in determining the amount of incentives received by HR even though it was carried out during the Covid pandemic 19. Achievement of organizational performance in 4 the first month increased to an average of 22% of achievement 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, KPI (Key Performance Indicators), Work motivation and organizational performance

A. INTRODUCTION AND LITERATURE REVIEWS

The industrial revolution deeply made a fundamental change in the way of life and work processes, where advances in information technology can integrate in the world of life with digital which can have an impact on scientific disciplines. The emergence of the 4.0 industrial revolution created a new face in the phase of technological advancement. In the 4.0 industrial revolution, manufacturing technology has entered the trend of automation and data exchange. This includes cyber-physical systems, internet of things (IoT), cloud computing, and cognitive computing. The existence of digital technology at this time in the industrial revolution 4.0, it had an impact on human life around the world which became known as the 5.0 society. This world will enter the era of Society 5.0 or society 5.0 where, a human-centered society. Society 5.0 is defined as a human-centered society that balances economic progress with solving social problems through a system that deeply integrates cyberspace and physical space. It should also be remembered that this concept in the midst of the world focusing on Industry 4.0 (Use of Technology, Data, and Automation), there is a touch of humanism in Society 5.0 which will be the basic capital for this concept to be accepted by the people of Indonesia and even the world. The focus within Society 5.0 is a great opportunity for Indonesia to accelerate the transformation of its society. For Indonesia, there is no problem directly standing on two legs, the industrial revolution 4.0 and society 5.0. In fact, these two moments must be combined

into a national blue print. KPIs help organizations measure and define the progress of activities in order to achieve goals that were successfully achieved. KPIs are quantitative measures that reflect the organization's Critical Success Factors. Key Performance Indicators are quantifiable measurements that reflect the critical success factors of an organization. Key Performance Indicators (KPI) 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 success of the manufacturing company (Denton, 2015). KPIs represent a landmark that helps company employees and managers to understand the relevance of their work and the results to be attained. 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 implementation is needed, we see that in 90% of the cases, respondents fully or partially correlated the reward of employee with their KPI results. This leverage leads to a breakdown of discipline in the department - level strategic objectives, teams and individuals and to focus their efforts towards achieving activity performance. Key Performance Indicators must be quantifiable (measurable). If a KPI is going to be of any value, there must be a way to accurately define and measure it.

Performance appraisal is the strength of performance management which in turn affects the organizations performance. It helps to identify and overcome the problems faced by the employees on his/her work (Mackey, 2000). According to Nurse 2005, performance appraisals have the equal probability of having a bad impact on the organization as well as on employee performance. There are five important elements in performance appraisal, namely assessment objectives, appraisers, assessed employees' roles, measurement and timing of assessments (Cumming and Worley, 2005: 54). Werther and Davis (1996: 342) stated that performance appraisals aimed at and benefited 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) becomes 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. Through a formalized performance appraisal system, HR will be more serious in working because it has an impact on the receipt of individual compensation. For this reason, the integration of the KPI assessment with the SPK becomes the basis for determining the individual performance value (NKI) which is then used to calculate the amount of the value of the financial incentive received. This formulation is clearly more objective and has a deep impact on the seriousness of HR work

B. THE PROFILE OF OBJECT (ORGANIZATION “A”)

This “A” organization as object in this study, is one of the cooperative or a non bank financial institution containing units save borrowed. This “A” organization have some efforts with togetherness principal for all individual daily are supporting the interests of Member economies in order to promote the welfare of members. A management consultant evaluated turns out level of growth and development of this cooperative venture and explains that this cooperative running in the same position during years. The growth and development of it's organization was not significant. Just only in one province as before, namely java east province. It should be normally enable to operate in some province in Indonesia. Based on the results of the audit found that the organization growth is too small and it is more due to the low performance of human resources and some of the employees do not have the requirement competencies in the current position . There is no performance targets for each employee and a performance assessment that is done at this time is far from the objective matters. Starting earlier in the year 2018 is carried out management consultant to conduct a revamping of management and the consultants conducted to revise and make better performance Assessment and create a new performance assessment system. This activity is implemented after this consultant try hard to reframing mindset of the board and all employees. This assessment combines two rating, i.e. the assessment of Individual Performance and assessment of KPI.

Indeed had been some denial over this change but eventually carried out decisive action so that this future cooperative work force becomes better and better prepared to develop. The implementation and use of the system alignment in this performance assessment which will be discussed in this paper about the successes, obstacles and benefits to form new energize for this cooperative to grow in the future with has a variety of competitive advantage. The management hopes that there will be an improvement in performance by applying a combination of KPIs and Performance Appraisals to measure individual real performance and this will affect the amount of incentive value received by employees and demonstrate the principle of fairness in work.

C. RESEARCH QUESTION

The research questions are as follows:

- a. How to measure the fairness and objective of individual performance that enable trigger to increasing motivation and work spirit of employees?
- b. How create the system and it's count the nominal incentive system based on the results of KPI and Performance Appraisal Measurement?

D. 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 was expected to exploit significant phenomena under extreme conditions. the data collection method used multiple sources. Multiple data sources were required to support the validity and reliability of the data obtained. There were 6 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 checks to improve the accuracy level of data. The data analysis procedure was done in 3 steps through in-depth interview, observation, and document analysis

E. RESULTS AND DISCUSSION

Conceptually, the employee Performance Value is the result of a combination of 2 (two) assessment results, namely (1) KPI Assessment Results and (2) Performance Appraisal Results. The KPI assessment proposed is basically a unit of 2 (two) components, namely the Performance Assessment Result Component with the KPI Assessment Result component for each individual or employee according to their respective positions. The proportions determined are KPI Results weighing 60% and Performance Appraisal Results weighing 40%. The weight for the greater KPI Assessment is intended so that employee prioritizes producing real performance according to the designated Main Performance Areas. The final results will be used to make a decision on the amount of incentives to be received by employees in accordance with the specified time period. The pattern for determining the amount of the incentive value 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 determination of the amount of incentives is carried out after the manager or work unit leader makes a performance presentation every quarter and is followed up with a performance appraisal of success or failure in realizing the work plan for each quarter. Each set incentive value will be valid for the next 6 months until the next quarterly presentation. Thus the amount of incentive received can change up or down or even not receive at all depending on the performance achieved. The management will make a decision letter regarding the policy of giving and the amount of the incentive value based on the management status, position group, grade, and employment status.

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 is higher than the expectation of the previous leader, considering that the KPI-based incentive system and performance appraisals are being carried out for the first time. Leaders must work extra hard in calculating the amount of incentives for each individual. Starting from socializing this system to all work unit leaders. Then do exercises in filling out the KPI sheet and Performance Appraisal and then evaluating the real performance of each employee in each work unit. When employees receive incentives, some ask how incentives are calculated and the team formed can be explained in detail and in detail and get significant acceptance from employees. Even the first experience of using this incentive system gave employees an understanding and awareness that the sustainability of the organization was very dependent on their performance and for this reason employees became more aware that the era of receiving incentives in accordance with contributions to the organization was a fair system and spurred employees to be more accomplished. . In the implementation of this incentive system, there are indeed 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 previous expectations. Supporting the success in implementing this incentive system reform is due more to the mutual awareness of both leaders and employees in protecting the organization from falling income due to the Covid 19 pandemic and due to the solidarity of the work team formed for this reason.

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