

## APPLICABILITY OF ORGANIZATIONAL PERFORMANCE INDICATORS

**Author(s):**

E. Fekete

**Affiliation:**

University of Miskolc, 3515 Miskolc-Egyetemváros, Hungary

**Email address:**

noraeszterfekete@gmail.com

**Abstract:** Today's changing environmental challenges and accelerating technological advances over the past decade have presented companies with new challenges. There is an increasing emphasis on human resources, which can give companies a real competitive edge. At the same time, the focus is on the development of HR systems and their connection to other systems that determine how companies operate. Individual performance evaluation, in close connection with other HR functions, nowadays, in addition to evaluation, which may have a development or remuneration function, is linked to the performance of the organization. Accurately defining the latter and developing its measurement methodology, though not primarily as an HR function in most cases, is essential in the pursuit of effective operation. It is worth defining the indicators that may apply to a particular organizational unit and, at a higher level, to the whole company. The definition, implementation and measurement of indices and KPIs presupposes that the specified qualitative and quantitative indicators provide an appropriate framework for the evaluation of real performance. The performance of individuals determines the performance of an organizational unit, which in aggregate also predicts corporate-level performance.

**Keywords:** performance management, individual performance, organizational performance, KPI, metrics

### 1. Introduction

In order to get to know and measure individual performance, one has to determine the organization's expectations regarding the system, paying special attention to the basic tasks of the organization. In modern corporate operations, both organizational-level performance measurement and individual performance measurement are integrated into management functions in a professional approach.

Organizations, tools developed to measure the performance of larger and smaller organizational units, are becoming more widely used as HR functions expand and their role grows. Applying an organization-wide, all-inclusive performance appraisal system requires a lot of energy and time from those involved. In order for performance indicators at the individual level to be effective and to support the achievement of goals, the commitment of the participants is essential. Nowadays, based on already established international experience, managerial leaders have realized that human resources can be a real benefit to them and to their organization. After all, if

their employees are well-trained and motivated, which gives the company a competitive advantage;  
employees are task-oriented and committed, which increases productivity and satisfaction;  
the organization operates along these principles, making it easier to obtain and retain the necessary workforce (Dara, 2011).

Managers are responsible for providing cost-effectiveness indicators, but it should also be part of the daily routine to ensure that employees have responsibilities. In addition to providing the physical environment (office, computer, equipment), there are factors that are most influential to the driver and have a major impact on work efficiency. Managers need to find a method that specifically approaches the performance appraisal system with knowledge of employee skills and competences.

As early as the mid-20th century, american authors have pointed out that applying and setting inappropriate goals can keep motivation levels low or, on the contrary, reduce them (Stedry-Kay, 1966) (Figure 1.). In

order for an employee to perform at the highest level of motivation, challenging goals must be set that presuppose that they are employed in the right job.

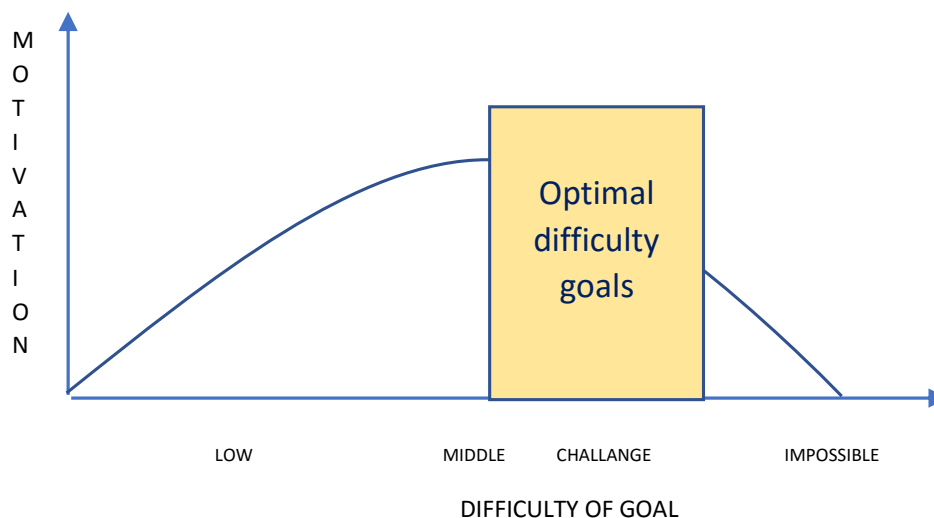


Figure 1. Setting Individual Performance Review Goals (Source: based on Stedry-Kay, 1966)

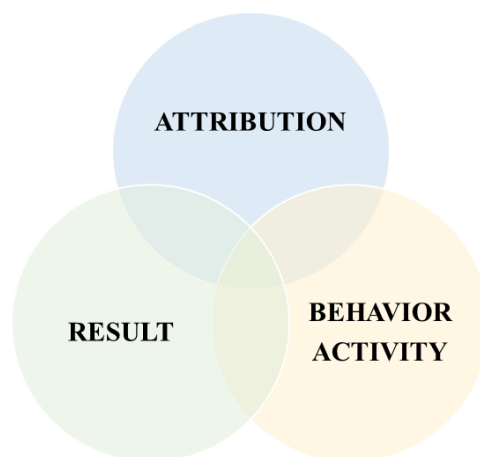
Generally speaking, performance evaluation is the process of measuring employee performance on an individual or group basis (Deák et.al, 2013). It can be formal or informal, but in each case its primary purpose is to get feedback on the performance of the employees. The purpose of performance evaluation is to measure the individual's performance and motivation, and to determine development goals. In the long run, it can also lead to an improvement in the manager-employee relationship and appropriate goals - which are realistic and achievable - can increase employee satisfaction and commitment. Opportunities for personal and professional development, and participation in training and professional programs, are clearly emerging as an opportunity for employees (Szabó, 2016: 439-450).

“For a long time, knowledge, ability and motivation, as well as their interaction, have been considered as the main influencing factors of individual performance. However, more and more people are now recognizing that a third element in the creation and enhancement of individual performance is the elements of the delivery environment (including the nature of the job, physical and non-physical environments, such as clear work expectations, goals, rules, norms, and support from a leader) is also critical. As a result, more and more people believe that performance is not just a matter of evaluating, but also of planning, managing” (Karoliny-Poór, 2010: 283).

### ***Performance dimensions***

A well-chosen metric and a formulated criteria system can motivate individuals to perform better, but the multiple negative impact of this can be achieved by a poorly formulated measurement system. Given the fact that not all are measurable objectively, we need to be able to determine the level of expectation at which we already accept that our evaluation system will support the achievement of the set goals. Benchmarking can measure results, either in absolute terms (eg. sales) or relative (through indicators such as number of customers) or even against benchmarks (based on results at a given time). However, in some jobs the results are not so easy to grasp, in which case it is worthwhile to evaluate the behaviors, activities and the rate at which they are achieved. In order for the employee to behave as expected, he / she must have certain abilities, habits (eg. enthusiasm, intelligence), so by assessing personality traits we can judge his / her competence set and attitude towards work (Veresné-Hogya, 2011).

Individual performance can be approached from three sides, and it is through the interaction of these three components that the actual performance is created. Based on these, the three dimensions are attribute, behavior and result. The combination of the three dimensions is illustrated in the Figure 2. below:



*Figure 2. Dimensions of performance (Source: based on Karoliny-Poór, 2010)*

The interaction or balancing of the three dimensions is crucial. Without basic knowledge, enthusiasm cannot lead to excellent results, or failure to put existing knowledge into practice can achieve the desired result.

The attribution dimension defines the general characteristics, such as the individual's adaptability to the organization, to work, the individual's initiative, general knowledge, job knowledge, creativity that he or she can apply in his or her work.

The dimension of behavior, activity, shows the manifestations directly related to the performance of tasks in the job, such as managing problems or following instructions. It also points out the person's attitude, ability to collaborate with the group, and provides information about, for example, accuracy at work.

The result dimension shows quantifiable information such as a quantity or cost page. Measuring the performance of an individual along this dimension is more accurate than measuring the first two dimensions because performance is measured on the basis of objective information. We can really measure this by using indicators (Karoliny-Poór, 2010).

## **2. Organizational Performance**

A prerequisite for the effective operation of performance measurement systems is that in the hierarchy of goal setting, the goals of each organizational unit are defined from strategy-based goals. Their interrelationship and interactions with each other are clear, and their interdependence can be the basis for deriving specific goals from individuals. Goals for individuals and the tasks involved in achieving them must be challenging and realistic. Through exact formulations, addictions, deadlines, individuals can be motivated to perform high quality work. The success of an organization and the performance of the organization is the sum of the individual performance. However, its definition is not based on a simple mathematical formula.

Organizational performance is generally the result of qualitative and quantitative performance in the accomplishment and execution of tasks defined to achieve the goals of an organization (Bakacsi et al., 2006: 184). Quantitative indicators such as sales, profit, and EBITDA can be used to measure the fulfillment of expectations based on objective parameters. When defining quality indicators, the goal can be to measure productivity, efficiency, and cost-effectiveness, by which organizations can designate a framework within which they can measure factors that are more difficult to quantify. To determine and measure all these indicators, it is necessary to consider the life cycle of the organization, the culture of the organization and the activities of the company (Poór, 2004). It is not possible to apply the same indicators to standards of general application in the case of a technology software company founded a few years ago and a large state-owned venture operating in a stable market. For the former, the life cycle of an organization influences profit and revenue from quantitative indicators, but quality indicators can be a good direction for the management of the company to see if the vision of the company can be realized with the launched business. For the latter company, they are among the core values of stability and security, so the company's organizational culture

can influence whether the performance of an organization can be measured and validated, for example, by the application of a performance indicator based on its ability to innovate.

KPI stands for Key Performance Indicator, which means "key performance indicator". KPIs are a measurable metrics of how well a company is working towards its goals. Companies look at different KPIs at multiple levels to see how effective they are in achieving those goals. High-level KPIs show the performance of the company as a whole, while lower-level indicators show the effectiveness of smaller organizational units (eg, production, sales, marketing, HR, etc.). A KPI can only be as valuable as the activity or process measured by the KPI. It can be a fundamental mistake to use industry benchmarks as your own index, which runs the risk of leading to useless data that does not help the company achieve its goals (Matthew, 2017).

An effective KPI is that it contains concise, clear and relevant information that is clear to stakeholders, because without it, meeting its associated goals will not achieve the expected impact. To use effective performance metrics, you must have a thorough understanding of the organization's goals and who is responsible for achieving those goals. The operation of defined and accepted indicators is a process that builds on feedback from participants and modifies the content of performance indicators as needed.

It may also be suitable for measuring performance and thus monitoring the applicability and effectiveness of performance indicators. The SMART method, which means "smart" in English, however, can help you measure KPIs as an acronym when using performance metrics by answering the following questions:

S - Is the goal specific?

M - Is the process by which we achieve this goal measurable?

A - In the actual situation, can this goal be realistic?

R - Is the goal relevant?

T - Can the goal be achieved within the planned time frame?

When defining performance indicators, it is a prerequisite that it is related to the business objectives, which is to control critical business processes. To determine a good KPI, we need to know what the end result we expect, along with why achieving it in the life of the company, is paramount. It is necessary to determine in what way, by what means we can measure progress, whether we can, and if so, how, to influence the achievement of the result. For each indicator, it is necessary to record in advance who is responsible for what he / she can do and what to do to achieve the goal. Beyond defining the time needed to reach concise, relevant goals, it should be made clear at what intervals and by what method we will measure progress.

A well-chosen and well-developed performance indicator system is an essential tool for managing a well-structured company. The need for and usefulness of indicators can be monitored by examining several factors. In all cases, the indicators should aim to measure the fulfillment of the strategy. Ownership expectations, strategy formulation are not enough, they need to be measured. KPIs can provide guidance as a management tool to help eliminate employee or process errors, and do not fall into the mistake of covering routines in a daily routine. A good indicator can give you a warning right from the start when errors occur, so they can be handled and problems resolved faster. The indicator provides an opportunity to develop actions at an early stage of problem solving and, if necessary, to synthesize or even harmonize the information available to us for success. It is also a good tool to link organizational and individual goals through KPIs, and to define the tasks and levels of responsibility to be accomplished at different levels of influence over achieving the same goal. Based on this, it provides objective feedback to individuals, offering opportunities for repair in case of errors, and opportunities for improvement and recognition for good performance.

Besides, if we do not develop a system of performance indicators, if its operation is only a disguise to hide the inefficiency of the organization or processes, its negative consequences can even be a strong demotivating factor in the life of a company. Stakeholders, like the benchmark for success in individual benchmarking, must be aware of the realistic goal to be achieved, be aware of the tools of implementation, feasibility, have the necessary competencies and, if successful, be recognized if their organization is measured along KPIs. their performance as well.

We can define performance indicators in quality, production, sales, HR, operations, and a range of other areas, but we should always strive to identify and relate to each process, regardless of which process, organization or function a system of criteria by which they can be linked to individual performance requirements.

As a summary of the above, whether you want to determine an organizational or individual performance indicator, the following factors should be considered:

Whether the indicator can be used, the results are used by the organization for development or bug fixes.

Is the indicator economical, operating and measuring it outweighs the invested resources?

Is the content, conceptual framework and operation of the organization detailed and comprehensible to its stakeholders and does its operation and measurement meet its needs?

Whether the indicator is measurable, has IT support for measuring, recording and sharing information.

Are the individual indicators comparable, support the dismantling, realization of the strategic goal in their context and operate according to a general set of rules regardless of the area?

Can we define them as realistic and independent indicators, taking into account their interaction and interrelation.

The lack of fulfillment of these criteria calls into question the applicability, effectiveness and acceptance of performance indicators. For each metric, it is worth examining, along with the questions above, whether the goal, the metric, and its stakeholders are the most appropriate form to monitor performance.

### ***Balanced Scorecard***

The Balance Scorecard business performance model can be a good tool to measure organizational performance by turning a high-level strategy into operational and achievable goals, following a step-by-step logical process. Most organizations formulate their mission and, at the bottom, formulate goals for employees based on the company's core values (Kaplan-Norton, 2004). The model provides feedback on operation and guarantees performance measurement based on objective metrics. It breaks down mission and strategy into specific goals and indicators and organizes them into four different perspectives - financial performance, customers, operational processes, and learning and development. In its application, we align financial goals with strategy. All of these indicators are part of a chain of causation that ultimately culminates in improving financial performance. The Balanced Scorecard should reflect the corporate strategy: starting with long-term financial goals, then combining them with the series of actions needed to achieve the desired long-term performance in financial processes, customers, operating processes and ultimately systems and employees (Gupta, 2015). As a result of developing a customer perspective, an organization must have a clear view of its target customers and market segments, and their selected key performance indicators in terms of market share, customer retention, acquisition, satisfaction and profitability. These scorecards determine the goals to be achieved along the processes associated with each function. From the operational process point of view, executives identify critical processes in which the company must excel in meeting the goals of its owners and target customer segments. The application of BSC enables the company to drive the demand for operational process performance from the expectations of individual external stakeholders, thereby integrating the development process into the operational perspective. Beyond defining the needs, designing and creating individual products and services is an important step, providing opportunities to enter new markets as well. In addition, the organization must identify the cost, quality, time, and performance characteristics that enable the company to deliver excellent products and services to its current target customers. Finally, the process of post-valuation services enables the company to prioritize, when available, the feature of the service that occurs after the purchased product or service reaches the customer. The BSC's final point of view includes objectives and indicators related to organizational learning and development. Goals based on financial performance, customer and operational processes determine where the organization needs to excel in order to achieve breakthrough performance. The aims and indicators of the learning and development perspective provide the backdrop (infrastructure) to achieve the ambitious goals set in the other three areas. Organizations also need to invest in infrastructure - people, systems and procedures - to achieve their long-term development goals.

The application of BSC can provide an answer to the evaluation of the performance and the adequacy of the processes, subdividing the opportunity and the adequacy into elementary parts. In any case, performance indicators should be linked to a specific task or process, with specific and comprehensible criteria to be used as an objective measure of evaluation.

### **3. Summary**

The use of performance indicators in the life of companies should be closely linked to the company's strategy, which, given the external and internal factors affecting it, can be used successfully to measure both organizational and individual performance. Individual performance appraisal method is a real added value for business organizations. A well-chosen methodology, well-formulated goals can support individual



engagement and provide a competitive advantage at individual and organizational levels. For companies built on an economic basis, operating efficiently in a market environment, they must have a track record of employing employees, retaining workforce, and personal development, one of the key elements of which is performance measurement. In addition to following technological developments, the added value of individual benchmarking is also reflected in economic indicators. The assessment of tasks, tasks and individual competencies also provide excellent support for meeting the challenges of the latest age.

If the business has a clear vision and mission that is embedded in a strategy that is well known and accepted, we are likely to set a framework within which we can link relevant, measurable, and realistically measurable indicators to organizational-level goals. Organizational performance is made up of the performance of individuals, given that the independence of the two rating systems must, in fact serve the same purpose. The common goal is for the company to operate efficiently, utilizing environmental opportunities, reducing potential risks, and maintaining employee motivation and satisfaction at the level of economic and efficiency.

Organizational developers, consultants, and economists share a common mission in research and practical experience to improve performance, seeking and offering new types of incentive to 21st century employees. The goal is the same, finding untapped capacities in human resources, encouraging them to experience a shared success, and stepping out of the ordinary, looking for the most appropriate methodologies and evaluation systems to meet the challenges of the age. The key to organizational performance and success lies with our employees, who, through their actions and attitudes, can make our business a success or move the company in the opposite direction. It is a lot of tasks but nice tasks and a real challenge for today's managers.

## References

- [1] **Bakacsi–Bokor–Császár–Gelei–Kovács–Takács:** Stratégiai emberi erőforrás menedzsment. Budapest, 2006. Akadémiai Kiadó, 184 o.
- [2] **Dara Péter:** Teljesítménymenedzsment, Budapesti Gazdasági Főiskola, 2011. Digitális Tankönyvtár
- [3] **Deák István, Imreh Szabolcs, Kosztópulosz Andreász, Kürtösi Zsófia, Lukovics Miklós, Prónay Szabolcs:** Gazdasági alapismeretek I., Teljesítményértékelés; 2013. Digitális Tankönyvtár
- [4] **Milon Gupta:** Balanced Scorecard Revisited – How to Use BSC in Strategic Management, In: Strategic Thinking, 19.10.2015.
- [5] **Robert S. Kaplan – David P. Norton** (2004): Balanced ScoreCard, Budapest, KJK-KERSZÖV Jogi és Üzleti Kiadó Kft.
- [6] **Karoliny Mártonné-Poór József:** Emberi erőforrás menedzsment kézikönyv, Rendszerek és alkalmazások, 5. átdolgozott kiadás, Complex Wolters Kluwer csoport, Budapest, 2010. 8. fejezet, 283. oldal
- [7] **Máté Balázs:** Mi az a KPI és hogyan határozzuk meg? In: [www.matebalazs.hu](http://www.matebalazs.hu); 2017.07.05.
- [8] **Poór József:** Bevezetés a közigazgatási emberi erőforrás menedzsmentbe Budapest, 2004. Magyar Közigazgatási Intézet
- [9] **Andrew C. Stedry.** Emanuel Kay: Systems Research and Behavioral Science, The effects of goal difficulty on performance: A field experiment, John Wiley & Sons Ltd.,1966.
- [10] **Szabó Anna:** A munkavállalói elkötelezettség növelésének hatása és lehetőségei; Opus et Educatio tanulmányok, 2016/4. 439-450. oldal
- [11] **Veresné dr. Somosi Mariann, Hoga Orsolya** (2011): Teljesítménymenedzsment, [http://www.tankonyvtar.hu/hu/tartalom/tamop425/0049\\_02\\_teljesitmenymenedzsment/3039/index.html](http://www.tankonyvtar.hu/hu/tartalom/tamop425/0049_02_teljesitmenymenedzsment/3039/index.html) 2019. 05.12.