

Performance Indicators and Remuneration of Personnel

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Abstract: The salary of personnel is principally engaged in the management of the organization. In the practical activity of the organizations are applied various methods of payment. This report provides an exemplary model of a wage through key performance indicators. Specified criteria are the stages of application, advantages and obstacles to the use of key performance indicators in the remuneration of staff in the organization.

Index terms: Key Performance Indicators; management; efficiency; remuneration.

JEL: D74, M12, M54

I. INTRODUCTION

The improvement of the efficiency of the organization and its competitiveness depends on the motivation of the staff working in it. Important tool to increase staff motivation is the development and implementation of adequate systems of performance evaluation and remuneration corresponding to the organization. Along this material employee benefits depend largely on the financial performance of the organization. The main objectives of the leaders increase the potential of employees through accurate assessment and adequate remuneration which also consequently improve the performance of the entire organization.

II. THESIS

Key performance indicators (Key Performance Indicators - KPI) (Porter, 2010) are main approach to management and evaluate the management of the organization to successfully achieve the strategic and operational objectives. KPI originally developed by R. Kaplan and D. Norton (Kaplan Norton, 2006), are in their capacity management tools and system and methodology of Balanced Scorecard which evaluate the activities of the organization.

Approach to define the objectives to control the degree of their achievement is based on the concept of "Management by objectives" (Management by Objectives - P. Druker) and it solves the following main tasks:

- Planning tools and methods to achieve the goals;
- Forecasting the possible outcomes of the organization.

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Management by Objectives is a systematic organizational approach that allows management to concentrate on the goals and maximize good results. This approach allows the system of objectives at different levels of management of the organization to be completed with the individual goals of each employee. Management by Objectives leads to higher motivation of people in the organization because it sets goals that are corresponding to their power, and if not, the objectives are subject to adjustment. The Organization is creating conditions for professional growth of staff, satisfaction from the work and striving for expression. Disadvantages associated with the use of Management by Objectives are: diversity of criteria for assessing the degree of achievement of objectives; longer liquidation periods, etc. (Stoyanov, 2014).

In the practical work of the organizations, there are different approaches to determine the remuneration. Many of them are related to the position taken by other personal characteristics of the employee, and some of the successful execution of tasks.

The approach „3P“ aims to develop and implement a remuneration policy based on the simultaneous assessment of: requirements of the position held, individual characteristics of the employee and the results of her work (productivity). The approach „3P“ for determining the remuneration of a country is based on external information, and the other hand- the objectives of the organization and allow to set guidelines for drawing up the short and long term plans for compensation.

The application of this approach supports the mission, strategy and objectives set for the organization and determine the essential role of human resource management in the process of decision making. The application „3P“ can be formulated as:

- Remuneration for position (Paying for position);
- Remuneration for individual properties (Paying for person);
- Remuneration for work performance (Paying for performance) (Drucker, 2002).

Application of key performance indicators helps to assess not only the degree of implementation of the strategy and objectives set for the organization, but also to motivate and monitor the activity of employees.

Key Performance Indicators and staff motivation are inseparable concepts as using KPI, and can be created like an effective system of evaluation and promotion of employees in organization.

Assessment of performance is intended not only for the management of the organization, but also for the employees who receive information about the quality of

work, the level of qualifications and potential. Assessment of labor is the basis for making decisions on remuneration, training, retraining and career development of staff.

For evaluation of performance of staff KPI is effective only when it is composed of a set of relevant indicators, which cover adequately measure performance. In assessing the work performance of staff KPI solve the following tasks:

- Determining the range of adequate and accurate performance assessment of performance;
- Differentiation and grouping of Key Performance Indicators depending on the specific activities of the organization;
- Measure the achievement of the objectives of the employees of the organization;
- Developing a model for evaluation and remuneration KPI;
- Evaluation of the effectiveness of the activities of staff;
- Enabling activities in the organization to acquire a systemic nature.

The article presents an exemplary model for evaluating the performance and determining the remuneration of specialists from the "Human Resource Management" by the use of KPI. Important in this process is the selection of measurable quantitative and qualitative indicators of job performance of employees. In practical activities apply different indicators that are often associated with the activities and functions performed by the department. For example, the following parameters can be used for the activities recruitment, selection and training of staff:

Activity "Recruitment and selection":

- number of staff employed;
- Average number of days to search for a candidate for a vacancy;
- average cost of recruitment and selection of one assistant;
- % employees completed the probationary period;
- Coefficient of Relevant aptitude qualification (RAQ):

$$RAQ = \frac{WRAQ}{TNW} \cdot 100 \quad (1)$$

where: WRAQ - number entering workers Relevant aptitude qualification;

TNW - total number of workers entering.

Activity "Staff training":

- implementation of the plan for staff training;
- coefficient for successful staff training (SST)

$$SST = \frac{SAP}{TND} \cdot 100 \quad (2)$$

where:SAP - number of staff with skills appropriate to the position held;

TND - total number of employees in the department.

- coefficient of effectiveness training (ET)

$$ET = \frac{EIQW}{NTS} \cdot 100 \quad (3)$$

where: EIQW - number of employees, increased the quality of their work;

NTS - number of trained staff.

- proportion of graduates/undergraduate training the total number trained, etc.

The remuneration may be selected indicators 3-5 (in Table. 1 are given three indicators - KPI1, KPI2 and KPI3). The amount of remuneration is formed as the sum of a constant and a variable part of the salary.

Table. 1 shows the relative weights of constant and variable part of the remuneration and those of the key performance indicators in the variable part. The sum of the relative weights of the different parts of the consideration is equal to 100 %.

TABLE 1.
DISTRIBUTION OF REMUNERATION

Distribution of Remuneration				
Permanent Part (%)	Variable Part (%)			Total
	KPI ₁	KPI ₂	KPI ₃	
60	20	15	5	100

The variable part is the sum of the weights of indicators KPI and the performance of the KPI (Table. 2).

TABLE 2.
DISTRIBUTION KPI

Indicator	Weight %	Schedule	Current	Implementation	K %
KPI1	50	5	6	1.20	60.0
KPI2	15	2	3	1.50	22.5
KPI3	10	4	5	1.25	12.5
KPI4	5	3	5	1.67	8.35
KPI5	5	1	2	1.50	7.50
Sum	100				

Remuneration of employees of the department, "Human Resource Management" is the sum of constant and variable part by considering the relative weights of the specified performance KPI.

The remuneration may be included and indicators that reflect the overall activities of the organization, while

specialists from the "Human Resources Management" does not directly affect them (Table. 3).

TABLE 3.
SAMPLE KPI INDICATORS AND EVALUATION

KPI Indicator	Implementation
Revenue	Program/report
Expenses	Program/report
Earnings	Program/report

Using the KPI can not only monitor and evaluate the effectiveness of the organization, but also to build a fair and motivating reward system. KPI system must meet the following criteria:

- Indicators reflect key aspects of the business (business processes in the organization);
- Sustainable indicators have causal- investigation relationship with other indicators;
- Each item should be clearly and precisely defined;
- Target values of the indicators to be achievable (the goal is real), but at the same time is an incentive for the employee;
- Rated employees can have a significant impact on selected indicators within their job duties;
- Indicators to be common, linked to the objectives of the organization and specific for each subdivision or an employee;
- Primary information required for the calculation of indicators to be collected easily;
- Indicator that in economic sense can be used to analyze the activity of the unit, division and organization.

In developing the methodology for the application of KPI and the fulfillment of the following practical principles:

- To determine the constant and variable part of remuneration, the continuous part is about 50-60%;
- The more important purpose, the larger relative share;
- Initially to determine the weights of the most important KPI, and the next stage, that of the less significant indicators;
- Items that are hard to measure have smaller share;
- The sum of the weights of the KPI is equal to 100%.

The determination of the remuneration of the staff through a system of KPI goes through the following stages:

1. Determination of the positions (positions) in the organization to be included in the model for consideration by KPI;
2. Definition of key performance indicators (KPI) and the weight of each of them, taking into account the objectives set for the given division in the organization;
3. Determining how to account for the performance;

4. Determining the percentage allocations for the implementation of the indicators (the value of the coefficient of performance and failure);
5. Developing a model for compensation that will be determined wages (defining ratios between fixed and variable part of the premium to wages);
6. Determination of the model to calculate the variable part of the salary;
7. Testing options for determining the amount of wages for different values of KPI;

Design of documentation for the particular model of remuneration KPI (How KPIs can help motivate and reward the Right behavior, IBM Software).

The application of key performance indicators in the design and administration of reward system helps:

- Linking wages with the final results of employment - employees receive remuneration depending not only on the quantity but also the quality of their work;
- Enhance the effectiveness of management in the organization - allows timely adjustments to be made in the work of employees in the change of the market situation or factors of production;
- Intelligibility - employees easily understand the model of remuneration and the relationship with the end results;

Frequency of receipt of additional consideration (may be monthly, annually, etc.)

In some cases, the organization has become necessary to define a new additional indicators that may result from the following reasons:

- Amendment of the functions and tasks of the employee;
- Change in the strategic priorities of the organization.

Application of KPI in evaluating job performance and develop solutions to help pay for:

- Transparency - the assistant is motivated to achieve results is familiar with the criteria for assessment of his occupation, and upon reaching it a certain result, he receives additional remuneration. Receipt of additional compensation is possible only upon reaching certain performance KPI (checkside.wordpress.com)
- Definiteness - employees clearly understand their goals, objectives, time schedules, and they are connected with those of the organization;
- Prospects for career development - employees are confident that not only can receive additional remuneration, but on the basis of the results to be elevated position.
- Constant maintenance of feedback - management of the organization is aware of the work of each division and heads of departments - the work of every employee.

Parallel implementation of KPI has some drawbacks:

- Lack of universality - KPI system is applicable to organizations offering standardized business processes.
 - KPI system is closely related to indicators such as revenue, costs, profit organization and departments that do not directly affect them which is difficult to be assessed.
 - Remuneration linked to performance is appropriate for employees who have:
 - reached the required standards of performance;
 - above the average performance (Lingham, 2011).
 - Maintaining constant feedback at all levels in the organization requires additional time, which can reduce the efficiency of the employees in the exercise of their fundamental job duties.
 - In some organizations in the initial application of the model, KPI indicators may be inaccurate or ambiguous.
 - Individual indicators for the individual employee are related to the work of our colleagues from the division and thus excellent working professional may not receive its rightful remuneration and reduce his individual motivation. In some cases, the reward system in KPI does not encourage teamwork.
 - There is a risk of unfair competition in the department or division of the organization (attempts to be "stolen" customers from other departments or colleagues).
- Appropriate and equitable management of funds for compensation in the organization and reduce the time to identify and calculate it.

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- How KPIs can help motivate and reward the Right behavior, IBM Software.

To avoid the drawbacks mentioned in some organizations calculate annual or six-monthly summary odds premium of employees (simple average values for the whole period). It is also the leadership of the organization to continuously analyze the effectiveness of incentive-based KPI (at least 1 time per year) and, if necessary, change the set of KPI or severity, etc.

III. CONCLUSION

Key performance indicators are the criteria for the assessment of employment and incentive and performance and quality work. Proper use by the organization can motivate the team and each individual employee. Evaluation of the results of the work performance of staff and the use of KPI in remuneration contributes to:

- Control over the implementation of current and long-term indicators of the organization;
- Evaluation of personal performance of the work of each employee, division and organization as a whole;
- Directing the efforts of the staff to achieve the strategic and operational objectives;