

# Research on Optimization of Management System of Small and Medium-sized Enterprises Based on Key Performance Indicators

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**Abstract.** Performance management is an important part of enterprise human resource management, which helps enterprise managers to review the past period of enterprise operation and development, dynamically and continuously monitor the realization of the organization's expected goals, and realize dynamic two-way communication, communication and evaluation among all levels and departments of the enterprise. Based on the KPI (Key Performance Indicators), this paper further optimizes the management system of small and medium-sized enterprises. In fact, performance appraisal is only an important part of performance management, and it is a local link and means in the management process. At present, the company's performance management, by comparison, pays more attention to the results and ignores the management process. In an enterprise, the performance of employees is embodied in the quantity, quality, time, cost, etc. The establishment of KPI can provide an objective and fair judgment basis for the enterprise's value evaluation and value distribution system, and can accurately measure whether and how much employees have contributed to the value creation of the enterprise.

**Keywords:** Key performance indicators, Small and medium-sized enterprises, Management system

## 1. Introduction

With the continuous development of market economy and the transformation of enterprise management from extensive to standardized, traditional enterprise management is also changing to modern performance management. At present, small and medium-sized enterprises implement a control oriented target management approach, which equates performance appraisal with performance management, and takes the evaluation results as a basis for salary payment. It is not closely related to the performance improvement and strategic implementation of employees and organizations. Performance management is an important part of enterprise human resource management. It helps enterprise managers to review the operation and development of the enterprise in the past period, dynamically and continuously monitor the realization of the organization's expected goals, and achieve dynamic two-way communication, communication and evaluation between departments at all levels of the enterprise [1]. This paper further optimizes the management system of SMEs based on the KPI. The KPI are a kind of objective quantitative management indicators that measure the process performance by setting, sampling, calculating and analyzing the key parameters of the input and output ends of the internal processes of the organization. They are tools that decompose the strategic objectives of the enterprise into operational work objectives and are the

basis of enterprise performance management. The KPI implemented by some enterprises are also lack of strategic consideration. If the enterprise development strategy is not well combined with the employee's personal development, the employee's behavior cannot be well combined with the enterprise's development, and the value and role of management by objectives cannot be reflected, the common development of enterprises and individuals cannot be achieved [2]. Enterprises must rely on effective performance management tools to implement strategies and achieve strategic objectives. The establishment of KPI can provide an objective and fair evaluation basis for the enterprise's value evaluation and value distribution system, and can accurately measure whether and how much employees have contributed to the enterprise's value creation.

The core purpose of performance management is to find the weakness of enterprise operation and continuously improve it, to provide a basis for value distribution, and to guide the behavior of employees to the predetermined direction of the organization. In fact, performance appraisal is only an important part of performance management, which is a part of the management process and means. At present, the performance management implemented by the company, by contrast, pays more attention to the results and ignores the management process. In an enterprise, the performance of employees is embodied in the quantity, quality, time, cost, etc. of the work completed. KPI are a

series of independent and relevant key factors that can be measured and evaluated, and can more completely describe the job responsibilities and different aspects of performance of employees. They are also the basis for enterprises to carry out performance management, and are the driving factors to promote the creation of corporate value [3]. Once the enterprise has determined the KPI of the current period, it is equal to determining the focus of performance management. Managers and employees at all levels of the enterprise should focus on KPI in their daily work, and focus more resources on the implementation of KPIs, so as to effectively improve work efficiency, avoid waste of resources, and reduce the cost of enterprise performance management as a whole [4-5].

## **2. Present situation of performance management in small and medium-sized enterprises**

### **2.1 Main theories of performance management**

After the completion of the performance system, all levels began to work according to the goals given by the organization and the performance tasks set. Enterprise managers should inform different functional departments and specific employees, inform them of the performance goal setting, the specific time schedule for accomplishing the goal, the amount of work to be completed, and try to keep it independent. Managers only provide the resources, support and help needed for their work [6]. In the process of accomplishing the objectives, managers should follow up and guide the completion of the objectives on a continuous basis. In addition to copying other enterprise indicators, it will also lead to the problem of incomplete assessment. In practice, many private enterprises often only pay attention to individual performance. Enterprise-level and department-level indicators are set irrationally, which is not comprehensive enough, and there is a fault, which may lead to the management only paying attention to individuals, while neglecting the working relationship between departments and teams, which may destroy team harmony, which is not conducive to the scientific performance management orientation, and is not conducive to practice [7]. Every month, the management department should analyze each index according to the monthly report. If there are abnormal data, it is necessary to investigate and analyze the reasons. For the substandard items, it is necessary to make an abnormal problem analysis report, and the executive department should make improvement measures for abnormal problems, so as to accumulate data for the adjustment of periodic indicators.

Economic benefits cover a wider range, considering job performance, which is influenced by factors such as functional output and age. Here, considering the age factor, it is mainly to consider that the age of executives is mostly capped, so it won't be very big, but they are often experienced because of their age, which makes jobs generate more income. According to whether the post or department has completed the performance and the degree of completion of the task, the corresponding rewards and

punishments will be given, and the reasons why it can't complete the performance goals will be analyzed from the perspectives of individuals and enterprises, and the reasons will be systematically sorted out and summarized to provide the basis for the adjustment of the performance system.

### **2.2 Application status of performance indicators in small and medium-sized enterprises**

In many small and medium-sized enterprises, performance management is just performance appraisal, and most of the criteria for performance appraisal are simple, such as working hours and completed quantity. It is uncertain whether the employee's work performance is the same as the enterprise's goals, and there is a phenomenon of making up for the number [8]. Small and medium-sized enterprises do not have a systematic job analysis and do not fully grasp the key links of work. On the basis of analyzing the internal and external environment of the enterprise, KPI defines the specific performance indicators of the company and each department and the performance indicators that promote the strategic objectives of the organization, realizes the measurement and control of market standards and department performance, emphasizes the joint responsibility of each department, and promotes the mutual coordination of the performance objectives of each department under the same main line. In recent years, objective and quantitative evaluation can be said to be the focus of many enterprise management, which uses the criteria of prior commitment to evaluate the actual performance of employees to achieve the purpose of performance improvement. This standard is specific, objective and basically quantifiable. This stage is the quantitative evaluation and target evaluation stage, and the preliminary stage of scientific performance evaluation.

Using the management experience of mature enterprises for reference, the assessment indicators should be determined through repeated communication and consultation between superiors and subordinates according to the employee's job description, in combination with the enterprise's development strategy and the department's business objectives. When the general direction and general objectives are determined, the objectives should be broken down, transmitted level by level, and the objectives that the examinee should achieve should be established. These objectives are usually the basis and standard for the evaluation of the examinee [9]. In the practice of performance management, people have designed some methods that focus on evaluating employees' behaviors, and defined the behaviors that employees must have to complete their work effectively. Its main content is: first, use various technologies to define the employees' work behaviors, and then make evaluation according to the extent to which the employees show these behaviors.

### 3. Optimization Countermeasures of Management System of Small and Medium-sized Enterprises Based on Key Performance Indicators

#### 3.1 Problems of Performance Management System in Small and Medium-sized Enterprises

Many small and medium-sized enterprises introduce performance appraisal, purely to provide the basis for employees to pay salaries, bonuses or promotions, but fail to realize that performance management is a process of continuously developing employees' potential and improving organizational performance through PDCA cycle. It provides an objective factual basis for appraisers. The content of appraisal is not the short-term performance of employees, but the overall performance within a year, which has a large time span and can run through the whole appraisal period. Based on the facts, the dynamic key event records are kept, so that you can fully understand how subordinates eliminate bad performance and how to improve and improve their performance [10]. In the process of performance appraisal in management practice, employees often have resistance, which is easy to produce conflicts. Therefore, enterprise management must clearly recognize the value and purpose of performance management, and transmit it to grass-roots employees, so that employees can clearly understand the significance and purpose of the assessment, thus creating a positive performance management atmosphere. The problems of SME performance management system are shown in Figure 1.

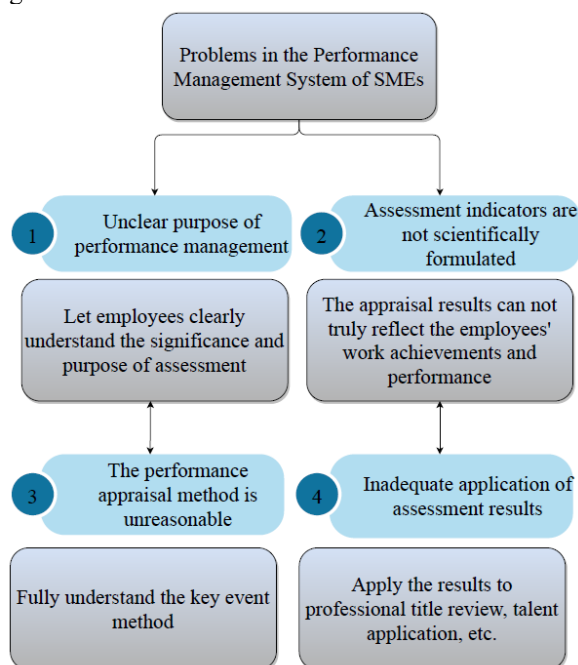


Figure 1 Problems of SME performance management system

Many enterprises have encountered such a dilemma in the process of introducing KPI, that is, it is difficult to accurately and fully transfer the strategic intention of the enterprise among all levels within the organization, and

KPI deviates from the strategic objectives and business priorities of the enterprise in the process of decomposition. KPI requires enterprises to establish the idea of realizing value for customers inside and outside the organization, which is conducive to the formation of market-oriented business ideas and brings benefits to customers inside and outside the organization. It can achieve the agreement between the overall benefit of the company and the individual benefit of employees, and the systematic decomposition of the company's strategy will enable the company's strategy to be decomposed into individual performance goals of employees. There is also a strong randomness in the formulation of KPI evaluation standards. Many enterprises lack comprehensive consideration of relevant influencing factors in the formulation of KPI evaluation standards. KPI evaluation standards are either formulated very high or very low, and sometimes they even directly copy the evaluation standards of other enterprises. With the growth and expansion of the organization, the objectivity and authenticity of the KPI based assessment results are gradually reduced, and the once authoritative leadership assessment is less effective. Therefore, consistent use may make the organization's performance appraisal inefficient or even ineffective, thus greatly increasing the management difficulty of managers and greatly reducing employee satisfaction.

#### 3.2 Optimization principle of management system of small and medium-sized enterprises based on Key Performance Indicators

Through horizontal comparison in the same industry and vertical communication from top to bottom within the enterprise, the evaluation indexes of industry safety management are investigated, and the monitoring and guiding effects of safety production KPI on each key link of safety production in front-line departments are tracked and analyzed, and the feasible indexes are determined, so that they are extensive, applicable and accurate. Compared with large enterprises, small and medium-sized enterprises have poor ability to resist business risks, weak funds and poor fund-raising ability. Therefore, small and medium-sized enterprises should give full play to the advantages of being close to customers and markets, adopt a "small but special" differentiated business strategy, and implement flexible performance management for business management. For different senior management teams in different KPI companies, we still consider financial indicators and non-financial indicators in terms of investment. Financial indicators mainly refer to the annual salary of senior management, the size of senior management, the disposable funds of senior management, etc. However, the frequency of disposable funds changes too fast, so we generally consider the annual salary of senior management and the size of senior management as the introduction of corporate financial indicators. KPI's SME performance management system is a management system composed of a series of systems and specific methods. It is not only a dynamic management process that is constantly adjusted,

but also an important part of the whole enterprise strategic management. No matter which method is used to determine the KPI of enterprises, the following principles should be followed for optimization, as shown in Figure 2.

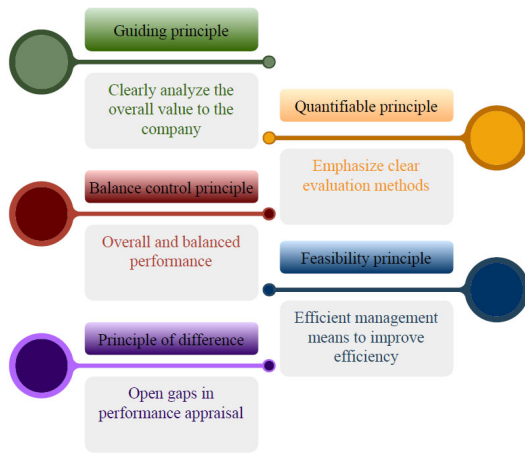


Figure 2 Principle of optimizing the performance management system of small and medium-sized enterprises based on KPI

The biggest advantage of this model is that it can transcend the talent and knowledge limitations of the enterprise, transcend the personnel and interest disputes within the organization, quickly integrate with advanced appraisal theories, methods and experience, and develop and design a more scientific, systematic and advanced performance appraisal system. The KPI shall be quantified according to their principles, as shown in Table 1.

Table 1 Application of KPI based SME performance management system optimization principles

Principle		Correct practice	Wrong practices
Specific	Explain	Hit the target, change according to the situation, and refine moderately.	The abstract is not refined, and other indicators are copied.
	Give an example	The customer demand report shall be completed 7 days before the sales meeting and reported to the department head.	Timely complete the safety report.
Attainable	Explain	Indicators that can be achieved	Too long or too short time limit,

	through efforts within an appropriate time frame.	too high or too low target.
Give an example	The turnover rate of technicians in 2021 will be 19% less than that in 2020.	In the next 15 years, the loss of technicians will be reduced by 8 times compared with 2020.

When formulating KPI goals, attention should be paid to the concreteness and objectivity of the goals, and the number of goals should not be excessive; The goal should be quantifiable and measurable, and long-term and short-term coexist; The target management and employees participate in the formulation; At the same time, KPI should be set up with detailed steps and time frames to achieve the goals. The KPI evaluation indicators thus set not only take into account the strategic intention of senior management, but also take into account the differences of employees' job responsibilities, and are recognized by everyone, which is easier to stimulate employees' enthusiasm.

#### 4. Conclusions

With the constant attention paid to human resource management in China, performance management has also attracted the attention of management practitioners. More and more small and medium-sized enterprises begin to implement performance management. Small and medium-sized enterprises need to strengthen performance management training, strengthen the understanding of the whole small and medium-sized enterprises on their strategic objectives, medium-term development goals and short-term development goals, at the same time, unify the understanding of all employees of small and medium-sized enterprises on optimizing the performance management system from top to bottom, understand the significance of performance management from the height of strategic objectives, and highlight the key role of performance management in enterprise management. It lays a foundation for the development of the "strategic oriented performance management system" for SMEs. Make a list of all indicators by department and position for horizontal comparison. Ensure that all departments and posts are responsible for their own indicators, and bear the corresponding proportion of weight according to the size of responsibility. Based on the KPI, determine the performance objectives of each employee, sign performance contracts with each employee, and take the performance contracts as the basis for employee performance assessment. Achieve human resource management and control within the enterprise through performance appraisal. The management system of SMEs based on KPI has been further optimized in this paper. While strengthening the performance management and



assessment of departments and employees, SMEs attach importance to the impact of corporate culture, a soft power, on the development of enterprises. A suitable corporate culture can promote the development of performance management and promote the production construction and sustainable development of enterprises.

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