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Arni Sofia Binti Abdullah, Nor Farisha Binti Zulkifli, Nor Farahana Binti Zamri, Nurul Wahida Binti Harun, Nor Zaini Zainal Abidin

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The Benefits of Having Key Performance Indicators (KPI) in Public Sector

Arni Sofia Binti Abdullah, Nor Farisha Binti Zulkifli, Nor Farahana Binti Zamri, Nurul Wahida Binti Harun, Nor Zaini Zainal Abidin

Faculty of Administrative Science and Policy Studies, Universiti Teknologi MARA, Cawangan Kedah, Kampus Sungai Petani, Kedah, Malaysia
Email: zaini637@uitm.edu.my

Abstract

The government used a tool called Key Performance Indicators (KPIs) to measure how well employees did at work for a few years. In the present era, the majority of successful organizations have a performance evaluation system in place. The aims of this paper is to examine the benefits of having Key Performance Indicators (KPI) in the public sector that are being implemented in the Malaysian public sector, as a result of Government Circular 20. With the advancement of public sector reforms, the government has developed its own set of key performance indicators (KPIs) for evaluating agency performance. According to the findings, KPIs have been effective in measuring both organizational and individual performance. This article concludes that KPI implementation enables the public sector in optimizing the potential to enhance the public officials' performance in providing efficient service.

Keywords: Key Performance Indicators, Performance Measurement, Public sector, Government, Agency Performance

Introduction

Key Performance Indicators (KPIs) are a set of measurable metrics used by an organization to monitor or compare performance in achieving strategic and operational goals (Jahangirian et al., 2017). The majority of organizations have performance management systems in place that are aimed at motivating employees, assisting individuals in developing their skills, fostering a performance culture, determining who should be promoted, eliminating low performers, and assisting organizations in implementing organization strategies (Setiawan & Purba, 2020). In Malaysia, KPIs were first implemented in 2009 for cabinet ministers. With that, the KPIs became the main way to measure the success of many organizations in Malaysia (Jamaluddin et al., 2019). Malaysia chooses to use KPIs as a performance measurement tool. This kind of performance measurement is gaining interest from a variety of organizations, including governments and educational institutions. The purpose of this performance-based strategy is to continually improving public service delivery while also ensuring that those in charge of the government are doing the right thing (Zaherawati et al., 2011). In line with the government's

policy of transparency and accountability, Key Performance Indicator holds an important key in ensuring the performance of a public sector (Aziz et. al., 2010).

The authors chose this topic due to numerous rumors and issues concerning the implementation of KPIs in public sectors. Hence, this paper has two main aims which are to find benefits of having Key Performance Indicator in the public sector and point out the main challenges regarding KPI. There are several challenges that are always seen as common mistakes with KPI, especially problems related to occupational stress. Thus, it is crucial to highlight the importance KPI holds instead of focusing on the issue that arises as Key Performance Indicator can help in achieving intended outcomes of an organization. Matters such as achieving target productivity, identifying problems, and classifying financial saving opportunities can be settled with the measurement that KPI's holds.

The article is purposely written to highlight the benefits that KPIs hold. This is because, through this article, it will give some ideas about how to use Key Performance Indicators in the public sector to make sure that the service quality is at its best. With KPIs, things become much easier because the organization's productivity target and expectation are clearly written down. The article will also discuss challenges in implementing KPI. It is essential to have a clear understanding on how KPIs will cater to some issues immediately because sometimes the public servant itself does not have a clear outline on how they could achieve goals and aims. So, KPIs will assist them to track progress of organization to achieve goals. The structure of the discussion is in line with the objective of this paper which is to find benefits of having Key Performance Indicator in the public sector and to discuss the main challenges in regard to KPI.

Literature Review

Key Performance Indicators (KPIs) are a set of measurable key indicators that show how well an organization is meeting its strategic objectives (Lindberg et al., 2015). KPIs are used to assess the success of an organization or a specific activity such as projects, programmes, products, or other activities. KPIs contain strategic objectives, key indicators relevant to these strategic goals, benchmark objectives, and the time frame or period during which the KPIs are measured. The KPIs were created to help the civil service improve its performance in line with the government's efforts to improve public service delivery and ensure that the components of integrity and good governance are adhered to. Organizational KPIs serve as the foundation for determining divisional or individual indicators or work targets. The results of the achievement of KPIs can be used as a reference for giving rewards and KPIs also have the benefit of encouraging employees to be more motivated (Jusoh et al., 2012).

In practise, the performance management system is more of a mind-set than a strategy or a learning instrument. It serves as a control system for the administrative executive as well as an information system for the political leadership (George, 2019). Effective KPIs concentrate on the business processes and operations that senior management views as the most important for tracking progress toward strategic goals and performance targets. To ensure that KPIs are aligned with organisational goals, a dynamic performance measurement system necessitates a multidisciplinary approach that incorporates knowledge from process domains, information technologies, people, and relevant scientific approaches (Asih et al., 2020).

Application of KPI in Malaysian Public Sector

A broad range of organizations including the government and educational institutions use this kind of performance measurement. Presently, not only the private sector but the public sector also used KPI and Key Result Areas (KRAs). Tun Abdullah Ahmad Badawi, on January 1, 2004, issued an order requiring all public facing ministries and departments such as road transport department and migration department to develop their own KPI (Yaacob & Aminuddin, 2011). Malaysia has only recently begun to use KPI. For a long time, other countries have used the KPI to assess their performance. Since the 1960s, many levels of government in the United States have mandated the reporting of KPIs, PIs, and PMs. KPIs are seen as one method for enhancing the public sector's institutional and execution capacities, which is one of the 9th Malaysian Plan's strategic goals. The country's public sector has decided to implement it due to its importance. This may be seen in a government circular issued by the country's Public Service Department (PSD) in 2005, which stated that by 2010, practically all Malaysian government agencies would be forced to apply the KPI system.

Theories Related to Performance Indicators

Overall, various versions of theories emphasize the importance of Key Performance Indicator however, it is closely related with goal-setting theory and organizational theory. The domain of consciously directed action encompasses the goal-setting theory. The hypothesis is centered on the subject of why some people perform better at work than the others. This theory is founded on the assumption that goals are defined as an objective, aim, or action. Organizational theory, on the other hand, is a collection of interconnected notions. Individuals, groups, or subgroups who interact with one another to carry out acts aimed at accomplishing a common goal are described in this way. Both theories investigate the influence of internal and external business settings, such as political, legal, and cultural factors of an organization, on the application of government-mandated KPIs in public sectors.

Estimation Method

This article employed library research methodology in the investigation. The researchers also collected data and information from other various sources such as internet resources as well as article references as a reference to obtain more extensive and up to date information on the scope of the study. Accessing using this website allows authors to learn more about what KPIs are and KPIs may assist organisations in explaining and control the progress of a service process offered to clients in accordance with the mission and vision of the organisation. With KPIs, things become much easier because the organization's productivity target and expectation are clearly written down.

Results and Discussion

As Key Performance Indicator measures the performance of a crucial activity to an organization's success, Table 1 lists the key programs relevant to performance measurement in the context of the public sector in Malaysia. This is the effort taken by the Malaysian government in enhancing the performance of the public sectors. These initiatives came along with benefits that KPIs hold in improving and ensure that the service quality of public servants is at top tier.

Table 1

Key programs relevant to performance measurement in the context of public sector in Malaysia

No.	Year	Initiative	Programmes
1.	2004	Key Performance Indicators (KPIs) for government-linked companies	Introducing "GLC Blue-book".
2.	2005	Key Performance Indicators (KPIs) for all other government agencies	Implementing Performance Assessment
3.	2007	Treasury Strategic results area and strategic KPIs	The ministry handling wise expenditure as one of the responsibilities for the public funds spending.
4.	2008	MAMPU's Star Rating System on Public Management	Evaluated performance on a scale of poor to excellent and 1 to 5 star-rating. For example, The Ministry of Defence was evaluated in 2007 with 75.07% marks and given a 3 - star rating and 94.52% marks on 2010 and was given a 5 -star rating
5.	2009	Key Performance Indicators (KPIs) for ministers and ministries	All ministers had one-on-one performance reviews, during which the PM held them accountable for their performance on the preliminary MKPIs.
6.	2009	Key Performance indicators (KPIs) for jobholders in the senior echelons of public service	The KPIs for senior echelons of the public service come with a minimum acceptable target of performance plus two stretch targets, the system can be made an instrument of performance-related pay.

Source: Adapted from Abu Bakar and Ismail (2011)

Key Performance Indicators (KPIs) for government-linked companies

Under the 10-year GLC Transformation (GLCT) Program, the fifth Prime Minister, Tun Abdullah Ahmad Badawi, implemented KPIs for government-linked companies (GLCs) in 2004. GLCT's goal is to promote change in GLCs so that they can be transformed into high-performance entities. A "GLC Blue-book" has been introduced as part of this incentive to provide more

detailed recommendations on the implementation of performance management in GLCs. The guidelines for KPI designs and performance-linked compensation are provided in the GLC Blue-book. The primary goals are to guarantee that GLCs focus on critical success elements. Secondly, motivate and keep professional talent. Thirdly, accurately measure performance and lastly correlate rewards and performance. Overall, the KPI design emphasizes that the chosen KPIs must be objective, balanced, and industry benchmarked. This reform effort led to a significant improvement in GLC performance as measured by KPI.

Key Performance Indicators (KPIs) for all other government agencies

About a year after the introducing of KPIs in the Government Linked Company, in 2005, the Malaysian government went a step further by issuing Guidelines on Establishing Key Performance Indicators (KPIs) and Implementing Performance Assessment at Government Agencies, which mandated the use of performance indicators for all government agencies. It was created following a thorough evaluation of each component of the service delivery process, as well as the time necessary to complete each task and the agency's present service delivery protocol. The implementation of these initiatives across all government agencies places a greater emphasis on the service delivery process' efficiency and effectiveness, human resource and financial productivity, and customer satisfaction with the service given.

Treasury Strategic results area and strategic KPIs

The 2007 Treasury (Ministry of Finance) effort has since enhanced and augmented the KPI program. It is necessary for agencies to establish strategic result areas and strategic KPIs in order to track the progress of actions in these areas. For instance, farmers' income is one of the Ministry of Agriculture's key result areas. The KPIs that created should be able to determine how much the ministry's program has raised farmer income in this strategic results area. To monitor outcomes or impact, agencies must identify KPIs and targets. The accomplishment of these goals is a kind of responsibility for the public funds spent on a certain initiative. The information obtained through performance assessment and monitoring might therefore be used to boost performance even more.

MAMPU's Star Rating System on Public Management

Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) also came up with a star rating system in the year of 2007 to assess a ministry's management's overall performance. The MAMPU five-star rating system evaluated a ministry's performance on a scale of poor to excellent. These star ratings are part of a public performance management guideline aimed at improving public service delivery. It is proven that MAMPU's star rating system has compelled agencies to consistently seek out improvements in public administration to get the highest possible rating (Siddique, 2010)

Key Performance Indicators (KPIs) for ministers and ministries

The Prime Minister established a new paradigm for performance and results delivery, based on the rigorous application of key results areas and key performance indicators (KPIs). These KPIs direct the efforts toward impact rather than inputs and outcomes rather than outputs, ensuring that public services are cost-effective. Ministers and senior civil officials will be held responsible for improving their MKRAs and delivering Ministerial KPIs (MKPIs) within those areas of each ministry. A dedicated KPI officer was selected and established for each minister to drive the creation of MKPIs. The KPI officers' responsibilities include assisting their

ministers with MKPI development, implementation planning, and resolving interdependencies between ministries, as well as monitoring and tracking the progress of MKPI progress, reporting progress to their ministers, and assisting their ministers in PM-Minister reviews (Malaysia, 2017).

Key Performance indicators (KPIs) for jobholders in the senior echelons of public service

The government has developed and measured KPIs for the senior echelon of the public service, which included 38 first-tier employees and 86 second-tier employees. The previous Prime Minister was inspired by the success of government-linked companies (GLCs) in transforming themselves through KPIs system and directed that if the public sector wants to replicate the GLCs' success, the top ranks of senior executives in the public service should be subject to a set of KPIs. The KPIs for senior public servants include a minimum acceptable performance target as well as two stretch targets; the method can be utilised as a performance-based pay mechanism, with performance pay or bonuses connected to the attainment of the applicable aim Volume 1 Number 1 2009. As a result, the bigger the bonus, especially if the stretch goals are met, the better. Performance-based compensation has been embraced for its capacity to motivate senior government officials as well as attract and retain the best personnel in the public sector (Xavier, 2009).

Main Challenges in Regard of Key Performance Indicator

With the KPI system, the issue of work pressure has been considered as one of the main challenges to achieve their respective KPI targets. 70 percent of Malaysian workers have been observed to have work-related stress illnesses (Mallow, 2016). This level of stress occurs at work when employees are required to achieve the target of KPI. This is because employees feel the work does not match their knowledge and abilities and provide challenges to their ability to cope (Leka et al., 2003). KPIs that are not suitable for the organization's conditions will also contribute to a stressful work environment. Prior to developing a realistic KPI, financial considerations, personnel availability, and accessible expertise must be prioritised (Mallow, 2016). Employees will spend a lot of time at work if their KPIs do not correspond to the state of the organisation. This will put employees under pressure to meet their employers' needs and demands (Nadiah et.al., 2019). The situation becomes more stressful when employees face constraints such as time and skills in achieving the set KPIs.

Conclusion

Overall, the use of key performance indicators to assess an organization's success is crucial, not just in the private sector but also in the public sector. This study attempted to examine the application of key performance indicators in the public sector and discovered that this initiative has a favourable impact on civil servant performance. Using the public sector as the case study, the paper demonstrates how KPIs may be used to measure performance not just for the organisation, but also for individual government officials. The findings of the case study show that KPIs adoption in the public sector is indeed beneficial to public officials especially in increasing service quality. Hence, it can be said that KPI implementation enables the public sector in optimizing the potential to enhance the public officials' performance in providing efficient service.

Theoretical and Contextual Contribution

The authors make a theoretical contribution by explaining the effort done in the context of public sectors to increase the quality of performance by relating to goal-setting theory and organizational theory in achieving objectives. In order to achieve a common goal of the organization, it is important for the public sectors to set Key Performance Indicators (KPI) that is achievable and become motivating factors for quality performance.

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