

**AN INSTITUTIONALIST STUDY ON  
THE PERFORMANCE MANAGEMENT SYSTEM  
IN A GOVERNMENT- LINKED ORGANISATION**

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SYSTEM IN A GOVERNMENT-LINKED ORGANISATION**

**by**

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## **LIST OF ABBREVIATIONS**

BSC	Balanced Scorecard
CDRC	Corporate Debt Restructuring Committee
CEOs	Chief Executive Officers
CFO	Chief Financial Officer
CIO	Chief Information Officer
CPO	Chief Procurement Officer
GLCs	Government-Linked Companies
GLICs	Government-Linked Investment Companies
GM	General Manager
HOD	Head of Department
HR	Human Resource
HQs	Headquarters
IT	Information Technology
KPIs	Key Performance Indicators
MCS	Management Control System
NEP	New Economic Policy
NIE	New Institutional Economics
NIS	New Institutional Sociology
NPM	New Public Management
NPV	Net Present Value
OIE	Old Institutional Economics
PCG	Putrajaya Committee for GLC High Performance
PMS	Performance Management System

ROA	Return On Asset
SBU	Strategic Business Unit
SGM	Senior General Manager
SMU	Strategic Management Unit
SVP	Senior Vice President
VP	Vice President

## **LIST OF PUBLICATIONS & SEMINARS**

### **LIST OF CONFERENCE PAPERS**

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- 1.2 Norhayati, M.A. & Siti Nabiha, A.K. (2005). Performance management system: evolution and re-evaluation, *6th Asian Academic Accounting Association (AAAA) Conference*. Kuala Lumpur, Malaysia, November 15 – 17.
- 1.3 Norhayati, M. A. (2008). The inculcation of performance driven culture in Government-Linked Companies through a GLC transformation program. *IIUM International Accounting Conference IV (INTAC IV)*, Putrajaya Marriot, Putrajaya, June 24 – 26.
- 1.4 Norhayati, M. A. & Siti Nabiha, A. K. (2008). A case study of performance management system in a Malaysian government linked company. *Global Accounting and Organisational Change (GAOC) Conference*. Melbourne, Australia, July 9 – 11.

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- 2.1 Norhayati, M. A. & Siti Nabiha, A. K. (2006). Performance management system: evolution and re-evaluation. *Indonesian Management and Accounting Research*, 5(2), 46 – 59.
- 2.2 Norhayati, M. A. & Siti Nabiha, A. K. (2009). A case study of performance management system in a Malaysian Government-Linked Company. *Journal of Accounting and Organizational Change*, 5(2), 243-276.

# **KAJIAN SECARA INSTITUTIONAL TERHADAP SISTEM PENGURUSAN PRESTASI DI DALAM SYARIKAT BERKAITAN KERAJAAN**

## **ABSTRAK**

Kajian ini bertujuan untuk mendapatkan kefahaman dan penjelasan tentang bagaimana Sistem Pengurusan Prestasi yang berlandaskan budaya berprestasi tinggi dilaksanakan di sebuah syarikat berkaitan kerajaan. Kajian ini secara spesifiknya melihat tentang bagaimana beberapa perubahan dan peraturan yang diperkenalkan melalui Program Transformasi Syarikat Berkaitan Kerajaan yang dilancarkan di dalam tahun 2004 mempengaruhi Sistem Pengurusan Prestasi syarikat. Kajian kes secara terperinci adalah digunakan di dalam tesis ini. Data dan maklumat diperolehi melalui interbiu, dokumen syarikat, perbualan secara informal dengan pekerja-pekerja syarikat dan juga secara pemerhatian.

Maklumat yang diperolehi melalui kajian ini menunjukkan bahawa Sistem Pengurusan Prestasi syarikat tidak banyak mengalami perubahan. Hasil kajian menunjukkan bahawa pekerja-pekerja syarikat melihat aktiviti-aktiviti berkaitan pengurusan prestasi hanya tertumpu kepada penilaian prestasi pekerja dan tidak secara menyeluruh kepada pengurusan prestasi syarikat. Penilaian prestasi pekerja dilihat sebagai sistem yang berasingan. Sedemikian aktiviti-aktiviti bagi memajukan prestasi syarikat telah diasingkan daripada aktiviti-aktiviti memajukan prestasi pekerja. Walaupun terdapat beberapa cubaan untuk menghubungkan penilaian prestasi pekerja dan pengurusan prestasi syarikat, namun pekerja-pekerja syarikat masih menganggap sistem tersebut kepunyaan Jabatan Sumber Manusia. Oleh yang demikian sistem Pengurusan Prestasi yang berlandaskan budaya berprestasi tinggi masih gagal mengubah persepsi pekerja. Walaupun terdapat beberapa perubahan, namun mereka masih mempunyai budaya bekerja dan mentaliti lama.

Hasil daripada penemuan kajian kes yang sebegini perlu dilihat di dalam konteks di mana kajian ini dilakukan. Oleh yang demikian ia bukanlah satu penemuan yang standard dan boleh diandaikan berlaku kepada semua organisasi. Namun begitu hasil kajian ini boleh digunapakai oleh syarikat lain sebagai panduan sekiranya mereka ingin melakukan perubahan di dalam Sistem Prestasi syarikat mereka.

Kajian ini telah menunjukkan bahawa adalah sukar bagi mengubah budaya kerja sesebuah syarikat tanpa tekanan yang cukup bagi membolehkan perubahan besar berlaku. Walaupun berlaku perubahan di dalam beberapa aspek seperti penyediaan repot, terdapat juga kemungkinan bahawa sistem pengurusan prestasi ini dilaksanakan kerana meniru pelaksanaan sistem dari syarikat lain. Hasil kajian ini juga menunjukkan bahawa pemegang ekuiti yang terbesar iaitu kerajaan mempunyai kuasa untuk mempengaruhi perubahan di syarikat berkaitan kerajaan. Namun begitu walaupun banyak dana dan masa dilaburkan, perubahan-perubahan yang dibawa dari luar mungkin tidak akan diterima oleh pekerja syarikat. Sekiranya program perubahan yang dibawa mempunyai nilai dan budaya yang berbeza daripada nilai dan budaya tradisi syarikat, besar kemungkinan akan berlaku tentangan daripada pekerja syarikat terhadap perubahan yang dibawa. Oleh itu bagi menjayakan sebarang program transformasi, beberapa faktor penting seperti pemahaman tentang nilai dan budaya tradisi, penglibatan terus pengurusan serta penerimaan pihak kesatuan sekerja adalah diperlukan.

# **AN INSTITUTIONALIST STUDY ON THE PERFORMANCE MANAGEMENT SYSTEM IN A GOVERNMENT-LINKED COMPANY**

## **ABSTRACT**

This study aims to explain the process of institutionalization of the Performance Management System (PMS) in a Malaysian government-linked company (GLC). The study specifically looks at the changes brought by the GLC transformation programme introduced by the government. An explanatory case study method is used whereby data is collected through semi structured interviews, document reviews, informal conversations and observations.

The data reveals that the PMS related activities have somehow been viewed as a routine mechanism for appraising the employees' performances and become decoupled from the organisational activities. Although there were attempts made to link the organisational activities to the system through the business operating plan, organisational members still view the PMS practices within the domain of the HR function. Thus the new PMS did not really change the way organisational members view and do things in the organisation.

This study has shown that the intention to institutionalise a new practice may not be materialised if there are not enough forces to support the change. The adoption of the new PMS practices may be due to isomorphic pressures to mimic other organisations in the same environmental field leading to ceremonial adoption of the practice. This research offers insights into the role of the dominant stakeholder in bringing changes into a government-linked organisation. It provides evidence to the government that the process involved in transforming an organisational culture of a government-linked organisation by using accounting tools might be time consuming, costly and can be

subject to resistance. There is always a tendency to resist if the change programme is embedded with different norms and values from the existing ones. Therefore, a deeper understanding on the embedded values and norms of the organisational members could assist the change agent to reduce the barriers to change. Hence, any change management programme introduced in a government-linked organisation should take into account the norms and values of the organisational members, and receive strong support from both the top management and the trade unions.



## **CHAPTER 1**

### **Introduction**

In this chapter the background of the study, the research questions, the theoretical framework and the research methodology are explained. The chapter begins with a brief background of the study and is followed with some background on the Malaysian Government Linked Companies (henceforth GLCs). Next, are the explanations of the research questions, the theoretical frameworks and the research methodology. The chapter ends with some brief explanations on the contributions and limitations of the research.

#### **1.1 Background of the Study**

In today's competitive world, organisations are constantly facing external and internal forces that drive them to change. External forces such as deregulation of industries, removal of trade barriers and rapid advances in information technology are among factors that shape the way organisations handle their businesses (Atkinson et al., 1997; Burns & Vaivio, 2001; Gunasekaran, Williams, & McGaughey, 2005; Lukka & Shields, 2001). In order to survive, organisations are forced to change from within. Many organisations have reorganised and merged into chains, clusters, networks and strategic alliances to cope with the external forces (Burns & Vaivio, 2001; Lukka & Shields, 2001). Organisational structures have also changed from a centralised hierarchical type to a decentralised leaner type.

According to Johnson and Kaplan (1987), there is an urgent need to have new management tools to manage the performance of organisations as the old ways have

lost their relevancy. The new performance management system (henceforth PMS) must be able to produce specific, timely and relevant information for planning, decision making and control purposes (Otley, 1999). In order to be able to do so the tools must have the ability to capture the internal and external changes of the organisation. This scenario has created pressure and strain on many organisations.

The private sector responded much earlier by adopting systems such as Activity Based Management, Value Based Management, Balanced Scorecard, Total Quality Management and Six Sigma. However, it is only recently with the rise of the New Public Management (henceforth NPM) that the government has realised the need to have the new tools to manage the state-owned organisations, the public departments and the government agencies (see for example Hood, 1995; Lapsley & Pallot, 2000). The new management tools are supposed to assist the public sector organisations to improve their performance.

## **1.2. Malaysian Government-Linked Companies**

History has shown that the Malaysian government has played its role differently in order to suit the needs of the nation (Alhabshi, 1996; Siti-Nabiha, 2008). Under the British administration, the government played a custodial role by maintaining law and order. The government had a very limited role in the economic development of the country. The role, however, changed when the government started to become actively involved in economic activities as a result of the implementation of the New Economic Policy (henceforth NEP) in 1971. The NEP was introduced to eradicate poverty and fairly redistribute income among all races in the country (Economic Planning Unit, 2007). It required the government to be the key developmental agent.

At that point in time, the private companies were still very much lacking capital, technology and expertise to lead the economic development.

The establishment of public enterprises and government agencies have led to greater reliance on the government as the main provider of economic activities. As indicated by Mahathir's speech, there were about 1,000 government owned companies in the 1980s providing services and products to the country (Mahathir, 1988). During the said period, although the government was very involved in business activities (Alhabshi, 1996; Mahathir, 1988; Siti-Nabiha, 2008), the business failures were rampant and profits were little.

During the Mahathir administration era, the new public management concept was infused into the public sector. The NPM concept brought with it the idea that the public enterprises should be professionally managed and that they should adopt management practices similar to the private enterprises (Hood, 1995; Lapsley & Pallot, 2000; Nor-Aziah & Scapens, 2007). As a result, the Malaysia Incorporated concept and privatisation policy were introduced in part to make the public enterprises become more efficient and cost effective. One of the objectives of privatisation was to reduce the financial and administrative burdens that were shouldered by the government (Alhabshi, 1996; Economic Planning Unit, 2008; Syn, 2002).

In the pursuit of better conditions, the government dissolved its role as a developmental agent and assumed a new role as a regulator of economic activities. The government embarked on a privatization programme in 1983 and subsequently launched the Privatisation Master Plan in 1991. Several Acts such as the Electricity Act 1949, Pension Act 1980, Telecommunication Act 1950 and Port Act 1963 were amended to facilitate the privatisation process (Economic Planning Unit, 2008).

Ideally privatisation should lead to greater productivity, a better delivery system, and higher efficiency, which could then be translated into higher income (Mahathir, 1988). However, it much depends on the way the privatisation is implemented and on the ability of the management of the privatised entities to bring significant change to the organisation.

To a certain extent the policy has allowed the government, within limited resources, to embark on more projects such as construction of toll roads and schools, reallocate expenditure for education and social development projects, and lessen the administrative expenses that were translated from the reduced number of government servants (Effendi, 2006). In general, the public expected to receive superior public service due to the increased efficiency, larger productivity and better delivery system.

After 20 years of the implementation of the privatisation policy, the Economic Planning Unit reported that there were 474 privatized projects (Economic Planning Unit, 2008). In 2005, the figures increased to 485 (Mustapha, 2005). Although the number shows a significant result, the policy is still subject to criticism (Syn, 2002). Many privatised entities require government protection measures to ensure their survival in an open market. The success story of the privatisation policy is very limited. Many do not excel in their fields. In other words they are not performing at par with their regional competitors (PCG, 2006a).

For example, as a result of the Asian Economic Crisis in the late 1990s, some privatised entities were renationalised. Privatised entities such as Perwaja and Indah Water Consortium could not sustain their businesses without protection from the government. In maintaining the economic stability, the government went for a tight capital control by fixing its exchange rate against the US dollar and consolidating its

banking industry (Khazanah, 2005; Wee, 1999). Several agencies such as Danaharta, Danamodal and Corporate Debt Restructuring Committee (henceforth CDRC) were established to assist in the restructuring of the troubled privatised entities (Wee, 1999). Danaharta, the Asset Management Company, for example, was used to takeover the non-performing loans from the financial institutions at fair market value and maximise their recovery value. Danamodal then injected the troubled financial institutions with sufficient capital to ensure their survival. To further enhance the economic recovery, the CDRC facilitated the restructuring of viable companies. Companies such as Renong, UEM, MRCB, and KUB went for corporate restructuring while MAS went for asset divestment. The government took certain measures to ensure the survival of these privatised entities.

The government transformation programme, as a result of the Asian financial crisis, was known as ‘war-time’ financial restructuring. Most measures were taken to ensure survival. However, after the lapse of a few years, the government changed its focus. Greater transparency, accountability and better performance were expected from these companies. Many commented that GLCs are big in size but suffer from the problem of internal control, lacking in strategic direction resulting in poorer return on capital and shareholder value, lower productivity, higher gearing ratio, inefficient procurement handling, and ineffective performance management systems (Azman, 2004; PCG, 2006a). It has been argued that GLCs have dual objectives to maximise shareholders’ return while meeting their social obligations. This duality may lead to ineffective decision making.

Concerns have also been raised regarding the way GLCs evaluate and reward employees (Abdullah, 2004; Nor Mohamed, 2004). There is a weak linkage between employees’ performance and the reward scheme in GLCs. For example, bonuses are

paid regardless of individual performance because performance is not tied to the compensation scheme. Furthermore, career promotion depends on the number of years in service. Long term serving employees are in a better position to climb up the corporate ladder. Loyalty is therefore valued. Qualifications are secondary when deciding the promotion for higher position. The GLCs employees are also prone to inflate their performance. Some key government officers found evidence that in some GLCs more than 90% of their employees had been rated as excellent performers due to the practice of inflated performance (Abdullah, 2004; Nor Mohamed, 2004). Due to these concerns, GLCs are being pressured to show improvement in terms of their performance (Abdullah, 2004; Nor Mohamed, 2004).

There is another issue that warrants attention. Should the government be in business when at the same time the government is playing a role as an economic regulator? Despite the privatisation exercise, the government is still holding a significant controlling stake in the privatized entities. It means the government has the power to appoint the Board of Directors, appoint senior management, make major decisions (for example awarding contracts, strategy formulation, restructuring and financing, acquisitions and divestments etc.) for the privatised entities either directly or through Government-Linked Investment Companies (henceforth GLICs) (PCG, 2006a). The government may control the privatised entities through Khazanah Nasional Berhad, Pension Trust Funds, MOF Inc. and the Malaysian Central Bank, as well as through the government-linked funds (for example Employees Provident Fund, Armed Forces Fund Board, Pilgrims Fund Board Malaysia and Permodalan Nasional Berhad). Due to its linkage to the government, this group of privatised companies is known as Government-Linked Companies.

This group of companies is important to the country as it provides jobs for an estimated 5% (about 400,000 employees) of the national workforce and accounts for approximately 36% of the Malaysia Stock Exchange market capitalization and 54% of the Kuala Lumpur Composite Index (Abdullah, 2005). In the country, this group is the main provider of postal services, airlines, airports, public transport, electricity, telecommunications, water and sewerage, banking and financial services. Some GLCs also participate in automotive, plantation, and construction industries.

Considering the importance of the group to the economy, a transformation programme, which was launched in May 2004, was seen as necessary. The programme was named a GLC transformation programme and specifically written up to intensify the commercial orientation culture among the GLCs. The focus of the programme was to level the GLCs performance at par with their regional competitors. The programme was only targeted at the Government-Linked Companies and not applied to the state government controlled companies such as Sarawak Economic Development Corporation, Perak State Development Corporation, and Johor Corporation.

A committee known as the Putrajaya Committee for GLC High Performance (henceforth PCG) was formed in January 2005. The committee consists of GLICs heads, representatives from Ministry of Finance and the Prime Minister's Office. Whilst the PCG is to follow through and catalyze the GLC transformation programme, the GLCs top management are expected to spearhead the effort to instil a high performance culture in their respective companies. Under Khazanah, a Transformation Management Office that acts as a secretariat to the PCG was set up to report quarterly to the PCG on the progress of the transformation programme. Consultants were also hired to assist the government in implementing the

transformation programme. Cases of transformation programmes in GLCs of other countries such as New Zealand Post in New Zealand, Telefonica in Spain and Unicredito Italiano in Italy are used as references for the Malaysia GLC transformation programme (PCG, 2006a).

As a starting point of the transformation programme, the GLCs management and their holding company, Khazanah Nasional Bhd went through several restructuring processes. Key performance indicators (henceforth KPIs) and board composition initiatives were introduced, Khazanah Nasional Bhd was revamped and a new line of top management of GLCs was elected (Abdullah, 2004; Asian Development Bank, 2004; Azman, 2005). Most of the newly appointed Chief Executive Officers (henceforth CEOs) of the GLCs are accountants. The appointments were made because the government believed that a new breed of CEOs was needed to successfully manage the transformation programme. The CEOs are required to make public announcements on the major KPIs on a quarterly basis. Some GLCs are also moving towards divisional accounting to enhance their accountability structure. In some way the government is using accounting as a tool for transformation and expecting the accountant to become the agent of change.

This section elaborates in details as to how the GLCs have evolved from having one role i.e. to fulfill the national agenda to having dual objective i.e. to provide maximum returns to their shareholders. The evolution was due to several initiatives that were introduced by the government in order to inculcate a commercial culture among GLCs employees. Despite that results have shown that GLCs were basically underperforming even after 15 years being privatized (PCG, 2006a). The government had then introduced a programme named as a GLC transformation. The purpose is to intensify a high performance culture by using managerial innovations such as KPIs.



Thus the research is searching for possible explanations as to why and how the GLCs have responded to the government initiatives. Why some rules and procedures have been adopted and why some are not? In what way does the PMS could become the tool or agent of change?

### **1.3 Research Questions**

Thus the focus of this study is to understand how accounting is used as a tool for transforming organizational culture and also how accounting practices have been transformed as a result of the change in the organisational culture. The understanding of how accounting could transform an organisation as well as being transformed by an organisation is important to both academics and policy makers. Specifically, the study attempts to investigate the impact that the government-led initiatives, such as the GLC transformation programme, has on one GLC, disguised as Tiger, and also on how the transformation programme affects the performance management system of the organisation. The study should first reveal the extent to which Tiger has changed and second to find answers to the process of institutionalisation of the new rules and regulations in Tiger. The study concentrates on the process of institutionalisation of the performance management system and investigates whether the PMS has been institutionalised ceremonially or instrumentally.

Tiger is among the GLCs that employ a significant number of employees. Its main activity is to provide utility to the country. Tiger also has many subsidiaries that provide other related business activities. Previously Tiger was a government agency. Due to the privatisation programme introduced in the 1980s, Tiger was later corporatized and privatised in the 1990s. The privatisation brought a commercial

culture into Tiger. Tiger is required to play a dual role, that is, first, to maximise returns to its shareholders and, second, to fulfil its social obligations according to the national agenda. In 2004, the intensification of the commercial culture was promoted into Tiger through the GLC transformation programme. Thus this study attempts to capture the process of organisational change and accounting change in Tiger, specifically, in terms of its PMS.

The motivation of the study is driven by the fact that a study on the process of organisational change and accounting change in an organisation due to the transformation programmes may offer an opportunity to unravel the complexity and the dynamic process of change. Specifically, by being able to understand the type of change that has occurred within a certain period of time, a much fuller account of the process of accounting change can be accounted for. This study, which sees accounting practices such as the performance management system as an integrated control system, may provide insights into how PMS practices become accepted or resisted or even modified by an organisation such as a Government-Linked Company.

Therefore the main research question for the study is: what is the impact of the government-led initiatives on a GLC and, specifically, how does it affect the performance management system of the organisation? More specifically the study will find answers to the following questions:

1. What are the changes expected by the government on the case organisation?
  - i. What are the mechanisms put in place to ensure that the transformation programme is followed through?

2. How does the transformation affect the performance management system of the case organisation?
  - i. What are the practices of the performance management system in the organisation?
  - ii. What are the changes in the PMS practices as a result of the GLC transformation programme? How does the change take place? Does the change happen in a linear fashion?
  - iii. How does the process of inculcating a performance based culture take place? How do the members of the organisation respond to the performance based culture?
  - iv. Does any form of loose coupling exist in the organisation?
  - v. What form of isomorphism exists in the organisation?
  - vi. How does the performance management system become routinised and institutionalised in the organisation? Has it been institutionalised ceremonially or instrumentally?

The above research questions were formulated based on a theoretical framework and literature in the area of performance management systems and management accounting change.

#### **1.4 Theoretical Framework**

The main theoretical lens to inform the findings in this case study is the institutional theory. Alongside the institutional theory, Laughlin's (1991) framework is also used to enhance the understanding of the level of change that this organisation

has gone through. The institutional theory and Laughlin's framework, taken together, should provide a richer understanding of accounting practice and theory as both look at the same phenomenon from different angles.

The institutional theory is chosen as the main theoretical lens as the study specifically looks at the process of institutionalisation of the PMS in an organisation. Institutionalisation of the PMS is said to happen when the organisational members take for granted the activities related to the PMS as part of the organisational routines and, thus, the PMS activities become embedded in their daily activities. In this thesis, the institutional theory refers to both the New Institutional Sociology (henceforth NIS) and the Old Institutional Economics (henceforth OIE).

NIS offers an explanation for the institutionalisation of new accounting innovations, such as PMS, that may be rational from a social perspective rather than from an economic perspective. Under NIS, it is assumed that people live in a socially constructed world that is filled with taken for granted meanings and rules (Jepperson, 1991). Most of the time, their actions are just a matter of routine and undertaken unconsciously. Institutionalisation thus shapes the way activities, processes, cultural events and organisations become accepted as "institutions" and become norms in society.

One of the main components of NIS is the quest for legitimacy. Organisations desire legitimacy in order to ensure continued survival (Suchman, 1995). Legitimacy can be secured by adopting structures and processes prevalent throughout the organisation's field (Deephouse, 1996; Suchman, 1995). Legitimacy for the GLCs is seen as being similar to other GLCs in terms of managing performance as well as adhering to rules set by the main shareholder. The failure to conform to the

expectations of the government would mean that the organisation is no longer viable and, hence, could jeopardise its survival.

The institutionalisation of PMS in an organisation could be due to the isomorphism. Isomorphism is defined as being similar to other organisations in its environment (Deephouse, 1996). It could be classified into competitive and institutional isomorphism (DiMaggio & Powell, 1991). Competitive isomorphism refers to pressures related to efficiency. It means an organisation may adopt accounting practices that promote the cheapest or most efficient way to do things. As a result of the competition, organisations might find themselves adopting similar practices, which could promote greatest efficiency. However, institutional isomorphism does not concern efficiency. Due to the forces imposed by related parties, such as the main shareholder or pressures to imitate others that are in the same industry or powers exerted by professional bodies such as accounting bodies, organisations might find themselves adopting similar practices. The isomorphism promotes homogeneity among organisations within the same institutional environment. Such isomorphic forces exist in the institutional environment within which the GLCs exist.

There are three forms of institutional isomorphism described by DiMaggio and Powell (1991). The first is coercive isomorphism resulting from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent and by cultural expectations in the society within which the organisations function. Government or industry regulators, for example, can force organisations into adopting certain procedures. The second is mimetic isomorphism, which results when an organisation follows other organisations due to uncertainty.

The third is normative isomorphism, which results from the influence of the professions on organisations and their elements.

NIS also touches the issue of loose coupling. Loose coupling is a term that refers to a situation where the organisational members separate their organisational activities from the formal structures. In other words the formal rules and procedures are not being followed in the daily activities. Instead the organisational members adopt somewhat informal rules to suit the need of the business activities. NIS suggests that the formal structures used to obtain external support from constituents may not be related to the actual performance due to the loose coupling situation. In some cases, organisations may opt for suboptimal performance to maintain the status quo (Powell, 1991). The formal structures that came together with the PMS may not be linked to the actual performance of the organisation. Thus if loose coupling exists in the organisation, it is difficult to justify how the PMS could be a better accountability system. The PMS could have been ceremonially adopted.

NIS alone may not be able to explain the whole process of change as it is unable to explain the firm specific processes of change. Hence, OIE is used to support the framework because OIE concerns the internal process of change and views the accounting activities as routines in organisation.

If the institutional theory could best be used to explain the institutionalisation process of the PMS practices, Laughlin's (1991) framework is used to explain and analyse the internal processes of organisational change. Laughlin's framework provides a "skeletal" framework to understand the change processes in organisations without ignoring the important details of the changing practices (Broadbent & Laughlin, 2005). The framework, which is based on the Critical Theory, assumes that

an organisation contains “interpretive schemes”, “design archetypes” and “subsystems”.

The subsystems refer to the physical aspects of an organisation such as equipment, and buildings. The interpretive schemes refer to the intangible aspects of an organisation such as the shared fundamental values, beliefs and cultures. The design archetypes lie in between these two extremes. The composition of design archetypes includes “structures and (management) systems given coherence and orientation by an underlying set of values and beliefs” (Hinings & Greenwood, 1988, cited from Broadbent and Laughlin, 2005, p. 15).

Laughlin’s framework assumes that the interpretive schemes, the design archetypes, and the subsystems must be in balance for an organisation to be in its “ideal” state. Any form of “disturbance” coming from either the external or internal environment could shake the organisation’s “ideal” state. There could be many forms of disturbance but Laughlin suggested that the organisations will change “when forced” or “kicked” or disturbed into doing something (Laughlin, 1991, p. 210). So in this case study, the GLC transformation programme could be conceptualised as an environmental disturbance that could shake the balanced position of the case company.

There are two levels of organisational change as suggested by Laughlin’s (1991) framework. They are the first order and the second order. The first order change involves cosmetic changes to the system (Broadbent & Laughlin, 2005). The second order involves instrumental change, which penetrates the underlying values, norms and beliefs of the organisational members.

Analysing the case study using multiple perspectives would enhance the research output. In short, the institutional theory provides explanations on “how” PMS

practices become institutionalised in the organisation while Laughlin's (1991) framework provides the "what" have changed in the organisation. Both theories could be used in harmony to unravel the process of accounting and organisational change.

### **1.5 Research Methodology**

Much research on the adoption of the new PMSs focus on the output of the implementation, that is, whether the implementation has been a successful one or a failure (for example Abdul Majid & Sulaiman, 2008; Brewer, 1998; Cobb, Helliar & Innes, 1995; Davis & Albright, 2004; Koh, 2003; Malmi, 1997). Most of these types of research adopt the positivistic approach, which concentrates on certain variables to explain the relationship between the performance of the organisation and the PMS. Research into understanding the processes through which these new performance management systems (such as BSC and KPIs) have emerged or have failed to emerge through time and their relationship to organisational routines are still lacking, especially within the Malaysian context.

According to Yin (1994), the research questions that deal with "what" and "how" could best be answered through case study. Furthermore, the case study method allows an in-depth understanding of the ways in which the PMS are used on a day to day basis. This type of study will provide a rich description of the present situation as well as the historical aspects like the administrative and organisational context. This type of enquiry also allows interesting processual issues to emerge (Dawson, 1997; Dent, 1991). The understanding of the issues related to the process of organisational and accounting change is much deeper than the one obtained through the use of other



methods such as survey and experiments. Case studies do not just seek to obtain simple, universal relationships between concrete variables but instead allow the researcher to theorise individually about different phenomena.

In order to understand the process of organisational and accounting change in the case organisation, the study has adopted an explanatory case study method. An explanatory case study differs from a descriptive case study or an exploratory case study in terms of the way the case is written or explained. It consists of both an explanation of the findings together with the theory (Nor Aziah & Scapens, 2007). A theory or several theories are used to explain the phenomenon. A descriptive one would have a detail explanation or rather thick description of what has happened in the case. The use of theory to explain the findings is not expected (for example Othman et al, 2006).

The research also falls under the category of an interpretive case study. An interpretive case study differs to the positivistic case study in terms of their philosophical stance. A positivistic approach takes the stance that human behaviors could be explained in terms of causal relationship between variables. Under this approach, there is one truth. There is an objective reality. An interpretive approach assumes that there are subjective or multiple realities. The approach firstly assumes that accounting practices are socially constructed and can be changed by the social actors themselves. Thus PMS practices are viewed as social and organizational practice. Secondly, the interpretive approach rejects the idea to study accounting in isolation of the study of the social and organizational contexts.

In this study, the researcher managed to gain access into Tiger to conduct a case study research in 2005. For confidentiality purposes, Tiger is used as a pseudonym of the case organisation. The actual name of the organisation is not disclosed because

the researcher has signed a confidentiality letter that prohibits the researcher from disclosing the information. The contact person within Tiger is the Training and Scholarship Manager in the Human Resource and Development Division. The first contact with the manager was made in August 2005.

A preliminary case study visit was conducted in July and August 2006. The purpose of the visit was to evaluate the social acceptance of the employees of the organisation as well as to make sure that the selected case company had made some changes to its performance management systems. During the preliminary visits, several interviews were conducted to get some ideas on the practice of PMS in Tiger.

The interviews and document reviews revealed that since its privatisation in 1990s Tiger was already practicing some form of performance management system in its business. Capacity measures were used to assess the performance of Tiger. However, the process of setting the targets was rather relaxed. There was no benchmarking process involved during the process. In other words, the performance of Tiger was not compared against its regional competitors.

In the early 2000's, Tiger promoted the usage of KPIs as a means to assess the performance of Tiger. The Balanced Scorecard framework was used for its PMS framework. All four perspectives: financial, internal process, customer and learning and growth were used when setting the KPIs for Tiger. In the fiscal year 2002, more changes were introduced into the performance management system (Tiger's Annual Report), especially in terms of measuring the performance of its employees. The significance of a performance based culture was emphasised in the new PMS. KPIs were implemented at all levels and targets were set through the process of negotiation. Hence, when the GLC transformation programme was launched in 2004,

Tiger readily accepted the idea as the programme was actually in line with their existing strategic planning.

Although Tiger has several strategic business divisions and subsidiaries, due to time constraints the research only concentrates on one division, namely, Delta. Delta is not the real name of the division. Delta division deals directly with customers and controls the distribution channel of Tiger. It employs the largest number of employees with around 16,000 people. The employees are grouped into customer network and retail operation in order to satisfy the demands from its customers. Currently Delta has 13 state offices, 36 area offices, 53 branches, 32 small branches, 13 service centres and 142 shops located all over the country.

A full swing data collection process was conducted from April 2007 until February 2008. During the 11 month-period of data collection, interviews with 44 organisational members, ranging from the senior management to the clerks, were conducted. The list of people interviewed is as given in Appendix A. Several internal documents such as the PMS circulars, PMS-KPIs manual, the Annual Reports, GLC Transformation Manual, the Blue Book on PMS, internal magazines and several other related documents were reviewed. Two meetings were attended, that is the PMS training for the Accounting division supervisors and the meeting between the management and the trade union representatives. Informal conversations and observations were also made during the research visits to the organisation. Representatives from Khazanah Nasional Berhad were also interviewed to obtain the government views on the GLC transformation programme and the implementation of the Blue Book. The Blue Book provides guidelines on what GLCs could do to intensify the performance driven culture in their organisations.

Most of the interviews lasted between 1 to 1 ½ hours. The interviewees are from Tiger's headquarters, from Delta division and the state offices. There were cases whereby some managers were interviewed more than once. All interviews were recorded. The interview data was transcribed and analysed using a thematic-network (Attride-Stirling, 2001). Data from the informal discussions and observation were kept in research notes such as diaries. The analysis of data took place concurrently with the data collection.

### **1.6 Contributions of the Study**

In terms of theoretical contribution, first, it is hoped that the study will be able to extend the institutional theory, specifically, in terms of providing insights into how the loose coupling situation could emerge during the process of institutionalisation. Second, the study also offers explanations of how different types of isomorphism could contribute towards the institutionalisation of the management accounting practices in an organisation. Third, the study should also contribute towards an extension of the understanding of organisational and accounting change from a different perspective. In this study the processual, historical and contextual data are taken into consideration when coming out with the insights from the study. Rather than the traditional way of constructing research, which is based on the rational choice theory, the research has based its findings on the institutional theory and Laughlin's framework.

In terms of practical contribution it is hoped that, first, by understanding the issues of organisational transformation and its impact on the management accounting practices, specifically, in the area of performance management systems, top

management and system designers of GLCs could manage and configure better control systems in future years. The insights from the findings also suggest that the government should be prepared for resistance for any change management programme, especially if the programme is embedded with a different orientation. Second, the outcome of this case study would add to the collection of case study materials so as a comparison with other cases of a similar industry or in a similar context could be done. Third, the study has shown that in order to understand the process of organisational change, a qualitative methodology is much preferred as the methodology enables the researcher to unearth the complexity and the dynamic process of organisational change.

## **1.7 Organisation of the Thesis**

The thesis has been divided into eight chapters. The first chapter concentrates on the background and the objectives of the study. In the chapter a brief explanation of the Malaysian GLC, the GLC transformation programme, the research questions, the research methodology, the theoretical framework and contributions of the study are explained.

The second chapter deals with the evolution and re-evaluation of performance management systems. The chapter aims to highlight the findings from existing literature in the area of performance management systems. By focussing on the findings from case study research, the chapter shows that much more research in the area is needed.

The third chapter brings to the fore the theoretical stance of the study. The institutional theory is used as the main theory to explain the findings of the research.

It is then supported by Laughlin's (1991) framework. Two main theoretical lenses are used to show that multiple perspectives could be adopted to explain the same phenomenon. Hence, it adds value to the existing literature.

The fourth chapter discusses the methodology that has been adopted in the study. First, it deals with the ontological and epistemological assumptions of the research. It is then followed by an explanation of reasons why the interpretive case study method is chosen as the methodology for the research. It continues with the elaboration on the process of getting access and obtaining data from the case organisation. A brief background of the case company is introduced in this chapter. The chapter ends with an explanation of the data analysis that has been undertaken in the study.

The fifth and sixth chapters deal with the findings from the case study. The fifth chapter details the history of the case organisation. The chapter attempts to show how the case organisation has evolved since its privatisation in the early 1990s. Specifically, it highlights how the performance based culture was introduced into the organisation. Chapter Six focuses more on the changes that have taken place in Tiger since the introduction of the GLC transformation programme. Generally it highlights the changes under the new leadership. Specifically, the chapter illustrates the changes in the performance management system of the organisation. Issues related to the use of PMS as a motivational tool and the role played by the trade unions are also discussed in this chapter.

The seventh chapter provides the theoretical analysis of the case findings. The institutional theory and Laughlin's (1991) framework are used to inform the case findings. The institutional theory focuses the discussion on how the performance

based culture has been ceremonially institutionalised. Laughlin's (1991) framework is used to assess the level of the organisational change based on the case findings.

The last chapter discusses the contributions and limitations of the study. Both theoretical and practical contributions are offered in this chapter. The thesis ends with some suggestions for future research so as the understanding of the complexity and dynamic process of change can be further enhanced.

## **CHAPTER 2**

### **Performance Management Systems**

#### **2.1 Introduction**

As a result of internal and external forces that drive organisations to change the way they conduct their business, the information derived from traditional management control systems is no longer providing relevant information for decision making. Most of the time information is too aggregated, too late and too distorted. Thus, it is no longer an effective mechanism to govern an organisation (Johnson & Kaplan, 1987). A new performance management system, which is able to produce information that is specific, relevant and timely, is, therefore, needed. There are, however, two issues related to the design of the traditional control system that are still relevant in the new PMS (Otley, 1999). First, any chosen system must ensure that employees will always act in the best interests of the organisation and that accurate reporting is provided to assess the level of achievement of the employees. Second, any measures must motivate managers to act in accordance with the organisational goals.

Much literature has suggested that the control measures that are adopted should be able to capture the changes that have taken place and should be incorporated in the performance management system of a company. Hence, concepts such as total quality management, benchmarking, balanced scorecard (Kaplan & Norton, 1992), Economic Value Added™, and Six Sigma have been introduced (Chenhall & Langfield-Smith, 1998). Proponents of these tools claim that the tools are able to capture the changes in the external and internal environment of an organisation and