

**A Case Study of Performance Management System in
Cooperative Commission of Malaysia (SKM)**

Norazila bt Mohd Zainol

**Research report in partial fulfillment of the requirements
for the degree of MBA**

Universiti Sains Malaysia

2010

ACKNOWLEDGEMENT

I would like to express my gratitude to my supervisor, Dr Siti Nabiha Abdul Khalid for her supervision and guidance throughout the process of writing this dissertation. Not forgetting, too, the Malaysia Co-operative Commission's (SKM) staffs, who are more than willing to share their experiences during the interviews. And finally, to my dearest family and friends, for all the love and support they gave me.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS	i
TABLE OF CONTENTS	ii
LIST OF TABLES	v
LIST OF FIGURES	v
ABSTRAK	vi
ABSTRACT	vii

CHAPTER 1 : INTRODUCTION

1.1	Background	Page 1
1.2	Problem Statement	Page 5
1.3	Research Questions	Page 7
1.4	Case Issues	Page 7
1.5	Organization of the thesis	Page 8

CHAPTER 2 : PERFORMANCE MANAGEMENT SYSTEM FOR THE MALAYSIAN PUBLIC SECTOR

2.0	Overview of Performance Measurement System (PMS)	Page 9
2.1	Definition of Performance Management System	Page 11
2.2	The Performance Measurement System (PMS) Framework	Page 12
2.3	Developing Performance Measurement System	Page 13
2.4	Characteristics of effective performance measures	Page 15
2.5	Effects of Performance Measurement	Page 16
2.6	PMS for Public Sector	Page 17
2.7	Key Performance Indicator and its design in Malaysia	Page 21
2.8	Using Balance Scorecard (BSC) as a Strategic Management System	Page 21

CHAPTER 3 : METHOD

3.0	Data Collection	Page 26
3.1	The People Interviewed	Page 26
3.2	Document Reviewed	Page 27
3.3	Data Linkage Between Data Source and Method	Page 28
3.4	Tools for Analysing	Page 29

CHAPTER 4 : MALAYSIAN CO-OPERATIVES COMMISSION (SKM)

HISTORY AND CONTEXT

4.0	SKM History and Context	Page 31
4.1	Background of SKM	Page 31
4.2	SKM: Mission, Vision, Objectives and Its Functions	Page 42
4.3	Malaysia Co-operatives Commission Strategies	Page 44
4.4	Organizational Structure of SKM	Page 45
4.5	Board of Directors and Management of SKM	Page 50
4.6	Performance of SKM For Year 2008	Page 50

CHAPTER 5 : PERFORMANCE MANAGEMENT SYSTEM (PMS) IN

SKM AND STRATEGIC TARGET

5.1	The Old Performance System and Its Changes To The KPIs System	Page 54
5.2	Developing Key Performance Indicator	Page 56
5.3	Implementation of Performance Management System	Page 61

5.4	Monitoring of Performance System	Page 66
5.5	Issues Arising During The Implementation of PMS In SKM	Page 67
5.6	Malaysia Co-operative Commission (SKM) and Strategic Target	Page 72

CHAPTER 6 : CASE ANALYSIS

6.1	General Evaluation of SKM	Page 77
6.2	Performance Management System (PMS) Framework	Page 80
6.3	Issues With The KPI's Implemented System in SKM	Page 81
6.4	Evaluation of Performance Measurement System	Page 83
6.5	Balance Scorecard Approach	Page 87

CHAPTER 7 : RECOMMENDATION AND CONCLUSION

7.0	Recommendations and conclusions	Page 93
-----	---------------------------------	---------

REFERENCES	Page 96
-------------------	---------

APPENDICES

Appendix A	The 12 Questions of PMS framework	Page 102
Appendix B	Interview Questions	Page 103
Appendix C1	Commission Strategy	Page 108
Appendix C2	List of Board Directors of SKM	Page 109

LIST OF TABLES

1.1	Categories of Malaysia's Federal Ministries Performance Indicators	Page 20
3.1	List of People Interviewed	Page 27
3.2	Data Linkage	Page 28
4.1	Achievement of Co-Operative Movement	Page 53
5.1	The Strategic Target For SKM Years 2008 To 2013	Page 72
5.2	Development budget allocation and performance for year 2008	Page 75
6.1	Average Increase From Year 2004 To 2008	Page 79
6.2	The Elements of PMS In SKM	Page 80
6.3	Evaluation of Performance Measures	Page 83
6.4	Three Areas of Strategy Implementation	Page 88

LIST OF FIGURES

2.1	The Performance Management System (PMSs) Framework	Page 13
2.2	Balance Scorecard: A Framework To Translate A Strategy Into Operational Terms	Page 22
2.3	Balance Scorecard Managing The Strategy: Four processes	Page 23
2.4	Balance Scorecard For the Public and Nonprofit Sectors	Page 25
4.1	Organizational Chart of ministry of Domestic Trade Co-operative and Consumerism (MDTCC)	Page 46
4.2	Organizational Chart of SKM	Page 49
5.1	Process Base Performance Assessment Model For The Government Agency	Page 58
5.2	Steps In Developing KPI and Implementing Performance At Government Agency	Page 59
6.1	Strategy Map For Co-Operative Development	Page 86
6.2	Balance Scorecard of SKM	Page 87

ABSTRAK

Sistem Pengurusan Prestasi (PMSs) adalah penting kerana ia memainkan peranan utama dalam menentukan pencapaian strategik objektif sesebuah organisasi. Dengan perubahan daripada Jabatan Pembangunan Koperasi (JPK) kepada Suruhanjaya Koperasi Malaysia (SKM) pada 1 Januari 2008, telah memberi satu tanggungjawab yang besar kepada organisasi untuk membangunkan koperasi di Malaysia. SKM telah mengimplementasikan PMS untuk memastikan bahawa strategi baru dan target yang ditetapkan dapat dicapai. Dengan demikian, kajian kes pada sistem pengurusan prestasi di Suruhanjaya Koperasi Malaysia (SKM) dilakukan dengan tujuan untuk menyemak pelaksanaan sistem Key Performance Indicator (KPI), elemen-elemen dalam sistem PMS, cara pengukur prestasi dibangunkan dan sistem pemantauan yang dilakukan oleh SKM. Masalah-masalah yang timbul semasa melaksanakan PMS akan membantu untuk mengetahui kekuatan dan kelemahan anda pengukuran prestasi yang digunakan dalam SKM dalam rangka meningkatkan gerakan koperasi di Malaysia. Selain itu, penilaian dilakukan untuk menentukan sama ada SKM telah mencapai sasaran prestasi seperti yang dinyatakan dalam rancangan strategik dari tahun 2008-2013. Data dalam kes ini diperolehi dari temuramah dengan pegawai yang relevan dalam organisasi. Selain temuramah, semakan keatas dokumen SKM juga dilakukan untuk memberikan gambaran yang jelas dan melengkapkan data kualitatif.

Kata Kunci : Sistem Pengurusan Prestasi (PMS), Key Performance Indicator (KPI), sektor awam, kajian kes.

CHAPTER 1

INTRODUCTION

1.0 Background of the study.

The idea of cooperative movement in this country first began during the British Colonial Government since 1922. Most of the co-operatives were located in urban areas and their activities mainly dealt with thrifts and loan activities. (SKM : Peneraju Kecemerlangan Koperasi, 2008). It was during the 1970's that the cooperative movement in the country began to expand rapidly with the implementation of New Economic Policy (NEP). Subsequently, the department of Co-operatives Development (JPK) was then established in 1975.

Under the Third Malaysian Plan (RMK-3) from the year of 1976 to 1980, the JPK's main objectives in RMK-3 was to upgrade the socioeconomic status amongst the main crop producers, to increase opportunities in non agro-based industries and to activate members' capital to diversify their economic activities in line with the New Economic Policy (DEB). The ' New Era of Co-operatives' were launched in the 1980s, with the government emphasizing on four types of co-operatives, i.e. the Village Development Co-operatives, the Village Industry Co-operatives, the Workers Investment Co-operatives and the National Development Co-operatives.

In order to complement and support the National Development Plan (DPN) introduced by the Government to replace the New Economic Policy (DEB), the mission and objectives of JPK were amended to ensure that the cooperative movement plays an effective role in the social development towards an equitable distribution of wealth in

the country. JPK have implemented MS ISO 9000 since 1996 as a basis of quality development, and have further strengthened the improvement steps taken in Total Quality Management (TQM). Since then, Co-operatives under JPK's supervision have made significant achievements.

As of 31st December 2001, there were 4,245 co-operatives with 4.76 millions members, with shares and subscriptions amounting to RM4.3 billion and an asset totaling RM18.9 billion. (SKM: Peneraju Kecemerlangan Koperasi, 2008). In line with the requirements of the Vision Development Policy and Vision 2020, the National Co-operative Policy (DKN) Year 2002 - 2010 was formulated to provide guidance to the co-operatives to play a more active and effective role in facing future challenges. Towards the end of December 2005, there were 4,771 co-operatives with 5.69 million members, with a total of RM6,849 billion shares and subscriptions and RM34,868 billion assets. During the period between 2001 and 2005, the Department of Co-operative Development (JPK) and the Ministry approved loans totaling RM24 billion, with RM2.96 million to co-operative members. (SKM : Peneraju Kecemerlangan Koperasi, 2008). In view of these expansions, on 2nd March 2005 the Malaysian Cabinet approved the proposal to establish Malaysian Co-operative Commission (SKM) to substitute JPK, with SKM's key objective being to regulate the growing co-operative sector and ensuring that it will be able to develop in a more effective and systematic manner.

The changes from JPK to SKM commenced from 1st January 2008, resulting in changes on status as well as a wider scope of responsibility among the employees. Employees now are required to be more highly motivated, have high aspirations and a total change of mindset so as to provide better services in order to protect the interests of

more than 6 million co-operative members. Other than that, SKM also promotes a stable and balanced growth in the cooperative sector in line with the government policy to ensure that the cooperatives sector will be third largest contributor to the national economy.

The transition from JPK to Malaysian Cooperative Commission (SKM) has made a large impact to the organisation. SKM are now looking after their performance management system to ensure that they are able to achieve their targets set for the cooperative movement in Malaysia. The Management of SKM plays a vital role in influencing the employees' beliefs, attitudes and behavior to ensure that the desired organizational outcomes as demanded by the government are met. Human resource practices need to be examined for the reason that the difference between the management intentions and actions can result in negative impacts to employees' trust and loyalty, thus subsequently affect performance outcomes. (Boxall & Macky, 2007).

It is essential for the Performance Management System (PMS) in SKM to follow the eight attributes of performance oriented management system for governments; clarity of roles and purpose, manager's responsibility, incentive of good performance, budget and management system which support performance, accountability and transparency, staff capability and culture and values aligned with organizational performance. (Halachmie, 2002). Through Performance measurement systems, SKM are able to provide information usable to improve management and program effectiveness, enhance policy decision making and improve public confidence in government committees (Wholey & New Comer, 1997)

The need for a good PMS system in SKM is further emphasized by the

commitment to improve the performance of the public sector. Malaysia wise, the government emphasizes on the performance based culture in the early 2005 and aims to upgrade the quality of delivery services at Government agencies. As stated in the Development Administration Circular 2/2005, key performance indicator (KPIs) is one of the techniques used to improve service delivery systems and is useful as a measuring tool for continuous improvement simply by focusing on outcomes or impacts rather than processes. As presented at the National Statistics Conference on 16 June 2009 by the Ministry of Trade and Industry, the use of KPIs will assist an organisation to be focused:

- on key areas where performance is critical for achieving the vision, mission and objectives of the organisation;
- in the optimum deployment of resources; and
- on the expected outcome or impact, rather than processes and output-based results

(National Statistics Conference, 2009)

In addition, the Prime Minister of Malaysia emphasizes on ‘People First, Performance Now!’ as the new administration’s tag line. Thus, a system of key performance indicator (KPIs) are now used for all ministries, with specified national KPIs for lead ministers who are responsible for the six national key result areas – crime, corruption, public transport, poverty, rural infrastructure and education. As noted by Dato’ Sri Mohd. Najib bin Tun Haji Abdul Razak:

“ It must be a government with new approaches for new times – a government that places a priority on performance and result, because the people must come first”

(Dato’ Sri Mohd. Najib, April 2009)

Commitment to work on performance management based on the six National Key Result Areas (NKRA) and Key Performance Indicator (KPI) measurement is essential in order to give the benefits to customers or people. The Prime Minister will monitor the overall performance as reported by the Lead Minister for six ministries. Cabinet members who are not responsible for the NKRA have their own KPIs for their ministry as the latest benchmark to evaluate achievement of their set targets. In addition, the Prime Minister emphasized on leadership through performance by civil servants in order to build up public confidence.

As one of the agencies under the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC), it is the responsibility of the Malaysia Cooperative Commission (SKM) to implement all the programs under it, as stated in the 10th Malaysian Plan. Since the establishment of SKM in January 2008, the total of registered co-operatives has increase by 17.7 percent from 5,170 in December 2007, to 6,084 co-operatives by the end of December 2008 (Annual Report, 2008). Cooperatives members, total shares/subscriptions and assets has increased to 6.51 million members, RM 8.42 billion and RM55.73 billion respectively in the year 2008, compared to 6.32 million members, RM7.79 billion and RM 47.4 billion respectively in the year 2007 (Annual Report, 2008). With these strengths of expansion, the co-operatives have increased their total income by 27.1 percent.

1.1 Problem Statement

SKM is facing tremendous challenge to ensure that the cooperative movement continues to be elevated to a higher level, at the same time giving positive contributions

to the country. Currently, the cooperative sector contributes only one percent to Malaysia's Gross Domestic Product. A four percent increase is targeted by 2013, and ten percent by 2020.¹ The Ministry of Entrepreneur and Cooperatives Development² will ensure that the total number of cooperatives will increase to 16,000 by the year 2020. The Commission had been entrusted with the responsibility to ensure that the income of 80 percent of cooperatives categorized as small and micro was elevated to RM800,000 annually. Under the directions of a new ministry, the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC) stresses on cooperative development which target the co-operatives contribution towards Gross Domestic Product, the co-operatives annual turnover and the number of co-operatives registered by the year 2013.

With its new transformation on 1st January 2008, SKM now does not have a formal system to systematically evaluate the performance of management in achieving its vision as a leader of excellence for the cooperatives development in Malaysia. Currently, the government is emphasizing on high performance of its public agencies, focusing on quality of services in order to fulfill the customers' needs and improve the overall performance of the agency. Subsequently, the challenge to develop a cooperative is difficult to be addressed if SKM does not focus on the performance management system. Therefore, it would be important to study how organizations should assess their performances through the Balance Scorecard approach based on the PMS currently used in SKM, the strategy in developing Key Performance Indicators (KPIs) as well as issues arising in implementing KPI and the monitoring system made to achieve the performance

¹ *Entrepreneur and Cooperatives Development Minister, Dauk Noh Omar said in his speech at Putrajaya International Convention Centre (PICC) on 20 July 2008.*

² *The MECD has be abolished since Dato' Seri Najib Razak take over the position as Prime Minister on April 2009. The function and the agency under MECD has been set up under eight other ministries. Currently, SKM is under Ministry of Domestic Trade , Co-operatives and Consumerism (MDTCC)*

target set for SKM.

1.2 Research Questions

The following major research questions were developed in order to gather information for the case write-up:

- i) What is the performance measurement system currently used in SKM?
- ii) How is the performance measurement initiative being implemented? Is it supported by a good information system?
- iii) What is the monitoring system made by SKM to ensure the effectiveness of PMSs ?
- iv) What are the issues arising during the implementation of PMSs in SKM?
- v) Has SKM achieved its performance target stated in a Strategic Plan from year 2008 – 2013?

1.3 Case Issues

The issues examined in this study is to determine the key features of performance management system (PMSs) currently used in SKM, and to assess whether the performance measure used meet the 9 criteria for a good public sector performance management system. The criteria are as follows: 1) stakeholder focus 2) strategy alignment, 3) financial and non-financial emphasis 4) balance dimension between internal vs external perspectives 5) orientation toward process , 6) causal relationship 7) lead/lag indicator 8) operational level measures 9) effectiveness and efficiency measures (Siti Nabiha & Fuad, 2009). The second part of the case analysis issue is evaluating whether SKM has achieved its strategic target as stated in Strategic Plan from year 2008

There are several steps undertaken to evaluate the Performance Management System (PMSs) in SKM. Firstly, an analysis of the key feature of SKM performance measurement system is undertaken by using Ferreria and Otley Framework (2009). Next, the evaluation of the good criteria of public sector suggested by Siti Nabihah and Fuad (2009) is used to evaluate the system in SKM. The second part of the analysis is to evaluate whether SKM has achieved its strategic target as stated in Strategic Plan from year 2008 – 2013. The Balance Scorecard (BSC) is used to evaluate the achievement of performance targets using four different perspectives, i.e. (i) Financial perspective (ii) Customer perspective (iii) Internal process perspective, and (iv) Learning and Growth perspective. In order to be more effective, this study will look for a modified Balance Scorecard which is highlighted by Niven, 2003. The four perspectives of the current version of BSC was rearranged according to government priorities and based on SKM's nature of business.

1.4 Organisation of the Thesis

Chapter 2	:	Literature Review
Chapter 3	:	Methodology
Chapter 4	:	SKM History and overview
Chapter 5	:	SKM and Key Performance Indicator (KPI)
Chapter 6	:	Analysis
Chapter 7	:	Recommendations and Conclusion

CHAPTER 2

PERFORMANCE MANAGEMENT SYSTEM FOR THE MALAYSIAN PUBLIC SECTOR

2.0 Overview of Performance Measurement System (PMS)

Performance Measurement system is defined as a consistent set of measures that are clearly linked to the operational strategy of the organization (Kaplan and Norton, 1992, 1993, 1996, 2000; Nanni et al., 1992; Neely et al., 1995; Bourne et al., 2000). For development process of PMS is to clearly define the strategic objectives and the key to this process is the assurance the link between strategic objectives and performance criteria for each level (Wouters & Sportel ,2005). As cited in Welch and Mann (2001), a performance measurement system is a set of performance measure and indicators derived in a consistent manner according to a set of rules and guidelines. (Anderson and Mc Adam, 2004).

As mentioned by de Bruijn (2007), performance measurement is a powerful communication tool that can reduce the complex performance of professional organizational and give a good transparent view and legitimacy for the management. He clearly stated that the PMS focused on output or effects that are measurable. Thus, many organizations concentrate on planning cycle, in which performance is planned, achieved and measured. Performance measurement system can fulfill a number of functions for organizations and facilitate comparison or benchmark within organizations. The functions are most frequently highlighted in the organizations are:

- *Creating transparency* : PMS can leads to transparency and its useful for

accountability process which is involve input-output analysis.

- *Learning* : Through the PMS, the organization can learn what it does well and can make a continuous improvement.
- *Appraising*: The management of the organization will use performance-based appraisal to evaluate the overall performance of the organization
- *Sanctioning* : The appraisal may be followed by a positive sanction when performance is good or by a negative sanction when performance is insufficient.

According to Shan (2004), the performance measurement system can define under four dimensions: First: A philosophy of continuous learning for ongoing adjustments toward its mission and vision. Second: A process started with strategic direction followed by strategies/plans to achieve these objectives and performance measures. Third: A structure, whereby the roles and responsibilities to be played by members of the organization -management, the planning/performance measurement staff and the program units- are defined,. Fourth: A management system that provides balanced, methodical feedback to assess the effectiveness of an organization's operations from multiple vantage points - financial, client satisfaction, service delivery and the employee dimension.

There are several factors influencing the implementation of performance measurement and management system which is classified under internal factors and external factors As mention by Sole (2009), internal factors refers to the following :

i) Leadership and internal management commitment – the committed leader must have skill to provide significant managerial investment and reward. Internal management commitment brings formality to the PMS and influence employees commitment to

improve performance.

ii) Internal Resources – Performance measurement and management systems may require a lot of time and effort especially for development process.

iii) performance – oriented culture –focus on the end for users and citizens, employees empowerment in taking responsibility

v) Employee engagement – the involvement and motivation of employees by encourage employees accountability, learning, motivation and contribution to solutions

v) Maturity of PMS – experience in performance measurement and management system

External Issues consists external factor which is citizens and elected officials, labor unions, legal requirement (Sole,2009). As cited by Sole, 2009, a better understanding for the role of internal and external factors within the implementation process of PMSs might improve effectiveness.

2.1 Definition of Performance Management System (PMS)

There are various description about performance management system (PMS). PMS focus on conveying financial and non-financial that influence decision making and managerial action (de Waal, 2003). PMS relates with formal and informal mechanisms, processes, system and networks used by organizations which is based on key objective and goals set by management (Ferreria & Otley, 2009). As cited by Broadbent and Laughnin (2009), PMS concerned with defining, controlling and managing both the achievement of outcomes ends as well as means used to achieve the organisational result rather than individual.

It is define as management process to ensure employees perform their work in

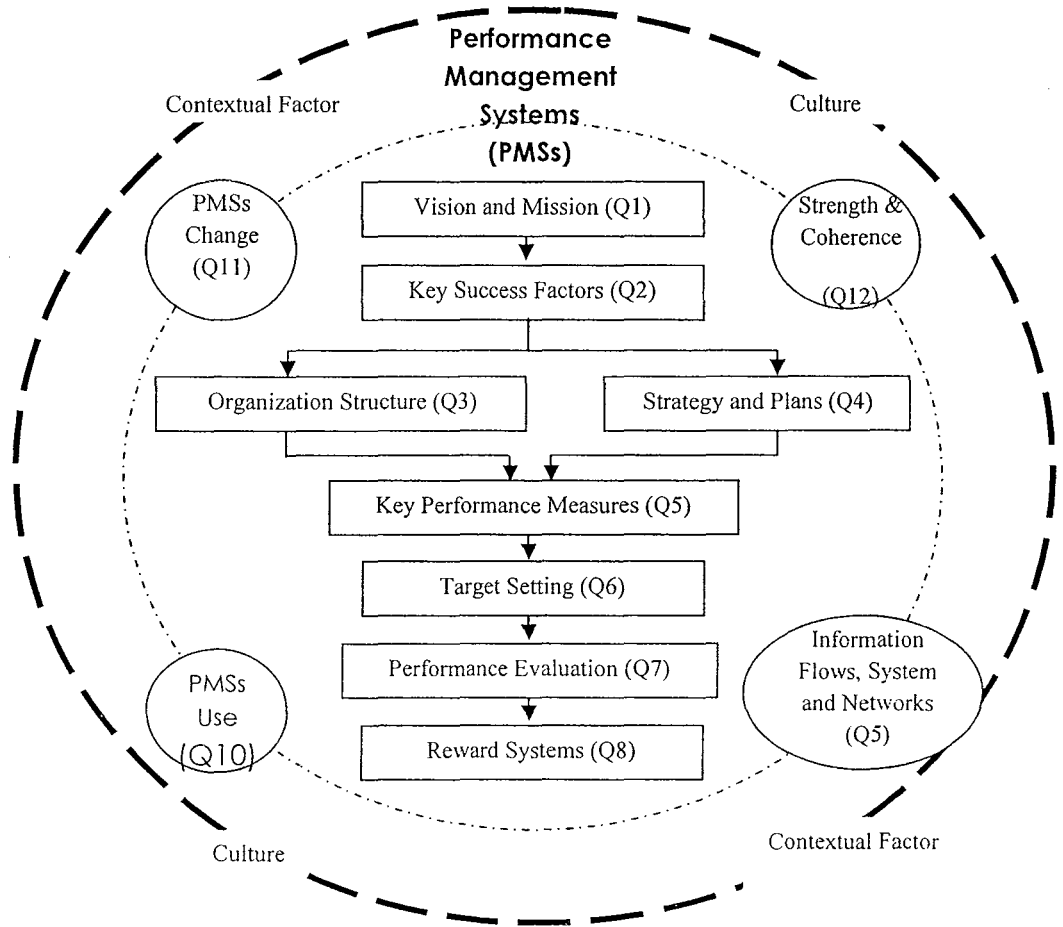
order to achieve the organization's mission according to three phases : a) setting expectations for employee performance, b) maintaining two way communications between supervisor and employee to keep on track performance and c) measuring actual performance compare to performance expectations (State Personnel Manual, 2007).

According to Camen, Croucher and Leigh (2008), performance constitute a mixture of inputs based on individual's knowledge, skills and actions combine with supporting resources of the organizations which is reflected on the quality of the outcome. Thus, PMSs is as a tool used by organizations in developing and training their employees which is includes activities to ensure that goals are consistently being met in an effective and efficient manner.

2.2 The performance Management System (PMSs) framework

Refer to Ferreria and Otley (2009), the PMSs is the extended framework from the Otley's (1999) framework which is aims to give a managerial emphasis by integrating various dimension of managerial activity with the control system. The 12 question of PMSs framework are shown schematically in Figure 1 and for detail explanation are highlighted in Appendix A (Ferreira & Outley, 2009).

Figure 2.1 : The Performance Management System (PMSs) framework



2.3 Developing Performance Measurement Systems

The process of developing performance measures must be based on vision, mission and strategy development of the organizations. When KPIs are developed, all staff should be clear about the goals and objectives and understand how it relates to the success of the organization. There are some basic fundamental that should be adhered as suggested by Parker, 2000:

- Performance measurement must be aligned with organizations vision, mission

and strategy which is focus only on important things and selective measures

- Sub unit measures must be consistent with the regime of organizational level and should furnish the raw data for the level of aggregation in order to enhance the sub unit performance of the organizations.
- The commitment from senior manager by providing the useful information for determining the policy and decision making and effective communication with the employees can improve the performance of the organizations at these levels.
- The measurement must have an effect on organizations. Its can improve the performance of the organization by ensuring that performance measurement is analyzed and translated into action and behavior which can change the nature of activities and performances.
- Measures must be reliable and consistent over the desired time period.

The management have the responsibility in developing the performance measurement system of the organization. Roberts (2002) described performance-based accountability; i.e holding someone accountable to ensure that the specification of outputs and measurement of the results outcomes are linked to the organizations goal and objectives in accordance with the management practice (Julnes, 2006). Performance measurement can be used for accountability purpose in order to improve service delivery. In addition, the knowledge and skills of program evaluators can help to improve the quality of performance measurement systems in the organizations.

In addition, Shan (2004) presented Business planning and performance management framework (BPPMF) under Leadership Driven Methodology (LDM) approach for the development and implementation of the performance measurement

system. The BPPMF provides a framework for decision making in which all levels of staffs are working together, can adjust their operations through ongoing and balanced feedback in order to sustain excellence delivery to their clients. This BPPMF includes the elements: i) mission statement, ii) objectives, iii) strategies, iv) initiatives and v) performance measures (Shan, 2004). In addition, Bitici et al (2000) identify the need for performance measurement system to be dynamic to reflect changes in internal and external environment, review and priorities objectives as the environment changes and ensure gains achieved through improvement programs are maintained.

2.4 Characteristics of effective performance measures

It is important to ensure that performance measurement of the organizations fulfill its function properly. There are nine important characteristics of effective performance measures in the public sector:

1) stakeholder focus 2) strategy alignment, 3) financial and non-financial emphasis 4) balance dimension between internal vs external perspectives 5) orientation toward process , 6) causal relationship 7) lead/lag indicator 8) operational level measures 9) effectiveness and efficiency measures (Siti Nabiha & Fuad, 2009).

According to Lynch and Cross (1991), it is important for organization to ensure that performance measurement system be dynamic, so that the performance measure become relevant and continue to reflect the issues of importance to the business (Kennely & Neely 2002). Thus, organization need to ensure that the measure and

measurement system are reviewed and modified based on the any circumstances changes for the organisation.

Furthermore, Shan (2004) noted that a good performance measurement can provide management or other staffs the ability to use the information in order to improve, modify or continuing programs or services, facilitate program savings and efficiency, identify issues and proposed solutions, improve communication and collaboration between the client and the department. Performance measurement provides the means of translating the mission and vision of the organization into concrete strategies and plans that can be monitored and adjusted continuously.

2.5 Effects of Performance Measurement

Performance measurements can bring transparency which can show result in various forms of rationalization such as how much a particular product or parts of an organization contribute to the output. It rewards output and is thus an incentive for performance neither good intentions nor diligent efforts are rewarded. Performance measurement is useful in shaping accountability whereas the information about performance are systematically measured, quantified, easily communicated and can be supplied at the same time each year (de Bruijn, 2002).

As mentioned by Azhar, 2009, a successful adoption of performance measurement system is about holistic change which involves the people's readiness and

their willingness to embrace and institutionalize a transparent and outcome oriented measurement goals and is accountable to it. He noted that there is a need for public sector to take into more serious consideration of the outcomes related measures and link all measurements up in a causal relationship manner.

2.6 PMS for the Public Sector

Key Performance Indicators (KPIs) are financial and non-financial measures or metrics used to help an organization define and evaluate how successful it is, typically in terms of making progress towards its long-term organizational goals. KPIs differ among organizations based on the nature of business or activities of the organizations. A KPI is a key part of a measurable objective and KPI must be constantly reviewed and changed to reflect new priorities in the organizations.

Performance indicators are normally seen as a numerical measure of achievement that is easy to collect and use. In theory, they can only be derived for those that an organisation has control. However in reality entities do not have absolute control over everything and therefore control is actually a matter of whether there is enough control for purpose (Bullen, 2003). It is important for organization to ensure that performance measurement system be dynamic, so that the performance measure become relevant and continue to reflect the issues of importance to the business (Lynch & Cross, 1991; Kennely & Neely 2002). Thus, organization need to ensure that their existing measure and measurement system are reviewed and modified in accordance to the both external and internal changes in the organisation. Besides that, Matheson (1998) mention that

many government now are moving towards performance oriented public management system in order to reform their operation to make it more productive and meeting the needs of the citizens.

A detailed definition of performance indicators for the public sector from the United Kingdom Office of Public Management is:

A performance indicator defines the measurement of a piece of important and useful information about the performance of an program expressed as a percentage, index, rate or other comparison which is monitored at regular intervals and is compared to one or more criterion (Bullen 2003, p 7).

When we look at developing countries, they have been more cautious in their efforts to introduce and implement any form of results-based management system. The country like Australia and United States have introduced government-wide strategic plans, performance indicators, and annual performance plans and integrated them into annual budget documents (Kusek et al, 2005). The other approaches include putting into annual financial reports programme performance indicators that can be audited (e.g. Finland, Sweden, United States), or using performance agreements between ministers and heads of government agencies (e.g. New Zealand, United Kingdom). Egypt and the Philippines have initiated performance-based budgeting strategies, and Malaysia has embraced the total quality management approach, focusing on process re-engineering and achieving strict quality standards.

In Malaysia, there have various transformations in a public sector since 1980s whereby its change the management practices when the government implement New Public Management (NPM) followed by quality control circle and total quality management in the late 1980s and performance based appraisal in the remuneration

system in early 1990s. (Siti Nabiha, 2008). Then, the government introduce performance based culture for public sector organizations in early 2005 which requires all public agencies to formulate, evaluate and report their Key Performance Indicator (KPIs) and their benchmarks. With the changes of developmental administration, various government agencies and units were established to facilitate the reform and help the public sector manage the changes of their scope and function such as National Training Unit and Malaysian Administration Modernization Management Planning Unit (MAMPU). According to Siti Nabiha: 2008, since 1980s the reform in public sector resulted the transformation of Malaysian public sector which is acting as engine for the country economic development previously, and now as a facilitator to the country's economic development.

As mention by our Prime Minister, lead minister will responsible for the six national key result areas. Then KPIs of secretaries-general and department heads will automatically be aligned to their respective minister's KPIs. (Ismail Adam, 2009). The Public Service Department (PSD) will assesses the performance of these department heads through a further set of KPIs that measure the efficiency and effectiveness of service delivery, quality of consultation, governance and accountability and leadership effectiveness. As cited by Ismail Adam: 2009, General Director of Public Service Department, setting performance target can give the whole organization a sense of quantum and quality of services in order to achieve their mission and identified the appropriate resources for the particular performance area.

As mention by Kloot (1999), the government performance need to measure economy, efficiency and effectiveness which are consistent with the notions of financial

accountability of both federal and state government (Neilson & Mucciarone, 2002). As stated by Siti Nabiha: 2006, the heart of the new performance measurement system lies in the use of Key Performance Indicators (KPIs) in various organizational process and activities which its provide the link between financial performance and strategic decision making and in the organizations. Thus, standards and targets need to be set for these key activities. The underlying philosophy of the system is “what get measured gets done”, so the KPIs must be measureable, clear, simple and actionable as possible. Therefore, Key Performance Indicators are crucial for organization in order to translate strategic plans into specific initiatives and to allocate responsibilities and accountability in the organizations (Siti Nabiha, 2006).

Some descriptions of the performance indicators are illustrated in Table 1 and it is based on Hyndman and Anderson (1992) model which are divided into eight categories ; quality, quantity, cost, timeliness, efficiency, effectiveness, outputs and outcomes.

Table 1.1 : *Categories of Malaysia’s Federal Ministries Performance Indicators*

<i>Performance Indicator Disclosure Categories</i>	<i>Definition/Criteria Used</i>
Quality	Degree of excellence of a good/service.
Quantity	Number/ amounts of goods/services being administered
Cost	The amount of the goods/service which requires payment
Timeliness	The time taken to receive the goods/service
Efficiency	Ratio of inputs used to outputs achieved.
Effectiveness	Extent to which outputs or outcomes achieved meet pre-stated targets, objectives or policy directives
Outputs	Actual goods or services produced or delivered by the programs or reporting units.
Outcomes	Extent or quality of impact upon clients or situation arising from outputs.

Source : Performance Reporting by Malaysian Government Departments

2.7 Key Performance Indicator and its design in Malaysia

As stated by Khan, 2006, the development stage of KPI must focus on 10/80/10 rules which should be religiously adhered and no more than 10 KRIs, up to 80 PIs and 10 KPIs be set in an organization it wishes to achieve. (see exhibit below)

Exhibit : 10/80/10 Rule.

Key Result Indicator (KRI) – 10	Tells you how you have done in a perspective
Performance Indicator (PI) -80	Tells you what to do
Key Performance Indicator (KPI) -10	Tells you what to do to increase performance dramatically

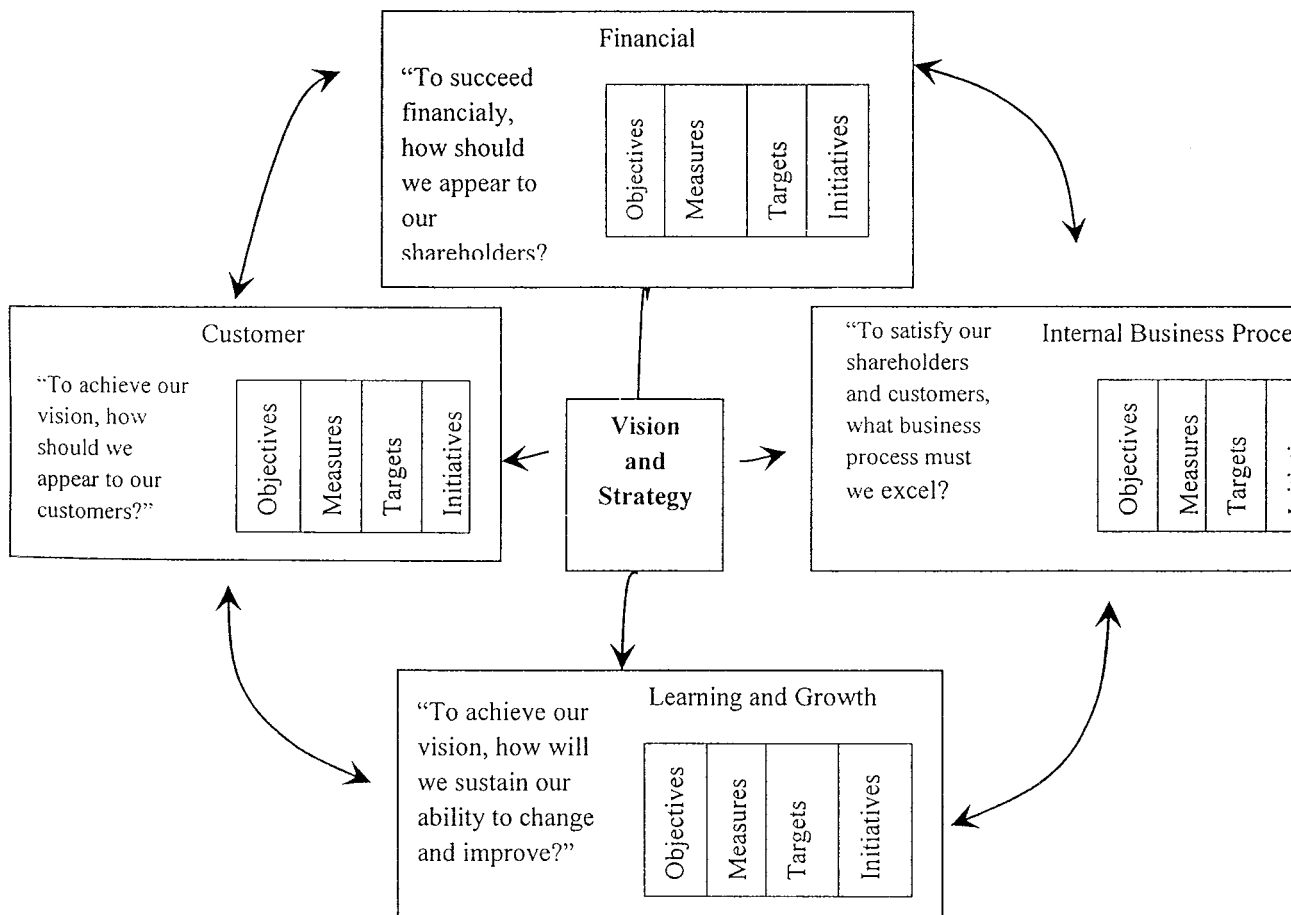
The KPIs must have customer focus, financial performance, learning and growth, internal process, employee satisfaction and care for the environment/community. Then, the reporting framework must accommodate the requirements of different levels and the reporting frequency that support timely decision making and the achievement of the KPIs.

2.8 Using Balance Scorecard (BSC) as a Strategic Management System

Kaplan and Norton (1992) define the 'balance scorecard' (BSC) as a set of measures that gives top managers a fast but comprehensive view of the business. Balance scorecard provides a framework for managers to measure the business from four perspectives : Financial, Customer, Internal Business Process and Learning and Growth (Kaplan & Norton, 1996). The diagram below shows that the foundation of measuring organizational performance is vision and strategy. Thus, any measurements chosen within the four perspective must capable to explain the level or extent of achievement of the strategy. Each perspective of the Balanced Scorecard includes objectives, measures of those objectives, target values of those measures, and initiatives, defined as follows:

- **Objectives** - major objectives to be achieved, for example, profitable growth.
- **Measures** - the observable parameters that will be used to measure progress toward reaching the objective. For example, the objective of profitable growth might be measured by growth in net margin.
- **Targets** - the specific target values for the measures, for example, +2% growths in net margin.
- **Initiatives** - action programs to be initiated in order to meet the objective.

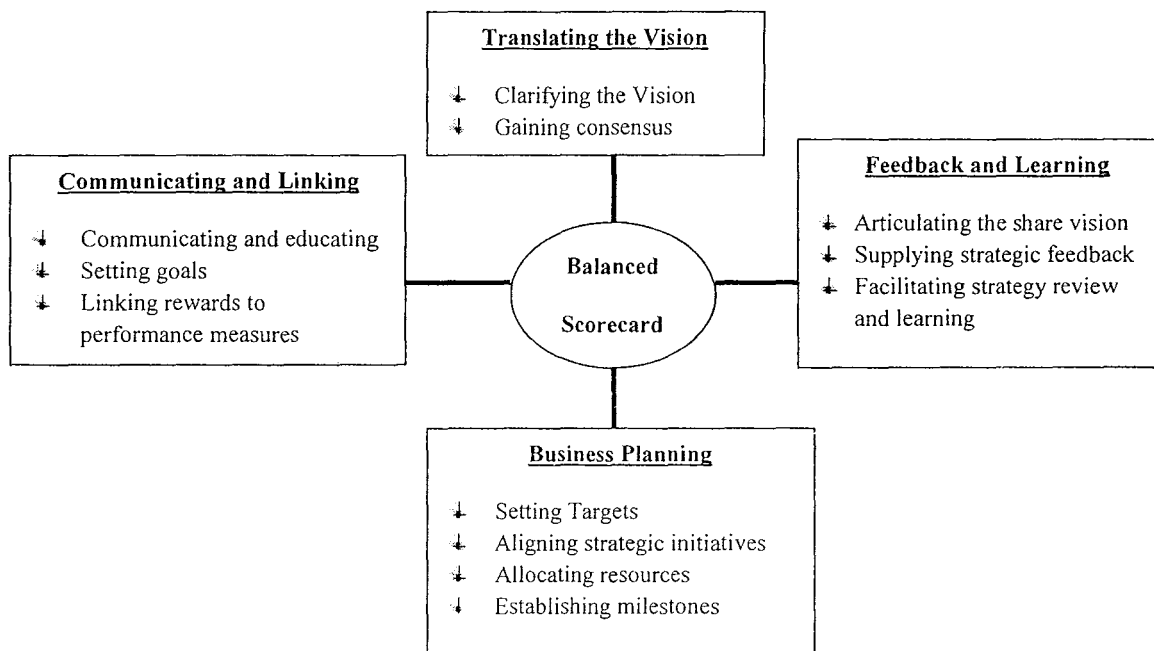
Figure 2.2: Balance Scorecard : A framework to translate a strategy into operational terms



Source : Kaplan & Norton, 1996

The BSC can help managers manage the organizational strategy through four processes in order to link long-term strategic objectives with short-term actions (Kaplan and Norton, 2007). The four processes are: Translating the vision, communicating and linking, business planning and feedback and learning.

Figure 2.3 : Balance Scorecard Managing the strategy: Four process



Source : Kaplan & Norton, 1996

More recently, most companies use BSC as the foundation of their strategic management system (Kaplan and Norton, 2007). As cited by Kaplan and Norton, 2007, the companies using BSC to :

- clarify and update strategy
- communicate strategy throughout the company
- align unit and individual goals with the strategy

- link strategic objectives to long term target and annual budgets
- identify and align strategic initiatives and
- conduct periodic performance reviews to learn about and improve strategy
- These four realms are not simply a collection of independent perspectives. Rather, there is a logical connection between them - learning and growth lead to better business processes, which in turn lead to increased value to the customer, which finally leads to improved financial performance of the organizations.

According to Niven, 2003, governments and nonprofit organizations can develop a Balance Scorecard based on their alterations to the 'geography' of the model to fit their particular circumstances. As stated in Figure 2.4, the mission moves to the top of BSC whereas the strategy remains at the core for the BSC. The government and nonprofit organizations develop the strategy as the device for effective translation and implementation. Placing the mission at the top of the framework shows that there are focusing on organization's customers not financial stakeholders. The key success of BSC is lies in selecting and measuring the processes in the organizations which lead to improved outcomes for customers and allow the staffs to work towards the mission of the organizations (Niven, 2003). Therefore, the governments and nonprofit organizations rely heavily on the skills, dedication and alignment of their staffs to achieve their socially important goals.