

Challenges and Control in Performance Management System Implementation: A Case Study

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ABSTRACT

Change in business environment requires organizations to strive to maintain performance. Performance Management System (PMS) coupled with control mechanisms can be used to improve performance. This study aims to explain the challenges encountered during the implementation of PMS in a Government Linked Company (GLC). The study also examined how controls can be used to mitigate the challenges. An explanatory case study method is used and data is collected through semi-structured interviews, document reviews, informal conversations and observations. The results indicate that challenges to implement PMS include employee readiness, PMS objectives and direction; PMS measurements; and management commitment. Proposed control systems include belief, boundary, diagnostic and interactive. Findings from this study can be used as guidelines by other organizations implementing change in PMS. Findings can also be used by policy makers to improve policies regarding PMS in GLCs. Theoretically this study contributes to line of literature in PMS using institutional isomorphism theory.

Keywords: Performance Management System; Management Control System, Government Linked Company

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INTRODUCTION

The changing business world provide challenges for organizations to maintain current performance of the business. Performance management is related to issue of management control system and its main objective is to manage and control organisation performance (Otley, 1999). Companies must consistently and critically review their PMS and take drastic action (if required) to address the challenges encountered during its implementation.

In Malaysia, performance in GLCs continuously remain the main concern because they certainly influences the economy in Malaysia. In order to transform the GLCs into high-performing entities, the government introduce GLC Transformation (GLCT) program and one of the initiatives is to intensify performance management. This initiatives is known as Blue Book policy. GLCT program introduced by government in 2004 and successfully

completed in 2015. GLC performance still monitored eventhough GLCT program completed in order to achieve *Wawasan 2020* initiatives.

PMS implementation is one of the requirement under GLCT program. The study provided understanding on how PMS being implemented after several changes during the implementation phase. This will broaden the understanding of how control is used to mitigate the challenges encountered during implementation of PMS in GLC. To pursue the aims of the study, a case study of a large Malaysian GLCs was conducted. Semi-structured interviews, organisational documents and observation were used in the data collection process.

This paper is organised as follows. The next section provides a literature review, which begins with a discussion on the studies of implementation of PMS in GLC, challenges encountered during implementation of PMS and Management Control System (MCS). This is followed by a section on the research method and design of the study. The subsequent section focuses on the analysis of the case study, including the background of case organisation, the implementation of performance management system. This is followed by the discussion and conclusion sections.

LITERATURE REVIEW

The literature review is divided into three subsections. The three subsections are implementation of PMS in GLC, challenges encountered during implementation of PMS and Management Control System (MCS).

Implementation of PMS in GLC

Every phase of PMS development has its issues. Data availability including difficulties to obtain data or unavailability of data to design the PMS is one of the issues in designing PMS (Lohman et al. 2004; Braz et al. 2011). Measurement of performance is issue identified at designing phase of PMS (Bourne et al., 2000). Performance measurement will change according to internal and external environment of an organization. Besides that, major issue under implementation is management commitment and failure of implementation (Nudurupati et al., 2000). Further to that, suitable software to implement the change of procedure to measure the performance are issuea related to review and use phase, (Braz et al., 2011).

Organizations rarely change their PMS because they are reluctant to continuously carry out the new system and reluctant to change existing PMS (Waggoner et al., 1999; Neely, 1999; Kennerley et al., 2002). However, few organizations take step to manage development of PMS. At times, new PMS is introduced without proper implementation and will result in failure. Due to rapid development of business environment, implementation of PMS is required and up to date.

Blue Book policy resulted in changes in the implementation of PMS in GLCs. Norhayati and Siti-Nabiha (2009) study the process of change in PMS at a GLC in Malaysia. Their study found that implementation of the new PMS did not change because the transformation program was newly introduced during that time, and has not reached the final stage (Norhayati and Nabiha, 2009).

In Malaysia, BSC is one of the tools which many GLCs (e.g. TELEKOM Berhad, Tenaga Nasional Berhad, PETRONAS Berhad, and SYABAS) are using as PMS in their organizations. However, there is limited research on the control system to encounter challenges during the implementation of BSC in Malaysian GLCs. This study attempts to

understand the appropriate controls used to encounter the challenges during the implementation of PMS in GLC. According to Sorooshian et al. (2016; 2011) and Yusra et al. (2015) in the 21st century, organizational performance is encountered challenges due to rapid environmental change which can cause serious problems and ultimately deteriorate business. To meet the objective of the study, this study was carried out at the implementation phase of PMS. This is because, the development and implementation of a comprehensive PMS helps organizations to develop and improve the business environment decision-making process.

Challenges Encountered during Implementation of PMS

There are several studies that identify challenges in the implementation of PMS (Seotlela et al., 2014; Myeda et al., 2013). Looking at the literature, it can be concluded that previous studies have explored the various aspects of PMS implementation.

The achievement direction is one of the identified challenges. According to Myeda et al. 2013, the achievement direction (known as service direction) is identified as obstacles for the organization to implement the PMS perfectly. The direction of achievement refers to the focus on short-term decision making, relying on the network of systems, lack of strategic planning skills, lack of awareness and understanding of the importance of PMS, priorities are given to other aspects of management and unclear with long-term goals. According to Soetlela et al. (2014), ensuring PMS software is active every time is a challenge in terms of achievement of the direction. It is emphasized to monitor the software of PMS implementation periodically, closely monitor system and update the changes if required.

Formulation is also identified as challenges in PMS implementation. Myeda et al. (2013) in her study identified no proper sample or guideline, identifying suitable guidelines, difficulty in evaluating the relative importance of measures, striving for perfection fighting for immediate completion, unclear processes and procedures and lack of resources as the challenges. Meanwhile, according to Soetlela et al. (2014), managers need to make sure job descriptions are aligned with organizational goals. The activities listed in the job descriptions in the key performance index (KPI) will help to evaluate performance. Employees should understand that the implementation of the new PMS requires time to overcome existing working systems with the new changes undertaken in relation to the implementation of PMS.

Myeda et al. (2013) and Soetlela et al. (2014) studies found several challenges faced during PMS implementation. However, the challenges discussed are generally limited to medical industry. For the purposes of this study, the challenges found by Myeda et al. (2013) is used as a guideline in exploring challenges encountered during implementation of PMS in GLC. Management commitment is a critical challenge for PMS implementation (Myeda et al. 2013). Soetlela et al. (2014) found that if management and managers do not commit, workers will not take PMS seriously. This is not only the task of the human resource department, but also cooperation of all parties, especially the management to avoid failure of the implementation of PMS.

Management Control System (MCS)

Isomorphism Institutional theory was used to identify the challenges during implementation stage of PMS, and to understand suitable control to encountered the challenges. Challenges have been identified through literature and categorized according to Isomorphism Institutional theory (Pressure of Coercive, Mimetic and Normative). Thereafter, Simons (1995) theoretical levers of control (LOC) was used to identify suitable control to encountered the identified challenges.

Coercive pressure stems from political influence and the problem of legitimacy. Example of coercive pressure is government mandates, legal matters such as contracts, the budget cycle, financial reporting requirements and regulatory agencies. Mimetic pressure is a result of an organizational response to uncertainty. Example of mimetic that would lead to organizational isomorphism include organizational technology not understand dan strategy not clear. Normative pressure is associated with professionalism. DiMaggio and Powell (1983) define professionalism as being interpreted by members within a particular designation collectively defining the appropriate conducts in which to act. Examples of normative pressure are professional network, training or professional development and certification processes accredited by professional bodies.

Simons(1995) LOC has four types of MCS (diagnostic, belief, boundary and interactive). Diagnostic systems used to motivate, monitor and reward achievement of specified goals. Example of diagnostic system is to monitor organizational performance against important dimensions of a given strategy. Beliefs system is used to inspire and direct the search for new opportunities. Examples of belief systems are communication channels, formal mission statements, statements of purpose, email, meetings, codes of conduct, strategic planning systems and formal rules and procedures. Boundary systems is used to set limits on opportunity-seeking behaviour. Example of boundary processes is the aim to prevent employees from wasting the organization's resources. Interactive systems consist formal two-way processes of communication between managers and subordinates, where employee participation is encouraged in a formal process of debate. Example of interactive systems is face-to-face dialogue and debate.

METHODOLOGY

In this paper, we examine the challenges encountered during the implementation of PMS in one of Malaysian GLCs named AA Berhad (fictitious name). The real names of the organisation are not disclosed for reasons of confidentiality. The actual names of the programmes have also been replaced with fictitious names. In total, 10 structured interviews, 26 unstructured interviews, observations of place work, review of documents and informal communication were carried out. The observations were carried out during working hours. Documents such as annual report, performance management cycle have been reviewed. The interviews were semi-structural, lasting about average one hour each. Both executive and non executive were interviewed. Findings from all interviewees have been presented with no names to ensure participant anonymity.

The permission to conduct research from the case organization AA, was obtained in 2016. AA was established and came into operation more than six decades ago. AA undergone privatisation in 1990, and was later listed on the Main Board of Bursa Malaysia. AA was chosen as a case organisation because of its status as one of the main Malaysian GLCs and have been undergo GLC Transformation program. AA also being chosen because of the organisation is a main player of Malaysian economics. AA have shown an excellent performance in financial and become one of the main champion leader in its operations in Malaysia.

FINDINGS

Based on information gathered, findings on PMS challenges is organised around coercive, mimetic and normative controls. We describe and analyse the findings focusing on the challenges encountered during implementation of PMS.

Table 1: Summary of Challenges

Type	Challenges in this study
Coercive	Employee <ul style="list-style-type: none"> - Lack of training - Relying on guidelines - Job description - Ignore circular/ guidelines - Not understand new PMS implementation concept
Mimetic	Software Measures <ul style="list-style-type: none"> - Problem and timeline in identifying suitable measures
Normative	Management commitment

Results from Table 1 signify four categories of challenges encountered during implementation of PMS at AA. Findings shows coercive pressures in AA started by following the Blue Book Policy as stated in GLCT programme. AA adopted BSC as their PMS. The decision on adopting and using BSC also influenced by the Malaysian government. AA choose to adopt BSC after it has been privatisated because due to understanding that BSC can improve organization performance. AA also assumed that the BSC can give the organization competitive advantage. However, in year 2016, AA has changed to existing PMS implementation due to BSC not able to support AA's continuous achievement and PMS.

Thus, rules and regulation of PMS were reviewed and issued in a form of document called as "circular" of the implementation of PMS. Employees are required to follow the implementation of PMS as per the circular. Handling the employees is the main obstacle encountered by AA under coercive pressure. Due to changes in PMS system which was made compulsory to follow, employees had to subscribe to the new environment. Some of the challenges identified are lack of training, relying on guidelines, changes in job description which did not align with current responsibility, ignoring circular or guidelines provided to implement new PMS, and lack of understanding on new PMS implementation concept.

Mimetic pressures in AA resulted due to AA response to uncertainty of new software and measurements. AA changed from existing software known as CBPMS (Competency Based Performance Management System) to OBITS (Outcome Based Indicator Tracking System). CBPMS is more applicable for BSC implementation and not able to support new outcome based performance of PMS implementation. Thus, AA adopted OBITS as new software. However, employees encountered difficulty to familiarize themselves with the software and lead to following the techniques, rather understanding the utilization of the software. AA also encountered problems identifying suitable measures because job description was not aligned with responsibilities assigned to the employees. Thus, employees are faced with situation where the perceived correct course of action is unclear, and they may mimic the action of another employee or utilize existing measurement which is inaccurate.

Normative pressures in AA resulted from lack of management commitment. Challenges can be encountered within a particular profession through attending workshop and seminars related to PMS. Sometimes, subordinates (employees reporting under immediate manager) of management are required to attend the workshop on their behalf, due to priority to other scope of work. This act may lead to management not understand the new implementation of PMS concept and unable to provide clear direction to employees.

AA performed quarterly evaluation on subordinates in order to provide quarterly performance report on GLCT to the government. However, employees failure to comply with the new system and follow existing practice of assessment, may lead to inaccurate reports. This happened because existing PMS practices focusing on activities and were easily assessed, while new implementation focusing on outcomes rather than activities.

Overall, the findings of this study showed that the AA have a good PMS but the implementation have problem due to changes embarked. Table 2 shows summary of suitable control identified to overcome challenges encountered during implementation of PMS in AA. Findings shows AA control system is general and this study has identified suitable control system based on literature. The identified control system is discussed according to isomorphisme institutional which include coercive, mimetic and normative.

Table 2: Summary of Control on Challenges Encountered

Type	Challenges in this study	Control System
Coercive	Employee	
	- Lack of training	Interactive control system
	- Relying on guidelines	Diagnostic control system
	- Job description	Interactive control system
	- Ignore circular/ guidelines	Boundary control system
	- Not understand new PMS implementation concept	Belief control system
Mimetic	Software	Interactive control system
	Measures	Diagnostic control system
	- Problem and timeline in identifying suitable measures	
Normative	Management commitment	Identifying suitable measures

Challenges encountered under coercive pressures are mainly from the employees. The appropriate controls to overcome lack of training challenges are interactive controls where responsible parties need to communicate with individuals and conduct PMS training. Interactive controls is identified as suitable control because study identified lack of communication between manager and subordinates. Manager should ensure employees are provided with sufficient training on new implementation of PMS to enhance their understanding. Suitable controls for overcoming relying on guidelines are diagnostic controls where strategic department is required to monitor each department to comply with the prescribed guidelines.

Diagnostic control identified as suitable control system because management set the overall strategy and transform those strategy into guidelines and then encouraged employees within their organisation to identify the local actions and initiatives that would have the highest impact for accomplishing the targeted objectives. Besides that, the appropriate controls for overcoming the challenge of different job descriptions are interactive controls where managers need to discuss job descriptions with subordinates.

Interactive controls allows to understand the work descriptions carefully and carry out the task without a doubt. Next, the appropriate controls to overcome challenges of ignoring circular or guidelines are boundary control. Boundary control is considered as appropriate as practice of circular for PMS implementation can avoid risk such as keeping functional strategies within the borders of a business strategy. Whereas to overcome the challenges of understanding the implementation of PMS concept, appropriate control is the belief control. It is considered that the PMS implementation concept should be based on the vision and mission of the organization as well. Belief control build the trust to make sure the works performed based on the value of the company.

By definition, interactive controls are considered to be appropriate to overcome the challenges of relying and understanding software. This is because according to definition, interactivity controls facilitate change of strategy within the organization. Whereas, diagnostic control is considered to be appropriate to address the challenges of target determinations and timeline. This is because target will determine and used to motivate, monitor and reward achievement of specified goals. Thus, diagnostic control identified as more suitable control to overcome challenges on targets.

Interactive control was identified as suitable to overcome the challenge of management commitment which comes under normative pressures. Interactive controls are considered appropriate as the all the information including guidelines and reporting performance status, should be communicated and cascaded to employees by the highest level of management. Constant and regular attention from the management is believed required to overcome the challenges. Thus, interactive control systems are used throughout the organization.

The findings show that AA utilized various controls in overcoming the challenges of the PMS implementation.

CONCLUSION

The findings of the study shows challenges encountered during PMS implementation and identified suitable control system to encounter those challenges in PMS implementation. Finding contributes to isomorphisme institutional theory and use of control system in GLC. Contribution of the study divided into 2 aspects which is interms of practical and theory. The study contributes to the development of isomorphism institutional theory especially identify control system to ecouted identified challenges during PMS implementation. Besides that, study also become additional reference for future research related to GLC and implementation of PMS which related to control system.

Seotlela (2014) and Myeda et.al (2013) study identified the challenges in implementing the PMS. This study has categorized the challenges set out by Seotlela et al. (2014) and Myeda et.al (2013) as well as challenges during the implementation of PMS according to isomorphism institutional. This is because isomorphisme institutional theory discussing the changes of strategy within the organization. The changes caused changes in implementation of PMS. As a result, challenges occur in the implementation of the new PMS. These challenges are categorized according to the isomorphisem institutional theory that suits the characteristics and definitions. From the theoretical aspects, the study found that the challenges can be classified according to isomorphisme institutional theory. This finding can contribute to isomorphisme institutional theoretical aspects.

In addition, this study extend in the field of PMS implementation especially in GLC. This study also offers explanations on the types of controls that contribute to the management accounting practices in the organization. Moreover, this study will fill one of the gaps in how

the MCS component is adjusted in the PMS model. Study also investigates the implementation of PMS in GLC based on latest development of GLCT Program. This study can make a reference for future research. The next section will discuss the contribution of the study from the practical aspect of the implementation of PMS in GLC.

This study provides contribution to both theoretical and practical aspects. This study is beneficial to the GLC regarding the implementation of PMS and the role of the MCS. It is also hoped that, by understanding organizational transformation issues and their impact on management accounting practices, top management of an organization can manage and set appropriate control systems. In addition, the practice of PMS in GLC can be an example to other organizations. Additionally, the results of this study will added to the collection of case study materials so that comparisons with other studies in the same industry or in the same context can be made.

This study fills one of the gaps in how MCS component is adjusted within the PMS framework. The findings of this study are based on the implementation of PMS in GLC. Therefore, this study can make as a reference to the future study of PMS, MCS and GLC. There are some limitations in this study which are constraints in interpreting the results of the study. The first limitation is the study limited to the implementation of PMS in GLC only. Hence, further studies to understand the development of PMS in depth will definitely contribute to better study results in the future. The second limitation is about the methodology of the study. This study is a case study method. This method has always open for question because it is very specific. However, the triangulation approach ensures that the findings of the data obtained through interviews with documentation and observation have reduced these constraints. In fact, this method has been successful in exploring the implementation of PMS in GLC as well as control system in more depth. Also study provided real environment and real situation on PMS implementation. In this study, practice of a single GLC is used to identify the challenges and to suggest control mechanisms. Future studies may cover more cases and expand to other industries.

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