IHRA
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University of Colombo, Sri Lanka

Institute of Human Resource Advancement (IHRA)

Masters Degree in Human Resources Management (MHRM)

(2nd Semester Examination – April 2012)

MHRM 06 – Performance Management and Career Development

Instructions to the Candidates

(1) *Answer three (03) questions in total including question number one (01).*

(2) *Time allocated for the examination is three (03) hours.*

(3) *Total number of questions is five (05).*

(4) *Total number of pages is two (02).*

(5) *If a page or a part of this question paper is not printed properly, please inform the Supervisor immediately.*

(6) *Use of any equipment/items such as mobile phones is prohibited, and rules & regulations of University examinations should be strictly followed.*

01 Read the annexed case study and answer the following questions?

a In your opinion what are the strengths and weaknesses of this performance management system?

(20 Marks)

b What suggestions could be proposed to enhance these strengths?

(15 Marks)

c What recommendation you would propose to overcome the weaknesses?

(15 Marks)
(Total 50 Marks)

02 "It is important to note that performance measurement and performance management are not the same. Each segment in a large organization may develop highly specific performance measurement information for its own operations and this will allow that segment to operate effectively. However, while each manager strives to optimize the performance of his division, the overall performance of the organization may be sub-optimized." Comment.

(15 Marks)

a What are the dey elements of a Performance Management System? Briefly explain them with relevant examples.

(10 Marks)
(Total 25 Marks)

03 "It is widely acknowledged that effective measurement systems are capable of addressing questions such as: Is an agency doing its job? Is it creating unintended side effects or producing unanticipated impacts? Is it responsive to the public? Is it fair to all, or does it favor certain groups, either inadvertently or deliberately? Does it keep within its proper bounds of authorized activity? Overall, is it productive?"

In the process of providing answers to these questions, productive entities must address several dimensions of measurement. What are these dimensions explain them with relevant examples.

(25 Marks)

04 Compare and contrast organizational and individual career planning perspectives with relevant examples.

(25 Marks)

05 write short notes on any two of the followings.

a Performance review

(12 ½ Marks)

b The steps involved in a coaching process

(12 ½ Marks)

c Distinction between Performance Management and Performance Appraisal

(12 ½ Marks)

(Total 25 Marks)

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A case study of the performance management system in a Malaysian government linked company

The background of the case company

Tiger was established through corporatisation and privatization policy implemented by the Malaysian Government in the 1990s. Before privatisation it used to be a government agency, supplying utility to the public. The agency was set up in order to take up three specialized projects for the provision of utilities to the country before Malaysia achieved its independence. During those days, the agency was headed by British expatriates.
Therefore, it is quite understandable that the system and the process that are currently used by Tiger have much in common with the British system.

After the country achieved its independence in 1957, the process of "Malayanisation" in Tiger took place. The government sponsored students to study engineering and related areas to take over the top management positions from the British. The practice of sponsoring students continues even to today to ensure an adequate supply of manpower in the organisation. Nowadays, Tiger itself sponsors students to study in areas related to its business. The sponsored students are normally bonded for a number of years to work with Tiger. Thus, Tiger"s employees are mostly considered as "born and bred" by Tiger.

The early focus of the agency was to ensure enough supply for industries. To meet the extra demand from the industries and the country as a whole in the early 1980s, the agency needed to expand. To finance the expansion, on top of the government allocation of RM1billion, the agency also borrowed a further RM1billion each from foreign and local sources. In the late 1980s, Tiger was in a bad financial position. The level of gearing was very high. Labour costs had increased due to the increase in the number of employees. In fact, Tiger was not facing the dilemma alone. Other government agencies were also facing financial problems as commented on by the then prime minister:

> *Upon gaining independence, the Government inevitably had to take the leading role in developing the country, in view of the limited capacity of the local private sector at that time in terms of entrepreneurial, managerial and financial resources [...] By the 1980's some 10 billion ringgit was directly invested in about 1,000 companies. Guarantees total 25 billion ringgit. While some succeeded admirably, most failed. Even those which are monopolistic are not able to pay their way, much less make a profit. The pendulum had obviously swung too far. While we cannot say the policy is a total failure, for much experience had been gained from it, we cannot continue to pay this very high price. Given this scenario, the Government at the beginning of this decade, decided upon privatisation as a way out (Mahathir, 1988).*

Consequently, 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, the Pension Act 1980, the Telecommunication Act 1950 and the Port Act 1963 were amended to facilitate the privatisation process (Economic Planning Unit, 2003). In the early 1990s, Tiger was among the agencies that went for privatisation. In the subsequent years, Tiger"s shares were listed on the Kuala Lumpur Stock Exchange (now known as the Malaysia Stock Exchange).

The government expected several benefits out of the privatisation of Tiger. First the exercise should relieve the administrative and financial burden of the government on Tiger. Second, it should also improve the effectiveness and the quality of the services rendered by Tiger. Third, through the privatisation exercise, entities such as Tiger would be encouraged to adopt private sector management practices, which focus more on financial returns. Lastly, it should contribute to the attainment of the goals set for the New Economic Policy[3], which was introduced in 1971. Ideally privatisation should lead to greater productivity in Tiger, which could then be translated into greater income (Mahathir, 1988) and should also improve the effectiveness and the quality of services.

It is quite difficult, through privatisation, for Tiger to transform itself from a public service provider to a profit making organisation overnight. Tiger had been under the direct administration of the government for more than 40 years. Thus, the internal control system, the financial policy, and the working culture were predominantly shaped by the government. Despite being publicly traded on the stock exchange, Tiger is still owned by the government through its investment arm, which is Khazanah Nasional Berhad. In essence the government still plays an important role in shaping the future of Tiger.

Furthermore, Tiger operates in a highly regulated industry. Entrance to the industry is subject to the approval of the regulator. While there are competitors in the industry, Tiger still enjoys its monopolistic position as the entrance cost to the industry is very high and, in addition, the industry is highly regulated. Although Tiger on a regular basis needs to submit its performance report to the regulator, and also to Khazanah, focusing on capacity measures in the local market; Tiger is not facing intense competition. Thus, due to the nature of the business and the lack of driving force in the local market, there is simply not enough pressure for them to perform beyond the necessary. The other competitors rely on Tiger in terms of distributing utilities to the end-users as Tiger monopolizes the distribution channel.

Being the main provider of utility, the performance of Tiger is always judged by the public. For example, in 1996 Tiger was heavily criticised due to its bad performance. The company failed to provide its services as demanded. Hence, in the pursuit of becoming more efficient Tiger transformed its three strategic business units into subsidiaries. The process took place between 1997 and 1999. The wholly owned subsidiaries were supposed to be able to meet the demand of the customers effectively and efficiently. However, in 2004 Tiger changed its structure again. Under the new management team, the three subsidiaries were made dormant and all of their activities were taken over by Tiger. Instead of subsidiaries, they are currently known as divisions, each headed by a vice president (VP).

Until late 2007, along with these three strategic divisions, Tiger also had five supporting divisions, i.e. Accounting, Corporate Services, Human Resources, Information and Communication Technology and Investment Management Division. As part of the GLCs transformation initiatives, the government appointed a new CEO to lead the management of Tiger on a three year contract basis. A new chief financial officer (CFO) was also brought into give significant effect to the changes. The CEO and the CFO are now in their second term of appointment.

Tiger again changed its structure in early 2008. Group finance, headed by a senior vice president (SVP), was formed by merging the finance and investment divisions and also the business development unit. Two new divisions, procurement and planning, were set up. The procurement division, headed by a senior general manager (GM), was introduced to take care of procurement policy, tender process and other procurement-related processes. The business planning division, headed by a VP, was set up to merge the technical planning and strategic planning of the organisation. The objective of this restructuring was to provide more emphasis on the financial aspects.

Attempts to imbue commercial orientation

The early introduction of commercial orientation into Tiger in the 1990s can be traced back to the privatization of Tiger. After the privatization exercise, Tiger was expected to concentrate on making business on behalf of the government while maintaining its previous role as a public service provider. As commented by the then prime minister:

> *The main objective of the privatisation policy is to improve productivity. Improving productivity means increasing the production capacity while maintaining the costs of production or increasing the production capacity at a slower rate of increasing costs of production. Under these conditions, profits could be improved without charging higher prices to the consumers (Mahathir, 1990).*

Ironically, despite the emphasis on being an efficient provider of utilities, the first thing that was tackled in Tiger was to ensure that the employees" salaries were competitive with the private sector"s salaries. The trade union, a feature that was inherited from the British system, played its role to ensure that the employees" benefits were given the highest priority. Nonetheless, the expectation of a better compensation scheme from Tiger"s employees was quite understandable as they were expected to adopt a new paradigm of doing business.

Hence, the employees required different modes of compensation scheme. The prime minister"s speech, made on the day that Tiger was incorporated, acknowledged this fact:

> *Opposition to privatisation comes largely from the employees and their unions. This is understandable. Working in a private sector organisation with its stress on efficiency and profits cannot be the same as working in a government department where public revenue guarantees the financial capability. Even when the salary is the same, the feeling differs (Mahathir, 1990).*

Being in a regulated industry, Tiger is subject to supply reliability measures as indicators of performance. Thus, during the early days of privatisation, despite the emphasis on the financial returns to the shareholders, the KPIs were more to ensure the continuous provision of supply. As illustrated by the VP of Delta:

> *In terms of KPIs, we already have them. Like the practice of preparing the business plan has been around for a long time. KPIs and the [Delta] Index that are being used currently have been around for a long time.For example, like supply reliability index, things like ACP [Average Collection Period], CSI [Customer Satisfaction Index], some of those things have been around for many years, long before the launching of the GLC transformation programme.*

The benchmarking process was not conducted and targets were loosely set. The practice was illustrated by the senior GM:

> *We just plucked the measure out of the air [. . .] we didn't have the basis.*

The strategic business units were evaluated on a cost basis rather than on profits. The reward and penalty system were not linked to the PMS when giving salary increments, bonus or promotion. Mostly, bonuses were based on company performance and given equally to all levels of employees irrespective of individual performance.

Prior to the Asian financial crisis, Tiger was already being criticised for its poor performance. Tiger was seen as an unreliable supplier of utility due to its failure to meet its reliability standard. The economy was growing rapidly but Tiger faced problems in terms of supply. Tiger"s situation deteriorated because of the Asian financial crisis in 1997/1998. Tiger had to bear a high level of debt, face slower economic growth, and incur higher costs of production and larger capital expenditure. The government felt that some action needed to be taken to improve the performance of Tiger. The first one was to deregulate the industry to allow greater competition.
In response to the deregulation threat, Tiger made several changes such as the implementation of the BE7[1] programme and some organisational restructuring.

Unfreeze the dominant institution through privatization

Tiger"s dominant institution is very similar to the institutions prevailing in the organisations studied by Nor-Aziah and Scapens (2007) and Sharma and Lawrence (2007), i.e. the public service orientation. Owing to its role of being the sole provider of utility in the country, Tiger is subject to its production reliability. Tiger"s performance is closely monitored by the regulator of the industry. Conformance to the rules and regulations set by the regulator is given due attention by Tiger to ensure survival and protection. Tiger would be subject to public debates if they failed to meet the standard performance set by the regulator. That was what happened to Tiger in 1996 when it failed to meet its standard performance and the government threatened to deregulate the industry. However, in later years, the government did not pursue the deregulation exercise for various reasons.

Tiger could be described as a bureaucratic giant with approximately 30,000 employees. It features multiple layers of management, faces communication problems between functions, lacks a measurement culture and has an inadequate system of accountability. Sharma and Lawrence (2007) found similar characteristics in the organisation that they studied. These characteristics are the result of public sector management that has governed the organisation for the past 40 years. The rules and regulations that exist in Tiger and Delta are the result of the public sector framework, which, basically, focused heavily on capacity reliability rather than on efficiency.

According to the institutional theory, there could be some coercive, mimicking and/or normative isomorphism that could lead to the introduction of new management techniques in Tiger. New management techniques, such as PMS, require a change in the way employees do things and view things because it entails a different paradigm. The paradigm of commercial orientation is more on the bottom line. For the new institution to be enacted, the status quo must be challenged. How could an organisation such as Tiger, which has adopted a public service orientation for so long change to a financial orientation? How is the change done? How are the systems of accountability enacted in this organisation? In what way would the culture, politics, social and institutional affect the organisational transformation?

According to Williams (2007), the prevailing institution could be challenged if there are external "shocks" introduced to the organisation. There were in fact several attempts to introduce the "shock" or disturbances on Tiger since its incorporation in 1990. Among them were privatization, the introduction of competitors into the market, a threat to deregulate the industry and the GLC transformation programme. The emphasis of all the disturbances was to improve Tiger"s efficiency. Under the privatization programme, the GLCs, such as Tiger, were encouraged to adopt private sector management techniques to improve performance. It was clear that there was an attempt to introduce a new institution concentrating on the financial orientation while maintaining its public service provider role, which concentrates on production orientation. As shown by the speech of the then prime minister:

> *Based on the Privatisation Master Plan, [Tiger] has been identified as one of the government agencies that is most suitable to undergo a privatisation exercise as it has the potential to be competitive, productive, and also able to yield a better financial return through adoption of private sector management techniques. These may not be gained had [Tiger] maintained its position as a government agency (Mahathir, 1990).*

Although the bottom line aim was spelt out, the implementation was left to the individual companies. The government promoted the NPM concept but left the concept to be adopted by the individual organisation without proper guidance. There was an attempt to introduce the new institution to Tiger, however, the mechanisms to support the change were not properly in place. The clear line separating the public sector roles and profit making roles was not defined. The public sector role still dominates the way employees see and view their work. There were not enough external "shocks", as suggested by Williams (2007) to bring significant change to the dominant institution. Hence, the new orientation has not been institutionalised as indicated by the Head of Union:

> *I felt that when we were privatised, we should at least have a different management style from the top till the bottom. But now, in my opinion, we are still at the same level.*

Tiger is facing the question of management, a question of leadership and ultimately a question of culture. How the government initiatives, such as privatization and the GLC transformation, will provide a solution for the problem of lacking the drive for financial efficiency? What went wrong in the process of inculcating the commercial orientation during the privatization programme in the 1990s?

In the first place, the privatization programme itself was rejected by the organisational members. Instead of focusing on organisational efficiency, the trade union, a feature that was inherited from the British system, played its role in ensuring that the employees" benefits were given the highest priority. The new paradigm of doing business was not welcomed by the organisational members. Opposition to the privatisation exercise came from both the employees and their unions because, as a private sector, Tiger would have to adopt a new paradigm of doing business, which could directly challenge their traditional way of doing things.

As Laughlin"s (1991) framework suggested, the privatization exercise, as an external jolt, failed to change the interpretive scheme of the organisational members. Privatization also failed to provide a disconfirmation signal[4] to the organisational members. Consequently, the public service culture or rather the production orientation remained unchallenged. There was not enough force to create survival anxiety, which could then lead to the creation of psychological safety. Thus, the organisational members failed to translate their daily activities within the new paradigm of doing business.

Environmental disturbance driving the internal change process

The Asian financial crisis in 1997/1998 was seen as another environmental disturbance that brought some changes to Tiger. The crisis put Tiger in a severe financial problem. The government had placed strong pressure on Tiger to improve its performance. An ultimatum was given to Tiger. Within five years, Tiger needed to show some improvement, failure might lead to deregulation of the industry. As noted by an assistant manager:

> *This [BE7] programme was due to the threat by the government. The government has threatened [Tiger] by saying that "Ok [Tiger], if you could not perform, then we will split your divisions into several companies". Then the top management of [Tiger] has requested for certain period of time to improve itself. The top management has then initiated the [BE7] programme.*

Owing to the threat of deregulation, Tiger responded by restructuring its organisational structure and also adopted the BSC framework for its PMS. Based on Laughlin (1991), the change in the design archetype in the form of organisational restructuring was needed to give balance between the interpretive schemes and the subsystems. While the interpretive schemes in Tiger remain unchanged, both the design archetype and the subsystem in Tiger changed. In Tiger, the change in the design archetype was reflected by the establishment of new subsidiaries taking care of the core businesses: production, logistics and distribution as well as the introduction of a new PMS based on the BSC framework to emphasise the performance indicators. The change in the subsystem was evidenced by the appointment of VPs to head the subsidiaries, who were then accountable directly to the CEO. Even though efficiency became the main factor in assessing the performance of Tiger, interestingly, rather than giving focus to the bottom line, the public service culture is still the dominant culture in Tiger. The adoption of the BSC in 1999 was due to the mimetic pressures faced by Tiger. It was deemed rational to adopt the BSC as the technique was also adopted by some other private organisations. The interpretive scheme remained unchanged. Management still adopted an authoritarian style. Hierarchical power was in place. Information was disseminated from top to the bottom as commented by an executive:

> *There is only one way. Up to down, like commands. If the downliners speak up, the information would not be heard. It is always like that.*

Although a system of accountability was set up to challenge the interpretive scheme, subsidiaries were not evaluated on return on assets (ROA) or return on investment but rather on costs. During the early stage of the BE7 programme, employee promotion schemes were still very much based on seniority. A formal performance appraisal system was decoupled from the organisational strategy. Performances of individuals were not reflected through the organisational performance. This scenario explains why the bonus was given based on company performance rather than individual performance.

The top management of Tiger took the threat of deregulation quite seriously. In 2002, Tiger launched a programme known as the BE7 programme, which focused on its internal processes, core business and growth. Several management and technical initiatives, such as ISO certification, standard process improvement, employee empowerment programme and 5S were among the initiatives taken to "get the house in order" (VP of Delta). The implementation of several programmes was also due to some mimetic pressure as Tiger was assisted by a consultant to recognize the potential initiatives relevant to the corporate strategy. As pointed out by Granlund and Lukka (1998), in general, consultants bring about the mimetic isomorphism by suggesting similar management techniques to organisations within the same institutional environment.

Under the BE7 programme, a consultant was appointed to assist in the implementation of 40 initiatives. Each initiative had its own KPIs, which were tracked by an organisational transformation unit. The concept of cascading down the accountability and responsibility was also introduced at this stage:

> *All initiatives are owned by the respective VPs. However, as each VP owns multiple initiatives, the VP must delegate implementation of responsibilities to his or her HOD. As such, each initiative has been allocated to a specific implementor. This is done to ensure accountability and responsibility with respect to the performance of the initiatives (Internal document).*

There were three themes recognised under the transformation programme, i.e. getting the house in order, defending the core business and positioning for growth. The three themes were then supported by seven major initiatives. The importance of the financial implications of the transformation programme for Tiger was stressed by these initiatives:

> *There are seven initiatives that are core to the success to the [BE7] project (i.e. they bring the most value in RM as well as Tiger performance). In a sense, they will give us the "golden egg". However, the other initiatives are needed, especially to take care of the goose! Hence, initiatives by all divisions are needed (Internal document).*

It was also during this period that the new PMS was introduced to instil some awareness of performance-based ratings. The new appraisal system used a new rating system. Previously, Tiger was using values of 1-5 to assess the performance of its employees. Under the BE7, the new PMS used 1-3 as values to indicate the level of performance of its employees. The new system was linked directly to bonus, promotions, and salary increment. In-house training was scheduled for employees to ensure that the new system would be accepted as a new form of performance appraisal. Through the BE7 programme, top management signaled the importance of a performance culture.

The new remuneration scheme should provide a new interpretive scheme to the organisational members. The way organisational members conducted their activities to bring about results in Tiger was being challenged through the implementation of the new PMS, which was basically driven by a performance culture. The idea of getting a good promotion and receiving large sums of bonus, based on individual performance, were not included in the interpretive scheme under the public sector culture. However, through the GLC transformation programme, these were emphasised. Thus, the changes in the top management of Tiger make possible the institutionalisation of the new PMS under the GLC transformation programme.

Institutionalisation of performance-based culture. At the outset, the GLC transformation programme was driven by an economic motive. The "kick" or the "jolt" (Laughlin, 1991) was introduced into GLCs to change the interpretive scheme of the organisations. The disturbance was due to the criticism of Tiger and other GLCs as being champions in terms of size only but not in terms of providing good returns to their shareholders:

> *[. . .] the GLC Transformation Programme is undertaken in the context of the GLCs' significant impact on the economy as producers, service providers, employers and capital market constituents. The urgency for transformation of GLCs is further over the last 15 years since 1990 (GLC transformation documents).*

The year 1990 was the starting period when many government agencies were incorporated and later privatised. The privatisation exercise brought along with it the idea of commercial orientation, which attempted to challenge the public service orientation. The case data suggest that the status quo remained unchanged despite privatization. The GLC transformation programme was an initiative to revive the commercial orientation. Under the GLC transformation programme, the focus on maximising financial returns is very clear through the publication of several guidelines and several speeches of the prime minister. Furthermore, Tiger needed to have commercial sense as market globalisation created pressure in terms of a rapid increase in input costs.

An economic perspective on the institutionalisation of the PMSs suggests that organisational members act rationally and, hence, focus on explicit goals of enhancing efficiency (Scott, 2001). Such a rational choice perspective advocates that Tiger and their managers make decisions and adopt managerial practices purely for economic motives to improve performance. The desire to enhance economic performance could be due to the fact that the CEO needs to publicly announce his achievement on a quarterly basis. Furthermore, the CEO was appointed on a three year renewable contract. It was like:

> *[. . .] either you execute or get executed (Khazanah MD).*

This phenomenon could lead many GLCs to adopt managerial innovations that supposedly help improve organisational performance (Roggenkamp et al., 2005). However, despite the technical pressures, the PMS practices are being decoupled from the organisational activities. For example, although the employees are required to have proper performance planning in order to set stretch targets, some members do not practice it. A state GM illustrated this:

> *[. . .] because sometime we are still following the old fashioned way under the previous system. When we want to set the target, we don't take it seriously, some bosses would say [. . .] "it's okay you could just put any numbers. At the end of the year by the time you want to review performance, you come and discuss with me, tell me what you have done".*

Hence, explanation from an economic perspective may not be enough to explain the process of institutionalisation of the PMS in Tiger.

Institutional theory assumes that the external and internal constituents play an important role in determining the organisational structure of an organisation (Brignall and Modell, 2000). Thus, it should not be a surprise to see changes in terms of the organisational structure of Tiger as the organisation is expected to conform to the transformation programme, which requires the adoption of certain practices. The organisation will conform to the expectation of the constituents by adopting some rationalized myths that enable the organisation to gain legitimacy and secure vital resources for long-term survival (Meyer and Rowan, 1991). From this view point, the PMS in Tiger could be viewed as a rationalised myth. Normally, the adoption of the rationalized myth is in the form of structures that are displayed by other significant organisations through some isomorphic process (DiMaggio and Powell, 1991). Hence, technical explanations of organisational structure are seen as incomplete (Scott, 2001).

NIS also offers an explanation for the institutionalisation of new managerial innovations, such as PMS, that may be rational from a social perspective rather than from an economic perspective. Based on NIS, the isomorphic pressures could lead to organisational transformation even if technical or economic advantage is lacking (DiMaggio and Powell, 1991; Selznick, 1996; Scott, 2001). The isomorphic pressures faced by Tiger to imitate the system, can be powerful forces, which come from regulatory bodies or from normative influences (Di Maggio and Powell, 1991).

The issue of legitimacy is also important in Tiger because it is crucial to its ability to obtain resources from the environment (Suchman, 1995). Legitimacy for Tiger is seen as being similar to other GLCs in terms of managing performance as well as adhering to rules set by the main shareholder. Tiger strives to acquire or maintain legitimacy through the setting of KPIs (DiMaggio and Powell, 1991; Suchman, 1995; Deephouse, 1996). Hence, it should be expected that Tiger will conform to the GLC transformation programme to gain legitimacy. Failure to conform to the expectations of the government will mean that the organisation is no longer viable and, hence, could jeopardise its survival. Hence, the institutionalisation of a PMS in Tiger could be the outcome of actions to legitimize its existence from the perspective of its major shareholder, the government.

The institutionalisation of PMS in Tiger could also be due to the isomorphic forces from other environmental agents in the institutional environment. Tiger may have undertaken isomorphic activity in a rational and deliberate manner. In other words, the top management of Tiger were aware that they were mimicking others in their environment, as in the adoption of BSC as a framework for its PMS in 1999. Tiger might also undertake actions that were isomorphic without realizing that they were imitating other environmental players as the institutional processes and functions are often "taken for granted" and just seem "obvious" (Galaskiewicz and Wasserman, 1989).

It seems that three forms of institutional isomorphism, as described by DiMaggio and Powell (1991), exist to explain the adoption of the new accounting practices in Tiger. First, during the GLC transformation programme, it seemed that coercive isomorphism existed to shape the PMS practices in Tiger but were not strong enough compared to normative isomorphism. The CEO was coerced to announce the results publicly. To save face, he must perform and produce good results. Good results mean positive economic profit, low level of gearing and high ROA. A certain level of achievement is expected from the GLC transformation programme.

Second, the implementation of PMS in 2002 by Tiger, before the implementation of the GLC transformation programme, could be the result of mimetic isomorphism where the government has yet to impose its high performance culture concept to the state owned enterprises. The BSC concept was introduced into Tiger as early as 1998, as mentioned by the senior manager, organisational development:

> *It took me three years just to make people understand [. . .] I created a team, to champion about KPI. Around that period, somewhere around 1997, 1999, something like that.*

The third is normative isomorphism, which results from the influence of the professions on organisations and their elements. The experience of a specialised education, and the involvement in professional networks, influence how professional personnel undertake their activities within an organisation. The government has made a special effort to appoint a new type of CEO to make sure the transformation programme proceeds as planned. Most of the newly appointed CEOs were professionals such as accountants. Tiger also received a new CEO who was an accountant by profession. The new CEO was appointed in July 2004, after the launching of the GLC transformation programme in May 2004. First, he concentrated on the formulation of a 20 year strategic plan linked to the KPIs.

Second, he emphasised the inculcation of a performance-based culture, through the PMS, by linking individual performance directly to the reward. Under him, the importance of PMS in terms of managing the performance of employees was stressed. DiMaggio and Powell's analysis of isomorphism suggests that two actors, i.e. the state and professions, are important in shaping how rationalized procedures, such as the new management techniques, spread among organizations

The three types of isomorphism explain the institutionalisation of PMS in Tiger. However, the types of isomorphism might exist at different points during the organisational life. For example, first, the coercive isomorphism was more dominant during the early privatisation period. Second, the mimetic isomorphism appeared to dominate Tiger during 1997/1998, after the Asian financial crisis. Lastly, normative isomorphism seemed to dominate or shape the PMS practices in Tiger more during the GLC transformation programme. Whichever type

of isomorphism existed to shape the PMS in Tiger they are just a means to explain the reasons why Tiger adopted the PMS practices. The pressure did not guarantee that Tiger would adopt a managerial technique that will necessarily bring greater efficiency or improved performance. Inmany cases the
techniques are "taken for granted" as being necessary and appropriate because they legitimize the organisation in the view of internal constituents and external parties. The PMS and several other related policies to the GLC transformation programme have, thus, become the "rationalized myths" of the organisation (Meyer and Rowan, 1991).

According to Zucker (1987) the process of institutionalisation of the system in organisations involves the creation of new structures, processes and roles that later become routinised, formalized and embedded in the organisational fabric and are highly resistant to change. Hence, during the institutionalisation process of the new PMS, Tiger would have new structures, new processes and new roles that come with the system. Some forms of resistance are also expected as the new system might challenge the values of the old system. The new PMS carries with it a commercial orientation, which does challenge the existing institution of public service orientation. If the new system does not challenge the existing values and norms, some elements of stability should be expected even when some form of change takes place (Siti Nabiha and Scapens, 2005).

Normally, an institutionalized organisation like Tiger will put forth the general means to accomplish certain tasks. In this sense, formal or ceremonial structures provide a rational account of the purposes to be achieved and the general means of their achievement (Scott, 2001). Formal structures come from the state, professions, or other "successful" organisations. Hence, the structures and PMS processes may be adopted ceremonially by Tiger as there is a clear directive from the government to adopt the system.

NIS suggests that the organisational structures used to obtain external support from constituents are not enough to portray what is actually accomplished. In certain cases, what the organisation should accomplish has little relevance to the technical work that is actually performed. In some cases, suboptimal performances are not only accepted but also preferred (Powell, 1991) as illustrated by the CFO:

> *There will be occasion whereby projects will be accepted even though they have negative NPV [Net Present Value]. But they can always justify that this project is for a rural area, this is a social project or Corporate Social Responsibility.*

Hence, the ceremonial structures that are displayed to accommodate the PMS may not be able to explain the actual performance of the organisation. However, the distinction between ceremonial structures and operational structures is difficult to generalize because it assumes a variety of forms and degrees (Fogarty and Rogers, 2005). For example, Orton and Weick (1990) have defined the separation of ceremonial structures and operational structures as the "decoupling" concept, which means distinct and separate. They also used the term "loosely-coupled" concept to describe a different but interdependent relationship between the ceremonial and the operational structures. A study by Collier (2001) specifically illustrates how a loose coupling emerges from an accounting system that accommodates both institutional demands and operational demands. In the study, management accounting is seen to act as a discourse between the two demands, whereby the contradiction is minimized by common interests and power is used to enable the process of loose coupling.
Modell (2001) has highlighted how managers proactively designed and implemented new systems for performance measurement. In Delta, besides the formal PMS, its VP used an informal performance appraisal mechanism to motivate the state GMs and HODs. In another study, Modell (2003) argued that the loose coupling could be a "given" feature of institutionalised organisations and it could also simply be an outcome due to resistance at the micro level. Nor-Aziah and Scapens (2007) suggested that the loose coupling effect could be seen as the process that explains the outcome of the separation between the ceremonial structures and the operational structures. In their case study the new budgeting system was enacted but separated from the day to day operations and, thus, not acting as a

source of decision making. In Tiger, the PMS was also enacted but not fully as intended. As explained by an executive:

> *The downliners are basically reluctant to change. What they want is the reward. For the downliners, if they do like this, in the month of August, or if not in June, July and August, they will behave.*

An evidence of loose coupling also exists in Tiger as noted by the Head of Department (HOD):

> *It boils down to the way things are being executed in Tiger, if they[the management] want to suggest some programmes, normally it always comes with good rules and procedures, but when it comes to implementation, quite good but just in terms of the "buy in" only. That is the areas that we need to do extra work because there are good "buy in" only.*

The role of PMS as an accountability system may not be materialised if the PMS is institutionalised ceremonially. The environmental factors, such as legal and regulatory systems, public opinion, professional practices and norms of competitive enterprise, have roles in the creation of rationalized myths. These environmental entities may also exert pressure on Tiger in multiple and complex ways. The myths may evolve within Tiger, resulting in the belief that its response to multiple pressures are aimed at efficiency when in reality they are aimed more at achieving legitimacy for the organisation. Hence, these technical procedures, such as the PMS and KPIs disguised as efficiency measures, are the rationalized myths that Tiger might adopt to achieve legitimacy and, thus, ensure its survival.

NIS theory is able to explain the institutionalisation process at the macro level only. The theory is lacking in terms of explaining the process of institutionalisation of the PMS from within. The micro level analysis is still needed to explore the dynamic processes of accounting change, which involve social actions and interactions in individual organisations. Old institutional economics (OIE) and the Laughlin"s (1991) framework may assist in the explanation of the institutionalisation of PMS within Tiger.

Human agents, change and stability.

NIS explains how the institutional pressures are applied from outside the organisation. OIE, on the other hand, helps the understanding of change in the habits and routines of organisational members. There are several studies of management accounting change that apply the OIE (Vaivio, 1999; Burns and Scapens, 2000; Siti Nabiha and Scapens, 2005; Lukka, 2007). These studies take a position that management accounting systems and practices constitute organisational rules and routines (Burns and Scapens, 2000). The OIE framework explores the complex and ongoing relationship between actions and institutions, and demonstrates the importance of organisational routines and institutions in shaping the process of management accounting change.

Based on Scapens (2006), OIE recognizes that behaviour within organisations can become institutionalised or taken for granted. The Burns and Scapens (2000) framework focuses on the formal rules and informal routines. Lukka (2007) has used the Burns and Scapens framework to understand why, despite the existing problems, the case company seemed to be facing a dead end. The findings shed light on how change and stability can occur simultaneously as in the case of Siti Nabiha and Scapens (2005). Lukka (2007) extends the framework by drawing on the loose coupling to make sense of the findings. The study adds to the understanding of the interplay between the formal rules and informal routines. The knowledge is important for the successful design and implementation of management accounting change.

The transformation from the government agency into a commercially driven entity requires changes in managerial habits and routines (Sharma and Lawrence, 2007). Within Tiger, the internal changes driven by the GLC transformation were noticeable. Under the transformation programme, an accountant was appointed to head the organisation. The flagship that he carried denotes the importance of commercial orientation and the change that he was about to bring to the organisation. In his speech, the CEO made it clear that organisational members should be ready to accept some changes:

> *The changes are important in whatever endeavours that we take. Even more so in the period of globalisation when things are constantly changing. We could not afford to run away from not adjusting our mindsets or from not adopting the new way we tackle the tasks. If we fail to change, we definitely will lose out (CEO, internal document).*

He was sceptically accepted as the head of an engineering-based company where the subsystem is dominated by engineers. For example, during an interview, an executive made the following remark:

> *He is a brilliant accountant. To run an engineering-based company? What about his technical knowledge? We are really an engineering company. We are involved in engineering works. There are lots of things to be done.*

The new CEO introduced several changes in Tiger, which directly affect the subsystem of Tiger. First, the CEO tackled the manpower issue, which was seen as steps necessary to gain control in Tiger. Several posts such as the CFO, the head of security and intelligence, the internal audit team and the VP for Delta were given to new people coming from both inside and outside of Tiger. Furthermore, aside from the CEO, the performance-based contract was also offered to the CFO, CIO, VPs and senior managers. By doing so, the corporate KPIs were cascaded down to the lower levels. Achieving KPIs became an important agenda for these managers because most of them were appointed on a performance-based contract. The disturbance in the subsystem through the use of the new employment scheme was to change the design archetype of Tiger. The new design archetype should be congruent with the financial orientation.

For other levels of employees, achieving KPIs are also important as the PMS-KPIs are associated directly with the remuneration scheme, as illustrated by a senior manager:

> *Everybody have KPIs cascaded down from the headline KPIs. The headline KPIs were cascaded down to division, to department, from department to unit, from unit to individual. Then from the individual it is locked into the system for the purpose of monitoring the achievement whereby at the end of the day it will be used to appraise.*

Based on Laughlin"s framework, the changes could take the first order, i.e. the "morphostatic" or the second order change, i.e. the "morphogenetic" change pathways. The case data suggest that Tiger had a first order change pathway, classified as the "reorientation" change. Under the "reorientation" type of change, the intention of those who have power to control the design archetype is to find suitable systems and structures to absorb the disturbance. The aim is to ensure that the second order change does not happen to the interpretive schemes. It means the new designs and the new subsystem should be complementary rather than challenging the interpretive schemes. The CEO made some changes to the business operation but of a minimal nature. To preserve the engineering legacy in the business and in the attempt to be accepted as part of the subsystem, he maintained the key people in the business operations, the two most senior posts, the SVP posts, to take charge of the core business operations. What he first concentrated on was emphasising the importance of controlling costs. As illustrated by the Head of the Union:

> *This is what has created problems to us. Now the importance of costs is stressed. Like now we have a CEO who is an accountant. Being an accountant, he would surely concentrate on initiatives that would improve income of the organisation and programmes that would help him reduce the costs.*

It was during this GLC transformation period that the new organisational structure was in place. The three strategic subsidiaries were made dormant and the activities were transferred to Delta and two other strategic business units, under Tiger. The design archetype in Tiger is continuously changing in order to keep the balance between the interpretive schemes and the subsystem. The new structure was imposed to improve the response time to customers and to increase its production efficiency. The financial returns were given the utmost priority as shown by the policy of disposing Tiger"s non core business. Many of the non core businesses, such as investment made in overseas markets and stakes held in other producers, did not produce enough financial returns to outweigh the costs of maintaining them.

The focus on commercial orientation was also manifested through the importance of observing the cash flow movement while still holding on to the public service provider role. Delta was instructed to aggressively improve the revenue collection. Customers who failed to pay bills within the stipulated time are given a penalty charge, which is reflected in the following month"s bill. The average collection period and the technical and financial losses become significant performance indicators that are tracked, although the same KPI had long been used by Tiger and Delta. Instructions were given to the state GMs to hold meetings with the local councils and the police to mitigate the losses due to theft. At the organisational level, Tiger cooperated with other public utility companies to fight the problem. To show the importance of the technical and financial losses, the percentage of losses then became one of the corporate KPIs for Tiger and Delta. Furthermore, the state GM league table served as an informal performance review among the state GM. The GM league table had somehow become a language among the managers and was used as a tool to motivate their staff as explained by one state GM:

> *Do you know where we are [referring to the position in the league table] ? Let us say number 4, or number 5? Do you feel good about yourself? How come the rest could do better? Of course we can do better. We must do much better next time.*

Tiger also introduced some cost cutting measures to further intensify the financial orientation. The importance of the cost minimization policy also became part of the new design archetype. In order to manage the excessive overtime expenses, Tiger introduced a wage scheme, which was based on output rather than on the number of hours worked. There were some forms of resistance by the workers as the approach directly affected their incomes as well as challenging their interpretive schemes. The change in the design archetype through the remuneration scheme was resisted by the workers as it challenged their routines. The pressure for financial orientation, through cost conscious initiative, was also noticed by a manager who commented that:

> *We felt that we have already tightened up our belt. Actually in terms of normal expenses we didn't spend like we normally spent before. It was just that in order to reduce further it should involve work culture, like overtime.*

Another action that was taken by the CEO to improve Tiger"s cash flow was lobbying the government for an increase in price. The regulator finally approved the request to increase the price in 2006. In the CEO"s second year, Tiger showed improvement in terms of its bottom line. It was very much due to the increase in price and the proceeds from the sale of non core assets. So besides the changing habits and routines, Tiger was also supported by the external pressure to improve its financial position. Evidence, also suggests that the "reorientation" change pathways were in the form of the formulation of a 20 year strategic planning. When the new strategy was implemented, Tiger already had the BE7 programme running. The new leadership did not terminate the BE7 programme but, instead, integrated it as part of the KPIs under the 20 year strategic plan. A continuation of formal rules and informal routines were seen as necessary to ensure the success of the 20 year strategic plan. The new programme was not seen as a programme that would challenge the existing interpretive scheme of the organisational members. The BE7 programme continued until 2007 and was replaced by another programme. Basically the new programme was part of the 20 year strategic plan. KPIs such as customer satisfaction index became an important index to measure the performance of Tiger. The programme was seen as a continuation of the BE7 although it did not originate from it.

Formal rules and informal routines shaping the design archetype and subsystem. Formal rules concerning the settings of KPIs for employees were established to ease the implementation of the PMS. The first PMS manual was produced in 2006. Circulars on PMS practices also act as a communication carrier between the management and the employees. Circulars are produced for every PMS cycle to remind employees about the required PMS practice. Access to the computerised system is blocked after a certain period to ensure the executives strictly follow the PMS cycle. A reminder letter is sent to those who fail to follow the cycle. Not all formal rules and written procedures are followed as commented by one HOD:

> *PMS is a very good system for a performance based reward system. It is a better system, rather than not having it. In principle, it is a better system. In implementation, however, is another matter.*

It was only when the organisational members faced a problem that they realised that they had to follow the rules. As noted by the GM of human resource (HR):

> *The realization comes when they start differentiating people. When we started to introduce the system we had union issues. There were lots of issues.Wecame to know that some did not even fill up the form. They just signed a blank form, as long as they receive a two months bonus. Suddenly with the new system, they receive minimum bonus, whereas others receive more. Last year we did not receive complaints. I would think in a way it is understood now, the fact that we didn't receive complaints. In previous years, the complaint was very aggressive.*

Some modifications to the system are made when setting the KPIs targets. For example, some leeway is given to the state GMs to use local figures instead of HQ figures for performance appraisal. The adjustments are done in order to accommodate the HQ figures, which are normally higher than the figures submitted by the local managers during the budget setting process. In terms of budgeting, Tiger has formal written procedures. The process of getting approval for budget involves several stringent procedures. Yearly budgets are challenged at department, division and HQ levels.Moreover, the states or the divisions can request a lower budget if the actual expenses for the previous six months were less than expected.

The practice is allowed to ensure the KPIs fall within the targeted range. Furthermore, the use of variance analysis is rather loose. Although the Accounting Department of Delta prepares the monthly variance cost analysis for the state operations, the explanations on the cost variances from the state are requested on a bi-monthly basis. The report is seen as more for serving formal reporting than for decision-making purposes. Preparation of a budget is a must but adherence to the budget is another matter. Managers can always give reasons as to why they are not meeting the target. The budgeting system in Tiger is loosely coupled with the organisational activities. The accountant is still very much playing a traditional role. The subsystem is clearly dominated by the engineers. As illustrated by the senior accountant at Delta:

> *We don't send the report of the variance analysis every month to the state. Even if we do, the explanations are the same giving the standard answer.*

It seems that the changes in PMS in Tiger and Delta were done slowly and in stages. Modifications to the design archetypes and the subsystems were made to suit the present need of the situation. The new PMS has resulted in some tensions in the workplace such as a lack of motivation, "pleasing the boss" scenario, individualistic, and low morale among the employees, especially due to the normalization procedure, force ranking, quota, and implementation issues. Although training on the PMS was conducted, somehow some information was not communicated effectively to the lower level. In fact the PMS is seen as belonging to HR affairs only and, practically, only useful for performance appraisal. Although the BSC framework was introduced to Tiger in 1997 it was not used as the main driver for organisational change. The champion of the BSC (engineering background personnel based in Accounting Department) failed to promote the idea to the whole of Tiger. Owing to the lack of support from the top management, the BSC failed to become the tool to bring change in Tiger. Instead Tiger promoted the BE7, a programme that was still based on the BSC framework. Being seen as coming from the internal management and driven by the threat of deregulation by the regulator of the industry, the BE7 was accepted to bring changes in Tiger.

The failure to institutionalise commercial orientation during the privatization was also due to the problem of setting the performance benchmarks because Tiger seemed to be unsure about which direction to go. As illustrated by the senior GM:

> *When we had a clear direction then only we talked about performance. If we jumped straight to prepare the KPIs, that's what we have done about 15 years ago. We just plucked the measure out of the air.*

Tiger also faced problems to determine the right measure. The difficulties added up in terms of setting the targets as Tiger, being a government-owned company, had to follow the Malaysian Plans to fulfil its national obligations.

At the individual level, the setting of the KPIs and the targets for lower levels were entirely up to the head of each unit. The rules stated that discussions should be held between the head and his subordinates. However, some did not practice this because the interpretive schemes remain unchanged. As noted by the State GM:

> *[. . .] because sometime we are still following the old fashioned way under the previous system.*

The PMS was also perceived as subject to some kind of favouritism issue. Many organisational members commented on this particular setback of the PMS.

Theoretically, the "pleasing the boss" scenario should be reduced as the individual is given 25 per cent for self-evaluation while their superior is given 75 per cent to award. However, the employees feel that the percentage is still not significant enough to reduce the favouritism effect. The assessment marks would very much depend on the superior"s assessment. Hence, the employees view the PMS as an unfair assessment, which has basically failed to reward them fairly based on their performance. The "pleasing the boss" situation is as elaborated by the GM of HR:

> *Like for any system there will always be comments, positive and negative. Some are positive and equal share of negative because people view PMS as jek jek bos [in local language which means to please the boss] [. . .] they will always do it, no matter what.*

An executive further added:

> *For KPIs we have Exceed Expectation, Meet Expectation, and Need Improvement. If we obtain Need Improvement or Meet Expectation, but you know your boss well, and your head of department also knows you well, and then your marks could be adjusted.*

Although the written rules and procedures promoted the inculcation of a performance-based culture through the PMS practices, the habits and informal routines told a different story. In essence the change only occurred at the first order level (Laughlin, 1991). The PMS was institutionalised ceremonially because the new PMS only managed to change the design archetype and the subsystems but has failed to challenge the interpretive scheme of the organisational members. This has resulted in the limited application of the PMS into the daily activities of the organisation. As Otley (2008) questioned it "to what extent they [these new management techniques] are truly „new" rather than representing old wine in new bottles". The PMS is viewed as within the domain of HR as explained by an executive:

> *To us, the PMS is the yearly computerized performance appraisal system.*

The implementation of PMS was so limited. For example, only the rewards were linked to the PMS system. No fear or insecurity mechanism was installed and targets were loosely set. Many times explanations were accepted for the failure to meet the target without a penalty imposed on the parties who have failed. So far no punitive actions have ever been imposed on the low performers.

The new PMS, as a new design archetype, was suffering from the loose target-setting, the force-ranking issue, the favouritism issue and the subjectivity in the performance measurement. On top of that the system was also criticized for its individualistic approach. In order to achieve the individual targets, individual employees might have to forgo the teamwork initiative. The teamwork concept was considered a shared value among the organisational members. With the PMS, the value was seen as eroded. As commented by a manager:

> *Ok, the bad thing about PMS happened when we are concentrating too much on the KPIs, such that we could not be bothered about others.*

Despite the setbacks, there was also evidence that the organisational strategy was linked to the PMS. All employees were exposed to the KPIs rules and routines. However, several organisational members were of the opinion that the PMS practices belong to the HR domain. For example, during an interview an assistant manager gave this comment:

> *This PMS is being taken care of by the HR. If you want to know more, ask them.*

After several years, the PMS has become part of the routine of the organisational members. Organisational members view the PMS practice as an HR practice and, thus, separate from the business activities. Thus, the new design archetype was only able to change the subsystem but not the interpretive schemes. Many times, the employees might just behave during the appraisal period. Modifications in terms of behaviour were made to suit the new system. Even more serious were the management habits and routines over the implementation of several initiatives in Tiger as explained by the Head of the Union:

> *There are times in a year when the management wants to elect the best employees or obtain the ISO certificate. So those were the times when the management were basically busy to ensure that equipment and safety procedures are being maintained properly. But the practice stopped at that point only. After the event, everything comes back to normal. They could not care whatever happened at the site.*

It seemed that although the PMS should assist Tiger in intensifying its commercial orientation, employees treated PMS practices as separate from the organisational activities. The role of PMS in Tiger was seen as rather restricted and more applicable to a performance appraisal system. It was like "even when surface evidence suggests change, the „new" can be a mere rearticulation of the old" (Burns and Vaivio, 2001, p. 393). As noted by one head of department:

> *We are conducting the PMS practices as a yearly routine. Ok you do this and that and that is the time when you use PMS.*

Although attempts were made to make it an instrumental tool, for the time being it remains enacted as a ceremonial tool. This study highlights similar findings by Siti Nabiha and Scapens (2005). Both studies, which have adopted a processual perspective, have shown that stability and change are not necessarily contradictory forces but can be intertwined in an evolutionary process of change. It seems that change is necessary to maintain stability in the interpretive schemes of the organisational members. The following quotation would best explain the process of change in Tiger:

> *If we want things to stay as they are, things will have to change (di Lampedusa, 1958, cited from Burns and Scapens, 2000, p. 21).*

As explained by Laughlin (1991), in the first order change scenario, things seemed to look different but, basically, it remained the same. Changes could be in terms of physical or tangible assets and also in terms of HRs, but the way organisational members behave and view the world remain unchanged. As cited in Burns and Scapens (2000, p. 21), di Lampedusa concluded that "much would happen, but all would be play-acting". Within the

Tiger context, change was necessary to achieve legitimacy and to appear rational as a government owned organisation. It appears that both change and stability are playing their own roles to shape the organisational rules and routines in Tiger. Both the subsystems and the design archetypes have changed in order to preserve the existing interpretive schemes of the organisation. Thus, this study shows similar results to the case study conducted by Siti Nabiha and Scapens (2005) and Nor-Aziah and Scapens (2007) that the loose coupling could be the result of the complex and dynamic process of accounting change.