

International Conference on Economics and Business Research 2013 (ICEBR 2013)

Performance Measurement and Balanced Scorecard Implementation: Case evidence of a Government-linked Company

Norlaila Md Zin^{a*}, Suzana Sulaiman^b, Aliza Ramli^c, Anuar Nawawi^d

^aFaculty of Accountancy, Universiti Teknologi MARA, 78000 Melaka, Malaysia

^{b,c,d}Faculty of Accountancy, Universiti Teknologi MARA, Shah Alam 40450 Selangor, Malaysia

Abstract

The Balanced Scorecard (BSC), an iconic strategic performance management tool, is well received by many organisations worldwide; however some Malaysian organisations have not really implemented it. The present study was carried out to examine the use of the BSC to achieve desired transformation, the role of management accountants and the critical factors for the successful implementation of the BSC model in a selected Malaysian government-linked company (GLC). An in-depth case study method was adopted and data was collected from multiple sources of evidence which enabled the corroboration of facts. The findings revealed that management accountants played crucial and multiple roles in BSC's implementation and will advance knowledge to successfully implement a management accounting innovation within the local context.

© 2013 The Authors. Published by Elsevier B.V.
Selection and peer-review under responsibility of ICEBR 2013

Keywords: Performance measures; Balanced Scorecard; Management Accountants Roles; Malaysian GLCs, and Case Study

1. Introduction

Changes in the global business landscape in recent decades have led to the dismantling of government agencies in Malaysia and their transformation into private organizations referred to as Government-linked Companies (GLCs). As the major share-holder of the GLCs, the government is keen to ensure that these

* Correpensing author.
Email address: norlailamdzin@gmail.com

companies improve their performance to emerge as competitive global players. Hence, it is important to select an appropriate and effective performance tool not only to evaluate performance, but also to help management assess strategic plans and minimize planning errors. Without a proper tool the GLCs continue to be non-performers and consequences jeopardize the Malaysian 2020 vision. It is the objectives of this study to investigate the factors that are needed in any BSC implementation. The study is able to summarize these factors and the management accountants' role in ensuring the success of the implementation. These findings should provide as a guide to the other GLCs in their BSC implementation.

1.1 Problem statement

GLCs are the backbone in the nation's economic growth as evident by the 49 per cent market capitalization in *Bursa Malaysia* and the employment of approximately 5 per cent of national workforce. As GLCs the companies are expected to deliver the performance as required by the Government. To ensure a successful transformation, there was urgent need to examine why the GLCs had underperformed in terms of operations and profitability over the last fifteen years, and hence find ways to improve their performance (PCG, 2005a). A review of the Blue Book suggests GLCs to adopt "A corporate scorecard" to monitor and track performance indicators at all levels of the organisation so as to facilitate the company in identifying any deviation from its set course, and take early action. However, the study on BSC implementation by these organisations remains scant (Razak *et al.*, 2011; Harry *et al.*, 2010; Alwi and Khalid., 2009). Furthermore, the existing literatures on the study on Malaysian GLCs centred on the comparison of financial performance between GLC and non GLC and the profitability of GLC before and after the GLCTP. Previous research concluded that BSC improves company performance; however, there is lack of study on the insight of BSC implementation within GLCs.

1.2 Objectives

The main objective of this study is to investigate the critical factors that contributed to the successful implementation of the BSC by a Malaysian GLC. This objective is supported by the following sub-objectives:

1. To study the implementation of the BSC within the GLC.
2. To examine the role of management accountants in the implementation of the BSC in the local context.

2. Literature Review

2.1 The Balanced Scorecard

Using an in-depth case study approach, this research examines the use of the Balanced Scorecard (BSC) to achieve the desired transformation, the role of management accountants and the critical factors for the successful implementation of the BSC model in a selected Malaysian GLC. The Balanced Scorecard developed by (Kaplan and Norton, 1992; 1996; 2001) was the GLS's choice of measurement tool as it uses a comprehensive approach and a framework that incorporates both financial and non-financial measures.

The BSC comprises four perspectives, namely finance, customer relations, internal business process and lastly, learning and growth. The financial perspective plays a dual role of defining the financial performance of an organisation with the implementation and execution of the company's strategic plans, as well as evaluating the organization's profitability using tools such as the ROI (Return on Investment) and the EVA (Economic Value Added). The customer perspective is a leading indicator that helps the organisation evaluates customer satisfaction with its brand or services. This is necessary to ensure strong customer loyalty, besides attracting new customers. The internal business process focuses on the internal operations of the

organisation, enabling managers to evaluate their businesses efficiently. This perspective is what makes the BSC unique, compared to other traditional performance measures. The learning and growth perspective identifies the areas of excellence or competencies (e.g. human capital, information capital, organizational capital) that an organization has to achieve value creation.

As a strategic management tool, the BSC facilitates the translation of the organisation's vision and strategic objectives into operational measures and critical drivers. The integration of both financial and nonfinancial performance measurement within the four perspectives contributes to a "balanced" approach (Bhagwat and Sharma, 2007) in the monitoring of organisational performance.

One of the most significant features of the BSC is its ability to give a snapshot of a firm's overall performance through the combination of leading and lagging indicators. By integrating a set of measures derived from the company's strategy, the BSC enables the top management to have a comprehensive view of the firm. The BSC also makes it imperative to have effective communication of the mission and objectives of the organization by giving the employees a clear and a holistic picture of the company's progress (Yang L. and Wang Y., 2010).

2.2 The GLC Transformation Programme

In May 2004, the Malaysian government launched the Government-linked Companies Transformation Programme (GLC Transformation Programme) aimed at boosting the economy through high-performing GLCs. GLC is defined as the company in which the Malaysian Government has direct controlling stake of more than twenty percent of equity shares through Government-Linked Investment Companies (GLICs) (The Treasury Circular, 1993). The GLCs role is most prominent in utilities and services such as electricity, communication, airlines, airports, banking and the financial services sectors. In the past, the perception of the public that GLCs underperformed its peers due to its dual objective of making profit and fulfilling the social obligations has to some degree adversely affected the image of the GLC (Mokhtar, 2004). In response to the underperformance issues of the GLCs, the government introduced a holistic GLC Transformation Program in May 2004. The aim of the program was to improve the GLCs performance as well as having a positive demonstration effect on the rest of the corporate sectors. To facilitate the transformation, the Putrajaya Committee on GLC High-Performance (PCG) was set up with the introduction of several initiatives and guidelines. Guidelines to help the GLCs were given in the form of various colour-coded books.

For the purpose of this study, the initiatives contained mainly in the Blue Book, which focuses on driving a high performance culture within the GLCs, are investigated. The major components of the Blue Book are the Key Performance Indicators (KPIs) (PCG, 2005a; PCG, 2005b) which must be relevant, balanced and holistic, reflecting the priorities in key dimensions comprising finance, customer, organisation and operations. BSc is expected to complement the GLC Blue Book in several manners. The BSC complements the GLC Blue Book metrics with its holistic approach whereby financial performance has to be supported by other non-financial measures such as Learning and Growth, Internal Business Process and Customers. The BSC and the Blue Book share similar objectives in that both focus on the integration of financial and non-financial metrics. BSC is considered as one of the administrative organisational innovation (Askarany, 2006; Chenhall, 2003). The adoption or rejection of innovation will result in consequences of innovation. Despite its importance there is limited number of studies performed on the consequences of innovation (Rogers, 2003). There are three taxonomy of consequences that includes the desirable versus undesirable, direct versus indirect and anticipated versus unanticipated. Any consequences would be desirable if effects of innovation are functional and vice versa. However, much of the determination on the types of consequences depends on how innovation affects the adopters. Rogers', 2003, diffusion theory of innovation suggests several factors that facilitate the diffusion of an innovation. The factors are size and internal characteristics of organisational structure.

3. Research Methodology

In the present study, the case study approach was used, with questions such as “where,” “how” or “why” being asked about “a contemporary set of events, over which the investigator has little or no control” (Yin, 2009, p. 13). Flick, 2009; Yin, 2009; Minichiello and Kottler, 2010, argued that case study approach allows the researcher to deal with the subtleties and intricacies of complex situations, specifically in getting an insider’s perspective. In addition case study is flexible as it allows the use of a variety of research methods and can be used in a wider range of situations and for a wider range of purpose.

Before embarking on the interviews on the real case companies, the researcher had conducted exploratory facts finding on a few GLCs. The purpose of the exploratory facts finding was to obtain general information on BSC practices in Malaysia and to identify suitable companies for the case studies which are actively implementing BSC. Active implementation is considered as the companies that implement BSC as discussed under the unit of analysis sub-section. Since the study focus on the GLCs which undergo the GLC Transformation Programme, it is imperative that the GLC chosen must fall within this category. The main source of evidence for this study was obtained from fourteen semi-structured interviews with relevant personnel involved with the BSC implementation in a selected GLC. The participants included accountants, middle managers and top managers. These persons were chosen due to their in-depth information and experience in day to day operation on GLC transformation Programme and BSC implementation. The interviews were done face to face at the interviewees’ office. The semi-structured interviews consisted of open-ended questions based on the interview protocol as suggested by relevant literature on PM, BSC and GLCs. The interviews covered context and practices as well as factors that facilitated and hindered the BSC implementation prepared based on extensive review of literatures and discussions with academics. In addition, cross-checking of the information was performed against the company documents, reports, internal circulars, and website information and field notes of the researchers. This case study uses various sources of evidence in a technique known as data triangulation. Multiple sources of evidence allow corroboration between different types of evidence and as such will enhance this study’s construct validity, leading to accurate and more convincing case study findings (Ramli, 2010).

The qualitative data analysis was done using software called NVivo which involves the process of transcribing of text, writing memos, coding of data and grouping codes into themes. To ensure that the information was accurately conveyed, the interview data were validated by giving each respondent a copy of the transcribed interview.

4. Findings

4.1 Background of the Organisation

The case company referred to hereafter as AAHB is in the airport industry, with successful business operations locally and internationally. This organisation was chosen because it had clearly demonstrated its success in dealing with the key issues that affected the implementation of the BSC. The case company attributed the successful implementation of the company’s strategies to its adoption of the BSC.

4.2 Implementation of the BSC

Despite the weaknesses in terms of statistical generalizations, this case study offered an opportunity for an in-depth observation and analysis of the implementation of the BSC. The KPIs adopted by AAHB were based on the BSC, which was implemented companywide, from the top management down to the executive level. Previously, the company had relied on a simple appraisal form. Later, a broad-based PMS known as the Key Result Areas (KRA) was used. However, the KRA was deemed to be too broad to capture the company’s true performance. In addition, the implementation of the previous general KPIs was considered problematic as the guidelines were not adequately specific and lacked precise measures. Hence, there was an urgent need to

adopt the BSC to improve performance.

4.3 Discussions of Critical Success Factors

This section will discuss the key findings of this study. The following subsections discuss the critical success factors found to affect the BSC implementation within the GLC (as shown in Figure 1).

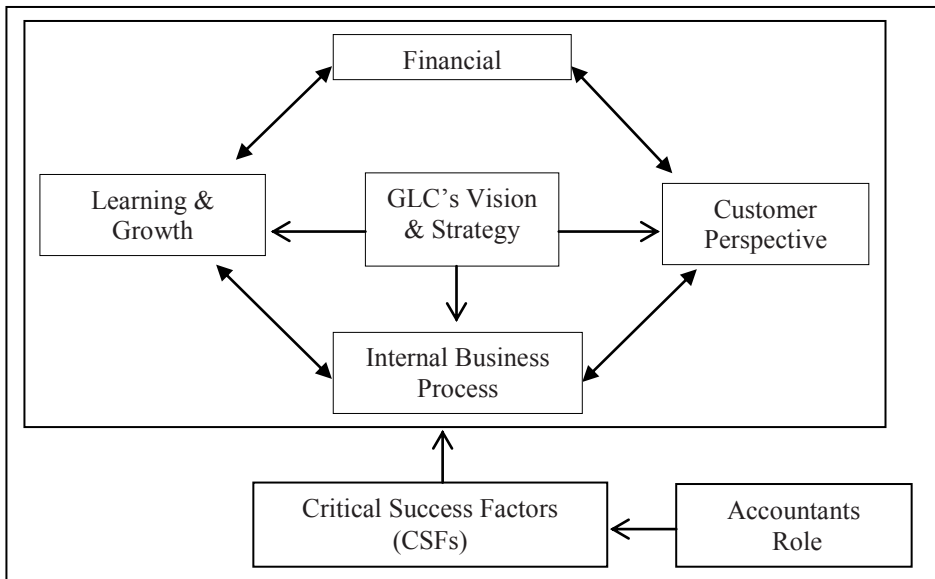


Figure 1: Critical Success Factors of Balanced Scorecard Implementation

4.3.1 Top management commitment

Top management commitment and buy-in were the key factors in ensuring that resistance and conflict were addressed effectively. The Managing Director (MD) made it clear that all the General Managers were part of the BSC implementation review committee for the formulation of the KPIs. The MD's commitment to improving the company's performance and the integration in the GLCTP was reflected in the issuance of new directives, such as those that empowered the TMO or Performance Management Office to give priority to discussions on issues pertaining to the BSC.

4.3.2 Communication channel

The interpersonal communication channel also played an important part in the successful implementation of the BSC. The head of each unit/department explained to his staff about how the BSC was to be implemented. To maintain contact with the large number of employees, various programmes such as visiting other airports operated by the company, giving talks, and maintaining information booths at the headquarters, subsidiaries or branches were organised. Such programmes gave a better understanding of what it took to achieve the KPIs set by the parent company.

4.3.3 *Information technology*

In this particular case company, there was a common IT infrastructure with automated, standardized structure and systems to help create an informed environment among the employees. Information was communicated mainly through the intranet (Lotus Notes) or the in-house interactive portals. The portals were used for the sharing of information, results, achievement, making announcements and also for encouraging and motivating employees. The successful implementation of the BSC was also dependent on the availability and integrity of information being tracked and reported.

4.3.3 *Change of organisational culture*

A different attitude and a new organisational culture helped transform the case company into a high performing entity. Another important milestone that facilitated the evolution of the work culture was the change in the company's vision and mission, as a result of the establishment of the Cross Functional Teams (CFTs) comprising personnel from different divisions. The new vision and mission brought about changes in the mentality towards performance evaluation that subsequently translated into better organisational performance.

4.3.4 *Role of accountants*

The findings also revealed that other actors also played significant roles in the successful implementation of the BSC in the case company. They were the Human Resource Department, Transformation Management Office, Cross Functional team and the team of Management Accountants. This study found that the top management of this GLC gave due recognition to the fact that management accountants played a crucial role in the implementation of the BSC. Management accountants were perceived as agents of change. They worked closely with teams from other departments such as the Engineering Department, Human Resource Department (HRD) and the Transformation Management Office. The accountants also worked along with others through the Continuous Improvement Management (CIM) initiatives such as Six Sigma, Lean Management and other improvement initiatives which provided feedback to facilitate decision-making. Hence, management accountants in the GLC had taken on new roles, acting also as project managers, business partners and business advisors.

5. **Conclusions**

Several significant conclusions can be drawn from this study. Firstly, the major contribution of this study is its ability to relate the BSC framework against the GLC Blue Book. This could add to the limited literature on this aspect especially on Malaysian GLCs. Secondly, it shows that, with a more focused set of KPIs based on BSC principles and its four perspectives, the performance tool could be tailored to meet the GLC's requirements, in particular the Blue Book initiatives, resulting in a greatly enhanced performance.

Thirdly, but importantly to further ensure the success of BSC implementation, the roles of management accountants need to be broadened to include active involvement in project management. As such, they have to acquire good communication and interpersonal skills, broad business knowledge and strategic thinking skills. Communication and leadership skills, determination and perseverance are vital traits of company leadership.

Lastly, the findings reveal the importance of commitment from the top management to ease the implementation of BSC. The GLC emphasised the importance of effective communication in transformation by putting in place good communication channels within the organisation and installing up-to date Information Technology (IT) systems. Measures to minimize resistance towards changes in the organisational culture also facilitated the successful implementation of the BSC. In summary, the current study supports the

results of previous studies, but is unique in that it was carried out on a GLC in a developing country. Nevertheless, this study is not without its limitations. It is suggested that more robust empirical investigations be conducted on a larger scale to confirm these findings. Comparative studies could also be carried out on other Malaysian GLCs regarding their implementation of the BSC. Such studies would yield useful information to help GLCs improve their performance.

Acknowledgements

We are pleased to acknowledge the financial support of the Fundamental Research Grant Scheme (FRGS). We sincerely thank the anonymous case study company and individuals who participated in our study for their co-operation. Finally, thanks to colleagues at the Accounting Research Institute (ARI) and the Faculty of Accountancy, Universiti Teknologi MARA (UiTM) Shah Alam and Melaka, Malaysia for providing the support and motivation for this study.

References

- Ab Razak, N. H., Ahmad, R., & Joher, H. A. Does Government Linked Companies (GLCs) perform better than non-GLCs? Evidence from Malaysian listed companies. *J App Finan Bank* 2011; 1(1), 213-240.
- Askarany, D. Characteristics of adopters and organizational changes. *Thunderbird Int Bus Rev* 2006; 48(5):705-725.
- Harry, E., Richard T, H., & Cyril de Run, E. (2010). Perceived corporate entrepreneurship in GLCs: evidence from Malaysia. *Business Strategy Series*, 11(2), 78-80.
- Bhagwat, R., & Sharma, M. K. Performance measurement of supply chain management: A balanced scorecard approach. *Comput Ind Eng* 2007; 53(1): 43-62.
- Chenhall, R. H. Management control systems design within its organizational context: findings from contingency-based research and directions for the future. *Account Org Soc* 2003;28: 127-168
- Flick, U. (Ed.). *Managing quality in qualitative research*. London: Sage Publications Ltd.; 2009
- Kaplan, R. S., & Norton, D. P. The Balanced Scorecard-measures that drive performance: *Harvard Business Review* 1992; 71-79
- Kaplan, R. S., & Norton, D. P. *The balanced BSC: translating strategy into action*. Boston, MA: Harvard Business Review Press; 1996.
- Kaplan, R. S., & Norton, D. P. *The strategy-focused organisation: how balanced BSC companies thrive in the new business environment*. Boston, MA: Harvard Business School Press; 2001
- Minichiello, V., & A. Kottler, J. *Qualitative journeys: student and mentor experiences with research*. California: Sage Publications Ltd.; 2010
- Mohd Alwi, N. & Abdul Khalid, S.N. A case study of the performance management system in a Malaysian Government linked Company. *J Account Organ Change* 2009;5: 243-276.
- Mokhtar, A, (2004). Remaking Khazanah and the GLCs- a capitalist's approach.[PDF format]. Speech presented on 4th October 2004 at the Kuala Lumpur Business Club, Dinner Address. Accessed June 28, 2010. Retrieved from <http://www.khazanah.com.my/docs/speech20041004-KLBCKL.pdf>
- PCG. (2005a). *Blue book V2: Intensifying performance management*. Putrajaya: Putrajaya Committee on GLCs High Performance Retrieved December 12, 2009, from www.pcg.gov.my
- PCG. (2005b). *Catalysing GLC transformation to advance Malaysia's Development*. Putrajaya: Putrajaya Committee on GLCs High Performance Retrieved January 3, 2010 from www.pcg.gov.my
- Ramli, A, (2010). *Value engineering development in Malaysia: A diffusion study*. (Unpublished doctoral

dissertation).Universiti Teknologi Mara, Shah Alam, Selangor, Malaysia

Rogers, E. M. Diffusion of Innovation. New York: Free Press; 2003.

The Treasury Circular, Ministry of Finance, Malaysia, 1993

Yang, L., & Wang., Y. (2010). An innovation in the Performance Measurement System: The reviews on studies of the Balanced Scorecard. Paper presented at the IEEE International Conference 2010

Yin, R. K. Case study research: Design and methods. 4 ed. Los Angeles: Sage Publications Inc.; 2009.