Implementing Key Performance Indicators in a Government Agency: A Typical Story?

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Abstract
The main objective of this study is to provide insight into the implementation of Key Performance Indicators (KPIs) in public sector organisations. Drawing on a case study of a government agency that is responsible for providing training and financial assistance to students and entrepreneurs in Malaysia we suggest that adoption of KPIs can be instrumental, but is also isomorphic, following management fashion, and has been used for legitimisation. Implementation of KPIs requires strong support, both human and non-human, if their introduction is to be effective. The key to perceived effectiveness of KPIs in this study lay primarily within the role of champions who were able to convince and convert members of the organisation of the value of KPIs to their activities.

Key words: Key Performance Indicators (KPIs); Performance Management; Public Sector; Malaysia.

Introduction
In public sector organisations, New Public Management (NPM) reforms have been one of the catalysts that have promoted or initiated accounting change (Hood, 1991, 1995; Broadbent and Guthrie, 1992, 2008; Goddard, 2010; Jacobs, 2012). Central to the idea of NPM is the importation of management accounting tools, techniques and practices, from the private sector to public sector organisations (Hood, 1991; 1995). Accounting tools such as Activity Based Costing (ABC), Balance Scorecards (BSC), Key Performance Indicators (KPIs) and the use of calculative measurements in general have shaped almost all spheres of public sector organisations (Kaplan and Norton, 2008; Micheli and Neely, 2010). Indeed some tools have been specifically tailored to meet public sector requirements, such as the Public Value Scorecard (Moore, 1995, 2012, 2014). Performance measurement and management, and the importance of how the information is used, is now an integral part of many public sector organisations (Moynihan, 2008; van Dooren et al., 2010).

There have been various studies on the implementation of management accounting tools in a public sector context, but relatively little evidence on the ways in which organisational members adapt to accounting change in the context of public sector organisations. There is even less research in the context of developing countries and more research in these circumstances might reveal possible insights to improve the effectiveness of management accounting tools.

In this paper, the authors report on an investigation into the implementation of KPIs in a government agency in Malaysia. The main objective of this study is to gain insight into implementation of KPIs in public sector organisations in a developing country context.

Drawing on institutional theory, through a case study of a government agency that is responsible for providing training and financial assistance to students and entrepreneurs in Malaysia, we suggest that implementation of KPIs is partially isomorphic i.e. to be seen to be adopting the latest tools and thereby legitimating actions. In addition, for implementation to be effective, the research suggests that it requires strong human and non-human support. The key to the perceived effectiveness of KPIs in this context lay primarily with the role of champions who were able to convince people within the organisation of the value of KPIs to their activities.
Section 2 of the paper will now set out the literature on institutional theory, NPM and KPI’s. Section 3 will then set out the background to the study and research methods. Section 4 will present the field data, while section 5 will provide a discussion and some conclusions.

**Institutional theory, New Public Management and KPIs**

This paper draws on a theoretical framework of institutional theory that has often been employed in accounting research, and applied to the public sector and NPM (Jacobs, 2012).

DiMaggio and Powell (1983, 1991), demonstrated that institutional isomorphic change can arise as a result of three potentially interrelated mechanisms: coercive, mimetic and normative isomorphism which are now widely acknowledged (Currie, 2009). Coercive isomorphism implies the presence of some force or organisation such as a higher level of government, and may be formal and/or informal. Mimetic isomorphism implies the embracing of models or benchmarks from other organisations, within an organisations’ sector or service area, in order to imitate innovation, acknowledged good practice or popular action, whereas normative isomorphism results from the gradual professionalisation of an organisation or service over time. Isomorphism can be the result of individuals or organisations responding rationally, to uncertainty; to sanctions or constraints; or to institutional rewards both financial or regulatory, all of which were present in the Malaysian example (DiMaggio and Powell, 1983; Currie, 2009).

Under NPM the state shifted from being a provider to an enabler of services (Osbourne and Gaebler, 1992; Denhardt and Denhardt, 2002) with the language of accounting and markets becoming more prevalent (Hood, 1991, 1995). For example, Hopwood (1984) had explicitly drawn on institutional theory to consider accounting for efficiency and to highlight how accounting language and practices became more frequent and forcible in debates about public sector activities, with demands for accounting to be more implicated in public sector management and policy.

Within such contexts, research has called on institutional theory to show how organisations derive legitimacy by conforming to societal standards and norms of expected practice. This can involve decoupling external image systems from the practices organisational members employ to carry out their tasks (Covaleski et al., 1993). Indeed the functionalism and instrumentalism of budgets has been highlighted, as has their role in creating, maintaining and managing symbolism, fashion and legitimisation so public sector organisations sustain support and funds from external bodies through following rules, values and rationalised myth (Bealing, 1994; Lapsley, 1994; Brunsson, 1995; Edwards et al., 1995; Pettersen, 1995). It is therefore important to understand the power and self-interest within formal organisations (Covaleski and Dirsmith, 1995).

A central theme of institutional theory is therefore isomorphism and legitimacy, alongside instrumentalism (Gomes et al., 2008; Kasperskaya, 2008). However, there is also broader engagement with neo-institutional theory literature (Modell et al. 2007), supplementing the macro focus with more micro analysis (Modell, 2006; Ezzamel et al., 2007), and a blending with other theoretical perspectives (Hopper and Major, 2007; Nor-Aziah and Scapens, 2007). The work of Nor Aziah and Scapens (2007) is of particular interest to our study. They investigated the experience of accountants when implementing changes in accounting in order to influence the government ‘style’ of managing operational performance in a Malay-
sian corporatised utility organisation.

Seal (1999, 2003) employed an institutional interpretation of NPM in his studies of UK local government that illustrated the role of accounting in performance management and the modernisation and deinstitutionalisation of budgeting, which informed his later work (Seal and Ball, 2005; Seal and Ball, 2006; Seal and Ball, 2011). Building on the early work, Tsamenyi et al. (2006) have shown that isomorphism occurs around the world with governments employing KPIs to legitimise their activities through the latest accounting practices, as well as for instrumental improvements in performance.

As with budgeting, KPI's can play an instrumental role in enabling technically rational decision-making, and also often play an integral part in the politics and power of organisational life (Wildavsky, 1964; Hopwood, 1984; Covaleski et al., 2013). KPI's may also serve as a means of fostering political exchanges among contending factions, rather than as a means for solving technical problems; an expression of symbolic preferences in bargaining processes, rather than as a control tool supporting rational decision-making processes; a means of fostering conversation, rather than as a means of affecting control; and as an expression of societal values, rather than as an instrument for action (Czarniawska, 1997). KPI's can serve the purpose of choice, but also mobilise organisation action, distribute responsibility, and provide legitimacy (Brunsson, 1990). In particular, KPI's could be used to legitimise action (Covaleski and Dirsmith, 1986) through employing symbols in the political arena (Coavleski and Dirsmith, 1988).

However, in contrast to budgets that indicate the purposes on which money should be spent, KPIs are a form of benchmarking that often facilitate an assessment of value for money (Bowerman et al., 2002). For example, benchmarking in the context of the UK public sector has been well established as a performance management techniques dating back at least to the 1970s when local authorities conducted comparative studies among themselves (Bowerman et al., 2002). Subsequent developments in the UK sometimes made benchmarking compulsory and resulted in an unprecedented build-up in the scale, scope and significance of external assessment and performance management frameworks across the public sector (Ferry and Scarpato, 2015; Ferry et al., in press). Through these developments benchmarking was established in the UK as an externally mandated, audit-driven performance management tool deployed by national government to pursue local and national policy objectives (Bowerman et al., 2002; Eckersley et al., 2014; Ferry and Eckersley, 2011, 2012, 2015a, 2015b; Ferry et al., 2015).

To some, benchmarking held the promise of combining elements of bureaucratic control and competition (Van Helden and Tillera, 2005), and thereby became a key tool of performance management to pursue broad programmes of government modernisation and NPM (Woods and Grubnic, 2008; Pollitt and Bouckaert, 2000).

Public sector accounting, and particularly budgeting and benchmarking through KPIs, have a role in the social construction of meanings and norms that serve to both legitimise and facilitate arrangements (Covaleski and Dirsmith, 1991). Policies and accountabilities are subject to the influence of accountings through which organisational, institutional, social, and political agendas are pursued (Hopwood, 1983), which can be contested as part of an every-day experience by diverse actors (Ahrens and Ferry, 2015).
The next section will examine the introduction of KPIs to a public sector organisation in Malaysia, together with the research methods employed.

Case study and research methods
The Malaysian Public Service, formerly known as the Malayan Civil Service (MCS) in the pre-1957 British era, has over 1.4 million employees covering 28 service areas including the Federal Public Service, the State Public Services, and the Joint Public Services. In practice nearly all Statutory Bodies and Local Authorities are also considered parts of the Public Service since they adopt the procedures of the Public Service relating to appointments, terms and conditions of service and the remuneration system. It therefore resembles a large homogeneous hierarchical bureaucracy.

Malaysia also operates a system of 5 year plans and the research for this paper was carried out during the implementation of the 9th 5-year plan. The Public Service has had a role in producing and implementing policies in the industrial, agricultural and social sectors through the various 5-Year Plans.

Following the Asian Financial Crisis of 1997, government transformation programmes have been a key feature of the Malaysian public sector and performance measurement has been the main driver in a programme to foster economic growth and social cohesion (Ferry et al., 2014). Over the following decade this has included implementation of management concepts such as Total Quality Management, ISO certification, and accounting measures such as KPIs to improve government performance. In line with the desire for government transformation, the Malaysian government instructed its agencies to implement KPIs through the issuance of Guidelines on Establishing KPIs and Implementing Performance Assessment at Government Agency (Development Administration Circular 2/2005).

The data for this paper was collected at the time where the KPIs were therefore still relatively new and undeveloped. This accorded with the objectives of the study that focuses on managing change in a public sector organisation. While it has been 10 years since the Circular 2/2005 was issued, KPIs continue to play a greater and more significant role in public sector organisations and in public sector reforms. As such, lessons from the 2008 period are still relevant in providing the background to contemporary performance management development in public sector organisations.

At the time of this study, the budget speech for the years 2007/08 was based on optimistic economic forecasts, with objectives taken directly from the National Mission, which was a framework for the country's development agenda laid down in the 9th Malaysia Plan presented in March 2006. In particular the budget speech identified stronger collaboration between the government and the private sector as a key factor in achieving the National Mission, and this was supported by improving several incentives and taxes.

Part of the objective was to improve training and entrepreneurialism, which was one of the reasons the organisation in this study was selected. This is because the organisation is one of the largest government agencies that provide training and financial assistance to students and entrepreneurs in Malaysia. It therefore potentially plays a significant role in achieving the mission of the country, and so it is important to understand how the organisation measures its performance.
The initial access to the organisation was obtained through e-mail correspondence with the Director General of the organisation. Subsequently, the human resource department issued a formal letter to confirm their willingness to take part in the study. Interviews were conducted in the months of April and August 2008. During this period a dozen elite interviews were carried out with key managers from the Finance, Corporate Planning and Human Resource Divisions. All interviews were recorded. Observations of budget meetings between the organisation and Ministry of Finance were also made, as were observations of day to day activities at one of the operational divisions of the organisation. Extensive contemporary notes were taken throughout the observations.

The analysis of data was guided by the open coding technique (Strauss and Corbin, 2014) which helped to identify issues, actions, interactions and key concepts through careful reading of interview transcripts, documents and notes, and reflections on their context. The interview transcripts, documents and field notes were scrutinised in order to identify patterns that reflect the phenomena studied. Emerging patterns or themes were also derived through comparative analysis i.e. finding similarities and differences in the data by comparing conceptually similar events, incidents or issues with those previously coded.

This paper will now outline the findings from our study of the implementation of KPIs in a public sector organisation in Malaysia.

**Implementation of KPIs**

At the time of this study, the organisation had been implementing KPIs for two years. The implementation was championed by the Board and facilitated by the corporate planning office that was responsible for consolidating information from all departments and reporting it to the board. One officer from the corporate planning office explained:

> “Previously we don’t have a lot of queries from the public, but now we have to be answerable to many parties… ministers, cabinet, parliament and the general public. KPIs are one of the mechanisms to help us in answering their questions.” Corporate Planning Officer

Stakeholder concern about government performance had surged following the Asian Financial Crisis 1997. Since then a lot of public reform had been implemented including an instruction that government agencies should have objective measures in assessing their performance. Although KPI implementation in the organisation was mandated by the government circulars (suggesting coercive isomorphism), many of our interviewees regard this as a managerial trend. The human resource head for instance suggests:

> “Everybody knows about KPIs, so when we are at international conferences, people know what we are talking about and we don't feel outdated.” Head of Human Resources Department

Based on his experience, the interviewee found that it was easier to connect with his international counterparts as they could discuss contemporary management tools such as KPIs. This was not just a matter of being able to be seen to be ‘talking the same language’ but it helped the organisation’s members to exchange ideas and learn from the experience of

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1. The fieldwork and analysis was undertaken in the midst of the global financial crisis, which began to impact on Malaysia towards the end of 2008. Economic growth remained paramount during the fieldwork itself, but as the 2009 budget for Malaysia was prepared the focus shifted to social cohesion and the rhetoric to strengthen the nation’s resilience. Indeed, to address concerns the government introduced their first stimulus package amounting to RM7 billion in November 2008 (See Ferry et al., 2014).
other organisations.

The ‘perceived’ objectivity of the measures is the most cited criteria of KPIs which was appreciated by the organisations members. For example, Finance Officer 7 suggests:

“KPIs are good because they help the bosses to make an objective evaluation. Based on the earlier method of performance appraisal, we were in pain to quantify our job at the year-end……. you know many jobs are done but sometimes it is difficult to put them down (in a quantifiable and objective way) especially when we have to do that at (the busy) year end.” Finance Officer 7

While KPIs were perceived as an excellent tool to overcome subjectivity, many of the organisations members indicated that the implementation process was facilitated by the existence of ISO (International Standard for Organisations). This is because most of the everyday activities had been well documented and less time was needed to identify the activities. As stated by Finance Officer 2:

“ISO actually facilitates the implementation of KPIs, without ISO we would not be able to implement the KPIs that fast.”

However some of the organisations’ members were sceptical about implementing a contemporary management tool as indicated by the following from Finance Officer 1:

“ I don’t know whether it is a trend, just because many organisations are using KPIs, we do… right now everybody talks about KPIs, and the next thing we know, next year somebody may get the idea that Six Sigma is better, so I guess people will move to Six Sigma… never ending!” Finance Officer 1

The feeling of frustration by this officer was primarily based on his recent experience of the partial implementation of a Balanced Scorecard (BSC) in the organisation, which had been abandoned but only after some considerable time and effort had been invested in the project. The BSC project was scrapped because the project in their organisation had become too expensive to implement and the training given by the consultants, apparently, did not reflect or resonate with the day to day activities of the organisation.

One significant assumed advantage of KPIs are they enable the organisation to have clear objectives and allow employees to understand their function and show how their activities can contribute to organisational objectives, but they can also be ceremonial as suggested by the following interviewee:

“Through KPIs our objectives became clear and we understood our function better... then we realize, oh this is not right or this is not supposed to be here... then it forces us to review our function, our objectives... but sometimes it is more ceremonial such as when a new Minister comes in and then we get busy preparing information on the achievement of our target to justify what we are doing.” Finance Officer 1

One common theme found in the interviews however was a concern about the link between performance measures and the strategy of the organisation. In particular, the Head of Human Resources thought that the organisation did not have a proper IT strategy which was appropriately integrated with the long term strategy of the organisation and with the
performance measurement systems. He said that:

“IT personnel have a lot of things to do, everything needs to be computerized, they told us to ask for everything that we want, in the end they were drowned with the requests”. He further suggested that, “Top management has to realize that simply buying new computers does not solve the problem, an integrated IT strategy has to be in place, if not KPIs will remain KPIs. Every time new things arise, we start to do work, all is ad-hoc, in the end people will say, this not going to work...” Head of Human Resources

His views were also shared by Finance Manager 1 who believed that there was no monitoring of the short term achievements of the organisation and that the KPIs only seemed to measure the activities which they thought would be easy to quantify. Finance Officer 2 was concerned with the lack of proper measurement of certain activities. She argued:

“...for my section, the target is that I have to submit an account to the Auditor General by 30th April, we always meet the target, but how do you measure if we submit before that date, say we submit on 25th, do we get 100%, what if we submit on 15 May, do we get 50%....I think that precision is still not there.” Finance Officer 2

On the issue of negotiating organisational targets, some officers suggested targets for certain activities should reflect the financial capacity of the organisation to achieve them. The main source of income came from the government and one finance officer explained that activities such as training days are unlikely to meet the government standards due to the budget constraint:

“Yes, definitely there are some negotiations that take place but for training we accept the government standard of 7 days a year training for each member of staff, but if you look at our achievement we are always in the range of 60-70% only, so we rationalize that we cannot do 7 days.” Finance Officer 3

Another concern raised by many interviewees was the lack of a direct relationship between KPIs and contemporaneous reward systems in Malaysian public sector organisations:

“Hmmm....if the government can tie KPIs with bonus, promotion or surcharge. But you know government bonus, right? Everyone will get bonus, so it is becoming a trend.” Finance Officer 5

This concern about the reward system was also supported by another Finance Officer:

“I think if we are ready to reward people, then we can use KPIs, but there is no point you exert people efforts if at the end of the day you cannot reward them... but getting back to the basics, which is the quota (for promotion), what if everybody is good? How do you reward all of them? We will achieve performance in terms of productivity but it will demoralize people. So why should they exert their effort, if we ask them to stay back late I will feel guilty because I can’t reward them... so I guess KPIs is just a false promise.” Finance Officer 6

Discussion and Conclusions
This study presents perceptions on the implementation of KPIs in a public sector organisation. KPIs are a tool of performance measurement systems that have been widely known and used in many organisations. In Malaysia, the rise in the adoption of KPIs in government...
organisations results from the issue of government circular 2/2005 that required public sector organisations to implement KPIs, but did not specify them.

The present study has shown that the implementation of KPIs in this organisation can be considered instrumental, but was also viewed by the organisations’ members as following a contemporary managerial trend, thus both coercive and mimetic isomorphism were factors. This is consistent with institutional theory based studies that suggest many public sector organisations implement accounting tools as a result of isomorphism or to show legitimacy (Tsamenyi et al., 2006).

While most of the interviewees were skeptical about the way in which KPIs could contribute to organisational performance, they also acknowledged the perceived objectivity offered by KPIs. Especially when assessing individual performance, KPIs could reduce the perceived subjectivity arising from superior preference or bias towards certain individuals. Of course, the KPIs are still subjective constructions, but the important point is that they can be perceived as being objective and thereby more legitimise giving them additional potential instrumentality. The calculative measures such as KPIs can therefore support hierarchical accountability because it makes individual performance visible in a way that is perceived to be objective without day to day close supervision.

The study showed that the accountants did struggle with implementing the accounting change through KPIs, and in particular with being able to influence the government’s ‘style’ of managing the performance of operational members (Nor Aziah and Scapens, 2007).

However, to overcome such obstacles, the study highlighted suggestions that might assist effective implementation of KPIs in the Malaysian public sector. A crucial factor was perceived to be the link between KPIs and reward systems. Malaysian public sector organisations were still not ready to link performance measurement with reward systems such as promotion and yearly bonuses. The interviewees suggested that Malaysian public sector organisations were not as flexible as the private sector in terms of rewarding their employees as the bonuses are paid to every public servant according to their hierarchical position, and promotion is usually based on the quotas for a particular position. Therefore it was suggested that if the public sector wanted to embrace KPIs as a mechanism to motivate employees, it needed to offer a variety of incentives, both financial and non-financial, in addition to or in place of the existing bonus and job promotion arrangements.

This study also suggested that the implementation of KPIs needed strong human and non-human support. As suggested by the Head of Human Resources, the role of the IT department was very important in assisting the organisation to fully embrace the KPIs. The role of agents in promoting the importance of KPIs is also crucial to the effectiveness of KPI implementation. In this study, the role of the corporate planning department was to coordinate the reporting of KPIs for the whole organisation and this was viewed by the organisations members as almost a ‘policing’ function. Ad-hoc reporting such as “when the new Minister comes to visit” also illustrates the ceremonial function of KPIs in this organisation.

The findings of this study do not suggest that KPIs were not useful in this organisation, but that the implementation of KPIs could go beyond being a ceremonial tool if attention was paid to the nature, structure and culture of public sector organisations when designing and implementing KPIs. The use of performance information and the role of champions
or agents that can engage members of the organisation is crucial for effective implementation of KPIs (Moynihan, 2008; van Dooren et al., 2010). In this case the corporate planning department had to undertake a greater role than merely collating the information for reporting purposes in order for the KPIs to be a lived everyday experience across organisational actors, and they had to be effectively managed because of their impact and effects on society (Ahrens and Ferry, 2015).
References


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