INSTITUTIONALIZATION OF PERFORMANCE MANAGEMENT SYSTEM IN A MALAYSIAN LOCAL GOVERNMENT FROM THE PERSPECTIVE OF NEW INSTITUTIONAL SOCIOLOGY

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Abstract

The purpose of this paper is to examine the process of institutionalizing and implementing Key Performance Indicators (KPIs) in a Malaysian local government (LG). New Institutional Sociology (NIS) is used to understand the various institutional pressures faced by the organization during the development and implementation process of KPIs. An interpretive case-study strategy was applied. A total of 22 interviews have been conducted with the top management of the LG. The findings suggest that the evolution of the Performance Management System (PMS) in the LG was a result of the directions of government through the Government Transformation Programme (GTP) and is still in its infancy stage. Although the LG has adopted the contemporary PMS, the old PMS; Annual Work Target (AWT) is still the dominant PMS. The KPIs initiative was considered as secondary PMS; therefore, it became as a complementary tool to the existing system. The study also discovered that the KPIs had brought several changes to the staff, departments, and the organization itself. The outcome of the KPIs' implementation, however, could not be studied. The research outcome has contributed to the existing performance management literature especially in the development of PMS within the Malaysian context by exploring the development and implementation of KPIs in an LG as well as the organizational changes within the organization.

Keywords: Annual Work Target, Institutional Theory, Key Performance Indicators, New Institutional Sociology, Performance Management System.

Abstrak

Tujuan penelitian ini adalah untuk menguji proses pelembagaan dan implementasi Indikator Kinerja Kunci (*Key Performance Indicators*/KPI) di pemerintah daerah Malaysia. Sosiologi Institusional Baru (*New Institutional Sociology/*NIS) digunakan untuk memahami berbagai tekanan kelembagaan yang dihadapi oleh organisasi selama proses pengembangan dan implementasi KPI. Strategi studi kasus interpretif (*interpretive case-study strategy)* diterapkan pada penelitian ini. Sebanyak 22 wawancara telah dilakukan dengan manajemen puncak pemerintah daerah. Hasil temuan menunjukkan bahwa evolusi Sistem Manajemen Kinerja (*Performance Management System*/PMS) di pemerintah dae-

rah adalah hasil dari arahan pemerintah melalui Program Transformasi Pemerintah (*Government Transformation Programme*) dan masih dalam tahap awal. Meskipun pemerintah daerah telah mengadopsi PMS kontemporer, PMS lama yaitu Target Kerja Tahunan masih merupakan PMS yang dominan. Inisiatif KPI dianggap sebagai PMS sekunder; oleh karena itu, Inisiatif KPI menjadi alat pelengkap sistem yang ada. Studi ini juga menemukan bahwa KPI telah membawa beberapa perubahan pada staf, departemen, dan organisasi itu sendiri. Namun, hasil implementasi KPI tidak dapat dipelajari. Hasil penelitian telah berkontribusi pada literatur manajemen kinerja yang ada terutama pengembangan PMS dalam konteks Malaysia dengan mengeksplorasi pengembangan dan implementasi KPI di pemerintah daerah serta perubahan organisasi dalam organisasi.

Kata kunci: Target Kerja Tahunan, Teori Institusional, Indikator Kinerja Kunci, Sosiologi Institusional Baru, Sistem Manajemen Kinerj.

INTRODUCTION

Organizations in both public and private sectors are often required to offer their products and services at the highest quality standards to satisfy the needs of their stakeholders. With the ever increasing public expectation for greater performance and accountability, civil servants are facing mounting pressure to deliver high quality public services. (Mohamad Azizal et al. 2015). Civil servants are continuously being scrutinized and questioned by the public to justify the sources and utilization of public resources. In other words, civil servants are entrusted with a multitude of roles in meeting the needs and expectations of the public and stakeholders.

Various Performance Management Systems (PMS) such as Annual Work Target (AWT), Key Performance Indicators (KPI), Balance Scorecard (BSC), Total Quality Management (TQM) and benchmarking are being employed in the public sector organizations. These PMS have been implemented to achieve the efficiency and effectiveness of civil service delivery. At present, public sector organizations constantly have to adapt, adjust and change due to the complex nature of the organizations and environment.

The traditional PMS approach, which was originally developed for private, profit oriented entities, contains primarily short term-financial measures. Today, such an approach is outdated because of its inability to provide relevant information for decision-making as well as to drive organizational performance (Johnson and Kaplan 1987).

Hence, a shift from traditional to contemporary PMS, which are more relevant, specific, timely and able to produce the necessary information, has been formulated to address the shortcomings of the traditional PMS. In the context of private entities, the aims of contemporary PMS are to improve the profitability, productivity, quality, timeliness, responsiveness, and effectiveness of product and service delivery. Private sector organizations are more likely to use and practice the contemporary PMS (Burgess et al. 2007) whereas public sector organizations lately are now seen adopting this new approach in managing the employees and organizational performance.

PMS is a continuous process of managing, planning, monitoring and reviewing the employees' contribution to the organization. The regular use of PMS helps to increase the level of competitiveness of the organizations. In addition, PMS maintains and controls the organizational performance (Najmi et al. 2005). KPIs, BSC, TQM, Benchmarking, and performance appraisal system are among examples of many contemporary PMSs exercised in public sector organizations.

The idea of implementing PMS in Local Governments (LG); namely city councils, municipal councils and district co-

uncils has similar purposes. For public sector organizations such as LG, appropriate performance measurement is expected to provide a better quality of services and greater accountability. LG accountability refers to social accountability where the organizations are answerable and transparent to the people. Accountability has changed to a broader scope through performance measurement and performance reporting (Kloot 2009). In comparison to measuring the performance of private sector organizations through profits, public sector organizations are not profit oriented. Therefore, the assessment is somewhat subjective; involves three factors which are inputs (resources), outputs (products and services) and outcomes (results).

The paper is organized as follows; the next section will discuss the motivation of the study and the research questions. The third section focuses on the literature reviews on PMS, the development and the implementation of KPIs. The fourth and fifth sections discuss the theoretical framework and the research methodology adopted during the study. Under the findings section, details of the case study are elaborated. The last section concludes the study.

MOTIVATION OF STUDY

Under the 11th Malaysia Plan (2016-2020), the "Employee Exit Policy" has been announced in the year 2016. It is a new assessment mechanism to terminate civil servants from the service if they are consistently not meeting the standards, underperforming and lacking discipline. The implementation of this new policy is expected to remove overlapping functions in the service, retain high performing civil servants and motivate them to be more productive. Simply put, it is all about bringing efficient and excellence into the service. There is therefore a need for the organization to manage the performance of the employees effectively and to review its contribution to organizational performance.

It was identified that about 5,000 of the 1.6 million civil servants were found to have a performance score of below 60% (The Star Online 2015). They would be put under probation if no justifications provided. The threshold of 60% is the minimum score of individual performance set by the Government for civil servants to achieve as their performance is the most important factor in organizational success. The implementation of this policy should enhance the performance of the civil service and at the same time raises public confidence towards the government with better, efficient, and effective civil services.

In the year 2004, the Government Linked Companies (GLC) Transformation Programme was introduced with a series of reform initiatives reflected in ten color-coded books. For example, the Green book focussed on board effectiveness, the Silver book on social obligation, the Red book on procurement procedures, the Purple book on capital management, the Orange book on human capital development, and the Blue book on performance management. The transformation programme was meant to make the GLCs competitive as other profit-making organizations (Public Service Department 2010). Other initiatives were developed to strengthen the directors' capabilities, to enhance the monitoring and management of GLCs', to improve the regulatory environment, and to enhance the operational improvements (GLC Transformation Manual 2005). The intensification of performance culture in government was also stressed through the Government Transformation Programme (GTP) with the goals to transform the GLCs into high performing entities.

KPIs were also introduced simultaneously with the GLC Transformation Programme as a tool to measure the performance of GLCs. These KPIs were developed based on the organisational strategic objectives and business plans. Later, the organisational KPIs would be cascade down to the divisions and employees' levels. At the end of the year, the performance

of the employees would be assessed based on their achievement of KPIs. Though the focus of the transformation programmewas on the GLCs, public sector organizations including LGs had been affected as well. In the pursuit of service excellence, the Government had encouraged all public sector organizations to exercise the new PMS (KPIs) to measure and assess the performance of the civil servants. Each ministry has its own set of KPIs to be achieved (Public Service Department 2010). The KPIs were expected to be communicated to the employees at the beginning of the year. The evaluation of individual KPIs would affect the bonus received and increment for the year. For instance, the Ministry of Housing and Local Government (MHLG) is responsible for urban well-being, housing, local government, town and country planning. It was reported in 2012 that the Ministry has succeeded in achieving its KPIs in reviving abandoned housing projects (The Star Online 2012).

The implementation of KPIs in Local Governments (LGs) is to inculcate better performance and service delivery. It has direct impacts on the satisfaction of the general public because they are the dominant group of stakeholders. The greater level of public' satisfaction in the LGs' services will improve the perception of good quality of service delivery and service providers (Scott and Vitartas 2008). However, not many LGs had implemented KPIs during the period in which it was first introduced.

Many LGs display their accountability and transparency through audited annual reports published and made available to the public. However, there was not much information provided. The civil service is still struggling from inefficiency, corrupt practices and poor performance (Siddiquee 2010, 2014). In some cases, there are evident in goal incongruence between organizational and individual KPIs. An in-depth study on the evolution of the PMS in LG warrants attention as such a study could provide the explanation as to whether the government-driven PMS is successful in bringing changes. The development and implementation of KPIs in the LG can be understood by examining the detail process of its institutionalization. Therefore, the main research question for the study is **"How are organizational KPIs being developed and institutionalized in a Malaysian local government?"**

Following the general research question, the study hopes to find answers to the three specific research questions. These research questions are developed based on prior literature on performance management (Armstrong 2000; Neely 1998; Winstanley and Smith 1996; Bennett 2002; Scott and Vitartas 2008; Yongvanich and Guthrie 2009; Cavalluzzo and Ittner 2004; DiMaggio and Powell 1983; Nor Aziah and Scapens 2007; Ruzita et al. 2012; Siti Mardinah et al. 2016; Zaleha et al. 2017):

RQ1 : How does the local government develop KPIs for its organization?
RQ2 : How are KPIs institutionalized in the local government?
RQ3 : What are the challenges and obstacles encountered during the development and institutionalization of KPIs in the local government?

PMS IN PUBLIC SECTOR ORGANIZATIONS

There is abundant literature on performance measurement and performance management (Winstanley and Smith 1996; Armstrong 2000; Broadbent and Laughlin 2009). The terms performance measurement and performance management are normally used interchangeably in the literature (Winstanley and Smith 1996; Armstron 2000; Broadbent and Laughlin 2009).

Performance management is a continuing process of communication between top management and organizational members in support of accomplishing the strategic objectives of the organization. Armstrong (2000) defined performance management as 'a strategic and integrated

process that delivers sustained success to organizations by improving the performance of people who work in them and bydeveloping the capabilities of individual contributors and team'. It involves a process of identifying, evaluating and developing the work performance of employees so that the agency's goals and objectives are more effectively achieved (Fryer et al. 2009).

On the other hand, performance measurement collects, analyzes, and reports information regarding the performance of an individual, group, system or organization. It is a process of quantifying the efficiency and effectiveness of past actions (Neely 1998). The organizations require a systematic review to maintain the effectiveness and measurement system. Performance measurement is a part of PMS and utilizes all information of the performance measurement to manage and organize the organizations. The term PMS in the paper refers to the Performance Management System which also covers the performance measurement system.

A good implementation of a performance measurement system may help to increase the level of competitiveness among public sector organizations (Nur Barizah et al. 2011). The measurement of PMS should focus on the efficiency and effectiveness of the process of service delivery, human resource, and financial productivity, and customer satisfaction towards the service received. The success of a PMS depends on the accurate and suitable choice of the measurement tool and the achievement of operative level commitment (Avdasheva et al. 2016). The implementation of KPIs in the National Registration Department, Pulau Pinang was a success and showed a positive impact on the performance of the department as well as their employees (Zaherawati et al. 2011). The findings confirmed that the use of KPIs could measure performance in the public sector organizations and thus lead to higher customers' satisfaction.

Yongvanich and Guthrie (2009) found that the BSC implemented in Thailand companies were not successful because they failed to capture how BSC will assess the performance of their companies in the long run based on the companies' strategic objectives. Similarly, companies in the United Arab Emirates (UAE) were found to have already exercised BSC, but there was no integration between companies' objectives and strategies (Behery et al. 2014). The initiatives were not linked together and directed toward the effective implementation of BSC. Meanwhile, Sales and Carenys (2013) found that the success of developing the PMS within the organization can be achieved when the vision and mission of the organization were clearly known by the organizational members. Karim (2015) mentioned that the vision, mission, functions, and organizational structure of the Bangladesh Public Service were considered when designing PMS.

The level of effectiveness of the PMS in the public sector depends on the level of participation from multiple stakeholders, the involvements of top management as well as the understandings of organizational members. Employees at all levels should be cooperative, eager to understand and to implement the new PMS (Hamid and Hartini 2013). They must recognize the objectives of the PMS, its effects and its impacts in the future. Employee engagement contributes to the success factors in implementing PMS if the PMS is well communicated and guided by top management (Bourne et al. 2013). The absence of the employees' commitment and participation lead to a major problem to the organization (Bennett 2002). He found that the absence of the employee commitment in the management and organizational practice could lead to inefficiency of service delivery to the public. He investigated the reasons for the absence and found that most of the employees were not motivated, lack of fulfillment, workplace stress, and have a poor quality of life.

Cavalluzzo and Ittner (2004) have found that the KPIs were applied to make decisions and to achieve greater accountability for various purposes. The PMS and accountability are positively associated to measure the government activities. KPIs that are designed based on the organizational objectives can influence and empower managers towards an active work role (Swiatczak et al. 2015). Another study by Sharma and Sharma (2017) pointed out that the functions of the Human Resource Department can have a positive influence on firm performance through implementing and supporting organizational policies and procedures that motivate employees. Apart from that, developing communication skills, leadership, and problem-solving also leads to an increase in work performance (Anonymous 2018).

Although there are studies on the implementation of PMS in GLC in Malaysia, the literature on the evolution of the PMS in LG in Malaysia is still very few. Fatimah Hanim and Asmah (2013) proposed the same set of KPIs to be used in two LGs in Malaysia. They have found that these two LGs had a similar core business and core processes; providing financial support services to the organizations and public, collecting revenues and managing expenditures. There are five areas to be concentrated when LGs attempted to develop and implement PMS (Teddy and Siti Nabiha 2015). The areas are organizational aims and objectives, strategic planning, performance target and settings, punishment and rewards, and information flow.

Understandably, the PMS implemented by the GLC is relatively different from those to be adopted by LG. The former being profit-oriented entities and the later as service centric and non-profit in nature. Nevertheless, the focus of this paper is to examine the processes involved in developing PMS. In the case of the two LGs, their core business and core process are similar to some of the GLCs. Hence the use of GLC as a benchmark is duly supported. This study attempts to understand how PMS has been institutionalized into one particular LG in Malaysia. It thus seeks to examine the process of developing and implementing KPIs in LG. Apart from that, the study also tries to understand how an organization has changed due to the implementation of KPIs. The study predicted that there could be some challenges and obstacles in the process of developing and implementing KPIs. As a result, this study will try to highlight new insights into the development and implementation of KPIs in Malaysian public sector organizations.

NEW INSTITUTIONAL SOCIOLOGY (NIS)

Institutionalization is the process in which a practice is adopted by the majority of the members within the organization in a field, consequently guiding the organizational members' behaviour (Dillard et al. 2004). In other words, institutionalization is a process in which the diffusion of innovation becomes the norm in society or the organization. Institutional theory has been used in research in various fields (James 2008; Hoque et al. 2004; Norhayati and Siti Nabiha 2009). The theory has been applied to explain the institutional changes, the process is undertaken, and how organizational members have to adapt to the new changes made by the organization frequently. In analyzing the institutionalization process of the new PMS in the LG, this study is adopting New Institutional Sociology (NIS) perspective. The theory is applied in this study to explain the process of how KPIs being institutionalized from individual KPIs to the departmental KPIs and finally to organizational KPIs.

This theory explains the behavior changes as a result of the change in time. The process of change is the focus of the theory where rational behavior, preference, and taste are analyzed in details. In addition to that, what factors underlying the changes as well as the influences on the changes are also explained in the theory. NIS could be used to explain the changes

in the organizations which are shaped largely by the external factors. Hoque (2006) mentioned how NIS clarifies innovation such as PMS to be adopted in the organization despite its conformity to the external pressures and at the same time to increase its efficiency. Consequently, decoupling emerges in the organization where the separation between external image and actual structures and procedures appears.

In this study, KPIs are to be investigated based on this theory to confirm the changes happened in the organization from the social point of view. After a period of time, the actions of people are routinized, normalized, and formalized unconsciously resulted from the institutionalization process. On the other hand, Nor Aziah and Scapens (2007) studied the roles of accounting and accountants based on the process of corporatization. Loose coupling or decoupled happened where the accounting techniques change over the times and become routinized. However, they discussed loose coupling in terms of process and outcome. A process is when there is resistance to change due to institutional disagreement, lack of trust and shifting power between the professional groups. An outcome is when there is a gap between the intentions and actions of professional groups.

The institutionalization process of the PMS in a Malaysian GLC was consistent with the assertions underlined by the NIS and OIE perspectives (Noor Raudhiah et al. 2016). There are some forces which are stated as isomorphic forces by DiMaggio and Powell (1983) from NIS perspective exist in the institutionalization of PMS in the GLC. The isomorphic forces fall under NIS can be distinguished as competitive and institutional isomorphism. DiMaggio and Powell (1983) defined isomorphism as "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions". To put simple, organizations imitate each other when

facing the same environmental condition. The institutional isomorphism allows the understandings of the organizational changes apart from the competition and effectiveness.

There are three types of institutional isomorphisms: coercive, mimetic, and normative. Coercive isomorphism is a process caused by the formal and informal pressures and influences made on the organizations by other stakeholders upon which these organizations are dependent. For example, government regulations and directions can force the organization to adopt new innovations, structures or policies. Coercive isomorphism is also being described as force isomorphism. Cultural expectations are influencing the members in order to adopt or to react to the forces. Mimetic isomorphism is where the organizations have the tendency to imitate or copy other organizations due to uncertainty. Mimetic isomorphism is an influential force that encourages imitation. Normative isomorphism resulted from professionalism. The organization can increase the number of professionalism by sending the employees to the workshops, training, and courses as part of human capital development. Organizations could also hire employees from different organizations within the same field to enhance the level of professionalism in the organizations.

This study adopted institutional isomorphism where the process of developing and implementing KPIs in the organization was elaborated in detail. A similar study done by Rusdi (2011) found that all three elements of isomorphic forces were the major factor and present in the process of developing and implementing PMS in LG in Indonesia. He confirmed that these forces were actually driving the central government to decide to adopt and implement the PMS.

Meanwhile, Ashworth et al. (2007) proved that the isomorphic pressures and forces direct the organizations towards pursuing legitimacy in the organizations. Legitimacy can be defined as "a general-

zed perception or supposition that actions of an entity are desired, it is suitable within some system of norms, values, beliefs and socially constructed definitions" (Suchman 1995). The institutional environments influence the development of formal structures. In order for the organization to survive in the long term, the organizations will conform to the institutional environments and maintain legitimacy.

RESEARCH METHODOLOGY

This study can be categorized as qualitative and exploratory in nature; uses a single case study approach for data collection in which limited to one organization alone. Qualitative research normally involves what has been described as "inductive, theory generating, subjective, and non-positivist processes" (McNabb 2002, 275) while explanatory case study is a study that tries to explain the reasons for the observation of the accounting practice (Scapens 2004, 258). The study was conducted in LGO, one of the LGs in Malaysia that is found to adopt contemporary PMS; KPI to measure and assess its individual and organizational performance. LGO was chosen as a fairly typical urban local government body in Malaysia. At the time of the study, LGO was already in the process of implementing its KPIs. LGO administers advanced developed areas with high population density and household income and at the same time generates more revenue that makes it unique as compared to other LGs.

Tape recorded semi-structured interviews spanning one to two hours for each respondent that involved a list of open-ended questions were used to collect the data. In total, 22 interviews had been conducted in the organization. The interviews covered from the top management of the LG particularly from Deputy Mayor, Directors, Deputy Directors, Heads of Divisions, and KPI's Secretariat to the KPIs' representatives. KPIs' representatives refer to people who have undergone training in

developing KPIs within the organization. The rationale of using semi-structured interviews was to attain an in-depth understanding of the current practice, situations, development, and implementation of KPIs. Data were transcribed and analyzed based on categories into themes before drawing conclusions. Secondary data were collected through documentary analysis to achieve data saturation.

FINDINGS AND DISCUSSIONS CASE ORGANIZATION – LGO

LGO, a pseudonym, was first established as a municipal council before it had upgraded its status as a city council. LGO was automatically given the status of the city council with the rapid growth of its economics and a population density of more than 450,000 people as a result from a nationwide migration of populace aside from the increasing number of births. LGO was established under Act 171, Local Government Act. It is responsible for administering public health and sanitation, solid waste management, urban planning, environmental control and building, socio-economic development and infrastructure maintenance. Consistent with the conversion from municipal council to city council, one enactment has been made to allow the existing By-laws to be adopted. Act 171 outlines the duties of LGO to administer, provide and plan the development of the city programs. At the state level, LGO is under the jurisdiction of the Housing Standing Committee and Local Government while at the federal government level, LGO is under the supervision of MHLG. LGO is headed by a mayor appointed by the state government and he is one of the members of the council. The council members consist of 24 members and 12 committees appointed by the state government. The 12 committees are finance, One-Stop Center (OSC), law and enforcement, licensing and town services, landscape, privatization, tax assessment appeal, hearing of the value objection,

disposition of property, culture, and sports, tender, and quotations. There are 13 departments, 6 divisions, and 2 branch offices in LGO. The organization chart of the LGO is provided in Figure 1.

PMS IN LGO

Before implementing KPIs in the organization, LGO measured its performance using AWT; an individual performance appraisal where the impact was very significant for employees because of the direct linkage to the salaries that would be received by them. AWT was an individual performance assessment performed periodically on employees' achievement. The purpose was to give recognition and reward to the employees who made an outstanding contribution for the year. Employees who scored between 95% to 100% (significantly exceed target), 85% to 95% (exceed target), and 65% to 85% (on target) could be considered for annual salary movement whilst employees who scored below 65% (below target) would not be considered for salary increment (Public Service Circular 2011).

The findings revealed that the AWT had been embedded within managerial routines of the LGO as it became shared values within the organization. This was reflected on daily routines of making decisions and measuring performance. AWT became a primary mechanism to determine salary increment and promotion of the employees. However, the assessment was found to be not very objective in meeting the goals of the organization due to several reasons. First, different employees were being evaluated using diverse performance measurements. Second, there were too many requirements in the AWT, which could affect the core activities and core services of the organization. This was confirmed by Head of Department Planning and KPIs Secretariat:

"When we will implement KPIs later on, we will be able to assess the performance of the staff because we exclude the non-quantifiable measurements when we develop our KPIs" (Head of Department of Planning)

"...there are too many things to do in one particular time...too many requirements...it is redundant" (KPIs Secretariat, TQS)

As a result, the assessed employees were unable to obtain complete information on the assessment standards led to the conflict between the managers and employees. The finding is consistent with the works of Zaleha et al. (2017).

The introduction of KPIs was in conjunction with the Ninth Malaysian Plan; were introduced to reduce the loopholes in AWT. During the study, newly appointed *Menteri Besar* (Chief Minister) had so much emphasized on the performance of the civil servants, especially in the public sector organizations. The implementation of KPIs was found successful in measuring the organizational and individual performance though it was hard to be adopted initially (Adnan and Mahazril 2011). The use of KPIs contributed to the improvements in the administration and quality of service delivery Malaysian public sector organizations. The integration between organizational objectives and strategies can maximize the possibility of achieving better management and measurement of organizational performance (Behery *et al* 2014).

LGO started to have a plan to shift from AWT to new PMS way back in 2009. A consultant had been appointed to assist LGO to develop their KPIs. There were no specific selection criteria when LGO appointed its consultant. It was merely based on the reasonable fees concerning the advice given during the consultancy period. The consultation focused on giving directions and assistance in developing KPIs for LGO. The consultant did not develop the KPIs' system for LGO. A total of four workshops had been conducted over two months' period and the consultant ceased their consultation upon the completion of
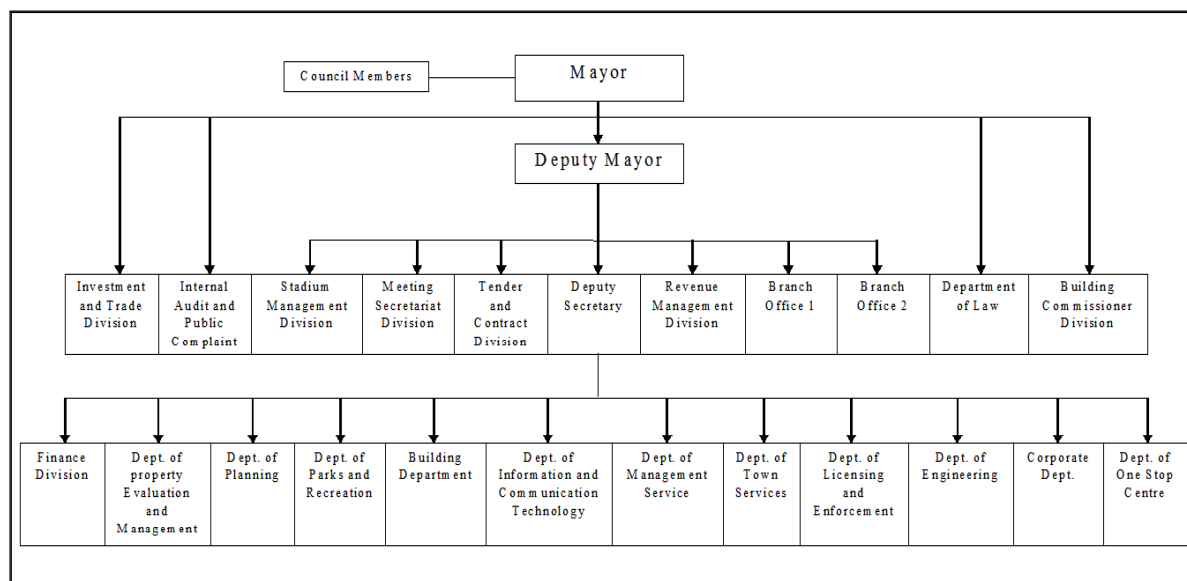
Figure 1
Organizational Chart of LGO

the training periods. The consultant used the performance measurement model as per instructed by Circular No. 2 (2005), issued by the Prime Minister Department as the main reference in the workshop.

The ministry's circular provided guidelines and explanations about strategies, approaches, and steps to develop and implement the KPIs.

"Our consultant did not develop the KPI system for us. Their role was to guide and teach us how to choose the indicators for our KPIs. They gave us manuals (PM models) as the guideline to plan our KPIs" (KPI Secretariat, TQS).

Training and Quality Section (TQS) under Department of Management Service (DMS) of LGO was then given the responsibility to continue with the development and implementation of the KPIs. As the process owner of the KPIs, TQS was responsible to collect KPIs' data from departments, verifying KPIs' indicators, maintain the KPIs' system, prepare reports, monitor and review performances, and communicating the system throughout the organization. At the same time, TQS has been collaborated with the ICT department to

build the computerized system to store the KPIs' data into the database system.

KPIs IN LGO

KPIs in LGO were developed to be outcome based metrices. It started with the core business and core processes of departments were being specified with the performance targets and frequency measurements to be achieved. The champion of the PMS model has instructed that the indicators chosen should conform to the SMART (Specific, Measurable, Action-oriented, Realistic, Timely) principles. Most respondents agreed that the SMART principles put the KPIs' indicators to be more objectives. Figure 2 illustrates the process based KPIs based on Developmental Administrative Circular No. 2 (2005).

However, it was found that the performance targets in practice were actually the standards operating procedures (SOPs) adopted from AWT. Apart from that, there were also departments that had simply converted the AWT to be developed as their KPIs. It was discovered that there were no new indicators or performance targets introduced for the KPIs initiative. Similarly, the time based measurements for customer services were actually the

practice of the departments in meeting the targets for AWT as highlighted by the Department of Planning representative:

> "Our performance targets are the period of time which we have to comply with. We follow the directions from the MHLG. If they give 64 days of reviewing the development plan, then we have to comply with the directions" (Representative, Department of Planning)

Sharing similar performance measurement practice, an officer from the Department of ICT confirmed:

> "The targets are based on our client charter for our department. We used our normal working procedures. Let say this operation and the technical unit, we used our schedules which have already been made for our department. We have targeted to have four times of server maintenance for a year, so we have to follow. In case of complaint received regarding the systems or anything, we have to repair within 14 days just like our client charter has suggested. So we have set the targets to be 14 days" (Representative, DICT)

REFORMATION OF STRATEGIC OBJECTIVES OF LGO

In order to re-align with KPIs, LGO was found to have reformed its vision and mission. The reformation was focusing on upgrading the vision, mission, and objectives of LGO to be more systematic and suit to the standard of living of the locals. As claimed by the Deputy Mayor of LGO:

> "With this rebranding program, we expect to able to serve better with more interesting concepts and facilitate the business between the council and the public"

The new vision and mission were also found to be reflected by KPIs developed in the organization. The KPIs' indicators for the core businesses and core processes were formed to be parallel with the vision and mission of LGO.

> "Our KPIs realize the vision and mission. We will have a rebranding of our previous vision and mission probably this year. If we were to launch this new vision and mission, the KPIs will be revised to ensure the new vision and mission are mirrored" (KPI's Secretariat)

However, there was a concern about the change of directions through the reformation of vision and mission in LGO. The vision and mission before the reformation were found to be more operational based where AWT affected the operations of LGO daily. The vision of LGO before reformation was *"To Transform the City into A Beautiful, Competititve, and Harmony City through the Implementation of Sustainable Development Values"* and the mission was *"Ensuring the Best Quality of Services at All Levels".*

Managers referred to the AWT as guidelines to manage the departments and make decisions while employees used it as a manual and as a guide to performing the jobs. The reformation of a new vision and mission was probably due to the introduction of new KPIs in LGO. The new vision was *"To Transform the City into A Quality, Peaceful, Conducive and Renown City"* while the new mission was *"Enhancing the Service Delivery System and Administration of LGO as an Efficient, Effective, Competent and Dynamic towards Excellence".* KPIs developed were to support the five-year strategic objectives of LGO. The KPIs must be consistent with the mission and vision of the LGO. However, there was fear in LGO that the KPIs would not work if the previous vision and mission were maintained. As argued by Siti Mardinah *et al* (2016), the risk is that the old PMS will contradict with the new strategy. Consequently, the vision and mission of LGO were being reviewed and reformed.
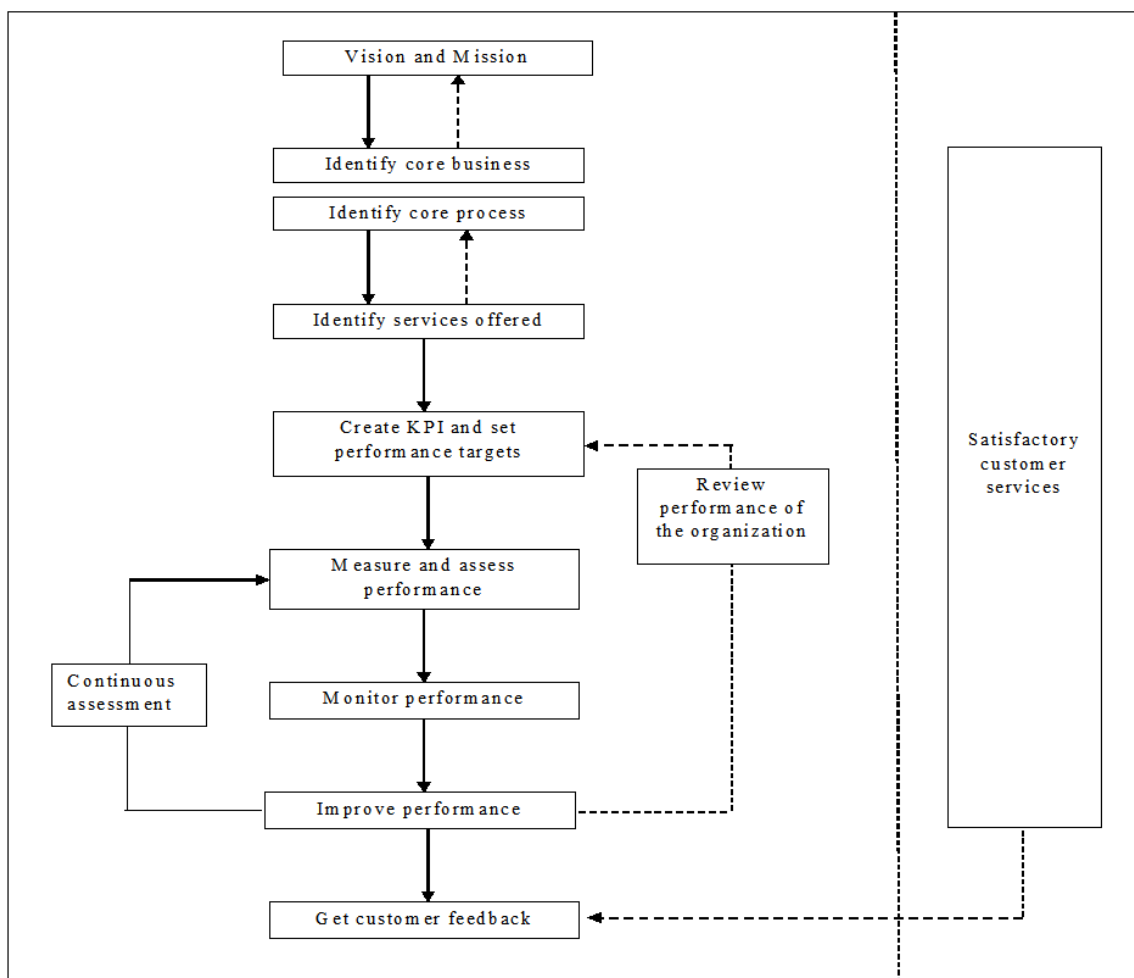
Figure 2
Performance Management Model
Source: Developmental Administrative Circular No. 2 (2005)

The decision by top management to reform the vision and mission was timely so that the KPIs could be implemented successfully. If LGO decided to maintain the existing vision and mission, the strategic objectives of KPIs would be undermined. It could be seen that the implementation of KPIs was heavily influenced by the management to revise its vision and mission. The administrative circular issued suggested that the vision and mission should be given top priority in spearheading the development and implementation of KPIs. Interestingly, the study found that the vision and mission of LGO directed the change of and was changed by the development and implementation of KPIs. The two way directions between the development and implementation of KPIs and the change of vision and mission of LGO are

shown in Figure 3. The reformation of vision and mission has taken place in LGO as a result of KPIs development and implementation.

STAGES OF COMPLETION OF KPIs DEVELOPMENT IN LGO

The analysis revealed that the implementation of KPIs in LGO was undertaken in stages. There were departments and divisions which already started to implement the KPIs such as the Meeting Secretariat Division, the Department of ICT, and the Department of One Stop Centre. It was revealed that these departments have a few core businesses and less complex core processes. As as result, the AWT was simply converted to KPIs. Other departments which have complex operations and
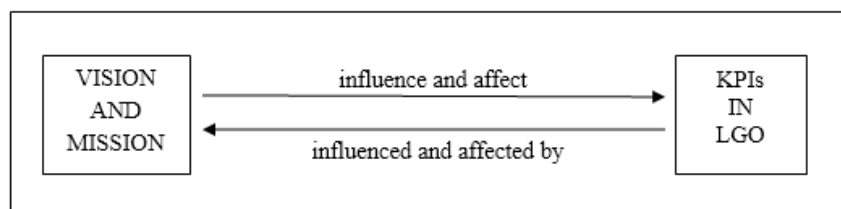
Figure 3
Reformation of Vision and Mission of LGO

core processes were still in the process of collecting KPIs data and trying to gain a deeper understanding of the KPIs. Recognizing the importance of setting the right tone from the top in adopting the reform, members of top management were committed to spread and communicate to organizational members about KPIs implementation. The KPI Secretariat responded:

"KPIs are still being implemented and it will be revised from time to time. Improvement and enhancement will be made to the KPIs so that these KPIs can translate the individual performance".

"We have yet to make a conclusion concerning the first six months of the implementation. We should have some improvements, but nothing has yet been done by the TQS so far" (KPI Representative, Meeting Secretariat Division)

The study confirmed that the data collection process already surpassed all departments. Nevertheless, none of the departments or divisions has fully implemented the KPIs. In the meantime, AWT was still a dominant PMS in LGO.

The adoption of KPIs in LGO can be explained from the NIS perspective. Coercive isomorphism; the Government instruction explained how LGO was coerced to develop and implement KPI. There was an adoption period for five years. The development of KPIs was only started in 2009 though the administrative circular was issued in 2005. The pressure to have the KPIs implemented in LGO was intense and the Director from the Department of ICT commented:

"We follow the government's initiatives. If you said ISO, we do have ISO. Then, KPIs are introduced, we also followed. We are in line with the quality program from the federal government".

With the above, coercive isomorphism was the most effective for the organization to comply with the new directions and it is least likely for such instruction to be ignored. The government held the most effective power to control and to instruct public organizations to comply with rules and regulations. It was useful when the purpose was to improve public performance through the management technique introduced. The influence of the coercive isomorphism was so powerful which could make the LG adopt KPIs.

Mimetic isomorphism could be observed where one LG was trying to imitate other LGs in terms of its quality management and PMS (James 2008). LGs received most of the directions from the MHLG. Therefore, there was also pressure from mimicry isomorphism when one ministry tried to copy other ministries. In the case of LGO, it was found that LGO might develop its own KPIs as a result of imitating the private sector practices to portray good images to the public. Confirming the findings, Deputy Mayor of LGO expressed:

"We cannot compare our LG with other LGs. Definitely our taxpayers' expectations are different. The standard of living and cost of living also differ" (Deputy Mayor, LGO)

Sharing a similar view, Deputy Director of Engineering Department mentioned:

"I don't know KPIs for other LGs. If it is based on the job process, I think all LGs would have the same job scopes. There could be differences among LGs but I don't think the there is so much difference" (Deputy Director, Department of Engineering)

However, the adoption of KPIs could be for ceremonial purposes only in which AWT was still widely used in daily organizational activities. LGO could have this mimetic isomorphism but it is not significant.

The normative isomorphism did not have much influence on the evolution of KPIs in the study. The involvement of the consultant in the KPIs planning stage was to avoid developing irrelevant KPIs for departments. Though the roles were minimal, the intervention made during that earlier stage was crucial as it enables for a positive shift in the overall paradigm of LGO towards its KPIs. Otherwise, there would be a gap between public expectations and service delivery (Deakins and Dillon 2006). Apart from conforming to the isomorphic factors, LGO was found to maintain its legitimacy in PMS despite exercising multiple PMS; AWT and KPI.

The early adopters of the KPIs in LGO were the top management and the KPI Secretariat. Three institutionalization stages were employed to describe the institutionalization process of KPI in LGO: pre-institutional, semi-institutional, and full institutionalization (Tolbert and Zucker 1996). At the pre-institutional level, the consultant was brought in to ensure smooth progress and the understanding of KPI development. The performance measurement model from the DPM was used as a guideline to ensure the KPIs were developed in accordance with the objectives of the organization.

At the semi institutional stage, the role of the managers was crucial, especially in verifying the indicators and performance targets for departments. The roles of the directors were to verify the indica-

tors to be used as the KPIs for the departments, to monitor the progress of the development process within the departments, to assess the performance of the departments, and to report to the top management of the actual targets for the year. With this, the Director of Revenue Management Division revealed that:

"I personally will verify the indicators used for my department. Since we need to comply with our client charter, I don't think it is difficult to check because our core process is simple. Our KPI is just to meet the number of meetings done in a month and so on" (Director, Revenue Management Division)

Meanwhile, managers are responsible to disseminate the information about KPIs to other subordinates. This is where information about the KPIs is disseminated to the departments within the organization. Communication is important to provide an understanding of the new management technique, which is about to be implemented.

The final stage of institutionalization is where full institutionalization takes place. In the study, the development and implementation of KPIs in LGO have not yet reached this stage, as, to date, the KPI secretariat from TQS is still finalizing the number of KPIs for each department. He commented:

"In LGO, we have yet to assess the KPI system as far as it is used within the organization. The system is new and we cannot see the impact of the implementation. It is still in the trial process so I cannot say we have achieved our KPIs. So far, we are still collecting data from departments to be finalized and there are still departments that have not completed the data for their KPIs" (KPI Secretariat TQS)

It is predicted that loose coupling will take place in LGO even at its early implementation of KPIs. LGO has been exercising

AWT for a very long time and it has already been legitimized in the organization. The use of AWT was found to have become decoupled in LGO; it has become shared values among the organizational members. In other words, AWT has been-institutionalised. Figure 4 shows the institutionalization stage of KPIs in LGO.

LGO has initiated the implementation of KPIs to redesign and improvise the service delivery, to reframe the performance measurement system, and to reorganize the human resource capacity. However, the development and implementation of KPIs were found to be practiced as a complementary tool to the current PMS; AWT. Therefore, LGO is most likely to regain legitimacy in developing and implementing KPIs. KPI is still new to LGO whereas AWT has already in the third stage of institutionalization. Overall, though few departments have already implemented KPIs, it can be concluded that the majority of the departments were still in the earlier stage of institutionalization. The study found that the KPI development and implementation were still at its infancy stage.

CHALLENGES IN DEVELOPING AND IMPLEMENTING KPIs IN LGO

LGO faced some challenges in developing and implementing the KPIs. The challenges which have always become obstacles in developing and implementing KPIs include fear of measurement and new systems, lack of common definition and terms, lack of understanding, visions and strategies poorly defined and understood, not actionable, not linked to individual actions, and no performance targets, or the performance indicators were set too high or low. During the first phase of developing KPIs, TQS had problems in collecting data from departments and divisions. Even though some departments had converted their AWT, TQS had problems in monitoring the development progress of the other departments.

"It is difficult to choose the indicators because we don't want the unattainable indicators and hard to achieve. If we cannot achieve, it will affect ourselves since we will be assessed and have to answer to the management. We have to submit reports to explain why we could not achieve. We have to see whether these KPIs can fulfill our promise to the organization. We don't want to play safe to develop this KPI" (KPI Secretariat)

"The indicators must be achievable, measurable, satisfy the organization's objectives, and deliver a good quality of services to the customers. I think these four aspects are the most crucial to set the indicators. For example, if we were to collect 100% of tax revenue, that one is not achievable. If we put 90% of tax revenue collection, that one is achievable for our department" (Head, Revenue and Management Division)

There was a lack of integration between TQS and Department of ICT in terms of uploading the indicators in the database system. The measures for KPIs were supposed can be amended and flexible where it could be changed from the year to year if it is found not to be effective anymore. However, the database system did not allow such changes to be made by departments. Once the indicators are set to the system, it cannot be amended and became a static measure. The computerized system was also found to be still in its trial period and needed further enhancement.

Apart from that, it was found that there was slow progress in meeting the submission deadline of KPIs' data to TQS for verification purposes. To overcome this problem, TQS had conducted a monthly meeting with all departments to acquire reports, results, and feedbacks. The objective of the meetings was to monitor and assess the progress and performance of each department in completing the KPI implementaion. Confirming the importance of meetings, the highlighted:
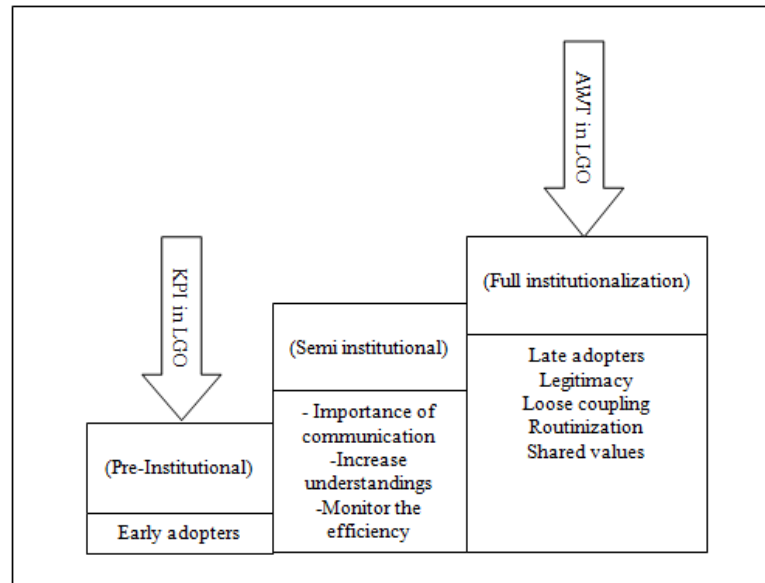
Figure 4
Stage of Completion and Institutionalization Process of KPIs'
Development and Implementation in LGO

"It is very important within the organization and with other outside agencies. That's really necessary otherwise our development plan cannot be approved in the short period of time. If it takes a long time, the development will be slow" (Deputy Mayor, LGO)

"In the monthly meeting, I will ask about the achievements of all the units in the department. We will monitor their performance" (Director, Internal Audit and Public Complaint Division)

"We have our mechanism. We have a monthly meeting at the department level. Let say today I want to brief about KPI for our department, then we use this opportunity to spread the info" (Head Unit, Department of Law)

On the other hand, the participation of top management is also a key to a fast-growing development and implementation of new innovation. During the year of study, LGO has a change in leadership where a new Mayor was appointed. The development and implementation of KPIs were delayed and TQS efforts were not fully supported to materialize the full effect of the KPIs. The finding is supported by a study done

Albert et al. (2018) where they conducted a similar study in Ghana's LG; they found that the PMS was not effective because of poor communication, poor integration, and low commitment by the top officials. As a result, it creates an internal conflict between the new top management and TQS. Another study done by Jin et al. (2016), mentioned that active engagement had a greater association with job satisfaction when leader involvement was high. As at the exit point of the study, the KPI system so far has yet to be officially launched in the organization.

The study revealed that the KPIs were used on a trial basis during the first year of implementation throughout the organization. Currently, LGO is using both systems i.e. the AWT and the KPIs. Most of the organizational members of LGO were not aware of the implementation of KPIs in the departments. As a result, there was a resistance to change to the new PMS. This resistance was a covert resistance when employees were expressing dissatisfactions among themselves. Some of the organizational members were doubtful about implementing KPIs. The finding is consistent with Siti Mardinah et al.

(2016) where they reported the existence of barriers in the implementation of PMS in Sarawak's LGs. Among the barriers were lacks of knowledge among the employees, lack of resources, impractical and complex PMS exercised in the organization. Such new PMS to be developed in LGO should be compatible with the attitudes and skills of the employees (Tello et al. 2010). It is a part of the organizational learning where this new PMS ought to be adopted throughout the organization.

The AWT was still the dominant PMS in LGO and remains intact despite the attempt to bring changes to the existing PMS. Thus the KPIs were seen as a redundancy to the AWT. Similar performance reports needed to be submitted and as suggested by Otley (2009), it was a mere practice of putting "new wine in the old bottle". For both AWT and KPI, LGO used similar reporting process, which added more paper works for the managers. Despite having individual responsibilities, the additional administrative works became a burden for them in the two reports contained similar information. Another study conducted by Srimai et al. (2013) proposed to retain one PMS per organization to a avoid conflicting and overlapping tasks. The redundancy can be eliminated if the top management is aware of and realize that both PMSs are providing similar functions. KPI's might be used for the ceremonial purpose only to give a good image to the public, to raise confidence, as well as to increase the expectations of the public.

CONCLUSION

In conclusion, the evolution of the Performance Management System (PMS) in LGO was in tandem with the directions of government through its Government Transformation Programme (GTP) and it was still at its infancy stage. Although LGO has adopted the new PMS, the old PMS; Annual Work Target (AWT) was still the dominant PMS. It was found that

LGO used similar guideline from AWT to set the performance measure and targets. Standard Operating Procedures (SOP), client charter, ISO, and Ministry of Housing and Local Government (MHLG) instructions were used as a basis to develop the indicators. It was found that Key Performance Indicators (KPIs) has limited roles as a secondary and thus complement the existing system. All isomorphism forces were found to explain how LGO was coerced to implement the new PMS in the organization through GTP with KPIs were strategically based and AWT was operational based measures.

During the development process of KPIs, LGO had made decisions to reform its vision and mission so that the KPIs were more objectives. The results and findings confirm with the previous study (Rusdi 2011; Ashworth et al. 2007; Nor Aziah and Scapens 2007; Norhayati and Siti Nabiha 2009). Most interviewees agreed that the implementation of KPIs to be redundant with the functions of AWT. LGO was still using both PMS without eliminating the AWT. As a result, interviewees complained that there was a significant increase in works of processing and reporting the LGO performance. The term 'KPIs' used was probably to attract public attention to the private practice adopted in LGO. LGO has been using KPIs as complementary tools to the AWT.

This study has faced several limitations. First, this study was focusing on one LG, thus generalization of findings to other LGs is limited. Different LGs may have a different way of management and administration depending on which States they are located in Malaysia. Secondly, the implication of the implementation of KPIs in LGO could not be investigated. It was found that the implementation of KPIs has yet to be completed and still at the development stage. Therefore, the impacts of the KPIs system to LGO could not be fully studied.

Nevertheless, this study contributes to future research in a number of ways. Firstly, future researchers can use other research methods in collecting data on the same topic and interests such as the questionnaire. It is important to understand the factors that affect the features and contents of KPIs in LGO, and the relationship between these factors, practices and its environment. The survey can be distributed to the organizational members to analyze the internal and external environment of LGO, features and contents of its KPIs in terms of its transparency and correctness of the process. Secondly, studies may be carried out on a national basis. Several public sector organizations can be selected in order to explore the process of developing and implementing KPIs using the same theory.

This study is expected to contribute to the NIS by analyzing the process of KPIs development and implementation and how it gained its legitimacy in the institutional setting of LGO. The theory has proven its usefulness in explaining aspects of changes in PMS within organizations. The case study reveals that the implementation of KPIs in LGO can be used as a practical tool. The LGO now has to decide whether KPIs act as a substitute or as a complementary tool to AWT. Institutional theory has been employed successfully in the study to analyze the findings. This study contributes to the literature by illuminating how the KPIs was initiated, translated into practice and institutionalized (pre-institutional) in an organization.

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