EFFECTIVE IMPLEMENTATION OF THE BALANCED SCORECARD IN THE SARAWAK PUBLIC SECTOR:
A CASE STUDY ON SARAWAK STATE TREASURY DEPARTMENT

Sharifah Rodziah Binti Sayeed Aman Ghazali

Corporate Master in Business Administration
2013
EFFECTIVE IMPLEMENTATION OF THE BALANCED SCORECARD IN THE SARAWAK PUBLIC SECTOR: A CASE STUDY ON SARAWAK STATE TREASURY DEPARTMENT

SHARIFAH RODZIAH BT. SAYEED AMAN GHAZALI

A dissertation submitted in partial fulfillment of the requirements for the degree of Corporate Master in Business Administration

Faculty of Economics and Business
UNIVERSITI MALAYSIA SARAWAK
2013
I would first like to thank God the Almighty for giving me strength and wisdom to work towards achieving my goal. Compiling this dissertation would not have been a reality if it is not for the kind support and encouragement of people close to me.

- My full appreciation to my parents, Haji Sayeed Aman Ghazali and Hajah Sharifah Mordiah for your patience, understanding, moral support and for making it possible for me to be where I am today. To my wonderful children, Zahra, Farah and Ali for your love and understanding. Thanks to all those who have had great influence in my life in general.

- My deep gratitude to my supervisor, Dr Harry Entebang, for shaping my thinking and giving me direction when it mattered most. It has been a pleasure brainstorming ideas with you and making me understand the research process.

- I would like to convey my appreciation to Encik Jumastapha Bin Lamat, the Accountant General for granting me the permission to conduct my research within the department and acknowledge the contribution by the accountants and other employees in the Sarawak State Treasury Department.
This paper aims to examine the use of the balanced scorecard (BSC) as a performance management tool in the Sarawak public sector, drawing on the Sarawak State Treasury Department as a case study. It seeks to identify issues and challenges, critical success factor, impact on the agency in implementing the BSC and the linkage between Corporate Governance. Content Analysis and the MAXQDA 11 software are being utilised to analyse the research data. The data are from two sources, the interviews and JPNS’s records and documentation on the agency’s BSC. The findings reveal perceived BSC utility as performance measurement, reporting and performance management role. This study identifies users' perceptions of the key challenges, critical success factors, impact on the agency's performance and service delivery, benefits of BSC and highlights their significance for both practice and theory. It adds to prior studies by specifically examining the factors that support and impede the effective implementation of the BSC in public sector contexts. BSC had made the agency as a strategy focus organisation driven by the top management support and commitment, effective communication, system support and comprehensive quality structure which saw improvement in performance and effective service delivery.

Keywords: Balanced Scorecard, public sector, performance management, critical success factors, issues, corporate governance.
### ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Abbreviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNIM</td>
<td>Biographic Narrative Interpretive Method</td>
</tr>
<tr>
<td>BOS</td>
<td>Board of Survey</td>
</tr>
<tr>
<td>BSC</td>
<td>Balanced Scorecard</td>
</tr>
<tr>
<td>CG</td>
<td>Corporate Governance</td>
</tr>
<tr>
<td>GTP</td>
<td>Government Transformation Programme</td>
</tr>
<tr>
<td>JPNS</td>
<td>Jabatan Perbendaharaan Negeri Sarawak (Sarawak State Treasury Department)</td>
</tr>
<tr>
<td>KPIs</td>
<td>Key Performance Indicators</td>
</tr>
<tr>
<td>LGOs</td>
<td>Local Government Organisations</td>
</tr>
<tr>
<td>MAXQDA</td>
<td>Max Qualitative Data Analysis</td>
</tr>
<tr>
<td>MyCompas</td>
<td>My Corporate Objective Management and Performance Analysis Scoring System</td>
</tr>
<tr>
<td>RS</td>
<td>Receipting System</td>
</tr>
<tr>
<td>SAINS</td>
<td>Sarawak Information System Sdn Bhd</td>
</tr>
<tr>
<td>SPS</td>
<td>State Payroll System</td>
</tr>
<tr>
<td>SST</td>
<td>State Sales Tax</td>
</tr>
<tr>
<td>VCMS</td>
<td>Voucher and Cheque Management System</td>
</tr>
</tbody>
</table>
CONTENTS
Title i
Acknowledgements ii
Abstract iii
Acronyms iv - vi
Table of Contents

CHAPTER 1: INTRODUCTION
1.0 Background 1-6
1.1 Problem Statement 6
1.2 The Research Questions 7
1.3 Objectives of the Study 7
1.4 Definition of Terms
   1.4.1 Effective Implementation 8
   1.4.2 Public sector 8
   1.4.3 The Balanced Scorecard 9
   1.4.4 Performance Management 9
   1.4.5 Service delivery 10
   1.4.6 Content analysis 10
1.5 Theoretical Framework 11-12
1.6 Significance of the Study 12
1.7 Scope and Application 13
1.8 Expected Contribution to Knowledge 13
1.9 Constraints 13

CHAPTER 2: LITERATURE REVIEWS
2.0 Introduction 14-20
2.1 General Information on State Treasury Department 21
2.2 State Civil Service Transformation Plan 22
2.3 Balanced Scorecard
   2.3.1 The Learning and Growth Perspective 24
   2.3.2 The Internal Process Perspective 24
   2.3.3 The Customer Perspective 25
   2.3.4 The Financial Perspective 25
CHAPTER 3: RESEARCH METHODOLOGY

3.0 Introduction
3.1 Research Design
3.2 Reliability and Validity of Using Content Analysis for Qualitative Data
3.3 Collecting Qualitative Data
3.4 Conclusion

CHAPTER 4: FINDINGS AND DISCUSSION

4.0 Introduction
4.1 Findings
4.1.1 Implementation Process
4.1.2 JPNS's Corporate Strategy Map
4.1.3 Performance Management System
4.1.4 The Issues and Challenges of BSC
  4.1.4.1 Creating Awareness
  4.1.4.2 System
  4.1.4.3 Resources
4.1.5 Success Factors of Implementing BSC
  4.1.5.1 Top Management Support and Commitment
  4.1.5.2 Effective Communication
  4.1.5.3 System Support
  4.1.5.4 Comprehensive Quality Structure
4.1.6 Benefits of BSC on JPNS
  4.1.6.1 Strategy Focused Organisation
  4.1.6.2 Performance Measured and Achievement Substantiated
4.1.7 Impact on JPNS Performance 66 - 67
4.1.8 The Linkage Between Corporate Governance and BSC 68
4.1.9 Individual Scorecard 68 - 69
4.2 Discussion 70 - 74
4.3 Conclusion 75

CHAPTER 5: CONCLUSION, LIMITATION AND FUTURE RESEARCH
5.0 Introduction 76
5.1 Conclusion 77 - 80
5.2 Concluding Remarks 81
5.3 Study Limitations 81 - 82
5.4 Future Research 82

LIST OF REFERENCES

APPENDIX (S)
Appendix 1 – JPNS’s Letter of Permission to Gather Data
Appendix 2 – BSC Achievement 2012 (as at June )

LIST OF FIGURES
Figure 1 : Schematic Diagram of the Research Theoretical Framework 11
Figure 2 : SCS 10-20 Transformation Plan 22
Figure 3 : The Basic Four BSC Perspective 23
Figure 4 : The BSC Implementation Process in JPNS 44
Figure 5 : The JPNS Corporate Strategy Map 45
Figure 6 : The Snapshot of MyCompass 53
Figure 7 : The Detail Report Produced from MyCompass 62
Figure 8 : JPNS Quality Structure 63

LIST OF TABLES
Table 1 : Major Theme and the Sub-themes 41
Table 2 : JPNS’s Corporate Scorecard Measurements 47 - 49
Table 3 : List of e-Treasury Projects by JPNS 50
Table 4 : List of Accountable for Reaching the Targets in 2012 57
Table 5 : List of Accountable for Reporting in 2012 58
Table 6 : List of Awards and Recognitions Awarded to JPNS’s since the Implementation of BSC 67
1.0 Background

The reforms in the public sector over the last decade predominantly focus on customers (Aberbach & Christensen, 2005). Barzelay, (2001); Hood, (1991); Lane, (2000); Peters, (1997), highlighted the various approaches to reforms by the government sectors among others through privatization, decentralization and management of results. These reforms happened under New Public Management (NPM) (Aucoin 1990; Hood 1991) which increases efficiency and effectiveness in aim at creating excellent organisation. A few researchs (e.g. Brown, Waterhouse & Flynn, 2003; Kouzmin, Leivesley & Korac-Kakabadse, 1997; Vickers and Kouzmin, 2001) however, argued that NPM did not take into account the distinctive features or characteristics of the public sector.

Hoque, (2005) believed that to ensure the success of public sector’s organisation, it should use a broder-based information system which promotes performance of activities rather than financial measure alone. Chan (2004) suggested that Balanced Scorecard (hereafter BSC) can be the essential tool for the public sector’s organisation transformation process and this is being validated by those whose had implemented BSC in their organisation.
Indeed, there is growing evidence on BSC suitability for application in the not-for-profit sector, especially the government sector (see, for example, Atkinson & McCrindell, 1997; Irwin, 2002; Kloot & Martin, 2000; Silk, 1998). The BSC fulfilled the requirement of many public sector organisations which need to look at performance from many objectives and stakeholders. With BSC’s focus on key performance indicators (KPIs), the management can focus on the important measurements that drive the organisation performance by linking these KPIs in causal relationships with desired result. This will also provide information for better performance management. The BSC has a twofold potential: first, to become a measurement instrument to guide performance in public administration and second, to enhance democratic accountability and responsibility which can improve the public agencies performance.

BSC applications in the public sector had not been studied by many researchers (Yeung and Connell, 2006); (Greatbanks and Tapp, 2007). Studies had shown that the level of success BSC use in public sector varies (Niven, 2005, 2006). Further, the success or failure factors in the public sector have not been well examined eventhough a few studies have identified factors that practitioners perceive as critical to the successful implementation of public sector BSCs, or see as resulting in unsuccessful or non-implementation (e.g. Radnor and Lovell, 2003; Chan, 2004; Yeung and Connell, 2006). Success factors include: the support of top management; employee acceptance; clear organisational strategy and goals; sufficient training; focus on excellent performance; a simple BSC; links to rewards system; and sufficient resourcing.
Even when the potential use of the BSC in the public sector applications is obvious, still there are very few empirical literature available particularly, on the issues and challenges that exist in public sector BSC implementation. This paper reports an empirical study of BSC use in the context of Sarawak public sector by having State Treasury Department (JPNS) as the case study.

There had been some experiment on the use of the BSC in government which limited to developed countries like Sweden, Australia, the United Kingdom, and New Zealand. In United Kingdom, study by McAdam and Walker (2003) found that the BSC implementation was promising. The good outcome was attributed to the flexibility in developing and implementing the simple scorecards, staffs involvement and reviews of core processes. The study also showed that BSC measurements system, poor measures, and overly simplified conceptualization of customer needs had hampered the implementation process.

As for the case in Sweden, The study by Elefalk, Carmona and Grönlund discussed how the use of BSC helped the Swedish National Police Board to improve the use of resources by focusing on core functions, develop performance measurements and avoid focusing on figures. However, the aggregate and omissions in the measurements had affected the effectiveness of the measurement concerned such as community policing and crime prevention.
For New Zealand, the research by Griffiths was done where stakeholders and leadership quadrants were included. It was noted that the different quadrants/perspectives were not causally linked. This had led to BSC could not provide a valuable function in organisations at different life cycles. In less matured organisations, the BSC could improve the transparency and accountability for these organisations' operation and function as "a strategy development process" substitute. The study further disclosed the issues of non existence of cause and effect relationships and the importance of increasing accountability and data disclosure.

In Australia, research in seven local councils by Kloot and Martin found that when there is a linkage between strategic planning and performance measurement, the overall operations of the councils are improved through efficiency and effectiveness. They found that besides good information, appropriate indicators, community involvement, and an open organisational culture, process measures and innovation strategies, were essential to successful reform.

From the experience of the developed countries mentioned earlier, it is evident that BSC implementation had led to better strategic planning, improve analysis, and broad participation. The development of measurements, reliable data and staff participation is essential. Those which have been successful in implementing BSC, are more objective, developed organisations with sophisticated bureaucracies. However, the implementation process of BSC in the developing countries would pose a different launching points, challenge and contexts.
In Malaysia, there are also a few studies being done in relation to the use, application or adoption of performance measurement in public sectors particularly in Sarawak public sector. Rozhan Othman et al (2004) had done study on the limitations faced by a Malaysian telecommunication company in implementing BSC, another by Nagarajah Lee (2006) on the performance evaluation of Malaysia public schools and several articles by Ruzita, Daing Nasir and Yusserie (2006, 2007) BSC usage in Malaysian manufacturing firms.

The era of globalisation and the knowledge economy brought into focus the importance of Sarawak positioning itself in the international arena. This necessitates a major paradigm shift in the way the civil servants think and in the way they conduct their day-to-day operations and functions. The State Civil Service recognises that it has to play a major role in the fuelling of changes in society and hence, it adopted a set of values that supported change and growth, enabling adjustment and modification of thinking, approach and the shift in paradigm.

Quality is the cornerstone of the Sarawak Civil Service to inculcate a quality mindset among the civil servants. This quality mindset and practices is now being raised higher when the Sarawak Civil Service started to make a push towards a Creative, Innovative and Quality organisation Development Synergy. BSC is one of the quality initiatives being implemented.
JPNS is one of the pioneers to implement the BSC in 2003 and the only one successful to date and the move by the State authority to implement BSC throughout the state agencies in 2012 as an initiative to support the state 10 year State Civil Service (SCS) transformation plan inspired by YB Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani, the State Secretary, makes it more relevant for the study to be conducted.

1.1 Problem Statement

In the era of globalisation and the demand for a more transparency and accountability, most governments have adopted some sort of performance measurement. Niven (2002), however, found that the adoption and application of performance measurement has been much less than comprehensive. The Malaysian Government Transformation Programme (GTP), calls for big, fast results, requiring a change in the approach, pace and skills for the implementation of key initiatives. In this scenario, our Public Service officers need to appreciate the rising expectations and aspirations of citizens. The Sarawak Government had taken the initiative to implement BSC in 2003 but out of four agencies chosen, only the State Treasury Department (JPNS) had been successful. In 2012, the State Government had issued a circular to make it a compulsory for all state government agencies to make use of the BSC. Thus the purpose of this study is to evaluate the impact of the BSC on JPNS and how this relationship will influence the department’s performance management and service delivery.
1.2 The Research Questions:

In this study the research questions will be used to unveil the process of implementation of BSC in JPNS, the issues, the critical success factors and impact of BSC on their performance and identify linkage between BSC and Corporate Governance (CG).

1.3 Objectives of the Study

a. To identify the key success factors of BSC implementation in JPNS;
   This objective would seek to look at the various aspect of factors may it be internally or externally.

b. To identify issues faced by the JPNS in implementing BSC;
   This objective should give some hindsight on the problems or obstacles faced by JPNS, and how they are being addressed.

c. To come up with a report as a reference for the department’s management, State authority and agencies on the impact of the BSC implementation.
   This objective is more exploratory in establishing whether there is a relationship between the implementation of BSC and the performance and service delivery.
1.4 Definition of Terms

1.4.1 Effective implementation.

Implementation refers to the specific actions needed to implement an initiative. Effective implementation is where the desired results on or within the stipulated period and allocation. This can often determine whether an initiative can be successful. For instance, a superior quality strategy without an effective implementation plan, would result in the strategy remaining only as strategy.

1.4.2 Public sector

It refers to the sector of the economy that provide basic government services. Even though the public sector composition varies by country, but in most countries the public sector includes such services as the police, army, basic utilities, public transportation, basic education and healthcare for the poor. The services provided benefit all of society rather than just the individual who uses the service (such as public education), and services that encourage equal opportunity.
1.4.3 The Balanced Scorecard

BSC is a strategic planning tool developed by Kaplan and Norton (1996) as a response to the assumption that organisations only exist to satisfy stockholders (Kaplan & Norton, 1992). It is based on a four perspectives, where each perspective represents a different set of stakeholders: Learning and Growth; Internal Business Processes; Customers; and Finance. It enables organisation to align its strategies to achieve the objective, mission and vision of the organisation. The measurements of the Key Performance Indicators (KPIs) will help the organisation to evaluate the performance and identify the required resources to be allocated. The information gathered enhanced performance management thus will lead better performance with the desire results achieved and consequently, shareholder satisfaction. The success of BSC had attracted various studies on its adoption, application, issues and contributing factors to its success or failure not only in the private sector but also the public sector.

1.4.4 Performance Management

It allows an organisation to evaluate the its performance in achieving its strategic objectives and effective service delivery. Performance management takes into consideration both the financial based measures like costs involved in producing product/services and also the non-financial performance measures, including those relating to efficiency and effectiveness of service delivery.
1.4.5 Service delivery

It is about providing service in effective manner with the intention to meet customer expectation and satisfaction. It comprises of capability, people first, process and procedure second, customer and internal organisation.

1.4.6 Content analysis

Content analysis has been defined as a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding (Berelson, 1952; GAO, 1996; Krippendorff, 1980; and Weber, 1990). Holsti (1969) expand the definition where specific characteristics of the message are identified objectively and systematically. This technique of content analysis may be applied to other areas such as coding student drawings (Wheelock, Haney, & Bebell, 2000), or coding of actions observed in videotaped studies (Stigler, Gonzales, Kawanaka, Knoll, & Serrano, 1999). The technique can only be replicated to durable data.
1.5 Theoretical Framework

This study is a systematic examination of the extent to which the development, adoption process/update and implementation of BSC as performance measurement system in JPNS are affecting their performance based on four perspectives namely, Financial, Customer, Internal Process and Learning and Growth and how these impact, influence the performance management and the service delivery as shown in Figure 1 below.

Figure 1: Schematic Diagram of the Research Theoretical Framework
Through the proposed framework above, this study will attempt to answer the research questions stated earlier in chapter 1 from various stages starting from design, implementation, use and lastly, effectiveness. It envisages that an aligned structure/design of performance measurement system will increase the extent of sustainability of reporting and use of the results of the performance measurement. The study will also investigate the effects of the BSC on the performance management and service delivery of JPNS.

This study is done thru secondary data from the agency documentation on BSC and in-depth interviews where the outcomes to be analysed using content analysis. The interview transcripts will be processed using MAXQDA 11 software. MAXQDA 11 is the latest version of MAXQDA software program which was developed to analyse computer-assisted qualitative data, text and multimedia analysis in academic, scientific, and business institutions.

1.6 Significance of the Study

This study will be as a reference and guideline for the JPNS management and other State agencies as to date there is no published research on the implementation of BSC in the Sarawak Public Sector. The outcome of this study will further provide guideline to the other state agencies in implementing BSC effectively in the effort of providing effective service delivery. It will also assist the relevant report users to plan and identify the relevant training program for their staff.
1.7 Scope and Application

This study applies to all Sarawak Government agencies, with the exception of Government Owned Corporations. It provides reference on BSC implementation in JPNS to assist other state agencies when undertaking planning, resource management and performance management, monitoring and reporting activities. It should help to encourage better practice and establish a common language, making it easier to integrate performance information between the implementing agencies in the state.

1.8 Expected Contribution to Knowledge

The outcome of this study can be used to contribute to the current theories and debates on the mainstreaming and institutionalising of public service delivery to determine organisational performance by government institutions in Sarawak and Malaysia as a whole.

1.9 Constraints

As this investigation is based on a case study, generalisation of the result is restricted, due to the small sample size. Future research may replicate the study with extended sample size comprising of the State ministries, departments and agencies that started implementing BSC in 2012.
CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

For several decades, performance measurement has been used as an internal informational tool to evaluate departmental operations and make program and budgetary decisions (Ho and Ni, 2005). The importance of performance measurement has grown and various studies had been conducted on new public management (NPM), benchmarking and balanced scorecards. This indicated that the managers in the public sector organisations are under pressure to enhance performance to remain viable in today’s competitive and globally operating environment.

The literature on organisation development and strategic change suggests that a well planned design of performance management and reporting program can have positive organisational outcomes. But many traditional performance measurement programs are not sustainable as the installation was without adequate diagnosis of the situational factors (Lawler 1986; Lawler et al, 1995). Thus it is imperative that the program must take into account the whole organisation in term of strategy, structure and socio-political factors where BSC approach is being utilised (Kaplan and Norton 1996; 2001).
The first generation BSC focus primarily on the KPIs of the organisation both the financial and non-financial measurements short term or long term (Kaplan and Norton, 1992; Kaplan and Norton, 1996a). It further developed as a strategy communication and implementation tool where linkages between the strategy and operations through causal effect relationship between the four perspectives and the measurements are established. As third generation BSC, the focus is to drive change and described as a management strategy.

The initial study on BSC primarily focus on the implementation of BSC specifically looking at the architecture of BSC design and implementation references (e.g. Ahn, 2001; Butler et al., 1997; Lohman et al., 2004; Papalexandris et al., 2004; Papalexandris et al., 2005) and the experience of application (e.g. Ahn, 2001; Kaplan and Norton, 2001b, 2001c; Malmi, 2001; Mooraj et al., 1999; Papalexandris et al., 2004). The conceptual development has led to various interpretations and uses of BSCs (Braam and Nijssen, 2004).

Previous studies on the implementation of BSC, found various methodological approaches had been established (Papalexandris et al., 2005). Chenhall (2005) mentioned that there are little studies to support adoption and effect of BSC on desired organisational outcomes which called for more studies on the subject matter (Braam and Nijssen, 2004; Ittner and Larcker, 1998; 2001; Ittner et al., 2003; Malina and Selto, 2001). However, most of the available empirical BSC literature are on the private sector adoption (e.g. McCunn, 1998; Hoque and James, 2000; Ahn, 2001; Williams, 2001; Lipe and Salterio, 2002; Davis and Albright, 2004).
There are fewer studies on BSC applications in the public sector (Yeung and Connell, 2006; Greatbanks and Tapp, 2007). Nevertheless, recent study showed that the level of success in implementing BSC in the public sector varies Niven, (2005, 2006). However there are also lack of studies in identifying the critical success or failure factors.

Radnor and Lovell, 2003; Chan, 2004; Yeung and Connell, 2006, are among the researchers that had identified the perceived critical success factors by the those whose organisations had successfully implemented BSC. Among the factors identified are: top management support and commitment; acceptance by the organisation staffs; focus on excellence performance; relevant and sufficient training; a simple scorecards; clear organisational strategy and goals; links to incentive schemes; and sufficient resources.

And as for the main reasons for failure, lack of top management support, insufficient information systems, insufficient time frame while the contributing factors are not being tied up to incentives, poor choice of KPIs and non acceptance by staffs. The factor identified are however not specific as those factors are also applicable in the private sector. Thus further study needed to fill the information gap on the reasons mentioned above that tie-up BSC implementation in the public sector.