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**ISSUES AND CHALLENGES OF PERFORMANCE**  
**MEASUREMENT PRACTICE**

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*Abstract*

It has been argued that the use of performance measurement through the development of key performance indicators is a vital element for the successful operation of services offered by local government, especially in improving the quality of service. However, research has shown that the use of a performance measurement system, especially in developing countries, has not achieved its intended outcome. Hence, there is a need to examine the performance measurement system (PMS), with the aim of examining the issues and challenges faced by local authorities, so that the full benefits of the system can be obtained. Therefore, this paper provides some empirical evidence on the implementation issues of the PMS for a local government located in Malaysia. Our findings indicated that there is a disconnect between the strategic initiatives for the local government and its operational objectives, which is in part due to the frequent changes in leaders of the local council. Performance measurement and management at the strategic level is, for the most part, driven by emerging legislation and the need for reporting and compliance, rather than improving service effectiveness.

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**Keywords:** Performance measurement, local government.



## **1. Introduction**

### **1.1. Purpose of Study**

The purpose of the paper is to study the use of performance measurement system (PMS) of a local government located in Malaysia. The paper attempts to provide empirical evidence on the challenges and implementation issues of ALPHA where it is argued that the use of PMS has not achieved its intended outcome, hence local government is not benefitting from the system.

### **1.2. Problem Statement**

It has been argued that the implementation of performance measurement with the use of key performance indicators is an important element for the successful operation of local government, especially in improving its quality of service. Key performance indicators (KPIs) are measures of performance that help organisations to define and measure progress towards organisational goals. It “represents a set of measures focusing on [the] aspects of organizational performance that are the most critical for the current and future success of [the] organization” (Parmenter, 2007, p.3). Cox, Issa, and Ahrens (2003) noted that the KPIs are helpful in comparing actual and estimated performance in terms of effectiveness, efficiency, and quality of both workmanship and product. On the other hand, Toor and Ogunlana (2009) maintained that performance measurement can be achieved by determining KPIs, which offer objective criteria to measure the success of an activity. However, research has shown that the use of a PMS, especially in developing countries, has not achieved its intended outcome. Jurnal and Siti-Nabiha (2015), in their review of the PMS in Indonesia, suggested that the problematic issues of the PMS are related to poor public accountability among the local authorities. Hence, there is a need to examine the PMS, with the aim of examining the issues and challenges faced by local government, so that the full benefits of the system can be attained. Therefore, this paper provides some empirical evidence on the implementation issues of the PMS for a local government located in Malaysia, ALPHA. The data gathered is based on interviews and a documentary review that was conducted in 2017.

### **1.3 Research Question**

The main research question was “how performance measurement system were used in local government, ALPHA?”

### **1.4. Research Methods**

To answer the above research question, this study used explanatory case study method to gain in-depth understanding of the PMS practice at a local government, ALPHA in Malaysia. ALPHA has been implementing performance management system and was ranked 5-star in year 2016 through The Star Rating System (SSR), introduced by the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) in early 2007. The data was collected through interviews, document reviews and informal conversations made during research visits from December 2016 to March 2017.

## 2. Public Sector Performance Measurement System

There is rich literature on performance measurement and management in for-profit organisations (Collier, 2005; Hyvonen, 2007; Tuomela, 2005) and public sector organisations (Brignall & Modell, 2000; Kloot & Martin, 2000; Cavalluzzo & Ittner, 2004; Silva & Ferreira, 2010; Spekle & Verbeeten, 2014; Sutheewasinnon, Hoque & Nyamori, 2016). Among the propagated performance management tools is the balanced scorecard, which seeks to cascade key performance measures and targets from the top level down to the individuals (Kaplan & Norton, 1996; 2001). The ultimate aim of the concept of a balanced scorecard is to align individuals' goals with organisational goals through an integrated approach of managing performance.

Performance measurement is also important for the public sector, especially for local government, as its performance mirrors the element of public accountability. In order to improve the performance of local government, the Malaysian government launched several performance measurement indicators, such as KPIs, a star-rating system (SRS) and key result areas (KRAs). These indicators were expected to improve the performance of public agencies, shortening service delivery times, increasing customer satisfaction and improving service quality (Siti-Nabiha, 2010). However, the performance of public agencies is still subject to criticism and complaints, as most fail to deliver quality service to the public (Ibrahim & Abd Karim, 2004).

Hoque (2008) suggested that the design and reporting process of performance measurement in the public sector is crucial and relevant, with increased community demand on quality services. In satisfying the public or customer, the performance indicators used by local authorities include service delivery quality, public complaints, community development, solid waste management, public cleansing, basic amenities, community health, landscaping and street lighting. Previously, neither rewards nor punishments resulted for agencies meeting or failing to meet performance indices (Siti-Nabiha, 2008), but later the SRS was used by the governmental ministry to rank the local authorities, with the ranking results being made public.

Much empirical research has highlighted the importance of the PMS and its role in achieving organisational objectives (Chenhall & Euske, 2007; Ferreira & Otley, 2009; Kallunki, Laitinen & Silvola, 2011; Riccaboni & Leone, 2010; Sofyani, Akbar & Ferrer, 2018). Spekle and Verbeeten (2014) also found that exploratory use of the PMS tends to enhance performance in public sector organisations. Contrary to their expectation, the positive effect appears to exist independently of the level of contractibility. Their results suggest that public sector managers need not only consider the technical aspects of PMS design, but also how the system is used. Hence, their evidence indicates that both alignment with the activities of the organisation and the way the PMS is used significantly affect organisational performance in the public sector. However, Sofyani et al. (2018) claimed that despite the significant role of the PMS, its implementation in Indonesia has not achieved the full aim of improving performance and accountability.

A significant issue regarding performance measurement is its use in ensuring strategic implementation. Otley (1999), Ferreira and Otley (2009) and Simons (1995) noted the role of performance measurement as a tool to ensure strategy is implemented.

## **2.1. PMS for Malaysian Local Authorities**

In Malaysia, performance indicators for local authorities were introduced in 2005 through the issuance of Developmental Administrative Circular 2/2005 (DAC2 2/2005) by the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU). The KPIs system was introduced in ALPHA by the MAMPU, i.e. a governmental unit in charge of administrative improvements for public organisations. MAMPU formulated a framework for the use of KPIs introduced through a series of training sessions and meetings with the public sector in Malaysia. KPIs are formulated based on a detailed examination of the process of providing services and the duration of time needed to conduct particular tasks. The issuance of the Developmental Administrative Circular 2/2005 (DAC 2/2005) in 2005 detailed the types of measures to be developed, and also the monitoring and evaluation process to be implemented (DAC 2/2005). The set performance target must take into consideration the following: (1) Process capability, which covers the work flow, the requirements for human resources, finance, equipment, infrastructure and environment appropriate to provide service to customers; (2) Needs, expectations and feedback from customers (DAC2/2005: 5(f)).

The circular required the formation and use of KPIs to improve service, which are mainly process-based measures with the main objective of improving service delivery, i.e. faster service delivery. Hence, the KPI system, with process-based KPIs, would have an impact on operational activity (Siti-Nabiha, 2008; 2010). Subsequently, in 2007, the government implemented a rating system for local government, i.e. the SRS, a mechanism for measuring the performance of public sector agencies using a set of criteria predetermined by MAMPU, together with the relevant parties involved. The Local Authority SRS included in the Prime Minister's Directive No. 1/2009 – Strengthening Malaysia Government Administration Management System Integrity Movement: Establishment of Governance Integrity Committee – led to an output- and outcome-based KPI system. This requires local government to develop strategic planning, as they are required to provide a strategic plan book, draft strategic plan and minutes of meetings in preparing a strategic plan.

## **3. Findings - Managing Performance in Local Government**

The ALPHA municipal council has two distinct systems to manage its performance: operational and strategic PMS. The operational PMS focuses on service delivery, which is operational, and day-to-day activities, which are largely based on DAC2/2005. However, the strategic PMS was for long-term action, and focused more on administrative functions, but is used for documentation and reporting purposes only. For the purpose of the paper, we define “performance” as achieving stakeholders' interest.

### **3.1. The Emphasis on Operational KPIs**

ALPHA has determined their KPIs based on the outputs for all policies, programmes and activities stated in the clients' charter, hence focusing on operational and functional activities as per the DAC2/2005. For example, for operational, day-to-day activities, the KPIs were disclosed in client charter achievement, and were accessible to the public through the council's webpage. These operational KPIs were seen to be

important, as they were monitored and recorded accordingly, with the main purpose of ensuring a complete report for audit and ranking purposes, especially for the ISO auditors and star-rating agency.

The shared values of ALPHA (customer-oriented, excellence, teamwork, fair and equitable, integrity, discipline) were supposed to provide the council with the ability to give priority to the expectations of the stakeholders. However, these measures were never checked and reflected by the stakeholders. The council's implementation of its operational action plan certainly requires full support from all parties, particularly its stakeholders and strategic partners. ALPHA deals with various parties in performing its functions for its customers, comprising individual households, public sector employees, business operators and tourists. Its major stakeholders include the Ministry of Housing and Local Government (at the Federal Government level) and the State Government. In rendering related local authorities' services and developing their districts, ALPHA has teamed up with its partners, other government agencies. Their relationships with ALPHA can help to form a strategic partnership that enables ALPHA to deliver services to its customers. However, the KPIs formulated address ALPHA's functional and operational areas only.

ALPHA has formulated its own vision, mission statement and operational objectives, which were determined to reflect its role and function. The mission of ALPHA is to provide a competitive service through integrity and innovative governance which is loosely linked to operational objectives. Therefore, the operational objectives mentioned are: (a) provide efficient service to the area under its administration, (b) rearrange the distribution of small-scale traders, (c) provide sufficient basic facilities to residents in the council's administration area, (d) have structured and balanced local planning and development, (e) provide social and recreational facilities and beautify the town areas, (f) raise the life quality of people in the council area, (g) conduct socio-economic activities in order to achieve the objective of New Economic Policy.

Prior to using the KPI system, the council had already developed client charters, which informed the public about the delivery times for certain services. Formulation of the client charter for public organisations was initiated through the government directive in 1993 (DAC3/1993 Guidelines on Clients' Charter). With the KPI system in place nowadays, this indirectly leads to transparency, as the target time for each process has been determined in advance, and customers are well informed about the service delivery times on the ALPHA webpage. Customer satisfaction surveys were also conducted by ALPHA to gain their feedback on services provided by the council. The activities of ALPHA are published each quarter in the ALPHA newsletters, and copies are made available for the public.

Every department sets their own KPIs based on their functions. The setting of KPIs and performance targets is based on the circular from the Federal Government. For instance, if the federal circular target regarding the processing time of a certain application is within 7 working days, ALPHA would make it 7 working days, even if they can achieve this in a shorter time than the targeted time. Thus, the KPI targets do not change even when an improvement in performance is shown. Table 01 displays the department, service and corresponding KPIs for ALPHA, which are all operational process-based KPIs, based on the functions of the departments and focusing on time periods for service delivery

**Table 01.** KPIs for ALPHA’s department

Department	No.	KPIs
Treasury	1.	Payment for work and supply within 7 working days
	2.	Ensuring 70% of parking meter is in perfect condition and function throughout the operating life
Corporate and Community Development	3.	Settlement of complaints within 14 working days
	4.	Developing and implementing Local Agenda 21 Programme under the Ministry of Housing & Local Government, twice per year
	5.	Designing and implementing sport programmes, and culture and tourism activities twice per year
Management Services	6.	Ensuring updates to the official website are carried out within 3 working days
	7.	Results of hall and mini stadium rental applications will be communicated to the applicant within 3 working days
Environmental Health	8.	Providing waste transport services in all housing areas 4 times per week
Licencing	9.	License application results will be communicated to the applicant within 1-21 working days
Enforcement	10.	The operation of seizing motorcycles and tyre locking (clamping) motor cars that violate the provisions of the Road Traffic Order will be carried out at least 2 times per week
Valuation and Property Management	11.	Results of the application of lots of vacant premises will be communicated to the applicant within 7 working days
	12.	Decisions regarding estimated tax objection will be communicated to the applicant within 30 working days
Building Control	13.	Processing and issuing the approval letter for Building Plan Application within 37 days of receipt of the application, together with the support of the review of the technical department
Urban Planning	14.	Decisions for Full Planning Permission will be issued within 57 days
Landscape	15.	Beautification of the landscape in the city will take place every 3 months

### 3.2. The Ceremonial Compliance of Strategic Performance Management

The Local Authority SRS included in the Prime Minister’s Directive No. 1/2009 had forced ALPHA to have a strategic plan book, draft strategic plan and minutes of meetings in preparing a strategic plan. In obtaining a rating for such a criterion, ALPHA aimed for a 5-star rating in 2016, after being rated 4-star in 2013.

The strategic planning process for ALPHA started with setting the mission, vision and the motto, inspired by the mayor himself. The vision of ALPHA is to create a viable, competitive and smart municipality, while the mission is to provide competitive first-class service through integrity and innovative governance. The mayor, assisted by the heads of department, then reviewed the key objectives of ALPHA, and formulated strategic action plans, while ensuring there were adequate resources allocated to achieve the targets. The application of strategic planning in ALPHA enables it to (1) identify its strengths, weaknesses, opportunities and threats (SWOT analysis), (2) prioritise plans and control programmes in a clearer and more systematic manner, and (3) fulfil the criterion of the SRS for local authorities.

In order to ensure that the strategic plans are linked to the vision and mission of ALPHA, the strategic plan book not only states the vision and mission statement, but provides strategic objectives, which then cascade into strategic initiatives according to the relevant department. Furthermore, the function, role and stakeholders of ALPHA are clearly identified to ensure that strategic plans are made with these factors in mind. However, some of the strategic initiatives took a longer time to be achieved, as the strategic issues and challenges listed below arose:

- 1) Change the mindset of the people and industrial communities to accept the concept of green and sustainable urbanisation.
- 2) Transform service delivery to be more efficient and competitive.
- 3) Transform the work culture of the staff to be innovative, creative and productive.
- 4) Improve the quality and efficiency of the authorities in performing their daily tasks.
- 5) Satisfy customers and their requirements, constantly improving towards “delighting customers”.
- 6) The cost of maintaining the infrastructure, roads, drains and street lighting is increasing.
- 7) Take advantage of ICT technologies to improve the efficiency of the delivery system.

(Source: Strategic Plan of ALPHA, 2014-2020)

The formulation of the ALPHA strategic plan for 2014–2020 has outlined strategic thrusts, key strategies and a network support strategy, which in turn ensure that the implementation of the action plan develops through a series of strategies and programmes that are appropriate, and expected changes are made. The thrusts outlined in the strategic plan were matched with the strategies, programmes/initiatives, KPIs and the department responsible for the strategy.

The strategic thrusts of ALPHA, included in its recent strategic planning, include sustainable development; improving the cleanliness of the operation; improving the effectiveness of the drainage system and road network; land development; creating a planned, controlled, structured and quality development environment; creating an attractive landscape, planned and with quality; managing human resources in a dynamic way; establishing systems and procedures; strengthening cooperation with other agencies; improving ICT competency among its staff; improving community involvement; and managing finances more effectively.

There is a specific meeting for the discussion of the strategic plan KPIs, which are different from the operational KPIs. During the meeting, all the main thrusts are discussed by all the relevant heads of department. The meeting is chaired by the ALPHA secretary, held once a year, and each thrust is assessed in detail, and reviewed for the whole year’s performance regarding the strategic KPIs. One of the key participants stated: “Strategic plan workshops and the setting of vision and mission – we have all the departments of the directors, heads of departments, including the head of the centre itself. And that leads us to call outside consultants to guide us in preparing the documents. And the main advisor is the mayor himself at that time. That time he will guide what he wants ALPHA to be.” He added: “*No one checks the strategic plan.* But, for Star-rating purposes, there should be one, in a form of book.”

Moreover, ALPHA did not develop their strategic plan based on a medium-term plan, which could then cascade into operational actions and indicators as a yearly plan. The strategic plan for 2014–2020, initiated by the mayor, was eventually discussed and prepared in a workshop with all of the heads of

department. However, the vision and mission of ALPHA, generally inspired by the mayor himself, were not cascaded or translated by the heads of department into operational actions in relation to their department. As most of the heads of department were initially involved in the strategic planning of ALPHA, the operational actions and activities were not tailored to the strategic plan. The heads simply carried out their normal operational tasks, hence the strategic plan was meant only for documentation, and used basically for as a source of reference for the star-rating agency. As claimed by the head of management service department, “*We make this strategic plan as a document only. We do not practice this thing right. So now, if there are departments, we are in more or less 12 departments, each of which has their respective plans. So, if we have our department, management service department, for our strategic plan, there's only one thing. Eh, two. Career development with training. Training is enough eight days a year. Like our KPI, eight days a year.*”

Budget is allocated based on department, not on the process or initiatives outlined in the strategic plan. For example, the allocated fund for the Department of Health and Environment is meant for sub-contract works on public cleansing, as well as solid waste collection and disposal. The process is not linked to any strategic initiative. Even some of the department’s KPIs are not linked to the strategic initiatives. This case highlights that for financial performance, with no integration between the strategic initiatives and operational activities, ALPHA only relies on operational data to measure the performance of each department. Though ALPHA’s website is linked to the Town and Country Planning Department of Peninsular Malaysia, there is no initiative to integrate the measurements used as indicators to measure the minimum standard (for example, Malaysian Urban Indicators Network (MURNInet) is an approach to measuring and assessing the sustainability of cities in Malaysia) of living quality that every city within the country needs to achieve. For ALPHA, there is no integration between strategy and operations, let alone integration across elements of the value chain. Despite such issues, ALPHA was rated 5-star in 2016.

#### **4. Discussion and Conclusion**

The thrusts outlined in ALPHA’s strategic plan of 2014–2020 were matched with the strategies, programmes/initiatives, KPIs and the department responsible for the strategy. The strategic requirement was aligned to issues highlighted by Otley’s (1999) performance management framework, consisting of the formulation of organisational aims and objectives, the strategies to implement and measure the achievement, performance target settings, measurement of effectiveness and efficiency, and information about performance. However, the strategic planning is merely a document, only referred to by the audit team of Star-ratings or ISO documentation. The strategic initiatives were not translated into operational measures, as the implementation only works according to each department’s own KPIs, without referring to the strategic plan.

No attempt was made to operationalise these strategic initiatives. Minimal effort was made to link these formulated strategic objectives with the performance measures, operational objectives and activities, as it was not discussed in any meetings. Thus, while strategic KPIs have been established, strategic plans, the assessment of the quality of performance measurement, and the linkages between performance and strategy were not discussed amongst public officers. Monitoring only occurs at the level of operational KPIs and not at the strategic level. The strategic plan is mainly used for documentation purposes, i.e. Star-



rating, ISO and 5S. Moreover, there is no link between performance achievement, even of the operational KPIs with the organisational reward and appraisal system.

As strategic KPIs should have led to greater focus on meeting strategic objectives and improving management performance through strategic initiatives, it is important for ALPHA to operationalise its strategic plans to ensure that the vision and mission of ALPHA can be achieved. Currently, there is still no clear link between operational and strategic KPIs and ALPHA in vision and mission. This seems to undermine the purpose and role of PMS at ALPHA. We conclude that performance measurement and management at the strategic level is, for the most part, driven by emerging legislation and the need for compliance, rather than improving service effectiveness.

There is a strong need for ALPHA to ensure the achievement of its strategic objectives, as per stakeholders' requirement, and this requires the institutionalisation of the strategic PMS (Verbeeten, 2008), through establishing appropriate strategic link KPIs and integrating these outcome-based measures with strategic planning, target formulation and measurement, and reward and punishment, so as to achieve better public governance and accountability (Jurnali & Siti-Nabiha, 2015).

Another crucial issue that influenced the use of the measurement system relates to changes in the top management of the organisation. The mayor and secretary were appointed on a contract basis, and recently the mayor changed twice within a year. One of the mayors was in position for only three months. With these changes, ALPHA's staff focused only on the operational activities. Cavalluzzo and Ittner (2004) found that senior management commitment, adequate training, and delegation of authority are significant in determining performance. The change in leadership at ALPHA might influence the implementation of its PMS. ALPHA, it could be suggested, is not motivated to perform, nor accountable, especially to the strategic initiatives, as there is no punishment and reward system at the departmental and individual levels. This is consistent with the implementation issues of balanced scorecards studied by Sharma and Gadenne (2011), which concern the difficulties in cascading scorecard measures and issues of leadership (Umashev & Willet, 2008), the employee motivational scheme and training in PMS (Kloot & Martin, 2000), and organisational factors such as top management commitment (Cavalluzzo & Ittner, 2004). The short-term contract basis of a mayor might lead to issues of communication, as effective communication is not just about cascading information, but also concerns gaining commitment and trust for implementation at the lower levels. Umashev and Willet (2008) suggested that to effectively communicate and implement balanced scorecards, the interrelated factors that are the most important include leadership, training, feedback systems and employee empowerment supported by incentive schemes.

To conclude, the ALPHA case illustrates that local government focuses on the external rating system, rather than how the information from the PMS is used to change and improve the quality of service delivered, as aligned with stakeholders' requirement (Kloot & Martin, 2002). The missing link between the indicators and strategic initiatives at the case organisation clearly demonstrates that the external evaluation and rating system relies highly on documentary data, rather than actual practice in the organisation.

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