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A cultural approach of embedding KPIs into organisational practices

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Abstract

Purpose – The purpose of this paper is to discuss the ways in which organisations embedding key performance indicators (KPIs) as part of their organisational activities. Specifically this paper shows the role of cultural change programme in enabling the implementation of KPIs in the context of this study.
Design/methodology/approach – The present study was conducted using ethnographic approach. Consistent with tradition in doing ethnographic studies, observation was the main method employed in this study. Additionally, this study employed interview and document review methods.
Findings – This study concludes that the operation of KPIs in this organisation were made to work through a programme of cultural change. This finding suggests that accounting measurements such as KPIs can be embedded as part of organisational activities through cultural intervention.
Practical implications – This study provides empirical evidence of the actions people do in making performance measurement works in organisations.
Originality/value – This study adds to the limited number of literatures that link culture and performance measurement.

Keywords Performance measurement, Culture, KPIs, Accounting

Paper type Research paper

1. Introduction

Literature in management accounting has for the past decade been concerned with performance management systems. Along with the proliferation of studies in performance management has been the focus on the management accounting tool itself; the most notable one is the balanced scorecard (BSC). The popularity of this invention of Kaplan and Norton (1992) stems from the inherent characteristics of the BSC that offer multiple dimensions of performance that align the organisation's strategy with operational actions. In comparing the BSC with traditional measures of performance, Kaplan and Norton (1992) argued, "The balanced scorecard, on the other hand, is well suited to the kind of organization many companies are trying to become. The scorecard puts strategy and vision, not control, at the center. It establishes goals but assumes that people will adopt whatever behaviors and take whatever actions are necessary to arrive at those goals. The measures are designed to pull people toward the overall vision" (p. 79).

Thus, the importance of the BSC as a comprehensive performance measurement system is essentially based on its capacity to commit the organisational members to a common goal and to the actions that people do to make it work in organisations. It is in this capacity that Chenhall (2005) argued that an integrative performance measurement system such as the BSC would assist an organisation to identify the linkages between, for example customer, manufacturing processes and financial outcomes.

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Nevertheless, studies that were concerned with performance measurement seemed to stay away from discussing the ways in which performance measurements are made to work in organisations. In fact, studies of performance measurement that focus on the uses of performance measurement are rather limited (Dossi and Patelli, 2008). In her reviews, Langfield-Smith (1997, p. 226) noted "the appropriate orientation for examining controls is their use and importance to key decision makers". Nevertheless, empirical studies tend to associate the existence of the measures and their characteristics than explain the uses of the performance measurement system (Langfield-Smith, 1997).

In management accounting, the studies that have enriched our understanding of the behavioural consequences of performance measurement thus far, focus on its unintended consequences. This includes literature that has discussed the resistance to accounting change (Scapens and Roberts, 1993; Granlund, 2001; Siti-Nabiha and Scapens, 2005) as well as literature that is concerned with the relationship between accounting and accountability (Ahrens and Chapman, 2004; Caker, 2007; Roberts, 1990). Such studies have allowed us to appreciate how performance measurement changes the organisational practices and interdependence between practices in an organisation but they were not engaged with the ways in which the organisations embed performance measurement as part of everyday life in organisations.

It is in this line of inquiry that the present study hopes to contribute to the extant literature in performance management. This paper will discuss the ways in which a privatised organisation embeds key performance indicators (KPIs) as part of its organisational activities.

The organisation of this paper is as follows. The next section reviews the relevant literature in performance management followed by research design and the study context. After that, the empirical findings are presented, followed by a discussion and conclusions section.

2. Studies on performance management

In recent years, there has been a commitment towards studying the construction of practices at micro-processual level which shape and are shaped by intra-organisational dynamics (Lounsbury, 2008). However, the extant research in this area, which is predominantly informed by Actor-Network Theory, merely concentrates on highlighting the existence of a network of actors and actants that are involved in the construction of accounting measurements (Ahrens and Chapman, 2007) and not the ways in which these measurements were embedded in the organisational practices.

Interestingly, the studies of performance management seem to follow an emerging trend in the organisational external environment. The reform of public sector that happened across the world in 1980s and the proliferation of accounting innovation in 1980s and 1990s influenced the trend in the study of performance management. This trend has encouraged many researchers to focus their studies on understanding the changing performance management practices in the light of these developments. This is one of the reasons that an abundant literature is noted in the context of organisations that faced organisational change. Studies such as Preston *et al.* (1992), Chua (1995), and Dent (1991), are a few of the many examples in this genre of research.

Following mounting interest in the role of performance measurement in organisational change, efforts have been directed towards understanding how culture was implicated in the process of accounting change in an organisation (Dent, 1991; Bhimani, 2003; Scapens and Robert, 1993; Nor-Aziah and Scapens, 2007). Culture has been widely suggested as a significant influence in everyday practices of an organisation (Pettigrew, 1979). The trace of culture in everyday life of members in a community or an organisation is "transmitted in the distinctive concepts of their language, and adapted to their specific life conditions" (Sahlins, 1995; p. 12). Studies that link culture and performance measurement have shown that performance measurements had shaped the thinking and behaviour of the organisational members but often the performance measurements practices were also being reshaped by the values and meaning people in the context placed on them. Dent (1991) had provided us an interesting insight on the process through which accounting was meshed with other organisational practices in an organisation. He noted the role of the business managers who influenced the change process by translating the operational issues into the language of accounting in a railway company. In each episode, business managers tried to convince the other organisational members that they would be better off by subscribing to the accounting's way of doing things. From one episode to another, more members were recruited and the company was gradually shifted from one with a strong "railway culture" to one which celebrated the "new business culture" which neither the organisational members nor the business manager had ever expected to happen in the first place. The motivation of the organisational members in this case was rooted in the feeling to be known as "business people" who received higher status in the eyes of the public and government. It was noted in the case that the railway managed to secure funding from the government for a major electrification project as a result of the perceived involvement and economic judgement of some business managers. Perhaps subscribing to the business culture was the most sensible thing to do amidst the government's call for better financial management and actively looking to privatise its agency.

Nevertheless many authors stay away from discussing the role of culture in the implementation of performance measurement. In Siti-Nabiha and Scapens (2005), the authors explicitly stated that they avoided the term culture in their analysis, simply because culture in their views is an elusive concept. The case, however, indicates to us the influence of cultural practices. This is implied through the taken for-granted everyday practices that gave prominence to production practices which was a reflection of the organisation's background as a subsidiary of the company that was the country's sole holder of the right to explore oil and gas reserves. The arrangement with the parent company gave them financial security as long as they could produce the required contractual throughput. This position had been the shared belief of the organisational members and influenced them to choose what made sense for them to do in order to preserve the continuity of their income and to be seen as reliable in the eyes of the government and public. Apparently to the members these intentions were achieved through decoupling of KPIs from the daily operations.

The next section will describe the methodology adopted in this study and then move on to discuss the ways in which a programme of cultural change in an organisation enabled the embedding of KPIs in organisational practices.

3. Methodology

The present study was conducted using an ethnographic approach. I went to the field in two phases. The first phase was from September to November 2008. During the period I went to the organisation every working day, and talked to organisational members concerning the organisational performance as well as noting emerging issues during the observation of the organisation or review of documents. Branches of the organisation in different part of the country were also visited. It was hoped that this would provide a richer understanding of how the performance management system was used, rather than how formal systems have been designed to operate (Stringer, 2007).

The second phase of the fieldwork was conducted from October 2009 to November 2009. During this phase the observation and interactions with organisational members was rather limited. A week of observation was conducted at the manufacturing division. The interaction with organisational members was limited to formal interviews with managers about what had happened to the initiatives noted in the first phase of the fieldwork.

The gap between the first and second phase of the fieldwork was almost a year. This allowed analysis from the first phase of the fieldwork to help shape the data gathering in the second phase of the fieldwork. For example, I had the opportunity to ask the organisational members for their experience in using KPIs in the 2008 performance appraisal.

Doing a longitudinal case study is often beneficial in understanding the issues, practices, and consequences of performance management (Otley, 1999; Langfield-Smith, 1997; Stringer, 2007). Some managers changed positions, which to certain extent allowed me to gauge the consistency and contradiction of their opinions over matters that influenced the intra-organisational network. Interestingly, at the beginning of the first phase of my fieldwork, the sales and marketing department, an independent division, was placed under the manufacturing division. But at the end of my second phase of fieldwork, the two entities then de-merged to return to their initial relationship. The significance of this event is not only limited to the context of understanding the strategy of the organisation; importantly it helps me to contextualise the organisation's performance management system.

Consistent with the tradition in doing ethnographic studies, observation was the main method employed in this study. I observed meetings, workshops, monthly staff assembly, daily operations on the warehouse floor and manufacturing floor and informal gathering among organisational members. Though observer bias is the main issue with observation, this would be less problematic in my study as the access granted to me was in the form of internship. This allowed me to speak to anyone of my interest and encouraged the organisational members to share their experience without feeling threatened with my presence. Altogether, I collected 500 pages of field notes.

I conducted 60 interviews over the two phases of this study. Six interviewees were interviewed twice. They were interviewed both in the first and second phase of the fieldwork. They were also the key people who were in the position to explain about the changes that happened in the organisation. The analysis of the data from the first phase of interviews shaped the questions that were asked during the second phase of interviews.

Documents such as minutes of meetings, some internet correspondence, monthly performance reports, agreement between the organisation and the government, 2008 internal audit report for manufacturing divisions, and minutes of board of director meeting from year 2000 to 2008 were reviewed. In particular the minutes of the board of director meeting helped very much in terms of understanding the emergence of KPIs in this organisation.

The analysis was done in an iterative manner. Interviews transcripts were arranged according to chronological order. Emerging themes from the observational notes were compared with the collected documentation. When inconsistencies of findings arose, they were marked and clarified in the subsequent interviews. Emerging patterns or themes were also derived through comparative analysis, i.e. the act of finding similarities and differences in the data by comparing conceptually similar events, incidents or issues with those previously coded.

4. The case study organisation – NMPharma Group of companies

The context of this study was one of the many organisations that emerged through privatisation programmes that occurred in the studies country in the early 1990s. As part of the privatisation agreement the organisation entered into a long-term contract with the government to supply essential public goods. Located in Southeast Asia, the organisation has aggressively expanded its business in various countries in Asia through the establishment of marketing offices and by acquisition. In 2008, its annual turnover was about USD300 million.

During the period of the study the organisation was facing cultural change. To this end, they introduced a programme called TOPIC. TOPIC stands for T = teamwork, O = open communication, P = passion for excellence, I = integrity, C = caring. These were argued to be a set of desirable behaviours that needed to be promoted in the organisation. TOPIC was seen as a way of creating a model of culture for the whole organisation and of minimising the impact of sub-unit culture. Proud of their new invention, the management placed banners in all locations in order to raise awareness; this was considered the right way to be if you were part of the company. In other words, stressing these behaviours sent out the message to everyone that if they could not subscribe to the desirable behaviours, then they should find the exit door. What prompted the top management to introduce the programme was their worry that the organisation was approaching the end of the contractual period with the government and at the same time its parent company required them to achieve USD1.2 billion in revenue and USD115 million of Profit After Tax and Minority Interest by 2013. The activities of the organisation were categorised into five strategic areas known as PEPSI, representing productivity, expansion, people, system, and image; the performance of these areas were measured by a set of KPIs.

KPIs were not entirely new to the organisation as they had been used to measure the divisional performance since 2005. However, the use of KPIs to measure individual performance, and how these related to the achievement of its overall objectives, was innovative within the organisation. PEPSI represented the strategic areas or dimensions for achieving the financial target set by the parent company. The performance of these areas was measured by a specific set of KPIs which would be shared across the organisation. This notion is embedded in the design of KPIs; they should connect the activities within an organisation.

A senior finance manager, who had worked with the company in the past and who had recently re-joined, noticed that:

> With KPIs, HR is no longer sole owner because each individual, the department and individuals themselves must ensure that, first, they put in their target at the beginning of the year, and in the mid-year they review. Do they meet the target? Do they change in terms of goal setting? So, they have a sense of responsibility. Rather than at the end of the year, you sit with your boss and think what you have done this year, and you sometimes do not remember (Senior Manager 13).

To a certain extent, the emphasis on KPIs limited the choice of actions for organisational members. This usually results from the trade-off between the cost and the financial benefits of an activity. If an activity does not causally relate to any KPIs in the dimensions of the PEPSI, there is a great tendency to reject it on the grounds that its resources should be directed to the activities where the link with the attainment of KPIs is more evident.

A problem arose within the company as a result of the perception that KPIs were the mechanism to bring the company to its financial objective. Although it was intended to measure multiple dimensions of performance, the discourse was often associated with a reward system. For individuals, therefore, the achievement of KPIs meant that they received a generous bonus at the end of the year. At the time of this study the formula to calculate bonuses was a combination of achieving a certain percentage of KPIs and a percentage of behavioural competence. The ratio of KPIs and competency differed according to the salary scales of organisational members. The higher the members in the organisational hierarchy, the more weight was given to the KPIs than to behavioural competence. This indirectly influenced the perception of the organisational members to equate the concern over KPIs with the concern over bottom line. The calculation of the bonus also took into account the achievement of the KPIs for the overall organisation. Should the organisation as a whole fail to achieve its KPIs, no bonus would be declared for the year, a control with which to promote goal alignment in the organisation.

5. Management programme – TOPIC

The organisation, from the beginning, depended very much on the government contract. As a result of this guaranteed revenue, the private market had been neglected. Organisational members merely proceeded with day-to-day activities showing less concern over the cost of conducting the business. This behaviour was termed by new organisational members as "complacency culture". It was in the midst of these problems and the struggle towards their financial target that TOPIC was launched, as a programme instrumental in improving coordination between the divisions and departments.

The appointment of a new management team and managing directors (MDs) brought to light a new development in the organisation. Their aim was to dismantle the culture of complacency and replace it with the corporate culture known as TOPIC. A consultant company was hired to guide the organisational members on the principles underlying TOPIC and a series of workshops was conducted to explain what the management intended to achieve with the programme. Banners were placed in many locations, and the TOPIC programme was a permanent item on the agenda of both management and departmental meetings. A set of KPIs provided by the parent company reflected managerial intention and TOPIC was one of the many mechanisms employed to engage organisational members in working towards that intention. TOPIC also was designed to articulate to the organisational members that managing performance was the responsibility of all staff, and that KPIs were the measures that could achieve the goals of the organisation.

Reflecting on the role of KPIs and how it was made to work in aligning the organisational objectives with those of the individual, a manager commented:

> Actually, it is very challenging because when you are committed to the KPIs, you have to follow them. Sometimes people question, "Can I achieve it or not? So that's why the staff has the feeling that they might not make it, and that's why TOPIC came out later on. So with this TOPIC, everybody will be able to achieve the goal and objective of the company. Let's say I cannot achieve my KPIs, my bosses also fail on their KPIs, the higher bosses also don't meet their KPIs, so it starts from the ground floor – everybody has to give their full commitment in order to achieve the company's KPIs" (Manager 13).

The launch of TOPIC was intended to support the implementation of KPIs and reflected concern over the performance of the organisation. This was necessary in order to provide a conceptual language that could articulate why KPIs were important and how such measures contributed to the well-being of the organisation. The behavioural attributes that were represented by TOPIC formed part of the elements that determined individual reward, and the introduction of TOPIC was seen as a behavioural control system that humanised the facts and figures that were usually associated with accounting measures such as KPIs. Although KPIs also served to create a discourse that sought to guide organisational members on matters beyond quantitative measurement, they would, however, be more influential if they were properly articulated. In this case, the embedding of KPIs into everyday practices within the organisation occurred as a result of the introduction of TOPIC, which lent a special kind of language that articulated the meaning and purpose of the implementation of KPIs.

All the five issues represented by TOPIC were identified as enablers for achieving the organisational objectives. Among them, teamwork and open communications presented the main problem. In the first survey conducted by the company to elicit the perceptions of the organisational members on each value represented by TOPIC, the lowest scores were allocated to teamwork and open communication, confirming the expectation of the management that those two issues should be given priority.

The following section discusses how TOPIC principles especially teamwork and open communications embedded KPIs into organisational practices. The style of managing performance was viewed as strongly associated with the spirit of teamwork and open communication, i.e. face-to-face and leading by example, and the role of meetings.

5.1 Face-to-face and leading by example

The senior management of the company emphasised face-to-face communication and an open door policy. The first effort made by the MD to show his concern for openness, therefore, was to change the layout of the office in HQ: transparent glass was installed in all managers' rooms and meeting rooms.

In particular, the MD would encourage the shop floor staff to communicate to him personally any suggestion or issue that needed to be addressed at his level within the organisation. He sometimes called the sales representative himself to enquire about their sales or any new market information. By doing this, he attempted to close the gap which had arisen as the result of the organisational hierarchy, and demonstrated the importance of open communication.

The same approach was adopted across the hierarchy – for example, the senior sales and marketing manager demonstrated to his staff his interest in their activities through making face-to-face contact. He stated:

> I ask them, "How are your sales today? How many products did you sell?" Everyday you ask like that, so don't you think that the sales people will go and chase the sales because they know that the next day their boss will ask about it? So that is the first follow up, very basic, because this is the first step. For me, this is the culture that we talking about.

In the sales and marketing department, a new philosophy was introduced, whereby sales were no longer conducted from behind desks. Instead, all staff, including senior managers, were encouraged to venture out to seek sales and new markets. The spirit of teamwork was demonstrated through coaching practices: the new sales representative would be accompanied by a manager for his first few sales visits in order to encourage motivation in completing sales.

The style of managing performance related closely with the properties of individuals, and the recruitment of new faces appeared to introduce fruitful changes to the organisational practices. As narrated by a senior finance manager in the manufacturing division:

> Previously, you know, the finance department liked to approve things – payments, claims, – now, no more, we don't want to duplicate things. Let's take, for example, claims. So, when people make claims, these go to HR, they are double-checked and then passed to finance, and finance also double-check and approve them; they get me to approve them for payment, and then they go to the signatories – a lot of processes. Now, when the claim is recommended by HOD, it's checked and verified by HR, and goes straight to payment. So we cut costs on the payment voucher, we cut costs on the cheque, and on the people preparing the payment voucher, and we also cut down on my costs, so it goes straight to HOD and then HR confirm that it's ok. HR just prepares a summary for me and for the senior GM just to inform us, so it becomes faster.

In fact, the finance division sought to make accounting a shared practice (Ahrens and Chapman, 2007). Doing this not only improved the teamwork and communication within departments, more importantly it also led to embedding KPIs within a diverse set of organisational practices. Payment for claims had become a shared accountability across the organisation, now that the requisite financial power had shifted to the respective operational units.

Face-to-face interactions and leading by example were not directly translated into performance targets. The number of face-to-face encounters was less significant than the end imbued in such actions that would make a difference to the organisational objectives. Through face-to-face interactions, organisational objectives were articulated by way of activities such as personal coaching and leading by example. For instance, the act of the MD to personally call the sales representative to ask about sales activities could be the means of articulating the organisation's concern about the state of the organisational bottom line.

5.2 The role of meetings in promoting open communication and teamwork

The most apparent practice arising from the introduction of TOPIC was the importance placed on the role of meetings in the organisation. Meetings were not restricted to formal departmental or divisional meetings alone; they included the practice of having morning briefings in the warehouse department in the logistic division; introducing shift briefings on the production floor; and holding ad hoc briefings regarding emerging issues in day-to-day activities. In the manufacturing division, a production meeting played a significant role in managing the flow of production processes and in assessing their status. In this meeting, the production status was compared with production targets, while accounting information was mobilised with other production knowledge to arrive at a decision. Although time consuming, many regarded the practice of holding production meetings as encouraging the integration of all departments in working towards the achievement of production targets. With at least one representative from every department present, issues could be clarified and bottlenecks identified, accountability was transparent, and decision making speeded up.

Through meetings, information visibility was created. In the case of backorders, an ad hoc meeting to address the issue was found to be very fruitful. Surprising information was revealed: the backorder problem was partly the result of invisibility of information in the division. In that particular meeting, the production manager was surprised to see the long list of the backorder products:

> Oh, you have the backorder list, why don't you give it to me, I've just heard about backorder of seven million but I don't see the list. If we know, we can make a decision, maybe we should outsource!

One of the steps taken by management following that meeting was to rationalise their product range. Based on the product profitability report, products that gave negative or low contribution margins would either be eliminated or outsourced to other manufacturers.

Since the introduction of TOPIC, inter-divisional communication also improved through frequent meetings. For example, a weekly meeting was conducted between the supply chain departments in both logistics and manufacturing divisions, in which the synchronising of activities was discussed. The logistics division identified products that were in high demand, while the manufacturing division requested the assistance of logistics to procure the high value items from their inventories in order to enable manufacturing to achieve its sales target. To tackle the backorder problem, orders that did not meet manufacturing minimum order quantity (MOQ) were outsourced, a change which also resolved the problem of lack of warehouse space as the manufacturing division would negotiate with suppliers to deliver in stages. The overall consequences of these actions would improve the bottom line as a whole since products could be ready to meet customer demand with less stockholding cost. This meeting illustrated the spirit of teamwork and open communication, both divisions pushing for their divisional objectives yet governing their actions within the boundary of overall organisational objectives. The role of the meeting illustrated the process through which the KPIs were embedded as part of the organisational practices and how discussion helped to articulate the discourses of KPIs within the organisation.

5.3 Change of organisational structure-the merger of manufacturing with sales and marketing

The issue of backorders is one important problem faced by the organisation during the period of study. In an interview the sales and marketing manager argued:

> Yes, we order six months' stocks even though we need only three months' stocks. I tell you, I don't trust them, I don't believe even until now that they can deliver on time. The problem is, if we cannot deliver the products that we promise our clients, they will lose trust in us. For me, the answer to the backorder problem is planning, planning and planning.

This assertion is illustrative of the situation that impedes the relationships among departments in the organisation. It was within the understanding of the sales and marketing manager that planning of the production schedule was difficult to carry out as it would certainly be influenced by change in the pattern of demand. The order of six months' worth of stock was to protect the interest of the sales and marketing department so that the sales personnel would not run out of stock. This had implications for the performance of the manufacturing division as well as the overall performance of the organisation. The manufacturing division would be burdened with the backorder problem and the organisation as a whole would suffer higher holding costs. To a certain extent the practice of the sales and marketing department contributed to the problem of loss due to the expiry of products. In 2008, about USD300,000 was written off as a result of the short expiry products.

The above interview with the sales and marketing manager was conducted at an early stage of the first phase of the fieldwork. However, over a period of time the problem of integration between sales and marketing and manufacturing division gradually diminished, and the frequent meetings within the manufacturing division also contributed to reduce the gap between them. Before the restructure, products from the manufacturing department were transferred to the sales and marketing division (before the merger, it was an independent division) via cost-plus transfer pricing. Tension always arose in terms of formulating the best price that would meet the targets of both divisions: while the manufacturing division allocated a certain percentage of profits to cover its costs as well as to achieve its bottom line, sales and marketing argued that they had to add on a percentage to cover their costs, which in the end made the price too expensive to compete in the private market.

When these two entities merged, the issue of transfer pricing was resolved. Sales would be treated as the sales for the whole company; the performance of the sales and marketing department was measured against the targeted sales; and the manufacturing division was measured against the achievement of production target.

A manager in the manufacturing division explained the reason underlying the merger between the manufacturing division and sales and marketing:

> There is a lot of synergy, better synergy in that, formerly, one head went for operational efficiency and another one went for supplies. They (sales and marketing) are talking about revenue – the more sales we get, the more revenue we get; here we are talking about bottom line – you can make more, but if you can't achieve bottom line, what is the point? So, now they have started to be more profit conscious (Manager 6).

Furthermore, the merger helped to embed the importance of performance measurement throughout the organisation. First, the change in structure from a lateral to a vertical relationship influenced the flow of information and decision making. With marketing and sales under the manufacturing division, any potential conflict that could have arisen from transfer pricing was avoided, and the practices of sales and marketing could be moulded according to the intentions of manufacturing practices. Since the merger, a finance manager was assigned to advise the sales personnel on financial matters, and, in particular, influenced the decision on product mix and costing for new products. As a result, accounting discourses such as bottom line were accepted as part of their own discourse. In their meetings and coaching sessions, the sales manager educated the sales representatives in focusing on selling the products that would improve bottom line.

The changes brought by the one year merger of the sales and marketing department with manufacturing were noted by organisational members. For example, a manager manufacturing division narrated the following to me:

> We want to produce product A but your volume is too small. We do not achieve ROI, so how do we produce it? It is a hot topic. Now they start thinking, what about if they are outsourced? Manufacturing says: "If we do this, the cost per unit is high, we are not able to get a high margin, but if we outsource that, at least we get that margin and they collaborate; the collaboration is there because of open communication" (Manager 13).

5.4 Demerger (separate once again)

However, the senior management soon realised that it was not the way forward to allow sales and marketing to promote in-house products from their office. They believed that it was time to test again the integration between sales and manufacturing. Their one year of merger had enabled both parties to understand the importance of integrating their activities. They had been talking the same language, a language that aligned their various objectives with those of the whole organisation.

However, a newly appointed head of marketing (the former senior manager of manufacturing) made the following comment on the restructure of the marketing department back to the status of a division independent of the manufacturing division:

> We looked at XYZ; it concentrates mainly now on marketing-based activities. They started scrapping a lot of their manufacturing activities, selling them off and maintaining just a few key ones. You don't care where it is produced (referring to a prod), do you? Today if we want to compete effectively and competitively in the world market, it must not matter where we produce our products; what matters is that our products must be of good quality and a competitive price. So that is why we said we're restructuring this (Senior Manager 7).

To acquire more of the share in the private market, a demerger of sales and marketing (from manufacturing) was therefore seen as the best strategy to enable sales and marketing to focus their activities on bringing more revenue to the organisation. This was also in line with the action plans associated with expansion areas in PEPSI. To expand their market, marketing and sales had to compete in the international arena, a venture which was supported and repeatedly discussed by the board of directors in their meetings.

The change in the organisational structure was significant in terms of managing the interdependence of functions within the organisation. Through the process of merger, the functional objectives were negotiated in the light of the achievement of the overall organisational objectives. Although KPIs were intended to press organisational processes into their specific order, it was the merger that lent the space for the articulation of the discourse of KPIs that in turn moulded the understandings of organisational members in adopting common objectives. As this case has illustrated, instead of turning down the demand from sales and marketing, the manufacturing division chose rather to outsource the production of items that did not meet the MOQ. Similarly, the act of the sales personnel to promote items of high margin was illustrative of the diffusion of the discourse of KPIs in shaping the practices of sales representatives.

The demerger was not an unintended consequence of the practice of KPIs but rather the result of the embedding of KPIs within organisational practices. KPIs measured the performance of the strategic areas that were the source of the organisation's core competencies. The increase in competition, however, invites a change of organisational focus. The KPIs help to guide the organisational members to the areas that have the potential to push the organisation towards its intended objectives. In the present study, it was the expansion in foreign markets that was agreed by the senior management as the area that could improve its bottom line. As such, the demerger would create a new organisational order, i.e. the coexistence of sales and marketing personnel and their resources in the organisation would be oriented towards market expansion.

6. Discussion and conclusions

KPIs are not a recent phenomenon in contemporary organisations. They are, however, widely used in organisations in conjunction with the proliferation of the BSC. The performance of each perspective in BSC is measured in term of KPIs. KPIs represent a set of measures focusing on those aspects of organisational performance that are the most critical for the current and future success of the organisation

(Parmenter, 2010). In this study, the organisation identified five critical aspects of its performance, known as PEPSI, and each aspect was measured by KPIs. KPIs are the measure of organisational performance as well as the basis for individual reward. It is a technology that aims at aligning individual, departmental and divisional activities towards the same end. The question is – how does this occur? This is the aim of the present study, i.e. to tease out the ways in which KPIs were embedded in the organisational practices.

In the present study, the first few years of the implementation of KPIs were restricted to helping the senior management and members of the board of directors to monitor the performance of the organisation. The increased financial targets set by the parent company, coupled with the fact that the organisation was approaching the end of its contractual period with the government, placed the management under intense pressure to improve organisational performance. The managerial intent of achieving the financial targets set by the parent company was detailed into an action plan represented by PEPSI. Each dimension of PEPSI was measured by a set of KPIs which were cascaded down onto the operational floor with the aim of making performance management the responsibility of all members. One crucial issue that might have hindered the achievement of the objectives was the integration among divisions and departments in the organisation. The "complacency culture" and a lack of communication and teamwork were among critical factors that contributed to the lack of integration between departments and divisions.

The TOPIC programme arose from management concern over the problems of poor teamwork and communication. It was a behavioural control system which guided the organisational members towards the desirable behaviours that would help the organisation to achieve its objectives. It was a form of control as it was part of the element in the performance evaluation system in the organisation. Two intended consequences of this programme were a change in the style of managing performance and an increase in the frequency of meetings.

The face-to-face style of managing performance seemed to produce a fruitful result, at least in the sales and marketing department. The courage showed by the manager in personally coaching the sales representative and in showing interest with the operational activities promoted the company to the leader in its industry in the country. The style of the MD who opened his door to operational staff improved the process of disseminating information in the organisation (Preston, 1986). The style of managing performance was, to a certain extent, influenced by the role of human beings who brought with them certain properties such as previous experiences and practices (Van Maanen and Kunda, 1989). As the case has illustrated, many members of the management team were brought in for the purpose of making a difference in the management style of the company.

This style of managing performance contributed to enable KPIs to be a shared accountability in the organisation, one instance of this being the case of claim approval. By giving autonomy to the heads of department and the HR department to approve and verify the claim, and deciding that finance should merely make the payment. As a result accounting became a shared resource (Ahrens and Chapman, 2007) and not a technology exclusive to the accounting department.

It can be suggested that the role of meetings was the most notable outcome of TOPIC, as evidenced by the increase in the number of meetings conducted within and across divisions in the organisation. This was the most important activity that enabled organisational members to appreciate the importance of KPI. Important information usually transpires through talk (Ahrens, 1997; Preston, 1986); through talk, the importance of KPIs was articulated and they became the influential source of information in the process of decision making. The meeting between the supply chain departments of the logistic and manufacturing divisions, for instance, resolved issues of warehouse space and backorders and new ideas and practices, such as outsourcing and stages delivery, emerged. Even within the manufacturing division, information visibility had been masked by functional interest, and the backorder list came to the notice of the production manager only as a result of the meeting.

Change of organisational structure reflected the repositioning of organisational arrangements in the company. Sales and marketing merged with manufacturing to ease the problem of integration, allowing both sets of practices to work towards the same objectives. The merger was a process of education, to create teamwork and to align interests of the members in sales and marketing and manufacturing divisions. In the year of the merger, the finance manager was assigned to sales and marketing to share how their activities would be interpreted by accounting language. When collaboration between manufacturing and sales and marketing was established, demerger was not seen as a future obstacle. Instead, it was viewed as a mechanism to encourage both parties to work in their best capacities towards the organisational target.

The study concludes that the operation of KPIs in this organisation was made to work through a programme of cultural change, namely TOPIC. The existence of TOPIC was to support the implementation of KPIs by improving the integration among departments and divisions and the perceived importance of KPIs in this organisation can be particularly attributed to the influence of TOPIC. For instance, the style of managing performance, by way of face-to-face meetings and leading by example was illustrative of the process of how KPIs gained prominence in the organisation. Similarly, merger and demerger were the consequences of KPIs, yet both activities were instrumental in the diffusion of KPIs in the organisation. The process of educating the sales personnel during the merger of manufacturing and sales helped to articulate the importance of KPIs to the sales personnel. This study suggests that accounting measures such as KPIs are practiced in the organisation not merely due to their own characteristics but are influenced by the ways in which an organisation mobilises or embeds them as part of everyday activities.

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Further reading

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