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**INSTITUTIONAL COMPLEXITY  
IN THAI STATE-OWNED ENTERPRISES:  
THE IMPLEMENTATION OF  
PERFORMANCE MEASUREMENT SYSTEMS**

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Doctor of Philosophy

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# **ASTON UNIVERSITY**

## **Institutional Complexity in Thai State-Owned Enterprises: The Implementation of Performance Measurement Systems**

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Doctor of Philosophy

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### **Thesis Summary**

This study explores institutional complexity in Thai State-Owned Enterprises (SOEs). In doing so, a qualitative approach has been employed in this study in order to identify institutional logics in the field of Thai SOEs and to understand organisational and individual perceptions of institutional complexity in the implementation of performance measurement systems (PMS) and how they respond to the complexity. To achieve this goal, two Thai SOEs were studied, both of which faced challenges in the implementation of Economic Value Management (EVM) and Balance Scorecard (BSC) as well as difficulties in linking their individual BSC and incentive systems. The qualitative data were collected from semi-structured interviews and document reviews.

The empirical aspects of this study reveal that the institutional logics in the field of Thai SOEs are the logic of bureaucracy, commercial operations, social activities, seniority and unity. Regarding the multiple institutional logics embedded, SOEs experienced the institutional complexity in the implementation of PMS. The results suggest that the organisations have decoupled the EVM and loosely coupled the BSC from organisational practices to cope with institutional complexity and conflict institutional demands. Also, the evidence shows that the institutional logics influence SOEs' actions towards resisting changes incentive systems and the relationship between individual BSC and incentives.

**Keywords:** Institutional theory, Institutional logics, Institutional complexity, Performance measurement system, State Owned-Enterprise

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## List of Abbreviations

<b>Abbreviation</b>	<b>Explanation</b>
AEC	Asean Economic Community
BSC	Balanced Scorecard(s)
CEO	Chief Executive Officer
CFO	Chief Financial Office
EP	Economic Profit
EVA	Economic Value Added
EVM	Economic Value Management
IRDP	Institute of Research and Development for Public Enterprises
KPI	Key Performance Indicator
MICT	Ministry of Information and Communication Technology
MoF	Ministry of Finance
MoI	Ministry of Interior
MWA	Metropolitan Waterworks Authority
NESDB	National Economics and Social Development Bureau
OECD	The Organisation for Economic Co-operation and Development
PAC	Performance Agreement Committee
PDMO	Public Debt Management Office
PEA	Provincial Electricity Authority
PMS	Performance Measurement System(s)
POST	Thailand Post
PWA	Provincial Waterworks Authority
SEPA	State Enterprise Performance Appraisal
SEPO	State Enterprise Policy Office
SOE	State-Owned Enterprise
SOD	Statement of Direction
TRIS	TRIS rating Co. Ltd.

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# **Chapter 1**

## **Introduction**

### **1.1 Introduction**

This study primarily concentrates on exploring the institutional logics in the field of Thai State Owned Enterprises (SOEs), and the influence of institutional complexity in regards to the implementation of performance measurement systems (PMS). My research especially focuses on two systems: Economic Value Management (EVM) and the Balanced Scorecard (BSC). The investigation also describes and evaluates the organisational responses prompted by the use of these two systems. The relations between the organisational incentive systems and SOE performance measurement as well as individual BSC are examined in this study.

This introductory chapter outlines the research background, aim and objectives, research methodology, contributions and the thesis structure.

### **1.2 Research Background**

PMS have been extensively portrayed as being one of the most important management tools in public sector organisations (e.g. Van Helden et al., 2006). It is argued that through these systems, public sector organisations have been able to meet the demands of their various stakeholders such as government, the private sector and citizens and at the same time deliver quality services to their numerous customers. Most research on PMS and performance management in public sector organisations has been carried out in developed countries such as Scandinavia (Siverbo and Johanson, 2006; Modell et al., 2007), the United Kingdom (Adcroft and Willis, 2005; McAdam, Hazlett and Casy, 2005; Chang, 2006; Fryer et al., 2009) and New Zealand (Northcott and Taulapapa, 2012). There has been much less research on this topic in developing countries. The use of PMS in developing countries such as Thailand normally employs well-known systems or standards from developed countries, which may need to be adapted to make them relevant to the local context. Therefore, appropriate research is required to increase our understanding of the development of PMS in developing country settings.

A number of theories are relevant to the study of performance measurement in the public sector, such as institutional theory, sociology of translation theory, economic theory, political theory, and the functionalist control literature (Modell, 2009). The research in the field also tries to explain the consequences of performance measurement systems as well as organisational responses using a variety of theories such as motivation theory, goal setting theory, agency theory (e.g. Verbeeten, 2007; Burney and Widener, 2007; Bedford et al., 2008; Frey et al., 2013; Belogolovshy and Bamberger, 2014). However, the research using institutional theory is dominant in this field (Modell, 2005, 2009; Van Helden et al., 2006). In the past, studies of performance measurement systems in the public sector based on institutional theory have been undertaken in the health care sector, universities, and local government. For example, Modell (2001, 2003) studied the Norwegian health care and the Swedish university sectors, respectively, while Chang (2006) studied UK health care. There also have been a growing number of performance measurement research studies in central and local governments especially in Scandinavian countries (e.g. Leagreid et al., 2006, 2007; Modell and Weisel, 2008; Modell et al., 2007; Modell, 2012; Kasperskaya, 2008; Siverbo and Johansson, 2006; Johansson and Siverbo, 2009; Rautianen and Jarvenpaa, 2012) in addition to studies on other developed countries such as the U.S. federal government (Cavaluzzo and Ittner, 2004).

According to Modell (2009), most performance measurement research concerns the institutional effects of ‘decoupling’ and ‘loose coupling’. However, Modell (2009) points out that studies on decoupling and loose coupling in PMS have mainly focused on the role of embedded agency, while there are many institutional processes related to organisations’ structural characteristics that need to be examined to various degrees. In addition, many researchers suggest that the use of other theories such as actor-network theory is required to fill the gaps in institutional theory (Callon, 1986; Lawrence and Suddaby, 2006; Lounsbury, 2008; Modell, 2009).

Recently, institutional research has begun to focus attention in the area of institutional logics. The concept of institutional logics refers to ‘the formal and informal rules of actions, interactions, and interpretation that guide and constrain decision makers in accomplishing the organisation’s tasks’ (Thornton and Ocasio, 1999: p. 804). The concept has been applied to theorizing the implementation of new practices in

organizations (Thornton and Ocasio, 2008). Particularly, the concept of institutional logics has been used in the setting of hybrid organisations where multiple logics are embedded. Hybrid organisations can take different forms, such as social enterprises (Pache, 2013), public-private partnerships (Jay, 2013) biotechnology companies (Powell and Sandholtz, 2012) and medical schools (Dunn and Jones, 2010).

The application of institutional theory in public sector organizations has been extensive. However, few studies of State-owned Enterprises (SOEs) have incorporated institutional theory and the influence of institutional logics. Therefore, this study has focused on one type of public organization, SOEs, by providing evidence from the implementation and use of PMS and its relationship with an incentive system based on a field of Thai SOEs. SOEs can be classified as one type of hybrid organisation in terms of their tendency to exhibit multiple institutional logics such as the logic of bureaucracy, the logic of social activities and the logic of commercial operations (see chapter 5).

### **1.3 Overview of Thai SOEs**

In 1932, the foundation of State-Owned Enterprises (SOEs) began in Thailand. Since then, SOEs have been part of every subsequent national plan to improve the country's economy and competitiveness as well as to develop the national quality of life. Moreover, in some cases, SOEs are required to support Thailand's stability or to invest in a variety of projects, such as infrastructure (SEPO, 2012). SOEs were founded in order to undertake commercial operations on behalf of the Thai government and are owned by the Kingdom of Thailand, either fully owned or as a shareholding of 51% or more in part-privatised companies (Thai Government, 1959). There are currently 58 state enterprises that can be broadly categorized into 9 major sectors as follows:



**Table 1.1: Number of SOEs**

Sector	Number of SOEs
Financial	9
Energy*	4
Utility*	4
Transport	11
Telecommunications	4
Industry	6
Natural Resources	8
Commerce Service	6
Social and technology	6
Total	58

Note: In some sources, the Energy and Utility sectors are combined as Infrastructure sector.

Source: Sombatsiri (2010)

These SOEs typically dominate the commercial activity while also acting as the primary sources of employment and revenue (SEPO, 2010). However, many SOEs also benefit from monopoly or quasi-monopoly powers, such as Provincial Waterwork Authority (PWA) and Electricity Generating Authority of Thailand, and require massive capital investments or operating subsidies (SEPO, 2010). Table 4.3 shows some key statistics to show the importance of SOEs to the Thai economy.

**Table 1.2: Key statistics data**

Year	Thailand's GDP	SOEs' revenue	Unit: Billion Baht	
			Thai government investment ex. SOEs	SOEs' investment
2008	9,080	3,570	184	237
2009	9,042	3,173	209	208
2010	10,105	3,635	138	174
2011	10,540	4,294	214	210
2012	11,518	4,947	438	293

Source: SEPO (2013) and Fiscal Policy Office (2013)

As shown in the table, SOEs' revenue is normally one-third of Thailand's GDP and the SOEs' investment budget is equal or even higher than the government budget.

### 1.3.1 Thai SOEs' stakeholders

As mentioned in the approach review, a qualitative approach was adopted because the research concerned the views and opinions of stakeholders, which are both internal stakeholders and external stakeholders. Like other public sector organisations, Thai SOEs also have a variety of stakeholders, which can be grouped into a policy maker group and an end user group.



Source: Luangnual (2010, p. 2)

The policy maker group consists of significant stakeholders from a variety of government agencies to drive the development of SOEs. This group focuses on the improvement of SOEs' efficiency and effectiveness, and involves investment projects as well as the SOEs' benefits to community, public sector, and private sector (Luangnual, 2010). The roles and responsibilities of major stakeholders are as follows.

**Table 1.3: The roles and responsibilities of major stakeholders**

Agency/Actor	Roles and Responsibilities
Ministry of Finance	<ul style="list-style-type: none"> <li>- Shareholder</li> <li>- To conduct technical reviews and develop investment and strategic plans</li> <li>- To assess SOE performance as well as to introduce new management tools to SOEs, such as PMS</li> </ul>
Line Ministry	<ul style="list-style-type: none"> <li>- To set industry development policy</li> <li>- To review and approve SOE plans</li> </ul>
Ministry of Labour	<ul style="list-style-type: none"> <li>- To set remuneration of SOE employees</li> </ul>
National Economics and Social Development Bureau	<ul style="list-style-type: none"> <li>- To conduct investment direction aligned with country development plan</li> </ul>
Budget Bureau	<ul style="list-style-type: none"> <li>- To allocate budget for SOEs' social activities</li> </ul>
Regulators	<ul style="list-style-type: none"> <li>- To set pricing policy and quality of services</li> </ul>

Source: Adapted from SEPO (2010) and Luangnual (2010)

However, in many sectors, the roles and responsibilities for policymaking, regulation, and operation are overlapping or unclear between ministries, agencies, departments, and

SOEs. The end users group consists of the private sector and citizens who receive both the direct and indirect impact of SOEs' products, services, and activities; however, this group has no direct power over SOEs, nor does it have much impact on the implementation of PMS. Therefore, later in this chapter, the selection of the participants is based upon the policymaker group and SOEs.

### **1.3.2 The SOE's performance measurement systems**

The SOEs' PMS has been employed since 1995. The main objectives of introducing this system were to switch the focus of control from operational control to results-based control and to enhance the operational efficiency of SOEs (Thailand Cabinet Office, 1995). Also in 1995, the Thai Cabinet appointed a Performance Agreement Committee (PAC), chaired by the Permanent Secretary of the Ministry of Finance, to ensure the effectiveness and efficiency of the system (Luangnual, 2010). Since then, the PMS has been developed continuously by State Enterprise Policy Office (SEPO) in collaboration with other government organizations. For example, the Economics Valued Added Indicator and the State Enterprise Performance Appraisal (adapted from the criteria of Malcolm Baldrige National Quality Award) were introduced in 2006 and 2008 respectively (SEPO, 2008).

In addition, in 2004, SEPO introduced an SOE corporate governance system by adopting a system consistent with that employed by public limited companies (SEPO, 2008). In this system, board members will be selected by shareholders and the chief executive appointed by the board. SEPO also sets a Good Enterprise System to monitor SOEs' governance. Such a system has been integrated with the SOE performance agreement system in order to assess SOE performance. Recently, PMS are growing in importance to the Thai Government, as they help to evaluate and improve SOE performance as well as to monitor the SOEs' government policy-based projects (SEPO, 2012). Further details of the SOE's PMS are shown in Appendix A.

### **1.3.3 Case study organisations**

The case studies in this research were undertaken in Provincial Waterworks Authority (PWA) and Thailand POST (POST). Both case study organisations can be considered as a large-sized SOE regarding their assets and labour forces. PWA is one of three SOEs in water sector. It was established in 1979 to provide water supply services in 74

provinces across Thailand. Similar to other organisation in the water sector, PWA required a massive capital investment in order to expand its water distribution systems as well as to improve their efficiency and productivity in order to meet institutional demands (Appendix B). PWA is an organisation which is under the control of the Ministry of Interior and has to comply with the SOE Act. On the other hand, POST was successfully corporatized into a 100% Ministry of Finance (MoF) owned company in 2003 but it remains under the supervision of the Ministry of Information and Communication Technology. POST has to comply with both Commercial Law and the SOE Act. Due to the emergence of new technologies, POST has experienced some difficulty and been pressured to improve its performance and services. Therefore, recently, POST has expanded its operation into four businesses which are postal, logistics, retail and financial businesses (Appendix B).

Many management tools have been implemented in both cases to overcome these perceived difficulties and one of them is PMS. Accordingly, PWA and POST have developed many systems and standards to measure their performance on a variety of levels: organisation, departmental and individual levels. This study mainly focuses on the influences of institutional logics and institutional complexity on the PMS employed as well as how organisations respond to the implementation and use of PMS.

#### **1.4 Research Aims and Objectives**

This study started with the general aim of exploring organisations in relation to their environments. All organisations have some degree of embeddedness in their wider environment regarding the prevailing multiple institutional logics. However, SOEs provide an interesting setting as they are likely to experience institutional complexity that is caused by conflicting demands and incompatible logics.

##### **1.4.1 Overall aim**

The aim of this research is to examine the influence of institutional logics and institutional complexity on the PMS within hybrid organisations.

### **1.4.2 Objectives**

The study focuses on the following objectives in the Thai context.

1. To investigate the PMS characteristics within the case studies;
2. To examine how and why the implementation and use of PMS are perceived to succeed or fail;
3. To identify institutional logics embedded in Thai SOEs;
4. To examine how the case organisations respond to institutional complexity in the implementation and use of PMS;
5. To examine how individuals and organisations respond to changes in incentive systems and individual performance assessment.

### **1.5 Research Methodology**

This study is primarily informed by a qualitative approach (see chapter 4). The justification for this choice of approach is based on the researcher's philosophical assumptions regarding the 'constructivism paradigm' as it focuses on 'reality' based on how an individual's experiences influence their views and actions (Easterby-Smith et al., 2012, p. 23). It is acknowledged that a qualitative approach brings with it many widely perceived weaknesses regarding the difficulty in respect of the generalisability of the findings and the influence of researcher bias which is argued to reduce objectivity in studying the phenomena. However, this approach helps the researcher to 'build a complex, holistic picture... and conduct the study in a natural setting' (Cresswell, 1998, p. 15). Hopper and Powell (1985) also argue that there is no such thing as a totally objective or value free investigation.

There are many research studies in the PMS field but a limited number of studies in institutional complexity in developing countries. Much is unknown about the application of PMS in SOEs in emerging countries. Due to the lack of information or knowledge, it makes best sense to explore this topic using a qualitative approach. Accordingly, a multiple case study approach was adopted because this study aims to describe and analyse how institutional complexity influences the implementation and use of PMS in SOEs in emerging countries. The data was collected through semi-structured interviews, documentary research, and observations obtained from the case study organisations and related agencies such as the Ministry of Finance (MoF) and the State Enterprise Policy Office (SEPO).

Regarding the multiple case study method, the researcher conducted the research in two organisations with eighty-one interviews in total. The participants in the interviews were not only from the case study organisations but also drawn from related external stakeholders such as government agencies and consulting firms. In addition, the interviews within each case study organisation were conducted at various employment levels including operational, management and executive levels from head office, regional offices and branches.

### **1.6 Contributions**

The main contributions of this study can be divided into theoretical and practical contributions. The main theoretical contribution of this thesis is to explain the nature of institutional complexity in state-owned enterprises as well as the responses of SOEs towards performance measurement and related systems. Recently, institutional researchers have given attention to how institutional logics affect organisational behaviour (Greenwood et al., 2011). This study identifies the institutional logics embedded in SOEs in the Thai setting and culture and within the individual case study contexts.

Greenwood et al. (2011) suggest further research should look into ‘the dynamic patterns of complexity’ and ‘the degree of incompatibility’ between institutional logics. This study employed Greenwood et al.’s (2011) and Besharov and Smith’s (2014) frameworks to address the degree of institutional complexity in organisations by examining them through ‘a degree of compatibility’ and ‘a degree of centrality’ together with organisational attributes (see chapter 3 and 8). In addition, this study employs Oliver’s (1991) strategic responses to institutional process in explaining how hybrid organisations respond to institutional complexity.

This study also provides a practical contribution that identifies different perceptions towards the use of EVM and BSC in Thai SOEs. The study indicates that SOEs can adopt the concept of the BSC with fewer difficulties compared to their experiences with EVM. The perceived simplicity of the BSC concept enabled knowledge to be more widely spread within the case organisations than was the case for the more complex EVM concept. As a result, employees felt more able to engage themselves in the use of BSC. The findings also show that the case organisations should consider re-designing

their incentive systems by concentrating more on performance-based system. Employees perceive that there is a judgemental bias in the recent individual assessment which leads to unfair incentives. Therefore, a well-designed system and measures can help to reduce the negative perceptions from employees as well as gain employees' trust in assessors.

## **1.7 Thesis Structure**

This study is organised into nine chapters. A brief overview of each chapter is provided below.

### **Chapter 2 Literature review**

This chapter reviews the literature relating to PMS as the main context of this study. It also seeks to identify knowledge gaps in the existing research. First, it defines PMS and demonstrates the factors affecting the development of the systems. In conjunction, it presents the various research approaches that have been used in the research field. The possible intended and unintended consequences of implementing PMS are also presented in this chapter. Next, it provides a review of research considering economic value added, the balanced scorecard and incentive systems, as these practices are employed in Thai SOEs. The chapter also reviews PMS in public sector organisations.

### **Chapter 3 Institutional Theory: The influence of institutional logics**

The aim of this chapter is to provide an explanation of the theoretical frameworks employed in this study. It mainly explores the literature applicable to institutional theory and institutional logics. Firstly, this chapter incorporates a discussion of how institutional theory has been developed and defined. Old institutional theory, neo-institutional theory and Scott's (2014) three pillars are reviewed. It then considers the literature pertaining to institutional logics, which is separated into two parts: the definition of institutional logics and multiple institutional logics in organisations. Then, the concept of institutional complexity is reviewed and Greenwood et al.'s (2011) and Besharov and Smith's (2014) frameworks are discussed. Next, the chapter reviews how organizations respond to institutional complexity, which follows Oliver's (1991) study and the concepts of decoupling and loose coupling are introduced. Finally, it covers the evidence from case study research relating to institutional complexity and organisational responses especially decoupling and loose coupling.

#### **Chapter 4 Research methodology**

This chapter outlines the research method used in this study. Firstly, this chapter discusses the adopted research paradigm and research approach employed in this study. It follows this with a discussion of the research structure, which employs qualitative case studies as a research strategy. Each research stage, including case selection, data collection and data analysis procedures, is presented. Furthermore, contextual information relevant to the case studies is also provided.

#### **Chapter 5 Understanding the institutional logics in Thai State Owned Enterprises**

The findings from the case studies are presented in chapters five through seven. Firstly, based on the field interviews, chapter five explores the field of SOEs and seeks to identify the institutional logics that the case study organisations have embedded. Then, the chapter discusses the institutional logics as follows: the logic of bureaucracy, the logic of social activities, the logic of commercial operations, the logic of seniority and the logic of unity. The institutional logics found in this chapter are used in chapters six and seven to explain organisational and individual responses to the implementation and use of PMS, which include EVM and BSC, and the link between the incentives and PMS and individual BSC.

#### **Chapter 6 The implementations of the Balance Scorecard and Economic Value Management in the case study organisations**

This chapter explores how institutional complexity affects the development of PMS. Firstly, it details aspects of the SOEs' PMS that are required by the MoF to assess SOEs' efficiency. Then, the developments of EVM and BSC in the case study organisations are outlined in some depth. Participants' perceptions, as revealed through interviews, of how organisations respond to institutional complexity based on the implementations of both practices are presented and discussed. The evidence shows that the concepts of decoupling and loose coupling have been employed as a strategic response in order to handle institutional complexity as well as institutional demands.



## **Chapter 7 The relationship between the incentive systems and individual balanced scorecards**

This chapter investigates the relationship between SOE incentive systems and SOEs' PMS as well as the integration of individual BSC and organisational incentive systems. Firstly, the chapter contains a descriptive study, which assesses how SOEs calculate incentives using performance scores and explains the non-financial incentives from the MoF. Then, the focus is placed on the bonus system, which is the most important incentive as perceived by the participants. The individual and organisational actions and responses towards the incentive systems are provided. According to the findings, the logic of appropriateness, the logic of seniority and the logic of unity influence SOEs actions towards the change of incentive systems. Next, the study examines how individual BSC is implemented in each case organisation and considers why individual BSC has not been integrated with other practices.

## **Chapter 8 Findings and discussion**

This chapter summarises the research aims and objectives and presents key findings that the researcher obtained through this study. Then, the chapter discusses the institutional complexity and organisational attributes through Greenwood et al.'s (2011) and Besharov and Smith's (2014) frameworks. The organisational responses to the use of PMS and the link between incentive systems and individual BSC are further considered.

## **Chapter 9 Conclusion**

The principal conclusions of the study are brought together in this chapter. Firstly, the chapter articulates the contributions to the PMS literature and institutional theory made by this thesis. Then, the limitations of this study are discussed. This chapter also directs future research to further explore the use of PMS in other contexts.

# **Chapter 2**

## **Literature Review**

### **2.1 Introduction**

This chapter presents literature related to performance measurement systems (PMS) and sets the context for the analysis and discussion that follows later in the thesis. The chapter provides an understanding of the relevant PMS literature and the consequences of PMS systems for practice. The discussion in this chapter also offers an indication of the relevance of this literature to a study in public sector organisations especially in an emerging economy context.

This chapter begins with a definition and development of PMS and extends this to note factors that influence the adoption and consequences of PMS. The review then considers three management tools employed in Thai state-owned enterprises (SOEs), including balanced scorecards (BSC), economic value-added (EVA), and incentive systems. The next section presents a review of public sector as well as the PMS' in public sector organisations and state-owned enterprises (SOEs). The final part presents a summary of the chapter.

### **2.2 Definition and Development of Performance Measurement Systems**

Performance measurement is a broad concept, and the use of performance measurement techniques has a very long history. According to Merchant and Van der Stede, the introduction of PMS dates back to the 1920s when the DuPont company developed the concept of return on investment and used 'a pyramid of financial ratios' that linked a wide range of financial ratios to return on investment' (Neely, 2002, p. 146). In the 1950s, General Electric employed a set of performance measures which included both financial and non-financial measures (Hailey and Sorrgenfrei, 2007).

PMS have been portrayed extensively as one of the most important management tools in both business and public sector organisations (Van Helden et al., 2006). Many research areas in management such as human resources and strategy management contribute to performance measurement (Neely et al., 1995; Franco-Santos et al., 2007, 2012). Consequently, a variety of terms have appeared (e.g., performance measure,

metric, metric sets, PMS, performance management systems, contemporary PMS and business performance measurement), many of which are not defined well (Franco-Santos et al., 2007, 2012). According to Franco-Santos et al. (2012, p. 80), many researchers define PMS ‘in terms of their features,’ while others define them in terms of both features and ‘roles and main processes’.

Neely et al. (2005, p. 1229) define measurement as ‘the process of quantification and action leads to performance’; performance measurement as ‘the process of quantifying the efficiency and effectiveness of action’; and a PMS as ‘the set of metrics used to quantify both the efficiency and effectiveness of actions’. In this context efficiency refers to the cost effectiveness of products in relation to customer satisfaction, and effectiveness refers to meeting customers’ requirements. However, the terms efficiency and effectiveness that Neely et al. (2005) provided are still blurred, and require clarification (Choong, 2013). According to Tvaronaviciene et al. (2009), the required degrees of efficiency and effectiveness lie in how organisations view measures.

Neely and Hii (1998) discuss many of the analysis elements of PMS referred to by Franco-Santos (2012). Franco-Santos et al. (2007, p. 796) argue that ‘there are only two necessary features’, which are ‘performance measures and supporting infrastructure,’ but Neely et al.’s (1995) definition does not mention supporting infrastructures, which include ‘data acquisition, collation, sorting, analysis, interpretation, and dissemination’ (Franco-Santos et al., 2007, p. 792). Therefore, a PMS can be defined as consisting of a process for the collection and reporting of information using an individual measure or a set of measures to ‘quantify both the efficiency and effectiveness of actions’ (Neely et al., 2005, p. 1229).

Much of the existing literature describes the role and usefulness of PMS. Franco-Santos (2007, p. 797) propose five roles of PMS: (1) measure performance, (2) strategy management, (3) communication, (4) influence behaviour, and (5) learning and improvement. Researchers can identify and select any of these to focus on in their investigations. According to Spekle and Verbeeten (2012, p. 134), the primary significance of Franco-Santos’s (2007) roles is located in ‘the number of roles they identify and in the boundaries between the roles’. Based on ‘the role of control,’ Spekle and Verbeeten (2012, p. 134-135) propose classifying the use of PMS, consisting of

incentive-oriented use (i.e., target setting, incentives, and rewards), operational use (i.e., operational planning and process monitoring), and explanatory use (i.e., priority setting, double loop learning, and policy development).

According to Modell (2009), a PMS involves a process of evaluating efficiency and effectiveness of an organisation by comparing results (i.e., financial and non-financial) with organisational goals, and it helps to generate useful information for decision-making (Brignall et al., 1991; Simons, 2000; Neely et al., 2005; Taylor and Tylor, 2014). Ferreira and Otley (2009) suggest that PMS allow organisations to balance the management and control of organisational performance, and opportunities and threats, by using both formal and informal processes. Franco-Santos et al. (2007, p. 798) suggest three processes in PMS: information provision, measure design and selection, and data capture. They author also suggest two other processes: (1) performance evaluations and rewards and (2) system review, which are not ‘critical for the functioning’ of the system, but the effectiveness of the system (p. 799). The Franco-Santos et al. study adopts the primary objective of PMS from prior studies. These objectives include creating continuous improvements (Brignall, 2007; Grunberg, 2004); encouraging performance management; acting as a basis for a reward process; identifying the effectiveness of existing strategies (Neely et al., 1994); encouraging ‘alignment of key business process’ (Taylor and Taylor, 2014, p. 848) and developing an organisational strategy (Hass et al., 2005).

An understanding of the background and development of PMS is essential to the study and analysis of the systems in the public sector. Lavy et al. (2010) state that one important question for an organization using a PMS is what to measure. Some researchers indicate that the measures depend on users and requirements of customers (e.g. Baldwin et al., 2000; Hinks, 2004) and must emphasize various aspects as well as align with an organization’s goals (Cable and Davis, 2004). According to Otley (2002), the evaluation of performance measurement moved from financial measures to multi-dimensional measures. The financial dimension was considered as the most important aspect of PMS for decades, as an organization faces financial constraints and is required to generate more money to satisfy its stakeholders (Otley, 2002). However, according to Kaplan and Norton (2001), financial dimensions are inevitably based on past performance that could mislead the organization by focusing more on short-term

performance instead of long-term performance – signals for continuous improvement and innovation (Neely and Hii, 1998). To date, according to Brignall (2007) and Anderson and McAdam (2004), in an attempt to overcome these drawbacks and other criticisms, PMS have been developed and provide a balanced view through multi-dimension measures. Some examples include: Performance measurement matrix (Keegan et al., 1989); Results and determinants model (Fitzgerald et al., 1991); BSC (Kaplan and Norton, 1992); Performance prism (Neely et al., 2001). Amongst all of these models, the BSC has been widely used in many organizations across the world (Bourne et al., 2002).

Though multi-dimensional PMS may be an effective managerial tool, there are a range of problems that can occur in their adoption (Smith, 1990). De Bruijn (2007) suggests that employing PMS can also have a range of negative effects. Examples include: (1) strategic behaviour: copying not learning (De Bruijn, 2007) and veiling performance in public sectors (Bowerman and Hawksworth, 1999 and De Bruijn, 2007); (2) blocking innovation and ambition in organisations (De Bruijn, 2007); (3) intra- and inter-organisational compartmentalisation (De Bruijn, 2007, p. 23). To use performance-measurement results effectively, an organisation must transform a process of performance measurement to performance measurement and management, and it must overcome anticipated and required changes (Amaratunga and Baldry, 2002).

Berry et al. (2008, p. 6) state the drawbacks as follows: inaccurate and subjective measures, short-term focus on performance by ignoring future consequences, inappropriate benchmarks, changes in criteria and measures that might not support desired results and ‘lack of attention to informal controls and organization context’. Other researchers also criticise that the inadequate measures used in PMS can negatively affect the accomplishment of organisational goals and strategies (Bourne et al., 2002; Norreklit et al., 2006, 2007), hinder organisational activities (Mohanty, 1992), and provide false information for decision making (Linna et al., 2010). Looking at the issue for another direction, Cavalluzzo and Ittner (2004) argue that technical problems and conflicts of organisational goals and objectives could affect the selection of appropriate measures.

According to Bourne et al. (2002, p. 1289), problems also include the possibility that an excessive set of measures can dilute the overall impact (Beirbusses and Siesfeld, 1997). Another difficulty associated with PMS is the contrasting demands of stakeholders, which lead to the different perspectives on organisational performance (Yasin and Gomes, 2007). Consequently, although PMS can be used to improve organisational performance, they can also be a threat to organisational operation and the decision-making process. The organisations also should carefully design their PMS and related processes in order to reduce the effect of the threats as well as to cope with different perspectives on performance (De Bruijn, 2002; Bourne et al., 2002; Yasin and Gomes, 2007).

### **2.3 Factors Influencing Adoption of Performance Measurement Systems in Organisations**

Many organisations are investing considerable resources in implementing PMS. Some organisations experience success in doing so, but others do not. Some writers suggest that problems with the process of implementation hinder the achievement of system benefits. According to McCunn (1998), seventy per cent of performance measurement plans are unsuccessful due to difficulties during implementation. A literature review is required to reveal factors that influence adoption of PMS in organisations. Bourne et al. (2002) report that many researchers use Pettigrew et al.'s (1998) recommendations to explain causes of success and failure (Table 2.1).

**Table 2.1: Causes of success and failure when implementing performance measurement programs**

Issues	Reasons
Organisational Context	<ol style="list-style-type: none"> <li>1. The need for a highly developed information system</li> <li>2. Time and expense required</li> <li>3. Lack of leadership and resistance to change</li> </ol>
Development Process	<ol style="list-style-type: none"> <li>1. Vision and strategies were not actionable</li> <li>2. Strategies were not linked to resource allocation</li> <li>3. Goals were negotiable</li> <li>4. State of the art improvement methods were not used</li> <li>5. Striving for perfection undermined success</li> </ol>
Measurement Content	<ol style="list-style-type: none"> <li>1. Strategies were not linked to department and individual goals</li> <li>2. Large number of measures diluted overall impact</li> <li>3. Metrics were too poor defined</li> <li>4. The need to quantify results in areas that are more qualitative in nature</li> </ol>

Source: Adapted from Bourn et al. (2002, p. 1289)

Bourne et al. (2002) interviewed ten manufacturing firms to identify drivers and barriers that influence effective implementation of PMS, identifying four factors: ‘time and effort required, data accessibility, consequences of measurement, and being overtaken by new parent company initiatives’ (p. 1305).

According to Bourne et al. (2002), factors that influence adoption of PMS are not only the internal drivers mentioned above, but also include external drivers and barriers to changes that depend on four constituent parts: process, people, culture, and system (Kennerley and Neely, 2002). According to Kennerley and Neely (2002), organisations should review the appropriateness of all four constituent parts to ensure they can meet requirements and reflect changes in PMS. They propose a ‘framework of factors affecting the evolution of PMS,’ shown in Figure 2.1.

**Figure 2.1: A framework of factors that affect the evolution of PMS**



Source: Kennerly and Neely (2002, p. 1241)

Kennerley and Neely (2002) recommend that considering the inter-related issues from Figure 2.1 helps organisations manage development of PMS.

Padavani et al. (2010) examined factors that influence development of performance measurement in public sectors, concluding findings from a multi-case study of municipalities. They identified six factors: time-related concepts-duration, paths, windows of opportunity, cycles, causal mechanisms, and multiple perspectives (p. 591). A PMS is a management tool that requires time for organisations and their employees to

adopt, implement, and gain expertise in (Padovani et al., 2010). In public sector settings, short-term strategies have been implemented due to various factors such as political cycles that influence the successfulness of PMS use (Liner et al., 2001). According to Padavani et al. (2010), in order to understand the organisational actions and changes in performance measurement, a path dependency theory can be employed to investigate the factors and situations that impact the implementation of PMS. In other words, both direct and indirect occurrences of situations and motivations (Pollitt, 2008) affect how organizations change their implementation and use of PMS. The third and fourth factors – windows of opportunity and cycle – relate to specific situations or contexts. An example includes introduction of a new PMS by a government during a budgetary cycle. Causal mechanisms consist of four elements that require focus: political stability, organisational background regarding PMS, knowledge sharing, and support from departments in an organisation. Multiple perspectives of time suggest each activity requires its own period. For example, strategy planning requires a longer period than task control, which is a daily activity (Padavani et al., 2010). Taking these elements into account may lead to more effective development of PMS in public sector organisations.

According to Keathley and Van Aken (2014, p. 2), many studies identify ‘barriers to success’ with ‘some of factors identified in more general content areas’ such as change management (Bourne, 2002) and organisation improvement (Bourne, 2002). The other factors also identified in theoretical perspectives include institutional theory (Van Helden et al., 2006; Modell, 2005; 2009; Modell and Wiesel, 2008), contingency theory (Taylor and Taylor, 2013), and path dependency theory (Padovani et al., 2010) and performance-measurement-system-specific factors (Bourn et al., 2002; Franco and Santos, 2012). A review of the literature suggests that impact factors differ based on what theory or concept is used during a study. Keathley and Van Aken (2013) argue that research results in this area show little consistency, and that many researchers attempt to explain many factors that cannot be measured directly or easily. Taylor and Taylor (2013) support this idea, suggesting few researchers study effective performance measurements, and there is no consensus regarding which factors are important. They offer six enabling factors of effective implementation of PMS: ‘strategy formulation, strategy implementation, information systems support, organisational-learning orientation, quality management culture, and senior management leadership’ (p. 5493).



Taylor and Taylor (2014) used a contingency perspective to discover organisational size effects for each factor, but due to unsuitable PMS that large organisations develop, they could not confirm whether such organisations have greater potential than SMEs to achieve effective implementation and use of performance systems. However, when researchers consider each factor, both large organisations and SMEs have their own factors that can be developed and lead to successful adoption of PMS. Many researchers agree that alignment with strategy, adequate information systems, development of learning organisations, and commitment from leaders influence the success or failure of development of PMS.

#### **2.4 Consequences of Performance Measurement Systems**

Franco-Santos et al. (2012) reviewed 72 studies, and sought to identify the consequences of contemporary PMS frameworks. The consequences can be identified as occurring in three groups: the consequences for people's behaviours, organisational capabilities, and performance. Franco-Santos et al.'s (2012) study is summarised below in order to contextualise the impact of PMS as they might be seen to relate to this study.

Franco-Santos et al. (2012, p. 79) explain the way that PMS can affect people's behaviours. Firstly, PMS can affect 'people's strategic focus' by helping executives to place more emphasis on 'what is important for the organisation' (p. 83). However, the studies in the field do not provide ways to convert a strategic focus into a measure (e.g. Jazayeri and Scapens, 2008). According to Chang et al. (2007), the PMS can create goal conflicts, as individuals selectively attain particular goals and ignore others due to their lack of capability to cope with all of the goals.

Next, Franco-Santos et al. (2012) argue that findings on the impact of PMS on motivation have both positive and negative results. The research in the field claims that there is evidence that linking PMS and monetary incentives can negatively affect employees' motivations (e.g. Decoende and Bruggeman, 2006; Spekle and Verbeeten, 2014).

Franco-Santos et al. (2012, p. 92) explain that PMS that link measures with organisational goals, and employ them during decision-making, 'facilitate the provision of job-relevant information.' The degree of impact depends on the way in which the

PMS is used and designed, on ‘individuals’ experiences and the perceptions of goal difficulty’ (Franco-Santos et al., 2012).

Other consequences are said to impact leadership style, organisational culture, and individual satisfaction. Franco-Santos et al. (2012, p. 93) suggest that PMS lead to a ‘cultural change and to a more participative and consultative leadership style’ by reinforcing ‘desired behaviours, values and beliefs’ and creating new routines (Bititci et al., 2006). On the other hand, Lonnoqvist (2002, as cited by Ukko et al., 2007, p. 41) suggests that organisational cultures ‘do not complicate the measurement’. Ukko et al. (2007, p. 49) argue that from employees’ perspectives, even if the PMS is used successfully, it does not guarantee improvement in leadership style’ or affect organisational culture. Indeed, Ittner et al. (2003) also point out that employees perceive dissatisfaction toward PMS regarding perceptions of unfairness.

Consequences for people’s behaviours are ‘perceptions of subjectivity, justice and trust’ (Franco-Santos et al., 2012, p. 93). PMS raise a ‘perception of subjectivity and uncertainty’ in many ways, especially when considering their relationships with other practices (p. 93). According to Franco-Santos et al. (2012, p. 93), for example, the link of a PMS with monetary incentives creates perceptions of subjectivity and uncertainty for managers (Ittner et al., 2003) and employees (Burney et al., 2009). However, Franco-Santos et al. (2012) argue that organisational characteristics create positive and negative perceptions of subjectivity regarding evidence of positive attitude from Kolehmainen (2010). Also, the perceptions of justice depend on how a system reflects the strategic model and validity of a system. Again a specific argument is made that well-defined measures lead to positive ‘perceptions of justice’ and ‘trust in supervisors’ (p. 94). However, according to Campbell et al. (1998), even with a well-designed system, it is still difficult for supervisors to distinguish various individual performances when their work ties together and an individual cannot control the result. Moreover, individuals tend to perceive the injustice, as they are unlikely to accept a performance result lower than their self-assessment (Campbell and Lee, 1988).

According to Franco-Santos et al. (2012, p. 942), judgemental biases occur regarding the complexity of PMS and the ‘subjective nature’ of some measures. For example, Bol (2011, p. 1250) found that managers tend to ‘subjectively evaluate performance’ when

it's related to incentives and their interests. Also, in the same study, the relationship of manager and employee and 'information gathering cost' can affect the degree of biases (p. 1250). Many studies suggest ways to reduce such biases, including use of external assessors (Lipe and Salterio, 2002) and providing assessors with 'full information about the organisational strategic objectives and other related knowledge' (Banker et al., 2004). Franco-Santos et al. (2012, p. 94) explain that PMS can create 'conflicts and tensions' within organisations, such as 'during the development of measures, idea and initiative' (Marginson, 2002), causing reluctance to use the system, regarding shifts in organisational power structure (Tuomela, 2005) as 'costly and time consuming' (Butler et al., 1997).

According to Franco-Santos et al. (2012, p. 95), use of PMS affects organisational capabilities in a number of ways, which can be explained in terms of 'strategy processes, communication, strategic capabilities, managerial practices, and corporate control'. A PMS can be an effective mechanism for 'alignment, development, implementation and review' of strategic processes (Jazayeri and Scapens, 2008; Kolehmainen, 2010; Cruz et al., 2011), but the degree of effectiveness depends on the characteristics of the PMS (p. 95). However, Modell (2009) states that rather than these technical and instrumental issues, institutional perspectives can help to broaden the view of PMS by emphasising social and political aspects as well as incorporating other theories with which the researcher can conduct the research at a micro-level such as individual actions.

The consequences Franco-Santos et al. (2012) discuss can help researchers understand potential impacts of PMS on organisations, consequently improving researchers' interpretations of data collected from semi-structured interviews.

## **2.5 Balanced Scorecard**

### **2.5.1 The development of the balanced scorecard**

The BSC has been used in many organisations, both in the private and public sectors. According to Kaplan and Norton (1996a; 2001a), the BSC is a performance measurement tool that helps organisations translate strategic goals into organisational objectives and performance measures. The BSC model helps organisations monitor

performance, enhance the ability to learn and improve a process, and motivate and educate employees. Kaplan and Norton (1992) developed the BSC approach to supplement financial measures with non-financial measures. Therefore, the original BSC model consisted of four dimensions: financial, customer, and internal business processes, and learning and growth. These dimensions represent the major business stakeholders: shareholders, customers, and employees. Therefore, all aspects of the organisation are included during strategic planning (Bedford, 2008). According to Mooraj et al. (1999), the importance of designing the BSC with each of these dimensions is that the measures accord with organisational strategies. The measurement represents a balance between financial and non-financial measures, long-term objectives and short-term actions, and management and implementation of strategy (Kaplan and Norton, 2001a). However, Kaplan and Norton's (2001a) study does not offer much guidance on how to balance the measures when evaluating managerial performance, and a major challenge of implementation of the original BSC is difficulty in justifying the choice of indicators. Therefore, the original BSC is an inadequate condition for success (Epstein and Manzoni, 1997).

During the mid-1990s, Kaplan and Norton (1996a, 1996b, 1996c) introduced an improvement to the BSC model known as the strategy map. The consequences of this change were increased demand for accurate reflections of an organisation's strategic goals and increased awareness of reflections of disparities in managers' agenda and structure (Kaplan and Norton, 1996a, Olve et al., 1999). Many studies on the design and use of the BSC, including Norreklit (2000; 2003), Neely et al. (2004), and Johanson et al. (2006), report favourably on the model, while some point out difficulties with choosing the right measures for BSC and organisational resistance.

### **2.5.2 The criticism of the balanced scorecard**

Kaplan and Norton (1996b, 1996c) argue that the BSC provides organisations with a set of instruments to help them navigate future competitive success, and it addresses an insufficient process to link long-term strategy with short-term actions in traditional management systems. However, the literature contains criticisms that come from a variety of sources.

According to Schneiderman (1999) and Berry et al. (2009) the reasons the BSC model fails under some circumstances include:

- (1) inaccurately and subjectively identifying non-financial indicators; inadequately defined performance metrics and benchmarks;
- (2) accepting negotiated goals rather than goals based on stakeholders' requirements; absence of 'a deployment system that breaks high level goals down to the sub-process level' (Schneiderman, 1999, p. 7)
- (3) absence of systematic improvement methods and breaking the cause-and-effect-relationship; and
- (4) changes to criteria and measures that might not support desired results; and 'lack of attention to informal controls and organization context' (Berry et al., 2009, p. 6).

Others raised doubts about the validity and usefulness of the BSC. According to Kaplan and Norton (1996a, 1996b, 2001a, 2001b), a 'cause and effect relationship' should pervade all dimensions of the BSC. Therefore, the link between objectives and measures helps organisations manage and validate the measurement system. A properly constructed BSC in the chain of cause and effect should offer a clear picture of organisational strategy. However, Norreklit (2000, 2003) argues that the cause and effect relationship described by Kaplan and Norton (1996a and 1996b) is problematic. Kaplan and Norton's study refers to 'a finality relationship' that occurs when 'human actions, wishes and views are related to each other' (Norreklit, 2000, p. 76). It makes the relationship between BSC dimensions more complicated, and use of BSC becomes impracticable. Norreklit (2003, p. 616) also questions the cause and effect relationship between some 'outcome measures and the performance drivers' contained on a scorecard. Invalid assumptions lead to 'dysfunctional anticipation of performance measures' and 'sub-optimal performance' (Norreklit, 2000, p. 82).

Kaplan and Norton (1996a) suggest that one of the BSC's objectives is to solve problems related to strategy implementation. However, Norreklit's (2003) criticism makes the BSC doubtful as a strategic management tool. Norreklit (2003, p. 591) questions the BSC model, claiming that the uptake rate of BSC 'is due to its substance as an innovative and practical theory or simply to its promotional rhetoric provides the focus' of Kaplan and Norton's (1996) paper. Bedford et al. (2008) point out that both

theoretical and empirical evidence on the benefits of using cause-and-effect relationships with BSC are unclear.

Kaplan and Norton (1996a) argue that BSC is an instrument of strategic control, but Norreklit (2000; 2003) questions the BSC's strategic control model, and studied the relationship with external stakeholders and the environment, and managers and employees. She found that the BSC model is a top-down process, and not all stakeholders are included. Some studies criticise that the BSC fails to emphasize the contribution of employees and suppliers in the value chain (Atkinson et al., 1997), and ignores the importance of institutional stakeholders such as public authorities (Norreklit, 2000). The BSC also fails to identify performance measures as an interactive process (Atkinson et al., 1997; Norreklit, 2000; 2003). Therefore, a gap of transforming a strategy plan into action must be expected (Norreklit, 2000).

According to Kaplan and Norton (2001b), a diversified organisation that requires divisional strategies can employ the BSC as a management tool for tailored scorecards that suit each division's situation within the context of an overall organisation strategy. The BSC allows each division to identify and set targets and performance measures, which can be unique or common across other divisions (Kaplan and Norton, 2001b). However, Lipe and Salterio (2000) found that organisations bias evaluations to reflect information contained by common versus unique measures. Therefore, one benefit of BSC is reduced when those unique measures contain information relevant to managerial performance.

Jensen (2001) critiques the question of 'what is balance,' when the use of BSC in organisations leads to disputes over trade-offs when multiple dimensions of performance cannot be maximized. Other researchers criticize that BSC simply present a list of metrics that do not provide a unified view with recommendations (Jensen, 2001), and that they vary under disparate circumstances (Maltz et al., 2003).

### **2.5.3 Balanced scorecard in public sectors**

Over the last decade, the BSC emerged as one of the most important PMS, since it helps organisations implement strategy into action and measure organisational performance.

Although designed for private sectors, the BSC has been employed commonly in the public sector.

Many public organisations experience difficulties using the original BSC, since the primary objective in the public sector is not financial. Kaplan and Norton (2001) explain that the BSC can be adapted to fit organisational interests by identifying primary strategic themes at the forefront of the scorecard. Circumstances in the public sector increase the need for BSC adjustments regarding both design and implementation (Aidemark, 2001; Kaplan 2001). According to Northcott (2012), recent empirical research in the BSC literature focuses on private-sector organisations, but less emphasis has been placed on the public sector. Most BSC studies in the public sector have been conducted within the context of public healthcare organisations (Aidemaek, 2001; Chang, 2007; Patel et al., 2008) and local governments, including municipalities (Askim, 2004; Kloot and Martin, 2000). According to Northcott (2012), recent research reports favourably on the adoption of BSC in public sector organisations, but reasons for successes and failures when implementing and operating stages of a BSC framework in the public sector have not been examined thoroughly. Therefore, further study is required.

Aidemark (2001) and Patel et al. (2008) suggest more indicators were added after public-sector organisations employed BSC. Aidemark (2001) suggests that the nature of BSC has increased the problem of an excessive number of public-sector performance indicators. Patel et al. (2008, p. 913) investigated a cause-and-effect relationship in NHS's BSC, suggesting that public organisational success is shaped by 'the knowledge of relationships between indicators,' and how organisations address these relationships. Due to a conflict of indicators in NHSs, performance improvements might be unsustainable (Patel et al., 2008).

Gumbus et al. (2003), Patel et al. (2008), Koot and Martin (2000), Askim (2004), and Niven (2006) all report successful implementation of BSC in public-sector organisations, public healthcare organisations, and local governments. Askim (2004) argues that local governments develop into active learners after adopting a PMS like BSC. Kloot and Martin (2000) and Niven (2006) also suggest various positive results after implementing BSC. They suggest that clearer strategic goals lead to better

selection of meaningful and manageable indicators. However, Kloot and Martin (2000) point out that use of BSC in public-sector organisations emphasizes financial performance and community focus management rather than organisational change.

In conclusion, the BSC is a PMS used in both public- and private-sector organisations regarding measures from financial and non-financial perspectives. The BSC also has been employed in the case-study organisations at various levels from organisational to individual, discussed in chapters 6 and 7, respectively.

## **2.6 Economic Value Added**

For the last two decades, Stern Stewart's Economic Value Added (EVA) formula has dramatically gained attention from practitioners in the private sector (Biddle et al., 1998; 1999). Accordingly, the rise in use of EVA points toward limitations of traditional accounting profit measurement systems, which include difficulties faced when assessing organisational performance and motivating employees (Aggarwal, 2001). According to Kysiazis and Anatassis (2007), the difference between these two concepts is how to calculate profit and invested capital. EVA provides guidelines when calculating economic value created by an organisation, which helps the organisation assess and manage invested capital (Kysiazis and Anatassis, 2007), integrate its financial management system (Stewart, 1994; Stern et al., 1996), and recognize 'desired long-run effects,' leading to managerial decision-making (Stern et al., 1996; Chen and Dodd, 1997; Bromwich and Walker, 1998).

According to Ittner and Larcker (1998), value-based measures, especially EVA, have a higher correlation with share price than accounting measures. Stewart (1991) and Stern et al. (1995) claim that EVA helps organisations improve shareholder wealth. To assess this statement, many researchers have examined the correlation between EVA and MVA (including share price) (Walbert, 1994; Biddle et al., 1997; Chen and Dodd, 1997), and shareholder return (O'Byrne, 1997). Some researchers also find that traditional financial measures such as net income and operating income have a higher, positive correlation with market value than EVA does (Kyriazis and Anastassis, 2007). Chen and Dodd (1992) and Biddle et al. (1997) argue that EVA cannot replace traditional accounting measures, and organisations should consider employing both EVA and accounting measures.



Stewart (1991) suggests that organisations use EVA for making financial decisions by aiming to maximize EVA instead of accounting profit because EVA is a reliable measure of decision-making effectiveness. EVA focuses on the opportunity costs of capital: if an investment project has a positive profit but its return is less than the cost of capital, the project is terminated (De Villiers, 1997). However, according to De Villiers (1997, p. 286), one of EVA's demerits is that it is based on traditional accounting profit, which is 'a poor proxy for economic profit.' Accordingly, it might lead organisations to make inefficient investment decisions (De Villiers, 1997; Warr, 2005) and compensation outcomes (Warr, 2005).

Some literature supports EVA as a management tool at division and product levels, including Hartman (2000) and Shrieves and Wachowicz (2001). However, Zimmerman (1997) and Woods et al. (2012) focus on prospective problems of cost sharing and target costing due to the complexity of the calculation of cost of capital. Therefore, EVA for performance management at the divisional level is impracticable (Zimmerman, 1997). Kaplan and Norton (1996) point out that EVA discourages organisations from investing in a new project of a prime business division; it is better to measure project performance in terms of free cash flow rather than in terms of EVA. Organisations that base managerial decisions solely on EVA might underinvest in 'a division with good growth prospects' (O'Hanlon and Peasnell, 1988, p. 441).

O'Hanlon and Peasnell (1988) thoroughly discuss characteristics of EVA, pointing out some problematic uses. Stern Stewart intended to adjust GAAP closer to economic value accounting by achieving three objectives: accounting conservatism, earning management, and past accounting errors. However, O'Hanlon and Peasnell (1988) have doubts about Stern Stewart's EVA adjustment method, and mention that some of their adjustments might push EVA back to cash accounting. Even after EVA adjustment, various systematic biases remain, and there is still no clear evidence of the relationship between EVA and managerial performance. It is not necessarily true that EVA is a better measurement of equity returns or firm value than net income (Biddle et al., 1998).

According to Stern and Shiely (2001, p. 24), a well-designed incentive scheme ensures that managers act as shareholders 'by rewarding them for actions that increase

shareholder return.’ Stewart (2002) suggests that organisations should use EVA solely to assess and reward performance. Lovata and Costigan (2002) examined the characteristics of EVA using firms that integrate it with bonus schemes. They point out that firms influenced more by institutional organisations and firms using a defender strategy tend to employ EVA. According to Lovata and Costigan (2002), use of EVA to identify an appropriate incentive as Stern Stewart suggests appears more difficult than they imply. Fatemi et al. (2003) examined the relationship between executive compensation and organisational performance indicators such as EVA, MVA, ROE, and ROA, concluding that there is a weak correlation between incentive schemes and EVA. However, Biddle et al. (1998) state that EVA can help organisations overcome the drawbacks of traditional earning incentives, and management levels support EVA incentives.

O’Hanlon and Peasnell (1988) also question the usefulness of EVA, and posit that only time will tell whether it is a useful technique. Tortella and Brusco (2003, p. 269) point out in a literature review that some researchers argue about ‘whether EVA is a really useful technique or it is only a management fashion that will fade away with time.’ In support of this view, Brickley et al. (1997) describe EVA as management fashion.

There is limited literature on EVA in the public sector, and Rompho (2009) found that there is no literature in the field. Rompho (2009) discuss the usefulness of employing EVA in a non-profit organisation, Thammasat University in Thailand, by surveying 250 participants. He argues that EVA does not focus solely on organisational profit, but considers cost of capital. Therefore, implementation of EVA in a non-profit organisation helps it set and monitor capital budgeting efficiently. However, the difficulty of using EVA in a non-profit organisation concerns how to evaluate the social benefits and ‘what the capital cost should be measured against’ (Rompho, 2009, p. 9).

## **2.7 The Relationship between Performance and Incentive Systems**

There are many tangible and intangible human resource variables such as incentive systems, development and training, and employee skills that affect organisational performance (Ferguson and Reijo, 2009). A number of studies have examined the influence of PMS in the context of human resources management (Broadbent and Laughlin, 2009) and motivation (Franco-Santos, 2012). According to Merchant and

Van der Stede (2007), incentive system design is one of the major elements of effective management, besides performance measurement and evaluation.

Over the last two decades, performance incentives gained attention from many researchers in various fields of study such as management and economics, and most researchers suggest that performance incentives lead to improvements in firm productivity (Cadsby et al., 2007). According to Lawson (2000, p. 303), a performance incentive is a monetary reward based on 'individual, group or company performance.' The benefit of a performance incentive is improvement to organisational performance by motivating employees to be more efficient (Lawson, 2000). However, Deckop et al. (2004) point out that the success of performance pay and incentives depends on individual degrees of risk aversion. Cadsby et al. (2007) support this idea by illustrating how highly productive employees tend to self-select pay-for-performance and related incentives, while risk-averse employees are less responsive to this type of incentive system. According to Franco-Santos et al. (2012), much research suggests that the link between PMS and monetary incentives can negatively influence employees' motivations (Decoene and Bruggeman, 2006; Spekle and Verbeeten, 2014).

Merchant and Van der Stede (2007) explain that group rewards have gained more attention recently regarding improvements to employee cooperation and the enhancing of organisational efficiency. According to Blazovich (2013), literature on performance incentives points out that both team and individual incentives have a positive influence on organisational performance. Heneman and von Hippel (1995) argue that organisations normally provide a combination of team and individual incentives based on a common goal, and try to reduce free riders on a team.

According to Thorpe and Homan (2000), many non-profit and public-sector organisations are not able to state goals clearly due to conflicting stakeholder demands. Measurement of quality of service is difficult to interpret on a financial form. As a result, Thorpe and Homan (2000) illustrate that problems in employing performance incentives occur because of (1) the use of wrong measures or targets, which influences overall performance, and (2) inaccurate judgments by an assessor, which reduce employee motivation. Inappropriate system design between selection of performance measures and reward distort overall organisational performance (Lawson, 2000;

Blazovich, 2013), and the subjectivity of the incentive system can affect the motivation of employees (Ittner et al., 2003; Merchant and Van der Stede, 2007, Franco and Santos et al., 2012). However, a number of researchers suggest a connection between performance measures and incentives in public-sector organisations, and some report the successful use of BSC. Even though the results of using performance based incentives are mixed, the majority of countries in the Organisation for Economic Co-operation and Development still have used monetary incentives in the public sector and the usage does not seem to be declining (Belle, 2015, p. 230). In addition, public sector organisations seem to continue their interest in linking monetary incentives and PMS (Belle, 2015).

Apart from monetary incentives, Frey et al. (2013) suggest that non-monetary incentives such as awards or prizes can be integrated with performance measures to motivate organisational employees. They explain that awards ‘provide positive feedback and social recognition,’ and are suitable for public-sector organisations to use when avoiding demerits of monetary incentives (p. 962). According to Belle (2015, p. 290), the use of non-monetary incentives can overcome ‘some of the motivational drawbacks’ of monetary incentives. However, few studies exist on the influence of awards in public-sector organisations (Frey et al., 2013).

It has been suggested, in the discussion above, that PMS are of high importance in the public sector. Studying the adoption of PMS such as BSC and EVA, and the relationship between PMS and incentive systems in Thai SOEs, will be useful to further understanding the organisational and individual actions and responses toward these systems (chapters 6 and 7). The next section discusses PMS literature from the public sector.

## **2.8 Public Sector**

The public sector is usually defined to include traditional non-profit, social entrepreneurial organisations and SOEs believed to combine social and financial missions (Grimes, 2010). Linna et al. (2010, p. 301) state that the productivity of public sector is as important to a country’s economy as the private sector because the ‘public sector is major employer’, ‘a major provider of services in economy particularly business services...and social services’, and ‘a consumer of tax resources’. In order to

meet these demands, public-sector organisations have employed various private-sector management techniques and strategies to cope with competitive markets (Spekle and Verbeeten, 2014).

### **2.8.1 Performance measurement systems in public sector organisations**

PMS gained attention in public-sector organisations internationally over the past two decades (McAdam et al., 2005; Spekle and Verbeeten, 2014). McAdam et al. (2005) argue that the public sector devotes increasing resources and attention toward PMS. Performance measurement is part of the public management model that helps an organisation reform by setting goals for improvements to efficiency and effectiveness (Brignall and Modell, 2000; Kaplan, 2001; Pollitt, 2006; Spekle and Verbeeten, 2014). However, Spekle and Verbeeten (2014, p. 132) point out two problems concerning public-sector PMS: ‘the role of PMS in accountability and incentive provision is too narrow’, and ‘the goals of many public sector organisations are notoriously ambiguous and the selection of appropriate performance measures is known to be difficult in this sector’.

Many public-sector organisations implemented PMS adopted from private-sector management tools, but such adaptations caused a number of difficulties regarding a variety of stakeholders in comparison to private-sector organisations, which focus primarily on customers and shareholders (Linna et al., 2010). Dealing with a variety of stakeholders poses many challenges to public-sector organisations. According to Verbeeten (2008) two stakeholders that influence public-sector organisations most are various professionals and the state. Verbeeten (2008) and Tillema et al. (2010) support this idea, explaining that the interests of various stakeholders in the public sector vary, and hence sometimes conflict. Therefore, the complexity of relationships in the public sector leads to difficulties of performance measurement (Smith, 1990; Ittner and Larcker, 1998). According to Talbot (2005), some researchers criticise the use of PMS in public-sector organisations due to the difficulty of providing a complete picture of complex activities. Complexity also causes information overload and increased organisational costs (Talbot, 2005).

Barnow (1992) explains that the primary role of a PMS in the public sector is enhancing service quality. According to Tillema et al. (2010), the increasing power of stakeholders

demands that public organisations perform better and offer improved quantity and quality to customers has put an increased emphasis on the use of PMS. However, Talbot (2005) explains that public-sector organisations have no incentive to improve service due to administrative control mechanisms in monopoly public services. According to Modell (2005), another impact of PMS in public-sector organisations is an improvement of accountability. However, Modell (2005) points out that many public-sector organisations claim that this is difficult since they deal with many stakeholders and provide services to many customers. Therefore, public-sector organisations should develop methodologies such as multidimensional PMS that enable them to make strategic directions clearer to achieve better accountability (Modell, 2005).

One challenge that public-sector organisation often experience is a lack of long-term continuity. According to Boxall and Purcell (2011), in public sector organisations, the frequent change of governments can lead to the change of policies, strategies and senior leaders. Therefore, leadership and culture in the public sector become dynamic, making long-term plans and strategies impossible to implement. Techniques such as PMS help instil long-term continuity in this sector.

From a variety of studies of PMS in public-sector organisations, Rantanen et al. (2007) provide a clear suggestion for problems experienced by these organisations. Rantanen et al.'s (2007) findings support other studies on many stakeholder problems. From case studies of the Finnish public sector, they identify the primary reasons for problems with PMS from factors influencing the design and implementation of the systems (Table 2.2).

**Table 2.2: Classification of the underlying reasons and practical problems in the performance measurement of public sector organisations**

	<b>Characteristics of public sector organisations (underlying reasons)</b>	<b>Problems in performance measurement (outcomes caused by the reasons)</b>
Factors affecting the design of a PMS	Many stakeholders with conflicting needs	Difficulties in solving the conflicts between the needs of different stakeholders (i.e. not clear what should be measured)
	Undefined end products and goals (efficiency vs. effectiveness)	Difficulties in target setting (i.e. not clear what the goal of the operations should be)
Factors affecting the implementation of a PMS	Lack of ownership of the property	Representatives of different stakeholder groups influence the development of individual measures on a too detailed level.
		The personnel does not understand the objectives of the measure development
	Poor management skills	Too many responsible persons in the measurement development lead to non-responsibility
		The personnel do not see the usefulness of the project for their work and ignore or resist it.
		Overlapping projects hamper the measurement project because they take resources

Source: Rantanen et al. (2007, p. 428)

### **2.8.2 Performance measurement systems in SOEs**

There is little research on PMS in SOEs (O'Connor et al., 2006). Paton (2003) argues that SOEs face complex problems, with no clear resolutions. According to Straub et al. (2010), many SOEs are adopting PMS because such systems are believed to help them improve transparency, efficiency, and effectiveness (De Bruijn, 2007). However, Straub et al. (2010) also point out that although an ideal set of measures covers performance aspects and accountability, SOEs still have a problem with transparency measures due to the dynamic environment. Radin (2000) explains that the structures of many SOEs make transparency within them extremely difficult to achieve. O'Connor et al. (2006, p. 157) claim that most SOEs in China developed a great deal more independence because of China's 'massive liberalisation program' and subsequent competitiveness of markets. Both the forces of liberalisation and political restrictions in China led to development of PMS in Chinese SOEs (O'Connor et al., 2006). Manir et al. (2013) investigated institutional factors that influence changes to PMS in a state-owned, Pakistani bank.

According to Munir et al. (2013), changes were driven by interactions among motivators, catalysts, and facilitators (Kasurinen, 2002).

PMS have been employed in SOEs in Thailand. This literature review facilitates the understanding of PMS in public sector organisations and helps researchers identify characteristics and perceptions of employees toward PMS, and understand pressures from various institutional demands and competing institutional logics (chapter 3) in empirical chapters.

## **2.9 Conclusion**

This chapter provides a literature review on PMS as a domain of study, outlining four parts. First are PMS, discussing definitions and terms used in the field, and factors influencing development and consequences. Second, the chapter provides reviews of the BSC, EVA, and incentive systems to provide context and background for the systems described later, which are used in the case-study organisations. Third, the application of PMS in the public sector is discussed to provide a background to the research conducted in the present study and reported in later chapters. To supplement the limited studies of SOEs, especially in developing countries, the researcher investigates Thai SOEs and focuses on the influence of institutional logics. The research also aims to explain how the case organisations have responded to institutional complexity through an explanation of the adoption and the nature of this adoption of PMS. The next chapter reviews literature on institutional theory and the concept of institutional logic in more detail as well as provides examples of relevant empirically based institutional theory studies of public sector organisations with a focus on PMS.



## **Chapter 3**

# **Institutional Theory: The Influence of Institutional Logics**

### **3.1 Introduction**

Institutional theory has been employed in many studies of performance measurement systems (PMS) (Modell, 2009). A number of these studies examine the key issues that have been identified in the use of PMS in public sector organisations. The purpose of this chapter is to outline the theoretical constructs, institutional theory and institutional logics that have been used to explore Thai State Owned Enterprises (SOEs) in this study. The aim of this research is to explain how institutional complexity has affected the implementation of PMSs in these SOEs. The PMS implementations examined include Economic Value Management (EVM) and Balanced Scorecard (BSC) systems as well as individual BSC and incentive systems. This chapter aims to provide a broad background of institutional theory in order to outline institutional logics and the frameworks used in this study. The chapter also presents the institutional perspective focused on PMS in public sector organisations. This includes a consideration of Modell's (2009) review of performance measurement research using Institutional Theory and examples of institutional theory based empirical research in public sector organisations.

The next part of the chapter presents a background for institutional theory and an overview of old institutional theory and neo-institutional theory. This is followed by a discussion of Scott's three pillars to explain the link between institutional theory and organisational culture. Next, institutional logics and the framework employed in this study are presented. The next two sections present a review of organisational responses as well as an overview of decoupling and loose coupling. Then, the chapter provides a review of PMS research that considers institutional perspectives in the public sector and case studies from previous literature. Finally, the chapter summary is provided.

### **3.2 Institutional Theory Background**

According to Scott (2014), institutional theory was developed in order to represent a robust sociological perspective on organisational behaviour and has been widely used in various fields such as political science and economics (Powell and DiMaggio, 1991). Zucker (1987) indicates that institutional theory is mainly focused on the environmental factors that are experienced by organisations, including governments. Institutional theorists emphasise the extent to which the social and cultural elements of any society, such as the rules, norms, and values (Modell, 2009), might influence an organisation rather than ‘the task and technical elements’ (Ashworth et al., 2007).

According to Oliver (1991), institutional studies have developed explanations and theories for the various types of institutional processes that are involved in the organisations’ structural characteristics as well as organizational change. Institutional theory has been applied in various disciplinary fields (Greenwood and Hinings, 1996) to interpret the ‘organisation processes of continuity and change’ (Ashworth et al., 2007, p. 166).

According to Meyer and Rowan (1977) and DiMaggio and Powell (1983), in order to understand the similarity and stability of organisational arrangements, institutional theory provides an alternative rational explanation of organisational forms. According to Oliver (1991), institutional theory presumes that organisations are exposed to different types of institutions. Therefore, in order to survive, organisations must be responsive to institutional environments (Meyer and Rowan, 1977); however, their responses might vary depending on the organisation and time period (Oliver, 1991). Accordingly, with the specific institutional conditions in each organisation, institutional theory may be not suitable to investigate in the view of larger cases (Greenwood and Hinings, 1996). On the other hand, other institutional theorists still believe that this theory can be used to interpret organisational change phenomena; for instance Seo and Creed (2002), Siti-Nabiha and Scapens (2005), Ribeiro and Scapens (2006).

Institutional theory has been adapted over a considerable period of time and developed into two broadly recognized and distinct areas: old institutional theory and neo-institutional theory. According to Ahmed and Scapens (2003), due to their focus on the importance of institutions and institutional intra-relations, both theories have been used

in organisational research to provide insights into the adoption of new management or accounting instruments.

### **3.2.1 Old institutional theory**

According to Scott (2014), old institutional theory was originally derived from Selznick's (1948) institutional process concept. Selznick (1949) pays particular attention to the dynamics of organisational changes such as 'organisational values', 'organisational-environment interactions', 'coalition', 'influence and power', 'informal structure' and 'conflict and interest' at a micro-institutional environment level (Greenwood and Hinings, 1996, p. 1031). This later became known as the 'institutionalisation process'. According to Powell and DiMaggio (1991, p. 12); research which employs old institutional theory, for example Selznick's (1949) study, is often 'straightforwardly political in its analysis of group conflicts and organisational strategy'. Old institutional theory identifies that 'institutional process' come from 'a result of political trade-offs and alliances' of the constitutional interests (p. 12) which are formed by 'face-to-face interaction' as well as informal interaction (p. 13). In other words, this theory tends to explain the institutionalisation process as well as the relationship between actions and institutions through 'the shadow land of informal interaction' (Selznick, 1949, p. 260). For example, Burns and Scapens (2000) use old institutional theory to explain the dynamic process involving the changes of managerial accounting by employing the concepts of rules and routines. They conclude that organisations tend to accept new rules depending on the consistency level with their existing routines, which means that a certain 'path-dependency' occurs in the institutionalization process (p. 12).

### **3.2.2 Neo-institutional theory**

Neo-institutional theory was introduced by Meyer and Rowan (1977) and DiMaggio and Powell (1983). According to Modell (2009), neo-institutional theory or neo-institutional sociology has been developed over the past two decades. Unlike old institutional theory, neo-institutional theory highlights the dynamic of organisational changes at the macro-level (Tolbert and Zucker, 1983; Kasperskaya, 2008). According to Arafa (2012), neo-institutional theory focuses on studying institutional behaviour in a given organisation as it is embedded in the institutional environment. Kasperskays (2008, p. 365) also adds that neo-institutional theory has been employed in order to

understand the ‘uniformity’ and ‘similarity’ of the organisational changes in particular institutional conditions.

According to Kasperskaya (2008), neo-institutional theorists are also concerned with the emergence and diffusion of new management instruments leading to the adaptation of organisational behaviours and the effect this has on other organisations within the same populations (DiMaggio and Powell, 1983).

According to DiMaggio and Powell (1983), neo-institutional theory explains that an organisation adopts other organisational practices or legitimated elements because of the pressures forced by the surrounding environment. Of the two types of isomorphism, ‘competitive isomorphism’ and ‘institutional isomorphism’, their study focuses on the institutional form. Institutional isomorphism is when ‘organisational characteristics are modified in the direction of increasing compatibility with environmental characteristics’ as well as a force that causes ‘one unit in a population to resemble other units that face the same set of environment conditions’ (DiMaggio and Powell, 1983, p. 149). In other words, to seek legitimacy, organizational structures tend to change into forms that fit with their interpretation of institutional requirements. DiMaggio and Powell (1983) define three forces driving institutionalisation: coercive isomorphism, mimetic isomorphism and normative isomorphism.

Coercive isomorphism results from external pressures that are exerted by other organisations such as governments and regulatory agencies, where legitimacy is attained when organisations adopt the structures or systems that satisfy institutional requirements (DiMaggio and Powell, 1983). According to Scott (1987, p. 502), institutional theorists have paid more attention to ‘authority relations: the ability of organisations, especially public organisations, to rely on legitimate coercion’. Coercive pressures present the legal and regulative requirements that are imposed on an organisation. Furthermore, these pressures may also come from ‘contractual obligations’ with other actors or organisations (Ashworth et al. 2007, p. 167) while nonconformity to these pressures may result in an organisation facing a legal liability (Arafa, 2012).

DiMaggio and Powell (1983) state that mimetic isomorphism occurs under uncertain circumstances. High levels of uncertainty encourage organizations to imitate leading organisations as well as structures or systems perceived as more successful in order to enhance their legitimacy. DiMaggio and Powell (1983) and Abrahamson (1996) comment that when mimetic pressures occur organisations may adopt others' structures or systems without any concrete evidence as to their benefits.

DiMaggio and Powell (1983) describe normative isomorphism as the process that arises from professional rules or standards. The influence of a certain profession as well as professional associations or networks can influence organisational behaviours and structures (Edelman et al., 1992; Ashworth et al., 2007). In other words, in order to gain legitimacy, organisations are expected to conform to relevant professional standards as well as adopt structures or systems accredited by professional bodies (Ashworth et al., 2007).

DiMaggio and Powell (1983) conclude that under uncertain and ambiguous circumstances, in order to survive, organisations will end up with isomorphic structures that are perceived to be more legitimate. Consequently, neo-institutional theorists believe that due to the desire to fit with an external environment, organisations with the same conditions as well as institutional environments tend to employ similar practices, which lead them to 'become isomorphic with each other' (Kostava and Roth, 2002, p. 215; see also Martinez and Dacin, 1999). According to DiMaggio and Powell (1983), over time, this isomorphism leads organisations in the same field into a homogenization process and traps them in an 'iron cage'. Later on, Ashworth et al. (2007) re-investigated the 'iron cage' using their definition of conformity to support DiMaggio and Powell's (1983) study, stating that over time, 'organisations are moving in the direction that is consistent with isomorphic pressures' (compliance) to 'the extent to which all organisations in a field resemble each other closely (convergence)' (p. 169).

The main criticism of this theory is that early neo-institutional research was too focused upon isomorphism as suggested by DiMaggio and Powell (1983), and tried to explain 'how practices spread throughout various fields' (Lounsbury, 2008, p. 350). This led to 'a narrow conceptualisation of institutional dynamics' in explaining 'the diffusion of new practices' (Lounsbury, 2008) as well as weakening the theory's analytical power to

explain the internal dynamics of organisational changes (Greenwood and Hinings, 1996).

On the other hand, Hasselbladh and Kalinikos (2000) argue that most neo-institutional research tends to be too idealistic and broad. For example, in explaining the changes of practices in organisations, research has tended to focus on the existence of inertia rather than how the processes of institutionalization help organisations to change or adapt to environmental factors more quickly (Oliver, 1991). According to Greenwood and Hinings (1996), research in this field cannot explain the difference between successful and unsuccessful adopters even when they are faced with similar conditions.

Hasselbladh and Kalinikos (2000, p. 700) suggest that one way to overcome these limitations is for research in this field to focus more on micro-mechanisms of social construction, cognitive meaning, 'rationalized beliefs' and 'standardized scheme of actions' rather than 'the bird's eye view' of the field. An alternative way is to use other theories, such as resource-based theory, path dependency theory and actor-network theory (Oliver, 1997; Callon, 1986; Lawrence and Suddaby, 2006; Lounsbury, 2008; Modell 2009) to support and complement institutional theory.

Alongside institutional isomorphism, neo-institutional theorists have also given attention to how organisations established legitimacy in order to respond to institutional pressures. Meyer (1992, p. 140) defines institutionalisation as 'characterized by the elaboration of rules and requirements to which individual organisations must conform if they are to receive support and legitimacy from the environment'. In other words, an organisation changes their internal characteristics in order to seek legitimacy from as well as to conform to the expectations of stakeholders (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Ashworth et al., 2007). Therefore, in this part, the review of legitimacy is provided.

According to Scott et al. (2000, p. 237), in order to survive, organisations not only require assets such as 'material resources and information', but also 'social acceptability and credibility' (legitimacy). Suchman (1995) points out that a definition of legitimacy depends on a researcher's perception. Therefore, he provides a broader definition of organisational legitimacy where

‘Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.’ (p. 574)

Scott (2001, p. 77) also suggests that legitimacy based on institutional isomorphism comes from ‘conforming to common definition of situation, frame of reference, or a recognizable role or structural template’ (p. 74). Thus, these three isomorphisms create different forms of legitimacy that are ‘legally sanctioned’ (coercive pressure), ‘comprehensible, recognisable and culturally supported’ (mimetic pressure) and ‘morally govern[ed]’ (normative pressure).

Neo-institutional theory has paid attention to the importance of legitimacy as opposed to economic efficiency as an explanation of organisational structure. Moreover, Siverbo and Johansson (2006) suggest that institutional theorists propose that there is no economic rationale behind the decision-making on organisational structures but are convinced that a desire for legitimacy is a driver of change in organisations. According to Meyer and Rowan (1977), under certain conditions, such as the inadequacy of adopted instruments, organisations strive for legitimacy; accordingly, they tend to employ instruments that are acceptable to stakeholders. Meyer and Rowan (1997) also point out that instead of following through on the intention of improving organisational efficiency, organisations tend to adopt new management instruments ceremonially. Covaleski et al. (1996, p. 11) state that ‘ceremonial means [are used] for symbolically demonstrating an organisations’ commitment to rational course of actions’. It is argued that such ceremonial adoption can construct the ‘right’ organisational image, ‘legitimize them in their social contexts’ and may help organisations to have ‘privilege[d] access to resources’ (Kasperskaya, 2008, p. 365).

Neo-institutional theory has been criticized for ignoring economic rationales. Some studies (e.g. Greenwood and Hinings, 1996; Modell, 2002) suggest that institutional theorists need to further combine economic rationality and legitimacy in their consideration of organisational behaviours, as under competitive pressure there is not necessarily a conflict between ‘striving for legitimacy’ and ‘striving for economic efficiency’ (James, 2009, p. 367). According to Ax and Bjornenak (2005), the bundling

of several management instruments in an organisation may be a consequence of a desire for both legitimacy and efficiency. Also, Scott (2014) claims that the early works of neo-institutional theory are limited within the field of their studies such as social science, sociology. Therefore, he has developed the three pillars framework (section 3.3) that can explain the concepts from the diverse fields together (Scott, 2014).

### **3.3 Scott's Three Pillars**

Scott's (2014) three-pillar framework reinforces the link between institutional theory and organisational culture as manifest in institutional logics (see also Thornton, 2002), which is a focus of this study. Therefore, this section presents a brief summary of the framework. Scott (2014) considers the origin and various strands that make up modern institutional theory by providing an 'omnibus concept of institutions' as

'Institutions comprise regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life.' (p. 56)

Scott (2014, p. 59) concludes from literature in the field that the following three pillars, regulative, normative and cultural-cognitive, are 'identified as making up or supporting institutions'. On the other hand, these three pillars can be used to explain how organisational behaviours have been shaped. Scott (2014, p. 59) sees three pillars as 'a continuum moving 'from the conscious to unconscious and from the legally enforced to the taken-for-granted' (Hoffman 1997, p. 36), and the pillars do not work in isolation. Scott's three pillars are shown in the table 3.1:



**Table 3.1: Scott's three pillars: Varying emphases**

<b>Pillar</b>	<b>Regulative</b>	<b>Normative</b>	<b>Cultural- Cognitive</b>
Basis of compliance	Expedience	Social obligation	Taken for grantedness, Shared understanding
Basis of order	Regulative rules	Binding expenditures	Constitutive scheme
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicator	Rules, law, sanctions	Certification, accreditation	Common beliefs, Shared logics of action, Isomorphism
Affect	Fear Guilt/ Innocence	Shame/Honor	Certainty/Confusion
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible recognizable, Culturally supported

Source: Scott (2014, p. 60)

Scott (2014, p. 74) employed his three pillars and ‘the basis of legitimacy’, as discussed above, to explain how organisations make decisions regarding the adoption of new instruments. Scott (p. 95) also states that ‘the institutions ... are conveyed by various types of vehicles or carriers’ where ‘the carriers are important in considering the way in which institutions change’. The relationships between the three pillars and the four types of carriers – ‘symbolic systems’, ‘relational systems’, ‘activities’ and ‘artefacts’ – are identified in table 3.2. Furthermore, within the regulative pillar, an organisation is required to comply with laws and regulations. The normative pillar highlights the ‘moral base for assessing legitimacy’, which leads organisations to act in accordance with the expectations and obligations created from social values and norms.

**Table 3.2: Scott's three pillars: Carriers**

<b>Pillar</b>	<b>Regulative</b>	<b>Normative</b>	<b>Cultural- Cognitive</b>
Symbolic systems	Rules Laws	Values Expectation Standards	Categories Typifications Schemas Frames
Relational systems	Governance systems	Regimes Authority systems	Structural isomorphism Identities
Activities	Monitoring Sanctioning Disrupting	Roles, jobs Routines Habits Repertoires of collective action	Predispositions Scripts
Artefacts	Objects complying with mandated specification	Objects meeting, conventions, standards	Objects possessing symbolic value

Source: Scott (2014, p. 96)

According to Scott (2014), a social actor considers appropriate actions or responses towards a given situation by ignoring their own interest. This is referred to as 'the logic of the appropriateness'<sup>1</sup> which 'grounds action in a normative framework that considers one's relations and obligations to others in a situation, it continues to maintain the old duality between interests and norms and does not specify how norms themselves are likely to vary with situation or cultural content' (Thornton et al., 2012, p. 30). Lastly, the cultural-cognitive pillar refers to the actions taken by social actors as a result of their 'taken-for-granted' scheme. Thornton et al. (2012) argue that 'the actions of social actor' or 'individual behaviour' can lead to institutional persistence or change.

Scott's three pillars framework is an integration of old institutional and neo-institutional theory. Each pillar provides a different rationale regarding sources of legitimacy (Thornton et al., 2012). Scott's three pillars framework is 'intended to develop a typology of literature on institutional approaches and carriers rather than achieving a theoretical integration among them' (Thornton et al., 2012, p. 40). Recently, many institutional researchers have employed the concept of institutional logics, which is seen

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<sup>1</sup> The logic of appropriateness is a perspective on individual's appropriated actions which are seen as 'natural, rightful, expected and legitimate' within a given situation (March and Olsen, 2004, p. 3). Therefore, the logic of appropriateness is different from the institutional logic discussed in the next section.

to respond to criticisms of institutional theory and enable multi-level organisational analysis.

### **3.4 Institutional Logics**

According to Lounsbury (2008), neo-institutional researchers have recently begun to shift away from the popular focus on isomorphism by revisiting the concept of rationality under neo-institutional theory suggested by Meyer and Rowan (1977). He suggests this is because organisational studies using neo-institutional theory suffer from several limitations including a lack of attention to ‘the micro processes of changes’, which are driven by a group of individuals within an organisation to confront institutional environments. As a consequence, the concept of institutional logics has recently begun to attract attention in accounting research (Lounsbury, 2008; Reay and Hinings, 2009; Rautiainen and Jarvenpaa, 2014) as well as become ‘one of the fastest-growing areas of scholarship in organisational theory’ (Greenwood et al., 2011, p. 321). According to Gawer and Phillips (2013, p. 1038), one reason why institutional logics have been of so much interest to institutional researchers lately is because ‘they are so central to many institutional phenomena which include the boundaries of fields, the identities of field members, their values and interests, and the nature of their interactions.’

#### **3.4.1 The definition of institutional logic**

The introduction of institutional logic as a perspective in organisational studies dates back to 1991 when Friedland and Alford’s (1991) study employed the fundamental works from Powell and DiMaggio’s (1987) book, ‘The New Institutionalism in Organisational Analysis’. Friedland and Alford (1991, p. 232) state that ‘the central institutions of contemporary society ...shape individual preferences and organisational interests as well as the repertoire of behaviours by which they may attain them’ and ‘these institutions are potentially contradictory and hence make multiple logics available to individuals and organisations’. Neo-institutional theorists have subsequently used Alford and Friedland’s concept of institutional logics to expand ‘the scope of institutional analysis’ by focusing more on social actors (Lounsbury, 2008, p. 351). Many researchers in organisational studies have expanded this concept (e.g. Thornton, 2004; Scott et al., 2000). Thornton and Ocasio (1999, p. 804) provide an early definition of institutional logics:

‘... the socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individual produce and reproduce their material subsistence, organize time and space and provide meaning to their social reality.’

Thornton subsequently (2002, p. 82) provides a clearer definition of institutional logic:

‘the norms, values, and beliefs that structure the cognition of actors in organizations and provide a collective understanding of how strategic interests and decisions are formulated.’

Thornton and Ocasio (2008, p. 101-102) argue that even though there are many definitions of institutional logics, the core concept is similar and helps researchers ‘to understand individual and organisational behaviour, ...and [that] this institutional context both regularizes behaviour and provides opportunity for agency and change’. The behaviour of individual social actors in a group may vary due to differences in beliefs, values and norms (Thornton, 2002; Scott, 2014). In other words, the concept of institutional logics places an emphasis on taking ‘the micro-processes of changes in practices and practice variation’ into account (Ancelin-Bourguignon, 2013, p. 207).

According to Thornton et al. (2012), the concept of institutional logics is not limited solely to conformity and legitimacy like neo-institutional theory, as it suggests that the legitimacy of an organisation does not necessary lead to conformity or isomorphism, since organisations must respond to conflicting demands from multiple logics differently, and it also depends on how a ‘social actor’ interprets and combines the logics.

### **3.4.2 Multiple institutional logics in organisations**

There are institutional logics at different institutional levels. In early research, the concept of institutional logics was employed to explain institutional changes and isomorphism (e.g. Thornton and Ocasio, 1999, and Zajac and Westphal, 2004). However, recently the research in the field has given more attention to institutional diversity. Friedland and Alford (1991), Scott (2014) and Dacin et al. (2011) state that

organisations are confronted with multiple logics, which can create ‘diversity in practice’ (Lounsbury, 2008) as well as reflect the different logics in their structure and practices (Greenwood et al., 2011; Besharov and Smith, 2014). According to Thornton (2004) and Greenwood et al. (2011), these co-existing multiple logics create enormous ambiguity, therefore in order to shape the complexity within organisations, the logics need to be blended or newly created and new practice variants are emerging continuously (Lounsbury, 2008).

After the introduction of ‘institutional logics’ by Friedland and Alford (1991), recently, the research into institutional perspective has given attention to institutional logics by focusing on how organisations respond to complex situations experienced from multiple institutional logics (Greenwood et al., 2011). According to Greenwood et al. (2011, p. 318), organisations are typically faced with multiple logics, which may or may not be compatible. Lander et al. (2013) state that competing logics present contradicting demands; hence the ‘degree of recognition awarded to each logic varies between organisations. The incompatibility of different logics can generate challenges and tensions to organisations as well as lead to institutional change (Lounsbury, 2007; Dunn and Jones, 2010).

In Greenwood et al.’s (2011) review, the term ‘incompatible’ refers to ‘contested, conflicting and competing’ (p. 332) logics. They conclude that recent studies of incompatible logics are based on two approaches. The first is Pache and Santos’s (2010, p. 466) approach, which focuses on conflict over different goals or means that can lead ‘organisational members to overtly recognize the incompatibility of the demands on goals, which may, in turn, jeopardise institutional support’. The other is Goodrick and Salancik’s (1996) study, which emphasises ‘the specificity of logics’ that affect the degree of organisational discretion, as ‘the greater the ambiguity (in goals and practices), the greater the scope for discretionary action’ (Greenwood et al., 2011, p. 333).

According to Greenwood et al. (2011), recent works on multiple institutional logics focus on the competition between two logics as well as shifts in institutional logics at the field and organisational levels. Competing institutional logics occur where no single logic becomes dominant in the organisation (e.g. Reay and Hinings, 2009; Dunn and

Jones, 2010). In these circumstances, competing institutional logics in the organisational field give rise to different sets of socially constructed ideas where social actors have different interests and ways to legitimate their ideas (Suddaby and Greenwood, 2005). According to Reay and Hinings (2005), many scholars have given attention to the institutional logics that can shift over time, however 'these shifts tend to be treated as exogenous shocks that separate eras of equilibrium' (Lounsbury, 2007, p. 302).

Apart from the study of institutional logics in the organisational field and organisation levels, another area that many researchers have shown interest in is 'the examination of how individuals draw on multiple societal logic to initiate change' (Gawer and Phillips, 2013, p. 1038). According to Friedland and Alford (1991), early applications of institutional theory employed embedded agency theory to explain the social structure on three levels: 'individuals competing and negotiating, organizational conflict and coordination, and institutions in contradiction and interdependency' (Thornton and Ocasio, 2008, p. 104). According to Holm (1995, p. 398), the problem of embedded agency is 'How can actors change institutions if their actions, intentions, and rationality are all conditioned by the very institution they wish to change?' Thornton and Ocasio (2008, p. 115) claim that the institutional logic can solve this problem because they can be characterized by 'cultural, differentiation, fragmentation and contradiction'. According to Thornton and Ocasio (2008, p. 11), 'logics shape individual and organisation action' where 'individuals are members of multiple social groups with a collective identity' which later develops into institutional logic embedded by the group. The behaviours of groups of individuals (social actors) vary from each other due to their different beliefs, values and norms (Thornton, 2002; Scott, 2014). Many institutional researchers also try to examine the 'actors' roles and their rationales' in the institutionalization process (e.g. Change, 2006; Hopper and Major, 2007).

Many scholars in this field define an organisation that embodies two or more institutional logics at its core logics as a hybrid organisation (Battilana and Dorado, 2010, Pache and Santos, 2013a; Besharov and Smith, 2014). According to Pache and Santos (2013a), hybrid organisations can take different forms such as social enterprises (Pache and Santos, 2013b), public-private partnerships (Jay, 2013), biotechnology companies (Powell and Sandholtz, 2012) and medical schools (Dunn and Jones, 2010). This study explores Thai SOEs as hybrid organisations whose goal is to serve the

community as well as to do business, and face ‘institutional complexity’ (see next section) institutional logics. This is similar to Pache and Santos’s (2013b) study of social enterprises, which found that these organisations have to deal with market logic as well as social welfare logics. Also, according to Greenwood et al. (2011, p. 332), some literature in this field shows that the combination of different logics can create ‘hybrid organisational form’ (Pache and Santos, 2010), ‘hybrid logics’ (Glynn and Lounsbury, 2005), hybrid practices and ‘hybrid identities’.

### **3.5 Institutional Complexity**

Complexity appears to be a relatively new concept employed within institutional studies (Greenwood et al., 2011). According to Greenwood et al. (2011), the complexity of institutional processes and their influences on organisations is central to many studies. They also state that institutional complexity occurs (is a situation) when an organisation has to cope with different demands, goals and practices coming from multiple logics.

Meyer and Rowan (1977), for instance, suggest that organisations may be faced with social and commercial expectations that may not be compatible. Scott (1991, p. 167) points out that organisations encounter many institutional environments and ‘some would-be sources of rationalized myths may be in competition if not in conflict.’ However, the early studies focus mainly on the ways in which institutional forces affect how organisations shape or conduct themselves in a way that is similar to those practices in their organisational field (Greenwood et al., 2011).

According to Greenwood et al. (2011, p. 323) ‘organisations face institutional complexity whenever they confront incompatible prescriptions from multiple institutional logics’ and so far the literature on multiple institutional logics has focussed on organisations enduring institutional complexity such as is evident from research in the health care sector (Reay and Hinings, 2005, 2009), educational services and professional services (Thornton et al., 2005, Lounsbury, 2007). There are other limited studies elsewhere in the other types of public sector (Rautianen and Jarvenpaa 2012; Pache and Santos, 2013b). So far, the studies of institutional logics tend to focus on these type of organisations that ‘tend to be motivated and conditioned’ by several logics.

Greenwood et al. (2011) reviewed literature in this field in order to understand the ‘strategies’ employed by organisations that confront multiple institutional logics as well as how multiple logics affect hybrid organisations’ structures and practices. They propose the institutional complexity framework as shown below.

**Figure 3.1: Institutional complexity**



Source: Greenwood et al. (2011: p. 324)

This study employs Greenwood et al.’s (2011) institutional complexity framework in order to explore whether co-existing logics create institutional complexity in case study organisations, as well as to see how organisations respond to the complexity. This study also employs Greenwood et al.’s (2011) study on the field structure, institutional complexity and organisational responses together with Besharov and Smith’s (2014) framework, which will be presented later.

### **3.5.1 Organisational field**

Thornton and Ocasio (2008, p. 106) state that ‘institutional logic may develop at a variety of different levels’, for example sub-organisation, organisation, and organisational field’. The organisational field layer provides ‘institutional structure’ and context such as organisational size, culture and capacity to change as well as the impact of the institutional environment (Scott, 1995). In other words, the definition of institutional field is ‘those organisations that, in aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies



and other organisations that produce similar services and products’ (DiMaggio and Powell, 1983, p. 148). According to Markowitz et al. (2011), many institutional theorists employ the concept of organisational fields in order to explain isomorphism and homogeneity rather than changes in organisations. However, this study employs this definition of institutional field to identify the field within which both case study organisations are located as well as their institutional logics (see chapter 5).

Organisational actors play an important role in reproducing, modifying and reconstructing the model (Scott, 2014). Accordingly, organisations are shaped by imposed rules as well as environmental expectations and actors, which develop ‘shared systems of meaning within an organisational field’ (Dambrin et al., 2007, p. 175). Dacin et al. (2011) state that at the field-level, the ‘local’ logics have been encoded and it is common that organisations embody multiple institutional logics that are from their fields. Examples include market logic and social welfare logic in the field of social enterprises (Pache and Santos, 2013) and the logics of business-like healthcare and the logic of medical professionalism in medical schools (Reay and Hinings, 2009).

To date, most of the literature on the pluralism of institutions in hybrid organisations focuses mainly on the organisational and field level perspectives (e.g. Lounsbury, 2002; Reay and Hinings, 2005; Greenwood and Suddaby, 2006; Dunn and Jones, 2010; van Gestel and Hillebrand, 2011) and on ‘the conditions that promote the diffusion and persistence of logics at that level’ (Kodeih and Greenwood, 2014, p. 9) while there is little mention of how organisations incorporate multiple as well as competing institutional logics internally (Pache and Santos, 2013a, 2013b). Scott (2014) states that organisational fields are a significant level in studying institutional effects and the field complexity can affect the organisational structure and functioning (see also Scott and Meyer, 1983). Pache and Santos (2010, p. 457) state that organisational fields vary in ‘the complexity of resource and power arrangements’ and ‘the configuration of their wider structures and legitimating rules’. They also suggest that the divergence of organisational fields can affect how organisations respond to the institutional complexity as it is shaped by ‘the structure of the organisational field’ (Greenwood et al., 2011) and institutional logics from the field diffuse as a given entity to all field actors (Ashworth et al., 2009). Consequently, a lot of research has focused on the structure of the organisational field by trying to distinguish between mature and

emerging fields (Greenwood et al., 2011) and to examine ‘the specific relational linkages and patterns of activities employing network and other methodologies’ (Scott, 2014, p. 223). According to Greenwood et al. (2011, p. 335-336), emerging fields experience uncertainty in ‘institutional arrangements’, which leads organisations in the field to be influenced by the actors and the logics outside the field, while mature fields are ‘more settled and stable’, as ‘such fields have a single logic’ or ‘a dominant logic’. While Greenwood et al. (2011, p. 337-337) argue that the distinction between mature and emerging fields is appropriate in the early institutional research, they recommend that further study should analyse ‘the relationship between field-level structures and institutional complexity’.

Greenwood et al. (2011) recommend future research focus on (1) the degree of ‘fragmentation’, which refers to ‘the number of uncoordinated constituents upon which an organisation is dependent for legitimacy or material resources’, (2) ‘formal structuring/ rationalisation’ and (3) ‘centralisation’. They also claim that a ‘high fragmented field’ occurs when institutional logics arise from the conflicting demands of different institutions as well as the instability and inconsistent demands from institutions and that this can increase the degree of institutional complexity. On the other hand, when there are consistent and predictable sets of competing institutional demands, organisations can develop structures and practices to cope with such complexity. Next, ‘formal structuring refers to whether those demands are formally or informally organised’ (Greenwood et al., 2011, p. 337). Meyer et al. (1987, p. 188) suggest that organisations are surrounded by ‘formally organised interests, sovereigns, and constituency groups’ and ‘less formally organised groups’. The impact from the less formal groups, however, tends to be less than that from the formal groups (Greenwood et al., 2011). Lastly, ‘centralisation concerns the hierarchical power structure of institutional constituents’ (p. 337). From this, a highly centralised field faces less institutional complexity, as the conflicting demands have been resolved at a higher level (Greenwood et al., 2011). However, Pache and Santos (2010, p. 458) argue that ‘a structure that is particularly likely to impose conflicting institutional demands on organisations is one where a highly fragmented field is ‘moderately centralised’. They define moderately centralised fields as fields ‘which are characterised by the competing influence of multiple and misaligned players whose influence is not dominant yet is potent enough to be imposed on organisations’ (p. 458). In this study, we employ the

concept of field structure to identify the degree of institutional complexity facing Thai SOEs.

### **3.5.2 Organisational attributes**

Recent studies relating to institutional fields have also focused attention on organisational factors that are associated with the adoption of new management practices. One of the important variables is organisational attributes. Scott (2014, p. 204) states that organisations vary in many ways regarding organisational attributes. Early studies found that the size of an organisation is an important attribute, as ‘larger organisations tend to be more resource-rich’, and ‘more differentiated’; on the other hand, larger organisations are also ‘more sensitive to environmental changes’ and ‘more visible to external publics including government bodies’ (p. 204). According to Greenwood et al. (2011, p. 319), ‘institutional logics pass through organisational fields’ but the degree to which organisations experience institutional complexity varies depending on ‘organisational attributes’ such as ‘structure, ownerships, governance and identity’, as the attributes frame ‘how organisations experience institutional complexity and how they perceive and construct the repertoire of responses available to them’.

Structure refers to both formal and informal structures in organisations, which some researchers call networks (e.g. Lounsbury, 2001; Butler, 2003; Greenwood et al., 2011). The degree of complexity depends upon the powerful actors who are the supporters of institutional logics and how they ‘represent’ them through the network in their organisation (Pache and Santos, 2010; Greenwood et al., 2011). Therefore, the network is an important mechanism facilitating whether a logic will be accepted or rejected by an organisation (Lounsbury, 2011). The key group of people in the network are referred to as the ‘social referent’ group. Their power in the network as well as the number of the referents can give voice to institutional logics in order to reinforce a particular demand in an organisation (Greenwood et al., 2011). Also, the social referent group as well as the characteristics of members in the network can impact logic compatibility, as ‘they selectively draw on, interpret and enact’ the logic they carry (Besharov and Smith, 2014).

Greenwood et al. (2011, p. 344-345) state that ‘organisational responses to institutional complexity are likely to be reflexive of the interest of the most influential group’ and the

organisation's tendency to be affected by 'its dependence upon important institutional actors'. In other words, organisations tend to respond to the demands or preferences of the actors or institutions that are providing its critical resources (DiMaggio and Powell, 1983; Oliver, 1991; Lounsbury, 2001). Another organisational attribute is governance, which focuses on 'the relationship between power and institutional complexity' where the actors in different positions and groups can use their power to influence 'organisational decisions and strategies' (Greenwood et al., 2011, p. 345) as well as how groups distribute their power (Pache and Santos, 2010).

The last organisational attribute suggested by Greenwood et al. (2011) is identity, which is considered at two levels, institutional and organisational. Like the other attributes, identity shapes organisational behaviour regarding institutional complexity. The identity claimed by an organisation is their representation as a member of the group of the institutional environment that confronts them (Hsu et al., 2010) in order to gain legitimacy in that category (King et al., 2010). According to Greenwood et al. (2011), organisational behaviours also depend on how organisations value their identity or just 'take it for granted'. Moreover, to date, researchers have little knowledge about this organisation-shaping process (Greenwood et al., 2011). Regarding organisational identity, the focus is on how it can define the difference between organisations, 'especially for those who share the same institutional category' (Greenwood et al., 2011, p. 347). According to Gynn (2008) the literature in this field is limited and most of it emphasises institutional isomorphism.

### **3.5.3 Types of logic multiplicity within organisations**

According to Greenwood et al. (2011, p. 318), generally organisations are faced with multiple logics that may or may not be compatible. They also suggest that further research should consider situations when more than two institutional logics are embodied in an organisation, 'the dynamics patterns of institutional complexity' and the organisational responses, as well as 'the degree of incompatibility' of multiple logics. As a result, in this study we have employed Besharov and Smith's (2014) framework, which they developed from Greenwood et al. (2011) in order to focus on 'how and to what extent organisations embody multiple logics' Consequently, most of the content of Besharov and Smith's (2014) framework is similar to the field structures and organisational attributes described by Greenwood et al (2011).

According to Besharov and Smith (2014), research in this field ranges from ‘whether organisations embody multiple logics to understanding variation in how they do so’ (p. 375) but the relationship between logics has been ignored. Therefore, Besharov and Smith’s (2014) framework proposes that the different types of logic multiplicity within organisations can be explained by the degree of two dimensions: ‘compatibility’ and ‘centrality’. The framework focuses on the conflict of multiple logics that affect the organisational level and field level outcomes. ‘Compatibility’ is used to describe ‘the extent to which the instantiations of logics imply consistent and reinforcing organisation action’ (p. 367) while ‘centrality’ describes ‘the extent to which multiple logics manifest in core features that are central to organisational function’ (p. 366). The degree of centrality depends on the number of core logics, as the more core logics involved, the higher degree of centrality will be expected.

Besharov and Smith (2014) also summarise the factors that influence the degree of compatibility and the degree of centrality by reviewing the studies in the field (e.g. Jones and Dunn, 2007; Battilana and Dorado, 2010; Pache and Santos, 2013b).

**Table 3.3: Driver of variation in compatibility and centrality**

<b>Level of Analysis</b>	<b>Factors that influence compatibility</b>	<b>Factors that influence centrality</b>
Institutional field	Number of professional institutions and relationship between them	Power and structure of field actors (i.e. fragmented centralisation)
Organisation	Hiring and socialization	Mission and strategy Resource dependence
Individual	Ties to field-level referents Interdependence	Adherence to logic Relative power

Source: Besharov and Smith (2014, p. 371)

Besharov and Smith (2014, p. 367-368) state, ‘the availability of members who carry particular logics’ is influenced by professional institutions (John and Dunn, 2007), organisation-level practices and characteristics. In addition, the relationships between members and their ‘degree of independence’ can affect the compatibility between multiple logics. Research shows that members ‘selectively draw on, interpret and enact’ the logic they are faced with in the relevant field (Besharov and Smith, 2014, p. 368). The varied characteristics of members also lead to differences in the degree of compatibility.

According to Besharov and Smith (2014, p. 371), the power and structure of field actors, organisational mission and strategy, ‘resource dependency’, ‘individual networks and position’ and how a logic is valued by individuals, can influence the degree of centrality. They point out the importance of the characteristics of field structure, such as fragmented centralisation and the degree of hierarchy in the field that influence the degree of centrality. Also, Besharov and Smith (p. 370) state that organisations tend to respond to the demands of institutions that provide them critical resources ‘even if they oppose the logic underlying those demands’ (Sauder, 2008). As mentioned before, Besharov and Smith’s (2014) framework is developed from Greenwood et al. (2011). As a result, the factors that influence multiplicity within organisations are similar to the field structure (see section 3.5.1) and organisational attributes (see section 3.5.2) in Greenwood et al. (2011). Besharov and Smith (2014)’s framework can be illustrated below:

**Figure 3.2: Types of logic multiplicity within organisations**



Source: Besharov and Smith (2014, p. 371)

Besharov and Smith (2014) explained the four types of organisations as follows. First, ‘contested organisations’ occur when organisations have a low degree of compatibility, as they have more than one core logic. This can lead to conflict in various aspects such as mission, strategy, structure, and core activities because of the low consistency in organisational actions. Second, ‘estranged organisations’ have a primary logic, but they still experience the effect of ‘subsidiary logics’. Consequently, conflict from multiple logics can still occur but to a moderate degree only. Third, ‘aligned organisations’ have

multiple core logics that align with each other. According to Besharov and Smith (2014), in this type of organisation, ‘minimal conflict’ can occur. Lastly, ‘dominant organisations’ are similar to ‘estranged organisations’ and have one core logic, as their ‘subsidiary logics’ are consistent and align with the core one. As a result, in the extreme, it seems that organisations have only a single logic because there is little influence from ‘subsidiary logics’ which lead to ‘no conflict’. Besharov and Smith (2014, p. 375) also suggest that ‘the nature of logic multiplicity within organisations’ can lead to the changes in institutional logics such as replacement or blending of the logics.

### **3.6 Organisation Responses**

According to Greenwood et al. (2011) the responses to complex situations are important for an organisation to gain social legitimacy and accessibility to resources. They state that, according to recent literature, an organisation’s response to institutional complexity depends on whether emphasis is on ‘organisational strategies’ or ‘organisational structure’. The ‘strategies’ examine ‘whether and to what extent organisations embrace prescriptions urged upon them by field-level referent audiences and seek to explain how those preferences are determined’ while the ‘structure’ focuses on ‘how multiple logics are reflected in the organisational structure and practices’ (p. 348 and 351). The early literature in the institutional field, such as Meyer and Rowan (1977) and Oliver (1991), points out the ways that hybrid organisations respond to competing institutional logics through decoupling/loose coupling and compromising respectively. More recent literature has also considered strategies to combine logics (Pache and Santos, 2013).

Pache and Santos (2010, p. 462-463) state that organisations respond to conflicting institutional demands by exercising some ‘level of strategic choice’ because organisational members are concerned that there are alternative courses of action that require them to make decisions that can ‘secure support and ensure survival’ for the organisation. In other words, organisational members employ a course of action that they consider appropriate. According to Greenwood et al. (2011), the organisational responses to institutional complexity depend upon the number of institutional logics embedded in the organisation and ‘the relative power of each logic’s representative’. However, the responses ‘may not be generalizable because the extent of complexity

experienced may be underestimated or misinterpreted; and the particular responses observed may not be properly understood' (Greenwood et al., 2011, p. 332).

In this study, we consider the responses to competing institutional logics in implementing PMS and the integration between individual BSC and incentives. Consequently, a review of the strategic responses by Oliver (1991) is provided below while a review of decoupling and loose coupling is presented in the next section.

Organisations have employed different strategies when experiencing multiple institutional pressures for compliance (Pache and Santos, 2010). According to DiMaggio and Powell (1983), organisations tend to comply with demands from institutions on which they depend for legitimacy and resources. However, Pache and Santos (2010, p. 463) argue that DiMaggio and Powell's statement 'is inadequate when exploring the issue of responses to conflicting institutional demands'. They point out that compliance problems occur when the organisation has to comply with one demand and ignore other competing demands, but in reality, organisations are faced with multiple demands in a context where institutions have a 'similar level of power' (p. 463). Consequently, many researchers have employed Oliver's (1991) framework to study how organisations respond to conflicting institutional demands (e.g. Chang, 2006; Rautanen and Jarvenpaa, 2012; Pache and Santos, 2010 and 2013). In this research we suggest that Oliver's strategic response model can provide better explanations where organisations are facing complexity. Oliver (1991, p. 145) proposes 'the strategic responses to institutional process' and suggests five strategies – 'acquiesce', 'compromise', 'avoid', 'defy' and 'manipulate' – where the responses vary in 'active organisational resistance from passive conformity to proactive manipulation'. Oliver's (1991) strategic responses to institutional process can be seen in the table 3.4.



**Table 3.4: Strategic responses to institutional process**

Strategies	Tactics	Example
Acquiescence	Habit Imitate Comply	Following invisible, taken-for-granted norm Mimicking institutional models Obeying rules and accepting norms
Compromise	Balance Pacify Bargain	Balancing the expectations of multiple constituents Placating and accommodating institutional elements Negotiating with institutional stakeholders
Avoid	Conceal Buffer Escape	Disguising nonconformity Loosening institutional attachments Changing goals, activities, or domains
Defy	Dismiss Challenge Attack	Ignoring explicit norms and values Contesting rules and requirements Assaulting the sources of institutional pressure
Manipulate	Co-opt Influence Control	Importing influential constituents Shaping values and criteria Dominating institutional constituents and process

Source: Oliver (1991, p. 152)

According to Oliver (1991), organisations tend to compromise as a strategic response when they are confronted with different institutional demands (logics). However, Rautiainen and Jarvenpaa (2012, p. 183) state that ‘the rival institutional logics can retain their separateness and still allow improved co-operation and performance’. They also claim that the compromise, manipulation and avoidance responses have a potential to promote stability in an organisation when change is being experienced. On the other hand, Pache and Santos (2013b) suggest that at the organisational level, the competing logics can be combined by ‘selective loose coupling’ rather than decoupling (see next section) or compromising. They also state that in order to gain acceptance, hybrid organisations ‘may manipulate the templates provided by the multiple logics’ in the fields where they lack legitimacy (p. 973).

### **3.7 Decoupling and Loose Coupling as Strategic Responses**

In section 3.6, the institutional field studies pointed out that decoupling strategies are employed in order to handle institutional complexity within organisations. Consequently, this section provides a review of decoupling and its related concept, loose coupling.

Decoupling/ loose coupling is one of the most popular areas for study in institutional theory (e.g. Mayer and Rowan, 1977; Orton and Wieck, 1990; Dillard et al., 2004; Dembrin et al., 2007; Nor-Aziah and Scapens, 2007; Pache and Santos, 2011).

According to Newton et al. (2014, p. 748), there are two strategies available ‘for modifying the prevailing institutional arrangements: decoupling (Meyer and Rowan, 1977) and loose coupling (Orton and Weick, 1990)’. Dillard et al. (2004, p. 509) define decoupling as ‘the situation in which the formal organisation structure or practice is separate and distinct from actual organisational practice’. On the other hand, researchers have talked of loose coupling as being a situation in which ‘work practices and symbolic display are distinct but interconnected’ (Newton et al., 2014, p. 748) or work practices ‘contain elements that are only weakly connected to others and capable of fairly autonomous actions’ (Scott and Davis, 2007, p. 93; see also Scott, 2014). Loose coupling offers an alternative to the concepts of tight coupling and decoupling. However, the explanation of loose coupling is still in question and there is only limited research that has distinguished loose coupling from decoupling (Nor-Aziah and Scapens, 2007; Newton et al., 2014). According to Cruz et al. (2009), many institutional researchers normally employ both decoupling and loose coupling as interchangeable concepts to explain a separation between organisational structures and activities.

Orton and Weick (1990) criticise previous research for not sufficiently explaining the difference between decoupling and loose coupling. They suggest that this has been because of the uncertainty over their exact meaning. Therefore, they attempt to clarify the concept of loose coupling by distinguishing it from decoupling and tight coupling. According to Nor-Aziah and Scapens (2007, p. 214), tight coupling occurs when elements ‘share their identity and are responsive’ to or dependent upon other elements. Decoupling occurs when elements are ‘distinctive and not responsive’ to or independent from other elements (p. 214). Loose coupling is therefore defined as ‘having independent components that do not act responsively’ (Orton and Weick, 1990, p. 205). However, it cannot be implied that loose coupling is the midpoint between the other two systems; rather it can indicate that loose coupling is the presence of both systems.

Orton and Weick (1990) interpret ‘the dialects of loose coupling’ from literatures in various disciplines and classify loose coupling into five ‘voices’ that are separate but interconnected with each other. In an organisational context, loose coupling (1) is caused by causal indeterminacy and fragmented environments (‘the voice of causation’), (2) has different types of forms (‘the voice of typology’), (3) ‘has specific

effects and the effects are desirable ('the voice of direct effects'), (4) is compensatory phenomena in order to maintain organisational cohesion ('the voice of compensation') and (5) the outcomes of loose coupling are persistence, buffering, adaptability, satisfaction and effectiveness ('the voice of organisational outcome') (Orton and Weick, 1990).

Many researchers employ Orton and Weick's (1990) loose coupling concept in their research, especially when conducting research in specific organisations about the emergence of new public management (e.g. Modell, 2003; Siti-Nabiha and Scapens, 2005; Nor-Aziah and Scapens, 2007). However, Orton and Weick's (1990) study still does not provide a clear explanation of 'the process of loose coupling' at the organisation level; therefore, further studies need to be undertaken (Collier, 2001; Nor-Aziah and Scapens, 2007). Newton et al. (2014, p. 747- 748) employ Orton and Weick's (1990) explanation of loose coupling in their study and refer to it as when existing practices and a new practice are 'distinct but interconnected' in order to resolve 'institutional contradiction without undermining the institutional legitimacy of their social entity'. In addition, loose coupling is also an attempt made by an organisation that wants to introduce change that is 'potentially inconsistent with prevailing institutional arrangements' (p. 747). So far 'how loose coupling is initiated' is still unclear (p. 748). Consequently, some researchers seek to understand the emerging of loose coupling in organisations (e.g. Nor-Aziah and Scapens, 2007; Newton et al., 2014).

In this thesis we distinguish the concepts of loose coupling and decoupling by emphasising the relationship between organisational practices. Decoupling is the situation when the new practices are separated from recent practices. On the other hand, loose coupling falls between decoupling and tight coupling, as it occurs when the practices are partially linked to each other. The term of loose coupling can also be used when organisations tightly couple a new practice with some practices and decouple it from others.

One of the important studies of decoupling within an institutional field is Meyer and Rowan (1977). They suggest that decoupling occurs when organisations ceremonially conform to normative and regulative pressures in order to give the appearance of

compliance and when seeking legitimacy. Also, in order to serve the interests of multiple stakeholders, organisations tend to employ loose coupling strategies through tactics of ‘partially conformity’ (Oliver, 1991) to deal with new practices or structures as they emerge (Hallett and Ventresca, 2006). According to Donaldson (2001), the early research in the neo institutional field focused on the dominant functional view of organisations, which seeks appropriate organisational structures that fit certain environmental and intra-organisational contingencies. In this perspective, when conflicting demands occur, organisations tend to separate the role of organisational units from the formal structure.

As indicated in section 3.3, Scott explains organisational views through his three pillars; therefore, the decoupling/ loose coupling as an organisational response will be explained through regulative, normative and cognitive views. In the regulative view, the organisations use loose coupling in response to coercive pressure. Meyer and Rowan (1977) state that conflicts of stakeholders’ interests can lead to the decoupling of practices. As claimed by Meyer and Rowan (1977, p. 358) and Oliver (1991), occurrences of decoupling and loose coupling can benefit institutionalized organisations in resolving the conflict between the institutional pressures and organisational activities by enabling them ‘to maintain standardized, legitimating, formal structures’ while actual practices vary in response to ‘practical consideration’. According to Nor-Aziah and Scapens (2007, p. 213), these loose coupling structures are important for organisations as ‘legitimising symbols’ and ‘acting as a kind of symbolic window-dressing’ (see also Carruthers, 1995).

According to Scott (2008), from the normative view, institutional theorists focus on the values embedded in pre-existing institutional orders. Clegg et al. (2006) explains the notion of ‘total institutions’ through questions such as who has the power and how institutional order arrangements are made in organisations. Within an institutional order, conflicting demands do not arise, as they are resolved or practices are determined by the high-power institution (Clegg et al., 2006). According to Brignall and Modell (2000, p. 288) the degree of decoupling depends on the power of external stakeholders from which organisations need support in order to ‘secure access to vital resources and long-term survival’; therefore, from this statement, many scholars assume that such decoupling tends to occur in the public sector more than that in the private sector

because of the difficulty in evaluating efficiency in public organisations (Johansson and Siverbo, 2009).

The cognitive view of decoupling/ loose coupling has gained attention in the study of the institutional logics field, as it explains the combination of an agency of regulation and institutional order. In the institutional logics field, decoupling has been claimed to be a strategic response to competing logics as well as to institutional complexity; however, not all decoupled structures are purposeful responses to complexity and remain decoupled over time (Greenwood et al., 2011). There are many studies in the field to support Greenwood et al.'s (2011) statement. Reay and Hinings' (2009) study in the health care field found partial loose coupling regarding medical matters, while being strict in other areas that can allow the co-existence of competing logics. Rautianen and Jarvenpaa (2012) state that in order to avoid the implementation of new management practices, when an organisation focused on professional logic or operational logic perceives that the new practice is not relevant in the recent context, the decoupling strategy will be employed. On the other hand, in order to compromise with the institutions, the loose coupling strategy has been employed for balancing the demands or pressures (Rautianen and Jarvenpaa, 2012). Dambrin et al. (2007) explain that in their study, two aspects 'the process of decoupling 'and the changes of institutionalization' can be considered as the same issue. In their study, the occurrence of decoupling of a management control system is not only caused by the organisational response to 'institutional demands' but also 'an attempt developed by internal coalitions to resist the new logic' (Dambrin et al., 2007, p. 174).

From this review, it is clear that which of Scott's pillars are relevant in an individual research study is driven by the research question, and in this study, the question involves the way organisations and individuals respond to competing logics in the use of PMS. Therefore, this study focuses on the decoupling and loose coupling from regulative and cognitive perspectives. Before seeking to explain the institutional complexity and organisational responses in Thai SOEs in empirical chapters, it is appropriate to review previous research of institutional perspectives in the field of PMS in the next two sections. 3.8 considers Modell's (2009) review and some recent research of PMS in public sector organisations. Then, section 3.9 reviews some empirical evidence in public sector organisations. The review helps researchers identify characteristics and

perceptions of employees toward PMS, and understand pressures from various institutional demands and competing institutional logics in empirical chapters.

### **3.8 Modell's (2009) Review of Performance Measurement Research in Institutional Theory**

This section is based primarily on Modell's (2009, p. 277) review of 'institutional research on performance measurement and management in the public sector accounting literature'. When studying new public management in the public sector, there are many theories such as institutional theory, sociology of translation theory, economic theory, political theory, and functionalist control literature (Modell, 2009). However, research using institutional theory is dominant in the field (Modell, 2005; 2009; Van Helden et al., 2006).

Institutional theory has been used to assess new public management, which includes PMS in the public sector. According to Modell (2009, p. 281), past studies of PMS based on institutionalism have been undertaken in 'the health care sector, universities, and local government'. For example, Modell (2001; 2003) studied Norwegian healthcare and the Swedish university sector, respectively, Kasperskaya (2008) studied local government in Spain, and Chang (2006) and Ostergren (2006) studied healthcare in the United Kingdom and Norway, respectively. Recently, however, research on central government has gained attention, including Modell (2009). Other examples include studies on Scandinavian central and local governments (Leagreid et al., 2006; 2007; Ostergre, 2006; Modell et al., 2007; Modell and Weisel, 2008; Siverbo and Johansson, 2006 and Johansson and Siverbo, 2009; Rautianen and Jarvenpaa, 2012) and developed countries such as the U.S. federal government (Cavaluzzo and Ittner, 2004). However, few studies examine developing countries (Yang and Model, 2013) and state-owned enterprises (James, 2009; Munir et al., 2013).

Although researchers in this discipline still question which theoretical perspective is most appropriate, institutional theory is popular as a dominant theory underpinning performance measurement research (Modell, 2009). There are issues in performance management that have been neglected in the institutional theory literature. Studies typically examine how the multi-level dynamics of institutional processes relate to the implementation of performance management practices, while ignoring micro-dynamics

during the implementation process (Modell, 2009). Research into how various users of performance management as reflective actors think about constructing meaning should reduce the ‘emphasis on loose coupling as more or less automatic response to institutional pressures’ (Modell, 2009, p. 289). Therefore, many researchers suggest use of other theories such as actor-network theory to fulfil the institutional theoretical gap (Callon, 1986; Lawrence and Suddaby, 2006; Lounsbury, 2008; Modell 2009).

### **3.9 Previous Case Studies Employing Institutional Theory and Institutional Logics**

This section provides examples of case studies in public-sector organisations by combining them into four groups: case studies in (1) decoupling and loose coupling, (2) isomorphism, (3) competing institutional logics, and (4) organisational responses.

#### **3.9.1 Case studies in decoupling and loose coupling**

According to Modell (2009), three research topics in institutional theory assess multi-dimensional performance measurement, including the BSC (Chang, 2006; Modell and Wiesel, 2008; Kasperskaya, 2008; James, 2009), goal-directed performance measures (Johnsen, 1999), and relative performance evaluations (RPE) (Siverbo and Johansson, 2006; Johansson and Siverbo, 2009). Modell (2009) also states that the majority of performance measurement research concerns institutional effects of decoupling, which depend on the relative power of multiple constituencies (Chang, 2006; Modell, 2003; Kasperskaya, 2008). Modell (2009) also argues that loose coupling emerged because of ‘institutional field level dynamic[s]’ to make transformations smooth (Modell, 2003, p. 295; Kasperskaya, 2008) and dynamic process resistance to change in performance measurement practices (Siti-Nabiha and Scapens, 2005; Johansson and Siverbo, 2009; Bourguignon et al., 2013). Examples of case studies in public-sector organisations are now discussed.

Chang (2006) investigated local health authority managers in NHS reactions to performance targets regarding central government pressures. Results are inconsistent with Modell’s (2001) study, since decoupling did not occur with local health managers interviewed about facing multiple stakeholders. However, managers were more responsive to factors that suited their interests, which in the study included maintaining rigid relationships with the central government to seek legitimacy and funding (Chang, 2006).

Kasperskaya (2008) observed loose coupling during adoption of BSC in two Spanish city councils, and the role of individuals or groups that influenced implementation of the BSC. Kasperskaya (2008, p. 375) explains that various change scenarios, and extensive and customized BSC models in case study organisations led to disparities in ‘the meaning of loose-coupling’. In organisation A, due to the complexity of an extensive BSC model, resistance to change formed among middle managers in the company, which later ‘decouple[d] its operational activities from the BSC’, leading to abandonment of the BSC (p. 376). The BSC model used in organisation B ‘loosely-coupled with the idea of an advanced multidimensional strategic PMS’, but its activities were coupled with institutional requirements (p. 376).

Johansson and Siverbo (2009, p. 198) investigated ‘the causes of differentiated utilisation of RPE’ in Swedish municipalities. They found that fad-follower behaviours regarding adoption of RPE sought legitimacy, and decoupling of RPE can occur even if RPE is just an optional management instrument. Johansson and Siverbo (2009, p. 217) conclude, ‘The stated adoption of management accounting practices is sometimes decoupled from its use, or at least the intensity in use.’

Bourguignon et al. (2013) studied the role of individuals in the institutionalisation of new PMS in a division of a French public organisation. Adoption of the new performance measures by the actors was ‘ceremonial’ regarding resistance to use, including unaware managers concerning the gap between discourse and practices on the adoption of the systems. Bourguignon et al. (2013, p. 229) conclude that coherent ideas, discourses, and techniques, and internalized systems in an organisation drive institutionalisation as expected, but responses from actors are unpredictable, which can lead to decoupling by developing ‘alternate, unexpected and sometimes non-deliberate practices with the system’.

Modell (2009) points out that most studies on decoupling and loose coupling in PMS focus on the role of embedded agency, whereas there are many institutional processes related to organisations’ structural characteristics that need to be considered. Some recent studies use other performance measures such as quality indicators and economic factors (Van Helden, 2005) to observe decoupling.



### **3.9.2 Case studies in institutional isomorphism**

Much research in the field suggests that adoption of PMS is driven by institutional isomorphism (Lawton et al., 2000; Moynihan, 2004, Siverbo and Johansson, 2006; Kasperskaya, 2008; James, 2009; Manir et al., 2013). According to Siverbo and Johansson (2006), empirical research shows that RPE is popular because of mimetic isomorphism, and most local Swedish government authorities use RPE to compare performance with other agencies. A smaller number, however, use RPE to improve efficiency and effectiveness.

Kasperskaya (2008) argues that adoption of BSC by two Spanish city councils first came from coercive isomorphism due to a legal framework. However, design and implementation were influenced by mimetic and normative isomorphisms, which led to different ways of using the BSC. During a design stage, organisation A employed an extensive BSC model by adapting a template acquired from other city councils (i.e., mimetic isomorphism). Organisation B employed a customized BSC. In both organisations, people used experiences and knowledge acquired across various sources (i.e., normative isomorphism) to construct a BSC system.

James (2009) studied the impact of national competition policy (NCP) on the adoption of a BSC in an electricity corporation owned by the Australian government to discuss the rationale and notions of legitimacy seeking when adopting a new performance management system. Findings suggest that the organisation adopted the BSC model, which is well known in the private sector, to appear legitimate to stakeholders (i.e., mimetic isomorphism). Munir et al. (2013) found that significant pressures from politics and government (i.e., coercive isomorphism) created awareness in Anonbank, which led to a change to its PMS. To seek legitimacy, Anonbank adopted successful performance measurement operations from other banks (i.e., mimetic isomorphism) because it presumed that such systems would be acceptable to constituents.

### **3.9.3 Case studies in competing institutional logics**

As mentioned in section 3.4, many researchers draw attention to multiple logics embedded in organisations (Lounsbury, 2007; Reay and Hinings, 2009; Dunn and Jones, 2010; Qiao, 2013). Examples focus on competing logics within organisations since it is the primary concern in this study. Lounsbury (2007) investigated how

competing institutional logics shaped new practices in U.S. mutual funds using data from 1944 through 1985. In the study, trustee and performance logic appear to have been employed as dominant logics. The study employed a comparative case-study method to investigate Boston and New York mutual funds, both of which were embedded in these two institutional logics. However, due to differences in geographic locations, the competing logics led mutual funds to disparate forms of rationality. Lounsbury (2007) concludes that triggers to adaptation of new practice are not from poor performance or organisational inefficiency; competing logics are responsible for shaping organisational behaviours and alternative logics.

Reay and Hinings (2009) investigated the coexistence of two competing logics in the Canadian healthcare sector from 1994 to 2008. In 1994, 'a new logic of business-like health care' was introduced that focused more on cost efficiency and customer satisfaction. This logic was a direct challenge to a previous logic of medical professionalism, which emphasized professional knowledge to provide appropriate care and medical direction for patients. Reay and Hinings (2009) conclude that coexistence of competing logics led to collaboration in management practices between field actors, who include both physicians and managers. Field actors employed mechanisms that allowed them to remain independent but work collaboratively to accomplish the mission and fulfil institutional requirements.

Qiao (2013) examined the relationship between institutional logics and corporate finance in Chinese firms, including SOEs that embody two competing logics – state and market. They investigated how institutional logics influence organisational capital structure and corporate financing decisions. Qiao (2013) distinguished SOEs from private firms using firm ownership, and employed SOEs as representative firms that embody state logic. Accordingly, state logic affected the flexibility of adaptations and limited actions. Qiao (2013) concludes that capital structures in SOEs are less heterogeneous and deviate more from optimality in comparison to firms dominated by market logic. However, evidence also shows that heterogeneities and degree to optimality increase over time in both SOEs and firms dominated by market logic. Institutional logics also influence selection of chief executive officers.

Dunn and Jones (2010) studied changes of multiple logics – care and science – in medical education in the United States from 1910 through 2005. Care logic is based on medical professionalism, which focuses on patient and physician orientations. Science logic emphasises clinical-science logic. Dunn and Jones (2010) point out that throughout history, medical education has been confronted with coexisting, multiple logics, supported by groups and interests.

Rautianen and Jarvenpaa (2012) found in a case study of two Finnish cities, ‘the operational logic and professional logic were separable’; however, regarding modernity leading to similar developments, some collaboration existed. They argue, ‘The rival institutional logics can retain their separateness and still allow improved co-operation and performance’ (p. 183).

Lander et al. (2013) investigated mid-tier accounting firms in the Netherlands to evaluate shifts from trustee to commercial logic to assess resistance and change. The trustee logic emphasizes the professionalism of accountants, which leads firms to deliver a limited number of services. However regarding the investment of the attainment of high quality standards reinforced by government as well as professional associations, mid-tier accounting firms believe they have to be more commercially oriented and focus on customer demands and satisfaction. These competing logics present contradicting demands, and hence different degrees of each logic recognized by firms lead to varying responses and strategies. Lander et al. (2013) note that in comparing multi-national firms, trustee logic strongly prevails in mid-tier accounting firms regarding their local connections. Mid-tier firms also were seen to respond more to the emergence of new logics using strategies deemed applicable to the context.

#### **3.9.4 Case studies in organisational responses to institutional complexity**

According to Greenwood et al. (2011), researchers have recently increasingly turned their attention to institutional complexity. This section presents case studies on organisational responses and actions toward institutional complexity.

Rautiainen and Jarvenpaa (2012) analysed institutional logics and investigated responses to PMS using a comparative case study of two cities in Finland. They used Oliver’s (1991) typology of responses to examine how organisations respond to

implementation of a BSC, depending on institutional logic. They argue that adaptations of PMS are typically based on institutional logics – financial or operational – which can lead to disparate PMS emerging in an organisation, accompanied by disparate responses (Table 3.5).

**Table 3.5: Focus on institutional logic and typical tactical level responses to NPM pressures**

<b>Responses:</b>	<b>Focus of Institutional Logic</b>	
	<b>Operational/Professional</b>	<b>Financial/ Business-like</b>
Acquiescence	Not applicable (N.A.), or <b>sagacious conformity</b> to PMS change	Accepting NPM and New PMS; compliance
Compromise	<b>Balancing</b> , but also placating window-dressing & loose coupling	<b>Balancing</b> the expectations of multiple pressures; actual developments possible
Manipulation	Dominating important institutional constituents and processes	Shaping values and criteria (explaining deviations away)
Avoidance	<b>Escaping</b> , ‘PMS is not relevant in this special context’, decoupling	<b>Buffering</b> , ‘preserving old resources’; loose or decoupling
Defiance	<b>Ignoring</b> the finances, attacking sources of institutional pressures	N.A., or ‘rational’ choice not to adopt, or financial crises

Source: Rautiainen and Jarvenpaa (2012)

Pache and Santos (2013) used a comparative case study of four social enterprises to explore how hybrid organisations that embody competing institutional logics – social welfare and commercial – deal with multiple demands to survive and grow. They argue that at the organisational level, competing logics can be combined by selective loose coupling rather than decoupling or compromising because selective loose coupling allows an organisation to manage ‘the incompatibility between logics’ better (p. 973). To gain acceptance, hybrid organisations ‘manipulate the templates provided by the multiple logics’ in the field to counter lack of legitimacy (p. 973).

Villani and Phillips (2013) investigated micro-foundations of multiple institutional logics in three types of organisations that were confronted with academic and market logics to understand how each type of organisation faced the same institutional complexity and handled prescriptions and pressures. They suggest three mechanisms to cope with multiple logics: employing boundary spanners, which enhance the quality of communication in networks; mirroring institutional demands, which help organisations assign roles to social actors according to logic; and buffering multiple logics rather than simply connecting the logics (p. 22 and p. 35).

In conclusion, application of institutional theory in public-sector organisations has been extensive because it helps organisations meet demands from various stakeholders. However, few studies of SOEs incorporate institutional theory. Regarding the research gaps in institutional theory that Modell (2009) mentions, this study uses institutional logics and complexity to underpin the investigation.

### **3.10 Conclusion**

This chapter has reviewed the theoretical background that this study employs. The review has outlined the impact and direction of institutional theory over the past several decades. This includes old institutional theory, neo-institutional theory, Scott's (2014) three pillars and institutional logics. The study focuses on the multiple institutional logics that create institutional complexity and influence organisational and individual actions. The chapter also presents the proposed theoretical framework – Greenwood et al.'s (2011) institutional complexity and Besharov and Smith's (2014) types of logic multiplicity within organisations. The thesis uses these ideas to explore institutional complexity in the case organisations. Greenwood et al. (2011) state that institutional complexity within organisations in the same field depends upon organisational attributes, while Besharov and Smith (2014) explain the multiplicity of logics within organisations through the degree of centrality and compatibility of logics. Both frameworks are similar in the frameworks they provide. How organisations respond to institutional complexity and multiplicity demands is addressed by employing Oliver's (1991) strategic responses to institutional process and the concept of decoupling and loose coupling. The researcher has tried to distinguish between the concepts of decoupling and loose coupling, using relevant arguments from the literature. Finally, the chapter discusses PMS from an institutional perspective, and provides examples of case studies regarding decoupling and loose coupling, isomorphism, institutional logics and complexity particularly in public-sector organisations.

# Chapter 4

## Research Methodology

### 4.1 Introduction

The previous chapters provided the background of literature and theory related to this study. This chapter reviews the research methodology and presents how this research was carried out. The chapter starts with the research philosophy and research approach. Based on a constructivism paradigm, this research employs a qualitative approach by using a case study strategy for the field study. The main research design (case study) will be explained in detail, including the case selection with an overview of the case study organisations and the context of Thai SOEs, plus the data collection and data analysis. The research collects data from two case study organisations in Thailand to realize the research aim of understanding the use of performance measurement systems (PMS) in State Owned Enterprises. This is followed by a discussion of the conduct of the interviews and the content analysis. Finally, a brief summary of the chapter will be provided.

### 4.2 Research Philosophy

Lee and Ling (2008, p. 6) state, 'Research is about generating knowledge about what you believe the world is'; however, the knowledge should be scientific (Singleton and Stratits, 2005). According to Collis and Hussey (2003, p. 55), 'a research paradigm' is a 'philosophical framework', and a good paradigm should help to improve researchers' ability to understand social phenomena (Patton, 2002). Therefore, the selection of paradigms used in research can guide the researcher as to how to undertake the research. According to Easterby-Smith et al. (2012), even though there are several classifications used to differentiate paradigms, philosophers mostly focus on the two following matters: 'ontology' and 'epistemology'. Nonetheless, many philosophers are also concerned about matters of 'methodology' (Creswell, 2003) and 'axiology' (Lee and Ling, 2008). These four matters of paradigm can influence the research objectives.

Ontology concerns ‘the nature of reality and existence’; for example, the theory or study of existence (Easterby-Smith et al., 2012, p. 17). In this concept, researchers believe that reality is subjective and socially constructed by actors (constructivism) (Collis et al., 2003; Bryman and Bell, 2011). Epistemology concerns the nature of knowledge and the way to acquire it (Easterby-Smith et al., 2012). According to Bryman and Bell (2011, p. 15), the paradigms involved with this concept are ‘positivism’, ‘realism’, ‘interpretivism’ and ‘critical theory’. Methodology concerns a procedure of generating knowledge in which the techniques used in each research study depend on the researcher’s choice of paradigms (Creswell, 1994). The techniques of research are qualitative and quantitative methods; researchers can employ one or both of them, which is called a mixed method. Lastly, axiology is concerned with the values of research (Collis et al., 2003). According to Lee and Ling (2008), axiology gets little attention compared with other matters. However, regarding the perception of researchers, axiology is important because the aim of research is to understand and explain the world (Lee and Ling, 2008).

Collis and Hussey (2003) and Clarke (1998) state that there are two main research philosophies: positivism, which usually adopts a quantitative approach, and interpretivism, which is typically associated with a qualitative approach. In reality, most research is conducted between these two paradigms (Lee and Ling, 2008). The positivist researchers believe that reality can be identified and apprehended (Lincoln and Guba, 2000), while interpretivist researchers tend to understand the world from the view of related people rather than outsiders (Saunders et al., 2012).

According to Saunders et al. (2012), positivist researchers tend to develop research through the methods of ‘natural science’. Lee and Ling (2008, p. 13) state that one merit of positivism is its ‘verifiability’, in which the research is established as a science and allows for the development of hypotheses based on tentative theories. However, the downside of this paradigm is that positivist researchers treat humans as objects by separating themselves from the data sources and reacting objectively according to stimuli (Kim, 2003). In studying PMS, such as this research does, it is difficult to quantify data. The actions and perceptions of involved persons towards the implementation or adaptation of the systems need to be interpreted. As a result, the positivist paradigm is not suitable in this research context.

According to Saunders et al. (2012, p. 137), positivism has been criticized by many philosophers who say that it is not suitable for the complexity of 'the social world of business'. They also state that the merit of this paradigm comes from 'phenomenology' and 'symbolic interactionism'. Therefore, interpretivism, which differs from positivism, is employed to understand humans as social actors and 'the subjective meaning' of their actions (Bryman and Bell, 2011, p. 16). It has been suggested that researchers have to understand social actors from their point of view (Saunders et al., 2012). However, according to Weber (2004), obtaining the knowledge from an individual's point of view, which differs by experience towards a situation, may be beyond a researcher's perceptions. In the researcher's point of view, interpretivism is more suitable to this research area than the previous paradigm, positivism, because the interpretivist researcher can use a variety of research methods, both quantitative and qualitative, to interpret and quantify findings.

Recently, both PMS and institutional complexity studies in the public sector have been undertaken using different research paradigms to shape research design. Regarding the drawbacks of the two paradigms, interpretivist and positivist, mentioned above, the intention of the proposed research is to employ a social constructivist paradigm. According to Habermas (1970), constructivism is one type of interpretivism, as constructivist researchers focus on 'reality' that is relative and socially constructed by people rather than by objects (Easterby-Smith et al., 2012, p. 23). This paradigm is based on the ontology aspect in the subjectivist view, which appreciates that people's views and actions are based upon their experience (Saunders et al., 2012), as well as the researcher's experience (Lincon and Guba, 2000). In other words, according to Cresswell (2009, p. 9), constructivist researchers believe that 'individuals seek understanding of the world in which they live and work'. In this paradigm, Easterby-Smith et al. (2012, p. 24) state that the observer is considered as 'part of what is being observed', and human interests are 'the main driver of science', so these two characteristics help researchers to explain 'the general understanding of the situation'. However, Burr (2003) argues that human reactions to situations or phenomena may be different. Therefore, reality is reconstructed through informed consensus. Methodologically, qualitative methods are then the main data collection tools for research conducted under this paradigm to gathering rich data, but these can be



complemented by quantitative methods. Therefore, a mix of qualitative and quantitative methods can be used to interpret and quantify findings in this paradigm (Lincoln and Guba, 2000). The sample required in this paradigm is a small number of carefully selected cases.

As mentioned before, research in the field can be undertaken with several paradigms in designing the research methodology. In this research, constructivism was been selected due to its characteristics, which suit the research aim. Participants' views of the implementation and use of performance measurement as well as how they respond to institutional complexity can be effectively investigated using a qualitative approach.

### 4.3 Research Approach

As mentioned earlier, there are two main types of approaches commonly used to distinguish research studies: qualitative and quantitative. The features of each approach are as follows.

**Table 4.1: Features of quantitative and qualitative research approach**

	<b>Quantitative</b>	<b>Qualitative</b>
Research objective	Description, explanation and prediction	Description, exploration and discovery
Scientific method	Deductive - Researcher tests hypotheses and theory with data	Inductive - Researcher generates new hypotheses and grounded theory from data collected during fieldwork
Nature of reality	Objective	Subjective and socially constructed
Research design	All areas of the study are carefully designed before data is collected	The design emerges as the study unfolds
Form of data collected	Quantitative data, which is variables and in the form of numbers and statistics	Qualitative data, which is in the form of words, pictures, or objects
Nature of data	More efficient, able to test hypotheses, but may miss contextual detail	More 'rich', time consuming, and less able to be generalised
Data collection	Uses tools such as questionnaires or equipment, to collect numerical data	Researcher is the data gathering instrument
Form of final report	Statistical report	Narrative report

Source: Miles and Huberman (1994), Collis and Hussey (2003) and Saunders et al. (2012)

Both approaches are widely used to design and construct research in performance measurement. Recently, performance measurement research dominant in quantitative methodology tended to use survey methods to collect the data (e.g. Cavaluzzo and Ittner, 2004; Laegreid et al, 2006; Siverbo and Johansson, 2006). On the other hand, the qualitative research tended to employ case study strategy based on interview data (e.g. Modell, 2005, 2009 and 2012; Ostergren, 2006; Modell et al., 2007 and 2013). In addition, considering the research in the field of institutional logics, especially the study in organisational responses towards multiple institutional logics, there are many research studies that employed the qualitative approach (e.g. Reay and Hinings, 2009; Batillana and Dorado, 2010; Rautiainen and Jarvenpaa, 2012).

As this research is designed to investigate and explore a social phenomenon, the research seems to suit the features of the qualitative approach explained in the table. According to Myer (2009), the qualitative approach was first developed to study phenomena in social science, which helps researchers to capture data on the perception of the informants. A qualitative approach helps the researcher to ‘build a complex, holistic picture, analyse words, report detailed views of informants, and conduct the study in a natural setting’ (Creswell, 1998, p. 15) through interactions of the researcher with participants (Veal, 1997). The following part will discuss why a qualitative approach is suitable for this research.

First, the qualitative approach is appropriate in situations where the topic is new or where the researcher is unsure about what the important variables are (Creswell, 2003). Even though there are many studies in PMS focusing on the public sector, the number of research studies in developing countries is still limited; much is unknown about PMS and institutional complexity in State Owned Enterprises (SOEs) in Thailand. Also, there are few studies in institutional logics using SOEs as their research domain. Consequently, due to limited information available, it would be better to explore this topic using a qualitative approach, which allows the researcher to gather data from the informants’ perspectives and develop a theme to explain the phenomenon.

Second, individual actions towards the implementation and the use of PMS and their relation to incentive systems can be considered as complex in nature. Also, as we saw

in chapter 3, Modell (2009) suggest that further research on individual actions toward the implementation of PMS is required. Since the quantitative approach uses statistics and correlation to define meaningfulness, it may not be sufficient to describe the complexity of this research. The qualitative approach's inductive nature should be a better option for the researcher to organize and analyse the data patterns and data collection to explore the phenomenon (Saunders et al., 2012). In addition, according to Creswell (1998), a qualitative approach research is useful for deriving theoretical narratives and theoretical frameworks from the data to provide holistic views of social phenomena.

Third, given that SOEs play important roles in the Thai economy in various ways, this research applies a qualitative approach to explore the development of PMS implemented in SOE and investigate how organisations respond to institutional complexity, which may affect the success or failure of the use of performance systems. The research tries to understand the factors through the SOEs' context and insiders' perceptions, which cannot be easily proved by using quantitative evidence. According to McQueen and Knussen (2000), a qualitative approach is suitable for exploring social phenomena to gain an understanding of how and why the participants function and behave. Furthermore, Creswell (2003) explains that qualitative research permits the collection of open-ended, emerging data. Due to rich context data expected in this research, the inductive nature of a qualitative approach would help the researcher to be able to focus on a small sample of subjects, which is more appropriate than a large number in the sample in a quantitative approach.

Regarding the reasons above, for this research, it is contended that a qualitative approach is suited to the researcher's aim and objectives. The qualitative approach characteristics help the researcher to examine newly discovered issues as well as to generate new hypotheses, themes and ground theories (Saunders et al., 2012). However, due to its nature, rich-context data is expected from the qualitative methods and techniques used to collect data, which will be discussed in the next part.

#### **4.4 Multiple Case Study Approach**

As mentioned in section 4.3 research approach, a qualitative approach was mainly adopted because the research concerned the views and opinions of stakeholders, which

are both internal stakeholders and external stakeholders such as the Ministry of Finance (MoF), line ministry and consulting firms, about performance measurement systems and other related activities (see chapter 1 section 1.3). However, not all qualitative methods can be used for studying performance measurement. Amongst, the number of qualitative methods, this research employed case studies to investigate a phenomenon within performance measurement in public sector.

According to Creswell (1998), a case study approach is widely used in organisational research because it provides a strategy for doing research that involves empirical investigation using multiple sources of evidence (Robson, 1993), which may be qualitative, quantitative, or combination of both (Richardson et al, 1995). The major aim of this research is to describe and analyse how public organizations conceptualise and implement performance measurement systems in an emerging country context, specifically Thailand, where such research is relatively scarce. Case studies can be particularly valuable because they generate rich data.

According to Ryan et al (2002), a case study provides a researcher an opportunity to better understand the nature of the subject studied because it typically is employed to explore real life events over which the researcher has little control, and where the boundaries between the context and events are not readily evident, as well as to improve the quality of the information (Yin, 1994; Gummesson, 2000). Saunders et al. (2012) state that a case study strategy is commonly used in explanatory and exploratory research to answer the questions what, why, and how. Consequently, to answer the research question, Saunders et al. (2012) state that case study strategy is commonly used to ensure that the researcher can be confident that they are interpreting the data correctly. All of these makes case study more favourable for research that requires an in-depth understanding of the particular topic studied (Gummesson, 2000).

This research fits the above statements since its focus is to examine how case study organisations respond to institutional complexity and to understand how and why performance measurement systems are perceived to succeed or fail in SOEs over which researcher has no control. Therefore, a qualitative case study approach would be an ideal method for providing models, frameworks, or theories, which can then be extended to other cases in similar situations. In this research, the researcher employed

the field of Thai SOEs as the main study area (see chapter 1 for the overview of Thai SOEs) as it provides an interesting setting in which to study developments in PMS from an institutional perspective.

#### **4.4.1 The selection of case studies**

According to Eisenhardt and Graebner (2007), the multiple case study approach allows the researcher to acquire different types of case studies, which helps to achieve ‘broader exploration of research questions and theoretical elaboration’. Consequently, the multiple case study approach was used in this research in order to collect two empirical cases of the implementation and used of the PMS, which are both required by the MoF and adopted by the SOE itself.

The multiple case study approach also allows the researcher to explore and compare the different types of problems and contexts found in the process of implementing and adopting PMS in the case study organisations. Even though when selecting a case it is not necessary to find a representative case, a researcher may select a case that covers the relevant issues (Collis and Hussey, 2003). Therefore, in this research, the aim of selecting a case study is to focus on specific case areas within the public sector in Thailand, with the cases needing to be reasonably representative of the State-Owned Enterprises. The research uses two cases from two different industrial sectors in collecting the data to answer the research question. According to Stake (1995), in designing the selection criteria for a research case study, the researcher must understand the study context as early as possible. Provincial Waterworks Authority (PWA) and Thailand Post Company (POST) have been selected by using the following selection criteria: the representativeness of the main industrial sector and the practical feasibility of access to the case study organisations. The reasons for choosing these organizations are summarized as follows.

Firstly, PWA is a main target to be part of this study because it is in the infrastructure sector, the reform of which has gained attention from governments around the world with the aim of increasing competition and economic efficiency as well as to enhance environmental and quality standards (Abbott et al., 2011). Secondly, POST was chosen because it can represent the change in the dynamic and competitive environment in parcel service, while its domestic mail service is still reserved as a monopoly and

assumed to be an insufficient profit-making unit. According to Borenstein and Becker, the emergence of new technologies, environmental initiatives and social responsibility have accelerated the pressure for the postal sector to improve its service and management (Bravo, 1995; Zairi, 2000; Borenstein and Becker, 2004) as well as retain minimum or reserved services for citizens at the promised prices (Rodriguez and Storer, 2000). Thirdly, both PWA and POST have branches across Thailand that may need adequate guidelines and processes in implementing or employing PMS. This helps the researcher to better investigate the organisational responses in the PMS. Fourthly, both organisations can be considered as the biggest organisation in their sector in term of asset size and number of employees. The size of the cases is also an important issue because it should be large and varied enough to ensure that sufficient data is collected in order to better understand the phenomena in the research. Finally, the case study organisations have been involved with the PMS assessed by the MoF since its introduction in 1995. In addition, in 2012, both PWA and POST have adopted Economic Value Added (EVA) and Balance Scorecards (BSC), which this study intends to investigate for organisational and individual perspectives towards the PMS.

Regarding data accessibility, the researcher selected case study organisations in Thailand, which allowed her to collect data with more convenience and helped to gain access to key informants in the case study organisations. The source of these cases was based on the researcher's personal contact with some officials in government agencies and SOEs. The researcher approached a few potential SOEs; however, some of them rejected the request for access for various reasons such as issues of confidentiality, or the time planned for field study overlapped with their other schedules. Therefore, the two case study organisations were chosen due to the help of the State Enterprise Policy Office and strong personal ties with the researcher. In both selected case study organisations, the researcher had two or more discussion sessions about the organisational context and a request for formal research permission was made to each organisation chief executive officer before collecting data in the field. Therefore, the case study organisations that took part in the study were selected based on their willingness to participate in the research, their ability to provide information on the subject, and informants' availability for the interviews and questionnaires.

#### **4.4.2 The overview of case study organisations**

This section provides an overview of selected two case study organisations: PWA and POST and their characteristics.

##### **4.4.2.1 Provincial Waterworks Authority**

In 2004, the Thai government failed to corporatize SOEs in the water sector and to found a Water Regulator due to the strong protest from labour unions. The water sector has been under-controlled and regulated by a number of government agencies and committees, which sometimes create conflicts of interest amongst themselves. In addition, the water bureaucracy contributed to the inefficient performance such as poor service standards, poor water quality and excessive operating costs. Moreover, the water sector requires a massive capital investment, which needs to be well-managed to avoid under-pricing. Therefore, in order to be more efficient, State-Owned Enterprises (SOEs) in this sector have been required to improve their efficiency, productivity, distribution of water supply, and customer satisfaction, as well as to fulfill individual stakeholder requirements. Many management tools are required to overcome these obstacles and one of them is a PMS.

According to the problem above, the study of SOEs in the water sector can help the researcher better understand the PMS in the field. In this research, Thailand's Provincial Waterworks Authority (PWA) is selected as a case study.

PWA was established on 28<sup>th</sup> February 1979, in accordance with the Provincial Waterworks Authority Act 1979, to provide a proper water supply system for Thai people in 74 provinces across the country. The PWA's vision is "PWA shall be a good organization with high efficiency in providing full access to standard drinking water supply service to the population throughout the country" (PWA, 2012). PWA key activities include water collection and storage, water treatment and water distribution. According to a study by Chulalongkorn University, in 2032, the consumption of clean water under PWA's responsibility will reach 2,280 million cubic meters or 2.3 times the current consumption (PWA, 2012). Therefore, PWA will face with many challenges in the near future. To meet the rising demand, PWA has been forced to expand the water production and distribution systems.

#### **4.4.2.2 Thailand Post**

Over the last several decades, despite the advance of information technology and its substitution for traditional postal services, POST has play as a vital role as a basic communication approach in strengthening Thailand's economy and society. POST and CAT telecom Co. Ltd. were originally a part of Communication Authority of Thailand and were corporatized on August 14, 2003 with 100% ownership by Ministry of Finance. However, it is still under supervision from Ministry of Information and Communication Technology. POST's vision is "To be the leader in postal business through a comprehensive, convenient, quality network that can always be relied on to serve the need of Thai people". POST has defined its market in four businesses: postal, logistics, retail and finance. Only the postal market has been regulated by the Postal Service Commission, which is responsible to determine 'the authorities, rights and benefits of POST' (MICT, 2010).

According to Union Postale (2012), the emergence of the internet caused a change in customer behaviour, which led to a decreasing number of customers for mail service, while the use of parcels and logistics services are rising due to a high demand from e-commerce businesses across the world. In addition, in 2015, the Asean Economic Community (AEC) will be founded, which will lead to a free movement of products, services, labour forces and capital in the region, which consists of 10 countries. POST expects to face a great challenge due to the open market for the logistics business, so to overcome this situation, the organisation has been forced to improve its network and services. Recently, POST has been studying the impact of the AEC, which points out that some performance standards used in the organisation may be subject to change to become more internationalized, and the proposal of expanding its logistics business is in the Ministry of Information and Communication Technology (MICT) and the MoF's review process.

The two case studies have some different characteristics that help the researcher in investigating how different types of SOEs can affect the use of PMS. The key characteristics of PWA and POST are summarised and shown in Table 4.5 below. The information on organizational structure and financial data of the case study organisations is also provided in Appendix B.



**Table 4.2: The key characteristics of PWA and POST**

	Provincial Waterworks Authority	Thailand Post
Ownership	100% owned by Thai government	100% owned by Thai government
Line ministry	Ministry of Interior	Ministry of Information and Communication Technology
Regular body	No	The Postal Commission
Corporatisation	No	Yes
Privatisation	No	No
Sector characteristic	Capital intensive	Labour intensive
Company size	Large-sized	Large-sized
Core product	Treated water	Postal services, communication and retail
Subsidy from government	Yes	No
Financial structure	High leverage	Low leverage
Revenue tax responsibility	No	Yes

Source: Summarize from PWA and POST's annual report and performance measurement report

In conclusion, this section provided the selection criteria for the case study organisations as well as relevant information about the field of Thai SOEs and the case study context for the research. The first part is to investigate the field of Thai SOEs and the development of PMS. Then, the case study context, which included the overview of the organisations and their characteristics, was presented. All of these are necessary background for identifying institutional logics in chapter 5 and understanding institutional complexity, PMS and incentive systems in the case study organisations in chapters 6 and 7.

#### **4.5 Data Collection**

From the structure of the research mentioned above, the research used a qualitative case study approach. In this section the data stage will be discussed, including a brief idea about the data collection and techniques that were employed in the research. Schlappa (2009) state that to capture the range of perceptions of participants, an open and flexible approach for data collection is needed and structured to ensure that all data is collected systematically. Multiple sources of data are useful for the purpose of corroborating the themes as well as to enhance the validation of the findings (Hoque and Hopper, 1994). There are a variety of data collection techniques that allow participants to express their

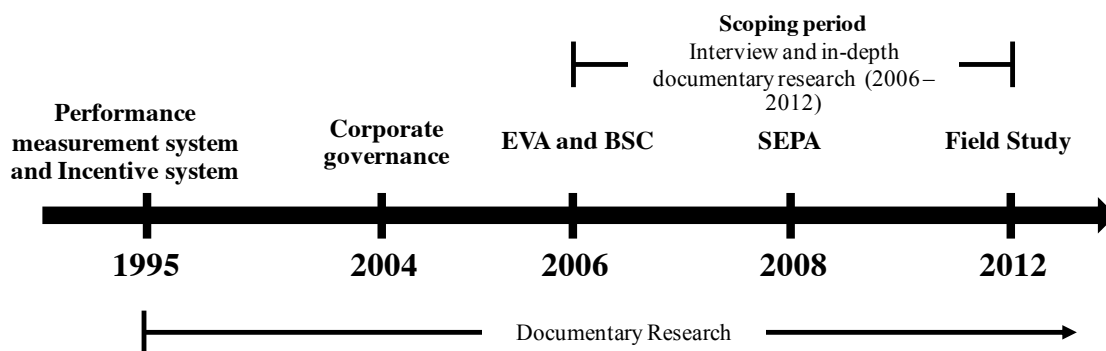
opinions: interviews, open-ended questions, etc. In this study, to increase the strength of the study findings, a semi-structured interview method was mainly adopted with support from document research.

Yin (2009, p. 43) states that ‘a case study involves an inference every time an event cannot be directly observed. An investigator will infer that a particular event resulted from some earlier occurrence, based on the interview and documentary evidence collected as part of the case study.’ Therefore, it is important to note that before the field research, the documentary research was critical in building the researcher’s familiarisation with the organisations. This understanding provided invaluable background evidence related to the field of Thai SOEs and the case study organisations. It also helped the researcher to identify key informants as well as potential issues for the research and in planning for the following stages of the empirical research. At this stage, researcher collected board document data since the beginning of the introduction of PMS in 1995 (see the example of documents in section 4.5.2).

The collected data includes the participants’ reflections upon their past experiences of working in SOEs and the changes that they have experienced in PMS and this helped the researcher to understand the connection between the research questions and the broader context (Creswell, 2003). Even though, the primary fieldwork was undertaken from May to July, 2012, the scoping period of data collected from both the semi-structured interview and in-depth documentary research was mainly focussed upon the period from the introduction of EVA and BSC to Thai SOEs in 2006 until the time of the interviews which were fully completed by the end of 2012. In this research, a scoping period refers to the period of time that determines the boundary of content and the extent of data that the researcher collected to define the issues that were to be analysed in the research.

This scoping period was employed so that the researcher could establish a clear timeline for the research, to obtain the information that the researcher is looking for and to aid the data collection process. The timeframe covered by this research can be summarised as shown in figure 4.2 below.

**Figure 4.1: Research timeframe**



Source: Adapted from Luangnual (2010, p. 4)

#### **4.5.1 Semi-structured interviews**

An interview technique was employed as the main type of data collection technique to understand the views of stakeholders related to PMS in Thailand. According to Miller and Crabtree (1999, p. 89), an interview technique is ‘a research-gathering approach that seeks to create a listening space where meaning is constructed through an interexchange/co-creation of verbal viewpoints in the interest of scientific knowing’.

Thai SOEs are known for the difficulty in accessing their internal data and their bureaucratic structure in which authority is a key driver in organisational operations. Therefore, to collect data in such organisations, compared to other data collection techniques the interview technique can be more efficient because of the interview’s flexible and dynamic nature through interactive discussion, which allows the researcher to explore the experiences of participants as well as to bring out new information which is not stated in a paper (Rubin and Rubin, 1995). There are many types of interviews, which range from highly formal and structured to informal and unstructured conversation (Saunders et al., 2012).

According to Rubin and Rubin (2005), the semi-structured interview helps researchers to explore contexts that cannot be easily investigated, by seeing the research topic from the participants’ perspectives and understanding how and why they have their particular perspectives (King, 1994). Accordingly, active interaction between interviewers and participants is expected and is shaped by the contexts and situations in which the interviews take place (Fontana and Frey, 2005). As a result, in this research, a semi-

structured interview technique was employed due to its flexibility and appropriateness to the objectives of the study, especially in the situation where the researcher is uncertain about what and how much information she would get from the interview (King, 1994).

Semi-structured interviews were used to collect qualitative data for identifying institutional logics and their responses to PMS and incentive systems, as well as to gather information and valuable opinions related to the research (Bryman and Bell, 2007; Saunders et al., 2012). Semi-structured interviews allow more flexibility for both the interviewers and interviewees to explore more on the topic of the interview. Consequently, the scoping period which the interview questions were designed to address covered (or emphasised) the period from 2006 to 2012 as shown in the figure 4.2. According to Saunders et al. (2012), in a semi-structured interview, the researcher has some key questions or a list of themes but the sequence of the questions and additional questions depend on the participant's experience and the conversational flow. Such interviews allow the interviewee to talk freely, and the more comfortable the interviewee is, the more they are prepared to openly share their thoughts. This method gives us the flexibility to use prepared questions, but strict adherence to them is not required, as new questions might emerge during the conversation (Myers, 2009).

This helps the researcher to collect data on some research topics in detail as well as makes the participant who is conversant with the topic better express his opinion (King, 1994). This research focuses on issues which are vital for understanding an individual's perception of the implementation of performance measurement and incentive systems as well as to explore the hidden messages such as the institutional pressures and the effects of their context on how the organisation adopts and implements PMS. However, this method does have some disadvantages, such as when there is a lack of trust shown by the interviewee towards the interviewer, inducing biased or inaccurate answers. Also, if the interviewee is too talkative, then too much irrelevant data will be gathered; if he is not in a talkative mood then too little information will be gathered (Myers, 2009). Accordingly, guidance for the semi-structured interview will be constructed based on information collected from document research and the literature review, and this helps the researcher to give a structure to this interview process and keep the focus of the interviewee on the relevant topic and avoid some of the drawbacks of these types

of interviews (Bryman and Bell, 2007; Myers, 2009). To conduct the interviews, the following issues should be considered.

#### **4.5.1.1 Selection of the interviewees**

The focus of this research is to examine how and why the implementation and operational stages of PMS are perceived to succeed or fail; therefore, data were collected at the individual level. One-to-one interviews were used to help the researcher better control the flow of conversation as well as to allow the participants to express their opinions more freely on a sensitive topic. The selection of the interviewees is an important stage to ensure that the researcher can gather adequate data from participants. According to Ritchie et al. (2003a), qualitative research uses non-probability samples for which the basis of selection is based on 'the characteristics of the population'. As a result, in this research the sample was chosen in such a way as to ensure the desired information is provided (Merriam, 1998). The researcher purposively selected the participants who were at least involved in one of the PMS. The variety of the participants is also important for the researcher to get different points of views.

Based on the research aims, the participants can be divided into three categories:

- (1) top-level management, including chief executive officers, financial directors and other executives in order to investigate the policies used and the relationship between government and organisations;
- (2) organisational employees at various levels from operational staff to managers to represent how they perceived institutional logics as well as how they perceived and responded towards institutional complexity in the implementation and use of PMS and what constraints occur when a PMS is conducted within an organisation; and
- (3) external stakeholders including government agencies and consulting firms to understand the policy, regulation, and interconnection with SOEs.

In both cases, to understand the context of the organisation as well as its performance measurement policy, the two most important participants who were purposively selected were the chief executive officer (CEO) and chief financial officer (CFO). The other executives and other employees were selected based on the organisational structure and their involvement with PMS. In the process of selecting the list of

participants in this group, the researcher had to discuss closely with the key personal contact due to the limitations of availability and accessibility. Lastly, the participants from the external stakeholder group were purposively chosen based on their relationship with the case study organisations. Most participants in this group were from the MoF due to their involvement with the SOEs' PMS.

According to Ritchie et al. (2003a), in qualitative research, there is no requirement for a sufficient size of sample due to the rich information acquired from each sample; therefore, quality samples are usually small in size. In order to achieve the research objectives, the study is carried out through semi-structured interviews of the key informants. The target interviewees of this study were divided into two categories: policymakers and State-owned Enterprise employees, and the number of interviewees will be eighty-one in total as shown in Table 4.6 below.

**Table 4.3: The number of participants**

Interviewee Group	No. of participants
Policy Maker	
- Ministry of Finance	8
- Ministry of Interior	1
- Ministry of Information and Communication Technology	1
- National Economics and Social Development Bureau	1
- Consulting firms	2
<b>Total</b>	<b>13</b>

Interviewee Group	No. of participants		
State-Owned Enterprise (2 organisations)			
	Case Study	Case study	Total
	1	2	
- Board of Directors	1	1	2
- Chief Executive Officer	1	1	2
- Financial Director	1	1	2
- Other top management participants	9	12	21
- Mid-level manager	9	12	21
- Staff	11	9	20
Total amount	32	36	68

#### 4.5.1.2 Interview preparation

Saunders et al. (2012, p. 384) state, ‘the key to a successful interview is careful preparation’ which helps the researcher to gain credibility with the interviewee. The key measures for preparation are ‘level of knowledge’, ‘developing interview themes’ and ‘the appropriateness of interview location’. Before the field research, the interview plan was drawn up. As mentioned before, the flexibility of a semi-structured interview helps the researcher to explore the research objectives and additional information as well as to develop conversation flow in unique ways for each participant. Therefore, knowledge of the research topic and organisational context is required (Saunders et al., 2012). In addition to a literature review, documentary research about the organisation and discussion with key contact and informant persons had been done before the field interviews. This helped the researcher to gain confidence as well as to demonstrate researcher credibility. This preparation also helped the researcher to reduce misinterpretation of participants’ messages due to ‘culture differences’ between the researcher and participants (Saunders et al., 2012).

In the developing the interview themes stage, the interview questions were carefully designed based on prior literature and organizational context to reflect the research aim and objectives. The list of questions helps the researcher to better control the conversation flow by guiding participants to discuss their experiences and opinions in the scope of a PMS. However, the nature of a semi-structured interview also allows the

researcher to be more open in seeking additional information which may be beyond the list of questions but is still relevant to the performance measurement topic. The interview questions were designed in English, and subsequently translated into Thai (see Appendix C).

Three pilot interviews were conducted in order to test the appropriateness and clarity of the list of questions as well as to assess whether the translated questions can be understood appropriately. Three pilot interviews were carried out with an account manager and an account officer in the State Enterprise Policy Office, the MoF. The other interview was with a manager in the National Housing Authority. Based on the comments and feedback from the pilot interviewees, the questions were revised to be more understandable and to provide some examples for a clearer explanation. Finally, the question guidelines for different types of participants were prepared for the three types of participants: participants from SOEs, participants from the MoF and participants from other stakeholders (see Appendix C).

The finalized interview questions contained three key topics. Firstly, the background information of the participant was collected. Next, the questions focused on the participant's and organisational relationship with government agencies and other SOEs, especially the MoF. This helps the researcher to explore the occurrences of institutional complexity regarding prevailing multiple institutional logics that affect the adaptation and implementation of PMS. Lastly, how PMS were implemented and employed in the organisation was examined. This topic helps the researcher to investigate the organisational responses as well as to find the key success or failure factors of the use of PMS. Also in this part, the connection between PMS and organisational incentive systems was questioned. At the closing stage of the interview, the researcher also gave participants the opportunity to share their opinions on related issues which may not have been mentioned in the earlier stages. In addition from the finalized questions, the pilot interviews also helped the researcher to assess the length of the interviews and the sequence of questions.

#### **4.5.1.3 Interview process**

The interviews were conducted from May to July 2013, and the data from eighty-one participants were collected. Semi-structured interviews were mainly conducted on the



field site of the case study organisations, both in head offices in Bangkok and in their branches or plant locations. For the government agencies and consulting firms, all the interviews took place at the participants' sites.

As mentioned before, the first group of participants, case study organisations' executives and government agencies were selected purposively based on their position and knowledge of PMS. The other group of participants, especially employees at the operational level, were self-selected by their willingness to participate in the research. First, before the field research was undertaken, the researcher asked for permission from both cases' chief executive officers to conduct the research in their organisation. Next, an appointment with each participant was made through the key contact person and in some cases by researcher herself. After appointment confirmation, an information sheet and consent form were sent to each participant at least a week before the interview session.

On the day of the interview, the researcher started the interview by introducing herself and made some short conversation with the participant to gain credibility. Then, an opening statement which included a brief background of the research and the explanation of the consent form was read out to each participant to clarify the purpose of the research as well as to assure the participant that his identity would remain confidential (see Appendix D). Next, the participants were asked for permission to tape the interview, or if this was not possible then alternatively to take brief notes during the interview.

Then, the researcher followed Myers' (2009) guidelines:

- Ask short and clear questions;
- Encourage participants to recall past experiences and events relevant to the topic;
- Ask only a few broad and open ended questions;
- Be flexible and open to new ideas and lines of inquiry.

The researcher used the list of interview questions as a guideline to ensure that the information obtained from participants covered all relevant research topics and met the research aims in the time limit (Patton, 1990). Related additional questions were added

based on the participant's experience context and conversation flow. Then, the researcher summarised the key sensitive issues and confirmed them with the participants.

At the end of the interview session, the researcher thanked the participants for sharing the information; however, informal conversations with some participants were also carried out depending on their willingness. Some useful information was also collected at this stage. The length of the interviews conducted ranged from one to one and a half hours. On average, an interview took approximately one hour. Sixty one interviews were digitally recorded. Furthermore, informal conversations with some key informants were conducted, which also provided the researcher with some significant information.

#### **4.5.2 Documentary research/ Secondary data**

According to Yin (1994), secondary data is useful because it can provide additional evidence or arguments, particularly about the wider context. According to Scott (1990, p. 59), the documents published by governmental agencies are the 'single most important category of documentary sources used in social research'. Generally it is seen that there is a wealth of data and information within Thai governmental organisations and case study organisations that can be drawn upon and analysed to address performance measurement issues as well as develop questions for interviews. The collection of secondary data relevant to the research was undertaken to collect information on the cases, to develop a broad view as well as to understand the guidelines for PMS in SOEs and other research related data.

As suggested by Bryman and Bell (2007), existing internal studies, known as internal secondary data, related to the research topic will be examined at the beginning of the study in order to gain a deeper understanding of PMS and background information on the research subject. Research using this approach is appropriate since the Thai government has conducted studies related to the subject of the study. This information is already recorded and documented by the State Enterprise Policy Office (SEPO) and it serves as the main source for further documentary research. Most documents from the Thai government and SEPO are related to SOE's PMS such as The master plan for state enterprise sector reform, State Enterprise Performance Evaluation, State Enterprise Performance Appraisal, Good Governance etc., and the performance agreement

between the MoF and SOE and State Enterprise Review, which included brief information on each SOE in its financial condition, operation and key issues. This helps the researcher to better prepare herself for her field interviews. The other important source of the documentary research is the documents from case study organisations, which were collected from the key informant persons and participants. The documents collected in this research are as follows.

**Table 4.4: The documents collected in this research**

Document	Source	Year
The performance measurement system in state owned enterprise	Thai cabinet office	1995
The master plan for state enterprise sector reform	Thai government	1998
EVA measurement manual prepared for State Enterprise Policy Office	Stern Stewart & Co.	2003
EVA measurement calculation guideline for State Enterprise Policy Office	Stern Stewart & Co.	2004
State Enterprise Policy office annual report	SEPO	2004
Water sector privatisation plan	SEPO	2005
EVA calculation report for PWA	SEPO and Stern Stewart & Co.	2005
The EVM implementation guideline (PWA)	SEPO and Stern Stewart & Co.	2007
The evaluation of performance measurement system	SEPO	2008
SOE awards report	SEPO	2008-2012
Public service obligation guideline	SEPO	2009
Thailand water service assessment	Asian Development Bank	2009
The manual of performance measurement system	SEPO	2010
The presentation of SOEs governance structure	Mr. Kulit Sombatsiri, Deputy Director General, SEPO,	2010
Good governance criteria	SEPO	2010
Annual accounting report (PWA)	PWA	2010-2014
Annual accounting report (POST)	POST	2010-2014
State Enterprise Review (PWA)	SEPO	2010-2014
State Enterprise Review (POST)	SEPO	2010-2014
Performance agreement (PWA)	MoF	2010-2013
Performance agreement (POST)	MoF	2010-2013
Performance measurement report (PWA)	PWA	2010-2012
Performance measurement report (POST)	POST	2010-2012
State enterprise performance review	SEPO	2011-2012
State Enterprise Performance Appraisal Guideline	SEPO	2011

<b>Document</b>	<b>Source</b>	<b>Year</b>
The development of state enterprise performance measurement system	Mrs. Danucha Yindeepit, Advisor on Finance, the Ministry of Finance	2011
PWA investment plan (submitted to NESDB)	PWA	2011
PWA individual balance scorecard manual	PWA	2011
POST investment plan (submitted to NESDB)	POST	2011
PWA customer service evaluation report	PWA	2012
EVM and the requirements of EP calculation for 2012	SEPO	2012
State owned enterprises performance measurement system	SEPO	2012
Statement of directions for state owned enterprises	SEPO	2012
Organisational performance report and self assessment report (PWA)	PWA	2012
Organisational performance report and self assessment report (POST)	POST	2012
PWA strategic plan (2011-2016)	PWA	2011
POST business plan (2011-2016)	POST	2011
POST business plan (2012-2017)	POST	2012
POST shareholders' meeting report	POST	2012
Board of directors minute of meeting	PWA	2011-2012
The overview of SOEs		2013
The manual of performance measurement system and incentive system	SEPO	2013

The scoping period of this in-depth documentary research was from 2006 until the end of 2012. This enabled the researcher to examine the impact of institutional arrangements and logics as well as how organisations report their progress or issues on the use of PMS. Furthermore, this in-depth documentary research provided significant material related to the Thai context and in-depth detail on case study organisations which further helped the researcher to interpretation the phenomena. This rich data is also useful to re-confirm some missing or confusing interpretations of the interviews if they occur. However, the researcher signed agreements with each case study organisation that prohibit the researcher from publishing some important information before receiving consent from the organisations. In addition, external secondary sources of data such as reliable journals and external studies related to the research topic were examined. The following are some of the other sources of external secondary data: government publications, consulting firm studies, and published research materials from electronic databases.

Even though documentary research is known as a cost-effective method (Payne and Payne, 2004), there are potential limitations of this type of research method. According to Crowther and Lancaster (2008), the available data could be relatively complex or not specific to the context of the proposed research topic. Also, it is easy for anyone to place information on the web and the information may only be a personal opinion and not a peer-reviewed research paper. Consequently, to overcome the document research limitations, the documents used in the research were obtained using a cautious approach with data collected only from trustworthy sources such as the Thai government and SOEs to ensure that only authentic and reliable information was analysed.

#### **4.6 Data Analysis**

According to Robson (1993), qualitative data analysis seeks to explain underlying research problems with less direct assertion than numerical forms of measurement. Normally, raw qualitative data are vast and come in various forms, such as interview transcripts, observations, and written documents (Ritchie et al., 2003b). As mentioned above, this research used semi-structured interviews and secondary data from two cases from two different sectors to collect qualitative data, which needed to be analysed and interpreted. Because there are different sectors, environmental regulations and environmental performance measures, it makes more sense to use a qualitative analysis to understand and explain how organisations are dealing with different environmental pressures and what practices they are adopting.

According to Myer (2009, p. 165-166), ‘One of the reasons for focusing on the analysis and interpretation of qualitative data is that a qualitative researcher almost always ends up with a huge amount of data. ...It is obvious that you cannot possibly include all of your data in a thesis.’

One of main challenges to qualitative analysis is a lack of conventions for the researcher to use for analysis (Robson, 1993). It may also be complicated to structure and summarise the data for effective analysis. Therefore, data reduction and data interpretation are the main tasks in qualitative analysis (Ritchie et al., 2003). Also, Saunders et al. (2012, p. 547) explain that the qualitative data analysis process starts with data selection, which is ‘based on meaning express through the words’. Then, the researcher needs to summarise and simplify as well as organize the selected data. The

well-organized data is called ‘data display’, which will facilitate the researcher to better interpret and analyse the data in the final stage.

Although, there are many qualitative data analysis methods available, applying the general convention to the nature of this research mentioned above, the data were analysed using qualitative content analysis. According to Mostyn (1985), qualitative researchers use content analysis as a diagnostic tool to deal with a large volume of open-ended material. Content analysis is a technique through which researchers ‘seek to demonstrate the meaning of written or visual sources ... by systematically collocating their content to pre-determined, detailed categories, and then both quantifying and interpreting the outcome’ (Payne and Payne, 2004, p. 51).

The approach to content analysis used in this research will be thematic analysis to find distinctions made between cases. Ryan and Bernard (2000, p. 780) state, ‘themes are abstract constructs the investigators identify before, during, and after analysis’, in order to uncover ‘themes and patterns’ of meaning in the data. According to Braun and Clarke (2006, p. 37), the key advantages of thematic analysis are as follows: flexibility, easily used, can identify ‘similarities and differences across data set’ and ‘can generate unanticipated insights’. In this research, thematic analysis was also used under the content analysis technique by following the six phases of analysis that are recommended by Braun and Clarke (2006).

### **Phase 1: Familiarizing with the data**

This phase is similar to the other forms of qualitative analysis in that the researcher has to make herself familiar with the data content by various methods such as transcribing the data, reading and re-reading the data. After conducting an interview, the researcher transcribes the audio into written text (Lapadat and Lindsay, 1999). As mentioned before, all the interviews were carried out in Thai; therefore, the transcripts were transcribed in the original language used in the interview. By transcribing, the researcher can gain more familiarity and better understanding of the data (Braun and Clarke, 2006). In order to prevent ‘lost in translation’ problems, all the interview records were kept and analysed in their original language to help the researcher to capture the true message of the interview data. Also in this stage, the list of ideas from the entire set of data was generated.

## **Phase 2: Generating initial codes**

After the researcher was familiarized with the data, this phase involved going through all the text and producing the ‘initial codes’ from the data (Braun and Clarke, 2006). According to Saunders et al. (2012), ‘initial coding’ is the process of providing a ‘similar unit of data’ with a category or a label. By generating initial codes, the researcher can better connect the conceptual interpretations with the data by organizing them into a ‘meaningful group’ (Tuckett, 2005) and reducing the data into manageable chunks (Dey, 1999).

Since this phase was an early stage of the data analysis, the researcher worked back and forth through the entire data set as well as using my ‘subjectivity’ as a research tool to create codes. According to Auerbach and Silverstein (2003, p. 77), ‘subjectivity, interpretation and context are inevitably interwoven into every research project’. The ‘subjective coding’ was used to identify the core category to recognize the relationship between codes and sub-codes (Saunders et al., 2012). In this study, the rationales for selecting codes in this phase were as follows: the researcher’s academic background and experience in the performance measurement field, the researcher’s experience in the Thailand context and culture as well as the case study context in interpreting the conversations with participants.

An Excel programme was employed to help the researcher manually organize the data and code them by PMS and other related systems such as EVM, BSC, or incentive system etc. as the main categories that appear interesting to the researcher. Furthermore, the set of codes was developed after the first interview and additional codes coding from each interview were included in the set, which sometimes required the researcher to look backward to the previous interview record. According to Bryman (2004), initial coding has been criticized for losing context; therefore, in this research other relevant surrounding data was also kept. However, according to Braun and Clarke (2006), the initial code of research data differs from the theme, but it should lead the researcher to identify concepts and themes in the next phase.

## **Phase 3: Searching for themes and Phase 4: Reviewing themes**

According to King (2004), after coding the transcripts from the interviews into broad themes, the researcher needs to analyse each broad theme in detail, which could help

the researcher to find distinctions between cases. After the researcher lists initial codes in phase 2, Braun and Clarke (2006, p. 19) explain that this phase 3 is searching for themes by 'sorting the different codes into potential themes'. At this phase, themes and sub-themes for the research were created. Some codes that did not belong or fit to any theme were put in a miscellaneous theme in case it might be useful in the future.

In phase 4, 'candidate themes' that the researcher identified in phase 3 were refined by combining, regrouping or breaking down into new themes. Regarding the validity of themes, the data set was reviewed again to ensure that individual themes could represent the phenomenon accurately as well as to look for missing additional data that matched with the themes.

In this research, the third and fourth phases were worked back and forth to help the researcher in sorting different codes into 'potential themes', which could form main themes or sub-themes in the research. The literature review was used to identify research themes. In addition, due to the uncertainty of using themes, no theme was discarded in this phase.

#### **Phase 5: Defining and naming themes and Phase 6: Producing the report**

Phase 5 focused on organizing the themes that were used in this research by looking for coherence of the content of data in each theme. Then, the researcher tried to figure out why and in what way the content of data is important, so later on the researcher could analyse the data and explain the story behind each theme as well as decide the degree to which there is a need of sub-themes in the main theme (Braun and Clarke, 2006). This helped to structure the complex themes. At the end of this phase, the identified themes for the research as well as their titles were provided and used in the final analysis and write up of the thesis. At this final phase, the modification of codes occurred to re-ensure their appropriateness, accuracy and coherence in the thesis context. The segments of interview statements were used as evidence to support the researcher's interpretation as well as to re-tell what happened in the organisation.



#### **4.7 Conclusion**

In conclusion, this chapter attempted to design, justify and explain the analytical procedures used in the research by starting with the philosophy and approach choices that lie behind the research. According to the researcher's view on constructivism, the methodology that fit this research was a qualitative approach, which also led to the selection of methods and techniques to conduct the research. Constructivist researchers seek to understand 'reality' through individual action and perception of phenomena that are socially constructed rather than discovered (Crotty, 1998). This researcher's choice of paradigm led to the selection of a qualitative approach. A multiple case study strategy was used to conduct the research. According to Eisenhardt (1989), multiple case study characteristics, replication and extension among individual cases helps a researcher to validate and generalize findings. Therefore, in this research, two cases were selected from two different industrial sectors for comparison and generalization. In doing these case studies, the following data collection techniques were employed: semi-structured interviews and document research. Semi-structured interviews as the main technique were used to acquire in-depth data. The interaction between researcher and participants helped the researcher to explore issues, clarify meaning and verify the relationship occurred. The interview process also explained how the samples were selected, with the number of interview participants totalling eighty-one people. Finally, for the data analysis, the researcher employed thematic analysis for qualitative data. The codes were first developed and then the themes were created to explain the phenomena.

# **Chapter 5**

## **Understanding the Institutional Logics in Thai State Owned Enterprises**

### **5.1 Introduction**

The review of performance management and measurement systems as well as institutional theory and related issues in chapters 2 and 3 reveals that there have been only a few studies conducted on the institutional logics in State Owned Enterprises (SOEs) and thus far no research has focused on SOEs in Thailand. The main purpose of this chapter is to identify the possible institutional logics shared amongst Thai SOEs. The findings are mainly drawn from the case study context and characteristics discussed which derived from the in-depth documentary research (see section 4.5, table 4.4) and semi-structured interviews with various groups of participants from the case study organisations as well as some participants from policy maker groups (See chapter 4 section 4.5, table 4.3).

Research has shown that multiple institutional logics occur in hybrid organisations (e.g. Greenwood et al., 2011; Battilana and Dorado, 2010). The next section presents the field of SOEs in Thailand. Then, this chapter examines five institutional logics: the logic of bureaucracy, the logic of commercial operations, the logic of social activities, the logic of seniority and the logic of unity. The first three logics are identified from SOE managerial practices, while the others are derived from Thai culture and the organisational norms. In each logic, the empirical data and explanations are provided in order to better explain how the logic is embedded in the organisation and how institutional complexity affects the case study organisations. The final section provides a brief summary of the chapter.

### **5.2 The Field of State Owned Enterprises**

In chapter 3 section 3.5, it was noted that there are many levels at which institutional logics may develop, including the organisation or its markets and the organisational field (Thornton and Ocasio, 2008, p.106). This study focuses on the institutional logics in organisations and organisational fields with an emphasis in the field of SOEs, rather

than the industry in which the case study is located. The field of SOEs is ideal for this study because it provides an ideal field setting to address the study's objective by comparing two cases as Thai SOEs rather than two organisations in different industry sectors.

According to Greenwood et al. (2011, p.344), 'the nature and extent of institutional complexity facing organisations is fundamentally shaped by the structure of the organisational fields within which they are located'. As we saw in chapter 3 section 3.5, organisations in the field can experience uncertainty in 'institutional arrangement', which results in them being influenced by the actors and logics outside the field. This section identifies the type of field structure of the field of SOEs, which helps to identify institutional logics in the next section and the degree of institutional complexity experienced by organisations in the field, as discussed in chapter 8.

Regarding the characteristics of public sector organisations described in chapter 1 section 1.3, SOEs have to deal with various stakeholders; however, the most influential group is the policy maker group, which consists of a variety of government agencies. During the interviews with executives and management level participants in PWA and POST, it was recognised that two important agencies that have an influence on SOEs' management and policy are the MoF and line ministries, which are the Ministry of Interior (MoI) and the Ministry of Information and Communication Technology (MICT) respectively (see chapter 1 section 1.3). However, the degree of the involvement of the line ministry depends on how active the Minister is at that time, as well as the specific policy given directly to the SOE.

In PWA, most executive participants agree that the involvement of MoI is normally in policy and budget management. Many participants at middle management and operation levels point out that MoI does not participate in PWA operations significantly except in the budgeting planning process, while the MoF involves itself rather more in PWA operations and management through the MoF's designed PMS.

According to one PWA executive (B1\_001),

“MoI does not directly regulate or command an organisation to improve its performance but it will be involved with PWA in cases where policy

directly affects Thai citizens. The degree of MoI involvement depends on the Minister at that time. Normally, the MoI is mostly involved with the budget plan that needs to be approved each year ...Personally, I think the MoF is more suitable to help as well as shape SOEs in improving efficiency.”

According to one PWA executive (B1\_002),

“MoI works as a coordinator between PWA and other agencies in case it has a policy or project that needs to be done together. For example, the use of a smart citizen identification card to register with PWA and the employment of military maps for planning in water pipe networks etc.”

Similarly, POST participants mentioned that the MICT is not very active in POST policy or business strategy. However, sometimes the Thai government might assign POST to do a business related project or an ad-hoc project, which POST has the ability to accept or reject. For example, in 2010, the Thai government assigned POST to do a micro-finance project that employed the concept of Grameen Bank to examine the provision of financing to low-income citizens. The project was rejected by POST after a year of further investigation (Interview record: A1\_006). Participants questioned the MoF and line ministry roles towards SOEs. Some participants requested the agencies increase their effort as well as support for SOEs, while others think that the agencies should decrease their involvement in SOE business and management.

According to a POST executive (B2\_001),

“One of our management problems is that government agencies do not support us enough. They tend to regulate us instead of helping us. ”

Also, a POST executive (B2\_005) stated,

“The MoF is not supposed to be involved in SOE activities too much...It should act like a shareholder and should not interfere in our business management.”

There are other related government agencies that also have authority to approve as well as monitor many of PWA’s and POST’s plans and operations; for example, National

Economics and Social Development Bureau (NESBD) for approving investment plans, Public Debt Management Office (PDMO) for approving long-term loans as well as bond issuing plans etc. The roles of various government agencies sometimes overlap and cause more work for SOEs. For example, PWA is required to report its performance to most of the mentioned agencies above, but using different forms as well as data sets. One of the departmental directors (B1\_105) experienced in working with government agencies stated,

“There is inadequate integration between government agencies, which leads us to duplication of work.”

Also, according to a PWA director of Office of Corporate Communication and Customer Relations,

“Due to the infamous red tape in the bureaucracy system .... as well as too many government agencies to deal with, sometimes we have to use our connections to accelerate our work.”

However, participants from POST are not very concerned about overlapping roles of government agencies. Participants stated that POST does not have a major investment plan, and recently the budget is mostly related to operations and does not need financial funding, so there is little to no pressure from NESDB and PDMO.

The other method for government agencies to become involved with SOEs is sending their representatives to be members of boards of directors. Currently, PWA has eleven members on its board of directors with the PWA governor as a member and secretary of the board while POST has at least five members with a representative from the MICT as a member and secretary of the board. Amongst members, normally at least two are from a line ministry and the MoF. The rest of the members are from related ministries and the director pool, for which the MoF provides the suitable candidate list. However, the representatives from government agencies also can be affected by politics. More importantly, a board of directors is subject to change when the line minister changes. In practical terms, members of board of directors who are assigned for political reasons will resign or will be forced to resign from their positions.

According to one PWA executive (B1\_001),

“... the MoI may influence PWA in selecting members of the board of directors. ... However, I think the candidate list from the director pool is still inadequate ... and in many circumstances, candidates are selected depending on which political side they belong to.”

According to one POST executive (B2\_005),

“The Director Pool system is a good system for finding independent members of the board of directors. However, political intervention leads SOEs to get pseudo independent members. Our board of directors is not frequently changed when compared to other SOEs such as CAT Telecom Public Company Limited and TOT Public Company Limited (which are also under the MICT). The change of Minister from a different political party can lead to the change of board of directors and the change of management team.”

The frequency of changing the members of the board of directors as well as the inadequate qualifications of individual members specifically in the industry in which the SOE is located can affect any decision made by the board.

As we saw in chapter 3 section 3.5, the structure of a field can be unpredictably fragmented when the different interests are difficult to balance (Greenwood et al., 2011). The other problem in bureaucratic structure is the conflict between government agencies, as each agency is structured to achieve a different value (Tulis, 1987). In Thailand there is evidence of SOEs being influenced by numerous government agencies with conflicting interests and different demands. The conflicts cannot always be resolved and they affect the SOE in positioning itself in the industry as well as its strategies and operations.

At the time the interviews took place, many participants from POST and the government agencies, both the MoF and the MICT, mentioned that there was a conflict over the POST business plan for the logistics business, which the MoF disapproved by claiming that the plan may not follow the constitution of the Kingdom

of Thailand and its related laws. Similar to courier services in the private sector, the logistics business plan in POST is a transportation and distribution service that requires the expansion of POST's network and hubs. Recently, many private companies have been offering this service in Thailand. The MoF said that the law prohibits an SOE from carrying out a business that the public can do. In this case, the MoF stated that the logistics business in Thailand is already well established by private companies. Later on, both Ministries asked for a legal opinion from the Office of Council of State. However, both sides still interpreted the legal opinion to favour their opposing interests (Interview record: A1\_003). As a result, this business plan is still on hold.

According to a MoF's representative on the POST board of directors (A1\_006),

“Recently, POST planned to expand our business by founding a new logistics company to support our core business which follows the statement of directions from the Thai Government. ... POST proposed this business plan to the MoF through the MICT.... State Enterprise Policy Office (one of the MoF agencies), which is in charge of the Thai government's state of directions of every SOE including POST, has opposed the idea and did not give a clear explanation or the process for POST to take action. ... This incident occurred because of the change in SEPO's director. The current director did not agree with the former director about the logistics business. .... Even after the Office of Council State gave an opinion about this circumstance, SEPO's director still insisted on rejecting the proposal.”

She also gave her opinion about the above incident,

“At the year end, each ministry has to report its performance and result to the Thai government. The SOE result will be included in the line ministry report. ... These lead to the view that the MoF sometimes is not active enough or does not pay sufficient attention to the SOEs. In the POST problem I mentioned before, the MoF did not follow up the result or take any further action, which has resulted in the delay of the project for a year already.”

This problem was also mentioned by a POST executive (B2\_001),

“For example our proposal on logistics has been delayed because both the MoF and the MICT just asked each other for suggestions and comments ... it would be better that only one government agency has authority to make a decision.”

On the other hand, in the interviews of PWA participants, the conflict of interests between the MoF and the MoI were not mentioned much. One reason is that the Thai water sector is also partly regulated by the Water Development Committee, which has a Deputy Prime Minister as a chairman, and representatives from both the MoF and the MoI as the committee’s secretary. However, according to an MoI participant, this committee was not active for nearly two years due to some political issues. The other reason is that there is no regulatory body for the water sector; therefore, the investment plan as well as the water tariff is under the control of PWA. Some PWA participants stated that the MoI is not involved much in PWA business and it only passes the PWA investment plan or other important documents to other related agencies or higher levels such as the Thai cabinet to approve the project. In the off-record informal interviews, some participants commented that the MoI just stamps the PWA’s documents or proposals and passes them through to the authorized agencies.

According to one of the PWA executives (B1\_001),

“The MoI is not involved much in PWA activities. The MoI sometimes may ask for PWA cooperation in issues that impact Thai citizens...The MoI may give a policy to PWA but it depends on the Minister at that time... Normally, the MoI only pays attention to the SOE Budget, which has to be submitted to the Thai cabinet for approval through the MoI.”

However, many participants agreed that the MoI also works as a coordinator to help PWA in cooperation with other government agencies.

According to one PWA executive (B1\_003),

“The MoI is a middle man in helping PWA to cooperate with other government agencies in the case that they are related or assigned together



on a project or take some part of the project. For example, PWA has to cooperate with departments of provincial administrations in employing a citizen identification smart card system to merge with the PWA customer database.”

Also, some participants indicated that the different political parties that lead individual ministries can cause conflict of interests in government policy for SOEs.

According to the MoF’s representative on the POST board of directors (A1\_006),  
“... Sometimes the ministers who are from different political parties may not support each other’s policy. ...as well as the lack of regulatory body... Therefore, it is possible to have a conflict of interests between government agencies. For example, the MICT and the MoF can have different goals and interests for POST.”

Consequently, the conflict of interests between government agencies can cause delay, as well as dissuade SOEs from taking action on a particular project or management initiative.

Apart from the conflict of interests amongst government agencies mentioned above, the evidence shows that government agencies also employ negotiation methods in order to reduce their competing demands. The most used method is to set up a specific committee with members from related government agencies; for example, the State Enterprise Committee, which is responsible for the development of SOEs, the Performance Agreement Committee, which is responsible for the design of SOE performance measurement system (PMS) as well as the annual SOE assessment, the Public Obligation Service (PSO) committee, which is responsible for PSO design and subsidisation etc. (SEPO, 2014). The other frequently used method is to ask for consent or approval from particular government agencies. For instance the statement of directions has to be approved by the MoF, line ministry and SOE before formalisation. Moreover, the conflicts of competing demands can often be solved by following the lead of the main agency that is responsible for a particular topic. The practices amongst the government agencies supports Greenwood et al.’s (2011) analysis, as a clear hierarchy amongst institutions in a field can reduce the institutional complexity in organisations.

### **5.3 Institutional Logics**

Thornton et al. (2012) state that there are one or more institutional logics in each organisational field. As noted in chapter 3 section 3.4, SOEs are hybrid organisations that are typically influenced by multiple institutional logics. Therefore, in this study, the findings provide the participants' perspectives on the core logics in this field: the logics of bureaucracy, social activities and commercial operations, along with the other institutional logics, the logic of seniority and the logic of unity.

#### **5.3.1 The logic of bureaucracy**

According to Meyer and Hammerschmid (2006), research shows that the logic of bureaucracy is one of the logics in public organisations. Similar to prior research, bureaucratic logic is one of the key logics in the field of SOEs. In this study, the logic of bureaucracy derives from the regulatory system. The legitimacy and rationality of this logic come from coercion and the bureaucratic structure of government agencies, as well as the bureaucratic hierarchy in organisation (Qiao, 2013; Meyer and Hammerschmid, 2006). Also, Thornton et al. (2012) suggest that in changing organisations, the logic of bureaucracy is associated with 'structural (and cultural) inertia'. Consequently, the next section will explain through the responses from participants how SOEs embed the logic of bureaucracy as well as how the logic affects the field of SOEs.

According to Christensen et al. (2007, p. 24), 'A bureaucratic organisational form ... is marked by hierarchy, division of labour and routines'. The hierarchy system is about the obedient relationship between superior and subordinate positions. The bureaucratic hierarchy has both merits and drawbacks for the operation and management of SOEs. The merit is that the effect of change in management can be minimised due to the strong command in the organisation, while it also can be seen as a problem as it can affect two-way communication in the organisation. The trouble is also that the greater the hierarchy is, the longer the delay period in workflow that may occur.

According to a PWA executive (B1\_002), many PWA plans have been delayed due to bureaucracy; for example,

"PWA is under the MoI's management at arm's length. As a consequence, the MoI has responsibility for reviewing our investment projects, which

sometimes leads to the delay of projects. Lately, we have tried to accelerate our project progress by working in parallel with the MoI. We look for a contractor before a project has been approved but the problem is if the MoI asks us to revise that project, we have to start the whole bidding process again.”

According to PWA’s director of Office of Corporate Communication and Customer Relations,

“The hierarchy system also has a good point. When we need to implement or to adopt a new system, the hierarchy system makes it easier to do so. This is because we have authority to command as well as control our employees. However, the downside of this hierarchy system is that it can discourage our employees from sharing their opinions or pointing out the problems in implementing the new system.”

Also, one of POST’s senior managers (B2\_208) showed his concern for the hierarchy system as follows,

“Even though our employees always do what we have been commanded to do ... executives should also consider POST resources. If not, employees may show their disagreement.”

Participants from POST tend to show their concerns about their organisational structure, as it creates a bureaucratic hierarchy. According to a POST vice president (B2\_),

“Our organisational structure is a functional type and has high hierarchies. As a result, many projects have been delayed and there is not sufficient time. ... However, I am also not sure that the business unit structure can be more flexible and suitable for us....as it is difficult to organize our back offices and move them into the business unit.”

One POST senior manager (B2\_206) stated,

“We do have a high hierarchy, however every time our organisational structure is adjusted, it seems that the new structure is just to create more positions in order to provide our employees with growth and it makes a

higher hierarchy. ... We do not adjust our organisational structure based on what the organisation needs but on what employees need...Organisational structure is the origin of the problem.”

In order to reduce the problem of the bureaucracy system, participants from both PWA and POST mentioned the development of individual networking both inside and outside the organisation can accelerate the working process. Both organisations also have a community or group to enhance the network, which mostly places emphasis on the middle-management level. As seen from the interviews, a manager community has been formed in both cases. Moreover, Postal College, which is a training centre, can be useful for helping POST operational staff to create their network at the beginning of their career (Interview record: B2\_208).

According to one POST departmental director (B2\_103),

“Individual networking can reduce working process and time. It is suitable for a high hierarchy organisation such as POST.”

It can be concluded that the logic of bureaucracy is one of the core logics in an SOE. As SOEs embed the logic of bureaucracy, the logic can influence how SOEs respond to different demands from related government agencies as well as how the bureaucratic hierarchy in the organisation influences the employees towards the implementation of new practices (see chapter 6). The evidence also shows the relation between cases and agencies vary depending on the agency’s role and the offered resources or supports by each agency. The commitment of each government agency and its representative to SOEs also can have an impact on the change in SOEs. Therefore, SOEs are exposed to uncertainty in ‘institutional arrangements’, which can be influenced by government agencies and their logics. This can increase the degree of institutional complexity in an organisation. However, evidence also shows that government agencies try to settle their competing demands before they regulate or instruct SOEs. Also, the inheritance of a bureaucratic hierarchy from traditional types of public organisations affects case study organisational structure and how each actor interacts in an organisation.

### **5.3.2 The logic of commercial operations and the logic of social activities**

The SOE organizational form provides a way of structuring part of the public sector that holds responsibilities for both social and commercial activity. Both the logic of commercial operations and the logic of social activities are core, unavoidable, logics in the SOE field.

Derived from the documentary research (see section 4.5, table 4.4), Thailand experienced a financial crisis in 1997. With the negative economic growth projected, Thailand was required to participate in the International Monetary Fund's reform program (Thai Government, 1998, p. 13). To ensure that reform efforts have a solid foundation and framework, the Thai government established the state enterprise sector reform program, which includes the implementation of PMS in Thai SOEs (SEPO, 2010). Accordingly, the gradual transition of SOEs from a social focus to a commercial focus has been witnessed along with the reform program.

The findings in this study are similar to many studies on public commercial organisations that have to face multiple logics that compete with each other and create tension within organisations (e.g. Pache and Santos, 2013; Reay and Hinnings, 2009; see more in chapter 3 section 3.4). Also, the evidence shows that these two logics are core to organisational functioning, which results in the case study organisations experiencing institutional complexity.

In the interviews, participants normally referred to these two logics together; therefore, this part provides an explanation of two logics through participants' views as well as how organisations manage these, at times, competing logics.

#### **5.3.2.1 Commercial benefit versus social benefit**

As we see in chapter 3 section 3.4, there are conflicting demands imposed by these two logics, such as status of operation (non-profit or for-profit), 'profit destination' (social invested or capital invested) (Pache and Santos, 2013). Since the economic crisis in 1997, the Thai government has tried to reduce government expenditures. As a consequence, the logic of commerce has been more emphasised. Since then, the MoF has employed PMS in order to assess SOEs from a variety of perspectives including financial performance such as EBITDA and EP. According to one SEPO senior analyst,

the MoF intends to increase individual SOE profit by ten per cent each year; however, the exact amount will depend on the financial status of individual SOEs and the broader economic environment. The other SOE objective is to serve the Thai community; therefore, the SOE has to do both social activities and commercial operations. However, how each SOE balances these activities depends on its industry and also its employees' perspectives.

PWA is one of the SOEs that are still partly subsidized by the Thai government. The government wants to support the PWA investment in expanding the water network to rural and other non-profitable areas. PWA claims that due to the social responsibility to Thai citizens, some of its services are in non-profitable areas, which leads to its low overall profit margin, which produces a conflict with the logic of commercial operations. According to one PWA executive (B1\_001),

“The required financial KPIs focus on profit or EBITDA by ignoring social services to non-profitable areas. Therefore, the government should employ the public service obligation concept in order to calculate the true potential profit as well as pay us the difference between actual profit and potential profit. ... This could help to encourage our employees to improve our services.”

Participants also note that PWA is responsible for supplying treated water to Thai citizens and businesses. Regarding PWA's statement of directions, PWA has to expand its water network distribution in rural areas as one of its state obligations even though, due to the low population density, it is difficult to generate profit. According to one director (B1\_101),

“SOEs should not be concerned only with profitability, but also should consider benefits for the community.”

Some participants from POST also pointed out this concern. One of the executives (B2\_004) stated,

“Even though, the MoF as a shareholder should focus on SOE profitability, in reality the MoF should try to balance commercial and social benefits as well as support SOE activities, for example, tariff revision.”

However, in POST, the only product that is considered as a social obligation is the letter delivery service, for which the price has been fixed by the Thai government, while for the other products, such as mail and parcel delivery service, POST can set the price tariff by itself. Also, there are some regulations that POST still needs to follow; for example, POST has been required to have a branch in every district in Thailand, which affects POST's efficiency. However, in POST the logic of commercial activities seems to be influenced more by organisational function than by the logic of social activities. This may be because the emergence of new communication technology forces POST to improve its services as well as to compete with similar services provided by the private sector.

According to an executive (B2\_002)

“Different from the past, recently, we have focused more on our customers because we consider money or revenue is very important for our organisation.”

On the other hand, in PWA, both logics are core to its function and seem to be treated equally. Regarding social activities, PWA has to expand its water distribution networks in remote areas as its primary mission and provide service for low-income citizens by charging them at a low price. Both activities have been partially subsidised by the Thai government and supported through the PSO programme respectively, which helps to reduce the financial burden on PWA. At the same time, PWA also aims to expand its water network in high population density areas as well as tourist areas such as Samui Island where PWA can employ a different tariff structure.

### **5.3.2.2 Industry characteristics**

This study considers that the case study organisations are in the field of SOEs, however, they are also located in their industry fields. Consequently, it is worth considering the industry characteristics here as they can influence the organisations as well as cause institutional complexity. According to Reynaud and Thomas (2013), in the utility industry profitability has become an important concept for the operator in servicing and delivering its product. Reynaud and Thomas (2013) also demonstrate that the profitability concept in this sector is complicated and difficult to measure because operator profitability is not reliant only on internal decisions, such as investment and

optimization of production, but also on external circumstances, such as economic regulation and environmental regulation. Regarding PWA, the water tariff structure can be approved by PWA itself, however documentary research (see section 4.5, table 4.4) shows any change of tariff structure can widely impact Thai citizens; consequently, PWA always asks for the MoI's permission before formalising a new tariff structure. The most recent tariff structure has been employed since 2009. In POST, the Postal Commission has fixed the fee for postcard and letter delivery at two baht and three baht respectively while the fee for other services depends on a variety of factors. For example, all domestic charges for parcel delivery services including normal delivery, EMS and super-EMS are fully controlled by POST whereas the charges of international EMS delivery employ the Postal Union's guideline.

This concept of profitability also resembles what happens in PWA. The policies or requirements of institutional stakeholders can interfere with the view of commercial value in the organisation. For example, in one of the KPIs negotiated in a meeting between PWA and MoF, MoF encouraged PWA to increase its profit along with reducing water loss rate in the system, addressing the environmental issue as well as PWA efficiency. However, according to PWA, the water loss reduction requires massive maintenance in the distribution networks across the country, which will affect PWA's financial status as well as profitability. In order to set the KPIs, PWA had to negotiate and offer the profit and water loss rate figures that satisfied both parties.

Compared to PWA, POST seems to have a better view of commercial value especially in the marketing perspective and customer-oriented perspective. The reasons are that the industry characteristics are different. The postal market is quite competitive, while the water sector is normally a monopoly. In addition, regarding the emergence of new technologies, the need for change management is required to enhance the postal sector's competitiveness and market-orientation, as well as to consider more of what customers want (Chan et al., 2006). In many interviews, participants from POST showed their optimistic view of economics. They mentioned that it is an opportunity to expand their service into the e-commerce market.



According to a POST executive (B2\_002),

“In order to generate and create revenue for POST, we mainly focus on our customers and their demands. We do not expect to maximize profit but we look for long-term and stabilized revenue.”

A POST senior manager (B2\_206) also stated,

“From the booming of e-commerce in Thailand, we have expected an increase in demand for parcel delivery service... Consequently, POST has launched a premium express service... cooperated with a famous convenience store chain (Seven-Eleven) ... Customers can access our service more conveniently.”

Apart from the explanation in chapter 3 section 3.4 of the evidence of multiple institutional logics that the emergence of new technology can differentiate the tie of institutional logics between POST and PWA, the study context suggests that industry characteristics of PWA and POST are capital intensive and labour intensive respectively (chapter 4).

Marques (2010) and Abbott et al. (2012) state that the water sector needs a very capital-intensive network structure to distribute the water supply to consumers. PWA has to invest massively in its infrastructure to serve both commercial and non-profitable areas. Therefore, PWA has been caught in the complexity between the logic of commercial operations and the logic of social activities. For social activities, PWA depends on the support of the Thai government. However, the government does not have clear criteria for subsidization as well as a public service obligation. Consequently, it is difficult for PWA to interpret the real profit that they can generate. As a result, PWA feels uncertain about its financial status, especially when compared to other SOEs in the same sector such as Metropolitan Waterworks Authority (MWA), which has a benefit of economy of scale and density, since its responsibilities lie in metropolitan areas and it does not require any subsidy from the government.

According to a Chief Financial Executive,

“We just want the assessors to know the nature of PWA’s business so that they will not compare us with MWA in every perspective. They should

consider PWA's potential as well. ...Normally, we have been compared with MWA and PEA without considering that we have less funds ... Moreover, we have to compete with local governments, which also have a high amount of funds from the government."

Also, one of the executives (B1\_004) states,

"An SOE usually has to invest in non-profitable projects... therefore, we should just not focus on accounting profit ... For example, in some areas which have hard water we have to invest more in our plants to improve the quality of water, which leads to the better health of Thai citizens. An analysis on this kind of projects can give us only a negative result ... therefore, it should be better if we can add social benefit in our calculation."

On the other hand, the labour intensiveness in POST does not show much evidence on institutional complexity regarding the conflicting interests between the logic of commercial operations and the logic of social activities. As a result, in the interviews participants focus on the financial issues, especially capital investment in explaining the different demands from these two completing logics.

Consequently, the characteristics of the industry can affect the degree of each organisation's embedded individual logics as well as the degree of institutional complexity. From the evidence, we can conclude that in PWA the logic of social activities prevails over the logic of commercial operations. On the other hand, POST values the logic of commercial operations regarding the competitive market in the postal industry.

### **5.3.2.3 The use of benchmarking and marketing research**

The commercial view in both case study organisations is still underdeveloped, as evidenced by some participants pointing out that their organisation seems to ignore doing research on competitors, so they rarely use benchmarks or do their own marketing research. The MoF also has seen this problem; therefore, in the SOE's PMS, the MoF requires the SOE to do a report on benchmarking.

In the postal sector, Blagojevic et al. (2013, p. 4090) point out that there are no general criteria for the design of ‘access to postal network’ and each country has its own approach based mainly on density and regulation to determine the minimum number of postal units and to enable competition (Crew and Klendorfer, 1998). The following evidence can confirm the statement.

According to a POST executive (B2\_001),

“It is difficult for us to benchmark with foreign postal organizations because our operations are based on different fundamentals, such as geography, organisational size. ...If we use size to compare, we need to benchmark with New Zealand’s Post. However, considering Asian countries, each country has a different delivery system but our aim is to be the best in Asia.”

Many participants also supported the above executive’s statement. They gave some examples such as,

“It is difficult to compare with other countries. For example, Singapore postal and POST both have two delivery men, but the volume of the delivery items are different regarding population density.” (A POST senior manager, B2\_209)

In addition, a POST senior manager (B2\_206), also mentioned,

“We have not used benchmarking in POST. I tried to convince our executives to be more concerned about our competitors...It does no good if we only know ourselves but not our competitors. ... Moreover, we do not need to benchmark directly with other postal companies. We can consider other companies that do best in subjective areas such as call centres. We can use AIS’s standard as best practice” (AIS is one of the telecommunication companies in Thailand).

PWA tends to benchmark its performance with other SOEs, especially MWA and Provincial Electricity Authority (PEA), while the measure of quality of treated water is adopted from international standards. However, participants were

discouraged from using benchmarking in their organisation for various factors such as lack of funds.

According to a PWA executive (B2\_001),

“The selection of peer benchmarking depends on the set of measures, for example, in order to measure the quality of our water, we don’t use a benchmark but follow the world standard. On the other hand, for the quality of services, we normally compare with MWA and PEA depending on what we want to measure. For example, we use PEA’s performance to compare our service area and MWA’s performance to measure our water quality and distribution.”

However, another PWA executive (B2\_002) commented on using PEA as benchmarking,

“Even though we can use MWA and PEA for benchmarking, it is not completely comparable. Those two organisations have sufficient funding for investment and maintenance purposes, but our organisation has only made profit for the past few years. As a result, it is difficult for us to be as efficient as them.”

One SOE characteristic is that it normally operates with few or no competitors, which can discourage its view of commercial value. From the interview data, we can interpret that SOEs think that it is difficult to find a suitable benchmark from both domestic companies and foreign companies because theirs is a unique business and has a different business environment. The lack of peers in benchmarking can affect an SOE’s potential in doing business. Importantly, most interviewees appeared unaware that benchmarks can be used not only for performance assessment but also for various circumstances in order to improve organisational performance.

It can be concluded that the logic of commercial operations can be seen in Thai SOEs; however, SOEs still have to serve a community, which embeds the logic of social activities, which can impact their profitability, management strategy and operation. The greater the conflict between these two logics, the higher degree of institutional complexity can be expected. Also, the degree of these two logics that underpin the

operation and management in each SOE depends on the characteristics of SOEs, the characteristics of the industry where each SOE is located and their organisation, as well as other related regulations. Regarding this study, the focus is on the field of SOEs not the field of industry, but these characteristics can be implied to affect the case study organisations' degree of institutional complexity.

### **5.3.3 The logic of seniority**

The logic of seniority is based on Thai culture, which respects seniority, whether in terms of age, position or the length of employment period. This seniority culture, which differs from Western culture, affects every Thai organization, but especially those in the public sector. For example, it is quite difficult for younger staff to engage in debate or show disagreement to a manager directly in public, except when it is asked for. In case a younger staff member has any suggestion for or disagreement with a manager, normally they will discuss it privately. Commonly, the staff member may keep his opinion to himself.

According to McCampbell et al. (1999), Thai seniority culture has a negative impact on promotional structures, benefits and decision-making. For example, companies promote the most senior employee to the higher position instead of promoting by considering individual performance. From this, McCampbell et al. (1999) conclude that the seniority culture affects the country's competitiveness.

Both PWA and POST try to tone down the seniority culture in their organisations by creating more communication channels between executives, managers and employees such as site visits, intranet, wire broadcasting, morning talk, etc. According to a director of the Office of Corporate Communication and Customer Relations, a recent PWA Governor, Mrs. Ratana Kitchawan, planned to site visit every regional office to deliver PWA's statement of direction, vision and mission as well as to reduce the gap between executives and employees.

According to a Phatumthani branch manager, in the past, it was difficult for PWA staff in each branch to meet with executives; therefore he supports the governor's idea.

“The governor's idea to visit branches in rural areas is quite impressive...

Our staff have enthusiasm and look forward to participating in the event,

which will be held next week... This event is also good for us to present our ideas to improve our branch performance. ... The site visit gives an opportunity to our staff especially the operation staff in urban areas to meet our executives.”

According to a manager (B1\_209),

“PWA employs wire broadcasting as one of our communication channels ... Wire broadcasting’s benefit is that it can broadcast information as well as our executive message to every staff member in our organisation. ... Sometime we invite executives to join our live broadcasting to answer organisational hot issues such as bonus schemes or accounting statements.”

However, in contrast to McCampbell et al.’s (1999) findings, one branch manager (B1\_206) in an off-record interview stated that even though some employees still claim that seniority culture impacts the promotional structure, now PWA is starting to consider individual performance more strongly. He gives his case as an example; he was promoted to a medium sized branch manager at a young age compared with others, due to his performance. However, he still accepts that in order to move to a bigger branch he may have to wait for some senior manager to be promoted first, because the positive aspect of the seniority system is that a senior manager has more experience, which may help in decision-making and leading employees.

In POST, a participant claimed that the class of year in Postal College can be counted as one method that creates a seniority system in POST (Interview record: B2\_103). However, many participants agreed that it also builds individual networking that is beneficial to their careers, as previously mentioned. Moreover, aside from the seniority system, POST participants mentioned the patron-client system as part of their promotional system.

According to a senior manager (B2\_204),

“Our promotional system is somewhat all right. However, we also count seniority as one of the factors. Also, the patron-client system can be a problem (personal promotion cannot be fairly considered).”

The logic of seniority shapes SOEs' employees to be more obedient to their seniors' instructions or decisions. However, the senior employees are not always right; therefore, many good decisions or solutions may not be mentioned by younger employees, which can be considered as a missed opportunity for the organisations. Also, in order to reduce the communication gap between employees, both organisations tend to create both formal and informal ways of communication and networking in order to allow employees to speak their mind. Conversely, it seems that the networks in both case study organisations are mostly for management or upper levels of employees such as the branch manager group in PWA, woman executive group in POST etc. while no participants mentioned a network that combines members from both management and the operational level. As a result, the seniority system still creates a tension in relationship between employees at different levels within the organisational hierarchy, which may hinder the adaptability of the organisations.

#### **5.3.4 The logic of unity**

As we saw in the previous section, the Thai culture can influence SOEs in many ways, such as organisational structure, managerial system and the relationship between the individual and the organisation. Lui's (2003) study on unity considering two-generations of employees in Chinese SOEs states that unity in organisations occurs when 'employees' desire to maintain harmony and to reduce inequality' (p. 387). Similar to Lui's findings, SOEs in Thailand also aim for harmony in their organisation.

Lim (2009, p. 407) states that in Asian society, 'harmony enhancement represents a genuine concern for relationship harmony and involves feelings of closeness, unity, and trust'; consequently, harmony leads to the avoidance of actions that will cause negative consequence or feelings in a relationship. According to Knutsan et al. (2003, p. 63), 'the highest Thai cultural values are those associated with social harmony' where 'Thai people will exhibit high level of rhetorical sensitivity and reflection and low levels of noble self in their interpersonal communication' (p. 66). Knutsan et al. (2003, p. 68) suggest that the best example to emphasise Thai cultural value of harmony is by Komin's (1990, p. 695) statement that 'Good relations win all, not tasks'. Komin (1990) also support the idea that Thais are relationship-oriented especially in the public sector. His findings show that the managers of government agencies are strongly concerned

about achieving and maintaining good relationships in the workplace. He also claims that ‘in Thai cultural context, achievement in the Western sense does not fit’ (p. 701).

Evidence of the logic of unity has been found in both POST and PWA, as interviewees from both organisations often mentioned ‘harmony’ and ‘unity’. However, the evidence from POST was particularly strong as a consequence of their history. According to POST (2013), the corporatization in 2003 was a major turning point for the organisation. This was when the Communications Authority of Thailand was split into two companies: POST and CAT Telecommunication (Public) Co., Ltd, both of which, the MoF still owns a hundred percent of the shares. Many participants who experienced that transformation stated that POST faced financial difficulty and everyone tried hard to stabilize the organisation. Also, their strong belief in their CEO and executives at that time encouraged them to put forward their best effort for the organisation. As a result, the unity value was strongly formed as one of the organisational values.

According to a vice president (B2\_104),

“After corporatization, POST was faced with many problems. We all thought that our organisation had to survive through this hard time...as a result, employees were willing to do everything for the organisation and they supported every strategy and practice employed at that time, as they believed it would help the organisation. ... ”

Also, at the time of the interview, POST was widely promoting the unity value across the organisation through various communication channels, such as wire broadcasting, posters and workshops.

According to an executive vice president (B2\_005),

“We also have ‘Unity’ as one of the measures that we employ across the organisation... we try to promote ‘Unity’ as our norm because our organisation is very large, therefore organisational unity can help all of us walk together in the same direction.”

Even though some participants commented that employees recruited after that transformation period seem less devoted to the organisation, most of them still agree



that organisational unity is still one of POST's strong points. Consequently, they believe that with this value, the introduction of new management tools or other future changes can be done with less difficulty. Later on, in chapter 7, the logic of unity will be discussed as it shapes organisational response towards the incentive system. In brief, people in both case study organisations resist changes to the bonus system, as they believe the change will destroy the unity in the organisations.

#### **5.4 Conclusion**

This chapter has outlined and discussed the empirical findings in order to identify the key institutional logics that occur in the field in which the selected SOEs operate. The case study organisations' managers and workers perceptions and responses to each of the key logics were also discussed. The findings of this research suggest that there are three core institutional logics that are embedded in the field: a logic of bureaucracy, a logic of commercial operations and a logic of social activity. In addition, two other logics were identified that also influenced SOE activities but seem of lesser significance. These are the logic of seniority and the logic of unity or community, which are specific to and stimulated by the Thai culture and aspects of the culture within each SOE. The institutional logics identified in this chapter will be used to frame the discussion around institutional complexity in the following chapters, as the logics can shape organisational structures and strategies.

## **Chapter 6**

# **The Implementations of the Balanced Scorecard and Economic Value Management in Case Study Organisations**

### **6.1 Introduction**

The findings outlined in the previous chapter indicate that State Owned Enterprises (SOE) as hybrid organizations embed multiple institutional logics. This chapter seeks to develop these ideas and explains how multiple logics create institutional complexity and affect the development of performance measurement systems (PMS) in Thai SOEs. The chapter explores how the case study organisations employ Balanced Scorecard (BSC) and Economic Value Management (EVM) techniques. The implementation of these two management tools has been required by the Ministry of Finance (MoF), which indirectly forces SOEs to do so through SOEs' performance assessment measurement systems.

This chapter provides key information which has been drawn from the documentary research and semi-structured interviews about how these performance management tools have been implemented in both case study organisations. The findings show that the implementation of both EVM and BSC in the selected SOEs has been influenced by multiple institutional logics, which lead to institutional complexity in both case study organisations. The institutional complexity, as well as other factors, has led to the decoupling of EVM from organisational practices while the BSC seems to be more broadly accepted. A comparison of the implementation of the two management tools indicates that the interaction and fit of the techniques with established institutional logics can influence success or failure in implementation.

The first part of the chapter presents the context of the PMS that has been used by the MoF and how it affects the SOEs. This is followed by a description of the implementation of BSC and EVM in both organisations. Next, the explanation of related issues arising from the co-existing institutional logics as well as how organisations employ decoupling and loose coupling as their strategies in order to

respond to institutional complexity in the use of the PMS is presented. Finally, this chapter concludes with a brief chapter summary.

## **6.2 State-Owned Enterprise Performance Measurement Systems**

### **6.2.1 Background**

As mentioned in chapter 1 section 1.3, the SOEs' PMS has been employed since 1995 and developed continuously by the State Enterprise Policy Office (SEPO) in collaboration with other government organizations. In response to the economic crisis in 1997, the Thai government was forced by the International Monetary Fund to reform SOEs. One result of this is that PMS have grown in importance. They are one of the management tools that the Thai government uses in evaluating and improving SOEs' performance as well as monitoring SOEs' government policy-based projects (SEPO, 2012a).

The documentary research on performance measurement system (see section 4.5, table 4.4) shows that in Thailand, the MoF has adapted some widely accepted BSC concepts and incorporated them into its SOE's PMS since 1995. The system employs various KPIs that cover the four common perspectives of BSC: financial, customer, internal process and learning and growth. The performance agreement between the MoF and the SOE consists of various KPIs as follows: policy implementation, financial KPIs (financial perspective), non-financial KPIs (customer perspective), and business management processes as follows: board of directors, risk management, internal control, internal audit and information system management (internal process) as well as human resource management (learning and growth perspective) (SEPO, 2012a).

### **Figure 6.1: SOE's performance measurement system in Thailand**



Source: SEPO (2012a)

### **6.2.2 How KPIs are set in the performance measurement agreement**

Regarding the diagram above, KPIs can be separated into three groupings: (1) policy implementation KPIs, (2.1) financial and (2.2) non-financial KPIs and (3.1 – 3.4) business management process KPIs. Firstly, for policy implementation KPIs, the MoF cooperates with other government agencies such as the Budget Bureau, line ministries and other related agencies in order to state the sector and individual statement of directions (SODs) by considering the following plans and regulations: the national economic and social development plan, SOE business plan, regulations for individual industries and other related plans (SEPO, 2012b). Then it identifies the related KPIs and their targets for each SOE to try to reflect and respond to the SODs. Normally, KPIs in this category cannot be negotiable. Some of the KPIs have been set at the same standard across SOEs such as the efficiency of investment plans, and the implementation of EVM, etc. For other KPIs this is not the case and they are related to more organization specific constraints and targets.

Secondly, for the financial, including EVM, and non-financial grouping, each SOE has to submit possible KPIs and their targets and definitions to the MoF. The MoF's representative together with a consulting firm will consider the draft before meeting with the SOE. The KPI and its target can be subject to negotiation in this process. However, in case any side does not agree with the KPI, the final decision will be made by the sub- Performance Agreement Committee (PAC) and PAC respectively (SEPO, 2012a). The PAC is chaired by the Permanent Secretary of the MoF, and is tasked with ensuring the effectiveness and efficiency of the system. The committee consists of representatives from various government agencies such as the MoF, Office of the National Economic and Social Development Board (NESDB), Budget Bureau. State Enterprise Policy Office (SEPO) works as a secretary unit of the committee (SEPO, 2012a). Also in the process, the MoF can ask the SOE to submit more data and information related to KPIs as well as make changes to the KPIs used to measure SOE performance. In this process, normally, the SOE will submit the prior years' KPIs with some minor changes and develop these to produce next year's plan and targets.

Next, for business management process KPIs, the Sub PAC on business management process will consider the KPIs and their targets each year and provide these to the individual SOEs before the beginning of the next assessment year (SEPO, 2012a). The

KPIs in this category will be used with every SOE and are non-negotiable. These KPIs aim for the improvement in each SOE to close the management gap; therefore, most KPIs and their targets remain the same and only some minor definitions and target changes may be announced. Finally, the weighting of KPIs in each category is as follows (Table 6.1):

**Table 6.1: The weighting of KPIs**

Key Performance Indicators	Listed SOE (weighted)	Non-Listed SOE (Weighted)
Government policy-based projects	Not measured	20% (+/- 10%)
Operations	65%	45% (+/- 10%)
- Financial		
- Non-financial		
Internal Process	35%	35%
Total	100%	100%

Source: SEPO (2012a)

**Table 6.2: The examples of case study organisations' KPIs**

The examples of case study organisations' KPIs in 2012 are as follows:

Key Performance Indicators	PWA (weighted)	POST (Weighted)
Government policy-based projects	18%	15%
Operations	47%	50%
- Financial		
- Non-financial		
Internal Process	35%	35%
Total	100%	100%

Source: PWA's organisational performance report (2012) and POST's organisational performance report (2012)

### 6.2.3 Performance assessment process

According to SEPO (2012a), SOEs are required to submit half-year reports and annual reports, including related information to the MoF within one month. In case of extraordinary situations, the SOE may request an adjustment of a KPI or target. This has to be done by the end of the year. Any delay in reports being submitting will affect the final score by minus 0.5 point each day to a maximum of 1 point.

In the assessment process, the sub-PAC and the MoF may request a site visit and more information from the SOE. The results and suggestions will be submitted to the PAC within four months and will be published on the website after PAC approval. The approved performance assessment results are reported to the SOE and to related government agencies. If the SOE agrees with the result, the Board of Directors has to send a consent letter to the MoF within thirty days. Any disagreement on the result can be appealed within ninety days. The evidence used in an appeal process has to be new and not submitted previously during the assessment process (SEPO, 2012a).

The following sections provide the perceptions of participants on the implementation of EVM and BSC, which SOEs have been indirectly forced to implement through a compulsory set of measures. Also, the perceptions on other KPIs such as quality of services and internal process will be provided.

### **6.3 Economic Value Management**

#### **6.3.1 Introduction**

Due to the rise and the international use of Economic Value Added (EVA) in the private sector, Prime Minister Thaksin Shinawatra recommended this tool to the Thai government. As a consequence, in 2003 the Thai government requested the MoF to study the potential of applying EVA in the Thai public sector. Following the presentation of the MoF's report it was decided to begin implementing EVA with several State-owned enterprises (SOEs). In late 2003, pilot SOEs including PTT Plc., Thai Airways international Plc., and Krung Thai Bank were chosen to be examples of how to develop detailed EVA calculations in SOEs (Stern Stewart & co., 2003).

From the documentary research on EVA (see section 4.5, table 4.4), in the introduction stage of EVA to SOEs, the MoF contracted with some consulting firms, including Stern Stewart & Co. (Thailand) to educate MoF and SOE employees as well as to guide them how to implement EVA in their organizations. Also, the MoF set up an EVA clinic inside the MoF to help SOEs in any EVA related issue.

In the early stage of EVA implementation, the MoF adopted the "Disclosed EVA" and used a standard adjustment to calculate EVA so it can be used for benchmarking across SOEs. In the next stage, as the MoF increased the number of EVA-participating SOEs,

the MoF had developed EVA to be more customized in each organisation: ‘Tailored EVA’. The figure of Levels of Accuracy of EVA measure is shown below:

**Figure 6.2: Levels of accuracy of EVA measure**



Source: Stern Stewart & Co. (2003, p. 1)

However, due to the copyright issue the MoF has been using the term “Economic Value Management” (EVM) instead of EVA after they signed a contract with another consulting firm. Therefore, from now on, this thesis will use “EVM” as the name of the management system and Economic Profit (EP) for the measure.

One of the MoF’s main objectives is that SOEs should implement EVM in their organisations from the head office to the EVM centre. An EVM centre should be formed in each department or business unit depending on the SOE’s organisational structure, and finally, to the operational level or product level. The EVM centre is responsible for the EP calculation and EVM report for each unit and has to submit its report as well as other related issues to head office monthly. The MoF divided EVM implementation into three phases and also required SOEs to jointly implement with BSC at the same time as follows:

Phase 1: EVM preparation (until 2006)

- Seminar and training on the concept of EVM and BSC for SOE executives and EVM in-depth training for SOE employees;

- EVM development in organisations: information adjustment, historical EVM calculation, the study of the setup of the EVM centre in each department or business unit, the integration between EVM and BSC at the organisational level.

Phase 2: EVM implementation (2006-2007)

- EVM centre development: integrate EVM with management process in each EVM centre by creating operational driver tree and strategic improvement plan;
- BSC development: the integration between EVM and BSC in EVM centre level.

Phase 3: The integration between EVM and Business Management (starting in 2007)


- The integration between EVM and organisational management process: employ EVM as one of the decision-making tools in various prospects such as the strategic plan and budget plan, investment analysis, resource management, etc.;
- Revised incentive system by considering the integration between EVM and rewards for executives.

(TRIS, 2012)

Accordingly, to accelerate the implementation of EVM in SOEs, the change of Economic Profit (EP), called ‘delta EP’, and other EVM related measures have been employed as performance measures across SOEs since 2006. However, due to many complaints from SOEs about using the delta EP as a measure, the MoF has decided to drop the delta EP measure and adopt the difference between target EP and actual EP instead. The table 6.3 shows how to employ EP as a measure.



**Table 6.3: How to employ EP as a measure**

EVA Measures 20xx					
Performance Score	1	2	3	4	5
EP20xx (Actual) – EP20xx (Plan)	Lower than plan		plan		Higher than plan
EBITDA	20	60	100	140	180
<b>EVA Adjustment process</b> 					
EP	0	40	80	120	160
	⋮ ↓	⋮ ↓	⋮ ↓	⋮ ↓	⋮ ↓
EP20xx (Actual) – EP20xx (Plan)	-80 (0-80)	-40 (40-80)	0 (80-80)	40 (120-80)	80 (160-80)

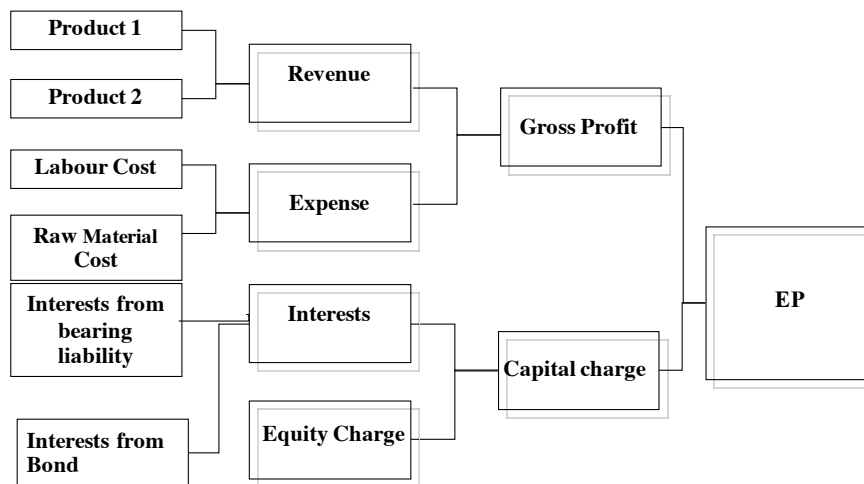
Source: Adapted from TRIS (2012, p. 25-26)

The other EVM measures for the MoF to assess SOE’s performance are mostly related to the degree of EVM implementation. For example,

- 1) The top-three executive levels should have an acceptable understanding of the EVM concept and calculation, and how to integrate EVM with other tools, including how to explain the EVM driver tree etc.
- 2) The integration between EVM and BSC or other management tools is used to write as well as to revise business plans, investment plans and strategic improvement plans.
- 3) EVM is used in analysing key value drivers and important investment projects.
- 4) EVM is linked to the CEO incentive system and later on for other top executives.

(SEPO, 2010)

**Figure 6.3: The example of EVM driver tree**



Source: Adapted from SEPO (2012c, p. 47)

According to SEPO (2012c), every SOE is required to submit a half-year report and an annual report on its KPIs including EVM to the MoF. In addition, after the implementation of State Enterprise Performance Appraisal (SEPA) in some pilot SOEs including the case study organisations, EVM related measures are not directly shown on the requirements but EP has been one of the measures in the results part of the SEPA perspectives.

### **6.3.2 EVM and its components**

Stern Stewart’s EVA or EP is ‘a measure of a firm’s operating profit less the cost of all capital employed’ (Stern Stewart & Co., 2004, p. 3), which can be simply explained by the following formula:

$$EP = \text{Net Operating Profit After Tax (NOPAT)} - \text{Capital Charge}$$

Where:

$$\text{Capital Charge} = \text{Capital} \times \text{Cost of Capital}$$

The cost of capital is calculated by

$$\text{WACC} = (\% \text{Debt} \times \text{After Tax Cost of Debt}) + (\% \text{Equity} \times \text{Cost of Equity})$$

The EP calculation involves transforming accounting information into economic information by making some adjustments to accounting statements. It is suggested that the adjustments can transform the organisation’s accounting statements, the Income Statement and Balance Sheet, to an economic statement, which are a NOPAT statement

and a Capital Statement, before using them to calculate economic profit. However, there are some criticisms of the adjustments of accounting closer to economic value accounting. Some of Stern Stewart’s EVA adjustments might push EVA back to a cash basis accounting and the various systematic biases may remain even after the adjustment process (O’ Hanlon and Peasnell, 1998).

### 6.3.3 EP adjustments and calculation that the MoF applies for its SOEs

The MoF has recommended that SOEs employ a standard set of adjustment items as follows: interest expense, provisions, gain/loss on foreign currency transactions, non-interest bearing liabilities, economic tax, construction in progress, operating lease, goodwill, minority interest, asset revaluation, unusual items and reserves (SEPO, 2012c). However, to customize EVA for individual SOEs, an SOE can use other adjustment items by asking permission from the MoF.

In the WACC calculation, Cost of Debt (Kd) should represent the interest payments that creditors expect for investing debt capital to reflect the correct organisational Kd. However, the MoF allows SOEs to calculate Kd by using the average interest of interest-bearing liabilities.

The Capital Asset Pricing Model (CAPM) has been employed to determine Cost of Equity (Ke):

$$K_e = \text{Risk free rate} + (\text{Levered Beta} \times \text{Market Risk Premium})$$

in which the risk free rate, market risk premium and unlevered beta for each industry have been given by the MoF as follows:

**Table 6.4: The MoF guideline of important factors using in EVM calculation**

	2008	2009	2010	2011	2012
<b>Risk Free Rate</b>	5%	5%	5%	5%	5%
<b>Market Risk Premium</b>	8%	8%	8%	7%	7%
<b>Unlevered Beta: Water sector</b>	0.56	0.56	0.56	0.56	0.56
<b>Unlevered Beta: Logistics services</b>	0.73	0.73	0.73	0.73	0.73

Source: SEPO (2012c)

### 6.3.4 The key information related to EVM issues of both case study organisations

This section summarises the key information related to EVM issues and the economic profit in both case study organisations which can be seen in the table 6.5 and 6.6.

**Table 6.5: The key information related to EVM issues**

Economic Value Added	Provincial Waterworks Authority	Thailand Post
EVM centre	- 10 Regional offices - 1 Head office	- 10 Regional Postal Bureaus - 2 Metropolitan Postal Bureaus - 1 Cost centre at Head office
Cost Allocation	Partially	Partially
Capital Investment	High	Low
Leverage Ratio	High	Very Low
Government Subsidy for Investment	Yes	No
Social Obligations	Yes - Low water tariff for residential users - Expanded distribution network to low intensity area	Yes - Fixed price at 3 baht for sending a letter

**Table 6.6: The economic profits of case study organisations**

Economic Profit	2009	2010	2011	2012*
<b>PWA</b>	436	865	338	986
<b>POST</b>	(573)	(874)	(708)	(230)

Note: The 2012 figures are the targets EP

Source: PWA's organisational performance report (2012) and POST's organisational performance report (2012)

## 6.4 How Organisations Respond to the Institutional Complexity Based on the Implementation of EVM

It is common for SOEs to embody multiple institutional logics (Dacin et al., 2010). Many researchers have shown that public organisations need to deal with multiple, and at times, conflicting institutional ideals - such as 'market' and 'social welfare' logics in social enterprise settings (Pache and Santos, 2013), 'a logic of business like health care' and 'a logic of medical professionalism' (Reay and Hinings, 2009). We saw in chapter 5 that the case study organisations are embedded with multiple logics. In particular the logics of commercial operations and of social activities prevail and the EVM concept is mainly influenced by the logic of commercial operations. According to Greenwood et al. (2011), organisations experience institutional complexity when they are embedded with incompatible institutional logics. This section provides evidence on the

coexistence of competing logics, which creates institutional complexity, as well as the use of decoupling as strategy that shape SOEs' actions in responding to the use of EVM. It is suggested that the complex nature of this context results in the avoidance of EVM in the organisations, in order to minimise potential conflict. The findings of the interviews show a decoupling of EVM from other organisational practices. This section will describe the problems created by the conflicting logics by presenting the findings in the following themed sections.

#### **6.4.1 The decoupling of EVM from other recent practices**

Dambrin et al. (2007, p. 174) state that the occurrence of decoupling is 'an attempt developed by internal coalitions to resist the new logic'. We also saw in chapter 5 that SOEs experience institutional complexity regarding the two core institutional logics: the logic of commercial operations and the logic of social activities. The evidence in this section also supports these statements, as both cases experience difficulty in the use of EVM, as it is a concept which originated in the private sector. The strong commercial logic of EVM leads to social benefits being ignored in the calculation of EP. The social activities can result in negative EP, but this measure is unable to reflect whether or not a new investment can add social value to a local community. For this reason, many participants expressed resistance to the use of EVM.

Firstly, many interviewees appeared to experience a conflict between two logics due to the ignorance of social benefits in the concept of EVM. Some of them complained that it is difficult to distinguish between commercial and social services, which results in the avoidance of the use of EVM.

A divisional manager (B1\_202) mentioned,

“Even though, EVM is a good management tool, we cannot maximize the usefulness of it due to the characteristic of an SOE, which is also to focus on the benefit for the community. .... Recently, it is difficult to calculate the social benefit accurately as well as to clearly separate whether an investment project is a commercial one or social one.”

Moreover, a POST vice president (B2\_004) provided his opinion that

“The POST operation process cannot be done in just one process. It has to work through the distribution networks, which can be the profitable route or the social route. Therefore, we cannot use EVM, which considers mainly the revenue. The MoF should consider the balance between commercial and social aspects.”

Secondly, the coexistence of competing institutional logics creates contradictions for the case study organisations’ employees in serving their interests. Employees in both organisations expect the targeted financial returns while also aiming to serve Thai citizens through their social activities. The concept of EVM, however, does not take benefits to society into account. Both organisations considered that social activities can generate a negative economic profit. This was especially the case for PWA, which has vast investment projects and, as a result, the EP figure cannot represent the actual performance of the SOE. In regular operations, many SOEs, including the case study organisations, have both commercial and community responsibilities. Both PWA and POST have a social obligation to serve Thai citizens. For example, the PWA has to expand its distribution networks to rural areas, which cannot generate enough income to cover the investment and operation cost, as well as serve treated water to residential customers at a low tariff structure, while POST has fixed the normal letter price at 3 baht since 2004. Therefore, many participants perceive that the expected low income from social projects can have a negative effect in the calculation, especially when considering the amount of value added as a signal of performance improvement. For example:

A PWA divisional manager (B1\_201) said,

“It would be better if we can calculate social benefit accurately and accumulate it in our EP to show the positive result of the social investment project.”

According to POST (2012), POST has not had any capital investment project in the past few years; however, participants also expressed their concerns on this issue.

A POST executive (B2\_104) stated,

“I support the use of EVA..., but the head office and the MoF should include social benefit in a calculation model.”

Regarding the problem of social benefit calculation, negative EP can be expected on social investment projects, which causes the demotivation for the use of EVM in SOEs. Even though the social benefit issue in EP calculation is a major concern for many SOEs, until now the MoF has not provided any satisfactory solution to solve the problem. The calculation guideline in the past five years has only minor changes and does not mention how to take the social benefit into account.

Next, Stern et al. (1996) claim that the EVA concept might be employed by organization for its managerial decision-making. In Thailand, one aim of the introduction EVM to SOEs is to employ EVM and its driver tree to analyse the organisational performance as well as to use it as a tool in the decision-making process. Conversely, due to the problems in the calculation of social benefits mentioned before, many participants perceive that EVM cannot reflect the real value of an organisation or its investment projects. One PWA executive (B1\_001) explained,

“EVM is just a tool which mainly focuses on asset utilisation by employing an opportunity cost concept without considering other benefits such as social benefit, which is commonly considered as one of the key factors on making an investment decision in SOEs. ... As a result, it can lead to narrowing down the number of alternative possible options in investment projects.”

A few participants from regional offices claimed that EVM can be used as one of various tools for analysing asset utilization but they did not mention the use of EVM in their decision-making in investment projects. In addition, many participants stated that in practice, they only report the EP figure in order to fulfil the MoF’s requirement. They also insisted that they cannot use only EVM for making decisions in any investment project due to the missing social benefit data because it can mislead the executives’ decisions.

A PWA executive (B1\_001) stated,

“EP is just one of the financial performance measures just like EBITDA. However, EP is a tool that cannot explain all the benefits of the investment project or other organisational activity. In my point of view, EP focuses on an opportunity cost by ignoring other factors. As a result, it cannot represent the whole picture of our business.”

A PWA department director (B1\_101) mentioned,

“Our investment project normally involves both commercial and social distribution systems for which the cost is inseparable. Therefore, EP of the project may be negative and it is difficult to use this negative figure to explain to our employees. .... Moreover, PWA as an SOE should not consider mainly profit, but also has to analyse the impact on the community...As a result, we employ EP as one factor to make a decision on our projects.”

Although a small number of participants claimed that EVM is employed as one of the financial figures used to make a decision on project investment, the interviews and documentary analysis suggest that EVM is rarely employed in their decisions. The managers are concerned more with some financial figures and ratios such as EBITDA, and Return on Assets because the traditional financial figures are easier for them to explain to executives as well as staff. Also, regarding their organisation investment plans submitted to the Thai government in 2010-2012, both organisations did not include EVM in their investment analysis, as it is not required by NESDB. NESDB, not the MoF, is the main agency in considering SOEs' investment budget; therefore, SOEs prefer to follow NESDB's investment plan guidelines, which include, for instance, financial calculations such as NPV, return on investment, payback period etc. and cost-to-benefit ratio which takes some social benefit and factors into account.

A POST divisional manager (B2\_101) also confirmed that

“... as for the investment project, we depend more on financial ratios that are required by NESDB such as payback period, return on investment and benefit to cost ratio. EP is just used as supporting data for our project analysis report.”



A participant from NESDB (A1\_004) explained why NESDB did not consider EP as requirement figure in its investment plan guideline. He stated,

“The recent platform is sufficient and can provide enough information for our (SOE investment plan) approval process.”

The evidence from both organisations supports O’Hanlon and Peasnell’s (1988) study that organisations’ managerial decisions should not be based solely on EVM. Furthermore, Chen and Dodd (1992) and Biddle et al. (1997) also argue that EVA could not entirely replace traditional accounting measures; as a result, organizations should consider employing both EVA and accounting measures. This evidence supports Rompho’s (2009) statement that even though the EVM concept can be adopted in public sector organisations, the difficulty is in how to evaluate the social benefits. As a result, it is difficult to integrate EVM with other recent practices. In addition, the evidence shows that both organisations experience institutional complexity due to the conflict between the logic of commercial operations and the logic of social activities. Regarding the existence of the logic of social activities in SOEs, using EVM alone may lead organisations to inefficient decisions on social services and investment projects and mislead SOEs in compliance with their social missions. As a result, both PWA and POST tend to decouple EVM from other recent practices in order to minimise its effects.

#### **6.4.2 Inconsistent stakeholders’ demands**

We saw in chapter 5 section 5.2 that the structure of the field of SOEs is fragmented, which results in them being faced with instability and inconsistent demands from institutions and affects the degree of institutional complexity within the organisation. Also, according to Greenwood et al. (2011, p. 345), ‘an organisation’s responses to institutional complexity will be affected by its dependence upon important institutional actors’ (see also chapter 3). This section provides evidence on the inconsistent demands from stakeholders.

After the introduction of State Enterprise Performance Appraisal (SEPA), it seems that the MoF reduced the importance attached to the level of the implementation of EVM, which leads to the decreased interest in the use of EVM in both the MoF and the SOEs. Furthermore, without continuous force or pressure from outside such as the MoF, there

is a possibility that the tool will be dropped. Also in the case study organisations, some participants supported this statement by showing their concern about the existence of EVM in the future.

A PWA departmental director (B1\_107) confirmed the threat of the emergence of SEPA to EVM.

“EVM is not well implemented in PWA and now we are shifting our focus to SEPA”.

The evidence shows that there is some lack of organisational commitment, and so the case study organisations do not put sufficient effort into implementing EVM. As noted in chapter 3, Greenwood et al. (2011) state that institutional complexity increases when the institutional demands are inconsistent and unpredictable. Many participants claimed that the MoF always introduces new tools or systems, and later on the measures to assess SOE will change to support the new system. As a result, SOEs have to put effort and resources into developing the new system. For example, after the introduction of a new PMS, SEPA, the MOF’s pressure for the implementation of EVM seems to decrease, which also affects the SOEs’ perception in continuing the EVM system.

The director of SOE assessment bureau SEPO said,

“The MoF has promoted the implementation of EVM since 2006. We have assumed that now SOEs should have the potential to continue the system with less support from the MoF. It is about time for the MoF as well to focus more on SEPA.”

Another issue that hinders the use of EVM in investment analysis is that the government agencies, NESDB and Budget Bureau, which are responsible for the investment plan and subsidization of social investment projects, do not require the EVM analysis in their applications. As mentioned in section 6.4.1, the evidence shows that the NESDB does not include EVM in its investment plan guideline. This can be interpreted as suggesting that NESDB and MoF have different opinions on the use of EVM. Also, NESDB’s executive (A1\_004) shared his view on the use of EVM as one of the KPIs in the SOE’s PMS:

“A recent PMS created by the MoF is somewhat too complicated and each SOE has a different context, but the MoF has created a PMS that fits all, which can lead to management inflexibility. Some management tools such as EVM are not suitable to use across SOEs. The more complex the tool, the more wrongly interpreted and implemented. Therefore, sometimes traditional financial ratios can be more useful and easily used to cascade the KPIs to departments and divisions.”

Many participants expressed the view that case study organisations employ the EVM concept in order to comply with the MoF as well as to increase their performance score, as this will result in them receiving higher incentives.

A member of the board of directors (A1\_006) also confirmed,

“I cannot really see that (case study organisation) uses EVM for its decision-making. Moreover, I think that due to the lack of executive commitment as well as a limitation of accounting system, we cannot maximize the benefit of the use of EVM. ... Moreover, compared with the other SOE, of which I am a former member of board of directors, I think this organisation has implemented EVM just to meet the MoF requirements as well as to gain its performance assessment score.”

Some participants state that EVM is only known within the performance assessment division. According to a PWA division manager (B1\_202),

“Our executives do not pay attention to the use of EVM, as it is more like another extra (hidden) work to comply with the PMS.”

Also, a PWA team leader in the Finance and Accounting department (B1\_302) stated,

“Not many people know about EVM. I think only the performance assessment division (which deals with the MoF’s requirements) only know about it....We are not very serious about the use of EVM.”

The evidence shows that neither organisation uses EVM in practice but on a ‘ceremonial basis’ in order to gain legitimacy and secure their incentives by following the MoF’s

requirements. Case study organisations' responded to the inconsistency of institutional demands by decoupling EVM from other investment plan guidelines provided by other agencies that are required to be used when SOEs submit their investment plans to the Thai cabinet. This evidence supports Johansson and Siverbo's (2009) statement that the conflict of shareholders' interests can lead to the decoupling of models and practices. The complexity of EVM was discussed amongst related government agencies. Most agencies such as NESDB and Budget Bureau that are responsible for SOEs' investment plans and budgets do not employ EVM in their consideration process, while only MoF uses EVM in an SOE's PMS. As a result, decoupling of EVM and their investment plan and budgeting appears because there is no coherence between them.

Regarding SOEs' embedded multiple institutional logics, some of the logics, especially the logic of social activities, which competes with the logic of commercial operations in which the EVM concept mainly prevailed, lead to the difficulty in the implementation and use of EVM in public sector organisations like SOEs. In summary, the evidence shows that competing logics and a fragmented structure occurred in the case study organisations and led them to a high degree of institutional complexity, which affected the implementation of EVM. As a result, in order to minimize the impact of institutional complexity, the decoupling of EVM and other practices occurs. Moreover, the resistance to the logic of commercial operation can be identified from the evidence, which led to the occurrence of decoupling. This follows the finding by Dambrin et al. (2007) in the literature.

### **6.5 Other Factors Contributing to Decoupling Following the Implementation of EVM**

During the interviews with SOE participants, it was recognized that at the beginning the adoption of EVM in their organisations was in order to gain legitimacy as well as to satisfy the MoF's requirements. The implementation of EVM in the case study organisations had been forced through the KPIs set by the MoF, which led them to employ EVM on a 'ceremonial basis' in order to minimize impact on their recent practices. Therefore, evidence of decoupling between EVM and other management tools can be detected. According to Johansson and Siverbo (2009, p. 217), 'the stated adoption of management accounting practices is sometimes decoupled from its use, or

at least the intensity in use'. In addition to the coexistence of institutional logics mentioned before, other factors led to the decoupling as follows.

### **6.5.1 The influence of actors and organisational network**

Both case study organisations also accept that they faced difficulties in implementing EVM. We saw in chapter 3 that the degree of institutional complexity depends on the influence of individuals and groups of actors and the logics they support as well as how they represent them to the organisation (Pache and Santos, 2010). As SOEs embedded the logic of bureaucracy, the cases have a strong command hierarchy; therefore, the commitment of executives towards new practices such as EVM is significant and can result in the success or failure of the use of practice. Most executive participants, especially from PWA, have a background in engineering rather than management; therefore, they seem to be less influenced by the logic of commercial operations. As a result, many executive participants disregard the benefits of EVM and perceive EVM as merely a financial figure.

According to a PWA executive (B1\_001),

“EVM is just one of the measures which is similar to EBITDA. It is an insignificant tool ... the concept is so narrow as it ignores the overview of business by focusing on investment and its opportunity cost.”

Also, a POST executive (B2\_002) stated,

“We have already employed financial figures which are not in the form of EVM. Why do we need to calculate an EP?”

The evidence shows that there is some lack of executive commitment, so the case study organisations do not put sufficient effort into implementing EVM. As some participants in PWA mentioned, there are no key teams responsible for EVM. Moreover, it seems like PWA set up an ad hoc team for EVM.

A divisional manager (B1\_202) mentioned,

“EVM seems to be an additional task for the PMS required by the MoF; therefore, the use of EVM does not add benefit to our organisation. ... However, I think that if the MoF pushed more for the use of EVM in

SOEs, it might gain significant attention from our executives and employees.”

In response to this concern on organisation commitment towards the use of EVM, the director of the SOE Assessment Bureau said,

“The MoF has been responsible for providing the EVM guidelines and education as well as a EVM help centre for SOEs for more than five years; therefore the MoF expects that SOEs should continue the use of EVM without the need of forcing them to employ it through KPIs.”

Alongside the executives, another group of actors is the people who know EVM, although limited in number. As mentioned in chapter 3, Greenwood et al. (2011) call this group of actors a ‘social referent’ and their influence and capability can reinforce a particular demand in organisation. One director (B1\_103) pointed out that PWA officers and executives who know how to employ complex tools like EVM are in limited numbers. Consequently, such a tool is difficult to deploy in the organization.

In both case study organisations, EVM has been employed for nearly a decade, and although many employees have heard about EVM, nearly all participants at the operational level and supervisor level as well as some branch managers did not have any knowledge of EVM. Only some executives such as the chief financial officer and related employees, especially in the accounting and finance departments and strategic planning departments, which are responsible for the MoF - PMS and assessment, can explain the EVM concept in brief. Amongst these people, a limited number of people can adapt the EVM concept and calculation to their organisational contexts.

A PWA departmental director (B1\_107) mentioned,

“Recently, only a small number of people have knowledge about EVM and only a few of them can use and calculate EVM efficiently. Therefore, transferring knowledge of EVM is limited. ... Due to the branch network across the country, it is also difficult to educate our employees about EVM to make it usable.”

According to Lounsbury (2001), the networking between employees in an organisation is one of the mechanisms that tend to promote a logic to become established in an organisation. The degree of the perception of the complexity of the EVM problem also depends on the effort of organizations to communicate and educate their employees. However, regarding the limited number of social referents, it is difficult to spread the knowledge of EVM as well as its logic through organisational networks, which results in the avoidance of the use of EVM. The evidence in both case study organisations shows some lack of communication and inadequate training for their employees. For example, one of divisional manager (B1\_204) said,

“I have heard about EVM but I really don’t know how to calculate it, as well as use it.”

A POST employee (B2\_304) said,

“I heard some of my colleagues mention EVM before, but I think the tool is so complicated and difficult to understand.”

According to a POST performance report (MoF, 2012), even staff in the EVM centre have not reached an acceptable knowledge level of EVM concepts and calculations. Consequently, the MoF recommended that POST has to educate and communicate the importance of the EVM system and how it helps to improve the organisation to international standards.

Regarding the evidence, it can be concluded that the power and capability of actors as well as the organisational structure or network are the organisational attributes that can influence the organisational responses towards the use of EVM. Accordingly, the lack of potential actors and network in our cases led the organisations to resist the use of EVM and employ it on a largely ‘ceremonial basis’.

### **6.5.2 The problems of using EVM at regional offices**

As we saw in chapter 2, there is some literature support for the use of EVA as a management tool at a divisional level or product level, such as Hartman (2000), and Shrieves and Wachowicz (2001). However, Zimmerman (1997) and Woods et al. (2012) focus the prospective problem of cost sharing and target costing due to the complexity of the calculation of cost of capital. They highlight that cost sharing and

target costing can be a hindrance to the implementation of EVM at divisional level. The evidence from the SOEs supports their statement, as in implementing EVM into regional offices or the EVM centre as required by the MoF, the allocation cost and transferring cost need to be identified. However, both PWA and POST have failed to do so and they have employed some dummy cost allocations in the EVM calculation. Both PWA and POST have set up a cost centre in which unidentified costs are put. The example evidence includes the following.

A POST executive (B2\_004) said

“As I mentioned before that our business cannot be completed in just one business unit, the problem is we cannot allocate cost in our recent accounting system ... the cost of implementation of EVA or of adjusting our accounting system is not worth it. ... Our business is not services but network management; therefore, the assets are somewhat inseparable and cannot be allocated to each business unit. ... In POST, I think that the allocation cost should consider service or geography area; however, the suitable method is the one with less problems.”

PWA calculates the allocation cost using the drivers as follows: the volume of treated water sales, the volume of treated water production, the portion of employees and project expenses (MSI, 2007). However, in the EVM implementation stage, due to the inadequate cost allocation criteria, some costs cannot be allocated from the head office.

A PWA executive (B1\_002) mentioned,

“The implementation of EVM is insufficient because our cost allocation system is inadequate. We still use dummy figures to calculate cost in each branch.”

POST explained that the organisational structure is a functional type, not a business unit type, so it is not worthwhile to revise or develop a new system. Considering the operating income structure for each regional office, the revenue consists of revenue from POST's four major businesses. The lack of a transfer price in POST also affects each bureau's income stream. Therefore, the originating location of the mail being sent can charge full the revenue into their account. For example, both North and South



metropolitan postal bureaus together can generate nearly sixty per cent of POST revenue (approx. 5,000 million baht each), while most regional postal bureaus hardly generate revenue more than 800 million baht. According to POST performance report (MoF, 2012), the problem of not being able to allocate cost to each EVM centre results in the head office doing the EVM calculation for both the organisation level and the EVM centre level.

Participants from POST also mention the problem of cost allocation as follows.

A POST executive (B2\_002) stated,

“The use of EVM in our organisation is more theoretical than practical. Our organisational structure is a functional type, not a business unit type. Even though our structure divides responsible areas such as regional offices one to ten, our delivery service has to be done with the network. ...Therefore, calculated EP cannot represent the real situation. For example, regional offices that do more delivery to end-customers will have more expenditures and can show negative EP, whereas offices that do more services at the beginning of the delivery network will generate more revenue.”

The cost allocation and transferring cost problem also leads to the delay of the EVM report in POST. As one of the vice presidents (B2\_109) said,

“The accounting system in POST is highly centralized and the EP calculation including the allocation cost are normally done manually. ... And it is difficult to calculate. As a result, our EVM report is usually delayed by two months.”

Regarding the evidence, the use of EVM at the divisional level seems to have been seen as impracticable, which resembles the study by Zimmerman (1997). From the above evidence, inadequate allocation and cost transferring can be seen in both cases. In order to follow the EVM guideline, the case study organisations tend to allocate their cost bases to their business units; however, this may not prove practicable for every SOE. Both organisations also claimed that they have set up EVM centres in every regional office; however, in reality, the EVM centre is just a pseudo centre that is placed under the accounting division in order to comply with the MoF’s requirement. They use

separate templates to calculate EVM for reporting but do not further integrate the EVM system with other systems. This shows that SOEs employ the concept of EVM in order to gain legitimacy benefits from the MoF. However, the cost-sharing problem makes EVM impracticable at the regional level and this results in the decoupling of EVM from other accounting practices. In addition, the MoF has not considered the allocation and transferring cost issues within the organisation as critical because it has focused more on overall organisational EP. As a result, case study organisations have given limited attention to EVM at the regional level. Moreover, a participant from the MoF (Interview record: A1\_011), said that the allocation method and other related to accounting issues that do not directly affect the organisational EP should be managed and controlled by SOE itself because the accounting systems in SOE are different and the MoF should not interfere.

In summary, the MoF introduced EVM to SOEs in 2003 and started using EVM and its implementation process as measures to assess SOEs in 2006 in order to improve SOE's performance to the private sector level. Apart from institutional complexity caused by the competing institutional logics that make SOEs' perceptions towards EVM different from private sector organisations, it can be concluded that to gain legitimacy from the MoF is a main rationale for the case organisations to adopt EVM. Recently, both case study organisations have employed EVM to meet the MoF requirements so it can be a plus for their performance measurement scores. Therefore, some participants show their concern that the willingness to use EVM may decrease after the MoF shifts its focus to a new PMS or management tool. Furthermore, EVM is not promoted for use by other government agencies that are related to the SOE investment plan and budget. Also, the case study organisations are aware that the MOF's demand for the implementation of EVA is inconsistent, which may increase the degree of institutional complexity that affects the use of EVM. In addition, the evidence shows that there are other factors that decoupled the EVM from other recent practices. These are the limited number and the capability of social referents as well as an insufficient organisational network to educate the complex concept of EVM through the organisations. Also, the MoF's demand that EVM is implemented in sub-business units (in both cases, the regional level) is considered impractical and with many limitations. Consequently, EVM has been treated as a 'ceremonial basis', and as a result the decoupling between EVM and other

practices can be seen in both cases by making the EVM work independently and not interfering with other systems.

## **6.6 Balanced Scorecard**

Along with the introduction of EVM in 2006, the MoF planned to promote the use of the BSC as the next step in the performance management development, by requiring SOEs to integrate BSC with the EVM driver tree and planning to link them with an incentive system in the future. However, unlike the implementation of EVA, the MoF did not provide any support for the implementation of BSC for SOEs. This is because the MoF believed that most SOEs would have some background with BSC and some of them had already employed BSC as one of their management tools.

In the implementation of BSC, the case study organisations are required to set up a specific division to deal with the SOE's PMS as well as other related management tools such as EVM. This division is normally under the strategic planning department and works as a key contact point and data collector between the MoF and the organization. To cope with the SOE's PMS, both the PWA and POST have implemented the BSC model to manage the established/approved set of KPIs.

The KPIs from the Performance Agreement with the MoF are the key measures that have to be distributed directly to the responsible departments. Normally, the assigned targets for each department are more difficult than the agreement. According to a POST executive (B2\_002),

“We implement BSC and use KPIs to measure each department's performance where some KPIs follow the measures given by the MoF.”

This is to assure that the organisation can reach the MoF targets. For some KPIs, which have more than one responsible department, the targets will be cascaded based on their potential and historical data. Additional KPIs have also been employed by considering each department's context as well as regarding some international and domestic standards.

In PWA, the organisational KPIs will be assigned and cascaded to responsible deputy governors, and then each department and regional office has to countersign the

performance agreement with the organisation. The form of agreement is similar to the MoF performance agreement but KPIs have been arranged under four perspectives of BSC. The targets also have been divided into five levels and scored from 1 (worst) to 5 (excellence). This scoring system is also used to assess divisional performance. Each department and division is required to sign a performance agreement with an organisation at the beginning of the year. According to an executive (B1\_002),

“The governor and each deputy governor have to sign a performance agreement. Then, each deputy governor also has to sign the agreement with his assistant governors and department directors. ... By employing KPIs based on the BSC concept, it can help us in explaining performance targets to our subordinates.”

The KPIs at the divisional level can be related to the division’s task and also depend on the requirements of the head of the department. Consequently, the KPIs can be few in one division and up to thirty KPIs in another division. Some participants complained that heads of department assigned them too many KPIs, some of which are not related to their division. In addition, the divisional BSC also represents the head of division’s individual BSC targets. According to a PWA divisional manager (B1\_201),

“We focus on the use of BSC However, in my point of view, we have many departments and divisions for which it is difficult to balance and distribute the measures. Some divisions may have only five KPIs while another division has thirty measures. All of these depend on the executive. I personally want to measure the main KPIs that are related to our work; however, recently the supporting jobs are also taken into account and set as our measures. I will try to negotiate with the departmental head for the following year KPIs for the sake of my employees.”

The system that has been established at POST also has a resemblance to that in use at PWA, as the organisational and departmental KPIs are derived from the MoF’s KPIs and POST’s business plan, however, in POST, each department and division is not required to sign any performance agreements.

According to a POST departmental director (B2\_103),

“We are not required to sign a performance agreement, but we have to submit a half-year report and annual report.”

The strategic planning department is responsible for gathering and monitoring each department’s performance regarding the MoF’s KPIs and the other standards employed in each department are not included. The KPIs used in each department and division have to be approved by the superior level. The implementation of BSC in POST is far behind PWA. Many participants state that POST has implemented BSC at the departmental level; however, there is no clear evidence of how POST uses the BSC, in decision-making, at the divisional level.

In addition, due to limited access to the documents, the researcher cannot identify the scoring system and how POST has implemented BSC at the departmental level. The researcher only had access to a business plan that assigns the KPIs of each department and organisational goals. However, one participant (B2\_307) did mention following the scoring system (where targets are scored from 1 (worst) to 5 (excellence)), which is similar to that used by PWA.

### **6.7 Institutional Complexity and Multiple Logics Affect the Organisational BSC**

Similar to EVM, organisations faced difficulty in implementation due to institutional complexity. An effect of the fragmented structure discussed in chapter 5 can also be seen in the use of BSC, as it creates a high degree of institutional complexity. The organisational BSC has been based on the statement of directions (SODs), which was introduced as a new approach of BSC in order to make the relationship between objectives, measures and targets more efficient and can be more useful as a strategic management tool (Cobbold and Lawrie, 2002) (see more in chapter 2). However, after adopting this new approach, many participants expressed their displeasure in the SODs provided by the MoF, even though the SODs have been approved by the line ministries and SOE before being released. According to a PWA departmental director (B1\_103),

“SODs for our organisation are too generic and not specific. Government agencies should have clear policy and conform with other agencies.”

According to a POST executive vice president (B2\_002),

“Recent SODs are too broad. It is like a homework assignment that we need to answer. The SODs are written more theoretical but not practical.”

The Thai government sometimes creates an urgent policy or new policy and requires the SOE to comply with it, such as microfinance in the postal branch can lead to KPI changes or adding new KPIs between assessment years. Changes and unclear signals about government policy can lead to confusion within the SOEs and affect their strategic plans as well as organisational BSC. All in all, participants from both case study organisations state that SODs from government are too generic and sometimes the policies from government agencies are not synchronized. Also, the conflict of interests between government agencies, which can be seen in various circumstances (chapter 5 section 5.2), creates institutional complexity in the case study organisations.

The institutional complexity regarding the conflict of the logic of commercial operations and the logic of social activities also shows in the KPIs. In the implementation and use of BSC, there are multiple logics involved in creating KPIs as well as individual responses to the KPIs. Most participants state the problem in the implementation is based on the issues around the KPIs, as they reflect both commercial and social activities. Kaplan and Norton (1992) develop the BSC approach by trying to balance between financial and non-financial measures as well as organisational actions and strategies.

We saw in chapter 2 that many researchers in the field criticized the original BSC, as it is difficult to justify the choice of indicators. Also, another problem is that an excessive number of indicators tend to be used in public sector organisations (Aidemark, 2001). The documentary evidence suggests that SOEs suffer from the excessive number of indicators, as they need the indicators to answer both social and commercial activities.

According to a POST executive (B2\_003),

“Recently, the BSC used in our organisation has too much detail, whereas it should be used to see a big picture of our organisation. Then,

when we deploy, we will set the activities or work plans. ... Moreover, BSC does not need to balance all four perspectives.”

According to a PWA departmental director (B1\_106),

“The KPIs required by the MoF sometimes conflict, such as EBITDA and the reduction of water loss rate, which has to use money. As a result, instead of using KPIs to drive the organisation, in reality, if we focus on EBITDA, we might neglect the preventive maintenance.”

The finding suggests that some departments experience around thirty KPIs in their set of measures and some of them do not relate to the department’s activities that result in the negative perceptions towards the system. This supports Rautainen and Jarvenpaa’s (2012, p. 182) study that showed when a unit considers that a PMS is not relevant in the context ‘manipulation may occur and be entangled with buffering or avoidance of evaluation’.

From the interviews, it can be seen that different departments in the organisation embed or prioritise KPIs differently. This can be interpreted as a reflection of their commitment or alignment with different institutional logics; consequently their responses to common measures are not uniform, as they interpret similar KPIs differently. Also, each department has its own set of KPIs, which are derived from its responsibility and related organisational standards as well as well-known standards or guidelines. For example, the information technology department focuses on improving data security and organisational networks and processes while the financial and accounting department focuses on financial stability. Alongside the common KPIs assigned by the organisation such as EBITDA, water pressure, water loss rate, budgeting etc., which the users question as to usefulness, each department tends to develop and employ its own set of KPIs. According to a POST senior divisional manager (B2\_211),

“Some KPIs are used across the organisation, but some of them are not related to our work; for example, the organisational budgeting KPI. ... However, we also have a KPI on logistics post which is our responsibility.”

Also, according to a PWA executive (B1\_004),

“Regarding the Governor’s policy, some KPIs are used to measure every department such as water loss rate and EBITDA. As a result, some departments disagree with this policy. For example, the accounting division disagrees with the use of water loss rate to measure divisional performance.”

To solve the problem that some cascaded KPIs are not linked with departmental goals, many departments in both organisations also employ various standards that they think match their responsibilities as their KPIs and target improved performance. Although they sometimes have not used those targets as their KPIs in the BSC model, they use them for monitoring performance only. For example, in POST, according to executive vice presidents (B2\_002) and (B2\_003) respectively,

“POST already has our own standard for our delivery system. Also, we as a member of Universal Postal Union (UPU), have to follow UPU standards as well ... We also employ some systems that are suitable for each department’s responsibility such as Control Objective for Information and related Technology framework (COBIT) and The Committee of Sponsoring Organizations of the Treadway Commission’s guideline (COSO).”

“To assess our quality of services, we employ UPU standard ... which is more reliable than using benchmarking with other postal locations with different geography and density.”

However, according to a vice president assistant (B2\_210),

“UPU assesses and also reports on our performance. ... We also try to benchmark with other Postal organisations ... However, we did not employ them as our KPIs but as a performance target to improve our quality.”

Both case study organisations claim that they employ related international standards such as COBIT as guidelines for improving departmental operations. However, each



organisation tends to abandon such guidelines when they conflict with the MoF's requirements in order to sustain their legitimacy.

At the departmental level, both organisations allow each department to set its own measures and targets to reflect its responsibility. Lipe and Salterio (2000) commented that organisations tend to focus on common over tailored measures, which can affect the usefulness of BSC. For example, a vice president (B2\_104) and a senior manager (B2\_201) spoke about the use of the ISO standard as one guideline that POST follows.

“We also employ ISO guidelines for our EMS service but we do not register with ISO because the fee is very expensive.”

“We employed ISO before because it is a well-known standard in order to improve our image as well as create branding.”

Also, according to a PWA executive (B1\_003),

“We should select a few KPIs that are considered as core to organisational and departmental functions. The rest should not be used to assess the performance but used instead for supporting departmental work.”

According to a PWA departmental director (B1\_106),

“We should distinguish between organisational KPIs and in-process KPIs. The organisational KPIs should be measured using the outcomes, while in-process KPIs, such as the quality of water, should comply with standards or guidelines.”

Even though each case study organisation tailored its set of KPIs for individual departments regarding its responsibility, the evidence shows that they do not take the tailored KPIs seriously but use them as a reminder for the minimum standard as well as a way to improve their image.

In summary, institutional complexity affected the identification and acceptance of KPIs in the SOEs due to a lack of common agreement. This can be seen as a consequence of conflicting institutional logics. These multiple logics and different responsibilities in

each department in the organisations were apparent in both case study organisations and affected the set of KPIs used in them. The massive number of KPIs resulted from the multiple logics, which were sometimes considered as unrelated to individual departments. This can produce incentives to avoid the BSC or make its use inconsistent across different departments. In order to avoid the complexity of KPIs, case studies tended to use other standards as milestones but excluded them from the set of KPIs.

### **6.8 Organisational BSC Loosely Coupled from Organisational Strategic Plan and Budget Plan**

Due to the pressure from the MoF, both organisations employed a BSC model across their organisation. However, it seems that the usefulness of the BSC has not reached organisational expectations. It has been suggested that this is due to a lack of integration with other systems along with other perhaps less significant issues.

In the interviews, participants pointed out more problems with the set of KPIs. Regarding the performance agreement with the MoF, both case study organisations have a set of measures to comply with as well as adding their own organisational measures to ensure that the whole set of measures can cover the necessary activities to drive the organisations to their goals.

We saw in chapter 2 that Umashev and Willett (2008) and Kaplan and Norton (2001a) have both stated that many public sector organisations employ the BSC in order to address the communication of their strategic themes throughout the organisation. However, the case study organisations do not sufficiently link the KPIs with their strategies due to a variety of problems. In PWA, the perceptions of participants from different departments towards the integration with the strategic plan vary depend upon each department's responsibility.

According to a PWA division manager (B1\_203),

“The information system master plan is linked with the organisational strategic plan and the KPIs.”

On the other hand, according to a PWA departmental director (B1\_107),

“Our KPIs are not linked with our strategic plan. Recently, we focused only on financial figures .... The other problem is that the KPIs adopted from the MoF’s KPIs do not reflect our situations.”

Also, according to a PWA division manager (B1\_204),

“The KPIs and their targets have been distributed to responsible departments and divisions. However, most of the KPIs targets are different from the plan targets.... As a result, we do not know what the real expected targets are.”

While in POST, the corporate strategy department has provided a guideline of required KPIs to each department; however, it is difficult to obtain the participants’ perceptions on the integration between BSC and the organisational strategic plan. According to a POST departmental director (B2\_103),

“We have to do the operational plan and business plan but at the departmental level, we cannot see the whole plans and how they are connected with BSC....The targets of KPIs have set from the organisational strategic plan and we have to do a follow-up report.”

Further, a second POST departmental director (B2\_104) stated,

“We try to make our departmental BSC consistent with the organisational strategic plan. The corporate strategy department guides us with what set of KPIs we need in our department, and later on, we have to think of the targets and other possible related KPIs.”

As mentioned before, both case study organisations employ the commonly used four perspectives from the BSC concept to distribute KPIs from organisational targets to each department and division respectively. Therefore, they normally adopt the MoF’s set of KPIs as the compulsory KPIs for the whole organisation with some additional KPIs that relate to a department or division’s activities. The KPIs contain both social and commercial related KPIs caused by the two different logics embedded in SOEs. In order to gain legitimacy over their employees, the adaptation of the MoF’s set of KPIs helps executives to more easily explain to their employees why individual KPIs need to be assessed.

According to a POST executive (B2\_002),

“Our organisation has to work in many aspects; therefore, some KPIs may suit one of the aspects but not others. However, when we need to create or implement something new (which is also related to the MoF ‘requirement’), we refer to our employees that we have to comply with the MoF’s demand. This helps us to reduce the resistance to change from our employees.”

However, case study organisation evidence suggests that the MoF’s set of KPIs is too subjective and not related much to the organisations’ core business. In addition, some participants state that their organisation employs the MoF’s set of KPIs as a supplement while using their own KPIs as the main measures to assess their performance.

According to a PWA executive (B1\_001),

“PWA has our own set of organisational KPIs which are derived from our strategic plan. Most of the KPIs are not from the performance agreement signed with the MoF. However, we have about fifteen strategies and each of them also has many support plans so we deploy the core strategies as our assessing KPIs, but for the others we focus on monitoring them from time to time.”

However, according to a POST executive (B2\_002),

“We have assessed our performance for the continuity of the organisation. It is not related to the assessment by the MoF. The MoF’s set of measures is kind of our homework. It does not much relate to our core business. For example, one of KPIs from the MoF is to increase the number of customers in our Pay at Post service. However, the MoF does not consider that the locations of competitors such as SevenEleven (a convenience store chain) or banks are normally better than ours. Also, customers can pay their bills at the ATM. While banks can use the fee revenue to invest more, POST cannot do something like that.”

The evidence shows that the loose coupling of the MoF’s set of KPIs and the organisational-owned KPIs has occurred. Both the organisational strategic plan and the

MoF's set of KPIs follow the statement of directions; therefore, both the organisation and the MoF have similar goals.

However, interviewees felt the lack of understanding in the SOE's context sometimes misleads the MoF in the design of KPIs as well as their targets. As a result, participants perceive that some of the MoF's KPIs do not increase organisational value and may distort the plans or operations of the organisation.

According to a POST executive (B1\_004),

“One of the KPIs is the reduction of water loss rate in our distribution system. However, it does not consider whether this is worth the investment or not. It is fine to invest in some branches such as the Samui branch or Phuket branch, which have high production costs. However, for the other branches, it may not be worthwhile.”

A PWA division manager (B1\_202) also added her comment on this topic:

“If you see our past performance assessments, we failed in the reduction of water loss rate KPIs because we considered that the water loss rate assigned by the MoF is not the optimal option.”

Many participants mentioned conflicts between KPIs. According to a PWA departmental director (B1\_106),

“The KPIs required by the MoF sometimes conflict, such as EBITDA and the reduction of water loss rate which has to use money. As a result, instead of using KPIs to drive the organisation, in reality, if we focus on EBITDA, we might neglect the preventive maintenance.”

Also, according to a POST vice president (B2\_101),

“The financial KPIs include profit and cost ... The basic concept of using profit as a KPI is that profit meets the target or not. However, the profit target has increased every year, but in reality the business is like a curve that can increase or decrease...for example, this year, we do not have a big event, Euro champion cup, but they use last year's profit as a base target. ... The increase of the targets can be a problem in the future.”

One example of an inadequate target is the quality of water treatment KPI, for which the PWA can get an excellent score every year without putting in more effort. According to a divisional manager (B1\_201),

“Some KPI targets are too difficult and discourage me. I try to solve the problem by asking for an adjustment of the weight of calculation of that KPI. On the other hand, some KPIs’ targets are too easy, for which we do not need to put any effort to achieve, such as quality of treated water.”

Also, redundant KPIs can be seen in both POST and PWA; for example, the MoF has used EBITDA as a standard measure for every SOE and at the same time it also employs Economic Profit as a KPI as well as the volume of specific services in POST. These redundant KPIs can cause management inflexibility in an SOE. According to a vice president (B2\_101),

“Some KPIs are redundant with each other such as EP and EBITDA. Both KPIs have the same objective. However, this year, the EBITDA has been removed from our set of KPIs.”

Aside from the MoF’s set of KPIs, most of the organisational KPIs in both cases are from their business plan or budget plan. According to a POST senior manager (B2\_201),

“Our strategic plan provides lead and lag KPIs, which are more related to our activities than MoF’s KPIs.”

However, participants’ opinions in both organisations on the use of KPIs in order to support organisational strategic plans are divided. According to a PWA departmental director (B1\_107),

“The good KPIs are supposed to connect the organization goals from top to bottom so our organisation can benefit from the system... However, recent KPIs do not link with our organisational strategy. Now, the process seems to focus on financial figures and work backwards to strategy.”

On the other hand, a PWA divisional manager (B1\_202) stated,

“The KPIs do have a connection with our plan and the distribution of KPIs to departments is also linked.”

Moreover, different from the implementation of EVM, in employing BSC in their organisations, participants found that there is not much difference between the former system and BSC because both of them are based on the assessment through KPIs. According to a PWA divisional manager (B1\_201),

“BSC is similar to our former PMS that used KPIs to assess the performance.”

The case study organisations employ BSC and distribute KPIs to each department as well as each division, even though they do not use BSC to drive SOE’s performance as it should be.

According to a POST executive vice president (B2\_005),

“BSC is just a system in our strategic plan but for me, I don’t use BSC as a management tool. I still use budgeting control. ... I know that BSC is a useful tool but the problem is my subordinates do not clearly understand the BSC concept, which takes time to educate them. As a result, we cannot cancel the budgeting control system and use only BSC in our organisation.”

Also, according to a PWA employee (B1\_301),

“I think that we should employ BSC and use KPIs more seriously. Recently, it seems like KPIs are only written on paper and we still do not use it efficiently, standardized and systematically.”

The delay of the performance agreement process between organisation and department also impacts the usefulness of BSC. Instead of driving performance improvement, employees who now know the half-year result can set the targets that favour them. According to a PWA executive (B1\_002),

“We experience a delay in signing an agreement between executives and departments. Sometimes, the delay takes more than six months. Therefore, our organisation tends to set the measurable targets.”

In contrast to the implementation of EVM (see section 6.5.1), the group of social referents for the BSC is large and has the capability to convey the concept of BSC across their organisation. Both organisations have included sessions on the BSC in their training programmes and, as a result, most employees know the basic concept of BSC, which helps in deploying it in the organization. Also, the BSC has been more accepted amongst employees compared to the EVM, as its concept is similar to the MoF’s performance assessment system and is considered to be not too complex. Although some of the executives expressed their disagreement on the use of BSC, they do not demand to replace the BSC with another system.

According to a PWA executive (B1\_001),

“The BSC is not a useful tool. It is just tell us to view the organisation regarding four perspectives. From what I know, many countries do not use BSC any more. In reality, some departments do not need to fulfil all four perspectives. They just need to focus on the important or related perspectives only... Actually, we should clearly understand our organisation’s missions so we can serve our organisation as a whole and the focused perspective should be based on stakeholders. ... Even though I think BSC does not work with our organisation, we do not need another system to replace it. We should adjust the system to be more suitable to our organisation.”

The perceptions of participants on the integration of KPIs and their organisational strategic plan as well as budget plan are divided and depend upon which department they work for. The loose coupling from other practices can be seen, as some departments see that the KPIs are coupled with the organisational strategic plan while others do not. From the evidence, it can be concluded that BSC is loosely coupled with other organisational practices; however it is not adopted on a ceremonial basis, as we can see many involvements from both organisations in the implementation of BSC. It can be seen that both organisations try to follow the MoF’s demands on KPIs while also



employing their own KPIs in order to integrate better with their own strategies. In addition, compared with the implementation of EVM, the implementation of BSC seems to have less resistance from employees. This may be a result of organisational attributes such as social referents and network and its similarity to their former performance measurement practice which developed from SOE's PMS.

## **6.9 Conclusion**

This chapter examined the PMS in the two SOEs by focusing on the implementation of EVM, the BSC and the SOE's PMS. The impact of multiple logics embedded in organisations contributes to institutional complexity, which subsequently affects the development of PMS in the case study organisations. The responses from these cases to institutional complexity in implementing the management tools EVM and BSC vary depending on the tools themselves as well as participants' knowledge and former experiences in dealing with the demands from institutions like the MoF and other government agencies. The response strategies used in both cases are decoupling and loose coupling in order to cope with the demands while minimizing the impact to their practices.

The other findings from interviewees' perceptions reveal that there are several factors that can hinder the implementation of EVM. Due to SOE characteristics, it is difficult to apply the EVM concept in these SOEs. Both case organisations have very significant social goals in addition to any commercial objectives. The complexity of EVM and the limited number of social referents are also a burden to educating employees, which also discourages the use of EVM in each organisation. As a result, many participants agree that they rarely use EVM for decision-making. Consequently, the adaptation of EVM in both case study organisations decouples from the other practices. As a consequence it can be argued that the adoption of EVM is largely ceremonial and based on the need to comply with the demands of the MoF.

The BSC, on the other hand, has been widely accepted in both organisations due to the capability of social referents and the similarity between the BSC and the more recent PMS. The perceptions of participants are mainly related to the set of KPIs and the targets employed in the scorecards. The excessive number of KPIs mentioned result from the multiple logics prevailing in the organisations and the demands from

institutions. The BSC system may be coupled or decoupled from both the MoF's KPIs and the individual organisation's strategic plans. So while some individual units and departments may view the BSC positively, others seem to be less keen to use BSC measures. The findings, described in this chapter, of the use of the BSC might best be described as loosely coupled, rather than fully coupled or decoupled, or as described by Nor-Aziah and Scapens (2007, p. 214) 'distinctive but still responsive' to other practices in the organisation. The evidence shows that both case study organisations intend to integrate the BSC with other practices such as budget plan and strategic plan; however, the degree of the coupling with other practices depends upon each departmental perspective towards the BSC and the set of KPIs.

## **Chapter 7**

# **The Relationship between the Incentive Systems and Individual Balanced Scorecards**

### **7.1 Introduction**

This chapter provides a detailed investigation of the incentive system in the context of individual performance assessment in the two case study organizations: the Provincial Waterworks Authority (PWA) and Thailand Post (POST). The results are mainly drawn from semi-structured interviews with various groups of participants, from employees to executives, in various departments of the case study organizations, as well as some participants from the Ministry of Finance (MoF), which is responsible for the SOE bonus system. The participants from the case study organizations provide evidence on the perceived relationship between the incentive system and the individual performance assessment system. In-depth documentary research (see section 4.5, table 4.4) provided a significant amount of background information and detailed criteria of the incentive system and the individual performance assessment system as well as some insight issues which can be used to support the findings.

In chapter 5, emphasis was focused on institutional complexity, which is partly a consequence of the environment within which SOEs operate. We argued that SOEs are hybrid organisations facing multiple logics particularly in relation to commercial operations and social activities, as well as being subject to the more typical coercive and mimetic pressures. In this chapter the main focus is on the incidence of normative pressure, which concerns the actions of ‘social actors’ influenced by the institutional logics towards the relationship between the incentive systems and the individual balanced scorecards (BSC) where the terms of individual BSC in this study refers to the employee performance assessment employed the concept of BSC.

This chapter first describes relevant aspects of the context of the incentive systems in the SOEs. Then, the individual performance assessments in both organisations as well as the problems that occur in the use of both systems are provided. The institutional logics that influence the responses from the organisations’ employees and shape the

systems will be explained. The avoidance of the integration between recent practices on individual assessment and individual BSC is also discussed in this chapter. Finally, this chapter concludes with a brief chapter summary.

## **7.2 Incentive System**

### **7.2.1 SOE Incentive System**

In 1995, the Thai cabinet approved an SOE performance measurement framework that consists of a performance measurement system (PMS) and its related systems, including an incentive system (SEPO, 2013). According to SEPO (2004), the Thai government believes that an incentive system is one of the key tools that can encourage an SOE to improve its efficiency and effectiveness and to achieve its goals and targets. The main objective of the SOE incentive system is that the system should be a performance based system and compatible with the public sector in order to support recruitment and keep the potential workforce. SOEs that participated in the SOE's PMS received both financial incentives and non-financial incentives. Financial incentives consist of bonus incentives and salary advancement incentives, while non-financial incentives consist of SOE rewards and flexible management. However, since the introduction of the SOE incentive system in 1995, only the non-financial incentive system, called the "SOE Award," has been developed continuously. As for the financial incentives, some minor changes in the calculation formula can be seen over the past two decades, but they have not had much effect on the structure of the incentive schemes.

The documentary research (see section 4.5, table 4.4) shows that in the SOE incentive system, SEPO divides SOEs into 3 groups: commercial, non-commercial and tariff controlled groups. However, both SOEs in the commercial group and profitable SOEs in the tariff-controlled group employ the same incentive system that will be explained later. In addition, some corporatized SOEs and some large SOEs, especially SOEs in the financial sector, have not been required to employ the SOE incentive system. Their individual incentive systems can be created to be compatible with the market, which normally results in higher benefits and bonuses for their employees compared with the SOE incentive system. However for some SOEs in this group, such as Government Housing Bank, Metropolitan Electricity Authority and POST, their incentive systems are still under the MoF's control, which might be using either the SOE incentive system or their own bonus system.

Both of the case study organisations belong to commercial groups, even though POST has been corporatized since 2003 and its tariff structure has been regulated by the Postal Commission. Therefore, the SOE incentive system described in this chapter will be based mostly on the commercial group criteria.

### **7.2.1.1 Financial incentives**

#### **7.2.1.1.1 Bonus system**

According to SEPO (2013), the bonus system has been based on historic assessment scores of the SOE's PMS by the MoF. The bonus system has been used with two groups of people: SOE employees and executives except the Chief Executive Officer (CEO) and a board of directors. The board of directors (or an executive committee) is a committee within that organization which has the authority to make decisions and ensures that these decisions are carried out (Board of Directors, 2015). As for CEOs, their bonus system is based on the CEO's contract with the individual SOE. The contract is confidential; therefore, this study focuses on the bonus system for the employee groups and a board of directors group.

The tables below show the financial amount bonus calculation criteria of each group. Furthermore, all of the commercial group, the tariff controlled group and profitable SOEs in the non-commercial group are using the following bonus system.

#### Employee Bonus criteria

At score: 3.00, the maximum financial amount of the bonus is not greater than nine per cent of SOE's net profit for bonus calculation and also not greater than five months of the organization's average salary.

**Table 7.1: Employee bonus criteria**

Performance score	Percentage of net profit*	The maximum multipliers of organisation average monthly salary
5.0 (excellent)	11.00	8.00
4.5	10.50	7.00
4.0 (Good)	10.00	6.00
3.5	9.50	5.50
3.0 (Normal)	9.00	5.00
2.5	8.50	4.50
2.0	8.00	4.00
1.5	7.50	3.00
1.0	7.00	2.00

Source: SEPO (2013, p. 9)

Note: Net profit has to be adjusted for bonus calculation

The example of employee bonus calculation can be seen on the table below.

**Table 7.2: The example of employee bonus calculation**

	Organisation A	Score 3		Score 4.5	
(1)	Net Profit (Mil.Baht)	2,000	5,000	2,000	10,000
(2)	Percentage of net profit for bonus calculation	9.00%	9.00%	10.50%	10.50%
(3)	Bonus Cap (1)x(2)	180	450	210	1,050
(4)	Average monthly salary	100	100	100	100
(5)	The maximum multipliers of average total salary	5.00	5.00	6.50	6.50
(6)	The maximum bonus (4)x(5)	500	500,	650	650
(7)	Actual Bonus received (the lower one between (3) and (6))	180	450	210	650
(8)	Actual multipliers of average monthly salary (7)/(4)	1.8	4.5	2.1	6.5

In addition, in case that the actual multiplier of average total salary is lower than one but the organisation has enough profit, the total amount of employee bonus will be equal to the average total monthly salary.

**Table 7.3: A member of board of directors' bonus criteria**

Performance score	Percentage of net profit for bonus calculation
5.0 (excellent)	Base bonus + 100% of Base Bonus
4.5	Base bonus + 75% of Base Bonus
4.0 (Good)	Base bonus + 50% of Base Bonus
3.5	Base bonus + 25% of Base Bonus
3.0 (Normal)	Base bonus <sup>(1)(2)</sup>
2.5	Base bonus - 25% of Base Bonus
2.0	Base bonus - 50% of Base Bonus
1.5	No bonus
1.0	No bonus

Note: 1) Base bonus is 3% of net profit for bonus calculation with 60,000 baht at maximum

2) Every addition of 1,000 million baht in net profit for bonus calculation, the base bonus will increase by 10,000 baht

Source: SEPO (2013, p. 10)

The example of board of directors' bonus calculation can be seen on the table below.

**Table 7.4: The example of board of directors' bonus calculation**

	Organisation A	Score 3		Score 4.5	
(1)	Net Profit (Baht)	900,000's	2,000,000's	900,000's	2,000,000's
(2)	Total base bonus at 3% (1)x0.03	27,000's	60,000's	27,000's	60,000's
(3)	Number of members	10	10	10	10
(4)	Maximum bonus for each member (2)/(3)	2,700's	6,000's	2,700's	6,000's
(2)	Base bonus cap per each member	60,000	60,000	60,000	60,000
(3)	Add bonus cap for net profit over 1,000 Mil. baht	0	30,000	0	30,000
(4)	Actual base Bonus per each member (2)+(3)	60,000	90,000	60,000	90,000
(5)	Add bonus based on organization performance	0	0	45,000 (60,000x0.75)	67,500 (90,000x0.75)
(6)	Actual bonus received per member (4)+(5)	60,000	90,000	105,000	157,500
(7)	Total bonus paid (6)x(3)	600,000	900,000	1,050,000	1,570,000

Note: The above example shows the simple calculation; however, in reality the chairman and vice chairman of a board of directors will receive a bonus more than other members by 25% and 12.5% respectively.

### 7.2.1.1.2 The percentage of total annual salary increase

The percentage increase that can be applied to total salary by an SOE is also based on the PMS as shown in the table below.

**Table 7.5: The percentage of total annual salary increase**

Performance score	The percentage of total salary increase (maximum)	
	Net Profit	Net Loss
5.0 (excellent)	8.50	7.50
4.5	8.25	7.25
4.0 (Good)	8.00	7.00
3.5	7.75	6.75
3.0 (Normal)	7.50	6.50
2.5	7.25	6.25
2.0	7.00	6.00
1.5	6.75	5.75
1.0	6.50	5.50

Source: SOE's performance measurement system manual (SEPO, 2013. p. 63)

Following the Asian Economic Crisis in 1998, the Thai cabinet approved a 'temporary' measure to modify the advancement salary system. This salary system considers only the profit or loss of SOEs, and profitable SOEs can increase the amount of annual salary paid by seven per cent whilst loss-making SOEs can increase it by six per cent. Since the imposition of this modification, the percentage of salary increase no longer has this planned connection with the SOE's PMS (see Table 7.5 above), even though it is still one of the criteria that is stated in the MoF document. The reasons why SEPO still publishes the percentage of total annual salary increase criteria are: (1) the criteria are still valid, and (2) the recent practice has been claimed as a temporary one, so the MoF can drop it anytime. For example, organisation A's average monthly salary is 100 million baht. If organisation A has made a profit, it can increase total monthly salary to 107 million baht. But if organisation A has a net loss, it can increase total monthly salary to 106 million baht. However, if the table above is applied in this situation, organisation A can increase average monthly salary between 105.5 million baht to 108.5 million baht.

### 7.2.1.2 Non-financial incentives

#### 7.2.1.2.1 SOE performance ranking system

Since 1997, the Thai cabinet made the submission of SOE performance reports and annual performance rankings to the MoF compulsory. This information is then



published in various media to promote and recognize excellent SOE performance. According to SEPO (2012), since 2005, an SOE award has been introduced and held annually for the following purposes: to promote the excellent SOEs, to encourage SOEs' employees in improving their efficiency and to create a process and communication channel for the public in monitoring SOE performances.

The types and criteria of awards have been developed continuously from three types in 2005 to nine types in 2014; they can be categorised as follows: 1) excellent SOE, 2) excellent board of directors, 3) organisational management, 4) organisational development, 5) excellent CEO, 6) information disclosure, 7) innovation, 8) CSR, and 9) Special award. The criteria of the first six types of SOE award are based on the result of KPIs compared with norms or benchmarks and additional performance related reports from the SOE and significant incidents. The innovation and information disclosure awards are based on projects submitted by each SOE. At the end of the process, the SOE award committee will visit and interview the short list candidates for the final decision. Moreover, SOEs who get an excellent board of director's award and an organisational management award three years in a row will receive an SOE honour award. Regarding the case study organisations, both POST and the PWA received the awards as follows: Organisational Development Award in 2005, and Individual Innovation in 2011, respectively.

#### **7.2.1.2.2 Flexible management**

According to SEPO (2013), there are some compulsory sets of regulations and rules focused on an SOE's operation and management. Therefore, an SOE which has participated in a PMS will receive some exemptions from the regulations and rules, and if its performance is better than score 4 (Good SOE), more regulations will be waived, such as re-designing its organizational structure without permission needed from the MoF, or an increase in its maximum limit on operating budget may be approved by the board of directors and CEO, etc. However, once an SOE has dropped from the Good SOE group, the received advantage of flexible management are not taken back.

## 7.2.2 Case study organization incentive systems

### 7.2.2.1 PWA individual performance assessment and incentive system

In the PWA, the incentive system is carried out by the Human Resources Development department. The PWA claimed that its individual performance assessment has been employed since 2009 and the core competency assessment has been added as one of the criteria since 2010. The performance report will be used to consider the level of salary increase and promotion. According to PWA's organisational performance report (2012), the range of incentives is as follows:

- 1) Promotion
- 2) Pay raise (in February or March each year): the PWA employs the MoF's standard grading payment system called a single 'pay spine', which is a traditional public payment structure (Thorpe and Homan, 2000, p. 145). The pay structure divides salaries into 58 grades, which have been used across the organisation from operation staff to vice-chairman. Each grade also divides into many steps of salary raise. An excellent employee can increase his salary by two steps of pay per annum at maximum, while a normal employee can get at least one step.
- 3) Bonus (normally in April each year): Bonus criteria can be divided into 2 groups. Firstly, the executive group receives 90% of their bonus from organisational performance and another 10% from individual performance. Next, the employee group will receive the same proportion based on their average salary across the organisation.

For instance, referring to the example of employee bonus criteria, Organisation A can generate a bonus at 1.8 times the total average monthly salary.

**Table 7.6: The example of employee bonus received in an organisation**

	Executive B	Employee C	Employee D
(1) Monthly salary (Baht)	100,000	30,000	20,000
(2) Actual multipliers of average monthly salary	1.8	1.8	1.8
(3) Bonus received (1)x(2)	Between 162,000 and 180,000 depending on individual performance assessment	54,000	36,000

- 4) Development plan (in the fourth quarter): The individual development plan will be based on a competency gap, especially for under-performing employees.

Moreover, the performance assessment report will be used to consider the talent group to join the high potential training courses.

According to the PWA (2013b), the PWA plans to revise its incentive system by 2016. The plan will be more of a performance based incentive system that includes both financial and non-financial incentives.

#### **7.2.2.2 POST individual performance assessment and incentive system**

From POST's organisational performance report (2012), it can be seen that POST's incentive system has a resemblance to that of PWA. The financial incentives consist of bonuses and potential salary increases, of which only the salary increase using the MoF's standard grading payment system is based on individual assessment. Thailand Post generates individual bonuses using the average salary bonus figure given by the MoF across the organization. This is similar to PWA but both executives and employees receive the same multipliers of average monthly salary.

For non-financial incentives, POST has a variety of rewards for its employees; however, none of them is linked with individual assessment. For promotions, individual assessment is one of various factors. POST plans to include improvement of non-financial incentives in its human resource plan for improving employee motivation (POST, 2013).

In conclusion, both the PWA's and POST's incentive systems mostly base their financial incentives on the SOE incentive system. Nonetheless, the MoF has opened the way for them to create their own incentive systems as long as the total amount of incentive expenses does not exceed the approved financial amount. Salary increases and promotions are claimed by both organisations as performance-based incentives along with supervisor's judgment through core competency assessment and individual

qualification. The table below shows the comparison of the individual performance assessment process and the incentive systems in the case study organisations.

**Table 7.7: The comparison of individual performance assessment process and incentives in case study organisations**

Incentive	Based on individual performance assessment and core competency assessment			
	PWA		Thailand Post	
Bonus	Yes	Executive group: 90% from organisational performance and 10% from individual performance	No	Same proportion based on their average salary across organisation
	No	Employee Group: same proportion based on their average salary across organisation		
Grading payment system	Yes	Minimum: 1 step Maximum: 2 steps	Yes	Minimum: 1 step Maximum: 2 steps
Promotion	Yes		Yes	
Award	No		No	

Source: PWA (2012) and POST (2012)

The next part will provide participants' perspectives on the incentive systems in the case study organisations.

### **7.3 Problems Found in the Recent Bonus System**

#### **7.3.1 Problematic bonus formula**

The recent SOE incentive system uses a bonus formula linked with adjusted net profit and SOE performance score. Therefore, there are some disadvantages for low net profit SOEs and net loss SOEs. The following tables show each organisations' bonuses in the past four years.

**Table 7.8: PWA and POST's bonuses**

PWA		2010	2011	2012	2013
(1)	Performance Score	4.4747	4.3563	4.0472	4.4635
(2)	Adjusted net profit for bonus calculation	2,541.62	2,867.40	1,907.41	3,886.84
(3)	Organisational average monthly salary	159.50	160.06	169.59	174.66
(4)	Actual Bonus received (2)x(Bonus rate from performance score)	266.23 (3)x(10.4747)	302.12 (3)x10.3563	197.97 (3)x10.0472	406.77 (3)x 10.4635
(5)	Ideal Bonus	6 months	6 months	6 months	6 months
(6)	Actual Bonus	1.67 months	1.89 months	1.17 months	2.33 months

POST		2010	2011	2012	2013
(1)	Performance Score	3.7303	3.3923	3.9993	4.1885
(2)	Adjusted net profit for bonus calculation	1,268.72	1,106.59	611.97	1,381.52
(3)	Organisational average monthly salary	467.17	484.17	495.55	515.04
(4)	Actual Bonus received*	467.17	484.17	495.55	515.04
(5)	Ideal Bonus	5 months	5 months	6 months	6 months
(6)	Actual Bonus	1 months	1 months	1 months	1 months

Note: When the amount of bonus from the calculation is lower than organisation's average monthly salary, then the bonus is equal to organisation's average monthly salary.

According to the performance score, the case study organisations have been categorized in the Good SOE group (score above 4.0) and the Normal SOE group (score above 3), which can receive up to six months bonus and five and a half months respectively; however the actual bonuses in both case study organisations are approximately one month to two months.

This is because the organizational average salary is high compared with the net profit. Participants show that as a low net profit organisation, the recent incentive system could discourage such an organization to achieve a higher assessment score. The problem is also stated by an ex-member of a board of directors, (A1\_010) who said that this is problematic in terms of the connection between the recent incentive system and the SOE's PMS.

“When a low profit margin SOE can maintain at least a score of 3 in the SOE's performance measurement, a bonus system could not be used to encourage the SOE to improve their efficiency. In contrast, the system sometimes may be harmful for further improvement.”

Moreover, she also gave an extreme example for a net loss SOE, such as State Railway of Thailand, that cannot receive any bonus. Therefore, she mentioned,

“The MoF should consider or create a more flexible incentive system that can support every different type of SOE or at least, can encourage SOEs to improve their efficiency.”

Many participants in both cases note that the nature of the SOEs’ business affects the organisational profitability. Most participants claim that each SOE has its own characteristics and operates in a different industrial sector, which can lead to a difference in the likelihood of profit and also place limits on the scale of potential profitability.

With limits on revenue and possible profit, PWA normally achieves only the minimum multiplier bonus rate, namely a one-month bonus. The PWA has employed a cross-subsidy tariff between social and commercial customers and tends to maintain its tariff at around four per cent return on assets (PWA, 2009). Another circumstance is that even though the PWA tariff can be set by the approval of the board of directors, the tariff structure is indirectly controlled by the Ministry of Interior and is difficult to change due to the political and social concerns. One PWA executive (B1\_001) mentioned,

“The water tariff is designed as a cross-subsidy tariff structure between residential and commercial consumers with lower rate of return on investment even after including a financial subsidy from the government. We have to operate in small to medium water plant sites in rural or suburban areas. A different story can be told by the Metropolitan Waterworks Authority, which can gain profit from its economy of scale. Also, there are some SOEs like MWA that can gain more bonuses while putting out less effort when compared with low income SOEs like PWA.”

This statement also has been supported by other employees. One of the PWA divisional managers (B1\_204) also added,

“Using one bonus scheme procedure for all SOEs which have their own unique characteristics can be considered as wrong management. To

encourage SOEs, different bonus schemes should be applied to suit individual SOEs or at least to suit a group of similar types of SOEs.”

As a labour intensive organisation, POST has also typically only been able to achieve a one month bonus. Regarding the bonus system, it is difficult for POST to increase the amount of bonus, even though it can achieve the highest performance measurement score. According to an POST executive vice president (B2\_002),

“The bonus system is terrible. Even though we work harder, it is impossible that our bonuses will increase...Therefore, we try to provide other incentives which do not oppose the MoF’s criteria for our employees.”

Also, according to another POST executive vice president (B2\_005),

“Even we do our best, we cannot receive a bonus of more than two months. Even though the system has been used across SOEs, without considering the difference between SOEs, the so-called fair system is totally unfair.”

PWA’s chief financial officer also mentioned this problem,

“Due to our intensive labour force, there is a slim chance for PWA to get a multiplier bonus figure of more than one or two months, which somewhat affects organisational performance.”

As a result, some participants state that, employees can be demotivated by the bonus system and some have an intention to maintain organization performance at a certain score in order to trade-off between the effort to improve performance and the bonus received. For example,

“Our job is to improve organisational efficiency even if after we surpass a certain performance score and can maintain our bonuses. However, it could be better if the MoF would consider our hard work by giving us more bonuses.” (A PWA divisional manager, B1\_206)

“Recently, I heard some employees complain about why they have to work hard for improving the performance score. Even though we get a

score of four or five, our bonus is still one month.” (A POST executive vice president, B2\_005)

“The PMS helps us to reflect our performance. However, even if we get a better score, the bonus is still the same. If we can have more bonus, it will motivate us to put in more effort.” (A POST divisional manager, B2\_201)

In order to curb this problem, on July 2, 2013, two weeks after the interview sessions, the Thai government approved a new incentive procedure for net loss SOEs, under which they can receive a one-month bonus scheme fully funded by the Thai government when they achieve a certain performance score (at least 3.5) (Thai government, 2013). However, this approval may create another conflict for low profit SOEs like the PWA and Thailand Post, as they have to fund the bonus by themselves, as mentioned by one of SEPO officers (A1\_011).

Accordingly, Ashworth et al., (2007) commented that regarding coercive pressures, the changes in organisations come from the political pressures rather than technical influence. The bonus incentive system is a requirement by the MoF; therefore, SOEs tend to comply with the system, even though they realize that there is a problem with it. The evidence suggests that the bonus system, as currently administered, does not effectively motivate the SOEs to improve their performance, as both case study organisations experienced no change or a small increase in their bonus even if they could achieve a significantly higher performance score. Regarding this problem, many participants suggested that the bonus system is not suitable to employ across different SOEs in different industries, as well as referring it as the “unfairness” system. According to Lawson (2000; see also Blazovich, 2013), an inappropriate incentive system design in the selection of performance measures and reward is likely to distort organisational performance.

The amount of bonus that an SOE can generate is based on the performance against its KPIs as considered in the context of the performance agreement signed with the MoF and overall SOE profitability. Judging from the case study organisations’ situations, it seems that the link between the SOE’s PMS and the bonus formula acts as a



disincentive to low profitability SOEs like PWA and POST. Therefore, even if this kind of SOE gets a high performance score, there is not much difference in the financial amount of bonuses. Consequently, this circumstance may discourage employees from improving organisational efficiency and effectiveness.

### **7.3.2 The free rider problem**

The free rider problem occurs in the case study organisations because of the inadequate link between the individual PMS and the incentive system. This study focuses on the problem of the bonus system and pay raises. According to Merchant and Van der Stede (2007), group rewards have gained increasing attention in the business world (Blazovich, 2013; Stiffer, 2006) as a way to increase the cooperation of employees from across the organisation. The literature suggests that both individual and group incentives can improve organisational efficiency (Roman, 2006). On the other hand, group rewards can affect employee motivation as well as create a free rider problem. The finding in this study also shows that the free rider effect occurs in Thai SOEs due to the use of equal bonuses across the whole organisation.

The recent bonus systems in both case study organisations are representative of the systems employed in most Thai SOEs. The cases have employed a group reward system whereby every employee has the same bonus based upon their monthly salary. This means that even if an employee gets an excellent score on his individual assessment, he has the same bonus as another employee who gets the least score in the organisation. As a result, individual performances cannot be led by the bonus system. According to some executives and managers, the free rider problem can be seen. A PWA executive (B1\_104) pointed out,

“We know that using the same bonus figure can raise a free rider issue.

However, it is difficult to change the bonus system.”

The evidence shows that case study organisations are concerned that the current bonus system can affect their employees' motivation and performance. Even though SOEs cannot change the MoF's bonus system, they have control over the design of bonus distribution inside their organisation. Both SOEs have employed a similar group-based reward system, which is a traditional bonus system in Thai SOEs; as a result some participants complained about a free rider problem and a lack of motivation in the

interviews. The next section will explain why the case study organisations still preserve the existing recent bonus distribution system.

#### **7.4 The Actions and Responses of Social Actors and Organisations towards the Incentive System**

We saw in chapter 2 that in order to improve organisational performance many organisations have employed an incentive system integrated with a PMS called a performance based incentive. According to O'Connor et al. (2011, p. 10), there are political constraints on human resource management of SOEs; therefore, a direct impact on 'the effectiveness of the control mechanism', which includes rewards and penalties for performance, has been expected.

In Thailand, the MoF claims that financial incentives can be one of the driving factors in persuading an SOE to improve its efficiency and effectiveness (SEPO, 2013); however, there are no penalties for underperforming SOEs. In this section, institutional logics and pressures that affect the actions of the case study organisations and individuals are presented.

Chapter 3 presented an institutional logic perspective that showed 'the actions of social actor' or 'individual behaviour' can lead to 'institutional persistence and change' (Thornton et al., 2012). Also, Scott's (2014) normative pillar explains that in a given situation, a social actor may consider appropriate behaviours towards a particular situation ahead of his own interests. This can be called 'the logic of appropriateness', in which the actors consider the relations, obligations and consequences before making decisions or taking any actions (Thornton et al., 2012, p. 30).

During the interviews in the SOEs, it was recognized that most of the participants perceived that the current incentive system was well suited to the organizational environment. The influence of the logic of unity, the logic of bureaucracy and the logic of appropriateness were important, even though there are many factors affecting employees' motivations, such as a problematic bonus formula, and a free rider effect mentioned in the previous section.

According to Thornton and Ocasio (2008, p. 111), ‘logics shape individual and organisation action’ where ‘individuals are members of multiple social groups with a collective identity’, which later develops into institutional logic embedded by the group. We saw in chapter 5 that one of the institutional logics in the field of SOEs is the logic of unity. In the interview, participants expressed their concern about the possibility that changes in the incentive system may create intra-organisational conflicts. As a consequence, in order to maintain a harmonious environment, they preferred to maintain the bonus system without making any changes to reflect individual performance.

Many participants noted that there are a variety of incentives that can be used to link individual performance; therefore, a link with the bonus system is not necessary. The meaning of the bonus for this group is somewhat like a reward for working with the organization for a whole year instead of a reward for achieving a goal or giving an outstanding performance. Therefore, they think that every employee should receive the same reward in order to maintain unity in the organisation. Moreover, as a members of a labour union, many participants from the operational level stated the difficulty of a change in the incentive system without agreement from the labour union. For example,

“Everyone thinks that bonuses should be distributed equally; therefore, if we integrate the bonus system with an individual performance assessment, it is impossible that labour union will accept it.”

(A PWA departmental director, B1\_106)

“In our organization, a harmonious working environment is more important than the competitive nature of those in the private sector. Getting the same bonus across the organization will keep a positive atmosphere in our work place.”

(A PWA employee, B1\_310)

“Everyone in the organisation receiving the same bonus is a good thing. If someone gets only one month while another one get two months, it would create a conflict.” (A Senior Manager, B2\_205)

“Receiving the same bonus is suitable because if the organisation gives a bonus depending on individual performance, everybody will fight for it and they may assess their performance to favour themselves.” (A POST employee, B2\_304)

The evidence that the logic of appropriateness is embedded in this situation is that unlike the employees, the management teams from both cases expressed concerns about other incentive system problems. However, it is difficult for them to change the bonus system, as they expect strong resistance from the employees and unions. Therefore, they still maintain and employ the recent incentive systems. As a result, PWA tends to adopt the performance-based bonus at the executive level only, but it is still perceived to be inadequate and does not seem to affect motivation much. The Director of the Office of Corporate Communication and Customer Relations stated,

“If we need to improve our performance, we have to create a competitive environment in our organization. However, it is difficult to change people’s mindset on our bonus system. My suggestion is we have to create a new financial incentive system based on individual performance like a bonus system in the private sector. But under the condition that it needs to change the term ‘bonus’ to something else to reduce resistance to change from the employees.”

Also, a PWA executive (B1\_004) agreed,

“If we employ individual scorecard to linked with a bonus, it may lead to a protest by employees.”

In PWA, according to one of the participants in the Human Resources Management department, for the top three levels, the bonus is calculated using 90% of the multiplier of individual salary and 10% based on individual performance. Accordingly, due to the small proportion based on individual performance, the executives pay less attention to it.

Furthermore, the evidence also shows that the logic of bureaucracy and the logic of appropriateness also influence the decision to maintain the current system. Consequently, many participants perceive that the recent incentive system is a common rule across SOEs; therefore, it is natural and legitimate to comply with the MoF’s

demand by employing the system without complaint. Only a few participants acknowledged that the individual SOE can decide how to distribute the bonus within the organisation after the MoF has approved the aggregate amount of the pool. The bonus scheme rules do not require all employees to receive the same amount across organisations.

It can be concluded that case study organisations value the logic of unity and the logic of bureaucracy, which puts pressure on the organisations to preserve the current incentive system. Such pressures mainly stem from the operational level employees as well as labour unions. Both managers and operational employees appear aware that any change to the bonus system may lead to intra-organisational conflict; therefore, the logic of appropriateness plays a key role for the actions towards the incentive system as they consider the ‘relations and obligations to the others’ in this situation (Thornton et al., 2012). This also can be explained by Scott’s (2014) normative pillar, as mentioned in chapter 3 section 3.3, which plays a main role in the actions of both managers and employees, and which stresses the importance of the logic of appropriateness. However, it is also possible to interpret that both case organisations take the incentive system for granted, as the system is being used by many SOEs. Consequently, employees perceive that the recent incentive system is correct for their organisation and a change in the system is not required even though most participants stated that there are several problems that can hinder the organizational performance.

## **7.5 Employee Performance Assessment System**

This part provides the information on the individual assessment process in case study organisations. Both organisations employ individual balanced scorecard (BSC), which was recommend by the MOF and competency gap to evaluate employee performance.

### **7.5.1 Provincial Waterworks Authority**

The PWA (2013a) states that the PWA has employed an Individual BSC model using KPIs that are consistent with organisational KPIs to assess employee performance. The following steps illustrate how each employee creates his BSC and how it can be used together with the incentive system.

### Step 1: Individual Balanced Scorecard

Between October and December each year, an employee has to create his/her individual BSC under the criteria provided by the Human Resource Development department. The KPIs will follow four perspectives of BSC and have to relate to the organisational strategy and departmental KPIs. In addition, the KPIs also consider ad-hoc tasks as well as routine work. The scorecard has to be submitted to supervisors and superior supervisors for their approval as follows:

**Table 7.9: The individual BSC approval level**

<b>Position</b>	<b>Supervisor</b>	<b>Superior supervisor</b>
Governor	Board of Directors	
Vice-Governor	Governor	
Assistant Governor	Vice-Governor	Governor
Director	Assistant Governor	Vice-Governor
Manager	Director	Assistant Governor
Team Leader	Manager	Director
Officer	Team Leader	Manager

Source: Adopted from PWA (2012) and POST (2012)

### Step 2: Performance Review

- 1) Organisational peer review committee reviews the KPIs at the beginning of the year.
- 2) Supervisor has to review employee performance every quarter but no report is required.

### Step 3: Performance assessment

Annual performance assessment takes place between October and December. The assessment has 2 parts, which are:

- 1) Individual KPIs (90% weighted) using step 1, and
- 2) Core competency assessment, which includes integrity, service mind and result orientation (10% weighted), judging by supervisor (80% weighted), and self-assessment (20% weighted).

#### Step 4: Performance report

- 1) Each employee will receive a performance report and comments from their supervisors. All employee performance scores will be published on the bulletin board and intranet.
- 2) Each department has to rank its employees using both individual performance and core competency assessments on step 3 and submit a report to the Human Resources Development Department by December each year.
- 3) The Human Resources Development Department records the employee annual performance assessments and reports to related executives.

The performance report will be used as one of the factors to consider the level of salary increase and promotion for employees.

#### **7.5.2 Thailand Post**

POST's individual assessment system has a resemblance to the PWA's. POST's performance agreement report (2012) states that its transparent and fair assessment process on the link between individual assessment and the organisational incentive system helps to increase employee satisfaction and to boost employee loyalty to the organization. Recently, POST (2013) has employed KPIs and core competency to assess its employees, which is one of the factors used to consider the annual promotion and salary increases. The step of individual assessment is similar to PWA steps explained above. The assessment has two parts, which are:

- 1) Individual KPIs are based on four perspectives of BSC, which cascades from the organisational KPIs to department, division and individual respectively. The individual KPIs also consider individual responsibility as described in job descriptions and other involved projects or tasks.
- 2) The core competency for individual assessments includes integrity, service mind, unity, result orientation and change capability.

The proportion of KPIs and core competency is 60% and 40% respectively.

In conclusion, both the PWA's and POST's employee assessments are based on individual BSC and Competency gap evaluation. The table below shows the comparison of the individual performance assessment process and the incentive systems in the case study organisations.

**Table 7.10: The comparison of the individual performance assessment process and incentive system**

Employee Performance Assessment	PWA		POST	
		Weighted		Weighted
KPIs	Using four perspectives of BSC	90 %	Using four perspectives of BSC	60%
Core competency	- Integrity - service mind - result orientation	10%	- Integrity - service mind - unity - result orientation - change capability	40%

Source: PWA (2012) and POST (2012)

### **7.6. The Avoidance of the Integration between Individual BSC and Other Practices**

According to Merchant and Van der Stede (2007), the literature on the use of performance-based incentives, integration of BSC approach and incentive systems, and monetary incentives, indicates that such systems have gained popularity in the public sector (see chapter 2). In Thailand, the MoF also has promoted the implementation of performance-based incentives in SOEs. In the past five years, both case study organisations have tried to integrate their incentive systems with individual performance and this appears to indicate that the implementation of the performance-based system in SOEs is still not effective. As we saw in chapter 3, the avoidance response (Oliver, 1991) tends to occur with institutional stakeholder multiplicity, content constraint and uncertainty of environmental context. Resistance to the integration of the incentive system with individual BSC occurs in both case organisations as a result of two main problems, which are the uncertainty of the use of individual BSC and its inconsistency with current organisational practices.

The MoF's intention of recommending that all SOEs adopt an individual assessment tool was intended to help the SOE improve their incentive systems and especially the grading and bonus systems. The motivations for both the organisations to adopt individual BSC are financial and legitimacy, because by adopting the system, the organisations can gain a higher performance score, which can help their organisations' image, as well as for PWA, the increased organisational performance score can also raise the amount of organisational bonus approved by the MoF. However, avoidance



behaviour from stakeholders in the organisations can also be seen in the case study organisations.

Firstly, some participants state that there is the potential for unfair judgments in an individual BSC system, which could create the perception of unfairness and increased uncertainty. Uncertainty could result from using individual BSC in integration with the salary system because of its influence on pay raises, and bonus payments. The reasons are the difference in employed KPIs, and assessors as well as the KPIs that depend on the whole division or department performance, not individually as in the individual BSC concept. These lead to indifference on employees' individual scores who work in the same department or division. According to a PWA divisional manager (B1\_204),

“Our concept is working in teams. Therefore, most members in the same division have a similar scorecard and get the same score. Therefore, it is difficult to use performance assessment in order to consider any incentive or rewards for employees.”

A PWA employee (B1\_309) states,

“... Moreover, it is impossible to compare employees who have the same job or activity, but they create different KPIs and targets. Therefore, PWA should create some standards for us to follow.”

Recently, both PWA and POST individual performance assessment has been more based on a competency gap and superior judgment such as sick leave, personal leave and others to consider each employee's incentive. They rarely rely on individual BSC because of the difficulty in distinguishing individual performance from team performance, as mentioned above; in addition, the degree of using individual BSC also depends on supervisors. For example, a PWA employee (B1\_304) stated,

“It is difficult to distinguish individual performance from employees in the same division because the KPIs used to assess them are similar with little or no difference. As a result, a manager has to use other statistics such as arriving late, or personal leave as the factors to make a decision on promotion and others.”

“We have a problem of the weight percentage between competency and KPIs because it involves an incentive system. Recently, it seems that we focus more on competency assessment and pretend to be fair but in reality, it is not.” (A POST vice president, B2\_109)

Also, a POST employee (B2\_305) mentions about biased treatment from a superior:

“Our promotion and pay raise depends on an individual person. If we have been asked whether it is fair or not, it has never been fair... In addition, it is based on individual judgment. He can be biased toward his favourite person.”

However, to reduce the unfairness judgment, the PWA has a set of committees in each job field to set some standard KPIs and to provide a guideline for the assessors. The other reason for the occurrence of the unfairness perceptions in both case study organisations is that they cannot provide a proper performance feedback for their employees. The feedback can be a one-to-one session with their superior if requested. However, despite the size of the PWA, less than one per cent of the employees have appealed their result. According to some participants, this may be due to a strong culture of obedience in the organisation.

Secondly, due to the inadequate performance based incentive, it is difficult for a manager to explain how the pay raise on the grading payment system is distributed amongst the employees; therefore, many managers employ a rotation system along with other criteria in order to reduce the conflict raised through the distribution. The rotation system can be explained by the following example. If employee A gets two steps this year, next year, A will get one step and B will get a chance to increase his salary by two steps.

“The integration of the grading payment system and employee performance assessment is a good thing, but because of other factors, we still have to use a rotation system.” (A PWA departmental director, B1\_107)

“I think we still use rotation system in nearly the whole organisation ... however, how the rotation system work depends on each department.

Some persons get two steps every other year, the others may get two steps every other two years.” (A POST employee, B2\_305)

However, it should be noted that some managers do not agree with maintaining the rotation system.

“In the past, we graded our employees by using a rotation system. Recently, we tried to consider more employee performance. ... I think we should employ competency assessment for considering the pay raise and promotion while individual BSC is used to assess employee performance annually.” (A PWA executive, B1\_004)

Next, similar to the organisational action towards the promotional system, the logic of seniority plays as one of the factors that lead to the avoidance of the integration of individual BSC and the employee’s promotion system. Due to the sensitivity of this topic, interviewees did not allow this content to be recorded, but did allow written records (Interview records: B1\_204, B1\_206, B2\_206). It is clear that both case organisations are influenced by the seniority system, especially in the employee’s promotion system. Although both organisations are concerned with individual performance of candidates, interviewees also mentioned that promotion in their organisation was also based on the seniority of candidates. Some participants, mostly in PWA, agreed that promotion by seniority is acceptable because seniority is one of the organisational norms and many believe that the senior employees in their field are supposed to be more experienced. On the other hand, the perceptions of participants from POST show some slight difference, as they also agree on the seniority system but as a more business-like organisation, the employees tended to show their disagreement and question the system. One of POST’s vice-presidents mentioned that recently recruited employees pay less attention to the seniority system and sometimes they ask for clearer explanations of the promotional criteria. From all of these points, clearly many employees resist integrating individual BSC with the organisational incentive system. As a result, the avoidance of the use of individual BSC as a regular practice is expected in both case study organisations.

As mentioned before, both case study organisations still assess performance using non-financial measures and superiors’ judgement but do not use individual BSC. Also, as

mentioned in section 7.2.2, both case study organisations do not attempt to link individual performance with a financial incentive and there is no punishment for the ones who underperform. In PWA, the adoption of individual BSC seems to be better than in POST, as it uses a performance-based system with their executives. In PWA more emphasis was placed on the use of individual BSC, as ten per cent of an executive's bonus incentive is based on individual performance assessment. However, according to one of the participants in the Human Resources Management Department (B1\_205), for the top three levels, the bonus is calculated using 90% of the multiplier of personal salary and 10% based on personal performance. Accordingly, due to the small proportion of pay based on individual performance, it does not affect the amount of bonus received and the executives pay little attention to it.

Also, the success or failure of the implementation also depends on the commitment from executives. Many participants mentioned that the adaptation of individual BSC was done in order to comply with the MoF's requirements. This explains the lack of commitments within both SOEs to the use of an individual BSC. The organisations are adopting the system to comply with the minimum MoF's requirement to gain legitimacy, but do not exhibit any real commitment to the system.

In PWA, some executives still doubt the usefulness of the individual BSC. Therefore, it affects the development of the system in the organisation. One executive (B1\_003) said,

“I am not interested in the using BSC in our organization. However, as it was recommended by the MoF, we hired a consulting firm to study it and to help us in implementing BSC in our organization. However, after five years of implementation, I still cannot see the advantage of this system compared to our former system.”

Also, according to a PWA executive (B1\_001),

“The concept of individual BSC has been employed because PWA tried to fulfil the MOF checklist to increase our performance score. We can consider that it is indirect pressure from the MoF...I think the individual BSC is not useful because before we employed the system, our human resources development department just followed what the

consulting firm suggested without really researching on our employees.”

The other problem that has challenged the implementation of an individual BSC is that there is no motivation for employees. Employees perceive that individual BSC is another workload that is not related to their recent job and does not give them any benefit. As a result, some participants mention that they just do as told, which leads to the under-development of the individual BSC system in the organisations.

For example,

“Many of our operation employees cannot use a computer; therefore, they cannot do their individual scorecards...Some managers solved the problem by doing scorecards for the employees.” (A PWA divisional manager, B1\_206)

In conclusion, the findings suggest the strategic response, as suggested by Oliver (1991), which occurred in the adoption of individual BSC is avoidance. The evidence shows that both organisations do not intend to integrate the individual BSC with other systems such as the bonus and promotion systems. The participants’ perceptions towards the individual BSC are quite negative. Many problems are identified including a lack of clear criteria for the set of KPIs and that their targets led to subjective judgement from the superior level in individual promotion and pay raise, the rotation system, the influence of the logic of seniority, and the lack of executive commitment. Even though PWA has employed a performance-based incentive system using individual BSC for its executives, only ten per cent of the bonus has been applied, which does not have much impact on recent practices. As a result, both case study organisations have implemented the individual BSC to comply with the minimum MoF’s demands.

## **7.7 Conclusion**

This chapter examined the use of incentive systems and employee performance assessment as well as the integration between these two systems. The evidence reveals that organisational actions in regard to the development of an incentive system are influenced by the logic of unity and the logic of seniority as well as the norm of the rotation system on pay raises. Both case study organisations prefer not to change the incentive systems already established in order to avoid intra-organisational conflicts;

therefore, they preserve the systems despite having little faith in them. This chapter also pointed out some practical problems in the bonus system. A problematic bonus formula also impacts the bonus received in medium size SOEs and labour intensive SOEs. It is difficult for them to get a higher bonus even though they can outperform and get high performance scores. The free rider effect also can be seen in both cases because the integration between employee performance and incentives is still inadequate. The evidence shows that only PWA's executive incentive has shown a link with individual performance, but it has still been considered as unsuccessful. Both case organisations appear to have adopted individual BSC in order to comply with the MoF's recommendations, as available evidence indicates a lack of commitment to the use of these individualised performance measures.

# **Chapter 8**

## **Findings and Discussion**

### **8.1 Introduction**

This study adapts existing frameworks to explain the nature of institutional complexity in State-owned Enterprises (SOEs). This chapter presents a discussion of the main findings from the previous three chapters based on institutional theory and institutional logics to provide an overview of the case evidence. In particular it draws upon Greenwood et al.'s (2011) institutional complexity framework, together with Besharov and Smith's (2014) types of multiplicity within organizations.

This chapter is comprised of four main sections. The next section briefly considers the overall findings in the development of performance measurement systems and related underpinning systems that have been the focus of this research. The third section examines institutional complexity. Fourth, the key responses of SOEs to the implementation of performance measurement systems are provided. Finally, this chapter concludes with a brief summary.

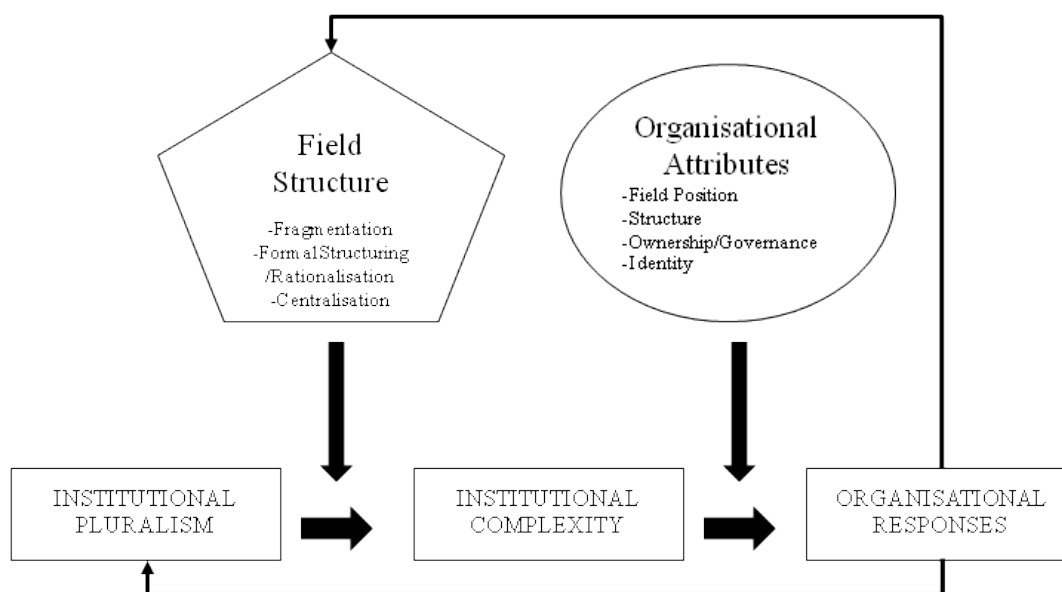
### **8.2 Contextualising the Findings in terms of an Institutional Complexity Framework**

This research study examines performance measurement systems and incentive systems that have been affected by institutional complexity in hybrid organisations. We saw in chapter 3 that Battilana and Dorado (2010) define a hybrid organisation as an organisation that combines different institutional logics. Therefore, by nature, hybrid organisations tend to experience contradictions amongst the logics that they embody (Greenwood and Hinings, 2006; Battilana and Doradi, 2010; Pache and Santos, 2013; Besharov and Smith, 2014). Thai SOEs can be considered as hybrid organisations because they are embedded in competing multi-institutional logics such as the logic of bureaucracy, the logic of commercial operation and the logic of social activity etc. (chapter 5).

This research has set out to explore the institutional complexity and organisational responses in the development of performance measurement systems in Thai SOEs from

an institutional theory perspective. The motivation for doing this research comes from a concern about how Thai SOEs as hybrid organisations can deal with the multiple institutional logics they face. This chapter discusses and reviews the findings from the performance measurement systems (see chapter 6) and incentive systems as well as individual BSC (see chapter 7), which have been affected by multiple institutional logics (see chapter 5). Greenwood et al.'s (2011) institutional complexity framework has been employed as a guideline in order to explain the phenomenon.

**Figure 8.1: Institutional complexity framework**



Source: Greenwood et al. (2011, p. 324)

Greenwood et al. (2011) propose an institutional complexity framework to explain how multiple logics affect hybrid organisations. The framework focuses on how organisations respond to aspects of field structure, organisational attributes and institutional complexity. This study focuses on institutional complexity and organisational responses. Besharov and Smith's (2014) framework has also been employed to better explain the types of multiplicity within organisations and/or the degree of institutional complexity.



**Figure 8.2: Types of logic multiplicity within organisations**

<b>Degree of Centrality</b> <b>High</b> Multiple logics are core to organisational functioning  <b>Low</b> One logic is core to organisational functioning; other logics are peripheral	<b>Contested</b> <i>Extensive conflict</i>	<b>Aligned</b> <i>Minimal Conflict</i>
	<b>Estranged</b> <i>Moderate Conflict</i>	<b>Dominant</b> <i>No Conflict</i>
	<b>Low</b> Logics provide contradictory prescriptions for action	<b>High</b> Logics provide compatible prescriptions for action
	<b>Degree of Compatibility</b>	

Source: Besharov and Smith (2014, p. 371)

### 8.3 Institutional Complexity

According to Greenwood et al. (2011, p. 319, p. 334), the degree of organisation-experienced institutional complexity varies depending on organisational characteristics such as ‘structure, ownerships, governance and identity’ as well as ‘the structure of the organisational fields’. According to Thornton and Ocasio (2008, p. 106), ‘institutional logics may develop at a variety of different levels, for example organisation, markets ... and organisational field’. This research focuses on the institutional logics in organisations and organisational fields (institutional field) with an emphasis on SOEs.

#### 8.3.1 Field-level structure/ institutional field

According to Greenwood et al. (2011), institutional complexity occurs in organisations as a consequence of the complexity and structure of the organisational field in which the organisation is located. They also note that research on organisation fields emphasizes the difference between ‘mature’ and ‘emerging’ fields, while some studies also compare fields by analysing degree of ‘fragmentation’, ‘formal structuring’ and ‘centralisation’ (see chapter 3 section 3.5).

##### 8.3.1.1 Evidence of multiple logics

According to Dacin et al. (2011), it is common for organizations, including social enterprises, to embody multiple institutional logics. According to Greenwood et al.

(2011), some researchers assume that a mature field contains one ‘dominant logic’, or if it is comprised of multiple logics, the relationship between logics has to be predictable, while an emerging field experiences the complexity of multiple logics. Dacin et al. (2010) explain that at field-level, the ‘local’ logics have been encoded. In chapter 5, we saw that the case study organisations were strongly influenced by multiple logics particularly relating to bureaucracy, commercial operations and social activities or obligations. As a result, the case study organisations have faced institutional complexity, which demands that organisations perform well both economically and socially and at the same time, be at government arm’s length in serving the Thai community.

This finding is similar to Pache and Santos’s (2013) studies on social enterprises that show organisations need to deal with market logic and social welfare logic. Similar to Reay and Hinings (2009), they studied the co-existence of two competing logics: ‘a logics of business-like health care’ and ‘a logic of medical professionalism’. The two studies show that public commercial organisations have to face multiple logics that compete with each other and create tension for the organisation in the field. The evidence shows that case study organisations as one type of public organisation also face three dominant logics that are core to organisational functioning. As a result, the coexistence of multiple logics leads the case study organisations to experience institutional complexity. For example, we saw in chapter 5 section 5.3 that the case study organisations experienced conflicting demands between the logic of commercial operations and the logic of social activities which require them to improve their profitability while also requiring them to invest in non-profit projects. Also, in chapter 6 section 6.4, while a strong commercial logic supported the use of EVM, the lack of a social logic or imperative in EVM made both organisations reluctant to implement the technique.

In conclusion, the findings indicate that the field of SOEs is confronted with multiple institutional logics that sometimes compete with each other. The findings on the contradictions of institutional logics, which can lead to institutional complexity, reflected the prior research on multiple institutional logics and competing logics (Thornton and Ocasio 2004; Lounsbury, 2007; Greenwood et al., 2011; Besharov and Smith, 2014). The relationship between logics will be explained in the following sections.

### **8.3.1.2 Influence of changing stakeholders and fragmentation of the case context/field**

Greenwood et al. 2011 explain that emerging fields experience uncertainty in ‘institutional arrangements’, which subsequently leads to them being influenced by the actors and logics from other fields (Maguire et al., 2004). Regarding the characteristics of public sector organisations, SOEs have to deal with various stakeholders (Brignall and Modell, 2000) as the SOE’s stakeholders were described in chapter 1 section 1.3. The most influential group are the policy-making bodies, which consist of a variety of government agencies.

A high degree of institutional complexity results from a fragmented structure in a field in which there are different interests that are difficult to balance (Greenwood et al., 2011). In chapter 5, the conflict of interests between government agencies as well as their overlapping roles can be seen to impact in a variety of circumstances. For example, the conflict between the MoF and the MICT on POST’s future business caused its investment project to be delayed. Also, in implementing EVM, one important factor that affects the case study organisations is a lack of consistency in MoF’s policy, as MoF often introduces new systems or tools to SOEs; as a result, it discourages SOE commitment (see chapter 6 section 6.4).

The perceptions of participants regarding the hierarchy of power also support Greenwood et al.’s (2011) statement that a clear hierarchy amongst institutions in a field can reduce the institutional complexity in an organisation, since ‘competing demands’ can be negotiated by the higher level actors or enforced by the dominant actors. The evidence shows that the institutions take their lead depending on their role; therefore, most of the time, the conflict between government agencies has been solved before a demand or command is given to SOEs. Some concrete evidence is a statement of directions for each SOE as can be seen in the MoF agreement with other government agencies (see chapter 5). This also can be seen in the requirement to implement EVM and BSC; both systems had been discussed in the Performance Assessment Committee, which has representatives from a variety of government agencies (see chapters 5 and 6). Also, when considering the influence on SOEs of performance measurement systems, participants from the case study organisations and other government agencies agree that

the MoF is the key responsible organisation; therefore, they normally respect the MoF's decision (see chapter 6 section 6.4).

In an environment of consistent and predictable sets of competing institutional demands, organisations show their ability to develop appropriate structures and practices in order to respond to institutional complexity (Greenwood et al., 2011). Even though the case study organisations face different demands from their stakeholders, the findings explain that both case study organisations know how to respond to such demands; for example, both organisations have a division that has responsibility mainly for responding to the MoF's performance measurement system. This division also deals with the introduction or implementation of new management tools in the organisation, which it has been both directly and indirectly forced to adopt by MoF, such as EVM and BSC (chapter 6). Also, some members of the SOE board of directors, which is similar to an executive board in a private organisation, are from related government agencies such as the MoF, the line ministries, or NESDB, and as a result many concerns or conflict issues have been solved within the organisation.

The findings in this study are consistent with Pache and Santos (2010) and Greenwood et al. (2011): fragmentation increases institutional complexity. However, in the field of Thai SOEs, there are a variety of mechanisms that help to reduce the degree of institutional complexity. For example, some of the SOE board members are representatives from related government agencies; therefore, some of the conflicts can be solved within the SOE (See chapter 5 section 5.2). Also, there are many committees such as the Performance Agreement Committee of which the members are from both public and private sectors and has a Permanent Secretary of the Ministry of Finance as a chairman, consequently, the problems related to SOE's PMS can be solved within this committee (See chapter 6 section 6.2). As a result, participants' perceptions of institutional demands are somewhat controllable because they know what each key stakeholder wants. On the other hand, it is also possible that some conflicts between institutions still occur and give rise to complex environmental pressures (see chapter 5 section 5.2).

### **8.3.2 Considering types of logic multiplicity within an organisation**

Regarding the discussion on multiple institutional logics and the fragmented field, this section seeks to identify the degree of institutional complexity through ‘the type of logics multiplicity within organisations’ by employing Besharov and Smith’s (2014) framework, which is developed from Greenwood et al.’s (2011) framework. The framework has distinguished the types of organisations by employing the degree of compatibility and the degree of centrality (see chapter 3 section 3.5). In this regard, it helps the researcher to better explain institutional complexity within organisations. As the field-level structure related to SOEs has been discussed in Section 8.3.1 above, this section focuses on the impact of the institutional complexity in different industry fields. Their distinctive industry characteristics help to explain the difference of complexity between cases. This section also employs Greenwood et al.’s (2011) organisational attributes as well as other related factors to explain the complexity.

#### **8.3.2.1 The low to moderate degree of compatibility**

According to Greenwood et al. (2011, p. 318), organisations generally face multiple logics that may or may not be compatible. However, in Besharov and Smith’s (2014, p. 367) study, ‘a compatibility’ not only concerns the relationship between institutional logics but also ‘the instantiations of logics imply consistent and reinforcing organisational actions’. According to Besharov and Smith (2014) ‘Organisation-level practices and characteristics’ can impact the degree of compatibility. The findings support their statement, as the case study organisations have different characteristics, which can impact the compatibility between multiple logics differently. In chapters 4 and 5, the key characteristics of the two cases have been provided. This part focuses on the following characteristics: the types of SOE, the component of board of directors and the industry characteristics.

Firstly, the types of SOE can influence the degree of compatibility. Both organisations are fully owned by the Thai government, but the difference is that PWA is a legal entity under the Ministry of Interior while POST is a company that has MoF as the only shareholder and is under the Ministry of Information and Communication Technology (see chapter 4). Consequently, POST has to operate under a variety of laws such as

corporate law, tax law, etc., as well as the government regulations for SOEs and is more exposed to external and dynamic environments than PWA.

Secondly, we saw in chapter 5 section 5.2 that the composition of the board of directors can influence the degree of intervention by government agencies and politics, which leads to institutional complexity. The members are from a variety of related government agencies and director pools, as well as assigned by politics. In addition, the board of directors is subject to change depending on electoral outcomes. There is no clear evidence about how the composition of the boards of directors is related to the compatibility of the organisation. However, some participants agreed that a board member that has knowledge and reputation have influence over other members on some specific topics. Most recently, all members of PWA board of directors are from the public sector, while members of POST board of directors are from both public and private sectors. Therefore, the logics that each member of board of directors is tied to can be different; as a result, the degree of compatibility in PWA seems to be greater than that in POST. However, by considering the political intervention, POST board of directors is not as frequently changed compared with other SOEs (SEPO, 2015).

Thirdly, the industry characteristics also need to be mentioned, as they can distinguish a different degree of compatibility between case study organisations. After examining the two case study organisations, the semi-structured interviews show many instances of multiple logics, which also come from the industry field in which the case study organisations are located. Marques (2010) stated that due to the economies of scale of water supply and the expense of duplication, a single provider is more efficient than several providers, thus water service can be considered as a natural monopoly. PWA as a single provider in its responsible area does not have a potential competitor; therefore, a major concern of PWA is to expand the water distribution network. However, its tariff cannot be set on a commercial basis, as it has the responsibility to serve water to Thai citizens (see chapter 5 section 5.3).

On the other hand, the postal service in many countries still has reserved monopoly power in some of its services, although the emergence of new technologies such as the internet, and the expansion of globalization, as well as environment initiatives and social responsibility have accelerated the pressure for the postal sector to change its services

and management (Borenstein and Becker, 2004; Zairi, 2000; Bravo, 1995). This claim also shows in POST. The reserved monopoly power in POST is a standard mail delivery service in which the price has been fixed at three baht per letter by the regulator (see chapter 5 section 5.3). However, regarding technology change and corporatization in 2003, POST's activities focus more on customer-oriented and market-oriented initiatives, as the evidence shows that POST tends to be more proactive in serving its customers (see chapter 5 section 5.3). Examples of POST's activities are the development of a distribution network for parcel delivery, its marketing plan for both retail and wholesale customers and the business plan of Logistics Company. The conflicts of competing logics also can be found in POST, as it has had to expand its branches as well as networks to remote areas that are not profitable, while as a public company it could focus on metropolitan areas such as Bangkok, which has high customer density.

According to Lander et al. (2013), the competing logics present contradicting demands; hence the firms recognize the different degree of each logic. Regarding the difference in industry characteristics mentioned in chapter 5, the two case study organizations emphasize their activities differently. According to Besharov and Smith (2014, p. 367-368; see also John and Dunn, 2007), professional institutions can influence 'the availability of members who carry particular logics'. From the perspective of the industry field, POST recognizes Universal Postal Union (UPU) as a professional institution in mail service, as they follow UPU guidelines as well as cross country mail profit sharing criteria (see chapter 5 section 5.3 and chapter 6 section 6.7), while PWA does not follow any professional institutions specifically.

Regarding the industry fields mentioned above, it can be concluded that PWA as an organisation in the utility industry seems to be more strongly engaged by the logics of social activity more than the logic of commercial operations, while POST seems to value the logic of commercial operations more highly. From the findings, we can assume that degree of compatibility in PWA is lower than that in POST. However, by considering the use of EVM, which has a strong commercial logic, both organisations have a similar response as they decoupled the EVM from other practices. The important factor that led to decoupling is that EVM does not take into account social activities, which is one of the SOE's responsibilities (see chapter 6 section 6.4). This supports

Besharov and Smith's (2014) statement that 'compatibility is lower when there are inconsistencies regarding the goals of organisational actions'.

Fourthly, apart from the explanation in chapter 5 in the evidence of multiple institutional logics that the emergence of new technology can differentiate the tie of institutional logics between POST and PWA, the study context suggests that industry characteristics of PWA and POST are capital intensive and labour intensive respectively. In chapter 5 section 5.3, regarding the capital-intensive characteristic, PWA's investment decisions have been affected by the complexity between the logic of commercial operations and the logic of social activities. However, the degree of compatibility of PWA also depends on support by external actors. In this case, the Thai government has partially supported some investment projects that can be declared as social projects but it does not have clear criteria for subsidising these public service obligations where the tariff for the customer group is not covering commercial costs. Consequently, it is difficult for PWA to interpret the real profit that organisation can generate. This can affect the degree of compatibility in PWA. Moreover, the effect of capital intensiveness in PWA to the degree of centrality will be discussed in the next part about resource dependency. On the other hand, the labour intensiveness in POST does not show much evidence of impact on the degree of compatibility.

According to Besharov and Smith (2014, p. 367-368), the factors that influence compatibility at the organisational level are hiring practices and socialization where the relationship between members and 'the degree of interdependence' can affect the degree of compatibility. This concept is similar to the Greenwood et al.'s (2011) organisational attributes on the organisational structure.

The networking between employees in an organisation is one of the mechanisms that introduce a logic into an organization (Lounsbury, 2001). Also, the interdependence between employees can develop the compatibility of the logics (Besharov and Smith, 2014). However, the degree to which an organisation is committed to a particular logic can vary (Greenwood et al., 2011). Both cases have many channels through which to create a network in organisations, such as the branch manager group in PWA and Postal College in POST. The strong ties between employees can affect an organisation's action. For example, the logic of unity can represent strong ties in the structure, which



helped POST to reduce the difficulty of organisational transformation after corporatization (see chapter 5 section 5.3). On the other hand, the high value attributed to showing unity in POST can both add to and detract from the compatibility, depending on what goal the organisation is aiming for.

According to Greenwood et al. (2011), the influence and capability of a ‘social referent’ who can give voice to institutional logics in order to reinforce a particular demand in an organisation as well as increase logic compatibility (Besharov and Smith, 2014) and the number of the referents also affect reinforcement. One SOE characteristic is bureaucracy, which is based on a strong command hierarchy; therefore, it is possible for the case study organisations to enforce their demands, such as the implementation of EVM, which requires every regional office to set up an EVM centre. The evidence in chapter 6 section 6.5 suggests that the low level of response from employees to the implementation of EVM is, at least in part, due to the small number of referents who themselves often have limited knowledge of it. On the other hand, the organisational-wide BSC has been supported by a significant body of people knowledgeable in the use of performance measures and this has helped in its implementation and acceptance (see chapter 6 section 6.7).

Besharov and Smith (2014) state that the characteristics of organisational members can impact the degree of compatibility as ‘they selectively draw on, interpret and enact’ the logics they carry. We saw in chapters 5 and 6, regarding cases embedded in the logic of seniority and the logic of bureaucracy, many participants agreed that the most powerful group is the executive group. They believe in their executives’ vision and tend to follow the superior’s command. Accordingly, the response to the co-existing logics is based on the CEO and her management team (see chapter 5). Also, some PWA participants explained that there has been a slight focus shift from an operation view to a management view because the most recent governor has a background in finance and management while the former governors were from an engineering background. As a result, the governor is concerned more with organisational development.

In conclusion, the degree of compatibility in both organisations should be low to moderate. In this case, the degree in PWA is slightly lower than that in POST because PWA seems to struggle more between the core logics: the logic of social activities and

the logic of commercial operation. Also, compatibility is affected by organisational structure because both case study organisations have a variety of networks between organisational members; however, by comparing both cases, POST seems to be more efficient than PWA in managing logics. The close relationship or interdependence between members in an organisation should help to develop a higher degree of compatibility of multiple logics (Besharov and Smith, 2014). However, the strong seniority system, and the relationship between employees, especially at different levels of hierarchy, can affect the degree of compatibility between the two main logics.

### **8.3.2.2 The moderate degree of centrality**

Besharov and Smith (2014, p. 369) define ‘centrality as the degree of which multiple logics are each treated as equally valid and relevant to organisational function’. They suggest that the degree of centrality depends on the number of core logics that guide the organisational operations and functions: the more core logics involved, the higher degree of centrality.

In SOEs, there are three core logics: the logic of bureaucracy, the logic of commercial operation and the logic of social activities that instantiates organisation core activities (see chapter 5). Also, the findings show that case study organisations experienced problems of fragmentation, especially in their views between commercial and social activities, which were already discussed in the evidence of multiple institutional logics.

According to Besharov and Smith (2014), ‘Organisation-level practices and characteristics’ can affect the degree of compatibility, while ‘resource dependence’ and organisational mission and strategy can influence the degree of centrality. Both the PWA mission and vision focus on the quality of water and services to Thai citizens, which are based on the logic of social activities and the logic of commercial operations while the statement of direction provided by the Thai government also includes the improvement of PWA efficiency and effectiveness (see chapters 5 and 6). From this, even though the co-existing logics can be considered as the core logics in the SOE field, PWA seems to engage and have stronger ties to the logic of social activities than to the logic of commercial operations. On the other hand, the POST vision focuses on being “the leader in postal business” and POST’s strategic plan also focuses on four business areas (see chapter 5), accordingly POST considers the logic of commercial operations as

the most important core logic along with the other logic. From the mission and vision, it can be assumed that the degree of centrality of POST is lower than PWA. However, both organisations also have more than one institutional logic that is core to organisational function.

The resource dependency described in Besharov and Smith (2014) is similar to Greenwood et al.'s (2001) view of ownership as one of the key organisational attributes. According to DiMaggio and Powell (1983) and Oliver (1991), an organisation tends to respond to the demand of the actor or institution that provides its critical resource. Both PWA and POST show their response towards the MoF's demands for the implementation of EVM, BSC and individual BSC because by implementing these practices, cases can gain higher performance scores, which results in a higher bonus being received (see chapters 6 and 7). Regarding capital intensiveness, PWA needs a subsidy from government as well as to use government guarantees for its loans; therefore, PWA tries to meet the requirements and criteria set by Budget Bureau, Public Debt Office Management and Office of the National Economic and Social Development Board (see chapters 5 and 6). On the other hand, POST does not require any subsidy or loan guarantee; therefore, such organisations do not have much influence on POST. This is similar to Lounsbury (2001), which shows that the universities shape their responses depending on the preference of the institutions that are funding them.

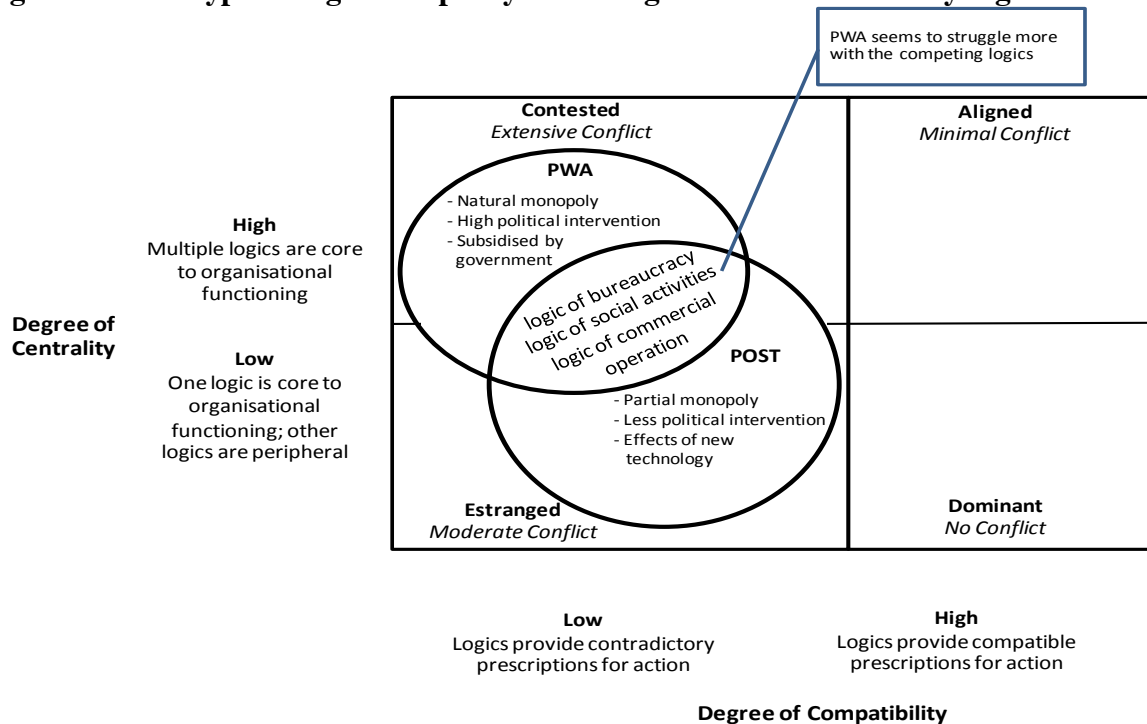
According to Greenwood et al. (2011, p. 345), the definition of ownership is the power of a group in an organisation that can lead how the organization responds to institutional complexity and the organisation's tendency to be affected by 'its dependence upon important institutional actors'. The evidence on ownership also can be seen in the implementation of EVM and individual BSC; if executives do not support the use of a new practice in an organisation, then employees show less concern for the system (see chapters 6 and 7). The other powerful group in this context is the labour union. We saw in chapter 7 that many participants expressed their concern about the possibility of changing the bonus system because resistance to change can be expected from the labour union. Moreover, regarding PWA's regulation, the head of the labour union has a right to be an observer in executive meetings if they have a labour related issue.

From all of these issues, it can be concluded that for PWA and POST at the organisation level, the degree of compatibility and centrality are low to moderate, as both organisations value one logic more than the others. PWA has been more influenced by the logic of social activities while POST has been driven by the logic of commercial activities regarding their missions and goals. However, by comparing both cases, PWA seems to have a slightly higher degree of centrality because it still requires a subsidy and other supports from Thai government as well as approving its investment projects for both commercial and social projects.

### 8.3.2.3 Considering types of logic multiplicity within organisations

From the analysis of the factors that influence the degree of compatibility and the degree of centrality, PWA and POST can belong to both the contested type and the estranged type of organisation in Besharov and Smith's (2014) framework. However, PWA's position is closer to the contested types regarding a higher degree of centrality when compared with POST. This finding supports Besharov and Smith's (2014, p. 375) suggestion that 'the type of logic change at the field level may depend in part on the nature of logic multiplicity within organisation'.

**Figure 8.3: The types of logic multiplicity within organisations in case study organisation**



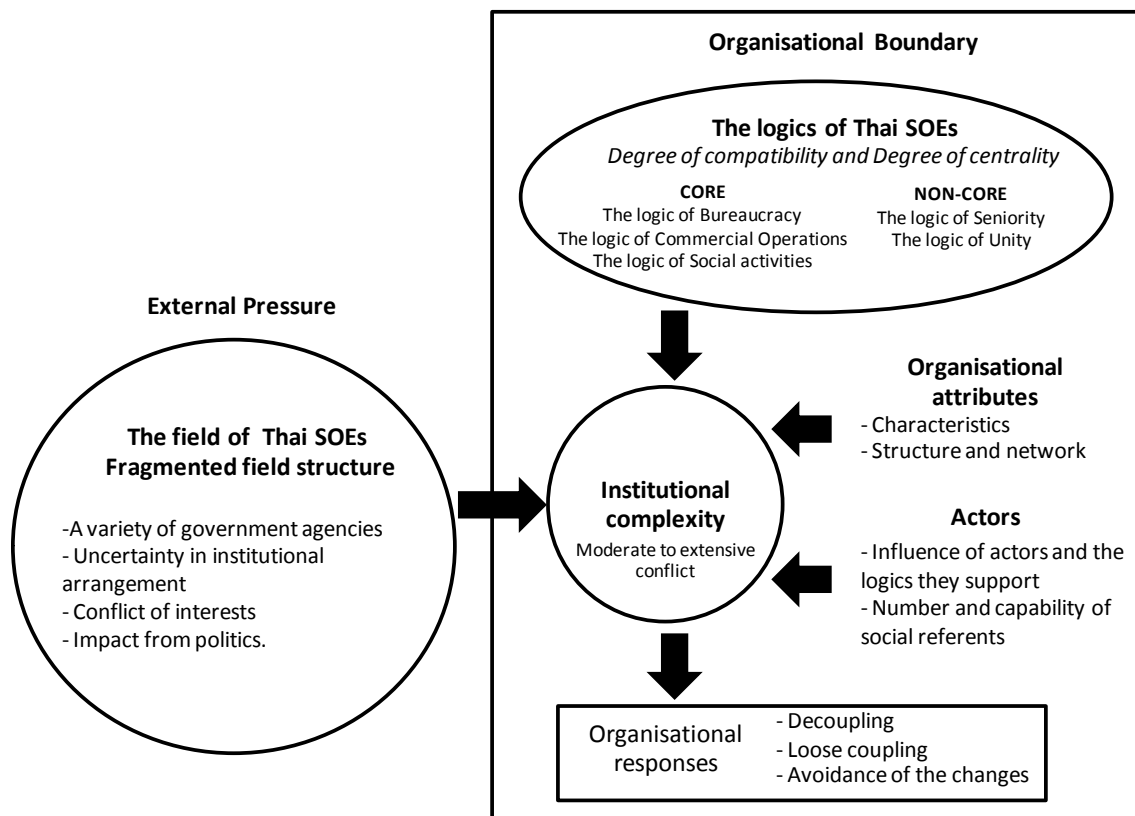
Source: Adopted from Besharov and Smith (2014, p. 371)

From the figure above it can be seen that ‘contested organisations’ and ‘estranged organisations’ arise when organisations have a low degree of compatibility, as is the case in both of the organisations studied, which are significantly influenced by the logics of bureaucracy, of social activity and of commercial operations. These are their core logics. The diverse objectives inherent in these logics can lead to conflict in various aspects of the organisation affecting mission, strategy, structure and other core activities because of the low consistency in organisational actions (see chapters 5 and 6). Second, ‘estranged organisations’ have a primary logic, but they still experience the effect of ‘subsidiary logics’: in the case of PWA the logic of seniority and the logic of unity.

POST is more close to the estranged type since it focuses more on commercial operations, as stated by many participants. PWA seems to struggle between the two competing logics: the logic of social activities and the logic of commercial operations. Consequently PWA is depicted as largely occupying the top left quadrant in figure 8.3. This seeks to indicate that PWA is more strongly split by the conflicting aims resulting from the logics of social activity on the one hand and of commercial operations and bureaucracy on the other. The different degree of compatibility and centrality of the institutional logics in both case organisations occurs as a response to their individual organisational attributes and industry characteristics. For example, PWA benefits from its natural monopoly while POST has a partial monopoly in its business and has been affected by the emergence of new technology. PWA, which has been subsidised by the Thai government, experiences a high degree of political intervention in comparison to POST. Moreover, both organisations also experience the effect of other logics, which are the logic of unity and the logic of seniority (see chapter 7).

From our findings and discussion in this chapter, the researcher has combined Greenwood et al.’s (2011) and Besharov and Smith’s (2014) frameworks to illustrate institutional complexity in Thai SOEs.

**Figure 8.4: Institutional complexity in Thai state-owned enterprises**



Source: Adapted from Greenwood et al. (2011, p. 324) and Besharov and Smith (2014, p. 371)

Figure 8.4 depicts the structure of the field of SOEs, which is fragmented, as well as identifies the potential core logics and non-core logics that prevail in SOEs. The fragmented field structure occurs as a result of the competing and inconsistent demands made by various stakeholders as well as political intervention which can increase the degree of institutional complexity. Inside the organisational boundary, the multiple institutional logics are the fundamental materials that shape institutional complexity. The degree of compatibility and centrality of these multiple institutional logics then leads SOEs to be confronted with moderate to extreme conflicts which impact how the organisation responds to institutional complexity in a given situation. Also, the extent of the institutional complexity facing the organisation can be further influenced by organisational attributes, such as organisational characteristics and structure, and the influence and capability of key individuals. In this study, the findings show that the organisational responses are decoupling and loose coupling of the EVM and BSC from other practices respectively, as well as avoidance of integrating the individual BSC with incentive systems which are presented in the next section.

## **8.4 Organisational Responses**

According to Greenwood et al. (2011), an organisational response to institutional complexity depends on whether emphasis is on ‘organisational strategies’ or ‘organisational structure’. This study focuses on the strategies adopted by organisations in order to handle institutional complexity. This study seeks to explain a typical organisational response in the case study organisations to performance measurement systems and incentive systems. Regarding the case study context and the findings chapters, the two case study organisations were somewhat similar because they share SOEs’ characteristics and pressures as well as the same embedded institutional logics; however, they also differ in many aspects as pointed out in the types of logic multiplicity within the organisations. Therefore, their actions towards the new practices are similar yet different.

### **8.4.1 Responses to the implementation of economic value management**

We saw in chapter 6 that the original ideas of the use of both EVM and organisational BSC were from MoF; later on, they were forced to implement both tools through the KPIs set by the MoF. Both organisations experienced difficulty in the use of EVM regarding its strong logic of commercial operation while ignoring the logics of social activities which are also embedded in the field of the SOEs. Due to the conflict between the two logics, it proved difficult for the case organisations to integrate EVM with their practices.

As discussed in chapter 2, Kaplan and Norton (1996) pointed out that EVA might discourage organizations from investing in a new project of a prime business division; therefore, it is better to measure project performance in terms of free cash flow rather than in terms of EVA. Both organisations considered that such activities could generate a negative economic profit, especially PWA, which may have many capital intensive investment projects. Consequently, the negative EP is not felt to fairly represent the actual performance of the SOE. In these circumstances, the organisation may be discouraged from making a decision to invest in socially oriented projects. In the interviews, many participants expressed their discomfort with the use of EVM where the social benefit is not taken into account (see chapter 6 section 6.4).

There is some literature support for the use of EVA as a management tool at a division level or product level, such as Hartman (2000), and Shrieves and Wachowicz (2001). However, Zimmerman (1997) and Woods et al. (2012) highlight the prospective problem of cost sharing and target costing due to the complexity of the calculation on cost of capital. Therefore, the use of EVA for performance management at a division level seems impracticable (Zimmerman, 1997).

According to Greenwood et al. (2011), inconsistent demands from institutions can affect the degree of institutional complexity. Many participants perceived that the MoF's demands on the use of EVM may change over time. Also, apart from the MoF, other government agencies do not require SOEs to use EVM. As a result, the case study organisations have no real intention to implement EVM but just to comply with the MoF's requirements in order to acquire a higher performance score.

My findings suggest that EVM has been treated on a 'ceremonial basis' in both case study organisations. According to Greenwood et al. (2011, p. 350), an 'organisation gives only ceremonial and symbolic commitment to certain logics while preserving a core identity'. Also, the decoupling between EVM and other practices occurs in both cases. This supports the Meyer and Rowan's (1997) and Dembrin et al.'s (2007) assertion that decoupling happens when an organisation adopts new practices on a 'ceremonial' basis in order to minimise the impact on recent practice as well as to construct the 'right' organisational image and recognition and 'legitimize them in their social contexts' to help the organisation have a 'privileged access to resources' (Kasperskaya, 2008, p. 365).

#### **8.4.2 The responses to organisational BSC**

The BSC has been commonly employed in the public sector, even though many public organisations have experienced some difficulties using the original BSC due to the fact that the objective in the public sector is typically not primarily financial (Umashev and Willett, 2008). This study considers SOE as one type of public sector organisation; however, an SOE also embeds the logic of commercial operation. Consequently, the implementation of BSC in the case study organisations might not be expected to cause such severe problems compared to the other types of public sector organisations.



In chapter 6 section 6.6, similar to EVM, organisational BSC has been employed in order to comply with MoF's requirement. However, the difference is that both organisations are more engaged with the use of BSC compared to EVM due to the similarity with the MoF's performance measurement system, which assesses organisations using KPIs. Also, most of the organisational and department KPIs are adopted from MoF's set of KPIs and are derived from the statement of directions. However, regarding the characteristics of public organisations, the case study organisations experienced excessive numbers of KPIs that covered both commercial and social goals. The institutional complexity that occurs regarding the goals from the competing institutional logics are difficult to balance and hence, there is sometimes conflict. As a result, there is evidence of loose coupling in the use of the BSC. While the case study organisations employ the BSC and establish KPIs for each department as well as each division, they exhibit some lack of integration with other practices and decision tools.

Also, some KPIs acquired from the MoF do not accord with those used in the organisation. This suggests a lack of understanding by the MoF in the SOE context. The development of BSC in both cases also follows these steps, as recently they have had a statement of directions (SODs) provided by MoF and a strategy map in order to better reflect organisational goals. Recent strategy maps of both organisations have been written by following the recent KPIs required by MoF, although many participants claimed that some of these KPIs could not represent actual organisational activities and performance. Therefore, doubt about the use of organisational BSC still occurs. This finding confirms that loose coupling occurs when formal rules conflict with actual work practices (Orton and Wick, 1990), as BSC fails to identify some of the organisational performance measurements, which leads to a gap of transforming a strategy plan into action (Norreklit, 2000). However, the finding in this study contradicts the statement of Norreklit (2000) that criticises BSC, as it ignores the importance of institutional stakeholders. This incident can be interpreted as occurring due to the strong tie with the logic of bureaucracy. Also, at the departmental level, some PWA departments experience the same problem, as some of their KPIs do not relate to the department's activities. This problem leads to the avoidance of BSC (see chapter 6 section 6.7). This supports Rautainen and Jarvenpaa's (2012) study that showed when a unit might

consider that a performance measurement system is not relevant in the context, it may become entangled with buffering and escaping the system.

Jenson (2001) critiqued the concept of ‘balance’, because the use of the BSC in organizations could lead to disputes over the trade-offs when multiple dimensions of performance cannot all be maximized. The findings support this statement, as case study organisations still doubt the merits of balancing four perspectives of BSC and they point out that most of the conflict between KPIs occurs from the co-existence of the logic of social activities and the logics of commercial operations.

In contrast to EVM, the use of organisational level BSC by organisational employees is more widespread. The number of social referents for the BSC and their networks along with the BSC’s relative conceptual simplicity resulted in lower resistance from employees. The participants’ perceptions of the use of the organisational BSC are divided depending on how their department responded to its integration with other practices; therefore, the BSC can be coupled in some parts of the organisation but decoupled elsewhere. Therefore, this study concludes that the organisational BSC can be considered to be loosely coupled to the organisations strategic and budget plans.

#### **8.4.3 The responses to individual BSC and incentive systems**

According to Merchant and Van der Stede (2007), regarding the literature in the field of performance-based incentives, the integration of the BSC approach and an incentive system, especially monetary incentives, has gained more popularity in the public sector. We saw in chapter 7 that the MoF has promoted the implementation of performance-based incentives in SOEs. Recently, the case study organisations have had similar incentive systems as adapted from former criteria used by the Thai government. In the past five years, both case study organisations have tried to integrate their incentive systems with individual performance, as they believe that the integration can encourage employees to improve their performance, as suggested by the literature in this field.

In chapter 7 section 7.4, the case study organisations’ actions towards the current bonus system can be seen as being divided into two groups. Regarding the logic of unity, many participants from the operational level showed their satisfaction with the present system where everyone across the organisation receives bonuses equally. They did not support

the organisation changing the system into an individual performance based incentive system. While the management and executive groups expressed concerns that there were many problems in the present organisational bonus system, they also wished to maintain the current system. An exception was among executives in PWA who supported change but felt the labour union and employees would offer strong resistance.

The case study organisations have largely avoided integrating individual BSC (see chapter 7 section 7.6) with other evaluation practices. Several difficulties regarding the adoption of this performance measure were reported. Firstly, individual or personal performance-based measures are contradicted by the existing bonus system whereby the organisation gives employees an equivalent monthly bonus across the whole organisation. In POST, participants claim that a different monthly bonus will affect the unity value of the organisation. Secondly, the case study organisations employ competency assessment and other related factors such as work attendance in considering pay raises and promotions. Also, most of the participants claim that their pay raise is also based on a rotational basis as well as supervisors' subjective judgments. Lastly, promotion is also based on seniority, which is one of the logics in the field of the Thailand public sector. From all of these points, many employees resist integrating individual BSC with the organisational incentive system. Also, the influences of the logic of seniority and the norm of rotation in pay raise lead employees to resistance to integrating the individual BSC with the other systems. As a result, the decoupling of individual BSC and the regular practices is not surprising.

The avoidance of integration between individual BSC and other practices has been clearly seen in both case study organisations. According to Oliver (1991), the avoidance response tends to occur with institutional stakeholder multiplicity, content constraint and uncertainty of environmental context. The resistance of integrating the incentive system with individual BSC occurs in both case organisations regarding the two main problems, which are the uncertainty of the use of individual BSC and the inconsistency with recent organisational practices.

According to Thorpe and Homan (2000) and Merchant and Van der Stede (2007), the wrong measures and targets as well as the inaccurate judgement of an assessor in performance-based incentives can demotivate employees. In chapter 7 section 7.6, the

finding supports their statement, as the main concerns about using the individual BSC as a performance-based incentive system are the problem of KPI setting and the perception of unfairness.

The findings of the research suggest that the strategic responses employed in the case study organisations are decoupling, loose coupling and avoidance in order to deal with the uses of EVM and BSC as well as the integration of individual BSC and incentive system, respectively. The finding also supports the literature in that the majority of performance measurement research shows the institutional effects of ‘decoupling’ in which organisations may separate symbolic displays for the purpose of seeking legitimacy from actual operational-level practice (Modell, 2009). The hybrid organisations’ response to competing institutional logics are decoupling and loose coupling (Meyer and Rowan, 1977; Orton and Weick, 1990). Also, in order for organisations to preserve their old resources, they tend to avoid the use of the new practice by decoupling or loose coupling from recent practices (Rautianen and Jarvenpaa, 2012).

## **8.5 Conclusion**

This chapter has identified and discussed key aspects of the empirical findings, which have been examined in greater detail in earlier chapters. This study set out to investigate the institutional complexity and organisational responses to co-existing logics through the employment of performance measurement systems in SOEs as hybrid organisations. It is crucial to note that SOEs have employed (1) EVM, on a largely ceremonial basis, decoupled from other practices, and in this way resisted strong commercial logics; (2) the BSC which has been shown to be loosely coupled with other practices due to the conflicts between the logic of commercial operations and social activity. Such loose coupling minimizes impacts on current practices while seeking to maintain the legitimacy of institutional stakeholders. The organisations responding to their hybrid nature and multiple logics environments have avoided integrating individual BSC with other practices partly in response to the influences of the logics of unity, seniority and the norm of rotation. In this chapter, the researcher also proposes a framework of institutional complexity in Thai SOEs, which is derived from the findings and discussion.

# Chapter 9

## Conclusion

### 9.1 Introduction

This is the first comprehensive study of performance measurement systems (PMS) in Thai SOEs. The majority of research in this field has focused on other types of public sector organisations such as federal governments, local governments, and healthcare organisations, and has mostly taken place in developed countries. This study has examined two case study organisations and set out to identify institutional logics in the field of State-Owned Enterprises (SOEs) in Thailand as well as to investigate institutional complexity and organisational responses towards the performance measurement systems and incentive systems. This final chapter concludes the research by providing the contributions made by the discussion in this thesis. Next, a discussion of limitations and the suggestions for future study are addressed. Lastly, the chapter concludes with final remarks on the research as a whole.

### 9.2 Contributions

The contributions that result from this study can be categorized as theoretical and practical.

#### 9.2.1 Theoretical contributions

This study has made several contributions to the performance measurement and institutional literatures. The findings within the research add to the literature in the performance measurement field by providing in-depth exploration of the organisations' and individuals' actions toward the implementation of performance measurement systems. Modell (2009) suggested that future studies should focus more on micro-dynamic processes by building on individual actors' perceptions and their responses to the performance measurement systems. In undertaking this research, this thesis has employed a qualitative approach, which is able to provide rich data by exploring the perceptions of participants in various departments and organisation positions. Following the existing literature, this study is concerned with institutional effects; however, instead of focusing on institutional isomorphism, this study focuses on the institutional

complexity, which is described through the conflicts of competing logics and the types of multiplicity within organisations.

The primary contribution of this study is that it is one of the first studies to identify institutional logics in the field of Thai SOEs and to explore how SOEs respond to institutional complexity. Institutionalism researchers have gained attention for identifying how institutional logics drive changes of organisational behaviour (Greenwood et al., 2011). This study employed this concept to identify the institutional logics embedded by organisations in the field of SOEs: the logic of bureaucracy, the logic of commercial operations and the logic of social activities. The other institutional logics identified can be derived from the SOEs' and Thai cultures and norms: the logic of unity and the logic of seniority. Accordingly, from these multiple institutional logics that prevail upon Thai SOEs, the nature of institutional complexity in SOEs and how they handle institutional complexity and their responses towards performance measurement and other related systems have provided rich empirical data for exploration.

This study has responded to the need for a study on 'how organisations experience and respond to the complexity that arises' as well as for an investigation on 'the dynamic patterns of complexity' and 'the degree of incompatibility' between logics, as suggested by Greenwood et al. (2011, p. 357). Consequently, we employed Greenwood et al.'s (2011) and Besharov and Smith's (2014) frameworks to address the degree of institutional complexity using 'the degree of centrality' and 'the degree of compatibility' together with organisational field and organisational attributes.

The findings revealed that the responses from individual SOEs may differ regarding the degree of centrality and compatibility of co-existing institutional logics held in the organization. We also found that the implementation of performance measurement systems whose concepts conflicted with the institutional logics can lead to the organization-wide reluctance to change. In this study, one of the key reasons why SOEs decoupled Economic Value Management (EVM) from other practices is that the EVM cannot be used to fulfil organisational requirements led by the logic of social activities.

From the findings, this study has adapted Greenwood et al.'s (2011) and Besharov and Smith's (2014) frameworks to present a new framework of specific relevance to institutional complexity in Thai SOEs (chapter 8 section 8.3). The framework has considered the institutional logics embedded by Thai SOEs as well as their organisational types regarding their degrees of compatibility and centrality. We suggest that the Thai SOEs belong to the contested or estranged type of organisation regarding the low degree of compatibility and the moderate degree of centrality of institutional logics. This framework can be used in future research that examines the actions and responses to institutional complexity by SOEs or other types of public sector organisations. It can also be adapted for research into hybrid organisations more generally that also experience a high degree of institutional complexity.

Finally, the study also more clearly distinguishes decoupling and loose coupling. The meanings are derived from previous literature, but they are further explored through the differences in the implementation of EVM and Balance Scorecard (BSC) in SOEs. In chapter 6, we suggest that decoupling occurs when new practice is 'separate and distinct' from recent practices (Dacin et al., 2004, p. 509). On the other hand, loose coupling occurs when (1) a new practice is coupled with some recent practices and decoupled with other practices, or (2) a new practice is 'distinctive but still responsive' to other practices (Nor-Aziah and Scapens, 2007, p. 214).

### **9.2.2 Practical contributions**

In addition to theoretical contributions, the study also offered a number of practical contributions. According to Bourn et al. (2000), the reasons for success and failure in implementing performance measurement programs can be categorized into three issues: organizational context, development process and measurement content. My study offers support for their statements.

The findings suggest that the case organisations tended to decouple their management processes from EVM while loosely coupling the BSC performance measures. The BSC was loosely coupled with other organisational practices according to the recollection of individuals collected during the case interviews and of evidence gathered from the organisations on the relative use of EVM and the BSC.

Both EVM and BSC have been adopted in order to comply with MoF requirements. The findings indicated that SOEs experienced less difficulty in the implementation of the BSC than in the implementation of EVM. The complex EVM concept was seen as a threat by employees. This is partly due to the difficulty of communicating the concept to employees, which results in knowledge of the system being limited to a few people. On the other hand, the BSC concept was considered to be simpler and already well-known among SOE employees, as it is similar to the current SOE performance measurement system. As a result, the BSC knowledge is more easily spread within the organisation. Also, unlike EVM, the BSC does not focus mainly on financial figures but also includes the other perspectives that are related to the organisation, which can be explained through an organisational strategy map as well as a set of indicators. As a result, employees can engage better with the organisational goals and mission. From this finding, we suggest that organisations should be aware of how to engage their employees in implementing any new practice. This can be done by communicating with the employees and providing an overview of the practices required and information on how the new practice is related to them through formal and informal organisational networks.

Apart from the complexity of adopting new performance measurement practices, there are other factors that affect the adoption of EVM and BSC that need to be considered. The case evidence shows that there is a lack of organisational commitment towards the adoption of EVM regarding the inconsistency of the MoF's demands. To increase organisational commitment, the executive members are the key mechanism, as their influence is important for guiding and encouraging the employees in the implementation of new practices.

Thirdly, this study also provided a view on the relationship of individual level BSC with incentive pay systems, which are largely considered ineffective in Thai SOEs. The employees reported perceptions of unfairness and judgemental bias in their experience of incentive-based performance systems. A particular issue was the relative objectivity/subjectivity of the assessment criteria used in SOEs and how it affected individual incentive calculation outcomes. This was seen to vary significantly depending on the supervisor. Promotions and pay raises were seen to be based on individual assessment scores. However, the logic of seniority in Thai SOEs can affect



the promotion system by favouring individuals who have worked longer or are older, while the pay raise rotation system can demotivate employees. The individual BSC system was not able to distinguish excellent employees from the other employees regarding the use of many divisional measures and targets to assess individual performance. As a result, employees in the same team or department tend to have similar or nearly the same performance assessment scores. From these findings, we suggest that SOEs should consider re-designing the incentive system to concentrate more on performance-based evaluation. A well-designed system and measures might help to reduce the negative perceptions of employees. Also, clear assessment criteria and explanations should be provided in order to create trust between assessors and employees.

### **9.3 Limitations of the Study**

The research was conducted using a qualitative approach, which is suitable for investigating and exploring a social phenomenon. The research also followed a well-prepared and planned field research process. However, inevitably this research still has several limitations, therefore, the findings and discussion should be reviewed regarding this.

The first limitation is generalisability. This research employs a qualitative approach because it helps researchers to capture data on the perception of the informants (Miles and Huberman, 1994). However, the mono-method approach as well as a researcher's unsystematic views may constrain the generalisability of the findings (Bryman and Bell, 2011). Therefore, a multiple case study method and data triangulation were employed in order to improve the situation. The study was conducted with two case study organisations that are from different industries. Therefore, in some particular topics, the participants' perceptions cannot be generalized.

The second limitation concerns validity and reliability. Even though the list of participants was considered to include both sides – government agencies and case study organisations – one of the cases had selected most of its participants from the employees who take part in the implementation of State Enterprise Performance Assessment. This group of participants shared some common perceptions on particular topics that may differ from other employees: for example, the high degree of

motivation, they reported, in implementing new management systems. To reduce the interference, participants had been confirmed to be anonymous as well as off-digital record so they could be asked to conduct the interviews at random times.

Next, some other limitations occurred, which delayed the progress of the research: accessibility, lack of resource facilities, and so on (Bryman and Bell, 2007; Schlappa, 2009; Myers, 2009).

The first limitation regards the limited accessibility of data. The case study organisations are considered as one type of public organisation; therefore, sometimes it was difficult to obtain some specific data due to both the confidentiality and the unwillingness to share such information. The problems often occurred when the researcher was asking for some secondary data to validate the interviewees' information. Most of the documents are confidential. To deal with this problem, the researcher had to sign an agreement to not publish or use the data without the owner's consent. Also, some documents were available to read on-site only. In addition, there was limited previous research and secondary data on the topic in Thailand. However, the researcher put her efforts into searching for secondary data by asking government agencies and other related organisations.

A second limitation is due to time constraint. Time was one of major concerns for the researcher while conducting research. The fieldwork at the case study organisations was time consuming; however, the researcher had to finish all the data collection within a three-month period. To deal with time constraints, the researcher employed a timetable, which was helpful to organize the research in order to specify the different stages and the calendar points at which the researcher started and finished each stage.

A third limitation is due to the limited budget. The fieldwork in this research was undertaken in Thailand and all interviews were conducted in Thai as the native language. Due to limited funds, an English translation for all the data was not available. As a result, translated statements were provided for the empirical evidence only, to reduce the cost of hiring translators. However, regarding the validity and reliability of the interpretation, selected statements were translated and back-translated with the help of the researcher's friend who is fluent in both Thai and English.

A last limitation involves other incidents that can affect the quality of the interviews. The interview sessions with some participants, especially the executive group was interrupted or shorter than expected. This caused some difficulty for the researcher to control the conversations and sometimes not all of the prepared questions could be asked. In addition, even though the majority of participants asked for anonymity, some of participants still did not agree to be digitally recorded. This is because they did not feel comfortable discussing sensitive issues such as window-dressing or criteria shaping in order to increase their assessment score. Also, the quality of digital records was inconsistent; for example, noise at the interview sessions could cause some difficulty in the later transcription. To overcome this problem, the researcher always took notes along with audio recording.

#### **9.4 Suggestions for Future Research**

Following the study discussion of contributions as well as limitations, it is important to identify potential future research. There are many avenues to consider.

Regarding generalisability, one avenue for future research may involve what data was sought and how it was collected. Clearly, the institutional logics identified in this study were based on two case study organisations in Thailand, while different types, sizes, industry sectors and organisational contexts could affect our findings of institutional logics of the field of SOEs and may also produce a new set of potentially influential logics. Consequently, future research can also collect data from different types and sizes of organisations within the field of SOEs in Thailand such as privatized SOEs and non-commercial groups of SOEs. Some industry sectors such as the electricity sector and the telecommunication sector, which have active regulatory bodies, could experience a different set of institutional logics as well as pressures from stakeholders. As a result, the new set of institutional logics embedded in SOEs and how individual SOEs value each logic as well as understanding the organisational context could lead SOEs towards achieving a different institutional complexity as well as understanding how they respond to institutional complexity. Different comparative case study organizations could help identifying similarities and varieties in the patterns found in this study.

Notwithstanding this study in Thailand, the lack of studies in institutional logics and complexity in developing countries raises the need to extend the research to other

countries in order to capture comparable or different cultural and social effects. Other research could also consider the comparison between developing countries' SOEs and developed countries' SOEs, small SOEs and large SOEs or privatized SOEs and general SOEs. In addition, this study investigated SOEs as one type of public sector organisation; therefore, an investigation in institutional complexity of Thai private sector organizations or other developing countries may provide another perception of the field.

This study focussed on the incidence of competing logics in hybrid organisations. Other aspects that could be investigated include: how logics can be blended or are newly creating when new practices emerge, or are applied, in organisations. In addition, the organisational responses in this study emphasized the role and practices around performance measurement systems and the relationship with incentive systems; therefore, the responses to other functions of organisations should be considered for future study.

A final recommendation for future research concerns research method. Since this study employed a qualitative method, future research could consider adopting triangulation style research methods. For example, qualitative and quantitative methods could be combined to obtain the perspectives of stakeholders on the institutional complexity regarding other areas in the performance measurement systems. The participants' perspectives could be compared and contrasted and a new set of institutional logics may be identified.

## **9.5 Final Reflections**

This study identifies the institutional logics in the field of SOEs as well as provides an analysis of the institutional complexity and organisational responses towards the implementation of performance measurement systems in the context of Thai SOEs.

From the discussion in this chapter, limitations and suggestions for future research were identified, as the ability to generalize widely beyond the case study context is limited. Nevertheless, this study has produced valid contributions, as it provided new insights on institutional logics and complexity where these concepts are still underdeveloped in both the Thai and other developing country literature. The results offer new

perspectives and insights for the study of performance measurement systems in relationship to institutional complexity as well. It is hoped that through suggested future research, new findings could develop the theory further.

Furthermore, I would like to explain my personal journey on this thesis. I started my research in September, 2011. At the qualifying stage, I planned to conduct a semi-structured interview in four case study organisations. However, due to the constraint of time, it might be difficult to achieve that target. Consequently, my supervisors and I agreed to examine two case study organisations within a 3-month period. During the field study, I realised that if I had selected more participants from the middle management level, primary data from the interviewing method could provide more in-depth detail on employees' perspectives of PMS and institutional demand. Also, the research question guideline used in the semi-structured interview was based on the literature in institutional theory. However, I changed my focus to the concept of institutional logics after conducting the interviews. On reflection, I think that it would be better to have had the opportunity to revisit the interviewees and further explore the concepts of institutional logic and complexity but this was not possible. In addition, during my PhD study, I experienced difficulties in organising my ideas and it has been challenging to explain theoretical constructs and empirical findings to others. Sometimes this has stopped me from getting involved in conversations, but my supervisors helped me to gain more confidence as well as to improve in other areas such as systematic thinking, and communication skill. I believe that the entire PhD process has enabled me to better understand the world of research and can be a benefit to my future career. Moreover, this process has helped me to discover my own strengths and weaknesses and further appreciate my own potential.

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## **Appendix A: The performance measurement systems in SOEs**

### **Appendix A-1: The SOE's performance measurement systems in SOEs**

The SOEs' performance measurement system (PMS) has been employed since 1995. The main objectives of introducing this system were to switch the focus of control from operational control to results-based control and to enhance operational efficiency of SOEs (Thailand Cabinet Office, 1995). Also in 1995, the Thai Cabinet appointed a Performance Agreement Committee, chaired by the Permanent Secretary of the Ministry of Finance, to ensure the effectiveness and efficiency of the system (Luangnual, 2010). Since then, the PMS has been developed continuously by State Enterprise Policy Office (SEPO) in collaboration with other government organizations. For example, the Economics Valued Added Indicator and the State Enterprise Performance Appraisal (adapted from the criteria of Malcolm Baldrige National Quality Award) were introduced in 2006 and 2008 respectively (SEPO, 2008).

In addition, in 2004, SEPO introduced an SOE corporate governance system by adopting a system consistent with that employed by Public Limited Companies (SEPO, 2008). In this system, board members are selected by shareholders and the chief executive appointed by the board. SEPO also set up a Good Enterprise System to monitor SOEs' governance. Such system has been integrated with the SOE performance agreement system in order to assess SOE performance.

Recently, PMS are growing in importance to the Thai Government, as they help to evaluate and improve SOE performance as well as to monitor the SOEs' government policy-based projects (SEPO, 2012).

The PMS used in SOEs can be categorized into two groups: with and without SEPA. The first group's PMS is based on the required KPIs as shown in the table below.

**Table A-1.1: The SOE's performance indicators and their weighted**

Key Performance Indicators	Listed SOE (weighted)	Non-Listed SOE (Weighted)	Note
Government policy-based projects	Not measured	20% (+/- 10%)	Depending on each organisational context and some indicators are used across SOEs
Operations	65%	45% (+/- 10%)	Depending on each organisational context but based on Statement of Directions and vision of individual SOE
- Financial			EVA, ROA, profitability ratios, human productivity, cost, debt service coverage
- Non-financial			Utilisation, lost/defect, quality of product and service.
Organisational Management - Board of Directors - Risk Management - Internal Control - Internal Audit - Information System Management - Humana Resources Management	35%	35%	- Common indicators for all SOEs - Each KPI will have a target and criteria set provided by Sub-performance Assessment Committee - Every SOE will be assessed using the same criteria - Generally, MoF will assess SOE follow the checklist of tasks or reports
Total	100%	100%	

Source: SEPO (2013)

Note: The common industry

At the end of the year, the result will be to divide SOEs into 5 groups, depending on score: 1.0 (worst performance), 2.0, 3.0 (Normal performance), 4.0 (Good performance) and 5.0 (excellent performance).

MOF has employed this PMS to assess SOEs since 1995 with some adjustment in indicators and their weights. Even though the SOE PMS has been developed, problems still occur. One of the important problems is that most SOEs use standard Key Performance Indicators such as EVA to report their performances only, without employing the EVA system in their management system and decision-making process (PermBhusi, 2010). Moreover, other major problems also include the use of some standard indicators on various sizes and types of SOEs, the linkage between the SOEs' performance results with incentive, and the unclear criteria or measurement set forth by

the Thai government (PermBhusi, 2010). From MOF's perspective, these problems could discourage improvement processes for SOEs as well as affect government decisions and actions on SOEs as one of the national economic and social instruments. Therefore, SEPA was introduced in 2008.

The second group consists of 19 SOEs, which is divided into group A and Group Ba as a pilot project in implementing SEPA. At the beginning, the pilot SOEs have employed SEPA parallel with both PMS described in the first group. Both of the case study organisations, PWA and POST, are in Group Ba. In 2014, the case study organisations have fully employed the SOE's PMS.

**Table A-1.2: State enterprise performance appraisal in group A and Ba**

Performance measurement system	Group A	Group Ba	Note
SEPA Framework Perspective 1 to 6 - Leadership - Strategic Planning - Customer and Market focus - Measurement, Analysis and Knowledge Management - Workforce focus - Process Management	60%	65%	- Using an adapted criteria from MBNQA and Thailand Quality Award
Result Perspective 7	35%	35%	KPIs employed in perspective 7 have been adopted from the KPIs in SOE's PMS in each SOE, which include both financial and non-financial KPIs. For example, PWA has the quality of treated water as KPIs in both SOE's PMS and SEPA.
Total	100%	100%	

Source: SEPO (2013)

SEPO (2014) explained the similarities and differences between the SOE's PMS and SEPA as follows. Firstly, the performance agreement and its process including the negotiation between SOE and Sub performance assessment committee remain the same.

Secondly, SOEs are still assessed and scored between one to five and at the year-end, and the score will be used to link with the SOE incentive system. Thirdly, the set of KPIs in organisational management and Economic Value Management (EVM) have been changed and integrated with SEPA criteria. Lastly, SOEs have to do a self-



assessment report and organisational analysis report as required in the SEPA system as well as submit them together with the proposed set of KPIs.

In this research, SEPA will not be mentioned much because it had only an experimental assessment in both of cases study organisations in 2013, which was around the time the field research took place.

### **Other key management tools and standards**

Regarding KPIs of SOE's PMS, the implementation of EVM and BSC as well as the use of some international standards has been set. This part will briefly discuss the tool and standards. Further detail will be presented in the next chapter.

SOEs have been required to employ Economic Value Management (EVM or EVA<sup>©</sup>) to evaluate their performance and have to set up an EVM centre, which is responsible for monitoring economic profit, asset utilizations as well as the investment plan in every business unit. To implement EVM, the setup of EVM centres follows organisational structure, establishing one in every business unit. The indicators related to EVM are economic profit and EVM implementation. Also, MoF requires SOEs to link EVM with Balanced Scorecard (BSC) in order to create an organisational strategic map and driver tree. Many SOEs decided to employ a BSC model across the whole organisation. They use BSC to drill down to the MoF performance measurement targets as well as add some other organisational related targets directly to responsible departments in order to ensure that the whole organisational performance can reach MoF's requirement.

Apart from EVM and BSC, SOEs also monitor performance by referring to a variety of standards as well as some other guideline such as COSO, COBIT, ISO14001 in the information system provided to organisations recommended by the Sub-Performance Assessment Committee and MoF.

## **Appendix A-2: The SOEs' performance measurement systems in PWA**

The Thai government gives each SOE a Statement of Directions (SODs), which is used in the negotiation a state of performance agreement with MOF. Most of the individual SOE's key performance indices in the prospective results will be related to the given SODs. PWA's SOD is "To invest in an efficient treated water system and to increase water coverage in rural areas, to provide and to develop raw water resources to meet the future demand as well as to manage production cost more efficiently" (SEPO, 2013). From SOD and PWA's vision, the strategy map, which was influenced by Kaplan and Nortons Balance Scorecard as used in 2013, is shown below.

**Figure A-2.1: Provincial Waterworks Authority's strategy map**



Source: PWA performance report (2013)

The table below shows the example of KPIs in 2012 and PWA past performance.

**Table A-2.1: Provincial Waterworks Authority's KPIs in 2012**



tends to evaluate both self-organisational improvement and the improvement measured against the other organisations through the SOE award ranking.

Another challenge that currently concerns the board of directors and executive team is the transformation process of the current PMS to State Enterprise Performance Appraisal System (SEPA), which will fully replace it in 2013. In order to smoothly transform, PWA encouraged its staff by promoting the year of SEPA learning in 2011 (PWA, 2012). As at time this case study research was conducted, PWA is in an implementation stage of SEPA and has to employ SEPA parallel with the SOE's PMS. In 2013, PWA has to evaluate its organisation using SEPA criteria. The results can be seen in the table below.

**Table A-2.2: Provincial Waterworks Authority's SEPA results**

<b>SEPA Framework Perspective</b>	<b>Weighted</b>	<b>Max. Score</b>	<b>Score</b>
- Leadership	70%	120	42.00
- Strategic Planning	65%	80	26.00
- Customer and Market focus	50%	110	27.50
- Measurement, Analysis and Knowledge Management	60%	80	24.00
- Workforce focus	60%	100	29.50
- Process Management	50%	110	27.50
<b>Total Scores</b>		<b>600</b>	<b>176.5</b>

Source: Adapted from Provincial Waterworks Authority Organisational performance and self assessment report in 2012 (2013)

PWA assisted by MoF had observed and evaluated the above score by comparing the PWA actual practices and performance with the SEPA score criteria and guidelines. This 2013 score has been used as the base score for the year 2014 onwards to identify the improvement of PWA in the above six perspectives. Later on in 2014 the result-based performance will be added as a seventh perspective that has employed some of the operation KPIs to assess PWA actual performance.

### **Appendix A-3: The SOE's performance measurement systems in POST**

Similar to PWA, the Thai government provides SODs for POST following its statement as “National service provider in postal services and Logistics network for parcel and goods distributions which can compare with international standards.” From the SOD and POST's vision, the strategy map used in 2013 is shown below.

**Figure A-3.1: Thailand Post's strategy map**



Source: Thai POST performance report (2013)

The table below shows the example of KPIs in 2012 and POST past performance.

**Table A-3.1: Thailand Post's KPIs in 2012**



Source: Adapted from Thailand Post performance report (2012) and Organisational performance and self assessment report in 2012 (2013)

Similar to PWA, POST as a pilot organisation in Group Ba has employed SEPA and done self-assessment in 2013. In 2014, POST has fully adopted the system in its organisation. The 2013 results can be seen in the table below.

**Table A-3.2: Thailand Post’s SEPA results**

<b>SEPA Framework Perspective</b>	<b>Weighted</b>	<b>Max. Score</b>	<b>Score</b>
- Leadership	70%	120	41.50
- Strategic Planning	65%	80	12.00
- Customer and Market focus	50%	110	55.50
- Measurement, Analysis and knowledge Management	60%	80	20.00
- Workforce focus	60%	100	35.00
- Process Management	50%	110	44.00
<b>Total Scores</b>		<b>600</b>	<b>208.00</b>

Source: Adapted from Thailand Post Organisational performance and self assessment report in 2012 (2013)

## **Appendix B: Case study organisations**

### **Appendix B-1: The literature of water and postal sectors**

#### **Water Sector**

Over the past three decades, the reform of infrastructure sectors such as water and wastewater, electricity, and telecommunications has gained attention from governments worldwide (Abbott et al., 2011). The reforms encouraged competition and increased economic efficiency. According to Abbott et al. (2011), reform of the water sector is needed to enhance environmental and quality standards, and provide affordable and drinkable water to consumers. Consequently, literature on the water sector focused on implications of water reform, measuring productivity and efficiency performance, and capital efficiency. Most research in the sector concerns developed countries. For example, research on developed countries (Abbott et al., 2012; Carvalho et al., 2012; Pollitt and Steer, 2012; Abbott et al. 2011; Allan, 2006) and Latin America (Ferro et al., 2011; Corton and Berg, 2009) is extensive, with much less research concentrating on developing countries.

To understand the water sector, it is important to recognize its structure. According to Abbott and Cohen (2009, p. 234), Saal et al. (2011), and Pollitt and Steer (2012), the water supply chain consists of: 'bulk water collection and storage, bulk water transfer, water treatment, water distribution, sewerage collection distribution and treatment', and other potential activities such as drainage and irrigation. Marques (2010) and Abbott et al. (2012) argue that the water sector requires a very capital-intensive network structure to distribute water supplies to consumers. Due to economies of scale of water supply and the expense of duplication, a single provider is more efficient than several providers are, and thus water services are natural monopolies. Abbott et al. (2011, p. 116) state that due to monopoly and quasi-monopoly statuses, and evolving issues such as water quality, environment, and water management and planning, it is difficult to evaluate water utility performance. Due to the distortion of market power, use of traditional financial indicators such as profit-based indicators to assess waterworks performance becomes problematic (Abbott and Cohen, 2009; Abbott et al., 2011). Herrala et al. (2012) confirm that due to the complexity of dimensions of waterworks, it is difficult to



define an entity's efficiency and obtain results that can be compared adequately with similar entities.

According to Reynaud and Thomas (2013), in the utility sector, profitability has become an important concept for operators when servicing and delivering a product. The authors demonstrate that the profitability concept in this sector is complicated and difficult to measure because operator profitability is not reliant on internal decisions such as investment and optimisation of production alone, but on external circumstances such as economic and environmental regulations.

Palme and Tillman (2008) demonstrate increased use of benchmark indicators in the water sector. Consistent with Walter et al. (2009), recently, use of water benchmarks is increasing, especially water distribution indicators used commonly worldwide. According to Carvalho et al. (2012), most benchmark studies assess operators' performance based on production or cost estimates. In benchmark studies, researchers employ various economic ratios to measure and compare operators' performance such as relative profit models and shareholder return models in Ogden and Watson (1999), operating cost per connection and operating cost per cubic meter in Corton and Berg (2009), and average revenue in property constant in Abbot et al. (2011). According to Abbott and Cohen (2009), the issues mentioned above – monopoly power, water-sector reform, and its regulation – persuaded researchers to study the water sector's productivity and performance further. Carvalho et al. (2012) state that the literature in this field includes examinations of economies of scope, economies of scale, economies of density, determinations of ownership, and various other efficiency factors to measure performance.

Marques (2010) argues that besides economic regulation, service quality is also an important aspect that needs to be considered. Picazo-Tadeo et al. (2008) state that studies of water utilities focus primarily on measuring performance using various techniques, but most disregard the quality dimension because a water utility devotes its resources to improving quantity instead of quality. Although some papers introduce the quality dimension, it is not a centre point of research. Picazo-Tadeo et al. (2008) argue that quality measures provide useful information to operators and policymakers, and lack of quality can be a result of bad performance. Service-quality measures employed

in the water sector vary from country to country, depending on government policies, regulations, and customer perspectives (Picazo-Tadeo et al. 2008). Holt (2005, p. 192) suggests, ‘Measuring quality of service is complicated by the multi-dimensional nature attributes.’ The optimum degree of service quality is difficult to define due to conflicts with costs of service improvement (Holt, 2005).

Franceys and Gerlach (2011) argue that in natural-monopoly industries such as water, improvements to products corresponding to customer needs appear absent. The consensus regarding the water sector is that it could be more efficient and customer oriented (Abbott et al., 2012). To protect customers’ interests, regulators and governments participate with consumers by providing a communication channel or setting up a customer-service committee because consumer involvement is an important aspect of water-service regulation (Franceys and Gerlach, 2011), and to develop performance measurements on service quality, including customer service (Franceys and Gerlach, 2011; Marques, 2010; Ogden and Clarke, 2005).

Literature concerning customer-service indicators in the water sector focuses primarily on reform, especially in the United Kingdom (Ogden and Watson, 1999; Ogden and Clarke, 2005). According to Ogden and Watson (1999), in the case of England and Wales’ water sector, operator performance reports by Ofwat have also been used by the city and analysts. Although they were concerned primarily with financial and economic performance, customer service indicators were used to enhance analyses of the successfulness of operators and managerial competence.

Water supply is a consumer good, and water quality relates highly with public health issues (Marques, 2010; Palme and Tillman, 2008). Many countries’ regulators develop a public obligation in health regulation comprised of service standards for an operator to fulfil or to which to commit (Marques, 2010). In many cases, indicators of the quality of treated and drinking water are also provided to ensure operator conformance to strict quality standards (Marques, 2010). Improvements to service quality and environmental regulation normally require extra investment, and as a result, reductions in returns are expected (Saal and Parker, 2001).

Among the number of quality measurements in water utilities, researchers employ water loss rates or unaccounted-for water or leakages as a proxy of the quality of water service (Lin; 2005; Picazo-Tadeo et al., 2008; Gonzalez-Gomez et al., 2012). Picazo-Tadeo et al. (2008) show that water loss rates relate highly to efficiency in Spain and Brazil (Tupper and Resender, 2004) because high volumes of water losses require operators to spend more on water supply and purification (Gonzalez-Gomez et al., 2012). The reasons behind water losses include high repair costs (Gracia and Thomas, 2001), lack of resources (Soler, 2003), and other physical network issues such as the age of networks and sudden changes in pressure (Gonzales-Gomez (2012). Picazo-Tadeo et al. (2008) point out that reducing water loss is an opportunity cost of the resource. Water shortages due to climate change and inefficient water management also cause operators and regulators to consider water loss issues seriously.

Vilanova et al. (2015, p. 9) reviewed studies, concluding that the ‘sustainability PMS in the water supply utilities’ consists of measures from three dimensions – economics, social, and environments – where the set of KPIs and their targets should be based on organisational strategic goals and objectives. KPIs should lead an organisation to improve the use of resources and services.

### **Postal Sector**

Over the last two decades, the postal sector has been liberalized in many countries (Iturralde and Quiros, 2008; Cremer et al., 2011; Fillippini and Koller, 2012), especially in the EU. The fully liberalized sector has increased postal market competition (Cremer et al., 2011). Other developed countries such as the United States and Switzerland still regulate postal delivery services, and reserve some delivery services, respectively, while allowing open competition for other services (Cremer et al., 2011; Fillippini and Koller, 2012). Hence, postal services in many countries still preserve monopoly power regarding some services. Accordingly, a regulatory framework, including price control, has been required to meet customer needs and service standards (Cremer et al., 2011). The emergence of new technologies such as the internet, expansion of globalisation, and environment initiatives and social responsibility has accelerated pressure for the postal sector to change its services and management (Borenstein and Becker, 2004; Zairi, 2000; Bravo, 1995). According to Fillippini and Koller (2012), to overcome changes to regulation, technology, and competition, postal reforms aim to improve

performance in both product innovation and service quality, and retain minimum or reserved services for citizens at affordable prices (Rodriguez and Storer, 2000). However, a literature review from Iturralde and Quiros (2008) shows that following the liberalisation of the postal sector, empirical research has indicated that efficiency assessments of the consequences remain limited.

Recently, the postal sector not only offers post services as it has in the past, it is expanding into courier, freight, and e-services (Chan et al., 2006). Regarding the emergence of new technologies, a decrease in household demand (Hong and Wolak, 2008) and pessimistic economics have been expected, so a need for change management is required to enhance the sector's competitiveness and market-orientation, and to consider more of what customers want (Chan et al., 2006). According to Bourne and Haddon (2010), although changes to the commercial nature of the postal sector and its substitutes have been an issue of concern, some market opportunities have been created such as an increase in internet shopping. Developments of this type require a trustworthy delivery service that is determined not only by price, but also by other quality factors (Gouvea et al., 2001) and improved of delivery services using the new communication technologies (Balogh et al. 2006).

In recent decades, a number of studies of cost efficiency measurement in network industries such as water and energy have appeared, but few studies exist on the postal sector, though some research includes measurement of production efficiency due to similar natures (Filippini and Koller, 2012). Most research focuses on the U.K. postal sector, including Moriarty et al. (2006) and Homcastle et al. (2006), both of which use the same cross-sectional data of the delivery offices of Royal Mail. Visco Comandini et al. (2010) explain that one objective of using cost efficiency is to define how much financial support should be provided for universal service obligations (USO). Filippini and Koller (2012) point out that information acquired from cost efficiency is useful to policymakers and postal providers to increase liberalisation and be more competitive.

According to Chan et al. (2006) regarding liberalisation and a rise in competition, to enhance competitiveness, many findings suggest that benchmarking helps postal providers assess their position in the sector, measure performance, and identify areas of improvement. Chan et al. (2006) employed the analytic hierarchy process (AHP) to

explain the measurement system of the postal sector and list criteria and sub-criteria that influence postal providers (Table 2.2).

**Table B-1.1: Criteria and sub-criteria that influence postal providers**

<b>Criteria</b>	<b>Sub-Criteria</b>
Reliability	On time delivery, Accuracy, Security
Lead time	Customer response time, Processing time, Queuing time
Convenience	Post Office, Drop box, Operation hours, Item collection, Stamp selling, Payment method, Delivering coverage
Flexibility	Labour, Machine, Process, Volume, Access, Sorting, Delivery routing, Mix, Launch
Cost	Manufacturing, Item carrying, Storage, Distribution
Return on Assets	Operation margin, Turnover
Relationship	Customer, Employee, Partner
Innovativeness	New service, New technology

Source: Adapted from Chan et al. (2006)

Chan et al. (2006) point out that these criteria help postal providers create rating and measurement standards that can be modified to suit individual providers. In an empirical study of postal sectors in 16 OECD countries, Perelman and Pestieau (1994) argue that by benchmarking a postal provider's performance, some indicators of slack performance might not determine individual management insufficiency because they may relate to differences in geography and institutions among countries. They also point out that most literature on postal performance relates to service quality, centring on lead-time of delivery measures. Balogh et al. (2006) support the idea that the centre of attention of regulation of service quality is on delivery within time targets and regulated standards. For example, in the United Kingdom, most service quality indicators for Royal Mail are also based on a percentage of achievement of mail delivery within a target time (Postal Service Commission, 2012; GAO, 2006). Not all such services are measured in time delivery; in the United States, some services such as standard mail and package services without tracking are not evaluated in this way (GAO, 2006).

This literature review provides key activities and PMS of related sectors. These help researchers understand characteristics and services of each sector better, and how each sector focuses on PMS or setting KPIs.

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## **Appendix B-2: Provincial Waterworks Authority**

Provincial Waterworks Authority (PWA) is the first case study of this thesis. This section starts off by giving an overview of the Water sector in Thailand with emphasis on State Owned Enterprises. Next, a background of PWA, which includes key financial figures, organisational structure and PMS, is presented.

### **1. Water sector**

To gain insight into PWA, a brief background of the water sector in Thailand needs to be mentioned. This thesis has emphasized aspects of sector structure and reforms that are focused on State Owned Enterprises (SOEs).

#### **1.1 Overview**

According to SEPO (2013), the Thai government announced a statement of direction for SOEs in the water sector as follows: “To serve the fundamental demand and improve citizens’ quality of life as well as maximise the utilisation of SOEs’ assets.” Recently, there are 3 SOEs in Thailand in the water and wastewater businesses: the Metropolitan Waterworks Authority (MWA), the Provincial Waterworks Authority (PWA), and the Wastewater Management Authority (WMA). Water supply and distribution systems in Thailand are mostly covered by two SOEs. The MWA produces and distributes treated water to urban areas, while the PWA provides treated water for rural areas. The activities of both MWA and PWA do not include sewerage businesses. There are also municipal and private water companies, which can be consider as PWA competitors. Both MWA and PWA are SOEs under Ministry of Interior (MoI). WMA is an SOE under the Ministry of Natural Resources and Environment (MNRE). The WMA has been founded for the intention of managing and educating rural municipalities in wastewater treatment; however, in reality WMA has not yet invested in any sewage treatment plants due to the lack of financial resources. It now works only as a management team under municipality contracts. In addition, five years ago, MOF had proposed MNRE to reconsider the existence of WMA but it had been rejected.

Due to the economies of scale of water supply and the expense of duplication, a single provider is more efficient than several providers, thus water service can be considered as a natural monopoly. In Thailand, the natural monopoly can be seen. Apart from

PWA and MWA, the other key water providers are local municipalities and sanitary districts, which are under the flexible control of MoI and village-own operated water systems. Some areas of responsibility of PWA and local municipalities can overlap. In this case, local municipalities can decide to provide the water services themselves or ask PWA to do so.

## **1.2 Efforts to corporatize the water sector in Thailand**

In 2004, the Thai government failed to corporatize SOEs in the water sector and was prevented from founding a Water Regulator due to strong protests from the labour unions. Corporatization in the Thai context means a transformation process from a government entity into a 100% government-owned company that has to operate under the Commercial Law. At that time, the protest against water sector corporatization was started due to the fear that the Thai government might take further action by listing SOEs on the Thai stock exchange market and reducing its ownership to less than 50%.

At present, the water sector has been regulated by a number of government agencies and committees, which sometimes create conflict of interest amongst themselves. In addition, some consultants hired by the Thai government claimed that a water bureaucracy in Thailand causes inefficient performance such as poor service standards, poor water quality and excessive operating costs (Tasman, 2000 and NERA, 2005). Therefore, the Thai government needs to re-organize the water sector and its related agencies' structures. However, until now, there has been no significant change in this sector.

Regarding the failure of water sector corporatisation in Thailand mentioned before, in order to be more efficient, SOEs in this sector have been required to improve their efficiency, productivity, distribution of water supply, and customer satisfaction as well as to fulfil individual stakeholder requirements. Many management tools are required to overcome these obstacles and one of them is a PMS, which was introduced by Ministry of Finance (MoF).

## **1.3 Key Financial Data**

The Thailand water sector still requires massive incremental capital investments, which need to be well-managed, as well as an adequate policy for setting water tariffs balanced between commercial activity and social activity (SEPO, 2010). Nonetheless,

the lack of an economic regulatory body in Thailand makes it difficult for operators as well as the Thai government to set up a water tariff structure. Recently, operators have been authorized to set their own tariff; however, operators that are SOEs also take political issues as well as other government agencies' suggestions into their consideration.

The water sector key data are shown in the table below.

**Table B-2.1: The water sector's key data**

Key Data (As of September, 2014)	Unit	State-Owned Enterprises		
		MWA	PWA	WMA
Assets	Million Baht	63,268	89,226	189
Liabilities	Million Baht	11,920	56,479	101
Equity	Million Baht	51,348	32,747	88
Employee		4,046	7,241	127
Water Coverage Area	Sq.km	2,519	5,831	NA
Water Sales	Million cu.m.	1,350	1,119	NA
Water Loss Rate	Per cent	23.39	28.53	NA

Source: Annual Report 2012 of MWA, PWA and WMA and State Enterprise Reviews of MWA, PWA and WMA

Note: 1. The exchange rate is approximately 55 Baht per Pound Sterling (as of September 2015)

2. The accounting calendar starts from 1<sup>st</sup> October to 30<sup>th</sup> September

#### 1.4 Other key issues

In the Thai water sector, there is no research or clear evidence on the advantage of economy of scale. However, the merit of economies of density in the water sector has been mentioned by some participants in the interviews by pointing out that MWA's profit margin is far better than PWA's.

It is clear that the Thai water sector has not evolved in economies of scope since the big two operators, MWA and PWA, are only in the water supply and distribution business as mentioned above, while sewerage management is operated by Bangkok Metropolitan Administration and local municipalities, and is free of charge. The small players in this field such as Industrial Estate Authority of Thailand (IEAT) may also do sewerage businesses together with water supply, which may help in cost reduction. However, the

concept of pay per pollution had been mentioned on various occasions in a plan to charge the sewerage cost through water operators.

## **2. Provincial Waterworks Authority**

According to the problem above, the study of SOEs in the water sector can help the researcher better understand the PMS field. In this research, Thailand's Provincial Waterworks Authority (PWA) is selected as a case study.

### **2.1 Organizational context**

PWA was established on 28<sup>th</sup> February 1979, in accordance with the Provincial Waterworks Authority Act 1979, to provide a proper water supply system for Thai people in 74 provinces across the country.

The PWA vision is: "PWA shall be a good organization with high efficiency in providing full access to standard drinking water supply service to population throughout the country" (PWA, 2012). The PWA mission is 'is an agency providing the water supply service in accordance with the government policy, with a main consideration of people's hygiene'.

PWA key activities are as follows: water collection and storage, water treatment and water distribution. At present, PWA head office is located in Bangkok and there are 231 waterworks, which are located across the country.

### **2.2 Organisational Structure**

With more than three decades of experience and about 7,241 workers, the PWA organisational structure consists of 68 people at the executive level, 1,404 people at the management level and 5,769 people at the operational level (PWA, 2012). Nearly fifty per cent of the employees are educated below the undergraduate level. In its organisational structure, PWA's top managerial positions include one governor, eight deputy governors, nine assistant governors and 12 directors, which are 10 regional directors and 2 division directors who supervise twenty-five departments such as Administration, Operation one to ten, Plan and strategies, Finance and accounting, Risk

management, Technical Affairs, Information Technology, Legal Affairs and Private Sector Participation (PWA, 2012).

### 2.3 Financial data

The PWA key financial data are as follows,

**Table B-2.2: Provincial Waterworks Authority’s key financial data**

Unit: Million Baht

Key Financial Data <sup>(1)</sup>	Fiscal Year (October –September)		
	2012	2013	2014
Assets	81,798	87,906	89,226
Liabilities	55,036	58,050	56,479
Equity	26,762	29.856	32,747
Revenue	22,749	26,956	27,608
Expense	18,720	20,495	21,829
Net Profit	4,029	6,462	5,778
Subsidy <sup>(2)</sup>	1,004	1,238	1,408

Source: PWA annual report 2013 and 2014 and State Enterprise Review 2014 by SEPO

Considering the operating income structure of each regional office, the revenue consists of revenue from water sales, revenue from services and net revenue from pipeline and connection installation; major expenditures are from material cost, depreciation and the allocation cost from the head office. The assets accumulate based on the assets of each waterworks and regional office itself. The operational versus capital expenditure is approximately 0.5 times and employee expenditure is 3,223 million baht in 2014.

One of the water sector characteristics is the intensive capital investment in the water treatment and distribution system. PWA’s long-term plan has been to invest more than thirteen thousand baht in fifty-nine projects from 2010 to 2014 (PWA, 2010).

The sources of funds are from issued bonds or loans, government subsidy and PWA owned operation cash flow of which the approximate respective proportions are fifty per cent, thirty-eight and twelve per cent (PWA, 2010). As mentioned before, a major

drawback of the improvement of water sector in Thailand is the fragmented state of policy formulation and implementation in relation to the water sector. For instance, due to the lack of a water regulatory body, there are no clear guidelines for the implementation of a tariff setting. It is claimed by PWA that its recent tariffs cannot be set on a commercial basis, which leads to the other problems such as lack of funds and delayed schedule of investment plan. Consequently, the Thai government subsidises PWA for its investment in social project each year. From the investment plan and strategic plan, the researcher can conclude that due to the inadequate cost allocation in the accounting system, as well as the absence of a master investment plan approved by the Thai government (PWA normally submitted three to four year plans to the government), it is difficult for both sides, the government and PWA, to conclude the long-term investment plan and the needed amount of subsidy. As a result, the Thai government ends up subsidising PWA based on some of its projects every year. The government subsidy is treated as one of the revenue items in the income statement.

The other example of a policy problem is that the former Thai government had forced PWA to be more participating with the private sector by doing thirty-year contracts, such as Build-owned-operate-transfer (BOOT) deals. According to the State enterprise review 2014 by SEPO, while technically excellent, some of the BOOT projects have not been financially satisfactory and according to the contract structure, PWA was left with contingent liabilities. Moreover, the requirement of investing in water pipelines and other infrastructure to non-commercial areas as well as the inadequate subsidy from the Thai government, PWA has relied more on liabilities as a major source of funds. In conclusion, both tariff structures and government policy affect PWA profitability and financial structure.

We derived the key characteristics of PWA from secondary data and literature on the water sector. It can be summarised and shown in the table below.

**Table B-2.3: Provincial Waterworks Authority’s key characteristics**

Provincial Waterworks Authority		Note
Ownership	100% owned by Thai government	
Line Ministry	Ministry of Interior	
Regular Body	No	No official regulator organisations. Any operation or investment that might affect the Thai citizens has to be approved by the cabinet.
Corporatisation	No	
Privatisation	No	
Sector characteristic	Capital intensive	Derived from water sector literature
Company size	Large-sized	Compared with the other SOEs
Core product	Treated water supply and distribution	PWA (2013)
Subsidy from government	Yes	State enterprise review by SEPO
Financial structure	High leverage	State enterprise review by SEPO
Revenue tax responsibility	No	Not under the commercial law



### **Appendix B-3: Thailand Post**

Over several decades, despite the advance of Information Technology and its substitution for traditional postal services, Thailand Post has played a vital role as a basic communication approach in strengthening Thailand's economy and society. Thailand Post and CAT Telecom Co. Ltd. were originally a part of the Communication Authority of Thailand and were corporatized on August 14, 2003 with 100% ownership by Ministry of Finance. However, it is still under supervision from Ministry of Information and Communication Technology. Thailand Post's vision is "To be the leader in postal business through a comprehensive, convenient, quality network that can always be relied on to serve the need of Thai people". Thailand Post has defined its market into four businesses as follows: postal business, logistics business, retail business and finance business. Only the postal market has been regulated by the Postal Service Commission, which is responsible to determine 'the authorities, rights and benefits of Thailand Post' (MICT, 2010).

#### **Organisational Structure**

Thailand Post's head office is located in Bangkok and there are 1,163 branches across country with 22,616 workers and 3,354 licensed postal services. According to Thailand Post (2012), due to the uniqueness of Thailand postal market as well as to the differences of each country's fundamental structure, it is difficult to define both domestic and international benchmarking organizations.

## Financial data

The POST key financial data are as follows.

**Table B-3.1: Thailand Post's key financial data**

Unit: Million Baht

Key Financial Data	Fiscal Year (October –September)		
	2012	2013	2014
Assets	19,101	20,217	22,496
Liabilities	8,755	8,054	9,508
Equity	10,346	12,163	12,988
Revenues	18,257	19,392	21,790
Expenses	(16,559)	(17,751)	(19,414)
Revenue tax	(563)	(416)	(581)
Net Profit	1,135	1,224	1,795
Subsidy	0	0	0

Source: POST annual report 2013 and 2014 and State Enterprise Review 2014 by SEPO

Note: 1. The exchange rate is approximately 55 Baht per Pound Sterling (as of September 2015)

2. The accounting calendar runs from 1<sup>st</sup> January to 31<sup>th</sup> December

Due to the tariff set by the Postal Commission on letter delivery (3 baht per letter), the mainstream of revenue comes from wholesale customers and other services such as special delivery including registered mail, EMS and parcel for which the price is not restricted. Due to the highly competitive market, POST plans to expand its business by investing in a logistics hub (POST, 2013). However, the plan has been suspended because some government agencies think that it may be against constitutional law that prohibits state agency from commercialising in an area that the private sector is good at (Interview record: A1\_011).

We derived the key characteristics of POST from secondary data and literature on the postal sector. It can be summarised and shown on the table below.

**Table B-3.2: Thailand Post’s key characteristics**

Thailand Post		Note
Ownership	100% owned by Thai government	
Line Ministry	Ministry of Information and Communication Technology	
Regular Body	Yes	Postal Commission
Corporatisation	Yes	
Privatisation	No	
Sector characteristic	Labour intensive	Derived from postal sector literature
Company size	Large-sized	Comparing with the other SOEs
Core product	Postal services, communication and retailed	POST (2013)
Subsidy from government	No	State enterprise review by SEPO
Financial structure	Low leverage	State enterprise review by SEPO
Revenue tax responsibility	Yes	Under the Commercial law

# **Appendix C: Case Study Semi-Structured Interviews**

## **Appendix C-1: Information sheet for interviewing participants**

### **The Development of State Owned Enterprise's Performance Measurement Systems**

#### **INFORMATION SHEET**

##### **Purpose:**

The aim of this research is to examine the development of State-Owned Enterprises' (SOEs) performance measurement systems. The research will investigate relevant information about Thailand as the case study context for the research. Firstly, the research will investigate the Thai economy and deal with importance of SOEs in Thailand. Next the development of SOEs' performance measurement systems will be examined. Finally, the investigation will turn to the involvement of government, regulators, and SOEs in performance measurement policies and strategies. All of these are necessary background for the assessment of policy and intervention in relation to performance measurement development to better understand the performance measurement situation in Thailand.

##### **Data Collection and Confidentiality:**

The interviews will be digitally recorded and will concern the participants' view of the development of SOE performance measurement systems and the involvement of stakeholders in SOE performance measurement policies and strategies. The data provided by participants will contribute to the understanding of the development of performance measurement systems in general and the participant's organisation specifically. It will also help the researcher to enhance her interpretations of what different stakeholders perceive about the success and failure of performance measurement systems. The interviews will be coded to keep participant identity separate from the data. The researcher will not use participant names in the research output without permission. Therefore, if participants want to remain anonymous, the researcher will quote verbatim anything said using a pseudonym (e.g. Officer 1, Manager 1).

As part of the requirements for the academic audit of the research, the data from the interview will be stored on secure computers for a period of 5 years. Participant information, i.e. original identity and the assigned code or pseudonym, will be stored electronically in a separate password-protected file that is only accessible by my supervisors and me.

**Output:**

To present the findings at conferences and in academic publications

**Participant rights:**

Participants may choose not to participate in this research, or may refuse to answer any question, retract any comment or the whole of the interview.

Participants may ask questions to clarify any further points about the study and I will be happy to send you a soft copy of the report through email.

**The researcher can be contacted as follows:**

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**The Development of State Owned Enterprise’s Performance Measurement  
Systems**

**INFORMATION SHEET**

**Purpose:**

The aim of this research is to examine the development of State-Owned Enterprises’ (SOEs) performance measurement systems. The research will investigate relevant information about Thailand as the case study context for the research. Firstly, the research will investigate the Thai economy and deal with importance of SOEs in Thailand. Next the development of SOEs’ performance measurement systems will be examined. Finally, the investigation will turn to the involvement of government, regulators, and SOEs in performance measurement policies and strategies. All of these are necessary background for the assessment of policy and intervention in relation to performance measurement development to better understand the performance measurement situation in Thailand.

**จุดประสงค์ในการทำวิจัย**

การวิจัยครั้งนี้มีวัตถุประสงค์เพื่อศึกษาการพัฒนาของระบบประเมินผลในรัฐวิสาหกิจในประเทศไทย ทั้งนี้ การวิจัยจะประกอบไปด้วย

1. การศึกษาระบบเศรษฐกิจ และความสำคัญของรัฐวิสาหกิจในประเทศไทย
2. การศึกษาพัฒนาการระบบประเมินผลรัฐวิสาหกิจ
3. ความสำคัญของหน่วยงานที่เกี่ยวข้องกับรัฐวิสาหกิจ ในด้านนโยบาย กลยุทธ์ และระบบประเมินผล

**Data Collection and Confidentiality:**

The interviews will be digitally recorded and will concern the participants’ view of the development of SOE performance measurement systems and the involvement of stakeholders in SOE performance measurement policies and strategies. The data provided by participants will contribute to the understanding of the development of performance measurement systems in general and the participant’s organisation specifically. It will also help the researcher to enhance her interpretations of what different stakeholders perceive about the success and failure of performance

measurement systems. The interviews will be coded to keep participant identity separate from the data. The researcher will not use participant names in the research output without permission. Therefore, if participants want to remain anonymous, the researcher will quote verbatim anything said using a pseudonym (e.g. Officer 1, Manager 1).

As part of the requirements for the academic audit of the research, the data from the interview will be stored on secure computers for a period of 5 years. Participant information, i.e. original identity and the assigned code or pseudonym, will be stored electronically in a separate password-protected file that is only accessible by my supervisors and me.

#### การเก็บข้อมูลและการรักษาข้อมูล

การสัมภาษณ์มุ่งเน้นทัศนคติของผู้ให้สัมภาษณ์ในเรื่องระบบประเมินผลรัฐวิสาหกิจ และผู้มีส่วนเกี่ยวข้องหรือหน่วยงานที่เกี่ยวข้องในการจัดทำนโยบายและกลยุทธ์ที่เกี่ยวกับระบบประเมินผลทั้งในภาพรวมของระบบประเมินผลที่กำหนดโดยภาครัฐและระบบประเมินผลภายในองค์กรของรัฐวิสาหกิจเอง

ข้อมูลส่วนบุคคลทั้งหมดจะถูกจัดเข้ารหัส และจัดเก็บแยกจากข้อมูลการสัมภาษณ์ เพื่อป้องกันการรั่วไหลของข้อมูล ทั้งนี้ ยกเว้นจะได้รับอนุญาต ผู้วิจัยจะไม่ระบุชื่อผู้ให้สัมภาษณ์ในเอกสารการวิจัย แต่จะใช้นามแฝงในการอ้างอิงข้อมูล เช่น ผู้จัดการ 1, พนักงาน 1 เป็นต้น

ทั้งนี้ ข้อมูลการทำวิจัยจะถูกเก็บไว้ในฐานข้อมูลเป็นระยะเวลา 5 ปี เนื่องจากเป็นข้อกำหนดของทางมหาวิทยาลัย อย่างไรก็ตามข้อมูลดังกล่าวจะถูกทำการเข้ารหัส ซึ่งจะมีเพียงนักวิจัย และอาจารย์ที่ปรึกษา ที่สามารถเข้าถึงข้อมูลได้

#### **Output:**

To present the findings at conferences and in academic publications

#### ผลลัพธ์

การนำเสนอผลการวิจัยต่อสาธารณะ

### **Participant rights:**

Participants may choose not to participate in this research, or may refuse to answer any question, retract any comment or the whole of the interview.

Participants may ask questions to clarify any further points about the study and I will be happy to send you a soft copy of the report through email.

### สิทธิของผู้เข้าร่วมการวิจัย

ผู้เข้าร่วมการวิจัยสามารถที่จะปฏิเสธการให้สัมภาษณ์ ทั้งบางส่วนหรือทั้งหมดได้

ผู้เข้าร่วมการวิจัยสามารถถามคำถาม รวมถึงความคืบหน้าของการวิจัย ต่อนักวิจัยได้

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**Appendix C-2: Statement of consent**

**The Development of State Owned Enterprise's Performance Measurement  
Systems**

**CONSENT FORM**

Date:

I have read and understand the information provided in the information sheet regarding this research.

I freely agree to participate in this research according to the outlined conditions in the information sheet including my rights to refuse answering any questions and withdraw from my participation in this research any time without having to give any reason.

The researcher has agreed that the data/information I provide will be stored in a secured filing system whereby only the research team will have access to it.

The researcher has agreed not to reveal my identity and personal details in any presentation and publication to the public.

---

I hereby consent:

- |   |                        |
|---|------------------------|
| (a) to be interviewed                                   | Yes/No (Please circle) |
| (b) that the interview session being digitally recorded | Yes/No (Please circle) |
| (c) that the interview be recorded in written form      | Yes/No (Please circle) |
| (d) to be quoted directly                               | Yes/No (Please circle) |
| (e) to be quoted directly if I remain anonymous         | Yes/No (Please circle) |

**Participant's Name:** .....

**Signature:**.....

**Date:**.....

## Appendix C-3: Interview Questions Guideline

### List of abbreviations and explanations

Abbreviation	Explanation
BSC	Balanced Scorecard
EVA	Economic Value Added
KPI	Key Performance Indicator
SOE	State-Owned Enterprise
TQM	Total Quality Management

### State Enterprise's interview questions

#### Background information

1. Please describe what do you do in your job?
2. For how many years have you been involved in this organisation?
3. Do you have any responsibilities in performance measurement/management activities?  
If yes, please explain

#### Institutions and stakeholders

1. How many major institutions do you have to co-operate with?  
Please, name them.
2. Does your institution have any influence on organisational strategy as well as performance measurement system?  
If yes, please explain why and how?  
For example;
  - institution pressures; coercive, mimetic and normative isomorphism
    - a. rules, norms, society's cultures
    - b. requirement or information needs of institutions
    - c. competitive market
3. How does the institution pressure affect the implementation and operation stage of a performance measurement system?  
For example;
  - rewarding/ incentive system
  - awards
  - requirement of performance targets
4. How does the organization manage the institution pressure?
5. Are there any conflicts of interest between the organization and institutions?  
If yes, how does your organization handle it?
6. Do you have any other institutions-related issues and challenges?  
If yes, please explain.

## Performance Measurement

1. What performance measurement system is employed in the organization?  
For example; Balanced Scorecard (BSC), Economic Value Added (EVA), Total Quality Management (TQM) and traditional accounting

2. Are there any factors that influence the organization to adopt specific performance measurement system?

If yes, please explain

If no, give participant some hints of possible factors and ask for explanation.

- Influence by institutions such as Ministry of Finance, Regulator, others.
- Influence by competitors or peers.
- Customer expectation

3. If you adopt two or more performance measurement systems, how can you integrate such systems together?

4. What are the constraints of implementation and operation of performance measurement system?

For example; resistant to change, insufficient resources and unrelated with organisational strategy

Please, explain or give an organisational example

5. What are the key success or fail factors of implementation and operation of performance measurement systems?

For example;

- organisational resources such as human, financial, technology
- organisational systems such as incentive system
- performance targets
- coherence of the PMS and organisational strategy
- feedback and review system.
- support from institutions.

Please explain each factor mentioned

6. What are the problems occurred on implementing a performance measurement systems?

For example,

Internal driver (process, culture, people, system)

- inaccurate and subjective measures
- focus on performance by ignoring future consequences
- inappropriate benchmarks
- lack of attention to informal controls
- resource allocation
- strategy are not linked to department or individual goals.
- Inadequate resources

## External driver

7. What are the organizational concerns when implementing a performance measurement system?
8. What are you more concerned about institution, employee, customer or organisational performance? And why?
9. What action do you take to ensure all concerned issues are taken into consideration during performance measurement system implementation and setting up key performance indicators (KPIs)?
10. Are there any sets of measures required by institutions?  
If yes, what do you think about it?  
For example; unachievable or unchallengeable measures
11. In case your stakeholders cannot satisfy your performance measure criteria (except under very unusual situations), what preventive procedure do you take to avoid reoccurrence?
12. How do you communicate your KPIs through your organization?
13. What are the positive and negative effects on an organization of using a performance measurement system?
14. Do you think performance measurement system is useful for State-Owned Enterprises (SOEs)?  
If yes, please explain  
If no, please give reason.
15. Amongst the performance measurement systems employed in SOEs, which system do you prefer the most and least? Why?
16. Do you have any other performance measurement system related issues and challenges?  
If yes, please explain.
17. Do you have any recommendation on how to improve performance measurement system in your organisation?
18. How does a performance measurement system link to your organisational reward system?
19. How are targets set/agreed?
20. What procedure would be used if targets not met?
21. What do you think about SOE award? (ex: discourage or encourage)

**Institution's interview questions**

(Line Ministry, Regulator, Budget Bureau and National Economics and Social Development Bureau)

**Background information**

1. Please describe what do you do in your job?
2. For how many years have you been involved in this organisation?
3. Do you have any responsibilities in State-Owned Enterprises (SOEs)?  
If yes, please explain.

**Organisational information**

1. Could you please explain the role of your organization towards SOEs?
2. What are your organisational policies on SOEs?
3. How does your organization transfer your strategies to SOEs?
4. What are requirement and information required from SOEs?

**Institutions**

1. What are other institutions that you need to co-operate with regarding SOEs?
2. Are there any conflicts of interest between institutions?  
If yes, please explain.
3. Do you have any other institution-related issues and challenges?  
If yes, please explain.

**Performance measurement system and Institution**

1. Do you know anything about performance measurement systems in SOEs?  
If yes, please explain
2. Does your organisation required targets or goals of SOEs?  
If yes, does your organization set any measure to follow up the result?  
And how?
3. Is your organisation involved with the implementation and operation stage of performance measurement system in SOEs? If so, How?
4. What are the constraints of implementation and operation of performance

measurement system in SOEs?

For example; resistant to change, insufficient resources and unrelated with organisational strategy

Please, explain or give an organisational example

5. What are the key success or fail factors of implementation and operation of performance measurement systems?

For example;

- organisational resources such as human, financial, technology
- organisational systems such as incentive system
- performance targets
- coherence of the PMS and organisational strategy
- feedback and review system.
- support from institutions.

Please explain each factor mentioned

6. What are the positive and negative effects on an organization of using a performance measurement system?
7. Amongst the performance measurement systems employed in SOEs, which system do you prefer the most and least? Why?
8. Do you have any other performance measurement system related issues and challenges?  
If yes, please explain.
9. Do you have any recommendation on how to improve performance measurement system in SOEs?

### **Performance measurement report**

1. How does your organization use or take any action with the performance measurement report or other required report from SOEs?
2. In the case of SOE underperforming the target, will you take any action? And how?

## **Ministry of Finance interview questions**

### **Background information**

1. Please describe what do you do in your job?
2. For how many years have you been involved in this organisation?
3. Do you have any responsibilities in performance measurement system in State-Owned Enterprises (SOEs)?
4. .Could you please explain the role of your organization towards SOEs?

### **Performance Measurement System and Institution**

1. What are the government policies on performance measurement systems in SOEs?
2. Could you please explain the performance measurement systems in SOEs?
3. What are the performance measurement systems employed in SOEs?
4. What are criteria that need to be considered while making the decision on which performance measurement system will be employed in SOEs?
5. According to Q4, what are major factors in implementation and operation of performance measurement system in SOEs that need to be considered before making a decision?
6. How does your organisation influence and communicate with SOEs in adopting a performance measurement system?
7. What are the other institutions that you need to co-operate with in order to both create a performance measurement system and assess performance measurement for SOEs?
8. Are there any sets of measures required by other institutions?  
If yes, what do you think about it?  
For example; unachievable or unchallengeable measures
9. Are there any conflicts of interest between institutions?  
If yes, please explain.
10. Is your organisation involved with the implementation and operation stage of a performance measurement system in an SOE? If so, how?  
For example;
  - rewarding/ incentive system
  - awards
  - requirement of performance target

11. What are the constraints of implementation and operation of performance measurement system in SOEs?

For example; resistant to change, insufficient resources and unrelated with organisational strategy

Please, explain or give an organisational example

12. What are the success or fail factors of implementation and operation of performance measurement system in SOEs?

For example;

- organisational resources such as human, financial, technology
- organisational systems such as incentive system
- performance targets
- coherence of the PMS and organisational strategy
- feedback and review system.
- support from institutions.

Please explain each factor mentioned

13. What are the positive and negative effects on an organization of using a performance measurement system

14. Amongst the performance measurement systems employed in SOEs, which system do you prefer the most and least? Why?

15. Does an SOE award help to encourage SOEs in improving their performance? How?

16. Do you have any other performance measurement system related issues and challenges?

If yes, please explain.

17. Do you have any recommendation on how to improve performance measurement system in SOEs?

### **Performance measurement report**

1. Does your organization take any action with the performance measurement report or other required report from SOEs?

If yes, please explain.

2. In the case of SOE underperforming the target, will you take any action? And how?

3. What do you think about SOE award? (ex: discourage or encourage)



## Appendix C-4: List of participants

**Table C-4.1: List of participants: Policy maker group and consulting firms**

	<b>Code</b>	<b>Position</b>	<b>Organisation</b>	<b>Date of Interview</b>
1	A1_001	Deputy Director General	Ministry of Finance	16-May-13
2	A1_002	Analyst level 8	Ministry of Finance	16-May-13
3	A1_003	Director	Ministry of Finance	7-Jun-13
4	A1_004	Advisor	National Economics and Social Development Bureau	4-Jul-13
5	A1_005	Special expert	Ministry of information and communication technology	5-Jul-13
6	A1_007	Vice president	IRDP	9-Jul-13
7	A1_008	Manager	Ministry of Interior	12-Jul-13
8	A1_009	Manager	TRIS Crop	11-Jul-13
9	A1_011	Analyst level 8	Ministry of Finance	7-Jul-13
10	A1_012	Advisor	Ministry of Finance	8-Jul-13
11	A1_013	Deputy Director General	Ministry of Finance	11-Jul-13
12	A1_014	Analyst level 5	Ministry of Finance	17-Jul-13
13	A1_015	Analyst level 5	Ministry of Finance	17-Jul-13

**Table C-4.2: List of participants: Provincial Waterworks Authority**

	<b>Code</b>	<b>Position</b>	<b>Department</b>	<b>Date of Interview</b>
1	A1_010	Member of Board of Directors		7-Jul-13
2	B1_001	CEO		5-Jun-13
3	B1_002	CFO		30-May-13
4	B1_003	Director	PWA regional office 3	3-Jun-13
5	B1_004	Director	PWA regional office 2	3-Jun-13
6	B1_101	Director	Human resources	23-May-13
7	B1_102	Director	Legal	23-May-13
8	B1_103	Director	Policy and strategy	27-May-13
9	B1_104	Director	Information Technology	28-May-13
10	B1_105	Director	Human resources development	28-May-13
11	B1_106	Director	Office of Corporate communication and customer relation	29-May-13
12	B1_107	Director	Finance and accounting	5-Jun-13
13	B1_201	Manager	Finance and accounting	27-May-13
14	B1_202	Manager	Policy and strategy	27-May-13
15	B1_203	Manager	Information Technology	28-May-13
16	B1_204	Manager	Policy and strategy	28-May-13
17	B1_205	Manager	Human development	28-May-13
18	B1_206	Manager	PWA regional office 1	29-May-13
19	B1_207	Manager	PWA regional office 2	22-May-13
20	B1_208	Manager	Administration	29-May-13
21	B1_209	Manager	Office of Corporate communication and customer relation	30-May-13
22	B1_301	Team leader	Auditing	20-May-13
23	B1_302	Team leader	Finance and accounting	20-May-13
24	B1_303	Auditor 7	Auditing	20-May-13
25	B1_304	Assistant manager	PWA regional office 2	22-May-13
26	B1_305	Team leader	Budget planing	
27	B1_307	Team leader	Information Technology	23-May-13
28	B1_308	Team leader	Policy and strategy	23-May-13
29	B1_309	Personal officer	Human resources development	27-May-13
30	B1_310	Team leader	Finance and accounting	27-May-13
31	B1_311	Team leader	Policy and strategy	30-May-13
32	B1_312	Finance and Investment analyst	Policy and strategy	30-May-13

**Table C-4.3: List of participants: Thailand Post**

	<b>Code</b>	<b>Position</b>	<b>Department</b>	<b>Date of Interview</b>
1	A1_006	Member of Board of Directors		8-Jul-13
2	B2_001	CEO		24-Jul-13
3	B2_002	CFO		14-Jun-13
4	B2_003	Executive Vice President		17-Jun-13
5	B2_004	Executive Vice President		19-Jun-13
6	B2_005	Executive Vice President		21-Jun-13
7	B2_101	Vice President	Budget Development	18-Jun-13
8	B2_102	Vice President	Mail and Logistics Market	19-Jun-13
9	B2_103	Vice President	Postal products Management	19-Jun-13
10	B2_104	Vice President	Operating systems management	19-Jun-13
11	B2_105	Vice President	Finance and Retail Market	21-Jun-13
12	B2_106	Vice President	Business Customer Service	28-Jun-13
13	B2_107	Vice President	Human resources management	1-Jul-13
14	B2_108	Vice President	Metropolitan Postal Bureau (North)	2-Jul-14
15	B2_109	Vice President	Corporate Strategy	5-Jul-13
16	B2_201	Senior Manager	Corporate Strategy	11-Jun-13
17	B2_202	Vice President Assistant	Corporate Strategy	11-Jun-14
18	B2_203	Assistant Manager	Metropolitan Postal Bureau (North)	12-Jun-13
19	B2_204	Senior Manager	Operating systems management	17-Jun-13
20	B2_205	Senior Manager	Budget Development	18-Jun-13
21	B2_206	Senior Manager	Finance and Retail Market	18-Jun-13
22	B2_207	Senior Manager	Communication and Logistics Market	21-Jun-13
23	B2_208	Senior Manager	Quality Control	24-Jan-13
24	B2_209	Senior Manager	Postal products Management	24-Jun-13
25	B2_210	Vice President Assistant	Quality Control	25-Jun-13
26	B2_211	Senior Manager	Business Customer Service	28-Jun-13
27	B2_212	Senior Manager	Human resources management	1-Jul-13
28	B2_301	Economist	Corporate Strategy	11-Jun-13
29	B2_302	Manager		12-Jun-14
30	B2_303	Manager	Operating systems management	17-Jun-13
31	B2_304	Financial and Accounting Officer 5	Budget Development	18-Jun-13
32	B2_305	Economist 7	Communication and Logistics Market	21-Jun-13
33	B2_306	Manager	Quality Control	24-Jun-13
34	B2_307	Logistic specialist	Postal products Management	25-Jun-13
35	B2_308	Economist	Business Customer Service	27-Jun-13
36	B2_309	Personnel Officer	Human resources management	1-Jul-13

## **Appendix D: Research Ethics**

Ethical issues were relevant in the research design. According to Blumberg et al. (2005), ethics refers to the ‘right behaviour’ and concerns about how to conduct research in the appropriate ways. ‘Research ethics’ relates to the whole process of the research study from clarifying the topic to writing up the research findings. Therefore, the researcher must ensure that the research design is both methodologically and morally sound for all involved (Saunders et al., 2012).

Participants are one of the key elements in many research projects, and research that is likely to harm them should be prohibited. According to Bryman and Bell (2007, p. 133), the word ‘harm’ includes ‘physical harm; harm to participants’ development and self-esteem; stress; harm to future employment and inducing subjects to perform reprehensible acts’. Moreover, some commentators, such as Gorard (2002), suggest that researchers should not focus only on participants, but should also consider non-participants.

The other key ethical issue is the participants’ identities and privacy. Although this research employs a qualitative strategy (semi-structured interview) that can keep participants anonymous, it may not entirely eliminate the possibility of identification (Bryman and Bell, 2007). Moreover, the issues of confidentiality and anonymity should be worthy of concern. If the crucial information obtained from participants were leaked, it might cause damage to those involved.

Next, informed consent is another ethical issue. Prospective participants should be fully informed about the research process as well as the benefits and risks involved in the research, to support their decision as to whether or not to participate in the research (Jesson, 2009). This prevents participants from misunderstanding procedure and becoming involved in research they do not approve of (Bryman and Bell, 2007).

To avoid all of these ethical issues, several actions should be taken. In this research, participants were asked for their permission on research participation, digital recording, or being directly quoted, at the beginning of the interview through the consent form. Any personal information such as name or contact information was not contained in the

research to protect the anonymity of the participants. According to Bryman and Bell (2007), for confidentiality and data protection, all research data obtained from the involved people must be used and kept confidential in line with the non-disclosure agreement with the participant. Data should not be kept any longer than necessary, and a controller of data usage should be assigned and the researcher should take necessary precautions to respect the participants' rights (Bryman and Bell, 2007).

For the other ethical issues, the research work provided appropriate information for prospective participants. In addition, all necessary actions were taken to protect and prevent harm to participants and other involved people. Lastly, a research ethical guideline from Aston University was obtained as a fundamental guideline, along with other appropriate guidelines in the research.

### **List of references**

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