

## **Government-linked Companies Blue Book (GLCs Blue Book) as a complement to Balanced Scorecard (BSC) in the Government-Linked Companies transformation program**

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**Abstract**— This paper proposed to discuss the concept of the Government-linked Companies Blue Book (GLC Blue Book) and Kaplan and Norton's Balanced Scorecard (BSC). Government-linked Companies (henceforth, GLCs) play important role in the Malaysian economy with nearly 49% of market capitalization. However, the government is the view that their performance is still considered to be unsatisfactory. In an effort to transform these GLCs to be as competitive as the regional counterpart a major effort has been taken by introducing the Government-linked Companies Transformation Program. The program has several initiatives and guidelines to steer the GLCs in becoming a better performed organizations financially and operationally. The initiatives among others put forth the introduction of different coloured books stressing on different aspects. The program suggests the utilisation of the Government-linked Companies Blue Book together with corporate scorecard. Hence, this paper proposed to discuss the Government-linked Companies Blue Book (henceforth, GLC Blue Book) framework as underlined in the Transformation Program and Balanced Scorecard as the performance measurement tool to demonstrate the relevancy of the GLC Blue Book) and BSC to improve GLCs performance especially from the perspective of Enterprise governance. The GLCBB is a framework introduced in the Transformation Program as a guide to the GLCs in their transformation. Balanced Scorecard (BSC) on the other hand is a tool to support the GLC Blue Book implementation. Use together, both the GLC Blue Book and the BSC will eventually help GLCs to improve their performance.

**Keywords-** *Government-linked Companies, Balanced Scorecard (BSC), GLC Blue Book*

### I. INTRODUCTION

The government of Malaysia regards the role of Government-linked Companies (GLCs) as very important. In 2009, GLCs dominate nearly 49% of the Bursa Malaysia market capitalization. The GLCs are regarded as playing a significant part in ensuring Malaysia achieves its mission of becoming a developed nation by the year 2020. GLC is defined as the company in which the Malaysia Government has direct controlling stake of more than twenty percent of equity shares through Government-Linked Investment Companies (GLICs) (The Treasury Circular, Ministry of Finance, 1993). GLCs role are most prominent in the utilities

and services such as electricity, communication, airlines, airports, banking and financial services sectors. In the past, the perception of the public that Government-linked Companies (henceforth, GLCs) underperformed its peer due to its dual objective of making profit and fulfilling the social obligations has to some degree adversely affected the image of the GLCs [2]. In response to the underperformance issues of the GLCs, the government introduced a holistic GLC Transformation Program in May 2004. The aim of the program was to improve the GLCs performance as well as having a positive demonstration effect on the rest of the corporate sector. The success of this program is regarded as an important building block in the journey towards the achievement of the noble aspirations of Vision 2020. Fortunately, in recent years some of the GLCs have been known to be successfully transformed such as Telekom Malaysia, Malaysian Airport Holdings Berhad (MAHB), United Engineering Malaysia (UEM) Group Bhd. and many others. Some of these companies managed to turn around to be more profitable, for instance MAHB, while others even received international recognition (e.g. TM) following their success after implementing the program [10]

If GLCs continue to be non performer, the consequences would jeopardize the 2020 vision. For this reason, Putrajaya Committee on GLC High Performance (PCG) was set up, together with the introduction of several initiatives and guidelines. Amongst these initiatives and guidelines is the "Implementation of Performance Linked Compensation (PLC) in Government Linked companies (GLCs)". This guideline is famously known as the "Blue Book". The PCG suggested that GLCs need to have in place Key Performance Indicators (KPIs) and Performance Measurement. In addition, the PCG also set up the internal transformational teams to increase productivity through organization processes improvement and non-core unprofitable business and assets divestiture. GLCs are expected to have Headline KPIs (forward looking company targets) and Economic Profit. These measures are part of the government efforts to instill performance based culture and gearing towards high-performing companies. The GLC Blue Book on the other hand indicates the need for the GLCs to have a corporate scorecard as a guide in the transformation and which will consequently help in improving the GLCs performance. This corporate scorecard is somewhat similar to Balanced Scorecard (BSC) which was introduced by

Kaplan and Norton in 1992. The BSC is one of the performance measurement tools that have received well acceptance, due to its holistic measures. By taking into considerations both the leading and lagging indicators, financial and non-financial metrics as well as able to consider internal business process, customer and learning and growth perspectives [3]; [1], the BSC could be add value system for management [5].

However, the transformation focus of improvement in operations and financial indicators need to be supported by other non-financial aspects to achieve a sustainable long-term improvement. Hence, questions remains as to which management accounting measurement mechanism suits best in helping the GLCs to transform. Thus, the lack of a proper measurement tool could lead to “imbalanced” performance of too much reliance on the financial performance, and neglecting other nonfinancial measures. This paper aims to contribute to the understanding of GLC Blue Book and BSC and how the BSC could complement the GLC Blue Book.

To facilitate the transformation, the Putrajaya Committee on GLC High Performance (PCG) was set up, together with the issuance of a guideline “Implementation of Performance Linked Compensation (PLC) in Government Linked companies (GLCs)”. This guideline is famously known as the “Blue Book”. The PCG suggested that GLCs need to have in place Key Performance Indicators (KPIs) and Performance Measurement. In addition, the PCG also set up the internal transformational teams to increase productivity through organization processes improvement and non-core unprofitable business and assets divesture. GLCs are expected to have Headline KPIs (forward looking company targets) and Economic Profit. These measures are part of the government efforts to instill performance based culture and gearing towards high-performing companies. The GLC Blue Book on the other hand indicates the need for the GLCs to have a corporate scorecard as guideline in the transformation and helps in improving the GLCs performance. This corporate scorecard is somewhat similar to Balanced Scorecard (BSC). The BSC is one of the performance measurement tools that have received well acceptance, due to its holistic measures. However, the transformation focus of improvement in operations and financial indicators need to be supported by other non-financial aspects to achieve a sustainable long-term improvement. Hence, questions remains as to which management accounting measurement mechanism suits best in helping the GLCs to transform. Thus, the lack of a proper measurement tool could lead to “imbalanced” performance of too much reliance on the financial performance, and neglecting other nonfinancial measures. Therefore, the purpose of this paper is to discuss on the concept of the GLC Blue Book and Scorecard (BSC) and how the BSC could complement the GLC Blue Book.

## II. DISCUSSION ON THE BALANCED SCORECARD (BSC) AND GLC BLUE BOOK

### A. GLC Blue Book

The introduction of the GLC Blue Book in 2004 is hoped to assist in GLCs Value Creation. The book illustrates and guides the GLCs on the important means and ways in intensifying performance management. The main agenda of the Bluebook is the linking of the company’s important drivers as well as all aspect involving the value creation of each GLC. Hence, these important drivers and performance indicators have to be integrated and cascade-down throughout the company and business units including the lower level of the organization. The approved set of balanced and holistic KPIs must clearly linked targets and performance ratings including the report headline performance indicators such as the economic profit. The target set must be stretchable, achievable and allow rooms for changes. Monitoring is an important factor and hence it is necessary to conduct reviews of company, division, business units and departments performance. The CEO and the Board are fully responsible to implement the guideline. The book underlines six areas of relevant to focus on. The areas should be centered on:

1. *Establishing performance indicators and setting targets linked to strategy*
2. *Establishing KPIs and setting targets for senior management*
3. *Reviewing business performance*
4. *Reviewing individual performance of senior management*
5. *Establishing appropriate compensation framework for senior management*
6. *Clarifying eligibility for intensified performance management*

### B. Balanced Scorecard and GLC Blue Book

The template is used to format your paper and style the BSC has received fame due to the perception that it is one of the most holistic performance measurements especially in assisting general and transformation program. It further compliments measurements that focus on sustainability initiatives. In spite of the similarity of BSC and the government efforts and initiative under the Transformation Program, articles on the integration BSC and GLC Blue Book is rather limited. BSC is expected to complement the GLC Blue Book in several manners.

The BSC complements the GLC Blue Book metrics with its holistic approach whereby financial performance has to be supported by other non-financial measures such as Learning and Growth, Internal Business Process and Customers. As such, the GLC Blue Book initiatives and BSC has a glaring similarity (adapted from [9] and [10] as indicated in Table 1:

TABLE I. SIMILARITIES BETWEEN GLC BLUE BOOK AND BALANCED SCORECARD

Perspectives	
<i>GLC Blue Book</i>	<i>BSC</i>
Financial- ROA, Production cost	Financial- ROA, Production cost
Operational – Productivity, safety	Internal Business Process – internal operation to increase business efficiency
Organizational- employee motivation and business understanding	Learning and Growth – human capital, etc to earn value creation
Market-place – quality of key customers’ relationship	Customers – customers’ satisfaction

GLC Blue Book and the BSC share some similarities. The obvious mirror like comparable is on the performance indicators where both looks at the financial indicators in the like of ROA and production cost to name a few. The GLC Blue Book and BSC both stressed out that improved efficiencies is key to financial performance. In order to achieve this, BSC focuses at improving internal processes while the GLC Blue Book targeted at the operational processes. Another aspect of similarity for both GLC Blue Book and BSC is the importance of human capital. BSC looks at learning and growth in order to create value and improve performance through initiative such as the human resource development and employees training. Meanwhile, the GLC Blue Book’s human capital values focus on the employee motivation which is also discussed in the BSC as part of the learning and growth. Customers’ perception of the firm is an important element that was pointed out by the BSC. Identical to the BSC customer perspective, The GLC Blue Book also recognize customers to be an important factor in improving organization’s performance by the establishment of marketplace perspective. This perspective among others looks at reducing number of complaints, and share of key customers business.

In summary, the GLC Blue Book is a set of framework designed by the PCG to help GLCs transformed and improve their performance. While the GLC Blue Book provide the framework, it is imperative to have a tool to support the GLC Blue Book framework. Given the many similarities of both the GLC Blue Book and BSC, obviously BSC would be the most suitable tool to assist the Government-linked Companies Transformation Program.

Even though the GLC Blue Book and BSC share some similarities, they also have a few differences. These include that, while the BSC is applicable to any organization, the GLC Blue Book on the other hand is established for GLCs use. BSC is more flexible, while GLC Blue book is more rigid and focused. An example of the contrast between the GLC Blue Book and BSC is when GLCs are deciding on a major strategy, the approval from the government as the major shareholders required. Given this involved a lot of bureaucracy, the decision making takes longer time. Another key difference is that the GLC Blue Book focused on the intensified performance management which is not highlighted in the BSC.

### C. CONCLUSIONS

This paper has shown that GLCs performance had previously raised a number of questions among various stakeholders, both in terms of their financial performance, and in fulfilling the social obligations. Hence, the introduction of GLC Blue Book in the Transformation Program was aimed to assist the GLCs to transform their organizations into a better performing organization. The implications of the program success go beyond the bottom line of profit making and organizational performance, but may also hamper the government aspirations of becoming a developed nation by 2020.

Overall, GLC Blue Book covers six significant dimensions ranging from the financial to market- place, while BSC has four comprehensive perspectives such as the financial, customer, internal business process, and learning and growth. As such, BSC could be used as a complement to the GLC Blue Book as a performance measurement system tool to the program.

Following the above discussion, the actual research may advance in terms of investigating the effect of GLC Blue Book and BSC adoption on organizational performance. Furthermore, methodologically future research could adopt the mixed-methodology research paradigm consisting of a combination of qualitative and quantitative approaches.

Hence, it is expected that the results of the study might contribute in the following manner:

1. *The study will add to the literature on BSC adoption and organizational performance.*
2. *The findings may provide additional empirical evidence on the influence of the adoption of GLC Blue Book and BSC on organizational performance.*
3. *The research methodology adopted will provide a comprehensive analysis of problems [4]*

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