

Psychological theory and its implications on the changes of organizational members using Performance Measurement Systems

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Abstract

The management accounting literature claims that Performance Management Systems (PMS) enables change to the behaviour of organizational members particularly in motivating employees to pursue incentives. However, certain side effects in the changed behaviour of organizational members using PMS are underexposed in scientific and professional literature. Thus, this study aims to explore the effect of using PMS on the changes to the behavioural attitudes among employees. Based on an exploratory study among 14 Indonesian senior bankers, the result shows that PMS changes employee habits resulting in the following improvements: creates harmony in the working environment; enhances a healthy competitive atmosphere; motivates employees to work better; makes employees feel embarrassed for unsatisfied performance goals; changes individual behavior due to acknowledging behavioral aspects in performance goals instead of just financial performance

1. Introduction

Researchers have directed substantial attention on the relationship between performance measurement system (PMS) and behavior of the organizational members (e.g. Burney & Widener, 2007; Burney, Henle, & Widener, 2009; Kaplan & Norton, 1992; Lillis, 2002; Malina & Selto, 2004; Otley, 1999; Van der Stede, Chow, & Lin, 2006). More specifically, many of them mentioned that the change is particularly to motivate employees to pursue incentives, bonuses and rewards. However, certain effect of changes of the organizational behavior member using PMS is underexposed. Although, many years ago scholars such as San Miguel (1977) advocated of the need to explore behavioral effects 'for transferring behavior science knowledge to the design and implementation of effective

management control systems' (p. 184), current studies seem that this interest is lack of attention. For example derived from De Waal(2010, p. 80) highlights that '[u]nfortunately, there are not many concrete examples in the literature of the influence of behavioral aspects on the use of a performance management systems'. Thus, this study aims to explore the effect of using PMS on the changes of behavior attitudes among employees. Furthermore, in order to explore the objective of the study, this paper applies psychology theory to link the behavioral effect of using PMS.

The primary objective of PMS should be applied by managers to steer behaviour of employees and encourage them achieving the expected objectives(Adler, 2011; de Waal, 2006). In respect to the characteristics of PMS that enables to steer behaviour of people toward the organization can be generated from two aspects that are through cognitive and motivational mechanisms (see:Bonner & Sprinkle, 2002; Hall, 2011). For example, Hall (2008) found that comprehensive PMS can enhance managerial performance through mediating role of goal clarity (cognitive) and psychological empowerment (motivational). Regarding goal clarity, psychological theorists such as Locke's (1968) and Adhikari(2010) contended that individuals will produce a higher level of performance if they have clear goals even if the goals are challenging. Thus, as I argued before, PMS will change a member's behaviour because PMS provide a clear task that is listed in KPIs.

The change of employee behaviour in pursuit of goals is also influenced by motivational mechanism. According to motivational theorists, motivation is distinguished into intrinsic and extrinsic motivation (Deci & Ryan, 2008).Intrinsic motivation means that person wants to do 'an activity for the inherent satisfaction of the activity itself' (Ryan & Deci, 2000, p. 71). Intrinsic motivation can be seen as motivation to do something because it is enjoyable. In contrast, extrinsic motivation is the performance of an activity in order to attain some

separable outcome (Ryan & Deci, 2000, p. 71). Additionally, extrinsic motivation is either autonomous motivation- such as in attaining rewards – or controlled motivation - avoidance of shame with its contingent loss of self-esteem (Deci & Ryan, 2008; Ryan & Deci, 2000; Wong-On-Wing, Lan, & Lui, 2010). Hence, PMS that changes employee behaviour can be intrinsically or extrinsically motivated to promote an activity based on purpose. For example, PMS can motivate employee to perform actions and activities because they perceive that PMS provides a healthy competitive atmosphere among employees, and links to rewards, or employee may simply seek to avoid the negative effect of unsatisfactory results.

Management accounting literature has been widely investigating the effect of PMS on goal clarity, job satisfaction, bonuses and rewards (Campbell, 2008; Hall, 2008; Sholihin, Pike, & Mangena, 2010). It is widely accepted that people are heavily influenced by financial incentives to pursue goals. For example, recent literature using self-determination theory, Stone, Bryant, & Wier (2010) found that financial incentives still motivate people to work better. Thus, if PMS links the results of individual attainment with bonus and rewards, employees may have a greater motivation to pursue goals (Pearsall, Christian, & Ellis, 2010; Sholihin et al., 2010). Another extrinsic motivation for the change of employee behaviour is because PMS facilitates the process of organizational decision making. Sprinkle (2003) asserted that PMS as control system has an effect on employee behaviour through monitoring, evaluating and measuring actions and performance. Therefore, it can be concluded that PMS can change a member of an organization by influencing them with of cognitive and motivational mechanism.

This study makes three contributions to the literature and practice. First, this study contributes to the literature by looking for the behavior effect of implementation of PMS for employees. Thus, since PMS can provide and control behavior aspects of employees to do based on employee's KPI, the organization is more likely easy to attain its organizational

performance. Second, supporting Chenhall's(2005) point of view about the characteristics of PMS and notes that 'while there are some support for growing BSC implementation ..., the characteristic of information dimensions of the systems are not examined in these studies' (Chenhall, 2005, p. 396). Thus, this study provides additional overviews how the characteristics of PMS connected with psychology theory in the eyes of managers as an employee. Third contribution is that the results of this study provide overview to manager how the design of PMS that links to behavior aspect enable to stimulate employee enhancing their attitude toward achieving the organizational objectives. I concur with Meekings(2005, p. 213) that 'the greatest benefits from the application of performance measurement lie not in measures themselves, nor even in the process used to determine them, but in how they are actually implemented and used in practice'. Thus, this finding offers significant suggestion for practice the importance of using PMS can change employee behaviour.

The remainder of this study is organized into five sections. In section 2, I explicate Literature reviews and followed by Research Method. While Result and Discussion section is presented in Section 4, closing section is Conclusion for section 5.

2. Literature reviews

This literature reviews are developed based on our preliminary study of the psychology theory of the improvement individuals performance using performance measurement systems. Performance measurement system in the study is performance measurement system that is linked with business strategy. Since after reliance on accounting performance measures gain critiques due to its limitations. Numerous scholars attempt to provide suggestions regarding its limitation. One of the most widely accepted PMS is the balanced scorecards from Kaplan and Norton. Most scholars agree that the balance scorecards is regarded as one of strategic performance measurement systems that align with business strategy. Moreover, according to

our preliminary study, I divide psychological effect using PMS is based on cognitive and motivational mechanisms. These mechanisms are explicated as follows:

2.1.Cognitive mechanisms

Hall (2011) contended that PMS can enhance employee behaviour through cognitive mechanism. Additionally, he mentioned that cognitive mechanism of PMS can be generated if PMS has clear goals and tasks to all individuals. According to psychological literature, people can motivate to do their work as they cognitively know what they have to do (Latham & Baldes, 1975). Carroll and Tosi (1970) highlighted that another antecedent of a clear objective was that it stimulates on the improvement of the relationship between superior and subordinates. Empirical studies relates on to clear target on performance improvement found that a clear goals or targets setting can improve employee productivity and performance even the goals and targets are quite difficult (Adhikari, 2010; Latham & Baldes, 1975; Latham & Kinne, 1974; Locke, 1968; Locke & Latham, 2002). Moreover, in management accounting literature also supports that goal clarity can induce managerial performance (Hall, 2008).

This view is based on an argument that PMS can enhance employee's behavioural through goals setting as goals can effect on individuals' persistence (Locke & Latham, 2002). This persistence may induce individuals to perform their tasks and goals if the goals has time frame of deadline achievement (Latham & Locke, 1975). Thus, employees are pushed to achieve the tasks that have been mentioned before.

2.2.Motivational mechanism.

Additionally, performance can be improved due to motivational factors. Psychological theory notes that individuals are stimulated to work inasmuch as they are influenced by intrinsic and

extrinsic motivation. Thus, this paper explicates the kinds of intrinsic and extrinsic motivation.

2.2.1. Intrinsic motivation

Intrinsic motivation refers ‘the enjoyment the individual gets from performing the activity or the subjective interest the individual has in the subject’(Eccles & Wigfield, 2002, p. 120)Intrinsic motivation using PMS can be ‘becomes habit’, ‘makes comfortable working environment’, and ‘enhances healthy competitive atmosphere’. The following section discusses element of intrinsic motivation using PMS.

PMS make employees become habit

Habits are repeated activities that are generated from past experiences such as the past location, preceding flow of actions and particular people (Wood & Neal, 2007).Moreover, Wood & Neal (2007)convey that habits can be created in regard with individual actions to encode the context of activities in their procedural memory. Another suggested that habits areformed as the representation of goals-action links and implemented to stimulate goals-directed automaticity in routines activities (Aarts & Dijksterhuis, 2000). In addition, Using Langer’s (1989) book about mindlessness theory, Simons (1995)refers mindlessness as ‘individual behaviours that are automatic and unthinking (Simons, 1995, p. 103). Automatic and unthinking can be generated by individuals through habit, rules and accepted classification categories. PMS as a diagnostic and interactive control has a role to feedback and feed-forward of employee activities (Grafton, Lillis, & Widener, 2010). Since, this procedure are routinely assessed, employee will automatically responses feedback generated from superiors of individual tasks. This situation creates habits for individuals to their routines tasks.

One side, author mentioned that habits will distract innovation (Betsch, Haberstroh, Glöckner, Haar, & Fiedler, 2001); in other side, habit can become major determinant of job behaviour in organizations (see: Theuvsen, 2004). For example, Theuvsen (2004) and Verplanken & Aarts (1999) contended that habits are controllable condition and goal-directed. Thus, individuals' activities and performance that are intentionally performed and routinely evaluated, it more likely creates an embedded mindset to employees. Thus, regarding the effect of habits, Theuvsen (2004) suggested that habits has an impact on the job efficiency because employee can perform task faster and with less mental effort. Additionally, once habits is created, the habitual task will be responded by trigger and prime perception of cues in action context (Wood & Neal, 2007).

PMS makes comfortable working environment

It is argued that PMS is an important driver to enhance comfortable working environment. One of factor influencing PMS enables to improve better working environment because PMS is considered to be more fairness. In the psychological theory, such as Podsakoff et al. (2006), stated that fairness of rewards systems should be linked to performance to create better working condition. There are many drivers of performance measures that are to be characterized as fair: PMS is more objective, clear system and measurable. For example, if performance measurement system is measurable, employees may determine their position in term of their goals achievement, and then in the end of period, their own-monitoring results can be compared to their superior evaluation. Based on the results of evaluation, supervisor determines the individual job' evaluation criterion during the period. Since, performance measurement system is measurable; PMS is more likely to be considered as fair, that lead to the enhancement of job satisfaction.

Empirical study in management accounting shows that fairness of performance measures effects on employee job satisfaction. Lau & Sholihin's (2005) study of 70 managers in the Indonesian manufacturing industries-listed in the Indonesian Capital Market Directory found that fairness in performance procedures enhances employee satisfaction. This study was supported by van Veen-Dirks (2010) claiming that in term of decision-facilitating role, performance measurement system will provide more neutral information, in particular in incentive risks. Thus, if performance measurement systems enable to enhance neutral and fairness, it make comfortable working environment to employees. This situation creates employees' motivation to work better.

PMS enhances healthy competitive atmosphere

Not only provide a comfortable working environment for the fairness given from performance measurement system, a healthy competitive atmosphere is also received from employees. In the psychological literature, competition is an essential elements to motivate employee's attention to attain maximize performance and create individuals' effort to focus on goal-related activity (Brown, Cron, & Slocum, 1998). However, competition among employees can work effectively if measurement indicators of employees' performance are fairly measured. In other way, individuals tend work hard, if they understand that their outcomes is reliable with rewards to be received based on their tasks. Thus, if employee recognize that PMS provide fairness procedure in term of rewards system, they endeavor to generate superior performance (Podsakoff et al., 2006). Similarly, Weibel (2007) contended that individuals consider that they have an competency in respect on their activity if they know appropriate strategies to achieve the objective. Thus, since they perceive that the performance measurement system is fair, they have greater optimistic chances to pursue the desired results. This optimistic chance of each individual to compete to strive their individual goal creates a healthy competitive atmosphere.

In psychology theory notion that goal-setting can influence employee to compete each other to become the best person in achieving their own performance (Brown et al., 1998). Additionally, since goal setting can be linked to incentive and rewards, they will work hard to achieve their goals that automatically it will increase the amount of incentive and bonus that they will receive if they can achieve higher level of performance. Thus bonus will effect on working competitive atmosphere (Campbell & Furrer, 1995). In contrast, if PMS does not offer above characteristics, such as fairness feedback of employee performance, it potential to bound competitive effects among employees (Campbell & Furrer, 1995). This indicate that if individual has clear system about the task that will done by employees and the indicators are measured fairness, it will improve the level of a healthy competitive atmosphere among employees.

Extrinsic motivation

Extrinsic motivation is the performance of an activity in order to attain some separable outcome (Ryan & Deci, 2000, p. 71). Element of extrinsic motivation can be divided into autonomous and controlled motivation includes: PMS links to rewards systems; makes employees feel ashamed for poor performance, behaviour aspects of non-financial performance.

PMS links to rewards and punishment systems

Psychology theory has extensively discussed the linkage between employee's task and reward system, where the main purpose to link rewards system is to stimulate employees behaviour to perform as the planned goals (van Veen-Dirks, 2010). At the general, the basic motivation of individual to work is based on their self-interest to gain wealth and leisure (Bonner & Sprinkle, 2002). Further, they (2002) argue that according to agency theory that

rewards system has a phenomenon role to motivate and control individuals performance because they have objective to maximize their economic wealth.

Not only in the psychology literature, management accounting scholars also seek the effect of employees performance when PMS is linked to reward system (Campbell, 2008; Guo, Wong-On-Wing, & Lui, 2012; Sholihin et al., 2010). Supporting the expectancy theory that mostly they found that individuals are heavily influenced by financial incentives to pursue goals. As earlier mentioned that there is a individual has greater endeavour to attain their goals, once they know that PMS is linked to bonuses and rewards (Sholihin et al., 2010; Stone et al., 2010). For example, Sholihin et al (2010) study on the UK manufacturing industry found that employee performance and morale in the organizational seems lower because rewards, promotion and pay raises or other rewards are not appropriate linked to appraisal systems. Additionally, Guo et al.'s (2012) study found that individuals have a greater degree motivation to achieve goals if PMS links to autonomous extrinsic motivation such as incentives and bonuses. Thus, if rewards systems are proper links with the individual results, employees have greater motivation to strive their goals (Guo et al., 2012; Pearsall et al., 2010; Sholihin et al., 2010).

PMS makes employees feel ashamed for poor performance

Rewards system is not only a way to motivate employees to work better, negative sanctions may also help employees and/or organization as visible and effective ways to accelerate productivity and satisfaction (O'Reilly & Puffer, 1989). One reason punishment is an effective way to enhance employees' motivation because the workers can pay attention to individual who get punishment for poor results (Podsakoff et al., 2006). If worker reflect themselves as a 'worker model' to be punished, they may feel ashamed. Notwithstanding, empirical study has not been found on the relationship between PMS and employees'

behaviour such shyness, the effect of poor performance for employee may create shyness to individuals. Psychology researchers such as Jones and Briggs (1984, p. 94) and Schroeder (1995) remarked that individuals may feel shy if they have a poorer performance in doing something. Further, Schroeder (1995) notes that the effect of shyness is a social anxiety manifestation for underperform of information processing skills.

It is believed that PMS make employees shy for unsatisfied performance. Analogously, for example, if individuals doing something and their results are displayed or can be seen to the individuals and other colleagues, individuals fell happy if they performed well, otherwise they fell shy. Further, shyness of unsatisfied performance will influence for individual self-esteem because individual tend to raise a positive feedback rather than negative performance to enhance their self-esteem (see: Sanbonmatsu, Harpster, Akimoto, & Moulin, 1994). Thus, since they receive unsatisfied performance individuals falls under pressure because they feel that they are lack of skill and practices or lack of cognitive interference (Schroeder, 1995).

Recently, PMS uses IT to collect and integrate performance results across boundaries of the organization. Hence, this PMS can be seen for all individuals. Outstanding performance in particular division will be displayed and announced for all member of organization. Moreover, division that is an outstanding performance received positive feedback of its achievement both in term of financial and non-financial rewards, and job promotion. In contrast, besides poor performance of the division is displayed to all individuals, they also may get sanctions. These kinds of punishments and their poorer performance that is seen by all members of employees may create shyness to individual in respect of unsatisfied performance. Thus, in order to anticipate these behavioural aspects individuals may work harder to perform well.

PMS includes behaviour aspects of non-financial performance

Previous study is ascribed that using financial accounting data in performance evaluation will effect of dysfunctional behavior of employees (Argyris, 1952; Hopwood, 1972). Further, Vagneur & Peiperl(2000 p. 512) contends that reliance on budget control lead to ‘higher level of data manipulation distrust, rivalry and dysfunctional decision making vis-à-vis cost, customer service and innovation. Responding to the effect, many studies include non-financial aspects in the performance measures.

Using non-financial performance measures may results another angle of behavioureffect of employees including laziness or absenteeism, disciplines, leaderships, corporation with colleagues and so on. One of study from Latham and Kinne(1974)found that goal setting led to a decrease in Absenteeism. One factor to influence employees to the improvement of such behavioral aspects is that PMS has a clear system and measureable. Supporting this argument Carroll &Tosi, (1970) suggested that the relationship between superior and subordinate will be improved, since subordinate feel that their task and goals is a clear and important. Since they perceive that their goals and task clear and important, subordinate tend to work seriously. This effect is more likely reduce laziness and absenteeism as well as improve employees’ disciplines. In other, one of indicator of performance measurement system that are widely used as an job performance’s indicators by many organizations is job attendance. Thus, using the non-financial performance indicator will push employees to ‘visit’ their office.

The empirical study was evidenced from a study among employees in Italian manufacturing industry mentioning that using non-financial performance measures will enhance employee behaviour such as absenteeism, lateness and so on. (Abdel-Maksoud, Cerbioni, Ricceri, & Velayutham, 2010). Thus, we believe that including non-financial performance measures is one of indicators that encourage employee to work better.

3. Research method

This study is an exploratory study investigating the benefits of using PMS for employees in the Indonesian banking industry. Further, data collection was derived through face-to-face interviews with Indonesian senior bankers. Bank industry was selected in this study because it has experiences using PMS. Additionally, according to informal communication with one of head of division of the Bank of Indonesia, most banks especially medium and the biggest banks apply strategic PMS such as the balanced scorecards. Another reason is that organizational structure of a bank is a reflection of a 'successful' organization(Johnston, Brignall, & Fitzgerald, 2002). Thus, it provides a great challenge the aspects of PMS can stimulate employees behavior throughout organization.

Indonesia was selected as a country site of this study as: 1) most studies in the banking sector have been conducted in North America and other Western countries (Hussain & Hoque, 2002), yet the developing countries' bank sector such as those of Indonesia are unexplored. Similarly, considering smaller studies being carried out in Asian countries, Scapens& Bromwich(2010) pointed out that very few studies were conducted in Asian counties, in particularly management accounting studies– only 4% of 205 in the total number. 2) I argue that there are cultural reasons why Asian countries may be different in this context (see: Lok, Walsh, Rhodes, & Jones, 2005; Rhodes, Walsh, & Lok, 2008). For example, Hofstede(2007) and Hofstede(1993) asserted that the nature of cultures of Indonesia are high power distance, collectivist, feminine, contain a strong uncertainty avoidance, and work form a short-term orientation.

The research data were collected through face-to-face interviews with Indonesian senior bankers. These senior bankers were selected because 1) they have high levels of knowledge and understanding about their company's strategy (Chenhall, 2005; Perera, Harrison, & Poole, 1997) and 2) it is generally accepted that most of the strategic decisions in companies are posited under the responsibility of the highest level managers (Bartlett & Ghoshal, 1994;

Delery & Doty, 1996; Tapanya, 2004). 3) designing and formulation of an organization's company performance measurement are executed by senior managers (Kaplan & Norton, 2006)

In order to recruit participants, the researchers applied two steps of selection and pre-notification of companies. In the selection step, I selected the medium and large banks in Indonesia in terms of assets because: 1) they have more complex structures and have experience of alignment to the lowest level; 2) most medium and large nation-wide banks are stock exchange-listed companies and these companies are more likely to implement more strategic-linked performance measurement systems rather than small companies (regional-based banks) (see: Lau & Sholihin, 2005).

Pre-notification was conducted to ask whether senior managers would participate in this research. Pre-notification was delivered by sending an e-mail and calling by phone asking one of the managers in a certain bank if they wanted to be involved in this research. This notification also explained the importance of this research and confirmed that their participation would be anonymous.

Based on this notification, 14 senior bankers agreed to be involved in this research. Next, the interview schedule was negotiated and arranged for October 2009. In this exploratory study, the interview data was recorded on audiotape, with the permission of the respondent. Each interview took time around 15-25 minutes¹.

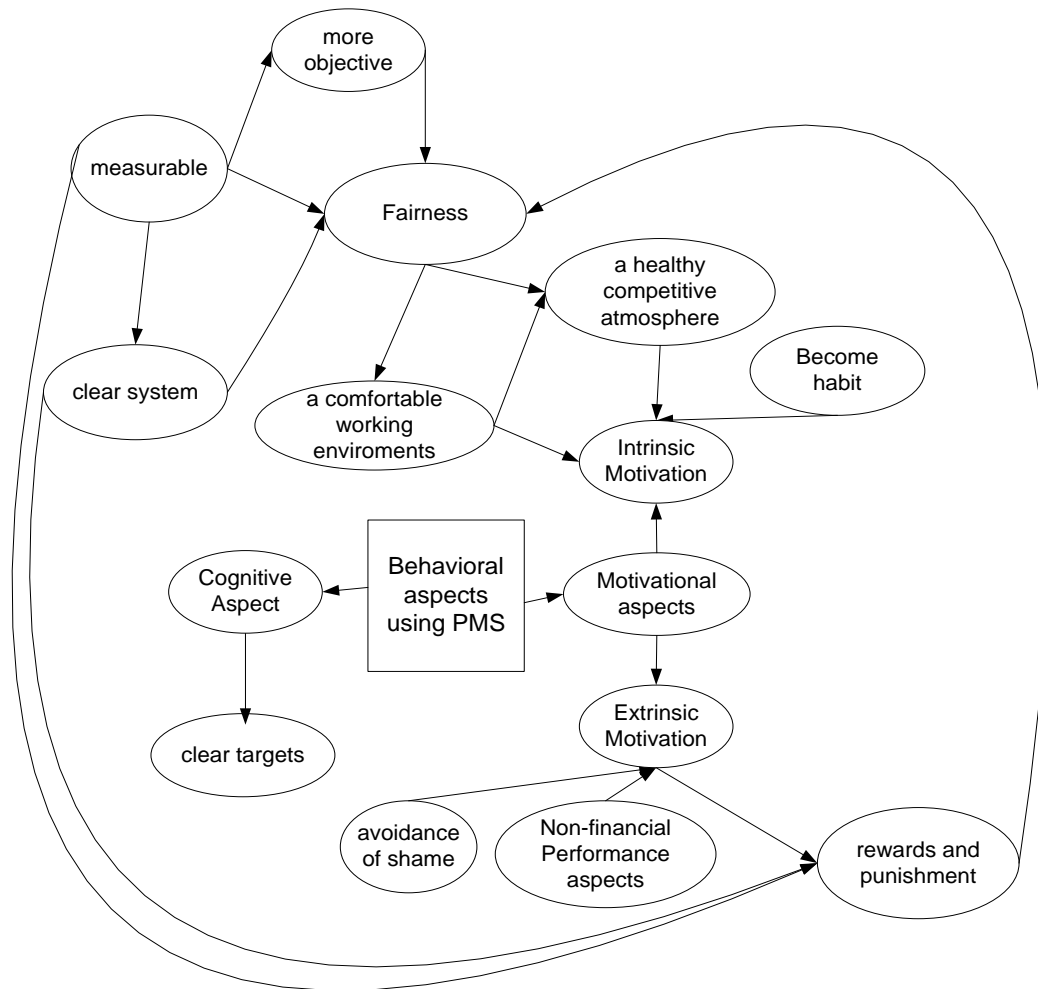
In order to analyse the data, the NVivo 9 program was used to facilitate and assist in the handling of the data. NVivo 9 as a computer analysis of qualitative data 'permits more efficient data management and, importantly, keep records and dates of various file

¹Before conducting exploratory qualitative research, the researchers conducted a pilot study in order to ensure that the respondents understood the questions. The pilot study was carried out with four PhD students and one person experienced in qualitative studies. Based on this pilot study, the questions were amended.

transactions' (Maclaran & Catterall, 2002, p. 31). Additionally, using computer-assisted qualitative data can enhance speed and make it easier to work in term of handling, managing, browsing, coding and creating links to data (Flick, 2002; Johnston, 2006) which lead to an increase of quality in qualitative research because it makes data management easier (Flick, 2002). Following Kyriakidou and Gore (2005, p. 197), interview data analysis consisted of a four phase approach: '1) developing a coding schedule for the thematic interviews; 2) organizing the coded text as themes 3) establishing common themes; and 4) analyzing the themes provided by the coded material'. In analyzing data, the process was begun with identified free nodes, and then selective nodes were categorized and coded as tree nodes.

4. Results and discussions

As pointed out earlier, PMS enables companies to change the behavior of members of their organization. This view is supported by qualitative findings. The results of utilizing NVivo demonstrated that PMS can change organizational behavior through cognitive and motivational mechanism. Figure 1 exhibits the themes of the qualitative results.



Cognitive mechanism was generated from a mind-set of clear targets. Motivational mechanisms were generated from creating habit, a comfortable healthy competitive atmosphere, that is, an intrinsic motivation. Additionally, extrinsic motivation mechanisms, as I see from the interviews, are these: avoidance of shame, non-financial performance indicators and bonus, rewards and incentives. I will discuss these are at a time.

Clear targets. Individuals will perform better if they know about what they want to do. PMS changes individual mind-sets because employees have a clear target about tasks and actions based on the list on KPIs. The findings show that most respondents acknowledge that individuals have a clear target about actions and activities in the period. For example, a senior manager of Bank G considered that a clear target can motivate employee to achieve goals.

Hence, PMS can motivate employee because it has a clear target. [AHead of legal division of Bank G]

Similarly, a vice-president of Bank A also assumed that employee will work better if he or she knows what he or she should do.

Hence, it should be clear what we have to achieve

Based on this point of view, it is clear that PMS can change employee behavior to perform well because they have a clear task. Thus, this finding is in line with the existing theory.

Intrinsic motivation

Individual motivate to work due to intrinsic motivation. In the qualitative data, I found that employees motivate to work when the system becomes habitual and makes comfortable working conditions for employees. Additionally, a good PMS enhances a healthy competitive atmosphere.

Become habit. In addition to intrinsic value of the work the change of employee behavior my stem from the habit of PMS evaluation. Problems arising from the implementation can be easily detected and discussed to find a solution. One of respondents acknowledged this feature of PMS, saying:

Because KPI is already embedded to their mind-set, we just give them an impetus. [...] we do continuous improvement and discuss any problems. They become familiar with this culture. This behavior becomes habitual [a Vice-president Corporate Planning of Bank D]

From this comments, it is clear that process of performance evaluation of individuals can be linked to their own KPIs. Hence, individuals work is based on each person's KPI. Once they focus on KPIs, employees identify their tasks and goals regularly.

PMS makes comfortable working environments. Managers believe that another aspect of the changes in employee behavior is a comfortable atmosphere in the workplace. It is argued that if a PMS does not have a clear system, employees do not have clear ideas what their

contribution will turn to them in term of rewards or promotion. However, if a PMS provides a clear system, employees understand that their contribution will have a positive effect with their bonuses or rewards system.

The system creates peace in mind for employees because all employees know that they are evaluated with transparency [...]. If a PMS is not clear, employees will make only a token effort with their work ' . [Head of Risk Management of Bank L]

Comfortable working condition is also influenced by the characteristics of PMS that provide fairness among individuals. The fairness exists because a PMS has a clear system. Thus, if these aspects are found in the organization, they will create a comfortable working atmosphere. In other word, employee focuses on their work and strives to achieve the highest rating because family and close friend factors are not relevant to employee rewards and promotion. Under these circumstances, the employee is not distracted from work in the company. In other words, if they endeavor to meet their KPI, they will get better rewards and more promotion. From the point of view of senior managers, one respondent said that she feels comfortable working in the bank because the bank has a fairness system to evaluate employees.

Then, [...] employees will not ingratiate themselves with the boss to get higher ratings. Hence, with this system, employees feel comfortable to work because the most prominent aspect in working is peace of mind [Head of Risk Management of Bank L]

People will work when a PMS creates comfortable working conditions. Comfortable working conditions are created by a PMS that provides fairness among employees and has clear KPIs.

PMS enhance healthy competitive atmosphere. Besides the employee feeling comfortable with the transparent system, managers believe that the PMS enhances healthy competition among employees.

To achieve the highest ratings, employees should focus on their goals and their position according to their KPI. If they exceed their targets they will achieve the high rating. Furthermore, employees

can achieve the highest rating without hurting other people. The competition among them to achieve the highest rating is healthy and without malice.

If a manager has a bad result in one month, they will encourage subordinates to do better in the next month. Because the manager will not surrender to placing to another division, but will open discussions between their employees and themselves to find the reason that made poor performance, the competition between divisions becomes healthy [A Vice-president Corporate Planning of Bank D]

Based on the above argument I assume that when a division has a poor result, the manager will not blame another division that for the unsatisfactory performance, but they will directly ask their subordinates what the problem is, then will find a solution and will push them to perform better. This means that the division focuses on the attainment of its goals. The competition is healthy and without malice.

In the literature, external motivation influences people to do something. As noted above, extrinsic motivation is made up of external autonomous motivation and external controlled motivation. The results show that extrinsic autonomous motivation results in changed employee behavior because PMS links to rewards systems.

However, the employees perform even better because of extrinsic controlled motivation: the employee feels ashamed of poor performance, ashamed of poor non-financial performance indicator, and ashamed of failing to secure a bonus.

Extrinsic motivation

In the literature, external motivation influences people to do something. As noted above, extrinsic motivation is made up of external autonomous motivation and external controlled motivation. The results show that extrinsic autonomous motivation results in changed employee behavior because PMS linked to rewards systems.

However, the employees perform even better because of extrinsic controlled motivation: the employee feels ashamed of poor performance, and PMS includes behavior aspects of non-financial performance to control employees.

Extrinsic autonomous motivation

PMS links to rewards systems. Individuals work harder if they believe that they will receive benefits based on their performance. Extrinsic theory shows that aligning PMS with rewards will make employees perform better. Based on the interviews results, we find that the majority of respondents agree that PMS can influence employee's behavior by linking PMS with incentives. That is, if PMS is clearly linked with incentives. Clear incentives highly motivate employees to perform better. In this case, there are benefits for both the organization and the individual. Further, the bonuses and rewards that will be received are the cause as well as the effect of individual success, and as long as the individual performs better, the organization will reward him or her with higher bonuses and incentives.

We highly encourage our employees to achieve their targets. [...]. If they accomplish their goal, we reward them with high bonuses. [A vice-president Director of Bank A]

And also Head of corporate secretary and corporate legal of Bank I said that:

Our performance measurement is straightforward. We reward with bonuses because we relate performance to a multiple of salary given as bonuses. And also the increase of regular salary is also based on the grade of performance measurements

However, as noted in this section 'PMS provides fairness among employees', once PMS is linked with rewards and employees have poor performance under the expected threshold, employees will get nothing, or even a warning of dismissal. I assume that the way in which PMS link to a reward system motivates employees to achieve their goals so that they get bonuses, incentives or job promotion.

I feel that PMS is primarily for control and motivation in working. The first thing is motivation. It should be clear that, for example, if I get rated PA 5

*in several consecutive assessments, I will get promotion. If I am rated PA 5, I know the bonuses that I will receive and how much my salary will increase. Thus are employees motivated.*²[Ahead of Risk Management of Bank L]

According to this argument it is clear that PMS can change individual behaviour by extrinsic motivation to pursue bonuses, incentives and other rewards. This finding supports the existing literature.

Extrinsic controlled motivation.

PMS makes an employee feel ashamed of poor performance.

As for the controlled type, I found that the change of employee behaviour is influenced by controlled extrinsic motivation too. Although Wong-On-Wing, Lan, & Lui (2010) found that extrinsic controlled motivation has a negative effect on performance, in the Indonesian context this element has a positive effect. For example, in the qualitative finding, I found that individuals feel embarrassed if they have poor performance. Hence, people tried to avoid poor performance by working hard.

At this point I note Hofstede's (2007) suggestion that the national culture of Indonesia is better described as collectivism rather than individualism. In an individualistic culture, everybody takes care of themselves. When bad or good things happen to an individual, nobody cares. However, in Indonesia if somebody gives a poor performance, everybody will care and see them and know. Although this will reduce individual self-esteem, this situation does increase the individual's motivation to perform better. This finding is in line with

² Bank L has a policy in evaluation employee performance and its effects on bonuses and rewards as follows:

- PA 5: achievement above 125% with bonuses = 3 times salary + increase salary
- PA 4: achievement above 110% with bonuses = 2 times salary
- PA 3: achievement above 90% with bonuses = 1 times salary
- PA 2: achievement below 90% no bonuses
- PA 1: no indicator = considered as fraud

Deci & Ryan (2008) and (2000), Jones and Briggs (1984, p. 94) and Schroeder (1995) that remarked that individuals may feel shy if they have a poorer performance in doing

In the literature, it has been explained that an individual will perform better if they are motivated to avoid negative effects from poor performance. The findings show that PMS makes an employee feel ashamed of poor performance. There are several reasons for this shame. First, with the PMS of the company online, all managers can easily track the achievements of all branches and become aware of unsatisfactory performance. This can be seen by all managers both at the headquarters and branches. Any manager will feel upset if their poor achievement is known by all managers because it indicates that the manager is not able to manage their subordinate to work better. In response to this situation, the manager will find the people responsible for their unit or branches' poor performance and push them to work harder in the next accounting period. This situation is explained by a senior manager of Bank D

If a director's performance is flagged red³, they take steps to help the subordinate that caused the red alarm. This is a kind of punishment because the subordinate makes the director lose face. It is another way directors train their staff to achieve their targets [a vice-president corporate planning of Bank D]

The second factor that causes managers or employees' embarrassment is that their performance, in any period, is announced and displayed to everyone. For example, Bank F, one of the biggest sharia banks in Indonesia has a weekly routine activity on Monday, namely, the praying forum. This forum was created to tighten relationships between upper and lower levels of management, especially in the headquarters office, to direct the short-term business strategies, and to give a weekly report of employee performance, among other things. When the president of the bank announces that an employee or division has a poor performance,

³ A company uses some colours to identify performance achievement. For example Blue is above good, Green is good, yellow is warning and red is poor performance.

everyone present focuses on the person or manager who has failed to perform, and the results will be sent to all branches in Indonesia. The culprit is embarrassed because they are recognized as a person responsible for poor performance. In future, they will work harder to avoid their performance again being listed as a poor performance.

The praying forum is held every morning for all employees in headquarters. [...] we also released our weekly report. All employees know that if we have a bad report on them, then the news will be sent to all branches. So we have a serious incentive to work [a manager of performance measurement of Bank K]

Another respondent revealed that sometimes the company hires a mystery shopper to evaluate how front-line staff provides services to customers. Using hidden video recording, the results will show how people behave when serving customers face-to-face. The results go to the higher manager.

We do a mystery shopper using a hidden camera to evaluate how a front-line employee provides a service to customers. Then, we display the results, [Employees show courtesy when they know that their behavior when serving customers may be recorded. [Ahead of legal division of bank G]

PMS includes behavior aspects of non-financial performance. Besides the improvement in employee behavior, PMS has a non-financial aspect that measures how employees behave while interacting with colleagues. This covers team work spirit, discipline, and other behavior aspects. For example, one aspect of qualitative measures explains how employees should behave to attain their desired score on measures such as keenness, teamwork and so on. A Head of Human Resources Management Group of Bank I said that its company's PMS is divided into quantitative and qualitative measurement. Behavior is included in qualitative measurement and he noted that:

Our [performance] measurements are 60 percent quantitative elements and 40 percent qualitative elements. We call the qualitative approach a soft skill approach because these negative elements include indiscipline such as absenteeism and laziness, as well as positive elements of employee behavior, like teamwork.

Likewise, supporting the above argument, a Manager of Finance Division said that their organization, too, applied the qualitative elements and quantitative finance elements included in KPI. He comments as follows:

Our individual performance evaluation is not only measured from the [financial] performance side but also from the behavior aspect. For example, we evaluate how employees communicate, interact with other employees, co-operate in teamwork and so on.

Soft skills of behavior aspect evaluation are not only targeted on lower level employees, but also on heads of units and divisions. Ahead of operations at the accounting division of Bank C remarked not only that evaluation of performance achievement is based on the accomplishment of individual goals, but also that the company checks soft skills including the employee's discipline, leadership and managerial skill.

Beside evaluation of individual goals, the company also measures behavior aspects such as the employee's discipline, leadership, managerial skill and so on.

Based on this finding, it appears that PMS can enhance employee's behavior because with the clear links to the rewards system and with clear targets, employees are motivated to work better. Further, since the score is obtained because of their performance rather than close relationships with managers or with the boss' family, the employee feels comfortable working in the company and competition becomes healthy. Lastly, PMS can also enhance employee behavior because PMS consists of quantitative and qualitative indicators. Qualitative aspects include indicators for, for example, attention to duty, discipline, and teamwork spirit, interactions with colleagues and customers, and so on.

5. Conclusion

The aim of this study is to explore the extent to which PMS enable to change of employee's behaviour. This study was backed from previous study in management accounting that PMS

can improve employee's behaviours. However, the improvement behaviour that mostly discussed is the need of employees to pursue bonuses and rewards as PMS links to the factors. Some authors claimed that PMS enables companies to change people's behaviour based on individual motivation to achieve incentives and rewards. Recent writers suggested that PMS can improve the behaviour through cognitive and motivational mechanisms.

Based on the qualitative data using Nvivo, I found definite enhancement of individual behaviour. Each individual has a clear view of their required actions and activities during the period. This finding supports Hall (2011) argument based on his finding (Hall, 2008) that PMS will enable individuals to perform better if they have a goal and a clear path to it.

PMS can enhance employee behaviour through motivational mechanisms.

The findings show that PMS can enhance both intrinsic and extrinsic motivation. Using Nvivo, I found that individuals will intrinsically motivate if they enjoy the activity itself, because PMS create a routine for the individual, PMS make people comfortable in their working environment, and PMS encourage a healthy competitive atmosphere. I will discuss these three reasons below.

In the first case, PMS create routines for the individual because they have to do their job, and their actions and activities are based on their KPI. If the activities listed in the KPI are routine, the activities become habitual. As a result, this creates a culture of success for the individual. Achievement becomes the norm. Moreover, if they find problems while doing their activities, they expect to handle problems successfully.

Another intrinsic motivation gathered from the interviews was PMS give peace of mind in the working environment. PMS create a comfortable working atmosphere because PMS has a clear system to measure merit and provide fairness. I found that when these items are included in the PMS, employees will focus on working with no worry about their rewards

system because they know that if they work hard, they will receive good rewards or promotion.

Additionally, employees are intrinsically motivated to pursue their goals if they perceive that PMS enhance a healthy competitive atmosphere. The findings show that PMS enhance a healthy competitive atmosphere because employees just need to focus on their KPIs to achieve the highest rate in terms of performance evaluation. Moreover, in order to achieve the highest level of performance evaluation, individuals should work hard to fulfil their targets based on KPIs. Hence, with this system competition becomes healthy because the maximum performance is measured based on their KPIs, not on influence or nepotism.

As noted in the literature, extrinsic motivation was divided into two types: autonomous extrinsic motivation and controlled extrinsic motivation. In the autonomous type, PMS changes a number of organizational behaviours because PMS links with reward systems. It is common that an individual takes a job because they need an income. Hence, if PMS shows a clear rewards system, the individual will work willingly (Deci & Ryan, 2008; Kominis & Emmanuel, 2007; Stone et al., 2010). This finding is consistent with psychology and management accounting theory – that incentive is the most important way to enhance an employee's motivation to work (Deci & Ryan, 2008; Kominis & Emmanuel, 2007; Stone et al., 2010). Likewise, Sholihin et al.'s (2010) found that if PMS does not link to rewards system, employees have low motivation to achieve goals and to do innovations.

This study was found to have some limitations. First limitation is the number of samples. As noted earlier that sample size of this study was 14 senior bankers. The potential weakness of the sample size is generalizable to all 130s samples in banking industries. Additionally, respondent characteristics of this study were senior bankers working in the head quarter bank.

However, banking industry is an incumbent to generalize the results; otherwise, to be implemented the behavior aspect for all employees working in the banks need to be generalized carefully. Lastly, the results of study were conducted in the Indonesian situation. As results, the findings of the study may not allow to be generalized of banking industries in other countries, more specifically in the Western countries.

Overall, this study may provide challenge for further study. For example, the data was derived from the views of the senior bank staff; further study may useful to generate in-depth information by surveying employees such as the front-line service staff. In addition, it is possible to analyses and compares the perception between senior managers and employees of using PMS enhancing employee's behaviors.

Lastly, this finding indicates that PMS implementation for employees in the Indonesia Bank influence of the changes of employee's behavior in not only merely influenced by incentives rewards but others behaviors aspects.

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