

**CASE
STUDY****2****SLDU INDUSTRIES SDN BHD: THE BLAME GAME
IN THE PERFORMANCE MEASUREMENT SYSTEM**

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1. Introduction

Jalil's hands trembled slightly as he read an "urgent" letter that he received from Dato' Sanusi Ahmad, Chief Executive Officer (CEO) of SLDU Industries Sdn. Bhd. (SPI) on 16 January 2014. Jalil had been holding the post of head of human resources department for 10 years. When he received the letter from Dato' Sanusi, he knew that it was a serious matter.

15 January 2014

Dear Mr. Jalil

I am very disappointed with the current financial performance in the year end report. As you are aware, the profit before tax growth of 0.2 percent from 2012 to 2013 is very insignificant. However, the marks given to the employees for their KPIs seem to be very high, and this does not reflect the company's poor performance in terms of growth and financial output.

I want you to look into this matter immediately and report your findings at our next management meeting on 15 March, 2014.

Dato' Sanusi
CEO
SLDU Industries Sdn. Bhd.

Mr. Jalil wondered why he had to take the blame for the company's slow growth and low profits. To him, if the employees were competent and motivated enough in doing their work, they deserved high marks. "What is wrong with the current evaluation system?" A question, that seemed to baffle him at the moment.

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2. SLDU Industries Sdn. Bhd.

SLDU Industries Sdn Bhd (SPI) was a private limited company and was initially established on 1 July 1975 as an agency under Southeast Land Development Unit (SLDU) and changed its name to SLDU Industries Sdn. Bhd. in December 1994. This company was based in Johor Baharu, Malaysia and operated as a subsidiary of SLDU Holdings Berhad. The core business activities of SPI included purchasing and processing of Fresh Fruit Bunches (FFB) from SLDU estates (owned by the SLDU Group) and external suppliers to produce Crude Palm Oil (CPO) and Palm Kernel (PK). It owned and operated palm oil mills with a total capacity of 2,897 tonnes per hour. Most of the CPO and PK were sold to its subsidiary companies, which produced vegetable oil products and kernel products.

3. History and Origins of SLDU

The Southeast Land Development Unit (SLDU) was set up as a body to help farmers develop land in order to eradicate poverty in the rural areas and this has become a clear and simple objective for the organization. The idea of setting up SLDU came from Malaysia's second Prime Minister, who was also the Minister of Rural Development. After Malaysia attained its independence in 1957, the prime minister saw the importance of transforming the country and restructuring the entire socio-economic system. This visionary leader laid the foundation that was aimed at bringing about equality in the economic sector among the different races in Malaysia. He believed that when the economically backward Malays, who were largely concentrated in the agricultural sector, were given a designated piece of land to work on, they would be able to earn a good source of income and become more productive. Hence, a foundation was set up with the aim of creating "balanced" social and economic development.

SLDU was officially established in July 1953 under the Land Development Act 1953. All tasks, including the efficient settlement placement for settlers nationwide and assurance for the continuous land development were now in the hands of SLDU. It was the first of its kind in the world; a unique set-up. SLDU faced challenges similar to any other organizations. Despite the clear and simple goal, it faced several major obstacles. Among them were those that came from the government itself. They included the difficulty of getting approvals for land and land allocations from state governments; the difficulty of obtaining financing for its projects, and human capital shortages due to the lack of qualified personnel in agriculture development.

SLDU had to overcome one major obstacle - lack of trust. From 1952 to 1958, a great deal of effort was made to achieve its goals, and this subsequently led to SLDU gaining the government's trust and winning over the settlers' hearts. Initially, development was extremely slow because the settlers had neither the capability nor the capacity to clear the land and build their own houses. To address this problem, SLDU was given the authority to directly manage all the land schemes and ensure that they become commercially feasible estates. SLDU also took over land development works in the country that were initially managed by the state boards.

It did not take long for SLDU to become a highly successful government agency. In 1958, the Land Development Act 1953 was amended. SLDU became a certified land developer for settlers. The land acreage allocated to SLDU for development purposes increased tremendously over the years, as evident in the Malaysia Plans (1st to 4th). In the 1990s, SLDU became one of the key players in the plantation sector. SLDU managed over 300,000 hectares of land as commercial estates (215,000 hectares in Peninsular Malaysia and 85,000 hectares in Sabah and Sarawak). This sector

was robust; SLDU achieved substantial gains as the prices of crude palm oil (CPO) and rubber saw an upward trend. Its success was the result of a concerted effort put in by all parties - from the top management, its dedicated staff to the hard-working settlers.

4. Competition in Palm Oil Industry

Being a pioneer in the Malaysian palm oil industry, SLDU had felt the pressure of maintaining its number one position in the global market. Before 2006, Malaysia was one of the leading producers of palm oil but since then, this spot has been overtaken by Indonesia. In 2010, both countries produced 87% of the world's supply of palm oil. In recent years, Indonesia has been increasing its production: In 2006, Indonesia's production surpassed Malaysia's output and in 2008 its exports exceeded Malaysia's exports. One of the main reasons for the reduction in Malaysia's production was limited land bank for cultivation as a result of deforestation and environmental degradation.

Immediate action needed to be taken to ensure Malaysia remains a market leader. More countries have joined the big league; Columbia, for example contributes 2% to the world's supply of palm oil. The South American nation, the world's fifth largest and fastest growing producer, is seeking to increase output six-fold by the end of the decade (John Garcia-Ulloa and other authors wrote in "Lowering environmental costs of oil-palm expansion in Colombia"). The way forward for Malaysia is not to depend entirely on export subsidies of refined products, and export duties of crude palm oil (CPO). At this point in time, the palm oil industry ought to shift its focus to research in downstream technologies. This idea ought to be supported and endorsed by government agencies such as the Malaysia Palm Oil Board, universities and all industry players.

In Malaysia, the key industry players include Sime Darby, IOI group, KL Kepong and SLDU Holdings. They are vertically integrated across the value chain and their core businesses vary from planting, agronomy to value farming. Various upstream and downstream researches have been conducted within these groups with the assistance from the International Finance Corporation (IFC) and various universities. The strategy was to have vertical integration among palm oil producers. Investment in both downstream and upstream activities ensures growth. Downstream (refining and research capacity), and upstream expansion can be seen on the rise. These key players are investing in countries such as Indonesia, Papua New Guinea, and most recently in several countries in West Africa.

As mentioned earlier, the main obstacle in the downstream sector was limitation of land for cultivation, as much of the land is being used for human settlement, economic activities and development of urban centers. In 2014, Malaysia had roughly 4 million hectares under cultivation. To address this issue, strategic steps were taken that led to increased efficiency and upstream productivity; increased downstream investment in R&D and branding; and increased upstream investment in countries with underutilized land resources, such as in Africa.

There were two sectors of innovation in the palm oil industry: upstream and downstream innovation. Upstream innovation mainly focused on increasing CPO output. The innovation included agronomy and research that looked into plant yield, disease control and water conservation. Besides that, one of the university and industry initiatives was the Palm genome project. The purpose of the project was to improve yields by mapping out the genetic structure of the palm.



Downstream innovations centred upon enhancing the value added chain of innovation through various value added activities in the sector. R&D centers at both the firm and the industry levels were set up. Innovation in the downstream activities included the extraction of biodiesel, conversion of effluents and biomass into biogas and the production of health-based foods (Belai, Boakye, Vrakas, & Wasswa, 2011).

5. At CEO's Office – 3 January 2014

“How is this possible? We are not able to achieve even 1 percent increment from last year, yet we are having 71 plantations nationwide. An increment of 0.2 percent is not good enough for this company to survive. The head of production department has to look into this matter immediately. I want to see an improvement next year,” Dato’ Sanusi Ahmad retorted.

He was not satisfied with the company's current performance after reviewing the financial reports obtained from the accounting department. There was no significant improvement from year 2012 to 2013 based on the profit before tax. He believed that profitability, growth and shareholder's value were important in determining the company's performance and it should be consistent with employee performance. Although the company made profit, the amount was quite small and growth was very insignificant. Subsequently, it would adversely affect shareholders' value. The main challenge faced by SPI now was to maintain a 15% dividend from their investment set by SLDU.

On 20 January, 2014, Jalil, the head of human resource department was called up by the CEO. “I think we need to do something with our performance measurement system. I am perplexed why our financial performance is lower than expected but our employees scored high marks in their annual performance evaluation. Something is not right here. Please look into this matter immediately,” the CEO demanded.

6. SLDU's Human Resources Department

The CEO's words rang in his ears loud and clear. Jalil did not waste any time and decided to examine the issue raised by the CEO. The first place he visited was the production site, where he observed the employees for three months. He found the employees to be complacent: they lacked the motivation to meet the set targets and were not bothered with the productivity levels targeted for each department. When he asked the employees, they replied that they were not aware of the urgency to meet the targets and they were merely doing what they needed to do. “What's the rush?” they replied. In addition, there was a high frequency of employees on leave. However, he found some of the reasons given to be unacceptable. Jalil wondered if the Heads of Departments were aware of what was actually taking place under their noses.

A week later, Jalil was back in his office. He thought it was a good idea to examine all the records of competencies from each department in order to identify any flaw in the performance evaluation system. For the past few years, SLDU used a new format for performance evaluation and most of the evaluation marks were at the satisfactory level. SLDU followed the concept of the normal distribution in determining the performance marks. The expected shape of the overall marks should be in accordance with the ‘bell curve’⁶. Jalil discovered that the figures was skewed at the extreme values. Further investigation revealed that the evaluation marks given by the immediate

⁶The ‘bell curve’ shape indicates that the curve is concentrated in the center, which shows that it contains the greatest number of occurrences of an element. In statistical terms, it is known as ‘mode’. There should be fewer tendencies for the data to produce unusual extreme values on either side as compared to the center distribution.

supervisors in all departments were always high. Therefore, he decided to conduct a meeting with all Heads of the Departments.

7. Managing the Managers

In the meeting with all Heads of Departments, on 14 February 2014, Jalil stressed the importance of assessing, monitoring and reviewing employee performance within the stipulated time. He also underlined the significance of employee performance being in harmony with company performance. A company's performance was a crucial aspect in determining the company's progress within a specific period of time. It indicates the current condition of the company, the opportunities it was seeking, the overall contribution to ensure the company was moving forward and therefore it was important to deliver a company's performance target.

There was a lively discussion and exchange of ideas among the Heads of Departments. However, many did not see the need to re-evaluate their employees. "Mr. Jalil, what is the big issue here? We have done our evaluation according to the requirements stated in the assessment forms. We find our employees to be motivated; they understand *their* roles and responsibilities and deliver on time." All the managers agreed with Mr. Aziz, who head heads the quality control department. "It is not our problem if the machine breaks down for weeks and we cannot perform the extraction process. I think that is the main reason why we cannot achieve the targeted yield according to the schedule," said Mr. Ramli, the head of the production department. "Actually, we managed to solve the problem of machine breakdowns and achieved the target accordingly," added Mr. Krisha from the maintenance department.

"We have established a proper Performance Measurement System (PMS). It is a shared responsibility between the organization, employee, reporting managers and reviewing managers. I believe that all of you had attended the training and understand how it works," Jalil explained. "If we work together to strengthen our performance system, our employees will become much more highly motivated and productive. I am counting on you to give them the necessary feedback," added Jalil. With their in-depth knowledge and wealth of experience, and having attended a series of talks on performance appraisal, the Heads of Department were well verse on the PMS. The training had been on how to rate KPIs, targets and competencies, and how to derive overall performance ratings. As for Jalil, he knew that he had pressed the right button to make the managers realize their roles.

Jalil realized that some managers were not oriented with the company's goals and targets. He felt that these managers merely gave out tasks related to an employee's daily routine, and made sure everyone had tasks to do. "That should not be the case. As a manager, there are many other important things to handle, and that include coaching and employee evaluation," he thought. From his earlier investigation, he found that some managers had not explained to their employees about PMS. To him, it was very important for all employees to be clear about the system, the relationship between the company's goals, department goals and the employees' responsibilities to achieve these goals, as well as issues related to the grading. Some managers were not following the measurable tools given to them in evaluating employee performance. As far as he was concern, all the managers had attended the performance evaluation training. He felt that the information had not been disseminated properly to every employee at every level of the organization.



“I understand that everyone is doing his job here, but still we are not performing up to standard. We have targets to achieve, and we need to do our best to achieve them. We need to be aligned with our CEO’s mission,” Jalil lamented. To him, the CEO was very ambitious and forward-looking. The CEO believed that in order for a company to succeed, it must have a strong internal control system and now, he had enforced the implementation of a proper evaluation system.

Jalil felt relieved after talking to the Heads of Departments and hoped that they understood the seriousness of the matter and the urgency to re-look at the current performance evaluation practice. Jalil spent hours thinking about how to get the employees geared towards achieving the organizational goals. He felt that the current performance measurement system placed too much emphasis on financial performance measures. Jalil wondered whether they should implement the balanced scorecard (BSC).

8. Production Department

As head of production department, one of Ramli’s responsibilities was to ensure the welfare of his employees. He was both a manager and a friend to them, and he felt he needed to do as much as possible to help them. Ramli gave his employees high ratings because annual increments, bonuses and promotions were heavily tied to the performance results. In his opinion, he was doing them a favor and hoped that they would be motivated and continue to perform their best in the future.

“What is so wrong with that?” Ramli asked himself. He thought that by being an understanding manager, it would help to increase the motivation level of his employees. He wanted to make them feel like they were a part of a family and wanted them to enjoy working under him. As a token of appreciation, his employees always brought “presents” for him. To Ramli, it was a “normal practice,” but some of his colleagues frowned upon it and considered it as bribery.

Jalil’s directive that employee reassessment be carried out caused a bit of worry for Ramli. After the meeting with Jalil, Ramli was seen busy filling up the evaluation forms. Jalil had reminded him to be fair, honest, and rate his employees based on their performance. Ramli felt that he had done what he needed to do, and believed that nothing was wrong with the way he previously evaluated his employees. He felt that Jalil was trying to make this a big issue.

“Of course the CEO has certain targets to achieve, yet we are all human beings who have limitations in doing our work. It is not that we are not trying. I have worked in the company for almost 30 years. Some employees have been working under my supervision for 10 years. I even know their family members and the difficulties they are facing.”

Ramli was puzzled why the productivity graph of his department was not that good despite the excellent individual performance. He strongly believed that his employees were hardworking and did their jobs rather well. He thought that it was normal if his employees took leave occasionally due to family matters or sickness. “After all, they are humans. Aren’t they allowed to fall sick? They do have responsibilities to their family too,” he reflected.

9. Current Practice of Performance Measurement System (PMS)

SPI adopted SLDU Group's policy and approach in assessing employee performance. SLDU Group's definition of performance in the measurement system included both KPIs and competencies. It is a concept of measuring results or output that reinforces the link between individual goals and business strategy. This approach to measuring competencies gives greater emphasis on employee development and enables them to achieve individual goals and align their behavior to the organization's values. The purpose is to enhance employee motivation and to improve business performance.

The two key elements of performance assessment and reward need to be balanced. The first key element was to achieve business results known as 'the WHAT' and second, was how could the employees demonstrate the shared values and competencies to accomplish the results known as 'the HOW.' Therefore, the key principles of PMS addressed both the "What" and "How" of individual employee performance in a balanced manner. SLDU's PMS stressed the importance of achieving both results and the demonstration of shared values and competencies by all categories of the employees concerned.

The PMS subscribed to the basic idea of "What Gets Measured Gets Done." It also aligned SLDU Group's vision and strategies with individual employee's actions, allowing them to understand clearly how their performance directly contributes to the business goals and results. PMS was an integrated system, supported by other key areas of the human resource processes, such as employee compensation, promotion, career development and succession planning. It was a mechanism to differentiate high performers from the others, for the purpose of rewarding and recognition, and other human resource decisions. Performance management within the PMS followed an ongoing cycle of activities throughout the year, unlike traditional employee appraisal, which tend to be perceived as a once a year event. In this respect, SLDU Group's performance management cycle comprised of three phases that take place throughout the review period: Performance Planning, Performance Assessment and Performance Rewarding.

The Performance Planning phase can be described as the expectations setting stage, where the appraiser and appraisee work together to create a performance plan. Basically, it consisted of the "WHAT" results; for example objectives, KPIs and targets to be achieved; and the "HOW" for example shared values and competencies that employees need to develop, apply and demonstrate during the course of the PMS cycle. The end product of the planning phase was the mutual agreement on the performance plan and the creation of a development plan to build the required competencies to execute the results effectively.

In the Performance Assessment phase, quantitative targets were independently computed; the supervisor obtained inputs from peers, employees and clients. In short, the assessment was a formal appraisal of the actual results achieved as measured against the plan. It was a culmination of previous reviews (formal and informal) that were undertaken in tracking performance progress. There should not be any major surprises when comparing the actual results with the plan, if employee performance was consistently monitored and tracked, and corrective actions were taken accordingly to modify or improve the plan. The end-review also provided the opportunity for the parties concerned to decide what can be done to improve results, developed the desired competencies and relevant development plans in preparation for the next performance cycle.



The Performance Rewarding phase addressed the outcome and consequences of the business or organizational results achieved and the demonstration of the desired level of competencies to accomplish by the respective employees. Performance results would ultimately determine financial and non-financial rewards, or whatever options deemed necessary.

An MNC, with operations across the globe and employs hundreds of employees, required an effective system to measure its performance to remain competitive in the market. As practiced in other companies, top management together with all Heads of Departments, would have a series of KPI planning sessions. The main purpose was to ensure that the employees' KPIs were aligned with the company's targets, since their progress would be reflected in the company's performance. Undoubtedly, if the employees' scores were low, the company score would also be affected.

10. Remodel the Performance Management System

Jalil realized that he had to evaluate the current system immediately and come up with a better and more comprehensive system for SLDU Sdn. Bhd. To revamp the performance measurement system for the each of SLDU departments and eventually, for the whole company within such a short time period was not a small matter. Two major questions lingered on his mind: *Should SLDU relook at how strategic objectives of the company are cascaded down to the departments and eventually to individual employees? Should SLDU implement a balanced scorecard as balanced scorecard focuses on both financial and non-financial measures?* He only had one month from now before the next management meeting on 15 March, 2014.

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