

## **IMPACT OF CONTINUOUS RESTRUCTURING AND RAPIDLY CHANGING SOCIO-ECONOMIC ENVIRONMENT ON MANAGEMENT CONTROL SYSTEMS: ILLUSTRATIONS FROM SOUTH EAST ASIA**

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### **INTRODUCTION**

Traditional management control systems (MCS) literature, study and teaching are largely (management) accounting-based and overemphasise the accounting measurable with a tendency of downplaying what other disciplines contribute in the MCS. (Rajan, M.V. 1992; Simmons, R.L. 1992). But if it were assumed that, after all, management control is the means by which senior management ensures that subordinate managers effectively and efficiently strive to attain the business goals and objectives and that in the final analysis, management control entails the control and influence of human behaviour (Teall, 1992) and of course in turn that of the organisation as a whole, then the practice, study and teaching of MCS ought to borrow equally from other relevant fields of behavioural sciences, strategy and information systems. The point that modern MCS should look beyond accounting numbers is well emphasised by Zdyb, E (1991).

This paper focuses on MCS in a contemporary turbulent environment. The purpose of the paper is to argue out and illustrate with field case facts, that for a MCS to be effective, specifically in a contemporary rapidly changing socio-economic environment, the information sub-system therein and attendant information technologies tend to take centre-stage in the MCS. Information system will tend to take centre stage largely because most of the changes and turbulence in the socio-economic environment are possibly driven by information technology (Toffler, 1990). And drawing on the same case data it will also be possible to illustrate the proposition that in a rapidly changing socio-economic environment the completeness of the MCS components is important and necessary; but, by itself not enough and sufficient to guarantee continued effectiveness and efficiency of the system.

The question of "fit" and "congruence" (i.e.

the match) of system components is equally important. The ever-changing surrounding environment demands an endless search of the suitable match of the MCS components or elements which in turn find themselves have to adjust and change continuously. It is a dynamic world out there demanding the continuous balancing act on the part of senior management. And if this is generally true then there are obvious implications for organisations which are incessantly changing to adjust to rapidly and continuously changing global socio-economic set-ups induced by political and socio-economic restructuring which, of late, have invariably involved, among other things, global radical shifts in societal values as well as generalised marketization, liberalisation and privatisation of economic activities.

### **MCS COMPONENTS**

Management control is premised on the cybernetic model or paradigm in the context of the general systems theory (von Bertalanffy, L. 1968). In this context control requires setting goals, objectives and standards (targets), measuring actual performance to determine deviations, which when fed back into the system, would trigger off corrective action. In practice when operationalised, these concepts result in a MCS with three major sub-systems (Antony & Govindarajan, 1994) namely the planning system, the control structure and the control process (see fig. 1) with the three sub-systems always working together in a continuous interrelationship. The components or elements of each major system are detailed in fig. 2 like it is well established in the literature. The planning sub-system details the directional "bearing", vision, goals objectives as well as ways and means (including strategies and policies) of attaining the goals and objectives of the business firm.

The control structure provides the

“framework” of levers and parameters (like organisational set-up, performance measures, rewards etc.) within which control is effected. These control levers or control decision variables are adjustable and can be changed like any other MCS element to influence the behaviour of the individuals, groups as well as the organisation as a whole. The control process outlines the “clockwork” of control. In the case of repetitive ongoing operations, these steps are programming sometimes termed long-range or strategic planning (i.e. outlining what type of products, projects, programs will be offered over a number of years in future), budgeting and allocation of resources on a year - to - year basis (assuming given programs), performance measurement and variance analysis as well as feedback and rewards or punishment corresponding to performance.

When a MCS is recast in the context of business, one can then conceptualise a firm as a controllable system; the inputs of such a system being resources (e.g. materials and technology), the history of the firm, the environment (e.g. information about regulation agencies, competitors, customers etc.) and management style. History is an important input

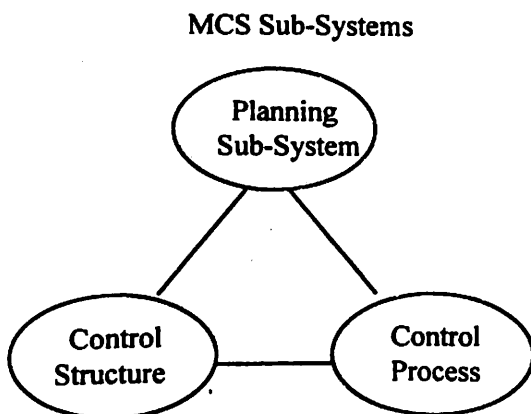


Figure 1: Three major MCS sub-syst

because where the firm is may have to do with where it is coming from. According to Kjellen and Soderman (1980) it is not possible to understand the actual state of an organisation without an insight into the organisation's history i.e. the processes that led to the organisation's

present position. All such inputs interact with the control system installed as well as the people in the firm to generate an output in form of the resultant performances of the individual (s), group (s) and organisation as a whole. See Fig. 3. It will be assumed that a MCS with the elements indicated in fig. 2 is more or less “complete” in terms of the components a normal MCS should have. Such a system to be controllable needs to have a feedback as illustrated in Fig. 3. Feedback here refers to the information about the output of a system that is returned to appropriate members and subsystems of the firm to assist in adjusting the system inputs or transformation process.

The portrayal of the people here largely refers to both individuals and groups in their distinct being which is separate from that of the official organisation e.g. their personal goals, beliefs and agenda, their values, personal expectations as well as their competencies as distinct from those of the firm as a whole. Because it is the people who make things happen in organisations, they are held in this paper to be central in any MCS. It is assumed in here that it is the people, in the final analysis who will make a MCS effective and efficient. *Ceteris paribus*, the bigger the divergence and inconsistency between the official and documented MCS on the one hand and the undocumented personal agenda, goals, beliefs, values as well as personal aspirations and competencies of the people, on the other, the less effective and/or efficient the (official) MCS is likely to be and the harder it will be to drive the organisation towards specified target (s).

#### Ingredients of a Management Control System

1. **PLANNING** i.e. “BEARING”
  - Vision (shared? attainable?)
  - Goals and objectives + key success factors
  - Strategies
  - Policies
2. **CONTROL STRUCTURE** i.e. “FRAMEWORK”
  - Responsibility centres (types)
  - Organisational set-up (Which

design is suitable when?)

- Performance measures (Which measures for which centre?)
- Reward + punishment system (Performance linkage!)
- Information System (for planning, evaluation, control)
- Others: \* Culture (i.e. values, beliefs, attitudes, *mores*, etc.)
- SOP's: rules, regulations, procedures

3. CONTROL PROCESS i.e. "CLOCKWORK"

- Programming (over several periods)
- Budgeting (periodically)
- Evaluation + feedback + reporting + compensation

Figure 2: Ingredients of a Management Control System

MCS IN ENVIRONMENTAL TURBULENCE

It is an underlying assumption of this paper that turbulence and attendant uncertainties generated in a socio-economic environment within which a firm may find itself operating demand new approaches to management style and processes and specifically call upon new designs and approaches to MCS, if the firm is still to continue to strive effectively and efficiently towards the attainment of stipulated vision, goals and objectives by pursuing laid on strategies and policies. The discussion in the paper hereafter will proceed in form of a series of assumptions (marked as A's) and deduced propositions (H's) which will be illustrated later with field case facts.

*A<sub>1</sub> Assume, to start with, general socio-economic environmental turbulence characterised by apid pace of changes and uncertainties, largely induced by information*

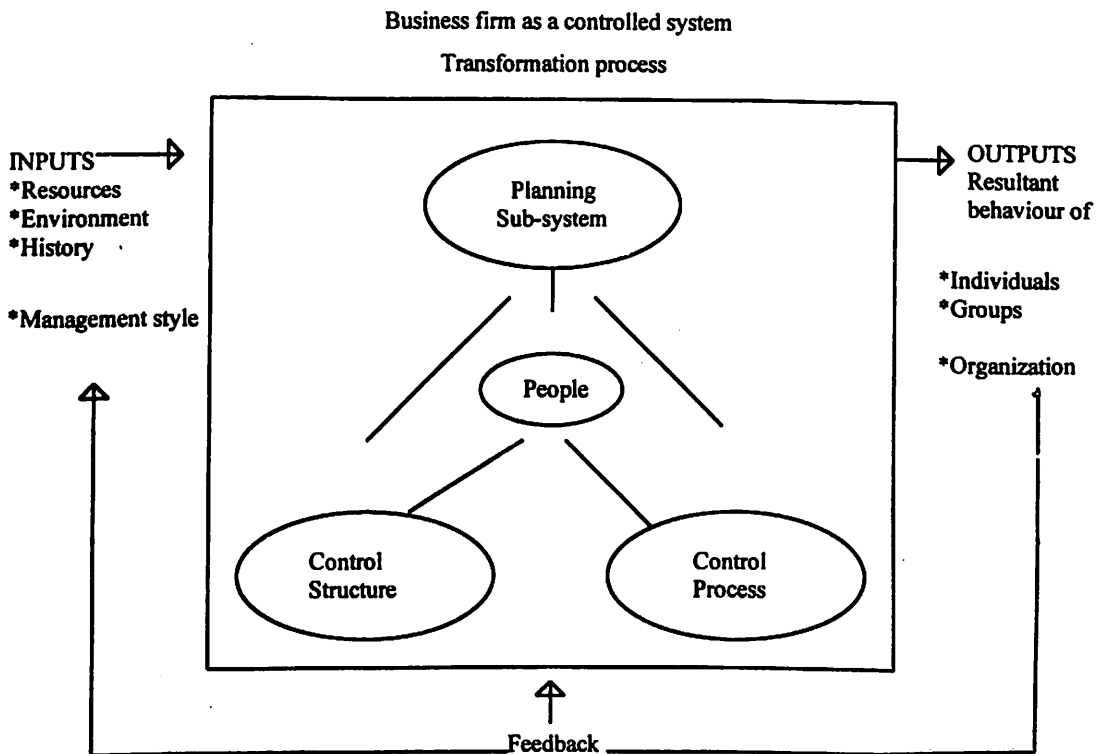


Figure 3: Business firm as a controlled system

*and communication technologies.*

That the global economy would be going through a series of rapid socio-economic changes for a number of decades at a very rapid pace was predicted from the 1970's (Toffler 1976).

But it was after the 1970's that it was clear in many predictions that all these changes would largely be dictated by the information and communication technological revolution which was unfolding (See: Naisbitt, J.F.P & Aburdene 1982, 1990; Naisbitt 1995; A. Toffler, 1990; T. Peters, 1992). The 1980's witnessed, particularly in advanced economies, a shift from the industrial society to information society, forced and low technology to high technology, from a focus on national economy to global economy and from business hierarchies to organisational networking. The 1990's spread these trends to the rest of the world and brought in new events; namely the collapse of bureaucratic socialism, political and economic liberalisation, the privatisation of the welfare state and the dominance of free markets in socio-economic organisation. According to T. Peters (1982) the generalised political and economic uncertainties, coupled with technological changes were expected to bring into the scene new demands, rapidly changing tastes and demands and foreign competition - all which require, on the part of the business, the ability to adjust and react faster, be quality conscious and to be more innovative.

*A<sub>2</sub> Assume also accentuated need of rapid information processing and relaying capacity in all management processes under such turbulent environment.*

The immediate impact of turbulence and rapid changes taking place in the environment is to require a firm to have the ability to respond fast to these changes through continuously adaptive planning and control. It should be expected therefore that the management operating in turbulence will need faster information in order to respond managerially than if it were in a stable and easily predictable environment. Under these circumstances, a manager is involved in an adaptive control process (Bellman & Kalaba 1965) rather than deterministic control process

where it is generally assumed in the system that the state variables are identifiable and observable, that the cause and effect relationships are always known and they do not have to be investigated, and that the objectives of the decision process under investigation are well defined. To quote T. Peters (1982), under such circumstances there are no constants; the only constant is change. Globalization, for example, in particular came along with new challenges for management. According to Laudon and Laudon (1994), these challenges include management and control in a global market place, competition in world markets, global delivery systems, global working groups and shorter product cycles. The transformation of industrial and industrialising economies brought challenges of knowledge-based and information-driven competition and, productivity as well as the quest for leadership in time-based competition.

One engages in time-based competition by increasing the ability to compress the time taken to carry on processes. And as time is compressed, productivity rises, prices can be raised, risks can be reduced and the market share increased (C. Meyer 1973; P. Northey & N. South way, 1993; G. Stalk & T.M. Hout, 1990). Given changes and uncertainties induced largely by information and communication technologies in the socio-economic environment and the correspondingly rising need and demand of rapid information and information processing and delivery capacity, it can be asserted in form of a proposition (H1) that:

*H<sub>1</sub>: For a MCS to work effectively and efficiently in a rapidly changing and turbulent socio-economic environment, the information subsystem therein and attendant technologies find themselves at centre stage of the MCS in a business firm..*

The information system according to Laudon & Laudon (1994) is a set of interrelated components that collect, process, store and disseminate information to support decision-making, planning, control, analysis as well visualisation in an organisation. The information system is an integral sub-system of a MCS. Information subsystem and attendant know-how and technologies are likely to precipitate towards

centre stage in this case because uncertainties brought about by changes create problems which need rapid solutions. The same uncertainties and rapid changes require rapid investigations, analysis, decision-making as well as planning and control. All this can only be adequately handled in a modern organisation by computer based information (CBI) systems, supported by relevant technologies including various imaging and storage technologies, multimedia and CD-ROM, robotics, neural networks and artificial intelligence as well as local networks and global communications. Information subsystem and related technologies being at centre-stage implies that they largely become the reference focal point with which many other subsystems and components in the MCS have to be congruent, and in some cases the information system and technology dictate the form, nature and pattern, those components or elements would take. In short the information system and technology largely influence the configuration of many other MCS elements.

### **MCS COMPONENTS IN TURBULENCE: COMPLETENESS VS CONGRUENCE**

Component completeness as far as MCS is concerned shall be defined to mean having all the essential elements and sub-systems which would make a MCS work as indicated in fig. 2 and 3. Component congruence shall herein refer to how well the elements fit and work together i.e. the "match" or "fit" between individual elements and subsystems in a MCS. Both concepts largely derive logically from conceptualising a MCS as a dynamic open social system, like Katz and Kahn (1960) characterised an organisational system to be.

*A<sub>1</sub> Assume, therefore a MCS to be an open dynamic social system*

A system is a set of interrelated elements such that a change in one element affects the other elements. When a system is an open system, it transacts and interacts with its environment. Systems theory (Van Bertalanffy, 1968), suggests that such a MCS can be conceived to have inputs

being transformed into output (s) and with feedback information about output being used to control that system, as already illustrated in fig. 3. But systems theory suggests another thing: a continuous search for equilibrium and balance such that when an occurrence puts the system out of balance, the system tends to react and move to bring itself to a new balance (i.e. homeostasis). The same theory suggests also that for a MCS to survive, thrive and develop in a changing environment, it needs to have the capacity to adapt continuously: in other words, capacity of self-renewal. An integral aspect of the homeostasis of a MCS is the "fit" or "match" of components within the system as well as the system and the environment. The "match" is necessary for internal consistency as well as harmonious and sometimes synergetic working of the same parts on the one hand, and the external realignment of the MCS to its environment on the other. An open system survives develops and thrives through adaptation to environmental threats or constraints and opportunities. Given the above assumption (A<sub>3</sub>) one can deduce another proposition, that:

*H<sub>2</sub>: In rapidly changing environment the completeness of the MCS elements is as important as the congruence or fit of the elements, if a MCS is to work effectively and efficiently on a continued basis..*

If the MCS is taken to be an open dynamic system, then it should not be surprising that the attribute equifinality also applies. Equifinality implies that different MCS configurations can lead to the same end or to the same input-output conversion. That being the case, there cannot be a universal "one best way" to design (i.e. assemble the constituent components) a MCS. What is best depends on circumstances and a number of contingencies. But in as much as there may not be one best way to design a MCS, some research highlighting this issues suggests that certain patterns or congruencies between MCS elements and subsystems work better under given circumstances than other. (Homan 1950; J.A. Seiler 1967; P. Lawrence & Lorsch 1967, 1969; Burns & Stalker 1961; R.E. Miles & C.C. Snow 1984; Nadler & Tushman 1980). It now remains

to check the extent to which real experience and empirical facts drawn from one of the rapidly changing socio-economic environments in the world illustrate and are consistent with the above derived propositions. For these purposes of this paper a case study research, approach will be taken to illustrate without pretending to rigorously test out those propositions.

## **CASE STUDY RESEARCH METHODOLOGY**

Case study approach involves judgmentally selecting issues or events or subjects to study and document in detail after a thorough and in-depth analysis which may require the use of the researchers' personal observations that results from their presence, participation of even intervention in the actual process to be examined. There have been criticism of case-studies as a scientific method. The case methodology has been said to lack statistical validity. In other instances, it has been pointed out that case studies can be used to generate hypotheses but not to test them and that it is generally difficult to make generalisation on the basis of case studies. But proponents of the method have defended the method on the grounds that when properly applied, case studies can be useful and be economic in management-related research.

Yin (1984) distinguishes generally three types of uses of case study research; exploratory, descriptive and explanatory. Although in business-related subjects researchers have traditionally limited case studies to exploratory use (i.e. in form of pilot study that can be used as a basis for formulating more precise questions or testable hypotheses), in this paper the approach will be used largely to illustrate propositions which have been deduced and asserted earlier. It will be left for more rigorous and controlled studies to test-out the same propositions as hypotheses. The biggest advantage this approach has in this case is to provide a holistic view of the issue under study which is MCS.

In this instance, two cases are chosen from Malaysia in South East Asia. This region is one of the most dynamic socio-economic environments in the world. Malaysia following the route of Singapore, Thailand, Hong Kong,

Taiwan and Indonesia has had an economy growing at an average of 8% p.a. It has also been rapidly industrialising and undergoing internally big socio-economic changes for the past ten years, under very able political leadership.

The cases are drawn specifically from the financial industry. The cases are Arab-Malaysian Finance Berhad (AMFB) and CITIBANK Berhad. These two successful firms (one local and the other foreign) arguably belong to the class of best managed financial institutions in the Malaysian financial industry. The financial industry has been identified as one of the most dynamic and turbulent industries world-wide.

Again the financial industry is one of those industries where IT has had a mark of its impact. (Mayer & Kneeshaw 1988 and Sachs & Elston 1994). IT systems in the financial industry incorporate and integrate features which range from advanced dealer interfaces, embedded expert systems and artificial intelligence tools, to market simulators and optimisers, real-time execution capabilities, pattern recognition models, dynamic adjustment capability as well as the full exploitation of global data bases and global networks (Chorafas, 1991). In Malaysia the financial industry is awash with change. By change here, is meant emergence of novelties in the environment, particularly the application of new scientific discoveries or technical inventions as well as the requirements for products or services of a kind not previously available, demanded or envisaged. The various financial innovations that were increasingly taking place included financial product innovations like market mutual funds as well as financial process innovations like electronic fund transfers. In the meantime the financial market place world-wide has seen changes which were impacting on the Malaysian financial industry. There have been, for example, the introduction of price-risk transferring innovations, which permit the transfer, between financial market participants, of price risks inherent in financial positions like options, futures loan caps, swaps and forward rate agreements. There have been credit generating innovations like liability-based interest rate swaps and "junk" bonds used either

to tap new sources of finance or mobilise dormant assets to support new borrowings. There are also credit-risk transferring facilities like loan swaps, transferable loan contracts, credit guarantees and securitization, most of these being the outcome of the debt-crises in the 1980's. In the meantime technological advances in telecommunications, data processing and display techniques have greatly reduced transactions costs, increased market transparency and supported drives towards globalization. The intensification of competition between financial institutional at national levels and international levels is partly the result of technical change and increasing deregulation which reduces protection traditionally enjoyed in individual markets and areas of specialisation.

But amidst this turbulence experienced world-wide including Malaysia, there have been simultaneous forces and tendencies in the financial industry towards "financial supermarkets" as well as "financial boutiques" with focused segmented market niches. There have also been forces to differentiate as well as integrate and standardise financial product offerings. Finally there have been forces and tendencies to regulate and control some aspects of the market as well as deregulate others, in both cases changing the spectrum of constraints and opportunities.

It will therefore be the financial institution which will adapt continuously and successfully to the rapid and turbulent environment that will manage to survive, develop and thrive. How has this necessary adaptation been approached in the two cases under study?

## **CITIBANK BERHAD CASE**

### **Contextual background**

American bank operations in Malaysia date back to the late 1950's when in 1959 First National City Bank (which would later evolve into CITIBANK) established its first in branch Kuala Lumpur, the capital of the country. But until 1965 the bank had only 3 branches. Two were in Kuala Lumpur and one in Penang, a major city in the north of the country.

Thereafter the growth of branches would

be constrained by the revision which was made in the Malaysian Banking act. The revised legislation prevented all foreign banks to open new branches and to participate in Automated Teller Machine (ATM) networks in the country. It was a move to protect local financial institutions from the competition of more advanced foreign banks.

Before 01 January 1994 Citibank Berhad was operating as a branch of CITIBANK N.A. New York. Thereafter it was operating as a wholly owned subsidiary, since as part of the new law, all foreign banks had to be locally incorporated. In 1995 the bank operations in the country were still limited in size but dynamic, innovative and with a distinct global orientation. The firm was a market leader in an industry with competitors many times its size. During the past previous years its profits were always higher than the budget and growing at the annual growth rate of about 50%. It was however not yet trading on the Kuala Lumpur Stock Exchange.

Like most CITIBANK branches all over the world, Citibank Berhad had 2 strategic business units (SBU's): Global Finance, catering for corporate clients and providing services related to trading, currency swaps, and investment funding and Global Consumer Bank (GCB) catering for normal customers. Each SBU reported directly to the Head Office in New York. This case is about the Global Consumer Bank (GCB) in Citibank Berhad, Malaysia. GCB offered a wide range of services including conventional checking and deposit accounts, personal loans, shelter mortgages and other services ranging from insurance to credit cards.

The general socio-economic environment in which the bank found itself operating was competitive and volatile as well as regulated. For almost 8 years previous to 1994 Malaysian economy was growing at about 8% p.a., which was one of the highest rates in South East Asia, if not in the world. The economy was booming as Malaysia tenaciously pursued its vision 2020, by which Malaysia aspired to belong to the club of developed economies by year 2020. The whole financial industry therefore had to cater for increasingly sophisticated and affluent customers requiring equally sophisticated services.

## Management Control System

### Planning

#### Vision

Citibank GCB shared a common vision with other Citibank branches in Asia Pacific Consumer Bank Division (See Appendix I).

"To be a unique global bank and leading regional consumer bank across Asia-Pacific and the Middle East, dedicated to our customers, financially strong, consistent, committed to staff and their development and to delivering sustained superior performance to shareholders."

Almost every important word in the vision statement had been given full written explanation. The vision statement itself was printed in full for all branches and staff. There was even the "vision in action" video segment in the Corporate Quarterly performance video which used to be shown to all staff and management. The "Vision in action" video segment captured relevant events consistent with the corporate vision.

#### Mission and goal(s)

To be a market-oriented premium bank in the business of acquiring, building and depending relationship with targeted customers, providing:

- ⊙ a wide range of customer-driven, value-adding, innovative consumer financial products and services particularly to middle and upscale customers residing primarily in urban centres and in the process deliver sustained superior performance to shareholders.

#### Strategies and policies

Strategies and policies focused on

- ⊙ Customer orientation, with emphasis on middle and upscale individual customers
- ⊙ Financial innovation, anchored on information technology (IT)
- ⊙ Staff development, emphasising self-development teamwork and excellence in execution
- ⊙ Full exploitation of IT to compete and serve better customers

General strategies and policies usually were translated into specific applications for each product line or service offering. For example, in case of the housing loan product line, the strategy was to link up with reputable estate developers to minimise the risk of financing properties in housing projects that might be abandoned. The strategy included also identifying and developing potentially good developers by providing end-financing for their projects. They would invariably also station officers at project site offices during the project launch to process loan applications from buyers.

In case of checking products, the strategy was to target middle and upper income groups. These were considered to be better paymasters and customers for other financial products like insurance, travellers' checks, credit cards and personal loans. The same individuals were deemed most likely to appreciate good service and pay a premium price for it. They were also considered to be the customers who would boost the banks prestige in the market.

The bank however, had a slightly modified strategy for customer deposits. Customer deposits were the cheapest source of funding of bank loan and credit products. Because of limited operations capacity, strategies were developed to focus on high net worth individuals. They constituted only 20% of the bank's customers but contributed more than 80% of the bank's total deposits. To attract and retain these customers a Citigold Unit was established to provide specialised personal service to these customers with highly trained personal bankers.

Finally when in 1989 GCB entered the credit card market, it did so for certain strategic reasons. This financial product did not require a large branch network (which Citibank did not have) for service. It was also a product which did not have geographical constraints. Customers could be serviced through mail and telecommunication media, right from the stage of opening an account to servicing the account. To circumvent the limited physical presence, the bank in 1993 established Citiphone banking, a 24 hours per day, 7 days per week manned phone banking service. This was meant to substitute its limited physical branches with virtual "branches in the sky", capable of providing all



financial services except cash deposits and withdrawals. Later on Citiphone banking was supplemented by Automated Voice response systems to provide self-service functionality. This was one of the instances where the bank made strategic use of IT to circumvent legal and physical constraints in the market and still compete.

## **Control structure**

### **Responsibility centres and organisational set-up**

The overall organisational set-up was flat. It had only 3 tiers and was based on functional design. Flatness might have been necessary for quick response to the competitive dynamic environment.

The functional structure was consistent with the magnitude of the operations, apart from promoting specialisation and innovation. As far as responsibility to pursue profit was concerned, Citibank GCB had basically grouped all the responsibility centres in two groups; the credit card product line and all other lines in the bank's product portfolio. Each group had profit responsibility. Each group consisted of similar functional units for finance, operations, credit control, and marketing plus unique functional units that were peculiar to each business such as time deposit/remittance for banking and the fraud unit for credit cards. All these functional units within each group were essentially discretionary expense or cost clusters.

The units identified as General Services (premises), Citiphone, Quality Assurance, Current Accounts (check processing) and the Data Processing Centre were functional units serving both the Global Consumer Bank (GCB) strategic business unit and Global Finance strategic business unit. Each functional unit was designated as a cost centre and altogether grouped as a Utility group.

Costs were allocated to each SBU based on the number of the transactions or checks and vouchers processed. But since none of the two indicated groups were strictly defined as profit-centres, the overall profit responsibility of the SBU became the responsibility of all staff. It was one way of cultivating teamwork at all levels.

Apart from internal cost allocation, costs were also allocated by the Divisional Technology offices as development costs for regional systems. Regional software development units called "centres of excellence" were set up at the Divisional office to provide economies of scale and to standardise software systems throughout the region. This provided a common "look and feel" between all ranches in the region, a step towards achieving the "unique global bank" vision.

### **Performance measures**

Managers were measured by the performance of the SBU as well as by their individual performances. The SBU was measured in terms of profit performance and expense control. All functional unit expenses were measured against budgeted expenses. A sales sub-unit performance was measured on the basis of the total amount of loans secured. But branches were also measured on the basis of total deposits against quotas and budget figures.

Management had created *service indicators* for each department to identify major tasks that had impact on customers service e.g. "processing 75% of loan application within 7 days" as a service indicator for the credit department. There was a service committee which among other things reviewed these indicators on a continued basis. A service indicator which was achieved 100% repeatedly was usually and quickly replaced with a new one.

Performance rating was carried out by each departmental manager in October, each year. A "forced ranking" was adopted to rank all staff in categories of top 5% to the next 10%, 20%, 35% and last 5%.

### **Reward and punishment**

Performance rating results were, among other things, input into recommendations for merit salary percentage increment or promotions. Reward for performance reflected in percentage increment ranged from 5% to 25%. Habitual non-performers got no increment. Middle management and senior management like vice-presidents got also bonus on the basis of the SBU performance.

There was commission scheme for the sales

staff to motivate them to source and secure more loans for the bank. The same scheme was used also to encourage sourcing of deposits through product cross selling and customer referrals.

There were quarterly service awards meant to reward staff for excellence in service delivery. They were based on recommendations from departmental managers and were usually a result of recommendations from customers. The award consisted of RM 1000= plus a plaque plus a certificate of appreciation signed by the President of CITIBANK.

There were finally dinners for project teams upon successful completion of each project attended by all senior staff. In that way the teamwork approach was reinforced.

#### **Information system**

GCB had only 3 branches. However the Bank's information system consisted of a IBM ES9121-411 mainframe computer running a MVS/ESA operating system. The system supported all the Bank's products as well as financial reporting. Investment in Information Technology (IT) received strong support from the CEO himself. IT investment was viewed as critical in providing the response time and the computing power required to process complex systems to support innovative products and service. All the bank ATM's were connected to a Stratus fault-tolerant front-end computer to provide 24 hours availability.

Financial reports were generated by a consolidated General ledger System called COSMOS that was used throughout all Citibank branches. This was to facilitate preparation and submission of monthly financial performance to the divisional office. Each type of expense and revenue was assigned with a unique code which was used during the data entry process. Each functional unit was also assigned a centre code. Reports on actual expense and revenue against budgeted figures were generated on a weekly basis.

By using a unique category code for each product, revenue by product was also produced. These data were input into a Product Profitability Review system on a PC together with other data to allow management to track the profitability of each product. From this, management was in a

position to make decisions on whether to grow, maintain or to prune out a particular product.

There was a Blacklist system that contained information on individuals that were declared bankrupt as well as individuals that had been blacklisted by the banking industry for bad conduct. This system enabled the screening of new applicants for all credit products. A system that had the capability of developing profiles on frauds and attrition was being developed for the credit card business to enhance the screening process and to manage down attrition rates.

As a financial institution, data integrity was critical to the success of the business. To ensure this, generation of audit trail were mandated in all the systems that were developed. All systems were also required to enforce a "maker and checker" process to ensure that data could not be modified and user maintenance could be done single-handedly. Audit trail reports were generated daily and reviewed for exceptions by the Quality Assurance unit.

Standard Lotus spreadsheets were also used by all departmental managers in the preparation of annual budgets. These budgets could then be easily consolidated to arrive at a total budget for the business. Citibank Malaysia was also connected to a global network. All units heads and department managers were provided with a mailbox on the corporate electronic mail system to facilitate communication. Financial reporting to divisional office was done by transferring standard spreadsheets through this network.

The global network infra-structure also allowed fund managers in the corporation to communicate and arrange for international trade financing for its corporate clients. This infra-structure had also enabled the bank to link its Automatic Teller Machines (ATM) to international networks such as CIRRUS and STAR. This allowed all Citibank's ATM and credit card holders of participating branches to perform transaction at each others ATM's as well as ATM's of participating banks in the world. This truly gave form to the "Global" bank vision.

Since most local ATM networks were also connected to CIRRUS for credit card authorisations, this linkup technically connected the ATM's of Citibank GCB to the local networks. As such, Citibank's ATM card holders were able

to use the ATM's of local banks that participated in the local network and vice-versa. This effectively circumvented the local regulatory restriction of foreign banks participation in local ATM network. This capability could be exploited as long as local regulators remained silent about this "loop-hole".

The Bank was in various stages of implementing relational databases, case tools, and Object Oriented Programming (OOP) to speed up system development. Due to the dynamic nature of the industry and economy, products needed to be launched fast enough to take advantage of opportunities and to stay ahead of competitors, thus enhancing the Bank's market leadership position. The Bank saw OOP and relational database technology as tools to develop new functionalities for repackaging conventional products into "new" innovative products and to provide relationship banking.

All the Bank's PC were also connected to a Ethernet wide area network. Apart from electronic mail and sharing of word-processing software's, the network was used to support a Signature Verification System that allowed check encashment at all its branches.

#### **SOP's and culture**

GCB had standard operating procedures (SOP's) manuals almost in every major area of operations. They were financial regulations as well as accounting procedures manuals.

The culture which was indefatigably nurtured in GCB was fundamentally people-focused promoting integrity, teamwork, customer-focus, exceptional excellence and innovativeness (see: Appendix II). All these aspects were supportive of the general strategies.

#### **Control process**

##### **Programming and budgeting**

A 3 year plan existed that established goals in terms of profits, number of accounts for each product and customer satisfaction score. This plan was reviewed and updated annually in June and provided a guideline for the plans for each functional unit.

Each functional head would then prepare project proposals for their respective units toward achieving these goals. These proposals were then

table at one of the management Committee Meetings for review. During this review each proposal was to be analysed along the following criteria:

- ⊙ feasibility of project
- ⊙ revenue generation capability
- ⊙ improvement to service and productivity
- ⊙ enhancement of the bank image

The revised plan and short-listed project proposals were then formally presented to the regional Business Manager for his approval. The approved plan and projects became the basis for functional budgeting for the coming year.

Each departmental manager would analyse the projects and extract the tasks that were required to be performed by the department. The resource requirements for each task was estimated and submitted in an standard Lotus spreadsheet for consolidation by the Business Controller. Revisions of expenses were done through meeting between the Business Controller, functional heads and departmental managers until the forecast profit was achieved.

The budget was then submitted to the Regional Office and Divisional Office for review and consolidation. In the event of a need for changes, the budget was returned and another round of discussion was held. This process would continue until the budget was approved at Division Office, normally by November of each year. This process ensured that divisional, regional and local businesses goals and strategies were integrated since it used a top-down as well a bottom-up approach.

Formal business review with the Regional Business Manager was conducted on a quarterly basis. Business plans and strategies were reviewed against actual results to determine whether changes to strategies and budget were required.

##### **Evaluation, reporting and compensation**

Reports were primarily used for financial analysis while survey results were used for behavioural analysis of industry, customers and staff. Senior management met once in 2 months to review

strategies and results.

Routine reports were generated to provide information on expense and revenue position as well as total asset and total liability. This information was incorporated in a formal monthly Business Letter that was sent to the Regional Business Manager, Division Head and Corporate Audit. This report contained financial summary, treasury management, business development and summary of all running projects. Financial summaries contained both monthly and year to date totals with comparison to prior year and budgeted totals. Routine reports were also used to track the profitability of each product on a monthly basis. This allowed Citibank's management to determine how well a product was being received and determine whether there was a need to increase advertisement to create more awareness.

A key profitability indicator was the amount of assets (loans) that was funded by customer deposits. Since customer deposits formed the cheapest source of funding, the gap between loans and deposits formed the cheapest source for funding, the gap between loans and deposits was tracked closely via these reports. Too much deposits represented additional cost while insufficient deposits represented lower profit margins since the bank would need to borrow from the money market at higher interest rates. Staff presentations were also conducted on a quarterly basis.

During these presentations, the CEO provided an overall report on the business performance to date and future plans for the company. This also provided the CEO the opportunity to personally express the management's appreciation for success achieved to date. In general, there was also presentations on marketing plans, technology projects and credit card business development by respective functional heads. Long-service awards and service excellence awards were also presented during this gathering.

Customer Satisfaction Surveys (CSS) were conducted once in two years to assess customer satisfaction level. For assessment of market position, a Forward Survey was also conducted with the same frequency. This survey covered both customers and non-customers to gauge the

position of Citibank with respect to all its competitors. Climate Survey was also conducted once in 3 years to assess employees satisfaction level with respect to the company policies, career prospects, management style and etc. These surveys provided important feedback to management to determine how well current strategies were working and to make changes where necessary.

Expenses control was done on an on-going basis. Even for expenses that were budgeted and approved an expense request was required to be submitted for approval by the functional head, financial controller and the CEO. Both budgeted and non-budgeted expenses that exceeded the approved limit of local management needed to be counter-approved by divisional management. This provided a tight control on all expenses.

Overall performance rating was based on achievement of departmental goals, favourable audit rating if available and achievement of service indicators.

## **AMFB CASE**

### **Company History and profile**

The Arab-Malaysian Finance Berhad (AMFB) was incorporated in Malaysia on 22.05.1964 as Malaysian Industrial Finance Co. (MIFC). It was however acquired as a 100% subsidiary by Arab Malaysian Development Bank, in 1994 known as Arab-Malaysian Merchant Bank Holdings Berhad (AHB) and renamed AMFB in early 1980's.

In 1994 AMFB had assets valued at more than 7 billion Malaysian Ringgit (RM). USA \$ 1.00 was in 1994 approximately RM. 2.50 (Malaysian Ringgit). In 1995 AMFB total assets were about RM 9.5 billion. The 1995 pretax profits were RM 212.8 million, having risen from the 1994 level of RM 107.6 million. These profits were expected to continue to rise because of anticipated growth in construction as well as manufacturing and commerce activities. The price of the share of the firm which was registered for the first time on 20.4.1992 on the Kuala Lumpur Stock Exchange had doubled by June 1995 when it was trading at about RM 10.00 @.

AMFB had 76 branches and about 1600 employees in 1995. It was the third largest

finance company in Malaysia in terms of assets, deposits, and owners' equity. Malaysia had 45 finance companies in all. The financed company was renowned in the region for innovativeness and dynamic management. The management team was headed by Tan Sri Dato' Azman Hashim a top banker and entrepreneur in Malaysia. He was the chairman of the AFMB group. The company got listed on Kuala Lumpur Stock Exchange in 1992. After the restructuring of the AHB group of companies, AHB in 1994 owned 65% of AMFB.

AHB grand vision was to become a 'financial supermarket' providing various banking and insurance services. In 1995 AHB had under its umbrella businesses which included a merchant bank, a finance company, a credit company, a security company and an insurance company among many others (see: Appendix III).

AMFB lines of business in particular included the following:

- ⊙ Loan products (bridging, term, industrial hire purchase, leasing, property, margin trading account and block discounting loans)
- ⊙ Deposits (savings and fixed) used in funds mobilisation)
- ⊙ Others
  - \* travellers cheques
  - \* money changing business
  - \* money market operations

AMFB was working in a dynamic and competitive but highly regulated industry in a socio-economic environment which was increasingly and rapidly becoming very sophisticated. The 43 finance companies in the country had products and services which overlapped with those of commercial banks. That implied intense competition. Other competitors included securities firms in the area of margin financing, credit companies in the area of hire purchase, insurance and building societies in the housing loan market and merchant banks in the area of corporate loans and margin financing businesses. The bank Negara (Malaysian Central Bank) oversaw the activities of AMFB as well as those of similar financial institutions. The

Central Bank implemented its monetary policies through the statutory reserve/liquidity ratio requirements. There was also a limit to which a single corporate customer could borrow: not more than 30% of the company's shareholders equity. This limitation in effect kept large corporate customers from smaller finance companies. Changes in regulation were however being forced upon the Malaysian financial industry by world-wide developments elsewhere.

Information Technology (IT) was used to package and repackage products and services to attract customers. In this respect the latest developments in the market place included credit cards, debit cards, tiered interest bearing accounts, interest rate swaps as well as options and futures.

### **Management Control System**

#### **Planning**

##### **AMFB vision/mission**

"To become the CITIBANK of finance companies in Malaysia and South East Asia" according to the words of AMFB Managing Director.

#### **Goals**

The goals of the firm stood as follows:

- (i) To optimise return to shareholders and enhance value of their investments in the company through maximising leadership in terms of return on investment (ROI) to customers.
- (ii) To be a model employer seeking always to have a highly skilled motivated and responsive staff with high ethical standards.
- (iii) To be a caring and responsible corporate citizen, seeking to contribute positively to the national economy.
- (iv) To strive for long-term leadership in innovation, market responsiveness, excellence and quality of services as well as size and quality of assets.

#### **Objectives**

Over time the objectives of the firm include

- ⊙ ROI 25-30%
- ⊙ Consolidation and exploitation of IT systems to obtain competitive edge over competitors
- ⊙ Reward system that harnesses performance to achieve corporate goals
- ⊙ Training
- ⊙ Cost control through automation

### Strategies

- ⊙ Focus on core business i.e. hire purchase
- ⊙ Competitiveness through IT, efficiency and quality of service to customers as well as continued financial re-engineering.
- ⊙ Human resources development

### Policies

There was a wide range of policies in all functional as well as support activities in the company.

### Control Structure

#### Responsibility centres

AMFB had profit centres as well as cost centres. Profit centres were defined to be all income generating units including all branches, loan divisions, as well as money market and investment departments. Cost centres were identified to be largely specialist and support departments including information, accounting, property & administration as well as inspection and branches operations.

Costs were allocated to profit centres. If a profit centre had an excess of deposits over its loans, then it was taken to be a funds-provider otherwise it was a funds-user. Nominal interest on cost-plus basis would then be credited or debited accordingly. There were various bases of allocating other cost centre expenses and corporate-wide expenses. For example marketing and advertising expenses were allocated on the basis of new disbursements of loans. Direct expenses by specialised product/division were directly allocated to specific profit centres. Administrative, communication and equipment

expenses were allocated and the basis of outstanding receivable of profit centres. Other miscellaneous expenses were allocated proportionately according to staff costs of profit centres.

AFMB had also transfer prices system. But the system was cumbersome. It was also dependent on manual computation. It was the cause of endless disputes since it was in some cases perceived inequitable.

#### Organisational set-up

AMFB organisational set-up interwove all the profit-centres and cost-centres into a divisionalized matrix format. (see Appendix IV). This organisational structure was generally supportive to the strategies and goals. The organisation had 7 divisions: 5 profit centres (investment operations, corporate + consumer banking, hire purchase, card services, regional offices) and 2 support divisions (information services, branch inspection + training). Each of these divisions was headed by a senior manager and directly answerable to the managing director, En. Mohamed Azmi Mahmood. The internal organisation of these division was largely on functional lines, though in some cases one found some profit sub-units.

There were some unintended conflicts and contradictions within this set-up. Attempts to resolve these contradictions were made in several ways including committees and task forces like in the case of new product development.

#### Performance measures

Most of the divisional performance measurement was directed towards the financial results of profit centres. The measures which were employed included the following:

- |                  |  |
|------------------|--|
| profit centres → | <ul style="list-style-type: none"> <li>* Profitability vs. budget</li> <li>* Arrears and non-performing loans</li> <li>* Return on Assets (ROA)</li> </ul> |
| Cost centres →   | <ul style="list-style-type: none"> <li>* Actual expenses Vs budget</li> <li>* Ability to service profit</li> </ul>   |

centres e.g. as reflected by satisfaction of profit centres/customers

- \* Special contribution to projects

Apart from these measurable the appraisal system was considered subjective

### **Reward and punishment system**

The reward and punishment were very closely tied to the performance measures. Individual, departmental and divisional performances were as far as possible used to determine periodic salary increments, bonuses as well as promotions through semi-annual appraisal system.

However, despite this meticulous care to link reward and punishment to performance, there were always disputes and disagreements emanating from such appraisal and rewards. The appraisal systems was basically not considered comprehensive enough to include all the relevant factors for evaluation.

The history of performance was for example always an ignored input factor into this appraisal. Some managers indicated that it would be unfair to consider the rosy performance of a manager in one isolated period and attribute it to the current manager ignoring the possibility that what was being observed may have been cultivated by a previous manager. Again the same performance, it was pointed out by another manager, could simply be due to favourable environmental factors over which the manager had no influence.

### **Information System**

The company embarked on an integrated banking system through IT in 1987. That was a strategic move. The strategy was in the 1990's already paying dividends. In 1994 AMFB was one of the Malaysian financial institutions with one of the best IT systems in the industry, if foreign banks were left out for this comparison. Given the rapid pace of changes in information technology (IT), the firm still had to work hard to catch up with foreign banks in the country. In 1994 the firm was indeed striving to catch up through two projects: 1. Inc. and 2. conversion to an on-line fully integrated general loan system.

Some other value-adding systems which were being considered included phone banking.

AMFB was also all out to improve IT staff productivity and system performance by using various software tools like CA-TOP SECRET for security administration, CA-LIBRARIAN for software change management and SAS for ad-hoc reporting and statistical analysis.

In an industry where information was critical to service, performance and customer satisfaction delivery, AMFB correctly considered IT as an enabling and strategic input into operations continuous re-engineering.

The company was for example considering to introduce a work flow system for better work management. It was also investigating the introduction of imaging technology for retrieval and archiving reports. In the words of McFarlan and McKenney's (1983) information strategic grid, IT in AMFB would continue a to play a strategic role. The schematic details of the existing hardware platform are indicated in Appendix V. The application and hardware schematic is in Appendix VI. And the information flow in the company is charted out in Appendix VII.

### **Culture**

AMFB cultural norms encouraged open-door policy and ease of access for all officers. That culture was consistent with free flow of information in a rapidly changing environment. The same organisational culture supported creativity and communication. The code of conduct emphasised high ethical and professional standards. That was consistent with the need to deliver customer satisfaction.

### **SOP's**

The company had a comprehensive set of standard operating procedures (SOP's) covering every product and service line, documenting acceptable business practices and standard of operations and processes throughout the company. There was however built in flexibility. When an issue fell outside the scope of the SOP's one had to refer it the senior officer (s).

### **Control process**

**Programming**

Most of the financial products and offerings as well as service lines being fairly standard in the industry, there was limited long-range planning or programming except in the area of IT. As far as IT was concerned, there was for example a 5-year IT plan which was instituted in 1987. Another 3 year plan was embarked on in 1994. But because of the central role IT was supposed to play, most of the financial innovation, and new product identification were IT-driven. Thus IT strategy always considered hardware, software and network strategy to meet anticipated customer needs. In analysing the related investment expenditures, most decision were based more on qualitative rather than quantitative cost-benefit analysis.

**Budgeting**

There was always an annual budget which assumed a predetermined set of product-lines/offerings identified in the programming. This budget was built up from the level of the department to the division and finally a company wide budget was formulated after several rounds of negotiation. The budget was built up on incremental approach basis from one year to another, bottom-up and in a participative framework. Once the budget was approved by the Board of Directors, it served as basis for evaluation through semi-annual reviews and adjustments.

The whole focus of the budget was on financial performance. There were no targets for non-financial performance. Consequently there were no clear targets for customer satisfaction level, quality of service, process improvement or employee morale. There were no service audits.

**Evaluation, feedback reporting and compensation**

The company produced monthly progress reports for each manager, department and division. Deviations from targets were analysed and reported. And corrective action was always sought.

Continuous performance monitoring was done through reports. Regular systematic reports were produced on a daily, weekly, monthly,

quarterly, semi-annually, and yearly basis to be used for audit trail, internal management reporting and central bank reports. But there were also ad-hoc irregular reports which were required to assess the company strategies. Reporting was largely by exception.

The existing reporting did not dig deep in causal factors for variances. In the process of pinning down responsibility on individuals, it ignored history as an input. The reporting tended to promote short-term profitability focus with limited regard to long term effect on business customer satisfaction or repeat business. There were no reports on non-financial factors. Compensation in the company was largely based on performance reviews. But because non-financial performance was not adequately reported on compensation was largely based on financial performance.

**INFORMATION TAKING CENTRE STAGE (H<sub>1</sub>)**

The first proposition in this paper is that in the context of rapidly changing and turbulent, socio-economic environment, the information subsystem in a MCS and the attendant technologies will take centre stage in the management control system of a successful business enterprise. Information and attendant information technology (IT) precipitating towards centre stage, in this case, implies that this subsystem by and large finds itself influencing the configuration of many other elements of a MCS and at the very least, other elements will be IT-accommodating. To what extent are the field case facts consistent with and illustrative of this proposition?

In both AMFB and CITIBANK, most of the MCS elements one would be expecting to be present are present. And the suggestion that most of all other elements are IT-accommodating if what of IT driven is irresistible from the available data which these cases provide. Let's start out with planning. In both cases the vision, mission, goals as well as objectives and policies mirror the centrality of the information sub-system and IT. In both cases the strategies adopted are meant to maximise survival and prosperity opportunities for the firms, through the exploitation of IT. In AMFB in particular, IT takes a central role in



strategy formulation. The firm seeks competitiveness through IT. Information technology (IT) is used to enhance efficiency, better quality of service and continuous financial re-engineering. IT in this firm is used to package and repackage financial products and in some cases totally re-engineer the processes. Recognising the criticality of people in the MCS, the policies of human resources development focus on IT skills. In CITIBANK, also the strategies and policies emphasise full exploitation for the information system and IT. Financial innovation which is one of the main competitive strategies is anchored on information technology. And IT in CITIBANK is supposed to be fully exploited in order to competitively serve the customers better with the use of services like Citiphone banking. CITIBANK also is seen using IT to strategically circumvent legal and physical presence constraints in the markets.

To underlie the importance of IT in the MCS structure, in both cases CITIBANK and AMFB have IT or Information services division headed by a responsible manager and answerable directly to the CEO of the organisation. In each organisation there are continuous and earnest attempts to develop IT capability within the organisation in terms of software, hardware and human ware. With increasing rate of change in the environment, and presumably because of the centrality of IT both organisations, as time went by, nurtured appropriate cultures and developed SOP's supportive to IT. In both cases most of the elements of control structure are influenced by IT and generally supportive to the strategy, which is in turn anchored on the information subsystem and related technology.

In the control process most of the financial innovation and product identification in AMFB is observed to be principally IT-driven. In CITIBANK also each project proposal was subjected to a multi-criteria review. The criteria included "the improvement to service and productivity", which is inextricably linked to IT in the bank. The evaluation as well as feedback reporting mechanism critically relied on the information subsystem in both cases.

There is considerable data from these field cases therefore to illustrate the hypothesis postulated above that in a context of a rapidly

changing environment the information subsystem in a MCS and attendant technologies tend to take centre stage in the MCS of a successful business.

### **COMPLETENESS VS. CONGRUENCE OF MCS ELEMENTS: (H<sub>2</sub>)**

The MCS's of the two organisations provide examples of "complete" systems in the sense we defined the term above. Each system consists of all subsystems and ingredients which were indicated to be essential in any functioning MCS. The MCS's were observed to be working reasonably well for the two firms. In CITIBANK in particular, the control structure elements were well designed to support the overall strategy, to deliver strong performance, service delivery and people development. It is a market leader in an industry with many competitors many times its size. The bank registered profits which were better than those budgeted. For three years before 1994 the average compound growth rate in profits was about 50%. According to the Customer Satisfaction Survey conducted by a research consulting firm, Acorn, the bank achieved a score of 94%, which was a record even among the CITIBANK branches world-wide. In the meantime the results of a Forward Position Survey by the same research firm revealed, the bank's strengths to be in innovation and global orientation; so much so that competitors' credit cardholders rated CITIBANK card as the preferred card to hold. In AMFB also most if the MCS elements were congruently realigned and the performance was impressive. AMFB in 1994 with assets of RM 7 billion, 72 branches and about 1546 employees was the third largest finance company in Malaysia. The following year its assets shot up to RM 9 billion, its branches to 76 and its pretax profits by almost 100% to RM 212.8 million. In terms of the return on equity it was ranked the highest in the industry averaging 25-30% for two years before 1994. It was a bank reputed in the industry for innovativeness as well as for its dynamic team of management.

However each of these two systems could still work better. The systems could be improved because there were hitches here and there, largely emanating from the way some elements fitted

together. This aspect is pointing to the issue of "congruence". If the outstanding incongruent relationships between some of the elements were eliminated, better results could be achieved.

Research suggests that transfer prices, if not well set can result in discord in a firm. And this was seen to be happening in AMFB where the cumbersome and manually computed transfer prices, which were considered some how inequitable, were a source of disputes. Disputes arose because the monetary rewards were closely linked to divisional performance. Divisional performance was measured in terms of profits. And divisional profits in turn were influenced by the transfer prices set. In a network of departments and divisions which buy from and sell to each other at predetermined prices, what one manager calls revenue the other party calls it costs. Again the budget, in its role in the control process, focuses more or less exclusively on financial performance measures which may not be comprehensive enough to reflect all goals, objectives outlined by the organisation, particularly those related to service. Service is clearly elevated to one of the priority goals in planning. But the lack of non-financial performance evaluation like the service audit(s) would limit the extent to which the goal could be achieved. Finally the prevailing reporting and feedback did not highlight causal factors for variances as well as pinpoint the individual responsible. It ignored the "history" of performance. It tended to promote short-term profitability with limited regard to the longer term concerns like customer satisfaction and repeat business. It also hardly reported on non-financial factors of performance. To re-establish congruence among various elements of the MCS, there might have been a need to develop an information architecture that supported more than just financial reporting. Non-financial reports for example on quality of services efficiency and human resources development (all of which were key success factors) were equally needed. The compensation system of AMFB needed to take into account both financial and non-financial results. And the performance reporting needed to highlight causes of deviations, not only absolute quantitative deviations. And even much more important it

was essential to slightly assign these variances to individuals responsible. Such an assignment would always have to take into account the history factor.

In CITIBANK the need to motivate workers through career advancement and promotion may be in conflict with the desire to have the organisational set-up as flat as possible. The result was higher staff turnover in search of opportunities to grow and earn more. In the meantime the implementation of the payments of commissions to sales and branch staff as a reward may not be well aligned to the overall strategy to promote teamwork. Under this system, commissions were paid on top of a normal rated salary. Commissions raised concerns of morale among other staff. A workable compensation has usually been a low basic salary plus performance-based commissions. Within the same bank the procurement policy of softwares and ATM machines from a US subsidiary had created dissatisfaction amongst most branches. To begin with the purchase price and the development costs allocation were relatively higher because of higher labour costs, and this sometimes compounded by the unfavourable exchange rates. Secondly there was a tendency of systems being developed on more powerful hardwares which were possibly cheap in the USA, but not for Asian branches which had to acquire similar capacity hardwares laden with high import duties. To improve the congruence of elements within the firm one or more two layers had apparently to be added within the existing organisational set up in order to provide more room for managerial advancement. Enhancement of the use of IT as a strategic tool will improve the performance of the MCS. In the opinion of some insiders IT in the bank was still in the MIS era. It needed to be used more as a tool to re-engineer the work processes to enhance the bank's competitive edge by taking advantage of knowledge-based and neural systems which are capable to provide on-line interactive decision support systems to monitor and highlight deviations as well as enforce established standards. The management bonus payment needed to be modified in a way to take into account more employees who contribute to the results. In order to partly take

care of the transfer price problems identified the relocation of the centres of excellence in Malaysia or other S.E. Asian economies where the labour costs are lower could be part of the solution.

### **IMPLICATIONS AND CONCLUSION**

The above discussion and case illustrations may have been focused largely on specific firms in a specific industry in a specific region (South East Asia). Thus the extent to which the observed patterns can be generalised remains to be more conclusively determined otherwise in more rigorous studies. However to the extent that inferences from that discussion and case illustrations can be generalised, there could be a number of implications for other firms or countries which are challenged by a rapidly changing socio-economic environment. Such firms or countries certainly include those in the rapidly industrialising regions of Asia as well as those which are increasingly finding that they have to change and adapt in response to continuous political and economic restructuring in Africa and Latin America and the rest of the developing world.

First, if what is illustrated by the above cases is generally true, then, if an organisation is to successfully and continuously adapt to a rapidly changing environment, it has to develop and effectively use the information subsystem and attendant know-how and technologies in the MCS. Information technology was slighted for a long time in most of the developing world. But if South East Asia is to set an example, the rest of the developing world may have no choice but to focus on this type of know-how, just like the way it is already happening in the developed economies. In order to brace themselves for competition (Porter 1985) as well as the turbulent and rapid changes of the future forward-looking private firms and public sector organisations in S.E. Asia chose to focus on developing and strengthening their information systems, as well as their information technological know-how.

Secondly, the centrality of the people in the MCS suggests that in order to develop and effectively use the information subsystem and related technologies, priority has to be given to developing the people ... particularly by incorporating IT in all aspects of the training,

and education of the people as well as developing and nurturing the appropriate supportive culture in the organisation. Human resources policies including those of recruitment, training, retraining, promotion and remuneration should be realigned with the needs and demands of developing advanced IT know-how. If countries and firms attempt to catch up on IT by rushing to acquire hardwares and softwares without prior development of the people who will use all this, the outcome is likely to be less than satisfactory.

Thirdly, the need to have complete and internally congruent MCS's in the context of an ever-changing environment suggests that MCS's have to be designed, reviewed and redesigned on a continuous basis in organisations. And as the pace of change and restructuring in the environment increases, the number of times the MCS's have to be reviewed for their internal congruence, increases.

Finally, information taking centre stage combined with the need for congruence amongst all the MCS elements implies in this case that IT will largely influence, if not dictate, the configuration of many elements in the MCS. Thus in designing the MCS, the information subsystem and attendant technology need to be used as a focal point of reference for guidance in design, particularly in the context of a turbulent environment.

### **Appendix I**

#### **CITIBANK ASIA - PACIFIC CONSUMER BANK OUR VISION**

To be a unique global bank and the leading regional consumer bank across Asia-Pacific and the middle East ... dedicated to our customers, financially strong, consistent, committed to staff and their development, and to delivering sustained superior performance to shareholders.

#### **UNIQUE:**

Unique in being global ... operating locally, regionally, and around the world in delivering financial services for the benefit of our target market customers: unique also in a spirit which values teamwork, innovation and pride in being

Citibankers.

#### **CUSTOMERS:**

Our business is to serve the financial needs of our customers. Our success depends upon our importance to them. Customer needs define our positioning, product and service offerings, and the way in which we deliver them. We seek to build sustained relationships, and recognise the importance of continuity of our customer contact people. We are committed to innovation, competitive excellence, and delivering customer satisfaction. We invest in the business, people and technology required to meet our customers' needs anywhere in Asia and around the world.

#### **FINANCIALLY STRONG:**

Our balance sheet and earnings are a source of strength: recognised internally, by customers, investors, competitors, and regulators, Control, executional excellence and continuous productivity improvements are acknowledged objectives.

#### **CONSISTENT:**

Consistent and dependable in our commitment to our people, in providing superior service to our customers, in the development and execution of our strategy and in our risk profile.

#### **COMMITTED TO STAFF AND DEVELOPMENT:**

We recruit, develop and retain the most talented people from around the world. We reward people based on merit, team work, results, and shared values. We are accountable: we take responsibility for our actions and the exercise of judgement.

We treat people with trust, openness and respect, and we maintain the highest ethical standards in dealings with customers, the community and each other. We have a particular pride in belonging to the world's and Asia's leading consumer bank.

#### **DELIVERING SUSTAINED SUPERIOR PERFORMANCE TO OUR SHAREHOLDERS:**

Our objective is to achieve superior returns for

our corporation. We seek the reality and reputation of being seen as the most respected financial institution in our local marketplaces and around the world : a unique regional and global consumer bank.

#### **Appendix II**

#### **CITIBANK MALAYSIA - GLOBAL CONSUMER BANKING OUR VALUES**

#### **PEOPLE:**

We recruit, develop and retain good people. We reward people based on merit, team work, results, and shared values. We are accountable: we take responsibility for our actions and the exercise of judgement. We treat people with trust, openness and respect, and we maintain the highest ethical standards in dealings with customers, the community and each other.

#### **INTEGRITY:**

Teamwork allows us to get the best out of our organisational resources to achieve greater success and efficiency in our business. We do this by: leveraging on each others' strength: being open in sharing ideas, experiences and issues: respecting and trusting each other: aiming for common goals: being considerate, helpful, flexible and yet tolerant: getting to know and understand each other better through hardwork and fun.

#### **CUSTOMER FOCUS:**

Our business is to serve the financial needs of our customers. Our success depends upon our importance to them. Customer needs define our positioning, product and service offerings, and the way in which we deliver them. We seek to acquire, build and deepen relationship with our customers. We are committed to innovation, competitive excellence, and delivering customer satisfaction. We invest in the business, people and technology required to meet our customers' needs.

#### **EXECUTIONAL EXCELLENCE:**

We are consistent in our commitment to executional excellence in all that we do. We do the extraordinary ordinarily in an extraordinary

wary. We do this through; commitment in whatever we do: clear in whatever we need to do before we set on doing it: plan adequately ahead to ensure that we it right the first time: pace whatever we do appropriately and optimising the use of our available resources: and executing whatever task that we do in a timely and problem-free manner. This will allow us to achieve the best possible result.

#### **INNOVATIVENESS:**

Innovativeness is one of the key factors that will ensure our leadership position in the market place. We create and maintain an environment where we are encouraged to take and manage calculated risks. As an organisation, we will continue to learn and benefit from the mistakes which we may make along the way and remain enterprising in our quest for continued improvements.

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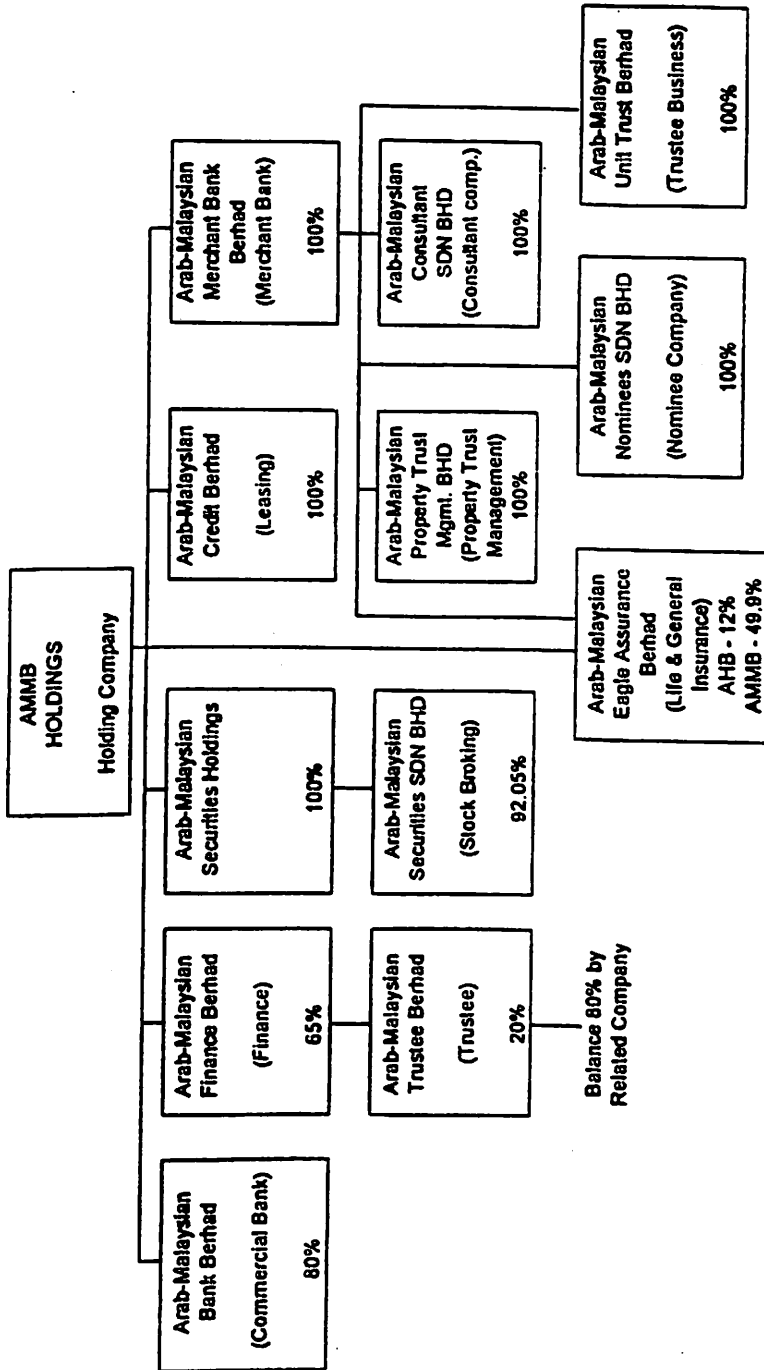
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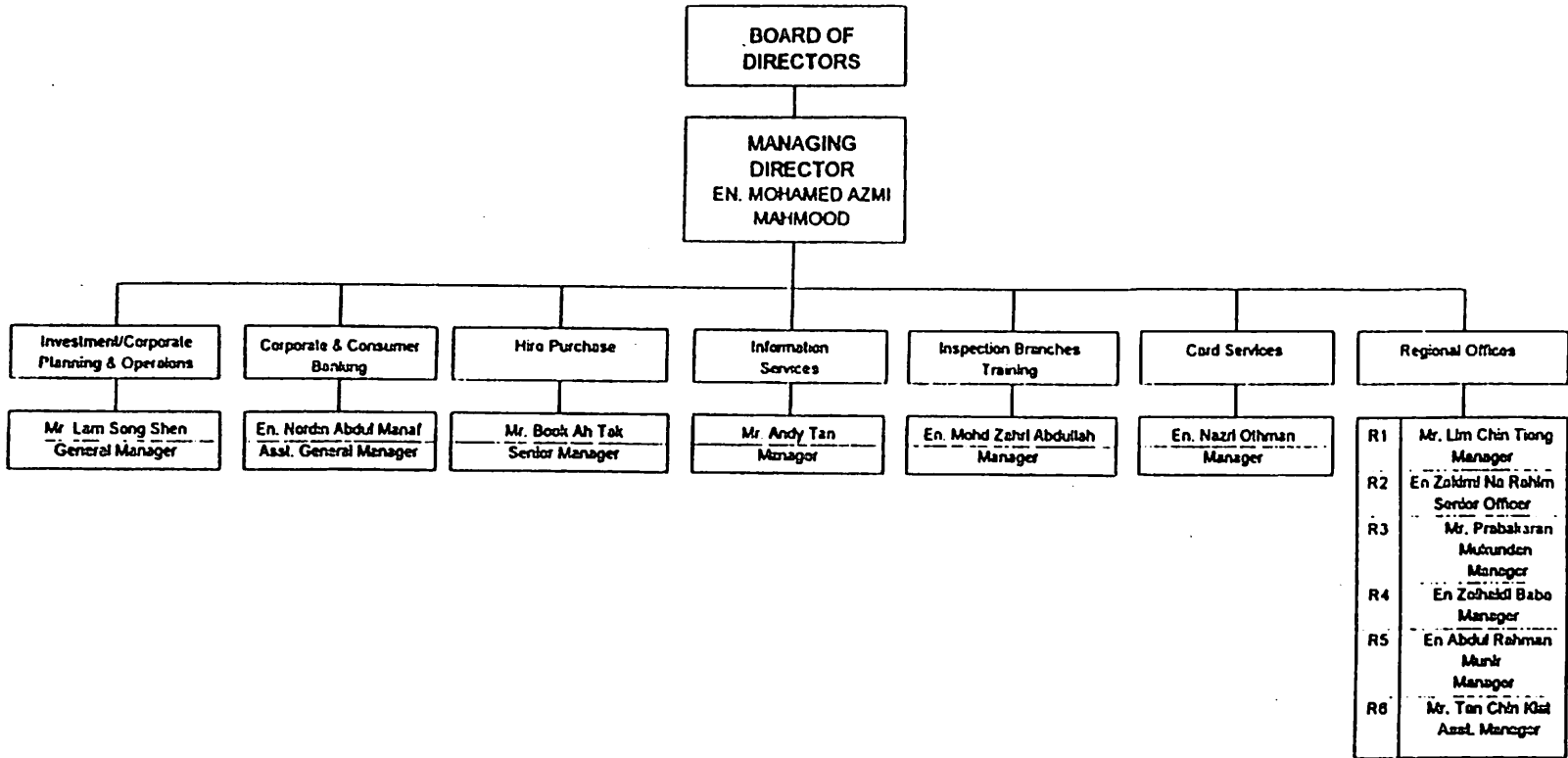
APPENDIX III

**AHB CORPORATE STRUCTURE**

AHB GROUP STRUCTURE AS AT 31.10.1994



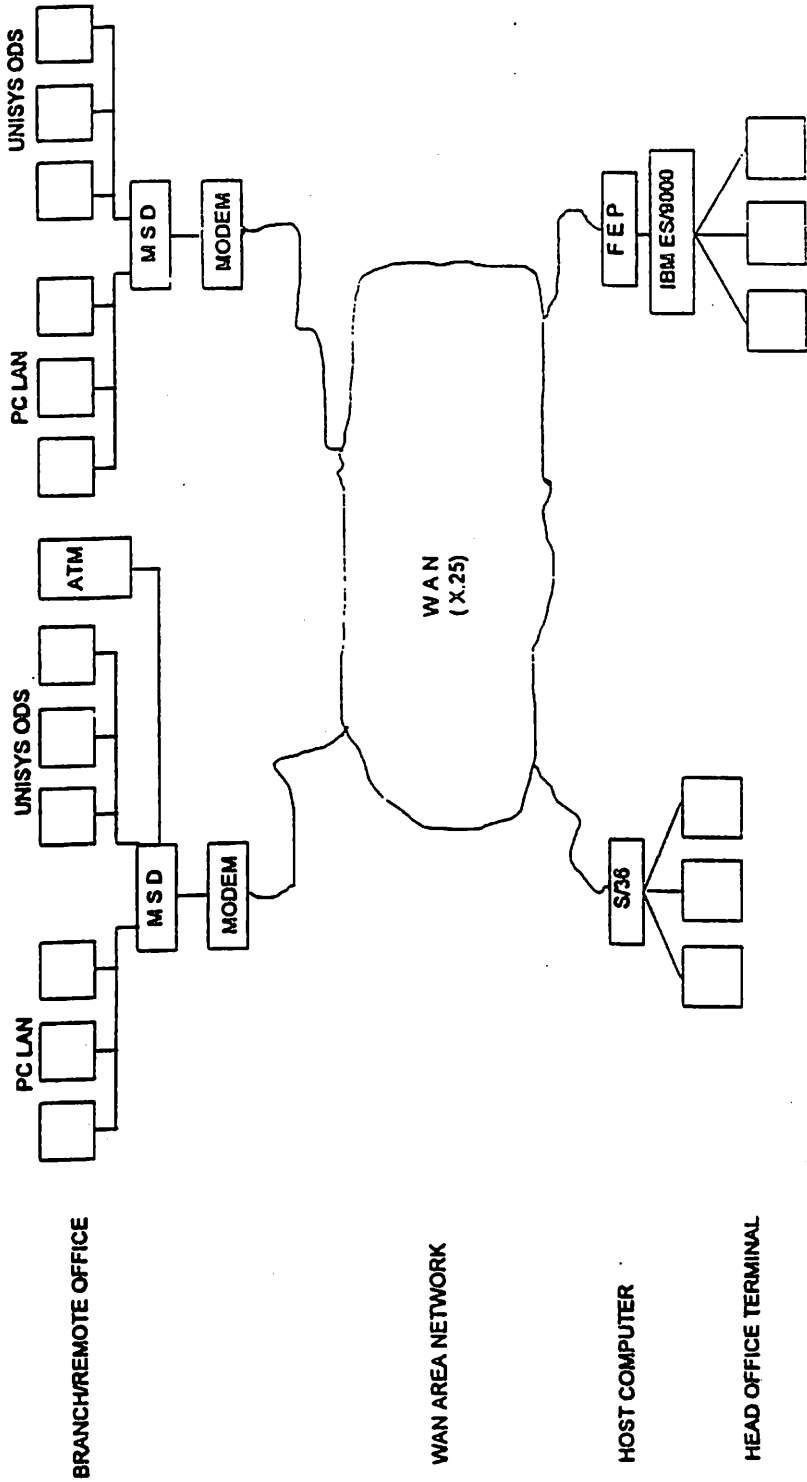
**APPENDIX IV  
OVERVIEW OF AMFB  
ORGANIZATION STRUCTURE**



Revised 11/11/94



APPENDIX V  
ARAB - MALAYSIAN FINANCE BERHAD  
SCHEMATIC OF EXISTING HARDWARE PLATFORM



## APPENDIX VI

**ARAB - MALAYSIAN FINANCE BERHAD  
APPLICATION AND HARDWARE SCHEMATIC**

**PC BASED**

- Share MARGin Trading (SMART)
- Amex Gold Card
- Personal Share Financing
- Cooperative Loans
- Staff Housing Loans
- Money Market
- Personal Loan
- Term Loan
- General Loan Processing
- Block Discounting
- Corporate Loan
- Legal Tracking
- Personnel Management
- Flexi Loan

**MINI BASED**

- Block Discounting
- Payroll
- Leasing
- Housing Loans (LMS)
- Speeds
- LMS Enhancements

**MAINFRAME BASED**

- Savings
- Fixed Deposit
- ATM Systems
- CIB Enquiry
- Autopay
- General Ledger
- SPTF - Al Wadiah
- Hire Purchase
- Industrial Hire Purchase

APPENDIX VII

ARAB - MALAYSIAN FINANCE BERHAD  
SCHEMATIC OF AN ENTERPRISE INFORMATION FLOW

