The New Public Financial Management in Malaysia

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Acknowledgements

We wish to thank the anonymous reviewers at the Academy of Management Annual Meeting, Atlanta, August 2006, where an earlier version of this paper was nominated for the Carolyn Dexter Award for Best International Paper; and the Malaysian managers who gave their valuable time to this project. This work is entirely the responsibility of the authors.

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Abstract

Purpose - This study focuses on the effectiveness of New Public Financial Management (NPFM) in Malaysia.
Design/methodology/approach – The paper reviews the literature on the universality of NPFM, distinguishing between those arguing NPFM is *universally* applicable and those regarding it as *situational*. It then tests whether NPFM is appropriate outside western contexts, examining developments in the emerging country of Malaysia. Major surveys and in-depth interviews with senior managers in 131 government agencies explore perceptions about the effectiveness of NPFM.
Findings – Although technical, socio-political and behavioral issues do arise, we find empirical support for a universalist thesis that NPFM is appropriate in this emerging context.
Research limitations/implications – All limitations of qualitative research apply. Findings may not be transferable to other emerging contexts.
Practical implications – Practitioners should ensure sufficient resources to train managers in new methods and interpreting information. A participative culture may reduce gaming behavior, as may measuring the results of activities rather than provision, and rewarding managers for savings. Implementation success depends on parliamentary will to honour appropriate and timely allocations and on the executive to oversee and monitor the process effectively.
Originality/value – The study provides rare empirical evidence on the universalist debate in emerging countries; with no previous substantive studies existing of NPFM in Malaysia. It also challenges conventional wisdom on institutional voids, socio-cultural differences and competitive market environments, indicating NPFM may be appropriate in emerging contexts.

Keywords New Public Financial Management; New Public Management; Government agencies; International/comparative Issues; Emerging countries; Malaysia
Paper type Research paper.

New Public Financial Management in Malaysia

Introduction

This study focuses on financial and accounting reforms in government agencies in Malaysia and responds to calls for more contextualized empirical studies of public services in emerging countries (Broadbent and Guthrie, 2008). It links the universality of management and New Public Financial Management (NPFM) literatures. NPFM (Boston, 1993) is often seen as the underlying mechanism in public sector reforms worldwide (Guthrie *et al*., 1999; Lapsley, 2000). As part of the literature on New Public Management (NPM) (Pollitt, 1990; Hood, 1995; Lane, 2000) or 'Third Way modernization' (Llewellyn and Northcott, 2005), NPFM concerns accounting and financial management reforms aiming to improve the effectiveness and accountability of government through such means as accrual accounts, devolved budgets, performance measurement, transparent costing and output-based budgeting (Olson *et al*., 2001).

The processes and outputs of NPFM are driven by providing financial knowledge for more responsible, decentralized, equitable and transparent decision-making in government (Romzek, 2000). The aim is to ensure better public service delivery for the taxpayer: a central public concern. More timely and relevant knowledge can help reduce bureaucracy and ease the complexity of public decision making. It may improve procurement and pricing decisions, budget preparation, planning, customer orientation, accountability and expenditure control. It may also encourage line managers to commit to clear quantity and quality performance targets (Verbeeten, 2008), with fewer errors and more effective use of information technology (Boston, 1993; Guthrie *et al.*, 1999).

Although successfully applied in many western contexts (Guthrie *et al.*, 1999), the case against attempting such reforms appears stronger in emerging countries, where scholars identify substantively different constraints posed by underdevelopment. These include a lack of supporting market mechanisms, transport and communication deficiencies, politico-economic instability, and inadequate organizational structures, systems and competencies (Warrington, 1997; Batley, 1999). Such views are increasingly salient but lack large-scale empirical studies. In fact, Broadbent and Guthrie (2008) argue "it remains rare to find [public sector accounting] work related to emerging economies" in any of the top eight accounting journals (pp. 143), indicating this study addresses an important gap in the literature. The result is that theorists tend towards one of two polar-opposite assumptions: that NPFM is appropriate everywhere, notwithstanding implementation issues; or that structural and other constraints make it inappropriate for emerging contexts. This is part of a more general debate as to whether accounting is a global or local discipline (Lukka and Kasanen, 1996).

We aim to confirm whether either of these views is supported by analyzing the appropriateness and impact of reforms in an emerging country. After reviewing the literature on universalism and NPFM, we focus on Malaysia because it has been at the forefront of NPFM reforms in emerging countries (World Bank, 2000) and we are aware of no other large-scale empirical study here. After outlining NPFM developments in Malaysia, we provide insights on its implementation through multi-agency questionnaire surveys and in-depth interviews with top government officials. We conclude by examining the evidence for the applicability of NPFM in this emerging context.

NPFM in developed and emerging nations

Malaysia is one of 51 *emerging market economies* experiencing a rapid pace of economic development and adopting government policies of economic liberalization (Arnold and Quelch, 1998). Others add 13 Central and Eastern European transition countries to this list, to include those undergoing similar development but restructuring from state-planned economies; and distinguish emerging countries from *developing* countries, whose per capita incomes and growth rates are markedly lower and not moving substantively towards free market models (Hoskisson *et al*., 2000). We are not concerned with developing countries here. As in the more economically developed world, public sector financial reforms in emerging contexts aim to promote socio-economic development and administrative efficiency (Leemans, 1976). At the heart of NPFM reforms is evidence-based decision making resulting from the linking of previously unconnected domains of organizational knowledge. For example, budgetary decentralisation or delegation is said to integrate financial and management accounting systems and economic-based information sets to promote a more holistic approach to budgeting (ter Bogt and van Helden, 2000).

Some take it for granted that a performance oriented management style encourages participation, flexibility, teamwork, problem-solving and equity if aligned to organizational and social forces (Ferlie *et al*., 1996). NPFM reforms are believed to mean better value for money, improved accountability, and enhanced expenditure control (Boston, 1993); and enhanced accounting practice through commercial pricing, cash management and provision processes (Guthrie *et al*., 1999). Implicit is the assumption that private sector management techniques and models are generally superior to traditional public administration approaches - although technical and socio-political problems may complicate the adoption process (Ferlie *et al*., 1996; Olson *et al*., 2001; Lewis and Stiles, 2004). This is because accounting information is not a neutral resource but based on choices subject to interpretation and influence (Caplan, 1971; Merchant and Shields, 1993). Creating useful accounting knowledge is challenging where there is uncertainty and ambiguity in its collation, interpretation and implementation. For example, it is difficult to identify the main drivers in activity-based costing systems (Mitchell, 1996). Institutional and government goals may not always be in alignment (Stiles, 2002) and the cross-subsidization of institutional activities is common because many public services are seen as *merit goods:* provided for normative reasons rather than purely commercial profit (Lewis and Stiles, 2004). Pragmatism in the budgetary process may also be compounded by the exercise of power within the institution. Where responsibility for allocating resources and monitoring performance is concentrated in limited hands and the process is dominated by non-finance professionals, political élites and coalitions may enforce their own agendas rather than a commercial budgeting model (Verbeeten, 2008; Donnithorne, 1991).

Such issues are problematic but generally not intractable in the economically developed world, as the widespread adoption of NPFM attests. Verbeeten (2008), for example, argues behavioral effects in the Netherlands mediate effectiveness of reforms, but defining clear and measurable goals is positively associated with quantity and quality performance. Mir and Rahaman (2007) note that despite initial cultural fragmentation resulting from identity clashes between new accounting technologies and old bureaucratic procedures, an Australian government agency successfully transformed itself into a more business-oriented model. In the UK, medical practitioners initially resisted reforms on secondary care purchasing rights, but eventually helped develop primary care groups/ trusts to oversee funding reforms (Broadbent, Jacobs and Laughlin, 2001). Of course, we should be wary of assuming a link between reforms and improved performance everywhere without evidence. Such *universalist* assumptions (Lubatkin *et al*., 1997) assume 'western' management models are valid in all contexts. They *may* be well-founded, but if unchallenged encourage the wholesale transfer of off-the-peg NPFM concepts and techniques from one context to another without considering their appropriateness or form.

We also observe the opposite assumption: NPFM is inappropriate for non-western countries. Some argue a *convergence* thesis, using evidence to suggest that globalization is impacting in similar ways worldwide (Barrett *et al*., 2005). These studies argue that emerging countries will eventually face a similar situation as developed nations, but currently face intractable problems (Berg and Whitaker, 1986). A more extreme view is that emerging contexts are unlikely to ever adopt western-derived models successfully. This *situationist* thesis (Campbell *et al*., 1970) assumes that implementation problems remain unassailable because of entrenched lower levels of public management capacity, market development, resources, political inclusivity, legal effectiveness and environmental stability (Batley, 1999). This implies that accounting is a local rather than a global discipline because of institutional barriers to the knowledge production process (Lukka and Kasanen, 1996).

The international business literature sees 'institutional voids' in emerging contexts lacking basic banking, finance and intermediary support structures for business and individuals. Legal contracts and property rights are difficult to enforce, a massive informal economy dominates, and there is scant provision of goods and services to substantial poor sectors of the population (Lubatkin *et al*., 1997; London and Hart, 2004; Ricart *et al*., 2004). Although institutional void theories developed from private enterprise, a similar argument applies in welfare, health, education and other public services. The lack of centralised financial and contract management structures may create budgetary control difficulties and promote a compliance culture (Common, 1998; Manning, 2001). A lack of trained accountants means managers have insufficient knowledge or skills to make financial decisions (Rahaman, 2001). Significant public-private sector pay gaps make recruitment and retention of qualified staff difficult; performance based pay is a problem when seniority structures dominate promotion; unreliable information systems enhance uncertainty (Larbi, 2001; McCourt, 2001); and a lack of funding inhibits reforms (Bissessar, 2002).

Socio-political factors are also believed to obstruct NPFM in emerging countries. Culture and ethnicity influences personnel and behavioral controls, budget participation, and reward systems (Efferin and Hopper, 2007); national origin of corporate ownership affects corporate social responsibility and reporting (Teoh and Thong, 1984); while nationalism constructs managerial identities and political decision processes (Cooper *et al*., 1998). In the public sector, political constraints can slow transition from state-owned enterprises towards more efficient forms (O'Connor *et al*., 2006); and lower general expectations of service quality combine with centralised, authoritarian, conflicting and inconsistent allocation policies (Larbi, 2001). Even if government support is initially forthcoming, a lack of sustained political will can fail to maintain pressure on recalcitrants to continue accounting reforms (Wilenski, 1986). Fundamental differences between NPFM rationales, civil service cultures and societal patterns of values and authority may mean reforms fail to root. Extended family and ethnic loyalties, corruption, and alternative values create resistance to reforms from 'alien' frames of reference (Caiden, 1991; McCourt, 2001).

Generalisations about reforms are problematic, because organization, industry and country-specific factors cause NPFM to vary in form rather than follow uniform global concepts and techniques (Guthrie *et al*., 1999); but it may be equally misleading to argue they are largely ineffective. In developed countries studies have emphasised the positive and negative effects of reforms. For example, managers have been tempted to deliver what is easily measurable rather than what is important in achieving policy objectives (Mellett, 1998); or take a myopic view of costs, failing to link these to revenues or wider socio-economic concerns (Lewis and

Stiles, 2004). Reforms may be questioned in democratic terms, with decisions falling into the hands of unelected managers and accountants (Guthrie *et al*., 1999). Implementation costs incurred through changes in work methods, information systems, staff training and recruitment may reduce the financial benefits of reforms, while cost-effectiveness considerations can mean fewer public services provided at higher unit costs (Olson *et al*., 2001).

However, emerging countries *have* attempted to implement NPFM reforms, including decentralisation of decision-making, the introduction of financial management systems, and an emphasis on output and performance standards (Collins, 1993; Minogue *et al*., 1998; Manning, 2001). This includes countries in Eastern Europe (Cooper *et al*., 1998), Latin America (Neu *et al*., 2006) and China (Hao, 1999; O'Connor *et al*., 2006). Such studies are rare (Broadbent and Guthrie, 2008) and although generally report positive contributions to public service performance (Grindle, 1997; Larbi, 2001), seldom consider the mediating effect of institutional voids and wider social factors. We therefore attempt a more balanced approach in critically examining universalist, convergence and situationist theses in relation to Malaysian government reforms. Those few published studies on Malaysia focus on individual reform programs (Gnaneswari, 1993; Xavier, 1996). We instead take a broad focus on post-1990 NPFM initiatives and examine empirical evidence on the appropriateness and impact of reforms. After outlining the nature of Malaysian NPFM, we present a research design followed by results and conclusions from an extensive empirical study on public finance reforms in Malaysia.

The Malaysian context

In Malaysia, Ministries are the highest forms of central government organization and Departments and Statutory Bodies constitute the portfolios of each parent Ministry. Departments are the oldest forms of government organization, inherited from British colonial administration and classified as Ministries' national level financial responsibility centres (Xavier, 1996). Each Statutory Body is established by a specific Parliamentary Act and governed by a Board of Directors appointed by its parent Minister. The Board is responsible for the overall running of the organization and consists of senior civil servants from various Ministries and agencies. Statutory Bodies have greater financial and managerial autonomy than Departments (Othman, 2001) and Ministries (Chiu, 1997), with Controlling Officers accountable to the Cabinet via the Public Account Committee. Controlling Officers are usually Chief Secretaries of Ministries, Heads of Departments and Board members of Statutory Bodies (Malaysian Treasury, 2001).

Reforms were prompted by increasingly limited resources and proliferating demands upon public expenditure in the 1990s (Taib and Mat, 1992; Malaysian Government, 2000). A critical Auditor General's Report highlighted the need for attitude change among civil servants centring on value for money accountability and active participation in financial management. The then Malaysian Secretary General, Tan Sri Ahmad Sarji bin Abdul Hamid, suggested line managers be given greater autonomy in decision making, while changes in organizational structures and responsibilities shift accountability from task and process orientation towards delivery of services (Abdul Hamid, 1995). Reforms were introduced principally through the Modified Budgeting System, the Micro Accounting System and a new internal auditing system. These initiatives represent a distinct Malaysian approach, but echo central themes of NPFM reforms in the developed world: replacing traditional bureaucratic models with greater decentralization of decision making (Romzek, 2000; Hyndman and Eden, 2001); private sector accounting, management and budgeting techniques (Pollitt and

Bouckaert, 2000); and systematic use of information technology (Pollitt, 1990) to improve decision processes and ensure greater accountability.

Modified Budgeting System

In 1997 the Modified Budgeting System (MBS) was implemented in Statutory Bodies receiving operating allocations from the Treasury (Malaysian Treasury, 1996). MBS was developed to remedy weaknesses in the Programme and Performance Budgeting System (PPBS) in place since 1969 (in other countries the acronym refers to Planning Programming and Budgeting System, influential globally since the 1960s), Malaysia's PPBS had tried to plan expenditure primarily through output categories (programs) (Robinson, 2000). However, PPBS focused on line items instead of results and performance measures. It also limited top management autonomy in decision-making, discouraging participation; intensified the dichotomy between financial management and operating matters, and encouraged gaming by spending organizations rather than achieving value for money (Gnaneswari, 1993; Commonwealth Secretariat, 1995). MBS instead emphasizes spending limits, delegating budget authority to operating managers, and output based performance measurement (Xavier, 1996) - key components of NPFM reforms worldwide (Pallot, 1999).

MBS comprises expenditure targets, program agreement and exception reporting, a cycle of program evaluations and a generalised approach to expenditure control (Malaysian Treasury, 1988; Gnaneswari, 1993; Xavier, 1996). It centres on accounting-based knowledge informing management decision making in general. The expenditure target (ET) is a budget ceiling for an on-going program, with Controlling Officers given the freedom to suggest allocation of ETs to programs and activities they consider will achieve the best possible performance consistent with government policies (Malaysian Treasury, 1988). ETs are similar to the Cash Limit regime implemented in the UK in 1974/75 to discipline civil servants from overspending on original estimates (Henly, 1989). Additional Treasury funds can only be obtained for expenditures specially allocated by new legislation during the budget period, thereby tightening spending control. An Exception Report (ER) is generated where Controlling Officers fail to achieve agreed targets within the accepted variance. Government organizations are also encouraged to make savings proposals, keeping a proportion of savings made. If saving proposals are made by the Treasury, agencies lose all savings.

MBS is widely known as the 'let managers manage' policy because it delegates greater budget autonomy to operating managers in the hope of securing cost savings and links financial resources and outputs by using previously unavailable accounting knowledge (Bujang, 1996; Xavier, 1996). In practice this means the delegation of financial autonomy and flexibility from the Controlling Officer to line managers (Malaysian Treasury, 1988; Xavier, 1996). The Treasury also introduced Programme Agreements: performance contracts between Controlling Officers and the Treasury, with output and outcome performance targets consistent with NPFM contract management internationally (OECD, 1995; Malaysian Treasury, 2001). Implementation of MBS requires fundamental reviews of programs and activities at least once every five years in relation to overall objectives of improving resource allocation and accountability (Xavier, 1996).

Micro Accounting System

Introduced in 1992, the Micro Accounting System (MAS) is an output costing package (PMD, 1992b) designed to increase cost awareness among civil servants and improve value for money management accounting (Commonwealth Secretariat, 1995). The aim was for managers to plan, implement, monitor and evaluate activities and programs to ensure effective use of public funds and the meeting of Programme Agreements. Managers would be able to compute all relevant costs of outputs, including capital asset utilisation costs (i.e. depreciation charges) (PMD, 1992). In 2000, a special division was established in the Accountant General's Department to organise and monitor MAS implementation and develop supporting computer systems.

Internal Auditing System

An internal auditing system was first introduced in 1979, with auditors responsible for the independent and regular observation of organizational activities. In 1993 the government decided to strengthen accountability and achieve greater value for money (Commonwealth Secretariat, 1995) by upgrading the system where an internal auditing unit already existed and establishing units in remaining organizations to improve auditing knowledge (Abdul Hamid, 1995). Circulars were issued on specific items of accountability and expenditure control and a Financial and Account Management Committee established to oversee the auditing process in each organization. Each committee includes the Chief Executive, Internal Audit Director and accountants and is responsible for checking compliance with financial procedures, updating accounts, issuing purchase tenders and monitoring actions in response to the Auditor General's comments.

Government literature on all three initiatives shows common aims. These are to foster positive staff attitudes towards customer satisfaction, innovation, accountability and professionalism; enable clear lines of responsibility within each agency; improve the process of accountability within agencies and with parent Ministries; increase value for money (VFM) awareness among managers; improve the quality of accounting knowledge; and enhance strategic and operational planning (Abdul Hamid, 1995; Malaysian Government, 2000; Malaysian Treasury, 2001). Government sources claim successes in all these areas, but it is important to test such claims to determine the extent of NPFM's universalism.

Senior managers' perceptions should therefore support the following proposition:

> Proposition 1. The overall perceived impact of financial reforms is positive in improving each of the following areas:
>
> 1a. Attitudes of staff in terms of customer orientation, innovation, accountability and professionalism;
>
> 1b. Lines of responsibility within the agency;
>
> 1c. The process of accountability within the agency;
>
> 1d. The process of accountability between the agency and its parent ministry;
>
> 1e. Value for money (VFM) awareness;
>
> 1f. The quality of accounting knowledge;
>
> 1g. Strategic planning;
>
> 1h. Operational planning.

Support for a situationist thesis would mean little or no perceived organizational impact in any of the areas; while success in a few areas would be seen to evidence a limited convergence argument. A positive impact in all or most of the areas would support a universalist view. The universalist position would also be strengthened if all three NPFM initiatives were examined separately and regarded as successful; whereas negative associations for one or more reform may support a situationist or convergence stance:

> Proposition 2. The perceived impact of a) the Modified Budgeting System, b) the Micro Accounting System, and c) the new internal auditing system is positive in all areas of proposition 1.

The accounting literature also shows higher quality accounting knowledge is useful in competitive, financially constrained environments, particularly for government agencies more affected by market forces (ter Bogt and van Helden, 2000). Reforms should therefore have greater impact on Malaysian agencies in more competitive environments. Support for propositions 3 and 4 below would indicate a universalist stance, while evidence to the contrary would indicate a convergence or situationist view:

> Proposition 3. The perceived impact of NPFM reforms is positive for a) Statutory Bodies, b) Departments and c) Ministries in all areas of proposition 1.

> Proposition 4. The perceived impact of NPFM reforms is greater in more competitive external environments in all areas of proposition 1.

There may be additional technical, behavioral and contextual issues that are particular to the Malaysian context and would lend support to a stronger situationist thesis if widespread and intractable, or a weaker convergence thesis if limited in impact. In-depth interviews would help identify these and probe beneath survey data to more fully explore the attitudes of senior policy implementers. We now outline the design to operationalize these propositions and determine the degree to which NPFM reforms have been successful in Malaysia.

Research design

Malaysia was considered an appropriate context because the financial reforms of the 1990s had been in place for more than 5 years – long enough to determine their effects (ter Bogt, 2000). The main aim was to see whether reforms had led to significant improvements in the areas claimed by government. A total of 131 organizations were selected, representing the entire population of qualifying organizations, comprising 24 Ministries, 72 Departments and 35 Statutory Bodies. Wholly owned and subsidiary companies of Statutory Bodies were excluded since they were not legally bound to implement reforms. Post-1990 organizations were not included because of limited reform experience, unless they were pre-1990 organizations merging, such as the Malaysian Rubber Board; or changing status, such as the Inland Revenue changing from a Department into a Statutory Body. Academic institutions and hospitals were excluded because of their special nature.

We focused on the perceptions of senior managers because they were best placed to make overall judgements on the impact of reforms. This key informant data collection strategy is common in management research (Slater *et al.*, 2007) where a strategic overview is required. Of course, some senior managers may be biased because of vested interests in the success of reforms, exaggerating their effectiveness to curry political favour or enhance their management capabilities. Such senior administrators may share "the world view of the technobureaucracy" as part of a universalist legitimating ideology for NPFM (Rizzi, 1985). However, it is equally possible that managers may exaggerate the *ineffectiveness* of reforms to protect their organizations further from what they regard as excessive interference and enforced change (Pollitt, 1990). We attempted to minimise both potential biases by broadening the survey to all relevant institutions and triangulating survey findings with follow-up in-depth interview data from senior managers *and* line managers in a random set of organizations.

Following a pilot exercise in 5 organizations, the questionnaire survey was administered to the named Chief Secretary for each Ministry, Director General for each Department and Chief Executive/ General Manager for each Statutory Body. On a scale ranging from 1 (strongly disagree) to 5 (strongly agree), respondents indicated the effect of overall and particular financial management reforms on the areas specified in the first and second propositions. Data were collected on organizational type to test the third proposition. Respondents were asked whether they considered their external environments mainly-, partially- or non-competitive to test proposition 4. Mann-Whitney and Kruskal Wallis association tests were conducted as appropriate. The number of employees and operating expenditure of each organization provided further profiling variables, as did expectations on whether organizations would be privatised, but these were not expected to influence reforms.

We recognised the risk of low response rate in emerging countries because of cultural, structural and logistical barriers to research (Lubatkin *et al.*, 1997; Hoskisson *et al.*, 2000), by administering questionnaires by hand. This was possible because organizations were concentrated in Kuala Lumpur and a neighbouring city, Putrajaya. In a small number of distant cases, questionnaires were mailed out. This strategy proved successful, with 94 responses and a usable response rate of 72% - higher than many postal surveys. Of usable responses, 14 (58%) were from Ministries, 55(76%) from Departments and 25 (71%) from Statutory Bodies. Table I profiles respondents by job status and organizational type, confirming their seniority. Over 90% had over 15 years' civil service experience, with an average 23 years. Most had experience of providing government services before and after reforms.

[Take in Table I about here]

A second phase of in-depth semi-structured interviews involved 36 respondents from 20 organizations randomly sampled from the general survey. This occurred 6-9 months after the survey and included top managers and line managers to provide different perspectives. Interviews clarified responses from the survey, compared participants' detailed accounts of NPFM implementation for each reform initiative, and highlighted consistencies and inconsistencies not evident in the survey (King, 2004). Wherever possible, we interviewed more than one manager in the same organization (9 each for Departments and Statutory Bodies, and 2 Ministries). Departments and Statutory Bodies represented different size bands: 5 large, 10 medium, and 3 small. Five organizations (1 Department and 4 Statutory Bodies) were drawn from the same parent Ministry to provide comparative data on common initiatives and parent-agency relationships. Interviews were taped, manually coded and thematically analyzed across variables and within cases using data display matrices to compare and contrast patterns of responses (Boyatzis, 1998). A brief supplementary questionnaire was also issued to senior officers in two ministries, again distributed and collected by hand. This contained key questions from the original survey to check the validity of responses. It also included new items to probe for detailed perceptions of changes in

Treasury control and achieved an acceptable response rate of 43% (17 questionnaires) given that it was a follow-up instrument.

Results and analysis

First Phase: Questionnaire Survey

Table II shows the perceived impact of reforms in all areas of proposition 1, ranked by mean score. With scores of at least 3.91, overall impact was seen as positive and substantive in all areas, supporting the first proposition. Accountability issues ranked first and joint third, with 93% of the respondents agreeing or strongly agreeing accountability had improved within Malaysian government organizations, and 88% believing accountability had improved between agencies and parent Ministries.

[Take in Table II about here]

Improvements in the quality of accounting information ranked second, with a mean score of 4.18 and 89% of respondents indicating agreement or strong agreement. Improvements in operational planning ranked joint third, followed by clarifying internal lines of responsibility, improving strategic planning, increasing Value for Money (VFM) awareness, and improving attitudes of staff. Managers believed they now had better structures, roles and systems in place for operational and strategic decision making. Increased VFM awareness suggested that managers were more scrupulous in putting public resources to better use; while reforms had also improved overall attitudes concerning customer satisfaction, innovation, accountability and professionalism. Almost all (96%) of Statutory Body respondents and 80% of those from Departments claimed to have internal auditing systems following reforms.

As expected, organizational size in terms of employees and operating expenditure, and anticipated possible privatization were not associated with differences in the perceived impact of reforms. Table III shows that the impact of each reform program was seen as positive, supporting proposition 2. Although MAS was felt less important than MBS and the internal auditing system, differences were not statistically significant. Therefore the convergence/situationist thesis did not gain support at this stage.

[Take in Table III about here]

Some claim before reforms Statutory Bodies were generally the most financially independent (Othman, 2001). Reforms could therefore be expected to have greater impact in changing more traditional Departments and Ministries, since these experience greater exposure to market forces once bureaucratic budgeting and finance systems are removed. However, there was little evidence that this was the case. Table IV collapses likert responses into three categories and shows positive impacts for all types of organization. There were also no statistically significant differences between Ministries, Statutory Bodies and Departments over the impact of reforms, indicating support for universalist Proposition 3.

[Take in Table IV about here]

Table V shows respondents felt NPFM had a positive impact on organizations facing all types of competitive environment, but reforms were not more significant for organizations facing highly competitive environments and proposition 4 was therefore unsupported. Mann-

Whitney tests showed most respondents (76 %) from Statutory Bodies felt their external environments to be mainly or partially competitive, compared with only 42% of those from Departments (significant at p=0.02). In Departments, 58% felt their environments were non-competitive. However, differences in the impact of reforms were not significantly associated with varying levels of perceived environmental competition, either between Departments and Statutory Bodies or within each category.

[Take in Table V about here]

This appears to contradict the literature that NPFM reforms will be felt more in government agencies affected by market forces (ter Bogt and van Helden, 2000). This may indicate variation in impact by competitive environment is not a universal phenomenon, challenging previous research. Conversely, it may mean that NPFM reforms have been so far-reaching that any market-oriented differentials are small. Further research needs to be conducted to confirm whether either view prevails. Generally, survey perceptions lend strong support to official accounts of the impact and effectiveness of NPFM in Malaysia – and to the universalist thesis. The follow-up survey double-checked results, while face-to-face interviews explored issues in-depth.

Second Phase: In-depth Interviews and Follow-up Survey

This phase confirmed the first proposition that financial reforms had generally positive impacts, strengthening support for the universalist thesis. It also confirmed Proposition 2 that all initiatives were influential, but interviews provided stronger support than the initial survey for differences in impact between the three programmes. MBS was regarded as the most significant reform - particularly in terms of improving operational accountability, financial management and value for money awareness. One observer predicted an internal auditing system would fail because of a lack of qualified auditing personnel, a high turnover of auditors, and a lack of top management motivation (Othman, 2001). Although these did impact, the new internal auditing system was generally felt effective by those implementing it. However, it had only been implemented by a minority of interviewees and most felt it had limited value in increasing VFM awareness. Again, organizational type and competitive environment appeared to have little impact on the efficacy of reforms. Technical, behavioral and contextual difficulties arose in the course of implementation, but these were not dissimilar to those observed in western contexts. Interviews supported the overall survey conclusion that NPFM offers universal benefits in improving the process and outputs of government agencies. It is impossible to provide full details of every aspect emerging during the interviews, so we discuss general findings under four broad headings relating to the main survey.

Operational accountability

This includes accountability, responsibility, general attitudes and operational planning within agencies; and accountability between agencies and parent ministries. Most (75 %) of follow-up senior Ministry survey respondents confirmed phase one findings that these items had improved after reforms. Of these, 70% attributed success to the impact of MBS. Interviews confirmed the 'Let managers manage' policy allowed managers to allocate resources based on local operational priorities, reduced bureaucracy, created responsibility centres, and encouraged procurement autonomy. According to a Statutory Body line manager:

> “It saves time and we get exactly what we expect. If we want to make a purchase, we obtain the quotation directly from the selected suppliers nowadays. We don’t rely on

> the financial people only. Before, they did it for us and it was slow and the purchases made did not follow the specifications determined by us".

MBS also improved budget preparation, with Expenditure Targets (ETs) reducing 'gaming' by using budget proposals as annual planning documents. The discretionary power of Treasury officers to cut budget requests was reduced and top/line managers felt more involved in budgeting because of its customer-oriented focus. Additional allocations from the Treasury for approved activities were generally no longer needed. MBS shifted budgetary control from financial division officials to line managers, which improved attitudes towards spending within limits and meant more management control over internal budget allocation, procurement and virement (the transfer of monies from one account to another). Accountability and expenditure control were also enhanced by MBS and the new internal auditing system, both within organizations and in dealings with parent Ministries; while 77 % of Departmental interviewees in the follow-up survey established internal auditors. The remainder were subject to scrutiny by parent Ministry auditors. The new Financial and Account Management Committees met at least once a quarter in every organization and were instrumental in enforcing internal audit, as one line manager remarked:

> "Our internal auditors are very active in checking on whether our works are following procedures, and whether payments are made correctly. Furthermore, they go on to check our customers' satisfaction. They do it randomly. Beside internal auditors, we also have an internal audit committee that addresses the issues raised by the internal auditors. We are very transparent".

A minority of interviewees believed that financial autonomy was still inadequate, since managers had to follow detailed Treasury procedures; and parent Ministries downplayed performance information during budget reviews. These factors contributed to the delay in Departments receiving budget allocations, heightened by managers being forced to await Treasury warrants even after official approval, or be personally liable for a surcharge if warrants failed to arrive. A small number of Departmental officials also felt delegation was bound to be temporary, with the Treasury able to revoke autonomy as the need arose. These believed MBS failed to improve budget carry forward, while lack of funds led government organizations to scale down or delay planned activities. Improvements in accountability depended on managers' initiative to take advantage of the new systems, with Treasury monitoring less effective in some instances and managerial resistance compounded by few promotion sanctions for non-compliance.

Quality of accounting knowledge

Performance contracts encouraged line managers to commit to clear performance targets. Generally, the role of parent Ministries in target setting and monitoring was now considered advisory only and managers were able to apply new financial and non-financial performance indicators including those related to quantity, quality and unit costs. MBS also improved the quality and detail of accounting knowledge in responsibility centres' expenditure reports, with fewer errors and greater timeliness, especially with the introduction of computer technology. Typical of responses was this from a Statutory Body Planning Director:

> "Even before the MBS we had our performance targets for our main activities. But the MBS improved the practice by introducing additional targets that we need to achieve for

> the activity. The MBS made the practice more systematic as targets include quality, timeliness and costs".

A minority reported problems with MBS. Attempts to emphasize results-based targets were moderated by some managers' resistance to change and inherent difficulty in measuring output based performance indicators. Information only became actionable knowledge when it was both accepted and implemented. A lack of Treasury advice and monitoring meant some managers did not believe performance targets were important, especially where there was a lack of funds and expertise to assess outcomes. This meant managers continued to unnecessarily exhaust budget allocations, relied on process rather than results based indicators, and were reluctant to undertake performance program evaluation. Improvements in expenditure reports were limited by a lack of budget profiling information and Ministries and Departments continued to use cash basis accounting data. Some managers compensated for this by keeping their own records of liabilities and future commitments. Others criticised performance information from Treasury Budget Review Officers (BROs) as unreliable because it was not attested by any independent body (i.e. the National Audit Department):

> "Every time we prepare the output performance targets and exception reports, whatever we report, the monitoring is not enforced at the Treasury level. We are not properly advised about whether what we measured is right or wrong".

Strategic Planning

Greater delegation in strategic planning occurred from parent Ministries to Departments, with greater actionable knowledge developed in terms of formulating and implementing strategy. This was attributed to greater government commitment in reducing bureaucracy and improving service delivery rather than specific reforms. Priority setting was believed to be the responsibility of top management. Departmental strategies began as interactive efforts with parent Ministries, since supervisory consent was required. In Statutory Bodies the Board of Directors approved strategy, with guidelines from Ministries, the Secretary General's Office and the Treasury helping to establish a strategic framework and implementation in the hands of each Body. As one Deputy Director General commented:

> "The Ministry only leads us in general policy, but implementation is our responsibility. New projects and ideas are from our Departments. Generally, our planning and activities are dependent on us. The Ministry's role is for endorsement. Our suggestions will be accepted as long as our plan is in line with the broad policies of the Ministry".

Ministries sometimes went beyond this supervisory role where the main activities of Bodies had an important bearing on their strategies. In such cases, a parent Ministry would actively defend the intent of the Statutory Body during Treasury budget review.

Value for Money (VFM) awareness

Most (82%) of follow-up survey respondents believed reforms had increased VFM awareness, with 70% attributing this to MBS. Interviews confirmed Treasury control over voted activities was ensured by setting objectives at the beginning of each fiscal year, with additional allocations only after Parliamentary approval and generally only for emoluments (salaries, fees, etc.). Interviewees viewed virement unfavourably and tried to avoid it, since this was seen as poor planning. In procurement, managers did not always choose the lowest bid but balanced cost against quality and long-term impacts in a more informed judgement:

> "We should look at the long-term impact on the cost of operation. Most of the time, cheap products incur us higher maintenance costs afterwards. We should look at this factor as well as the purchase price consideration".

Such positives were partly offset by a behavior towards exhausting allocation; the absence of a results-based accountability system; and a weak MAS. However, as the literature earlier showed, these issues are not unique to emerging countries. The spend-what-you're-given behavior resulted from managers' desire to avoid under-spending or exceed their budget allocations because of the perceived threat of future cuts. Spending sprees were common at the year end, as one Statutory Body director noted:

> "We tend to encourage people to spend regardless of the impact of this spending. What should be happening is that if you don't spend RM$5 million, the impact should be more than RM$5 million, but we don't put emphasis on that. The emphasis is more on spending. That is why when December comes, we go Christmas shopping".

The absence of a results-based accountability system meant some respondents were not informed whether the money they spent generated the intended outputs. The only controls in place were Treasury procedures, felt to be inadequate in matching expenditure with results. Only 5 out of 14 organizations actually implementing MAS found the resulting cost information useful for decision making. Those who did believed information helped in pricing and efficiency considerations, with the cost of operations and the needs of customers more fully understood, and improved financial control by head offices over responsibility centres. Decisions concerning outsourcing were more informed by costing data, but some felt MAS was limited to easily quantifiable outputs and used to justify minor internal decisions such as purchasing fax machines to deliver government documents cheaply. Some managers felt they were not sufficiently involved in the design of the information process, despite their role as end-users. The lack of accountants and accounting expertise in the civil service was a more situationist implementation problem, with some Departments unable to recruit professional accountants or accounting degree holders. The costing process was perceived as difficult and tedious by non-accountants and staff training in MAS was complicated by frequent personnel rotation. Despite such issues, the general view was that NPFM had been successful in Malaysian government agencies. The intractable problems foreseen by the situationists had not materialized and implementation difficulties were not unlike those experienced in the West.

Summary and conclusions

This study provides evidence that NPFM can be fruitfully applied in an emerging context, challenging the situationist view that reforms are inappropriate where there are limited market mechanisms and politico-cultural difficulties. Top Malaysian managers believed reforms were largely successful in all areas, with no significant differences for organizational type or competitiveness of environment. This supports a universalist view, with improvements occurring in staff attitudes, managerial responsibility, accountability within agencies and between agencies and parent Ministries. There was greater VFM awareness, higher quality accounting information and improved planning.

As predicted, some conceptual and practical implementation issues were evident in technical, behavioral and political dimensions (Lewis and Stiles, 2004), but these were insufficient to derail attempts at reform. Interviews showed that MBS was the most successful of the three initiatives, with greater responsibility and autonomy for line managers leading to spending within limits and more effective budget allocation, procurement and virement. MAS was useful in pricing, financial control, efficiency and outsourcing considerations; although there have been implementation difficulties in terms of VFM awareness. Some problems were intensified because of shortages in accountancy personnel and knowledge. This may evidence a limited situationist view, but positive impacts were seen for all three initiatives.

Other contextual issues included a prevalent budget exhaustion culture, inadequate performance monitoring by the Treasury and parent Ministries, and the reluctance to link financial management behavior to promotion systems. Yet these problems are not unique to emerging countries. Similar problems occur in developed countries, where reforms face difficulties in technical, behavioral and socio-political dimensions (Lewis and Stiles, 2004). Managerial resistance to reforms, gaming over budgeting preparation and control, focusing on process not output, and spending sprees at year end are observed in western contexts because of the uncertain nature of accounting data and the organizational context (Caplan, 1971; Merchant and Shields, 1993).

There are inevitable limitations in a study based on qualitative perceptions that may prompt future research. It is difficult to examine performance data directly because private sector measures such as profit or return-on-investment are largely irrelevant to public sector bodies, but some external verification of managers' beliefs would be useful. Line managers did help triangulate findings, but a survey of frontline staff may check whether implementation difficulties arise managers are unaware of; while a survey of end-users may provide an additional perspective. However, the scale and breadth of the data here should provide some confidence that a systematic initial attempt has been made to explore the effects of NPFM in Malaysia.

A second concern is that generalizations about emerging countries are premature because of the particular character of Malaysia. It was one of the first emerging nations to seriously implement NPFM reforms. Those countries lagging behind may be doing so because of more intractable contextual constraints. The definitions earlier see emerging countries as qualitatively different to developing countries, where economic problems may be more intractable. For example, in Ghana international debt repayments have locked government into a perpetual cycle of poverty and financial crisis, making reforms difficult (Rahaman *et al*., 2007). Despite received wisdom (Hoskisson *et al*., 2000), there may be emerging contexts where the public benefit more marginally from reforms because of poverty and corruption (McCourt, 2001). Long-standing economic patronage of Malaysia by the rich countries of Europe, America and Japan may also set Malaysia apart from post-Communist Asian countries. Malaysia shares a British colonial heritage with South Africa (Chua and Poullaos, 2002) and developed a colonially-based local hybrid accounting system like South Africa and Kenya (Sian, 2006). It may therefore embed values more sympathetic to British-style accounting reforms – although in Brunei, another ex-British territory, the private sector accountancy profession has little impact on the public sector and ethnicity remains a potent influence (Yapa, 1999). In the Philippines, a traditionalist, familial culture competes for control over public accounting with a more rationalist/legal regulatory framework (Dyball and Valcarcel, 1999). There is therefore a need to study NPFM reforms as they are implemented in each emerging country to further test universalist and situationist hypotheses.

A third area emerges directly from study findings. Previous research suggested NPFM reforms would have greater impact in government agencies exposed to more competitive market environments (ter Bogt and van Helden, 2000). This was not observed in Malaysia and may indicate that competitive environment is not a universal mediating factor. Further research should determine whether this is so in other contexts.

Although technical, socio-political and behavioral problems are not be unique to emerging nations, Malaysia has experienced some contextual constraints to implementing reforms relevant to all those contemplating NPFM . Practitioners must ensure there are sufficient resources to train managers in new financial methods and interpreting information, especially given shortages of accounting personnel. A participative culture involving managers in the design and implementation of systems may reduce gaming and other behaviors. Practitioners also need to challenge spend-all cultures by measuring the results of activities rather than provision, and rewarding organizations and individuals for savings rather than enforcing cut-backs in the following year's budget. Policy makers should recognise that much depends on the will of national parliaments to authorise and honor appropriate and timely allocations and on government and executive branches to oversee and monitor the process effectively. Overall, the evidence suggests that while NPFM may encounter implementation difficulties, these are not intractable in an emerging context and do not deflect the quest for more informed public service delivery.

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TABLE I

Status of Respondents by Category of Employment

	Departments		Statutory Bodies		Ministries		Total	
	No.	%	No.	%	No.	%	No.	%
Director General/ Chief Executives/Secretary General	10	18	1	4	2	14	13	14
Deputy Director General	9	16	3	12	4	29	16	17
Admin & Finance Directors	22	40	8	32	7	50	37	39
Director Of Corporate/ Planning	6	11	4	16	1	7	10	11
Senior General Managers	8	15	9	-	-	-	18	19
Total	**55**	**100**	**25**	**100**	**14**	**100**	**94**	**100**

TABLE II

Overall Impact of NPFM Reforms in Malaysia

	Strongly Disagree		Disagree		Uncertain		Agree		Strongly Agree		Overall	
Financial Management Reforms have:	No	%	No	%	No	%	No	%	No	%	MEAN	RANK
Improved the process of Accountability within the Agency	-	-	1	1	6	6	57	61	30	32	4.23	1
Improved the quality of Accounting Information	-	-			11	12	55	59	28	30	4.18	2
Improved the process of Accountability between the agency and the parent ministry	-	-	1	1	9	11	49	62	21	26	4.13	3
Improved operational planning	-	-	1	1	12	13	55	58	26	28	4.13	3
Enabled clear lines of Responsibility to be identified within the agency	-	-	2	2	13	14	55	58	24	26	4.07	4
Improved strategic planning	-	-	1	1	15	16	56	60	22	23	4.05	5
Increased the awareness of Value for Money amongst managers	1	1	2	2	21	23	47	50	22	24	3.94	6
Substantially improved the attitudes of staff	-	-	6	7	12	13	59	63	16	17	3.91	7

TABLE III

Importance Attached to Each Reform Program

	Very Unimportant		Not Important		Neutral		Important		Very Important		Overall	
Reform Programs:	No	%	No	%	No	%	No	%	No	%	MEAN	RANK
Micro Accounting System	2	2	7	8	23	25	35	38	25	27	3.80	3
Internal Audit System	-	-	2	2	8	9	24	27	56	62	4.49	1
Modified Budgeting System	-	-	-	-	9	10	29	31	55	59	4.49	1

TABLE IV

NPFM Reforms by Organizational Status

	Departments (N= 55)				Statutory Bodies (N= 25)				Ministries(14)			
Reform programs have:	Disagree %	Uncertain %	Agree %	Mean	Disagree %	Uncertain %	Agree %	Mean	Disagree %	Uncertain %	Agree %	Mean
Substantially improved the attitude of the staff	7	13	80	3.89	8	12	80	3.92	-	14	86	4.00
Enabled clear lines of Responsibility to be identified within the organisation	4	9	87	4.09	-	20	80	4.04	-	21	79	4.07
Improved the process of Accountability within the agency	-	6	94	4.27	-	12	88	4.20	7	-	93	4.14
Improved the process of Accountability between the agency and the parent ministry	2	11	87	4.13	-	12	88	4.12	-	-	-	-
Increased the awareness of Value for Money amongst managers	6	26	68	3.83	-	16	84	4.08	-	21	79	4.07
Improved the quality of Accounting Information	-	16	86	4.11	-	4	96	4.28	-	7	93	4.29
Improved strategic planning	2	20	78	3.98	-	8	92	4.20	-	14	86	4.07
Improved operational planning	2	15	83	4.09	-	8	92	4.16	-	14	86	4.21

TABLE V

NPFM Reforms by Competitive Environment

Financial management reform programs have:	Mainly Competitive (N=8)				Partially Competitive (N=34)				Non Competitive (N=38)			
	Disagree %	Uncertain %	Agree %	Mean	Disagree %	Uncertain %	Agree %	Mean	Disagree %	Uncertain %	Agree %	Mean
Substantially improved the attitude of the staff	-	-	100	4.13	12	15	73	3.88	5	14	81	3.86
Enabled clear lines of Responsibility to be identified within the organisation	-	-	100	4.38	-	12	88	4.15	5	16	79	3.95
Improved the process of Accountability within the agency	-	-	100	4.38	-	12	88	4.21	-	5	95	4.25
Improved the process of Accountability between the agency and the parent ministry	-	-	100	4.25	3	18	79	4.06	-	8	92	4.16
Increased the awareness of Value for Money amongst managers	-	25	75	4.00	3	21	76	3.97	6	24	70	3.84
Improved the quality of Accounting Information	-	-	100	4.25	-	12	88	4.21	-	16	84	4.11
Improved strategic planning	-	-	100	4.25	-	18	82	4.09	3	18	79	3.97
Improved operational planning	-	-	100	4.25	-	18	82	4.09	3	11	86	4.11