



**BUDGETING FOR RESULTS: EVALUATING THE  
UTILIZATION OF PERFORMANCE  
MEASUREMENT TOOL IN THE MODIFIED  
BUDGETING SYSTEM (MBS) IN MALAYSIA**

**BY**

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## ABSTRACT

The allocation and utilization of public funds have triggered reforms in public sector budgeting in governments around the world including Malaysia. Under the current Modified Budgeting System (MBS), the Malaysian government is highly expected to deliver an excellent performance. This study was undertaken to examine and analyze the utilization of performance measurement tool through its adoption and implementation in MBS in the activities of the Malaysian public sector. In addition, by adapting de Lancer Julnes' utilization model, the relationship between factors of formal requirement, technical capacity, organizational culture and goal orientation with adoption and implementation of performance measurement tool were studied. The research is significant because for more than 20 years of MBS implementation, desired outcomes of prudent spending and better allocation of resources across activities through utilization of performance measurement in MBS are not that visible. The study presents and discusses empirical findings through a triangulation method involving the survey of 126 activities in the Malaysian public sector using SPSS and structural equation modeling (SEM) through PLS software, corroborated with structured interviews of 30 respondents. Major findings indicate that public sector organizations have developed output and input measures more than outcome and efficiency measures. Only performance measurement tools in terms of efficiency, quantity of output, standard duration of time to produce an output, quality of output and results of services are mostly used to manage activities in organizations. In addition, top management and policy are the main sources of influence in the utilization of performance measures. Surprisingly, the practice of performance measurement is mainly prevalent among the management employees as compared to non-management employees. The findings of this study support the hypothesized relationships proposed in the theoretical model: there are significant positive relationships between adoption of performance measurement tool and implementation of performance measurement tool, formal requirements and adoption, formal requirements and technical capacity, technical capacity and adoption, organizational culture and goal orientation as well as goal orientation and adoption. The results also provide strong evidence of mediation of adoption on formal requirements and implementation, of adoption on technical capacity and implementation, of adoption and goal orientation and implementation, and of goal orientation on organizational culture and adoption. The results of this study also demonstrate the need for effective training on the use of performance measurement tool in MBS, providing incentives to encourage its use, instilling the right values in the organizations, involvement of the top management, stronger monitoring and integration of the budgeting system with other existing management systems.

## خلاصة البحث

أدت الرغبة في تطوير الكفاءة في استخدام الموارد على نطاق عالمي إلى ادخال اصلاحات مستمرة في نظم إعداد الموازنات بما في ذلك ماليزيا. وبموجب النظام المالي المعدل لموازنة الأداء أصبح متوقعًا من إدارة حكومة ماليزيا أن تؤدي أداءً ماليًا مميّزًا. وقد قمنا بهذه الدراسة بهدف إختبار وتحليل مدى استخدام آلية قياس الأداء من حيث تبنيه ومن ثم تنفيذه بأجهزة الدولة. بالإضافة لذلك فقد استفاد هذا البحث من نموذج طورته دي لانسر جولنز بإعتبار أن: المطلبات الرسمية والمقدرة الفنية وثقافة المنظمة وتوجهها نحو بلوغ أهدافها عوامل مستقلة تحدد مدى تبنى المنظمه وتطبيقها لنظام الموازنة المرتبطة بقياس الأداء. وتنبع أهمية هذا البحث من حقيقة أنه وبعد عشرين عامًا من تطبيق هذا النظام فما زالت النتائج غير واضحة في مجال الاستغلال الأمثل للموارد المالية من خلال الألتزام بتطبيق نظام موازنة الأداء. تم جمع المعلومات لهذه الدراسة باتباع أساليب متعددة من بينها توزيع استبيان لجمع المعلومات من منشطًا بالقطاع العام. وتم تحليل البيانات في اطار نموذج المعادلة الشكلية مائة ستة وعشرون وباستخدام الحزم الإحصائية للعلوم الاجتماعية بالاضافة لمعاينات شخصية لثلاثين شخصًا في مواقع المسؤولية. وتشير نتائج الدراسة إلى ان المنظمات الحكومية قد طورت نظمًا لقياس المدخلات والمخرجات ولكنها لم تطور نظمًا لقياس الكفاءة والفعالية في الأداء لإدارة مناشطها، بالإضافة لذلك فإن السياسات المتبعة والإدارة العليا هي مصادر التأثير في استخدام هذه الأساليب شائع بين الموظفين الإداريين بخلاف غير الإداريين. معطيات البحث أيدت في النهاية العلاقة المفترضة بين المتغيرات في النموذج النظرى حيث أشارت إلى وجود علاقة إيجابية بين تبنى أدوات قياس الأداء وبين استخدامها لقياس الأداء وتوافر المتطلبات الرسمية والتبنى، وبين هذه المقدرات الفنية وتبنى قياس الأداء وبين ثقافة المنظمة والتوجه نحو الأهداف وبين التوجه والتبنى. وتشير النتائج أيضًا لوجود متغيرات وسيطة، فالتبنى متغير وسيط بين المتطلبات الرسمية والتنفيذ والتبنى ما بين المقدرات الفنية والتنفيذ وما بين التبنى والتوجه نحو الأهداف والتنفيذ والتوجه نحو الأهداف يتوسط بين ثقافة المنظمة والتبنى.

## **APPROVAL PAGE**

The dissertation of Nor Azlina Ariffin has been approved by the following:

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Nor Azlina Ariffin

Signature .....

Date: .....

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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This dissertation is dedicated to  
my dearly departed father, Allahyarham Haji Ariffin Haji Abdul Rahman and  
my beloved and wonderful mother, Hajjah Mariam Bee Ba Mohamed Yunus

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## **LIST OF ABBREVIATIONS**

AICPA	American Institute of Certified Public Accountants
GPRA	Government Performance and Results Act
INTAN	National Institute of Public Administration
LIB	Line Item Budgeting
MAS	Micro Accounting System
MBS	Modified Budgeting System
OECD	Organization for Economic Cooperation and Development
PBB	Performance-Based Budgeting
PPBS	Program and Performance Budgeting System

# CHAPTER 1

## INTRODUCTION

### 1.1 BACKGROUND TO THE STUDY

The key concern in Malaysia and other parts of the world has always been the allocation and utilization of public funds. Such concerns have triggered major initiatives to reform public sector budgeting and finance seeking to gain greater rationality and effectiveness in public financial management.<sup>1</sup> In Malaysia, the first major effort at performance budgeting was the introduction of the Program and Performance Budgeting system (PPBS) in 1969.<sup>2</sup> PPBS is a replication of the US-Canadian approach that had shifted the focus of budgetary decisions away from objects of expenditure to the programs and projects and emphasized performance measurement and devolution of authority.<sup>3</sup> According to Xavier, PPBS required the evaluation of public agencies' programs and activities.<sup>4</sup> In so doing, information on various programs was needed. However, program evaluation was relatively not undertaken. This was because public agencies implemented PPBS mechanically with the main focus of complying with the formats and procedures. As a result, PPBS, in the way that it was implemented, did not lead to changes since there was no integration between budgeting and planning functions in public sector agencies. The

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<sup>1</sup> Siddiquee, N. A., "Managing for Results: Lessons from Public Management Reform in Malaysia", *International Journal of Public Sector Management*, vol. 23, no.1 (2010): 43.

<sup>2</sup> Xavier, J. A., *Budgeting for Performance: Principles and Practice*, (Kuala Lumpur: National Institute of Public Administration (INTAN), 2001), 26.

<sup>3</sup> Ibid.

<sup>4</sup> Siti Nabiha Abdul Khalid, "New Public Management in Malaysia: In Search of An Efficient and Effective Service Delivery", *International Journal of Management Studies*, vol. 15 (Bumper Issue), (2008): 69-90.

data provided from the system were not utilized. Additionally, there was also the fear that information on program performance would be used to penalize the managers.

In 1989, there was another major restructuring of the budget process to modify PPBS, known as the Modified Budgeting System (MBS). The MBS was initially set up as a pilot project and involved three ministries under Phase 1: the Ministry of Health, Ministry of Public Work and Utilities and Ministry of Welfare. Details of implementation of MBS are as illustrated in Table 1.1.

Table 1.1  
Phases of MBS Implementation

Phase	Year	Number of Ministries/Departments
II	1992	7
III	1993	7
IV	1994	17
V	1995	17

Source: Fatimah Abd Rauf, Haslinda Yusoff, Normahiran Yatim, Usha Rani Poobalan, Saluana Che Salleh, Radiah Othman. (2004), *Public Sector Accounting: Malaysian Context*, (2<sup>nd</sup> ed.), Prentice Hall, p.79

This project was designed as an experimental project to assess whether the management of the ministries and departments could be improved with greater disclosure of information on performance and accountability.<sup>5</sup> The Malaysian government is entrusted with responsibilities of providing optimal services to its citizens within available resources. Valid judgments, by both elected members of parliament and the public on how well public sector activities have been undertaken could not easily be made unless information on performance is available. Public

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<sup>5</sup> Nichol, E. & Taylor, D. W., "Accountability and Performance Reporting in the Public Accounts of the Malaysian Government", *The Journal of Contemporary Issues in Business and Government*, vol. 7, no. 2 (2001): 35-46.

sector organizations in Malaysia use performance indicators to evaluate performance as a result of the primary objective being to provide services to its constituents, not for profit or economic outcomes. Each performance indicator identifies the measurement of a piece of important information regarding the performance of a program, expressed as a percentage, index, rate, or other comparisons. These are then monitored at regular intervals and compared to the relevant criterion. Public sector organizations disclose performance indicators and report levels of performance, thus enabling management to assess the extent to which the activities achieve the stated objectives of the organization.<sup>6</sup>

MBS seeks to address the inadequacies in PPBS. Thus, the first objective of MBS is to promote rational allocation of resources to government programs by imposing fiscal limits upon agencies and by forging a link between inputs and outputs. This helps the managers of ministries and departments to transform organizational objectives into appropriate programs to achieve organizational objectives and to maximise the resources given to them.<sup>7</sup> The next objective is to promote a better program management through greater flexibility in the use of resources from the Treasury to agencies and then to line managers. The control can be deployed through performance targeting according to changed priorities. Therefore, predetermining a set of performance targets and adopting them should motivate managers to a higher level of performance while at the same time implementing them. The third objective is to promote better accountability on the part of the program managers and those involved.

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<sup>6</sup> Taylor, D. W. & Pincus, K. V., *Core Concepts of Accounting Information*, (Australia: McGraw Hill Companies Inc., 1999), 105.

<sup>7</sup> Rajasundram, P., "Public Sector Performance Improvements in Malaysia and Challenges Ahead", *INTAN Financial Bulletin*, vol. 6 (2005): 16.

## 1.2 STATEMENT OF THE PROBLEM

The Modified Budgeting System has been implemented in Malaysia for more than 20 years. However, the Malaysian public sector continues to suffer from, among others, inefficiency and the lack of financial discipline and accountability.<sup>8</sup> On the other hand, a study by Sohaimi and Nor Azlina on the achievement of the objectives of the Modified Budgeting Systems showed that 80% of the respondents agreed that it has achieved its three objectives.<sup>9</sup> However, this finding is not in line with what is reflected in the Auditor General's Report annually that highlighted audit findings in Ministries and Departments.

The National Audit Department audits Ministries and Federal Departments every year in order to ascertain whether the financial management at these Ministries and Departments is carried out according to established laws and financial regulations. According to the annual appropriations and budget cycle, no operating expenditure may be incurred without parliamentary approval. In addition, budget spent must be within the approved Supply Act. Detailed information about this is discussed in the next chapter. Nevertheless, every year, there was always the repetition of issues pertaining to spending without fund allocation, spending more than allocated funds and inability to spend additional allocation as portrayed in Table 1.2. The results of the audit showed that a few of the Ministries and Federal Departments were not serious in improving their financial management performance through the use of performance measurement tool in MBS even though such weaknesses had been repeatedly brought up to their attention by the National Audit Department.

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<sup>8</sup> Siddiquee, N. A., "Public Management Reform in Malaysia: Recent Initiatives and Experiences," *International Journal of Public Sector Management*, vol. 19, no.4 (2006): 353.

<sup>9</sup> Sohaimi Mohd Salleh & Nor Azlina Ariffin., "Sistem Belanjawan yang Diubahsuai (SBD): Penilaian Terhadap Pencapaian Objektifnya" [Modified Budgeting System (MBS): Evaluation on the Achievement of the Objectives] in *INTAN Management Journal*, vol. 9, no. 1 (2008): 93.

Table 1.2  
The State of Operating Budget Expenditure

ISSUES	YEAR					
	2004 (RM million)	2005 (RM million)	2006 (RM million)	2007 (RM million)	2008 (RM million)	2009 (RM million)
<b>Spending More Than Allocation</b>	2,572.12	2,608.80	4,077.53	2,238.94	5,700.43	4,830.80
<b>Additional Allocation Not Spent</b>	166.11	115.61	502.30	285.49	48.23	62.20
<b>Spending Without Allocation</b>	611.72	20.45	4.98	8.92	0.52	45.49

Source: Auditor-General's Report, 2009

That suggests that there is a gap between the adoption and the implementation of performance measurement tool in MBS. Further investigation of this issue is clearly warranted.

Given that effective spending of public money is difficult to achieve, there have been attempts to develop distinct models to investigate factors that facilitate the utilization of performance measurement tool, specifically on its adoption and implementation. In reviewing these models, it has been found out that the critical variables include formal requirements, technical capacity, goal orientation and organizational culture as suggested by de Lancer Julnes.<sup>10</sup> However, de Lancer Julnes's model did not take into account the elements of quality of output and standard

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<sup>10</sup> de Lancer Julnes, P., The Utilization of Performance Measurement Information: Adopting, Implementing, Sustaining. *In Handbook of Public Productivity*, edited by M. Holzer and S. H. Lee. (New York: Marcel Dekker, 2<sup>nd</sup> edn., 2004) & de Lancer Julnes, P., *Performance-Based Management Systems: Effective Implementation and Maintenance*, (USA: CRC Press Taylor & Francis Group, 2009).