

**PERFORMANCE MANAGEMENT CONTROL  
CHANGE AND INTEGRATION IN THE  
CENTRAL GOVERNMENT OF MALAYSIA**

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**PERFORMANCE MANAGEMENT CONTROL  
CHANGE AND INTEGRATION IN THE  
CENTRAL GOVERNMENT OF MALAYSIA**

by

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## LIST OF ABBREVIATIONS

APMC	Activity Performance Management Committee
BFR	Big Fast Results
BRO	Budget Review Officer
CeDRE	Centre for Development and Research in Evaluation
CPMC	Central Performance Management Committee
DE	Development Expenditure
EPU	Economic Planning Unit (of the Prime Minister's Department)
ETP	Economic Transformation Programme
GTP	Government Transformation Programme
ICU	Implementation and Coordination Unit
IPMF	Integrated Performance Management Framework
IRBM	Integrated Results Based Management
KPI	Key Performance Indicator
KPA	Key Results Area
LF	Logical Framework
MA	Management Accounting
MAMPU	Malaysian Admin Modernization & Management Planning Unit
MBO	Management by Objectives
MBS	Modified Budgeting System
MES	Ministry Executive Summary
MKRAs	Ministerial Key Results Areas
MOIC	Ministry OBB Implementation Committee
NEM	New Economic Model
NKRAs	National Key Results Areas

NPFM	New Public Financial Management
NPM	New Public Management
NTP	National Transformation Policy
OBA	Outcome based Approach
OBB	Outcome Based Budgeting
OE	Operational Expenditure
PB	Performance Budgeting
PM	Performance Management
PMC	Performance Management Control
PPBS	Program Performance Budgeting System
PPMC	Programme Performance Management Committee
PPMF	Programme Performance Management Framework
ProLL	Programme Logic and Linkages Model
PEMANDU	Prime Minister's Performance Management and Delivery Unit
RBB	Results Based Budgeting
RBM	Results Based Management
SST	Strong Structuration Theory
ST	Structuration Theory

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# **PERUBAHAN DAN INTEGRASI KAWALAN PENGURUSAN PRESTASI DI KERAJAAN PERSEKUTUAN MALAYSIA**

## **ABSTRAK**

Walaupun sistem pengurusan awam di Malaysia berubah dari tahun ke tahun, inisiatif penambahbaikan tidak menyelesaikan isu-isu pengurusan prestasi. Isu-isu ini mungkin berterusan disebabkan masalah dalam integrasi kawalan pengurusan prestasi. Oleh itu, tujuan kajian kes kualitatif yang dijalankan di beberapa kementerian dan agensi negara adalah untuk meneroka bagaimana perubahan kawalan pengurusan prestasi memberi kesan kepada integrasi kawalan pengurusan prestasi dalam lingkungan kerajaan pusat di Malaysia. Pengumpulan data melibatkan temu bual separa berstruktur secara meluas, dokumentasi mengenai proses kawalan pengurusan prestasi dan pemerhatian bukan peserta. Bergariskan teori struktur yang kukuh, kunci terma yang berkaitan dengan perubahan kawalan pengurusan prestasi dan kestabilan telah dikenal pasti dalam kajian ini. Interaksi di antara struktur dan agensi telah diperiksa dengan meneroka ke atas kelakuan ejen dan analisis konteks. Pelaksanaan berasaskan sistem belanjawan baharu menyebabkan ketegangan tertentu di antara pamacu dan pelaksana, menghalang integrasi kawalan pengurusan prestasi yang kukuh. Walaupun perubahan sistem belanjawan berlaku secara beransur-ansur, rasionaliti pelaksanaan secara relatifnya kekal tidak berubah. Kajian telah mendapati bahawa kawalan pengurusan prestasi di dalam sektor awam sering beroperasi secara silo. Jurang dalam integrasi boleh ditutup jika terdapat amalan belanjawan, pemantauan dan penilaian yang lebih mantap dihubungkan dengan struktur perancangan sedia ada. Pentadbir-pentadbir di dalam jawatan pengurusan tertinggi

harus sedar tentang bagaimana struktur kawalan pengurusan prestasi yang berbeza mempengaruhi diantara satu sama lain dan mengumpulkan kawalan pengurusan prestasi sedia ada untuk memperbaiki kekuatan dan keselarasan kawalan pengurusan prestasi. Bagi tujuan ini, rangka kerja integrasi kawalan pengurusan prestasi telah dibangunkan daripada kajian ini yang menggabungkan pandangan yang diperoleh daripada cabaran-cabaran pelaksanaan dan corak sistemik tingkah laku yang dihadapi dalam kerajaan pusat di Malaysia. Memandangkan integrasi kawalan pengurusan prestasi jarang dipertimbangkan dalam lingkungan proses perubahan dikalangan ahli akademik dan pengamal di Malaysia, dapatan kajian ini menghasilkan pandangan tentang bagaimana integrasi kawalan pengurusan prestasi dalam sektor awam boleh diperbaiki. Memandangkan situasi yang sama mungkin dihadapi oleh kerajaan di dalam ekonomi yang sedang pesat membangun, penggubal dasar dan pentadbir yang menyelia perubahan perakaunan pengurusan di negara-negara tersebut mungkin boleh mengaplikasikan rangka kerja untuk dasar polisi dan strategi di masa hadapan.

# **PERFORMANCE MANAGEMENT CONTROL CHANGE AND INTEGRATION IN THE CENTRAL GOVERNMENT OF MALAYSIA**

## **ABSTRACT**

Although public management systems in Malaysia have been transforming over the years, improvement initiatives have not resolved performance management issues. These issues may persist due to problems in performance management control integration. Therefore, the purpose of this qualitative case study, conducted in several national ministries and agencies, was to explore how performance management control change impacted performance management control integration within the central government of Malaysia. Data collection involved extensive semi-structured interviews, documentation on performance management control processes and non-participant observations. Drawing on strong structuration theory, key themes related to performance management control change and stability were identified in this study. The interplay between structure and agency was examined by delving into agent conduct and context analysis. The implementation of a new outcome based budgeting system resulted in certain tensions between drivers and implementers, impeding strong performance management control integration. Despite gradual changes to the budgeting system, the situated rationalities of implementers remained relatively unchanged. The study has found that performance management controls in the public sector often operate in silos. Gaps in integration could be closed if there are more robust budgeting, monitoring and evaluation practices linked to existing planning structures. Administrators in top management positions should be aware of how different performance management control structures affect each other and



leverage existing performance management controls to improve performance management control strength and coherence. Towards this end, a performance management control integration framework was developed from the study that incorporates insights gained from the implementation challenges and systemic patterns of behaviour encountered in the central government of Malaysia. As performance management control integration is not often considered within change processes among academia and practitioners in Malaysia, the findings of this study provide insights into how performance management control integration in the public sector may be improved. Given that similar circumstances may be faced by governments in other emerging economies, policymakers and administrators overseeing management accounting change in such nations may be able to apply the framework to inform future policies and strategies.

## **CHAPTER 1 INTRODUCTION**

This chapter introduces the current study by first providing the general context of the study and then the context of the Malaysian public sector. The research problem is then clarified based on performance issues frequently encountered in the Malaysian government and gaps in performance management control (PMC) research identified in the literature review. Subsequently, the research questions and scope of study is described followed by the significance of the study. Finally, an explanation on the structure of the entire thesis is provided.

### **1.1 Background**

Performance management (PM) based approaches have been increasingly adopted since the 1980s due to the New Public Management (NPM) movement (Hood, 1991a). This movement led to the use of results based PM tools derived from the private sector to reduce inefficiency and waste (Osborne & Gaebler, 1993). Initially, results based PM systems were focused on controlling outputs and process related efficiency (Heinrich & Marschke, 2010). As inter-governmental networks grew, it became evident that output-based approaches narrowed performance focus and did not adequately address what citizens needed (Heinrich, 2002a; Schedler & Proeller, 2010).

Consequently, the NPM movement began to emphasise the measurement of value creation resulting from public sector services and activities (Borgonovi et al., 2018; Heinrich, 2002a; Lowe & Wilson, 2017). The shift to value creation has seen governments prioritising societal outcomes within their PM systems (French et al., 2021). Societal outcomes (such as those related to education and health) are often

measured through outcome based performance indicators that are part of outcome based approaches. Outcome based approaches (OBA) were swiftly adopted by governments due to the promise of various benefits that could improve government PM. These included reward structures that aligned agent interests through the measurement of results instead of process related compliance (Heinrich, 2002a); reliable performance data that enabled rational managerial decision making (French et al., 2021); goal directed collaboration (Heinrich, 2002a); innovation (Wynen et al., 2014a); improved transparency and accountability (Heinrich, 2002b; Hood, 1991b; Wynen et al., 2014b).

Complementing these management reformations were financial management transformations which were introduced and implemented in varying degrees in governments around the world. Financial and management accounting changes fell under New Public Financial Management (NPFM) initiatives or the financial side of NPM transformations. Literature often alludes to efficiency, effectiveness and equity as some of the key principles to uphold in public sector governance. As the central aim of NPFM was to improve public sector governance through accounting and financial transformations (Olson et al., 2001), it was often seen as the underlying mechanism of public sector transformations worldwide. NPFM created greater interest in performance based budgeting techniques such as outcome based budgeting, which is based on the OBA and supports increased accountability over outputs, outcomes and impacts.

Despite the ongoing adoption of OBA worldwide, empirical studies have found little evidence for promised benefits (Carter et al., 2018; Clist, 2019). Instead, many performance management control (PMC) issues occur following the implementation of OBA. PMC issues frequently found include those related to: (i) reconciling the

complex nature of outcomes with the need for objective and clear performance measures (Bovaird, 2014; Jamieson et al., 2020); (ii) measurability distortion leading to compromised organisational focus and inaccurate views of effectiveness (Bevan & Hood, 2006); (iii) gaming and performance information distortion (Bevan & Hood 2006); and erosion of trust and culture (Keevers et al., 2012). These issues reflect a problem in the way OBA is comprehended as a cause and effect relationship between inputs, processes and outcomes (Pollitt & Bouckaert, 2004; Schedler & Proeller, 2010).

Real societal impact is influenced by numerous external factors often beyond the control of internal processes. The public sector landscape is often more complex than that of the private sector (Bourne et al., 2018), as it is highly fragmented (Lowe et al., 2020). Outcomes are affected by various dynamically interacting factors that lead to compositional, experiential, dynamic and governance complexity (French et al., 2021). Due to these complexities, the causal link between inputs, processes and outcomes is not clear as past methods may not be relevant in the near future or may not have been impactful in a far-reaching manner (French et al., 2021). Therefore, static traditional controls lead to incomplete, irrelevant and time-limited performance judgements. As such, French et al. (2021) argues that the performance of a public sector organisation should be evaluated based on effective engagement with the wider complex environment in which it is situated.

#### 1.1.1 *Performance Management in Malaysia*

The Malaysian government has been pursuing administrative modernisation for the past few decades which has been especially important to maintain its legitimacy.

Towards this end, Malaysia has followed normative patterns related to NPM and NPFM. Numerous reformation initiatives related to PMC have been implemented over the years (see Table 1.1). Malaysia has introduced budgetary reform initiatives since the late 60's. The Program Performance Budgeting System (PPBS) replaced the traditional line item budgeting system in 1969 (Tam, 2013). In the 1980s, the Logical Framework (LF) approach used extensively in many countries as a management and planning tool.

**Table 1.1 Performance Management Control Reformations in Malaysia** (Source: Xavier, 2013)

<b>Reformation Initiatives</b>	<b>Year(s)</b>
Programme and Performance Budgeting System (PPBS)	1968
Micro Accounting System	1987, 1992
Modified Budgeting System (MBS)	1990
Productivity improvement	1991
Total Quality Management	1992
New Remuneration System	1992
Clients' Charter	1993
International Organization for Standardization standards	1996
Benchmarking	1999
Malaysian Remuneration System	2002
Key performance indicators (KPIs)	2005
Auditor-general's Star Rating on Financial Management	2006
Treasury strategic results areas and strategic KPIs	2007
MAMPU's star rating system on public management	2007
National Transformation Programme (NTP)	2009
Outcome Based Budgeting (OBB) System	2013

The LF was then used as a basis for the Results Based Management (RBM) approach, which included strategic planning, implementation, performance monitoring and reporting as well as performance information use for the

improvement of policy making and programs (Thomas, 2007). In the 1990s, the Modified Budgeting System (MBS) which was based on a RBM approach, replaced the PPBS. However, initially the operating and development budgets were not integrated, and linkages between budget performance, resource usage, and policy implementation were limited (Thomas, 2007).

In 1999, an Integrated RBM (IRBM) was introduced which integrated PMC elements such as the Results-Based Budgeting (RBB) system and Personnel Performance System (PPS), and which utilized an Integrated Performance Management Framework (IPMF). The IRBM system required top management within the Ministry and Departments to be actively involved in strategic performance planning, consultation efforts and consensus-building with lower management levels. However, problems still persist in planning, budgeting, monitoring and evaluation. Due to fiscal challenges arising from global uncertainties since the late 1990s, the government decided on a number of strategic reforms to improve program and service delivery. Among the reforms was the focus on outcome in aspects of planning and budgeting.

A notable momentum towards modernisation was achieved during the launch of the National Transformation Policy (NTP) (2011-2020), which adopted the principles of NPM and NPFM and advocated an OBA in public administration. The policy's Government Transformation Programme (GTP) resulted in the introduction of a wide range of initiatives to improve governance and public service quality. Two prevalent NPFM initiatives were introduced under this programme, namely accrual accounting and outcome based budgeting (OBB).

The OBB initiative was aimed at improving public sector governance through changes in not only budgeting processes but also planning, monitoring and

evaluation processes. Among other things, the implementation of OBB required the assessment of programme achievements against goals, and was meant to complement previous PM reformations on programme evaluation (Bianchi & Xavier, 2017). While the proposed changes contained within the NTP did have the potential to improve PMC integration between PMC elements, there have been no publicly available reports that provide an indication that the changes have resulted in the creation of strong and coherent PMC systems. As such, this study will explore how these PMC changes have affected PMC integration.

## **1.2 Research Problem**

Despite the promise of improvements in public sector governance through the OBA initiative, PMC problems continue to persist in the Malaysian public sector. While the concept of PMC integration is not generally discussed when public sector PMC problems are highlighted in government reports and the media, such problems are strong indications that public sector PMC elements may not be strong and coherent<sup>1</sup>. Every year, the Malaysian Auditor-General's Report shows that there are various PMC problems in ministries and agencies within the central government related to planning, budgeting, monitoring and evaluation processes. For instance, the 2018 Auditor-General's Report (series 3) found that the programmes audited were plagued by instances of ineffectiveness and weaknesses, which resulted in some programmes not achieving targeted outcomes and impacts (Nik Anis & Tang, 2020).

In one example, a special programme with a budget of RM258 million aimed at providing skills training to the B40 group (a lower income group) was poorly

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<sup>1</sup> PMC strength and coherence indicates robust and aligned PMC elements that take into account multiple stakeholders; efficiency, effectiveness and equity; balanced outcomes; vertical and horizontal links; learning and adaptability

managed, with the programme being attended by only one third of targeted participants, and only 11 out of 22 training events found suitable for the programme's purpose (The Star, 2020). This example shows that planning processes for the programme were not aligned to budgeting, monitoring and evaluation of outcomes. The huge budget was neither used effectively nor efficiently as the intended training did not meet the objective of improving the skills of the targeted B40 group in a meaningful manner. The reason this happened is not clear but shows that PMC strength and coherence is lacking. In the complex public sector landscape, fragmentation is often an issue which contributes to goal incongruity. Routine, aggregate and formal performance data may lack contextual relevance, making decision-making ineffective and indicator based accountability counterproductive (French et al., 2021).

In addition to these issues, on request from the National Budget Office, a Technical Assistance Report on Malaysia published in 2015 by the International Monetary Fund's Fiscal Affairs Department identified many pressing performance management and accountability issues related to the budgeting system in Malaysia (Curristine et al., 2015). Despite recent progress, underlying practices and decision making processes have not been sufficiently altered (Curristine et al., 2015). The use of performance information (PI) in budgetary decision making has been limited, even after the implementation of OBB (Curristine et al., 2015). Planning and budgeting systems have not changed sufficiently following OBB resulting in minimal improvements on focusing on results (Curristine et al., 2015). However, it is not clear why this has happened.

While studies confirm that there is an undeniable relationship between budgeting and other PMC elements which is decidedly context driven, studies are limited in their



discussion and analysis of how budgeting is integrated into other PMC elements. Studies have demonstrated that budgetary changes affect PMC design and use (Edwards et al., 2005) and negative consequences can arise from incoherencies between budgeting and PM (Bevan & Hood, 2006). This is because inconsistencies between budgeting and other PMC elements leads to the underutilisation of PMC information (ter Bogt, 2008). Furthermore, budgets which are not aligned to other PMC elements undermine the efficiency of spending and ministries' accountability for achieving results.

In addition, limited attention has been paid to how PMC elements interact (Evans & Tucker, 2015; Malmi & Brown, 2008; Van der Kolk & Schokker, 2016). Most studies look at PMC elements independently (Grabner & Moers, 2013). However, complex arrangements are observable in practice as multiple PMC elements are simultaneously applied (Alvesson & Kärreman, 2004). Even so, research on formal and informal controls has not developed much over the years (Alvesson & Sköldbberg, 2017; Merchant & van der Stede, 2017). Most studies in the field of PMC have focused on social controls in terms of formal communication channels. However, social controls do not have to revolve around purpose statements (exp: vision, mission, etc.) but can instead promote inter-organisational collaboration and accountability through shared goals that emphasise social impact (Moynihan & Pandey, 2010; Nielsen & Moynihan, 2016). Social controls can also be used to ensure performance information is prioritised for learning and adaptability (Moynihan & Pandey, 2010). PMC strength and coherence would be fostered if social controls worked with other forms of controls to promote rapid learning and adaptation to counter compositional, experiential, dynamic and governance complexity.

There has been limited attention within the PMC field given to PMC use and its link to PMC integration, particularly in terms of performance information flows, goal congruence and learning (Canonico et al., 2015). Performance information flows are able to foster learning and knowledge creation (both tacit and explicit) through communication processes that facilitate interaction (Canonico et al., 2015). Batac and Carassus (2009) argue that controls are able to create and distribute knowledge, often from different processes of learning. One study showed that when agents were provided with space to interact horizontally and pursue holistic context-driven interactions, there was exchange of information both vertically and horizontally (Nyland et al., 2017). Budgetary objectives were emphasised at the higher levels but lower levels were allowed to diverge and be flexible for adaptation in decision-making (Nyland et al., 2017). However, in Malaysia, there have been problems in aligning programs to outcomes even after the implementation of OBB (Curristine et al., 2015). Thus, studies on PMC in the public sector have to start taking into consideration the effect of PMC use on PMC integration.

### **1.3 Purpose of the Study**

The discussions in the sections above have raised several issues that have been explored in this study. This qualitative case study was conducted to explore how PMC reformations within the central government of Malaysia, particularly budgeting related change, have enabled (or not enabled) PMC integration.

### 1.3.1 *Research Questions*

This study has addressed the following research questions:

- (i) Why and how was change initiated to improve PMC design and use in the central government of Malaysia?
- (ii) How have PMC reformations, particularly budgeting related change, impacted PMC strength and coherence in the central government of Malaysia?
- (iii) What are the enablers of and barriers to PMC integration in the central government of Malaysia?

### 1.3.2 *Scope of the Study*

In the attempt to answer these questions, the interplay between PMC structures and agency has been studied. In particular, this study has focused on how change initiatives during the NTP have impacted structures and active agency related to PMC processes in the central government of Malaysia. The main change initiative examined is the OBB system, which is related not only to budgeting processes but also corresponding planning, monitoring and evaluation processes. Although result, action, personnel and socio-ideological PMC elements were examined, the main focus of the study was on result controls related to planning and cybernetic controls (budgeting, monitoring and evaluation processes).

PMC structures were assumed to be embodied in multi-level social networks and produced through interactions between agents. Agents were examined based on their situated positions within social networks. They were analysed mainly in clusters, categorised as drivers, implementers and associated parties. Agents were situated

within social networks based on their roles in time and space. Thus, some agents were analysed in more than one way if their situated positions varied during the period of change. Agents were sampled from selected ministries and agencies that were impacted by the change initiatives under the NTP or had some level of influence over related PMC processes. Participants also included agents that were previously involved or impacted by the change initiatives but had left their PMC positions during the time of study.

It was beyond the scope of this study to comprehensively examine all agents impacted by the change initiative. Instead, agents were sampled based on the relevancy of their PMC roles to the purpose of the study. Thus, the impact of PMC change on PMC integration was examined through the perspectives of clusters of agents. Perspectives and experiences of agents differ based on roles at different ministry and national levels. Due to the complexity of the central government, the experiences of an individual or cluster of individuals in one ministry, department or unit would not necessarily be the same as others in similar positions.

As such, it is not in the scope of this study to form a judgement on the adequacy or success of the PMC reformations initiated by the NTP at a national level or within a particular ministry or agency. Instead, the scope of this study is to explore the different ways in which position-practices were impacted by the reformations with regards to PMC integration. In line with the SST lens adopted in this study, PMC change is viewed as a continuous process that may or may not result in greater PMC integration depending on active agency at a given point in time and space.

#### **1.4 Significance of the Study**

As MA research has progressed over the years, some say that its relevance has been lost. Despite the development of novel tools and techniques over the years, issues in implementation of MA persist, damaging the relevance of MA research. This study has been carried out in response to the increasing calls for empirical accounting studies to deepen insights into the characteristics and role of accounting. Situated rationalities within institutions often contradict, which can lead to institutional change or resistance, explaining the differences in the ways accounting is implemented (ter Bogt & Scapens, 2019). Thus, it would be fruitful to gain insights into why PMC problems persist in spite of change initiatives, based on the situated rationalities embodied by position-practices.

Despite increasing public sector PM issues in Malaysia, there have been minimal academic studies comprehensively investigating developments in the Malaysian public sector (Siddiquee, 2013). The context of Malaysian governmental reformations as well as implementation processes and impacts are not widely understood as existing studies either provide the histories, descriptions or intended benefits of reformations (Siddiquee, 2013). Moreover, public sector accounting research from emerging economies represent only a small part of related global research (Broadbent & Guthrie, 2008; Goddard & Mkasiwa, 2016).

Although research on NPM related initiatives has been increasing, studies mainly evaluate the technical aspects of implemented programmes (Becker et al., 2014). Questions remain about why and how problems persist and about the impact of initiatives on PMC. Even though performance budgeting initiatives seldom lead to promised improvements (Sterck & Scheers, 2006; van Dooren et al., 2015),

performance budgeting research have focused on structural changes rather than functional changes (Van Dooren et al., 2015). In addition, inter-organisational relationships have largely been neglected in budgeting studies (Ditillo et al., 2015) and most studies only concentrate on financial, technical and institutional aspects of budgeting (van Der Hoek, 2005).

OBA related accountability can be counterproductive as principals have inadequate information to design effective PMC systems while agents lack the autonomy to adapt in complex environments (French et al., 2021). Due to dynamic interactions of multiple and diverse units in the public sector, accountability for outcomes cannot fall directly on agents because individual contributions are often not the only cause for outcomes (French et al., 2021). In Malaysia, establishing clear accountability for outcomes (particularly for programs) and managing shared (cross-cutting) outcomes is challenging in the public sector (Curristine et al., 2015).

From a practical aspect, this study attempts to address the issue of fragmentation and goal incongruity by studying performance information flows that occur due to the interplay of PMC elements. Strategic decisions are often made by politicians and high ranking administrators who may be unaware of underlying issues within PMC structures (French et al., 2021). Information flows between PMC elements determine how performance information is made available and used. Performance information flows and goal congruity are key aspects of PMC strength and coherence. Considering these factors, it is important to understand the way PMC change has impacted how performance information flows lead to learning and engagement with complexity (Lowe & French, 2018; Lowe et al., 2020).

This study also seeks to address the issue of ineffective decision-making by studying the strength and coherence of PMCs. In complex environments, shared stewardship

for outcomes and change momentum can be fostered through leadership that promotes integration and transformation (French et al., 2021). Considering the context-dependent nature of performance information, decision-making autonomy amongst lower level agents can lead to a culture of trust, failure tolerance, capacity building, learning and adaptation (Bourne et al., 2018; French et al., 2021), especially because intrinsic motivation and adaptive capacity influence performance more than external incentives (French et al., 2021). Thus, it is important to understand how the strength and coherence of PMC is fostered (or can be fostered) through social controls for learning and adaptation.

## **1.5 Structure of the Thesis**

This thesis is structured into two main sections. The first part of this thesis provides the main justifications for the research objective and design. It has four chapters and starts with this chapter, which has introduced the research by first describing the context and problem that motivated the study. This chapter then described the purpose and significance of the study. The next chapter presents a review of relevant literature in the field of PMC, particularly in the context of the public sector. The literature review begins with how PMC has been conceptualised and then proceeds to describe how PMC research has moved towards a more holistic approach. The second chapter ends with some reflections on the gaps in literature within these areas. The third chapter describes the theoretical lens used for the study as well as the conceptual framework developed and used for data analysis that was theorised by analysing literature, theory and collected data in a reiterative process. The fourth chapter provides a report on the research design and analysis.

The second part of this thesis presents the findings and main outcomes of the research conducted. This part of this thesis has three chapters. The fifth chapter presents the findings of the research by describing why PMC reformations began, how the PMC change initiatives took place and how PMC change impacted PMC integration. The fourth chapter provides an analysis of the findings by answering the three main research questions of the study and then presents a meso level PMC integration framework that may serve as a guide for public sector researchers and practitioners in Malaysia. The last chapter of the thesis describes the contributions of the study to academia in the PMC field and implications of the findings for public sector practice. The chapter and thesis ends with the study's limitations and some future research avenues for those interested in exploring this area further.



## **CHAPTER 2 LITERATURE REVIEW**

This chapter provides a review of literature mainly in the field of performance management control (PMC). The review begins with a broad overview of PMC and ends with a narrow focus on the overlap between PMC change and integration. The inclusion of articles in this review is based on the relevancy of empirical findings and historical analyses to the focus of this study, and their contribution, theoretically and empirically, to the central themes of PMC design, use and integration in the context of the public sector. The review is categorised into four subsections based on the main research focus areas. Subsections begin with brief introductions to research within the focus areas, and then proceed to review research trends and important studies, and finally discuss the contribution of studies to the body of literature as well as relevant research issues or aspects that have not received much attention. Studies were reviewed to substantiate the conceptualisation of PMC; trace development in the field of PMC and emphasise issues related to performance budgeting (PB); analyse the main features of PMC integration; and discuss the way PMC change has been studied. This broad approach provided the groundwork needed to identify the way public sector studies overlap in the focus areas of PMC change and integration.

### **2.1 Performance Management Control (PMC)**

In order to study PMC change and integration, it is important to first understand how PMC and its related areas have been conceptualised and researched over the years. Chenhall (2003) found interchangeable use of the terms management accounting (MA), MA systems, management control systems (MCS) and organisational control in literature. In recent years, there has also been interchangeable use of the terms

management control (MC), performance management (PM) and performance measurement (see for example: (Cäker et al., 2021; Johanson et al., 2019; Nielsen et al., 2018). Although these concepts overlap considerably, they can be distinguished from one another by their definitions.

MA can be understood as a collection of specific management oriented accounting practices (exp: budgeting, costing) and MA systems are the use of these practices in a systematic manner for a particular purpose (Chenhall, 2003). The term MCS is inclusive of traditional MA systems and practices but covers other controls not conventionally included in MA such as personnel control (Chenhall, 2003). Yet during the onset of MC as a field, Anthony (1965) positioned MC as being outside the realm of strategic planning and operational control, resulting in research that did not link these three main realms of control (Ferreira & Otley, 2009). Anthony's restrictive view of MC failed to capture the complexities of controls in their wider context and encouraged focus on mainly formal controls (Ferreira & Otley, 2009).

Nevertheless, this view has changed and MC now encompasses a much wider range of controls (Chenhall, 2003). Following the expansion of the range of controls attributed to the term MC, there have been recent calls to embrace a holistic approach to controls (Berry et al., 2009; Evans & Tucker, 2015; Merchant & Otley, 2006; Otley, 2003). Due to this development, there has been a change in the way MC has been expressed in recent years, which is reflected in terminology changes (Otley, 2003). Otley (1999) argued that MA and control system use can be more productively understood within a PM framework with integrative qualities that are both academic and practical.

Ferreira and Otley (2009, p. 264), in their attempt to conceptualise PM based on the holistic approach espoused by earlier authors, defined PM as the “evolving formal

and informal mechanisms, processes, systems, and networks used by organizations for conveying the key objectives and goals elicited by management, for assisting the strategic process and ongoing management through analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change”. Therefore, PM involves “defining, controlling and managing both the achievement of outcomes or ends as well as the means used” to achieve them (Broadbent & Laughlin, 2009).

Even though the domains of MC and PM overlap, the latter has broader implications. Likewise, even though PM has been used interchangeably with performance measurement, PM has wider connotations as it not only paves the way for performance measurement but also comes after it (Lebas, 1995). In other words, the context for measurement is created through PM in a continuous loop (Lebas, 1995), whereby performance measurement can only indicate the ‘what’ but not the ‘why’ or the ‘what next’ (Amaratunga & Baldry, 2002). For that reason, Amaratunga and Baldry (2002) advocate transitioning from performance measurement to PM to effectively use measurement outcomes.

While the term PM has been embraced recently to represent a holistic approach to MC, PM within the field of MC has often been confused with PM within the field of human resource management. Hence, to avoid confusion and move towards an integrated PM concept, the term PMC will be used in this study to capture all aspects of MC and PM, in accordance with Ferreira and Otley’s (2009) definition of PM, which this study adopts due to its holistic conceptualisation of PM.

### 2.1.1 *Control Categorisations*

Control was initially recognised as a management function in the early 1900s, being separated from other management functions such as planning, organising and coordinating (Merchant & Otley, 2006). As the range of controls expanded through the decades, other management functions previously not considered as controls were included within the realm of controls, thereby increasing the number of categorisations for individual controls. There are now a variety of controls studied in the field of PMC. However, these categorisations of controls overlap to some degree. The commonly studied controls include, among others, budget controls (Rockness & Shields, 1984); results, action, personnel and social controls (Merchant, 1984); clan controls (Govindarajan & Fisher, 1990); diagnostic, interactive, boundary and beliefs controls (Simons, 1995); administrative and bureaucratic controls (Konrad, 2018). Many early studies focused on these individual controls. The wide variety of control categorisations have created certain issues that will be discussed below.

### 2.1.2 *Fragmentation Issues*

PMC researchers have studied various issues in different settings and levels of analysis over the years (Merchant & Otley, 2006). However, Otley (1999) advocated the expansion of the study of PMC beyond individual tools in restricted contexts. Conceptualisations of PMC that focus on narrow formal elements, without capturing wider aspects, fail in capturing the full spectrum of PMC dynamics (Ferreira & Otley, 2009). Otley (1980) highlighted the fact that individual control elements do not operate in isolation and should therefore be studied as part of wider

organisational controls. Concentrating on one PMC tool is said to marginalise broader controls and reduce the relevance of alternative forms of control (Malmi & Brown, 2008).

Managers from different hierarchical levels impose controls on employees but might not know how other controls are used to align behaviour (Van der Kolk & Schokker, 2016). Thus, there is likely to be significant risks associated with neglecting alternative control elements in research (Chenhall, 2003). To address these concerns, control categorisations can be grouped based on their relations to different aspects of PMC (Chenhall, 2003). One general way of classification involves differentiating controls as ranging from formal to informal (Konrad, 2018) or mechanistic to organic (Chenhall, 2003). Mechanistic controls are more formal and standardized while organic controls are more informal, responsive and flexible (Chenhall, 2003).

Evans and Tucker (2015) state that failing to consider both formal and informal controls will result in difficulty to integrate and assimilate findings as well as impede the advancing, refuting, complementing or extending of theory (Evans & Tucker, 2015). Broad PMC elements have started to be examined by researchers, who go beyond formal PMC elements (Chenhall & Moers, 2015) to include informal PMC elements that are based on social interaction (Akroyd et al., 2016; Akroyd & Kober, 2020; Pan Fagerlin & Löfstål, 2020).

## **2.2 Performance Budgeting**

Budgeting has been traditionally grouped under the heading of cybernetics control and is commonly used for governing in the public sector. In recent decades, new

concepts have been embraced in the public sector, especially those from the private sector (Moynihan, 2008). Concepts such as strategic management, performance budgeting and managing for results share a common logic that performance information should be produced and used for decision making (Moynihan, 2008). New budgeting techniques were hoped to encourage new ways of looking at costs. In addition, budgeting reforms were embraced as it was thought that greater freedom in decision making would lead to better performance (Kettl, 2015; Osborne & Gaebler, 1993). These reforms were hoped to improve the efficiency of resource allocation through flexibility.

Performance budgeting in particular was meant to allow for increased flexibility to improve managers' performance by reducing the focus on inputs and holding managers accountable for their results (Sterck & Scheers, 2006). The introduction of the Planning Programming Budgeting Systems (PPBS) during the 1960s caused performance budgeting to gain prominence. Budgeting systems began to be connected to not only inputs but also performance through the inclusion of outputs and outcomes within budgets (van Dooren et al., 2015). Thus, governments began comparing expenditure of programmes to their benefits. Later on, PPBS inspired subsequent initiatives such as Zero-Based Budgeting (ZBB) (van Dooren et al., 2015).

### ***2.2.1 Performance Budgeting in the Public Sector***

The term performance budgeting includes those related to outcome and results based budgeting (Mauro et al., 2017). Countries around the world have implemented some form of performance budgeting (PB) for the purpose of improving public spending

and budgetary allocations decisions (Cuganesan, 2017). PB has been linked to various benefits (Amirkhani et al., 2019) including improvements in program results; decisions making and coordination (Avwokeni, 2016); efficiency, effectiveness, accountability and transparency (Clark et al., 2018); flexibility and motivation (Helmuth, 2010).

However, studies have shown that the implementation of PB has not been widely successful (Bleyen et al., 2017). Decision makers find it difficult to obtain information that is timely, credible and relevant, especially in the early years of implementation (Jackson 2011). The design of PBs has been more widely researched compared to the use of PBs, particularly for planning and monitoring (ter Bogt, van Helden, & van der Kolk 2015; Tat-Kei Ho, 2015; Grossi, Reichard, & Ruggiero 2016; Bleyen et al., 2017).

### ***2.2.2 Performance Budgeting and PMC***

Frimpong (2013) suggests that budgeting and related controls are vital aspects of organisations. Studies on PB examine implementation processes and design in a broad manner (Bleyen et al., 2017). Unfortunately, the role of performance budgeting in meeting public sector goals has not often been studied in a detailed way (Curristine 2005; Conings, Bleyen et al., 2017). Anessi-Pessina et al. (2016) reviewed studies on public budgeting and found that studies rarely included the multiple functions of budgeting (Mauro et al., 2017). As such, there have been increased calls for greater focus on the way PB is related to different functions within the budget cycle (Joyce 2011; Mauro et al., 2017).

These functions include planning and other control functions which correspond to the different phases of the budget cycle (Mauro et al., 2017). PB is the foundation of performance and associated planning, costing and evaluation processes. As controls are interdependent, a change in one control has an effect on another (Toumela, 2005) and control systems depend on the quality of controls within the system (Willert, 2016). For example, when budgets do not adequately account for performance information and targets, the implementation of strategy is weakened.

According to Drury (2001), planning is central to budgeting and is essentially a planning aid. Organisations can decide and allocate resources for actions through budgets. Budgeting is involved in the translation of long-term plans into short-term action plans, whereby “what-if” analyses can be used to choose among different alternatives. Given a set of forecasts, budgets are able to facilitate the determination and optimisation of action plans. When planning and budgeting process are integrated, there is improved allocation of resources based on strategies and priorities. Integration also leads to better awareness of how micro level programmes and budgets address wider accountabilities (Larry, 2009).

Another advantage of using budgetary control is the ability to detect deviation from plans and take corrective action (Venkatasivakumar, 2009). Once implemented, monitoring of budgets is needed to ensure effectiveness (Horngren et al., 1997). In relation to this, top management have to be actively involved in monitoring and evaluation processes (Hancock, 2009). Evaluations involve assessments of the design, implementation and outcomes of programmes or policies. Through evaluation processes, the efficiency, effectiveness, impact and sustainability of programmes and policies can be determined. Evaluations are able to incorporate learning processes to guide future decision making with regard to PMC.



However, the focus of PB initiatives has been mainly on changes to the budget structure, and has not successfully altered budget functions (Van Dooren et al., 2015). A comparative study of several countries by Sterck (2007) found that expected benefits of PB were rarely achieved. Parliaments have struggled with output and outcome information (Van Dooren et al., 2015). In addition, although budgeting is vital in the distribution of resources, accountability and responsibilities among networks of social actors (Sicilia & Steccolini, 2017), this role has not been widely studied (Ditillo et al., 2015; Kurunmäki & Miller, 2011).

Several studies have identified the different ways in which changes to budgeting systems can impact PM. The impact of budgetary allocations on PM is investigated by both Bevan and Hood (2006) and van der Kolk, ter Bogt, and van Veen-Dirks (2015). Bevan and Hood (2006) study the linking of performance targets to budgetary allocations, focusing specifically on the problem of gaming in public health organisations. Reductions to budgetary allocations and corresponding management control use are investigated by van der Kolk, ter Bogt, and van Veen-Dirks (2015). The impact of new budgeting approaches on performance management are studied by ter Bogt (2008) and Liguori and Steccolini (2011). While ter Bogt (2008) examines the effects of NPM type budgeting on decision making and control, the outcome and pace of accounting change is distinguished by Liguori and Steccolini (2011) through the understanding of the interplay between budgeting, power and performance management.

The link between budgeting and PM has been showed in a number of studies. Edwards, Ezzamel, and Robson (2005) demonstrate how changes in budgetary processes and structures affect performance management use and design. By extending structuration theory to budgeting, Seal and Ball (2011) show how power