



**ACCOUNTABILITY AND LEVERS OF
MANAGEMENT CONTROL IN LOCAL
GOVERNMENT DEPARTMENTS IN MALAYSIA:
A PATH ANALYTIC STUDY WITHIN A
CONTINGENCY FRAMEWORK**

BY

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ABSTRACT (ENGLISH)

This study seeks to contribute to the development of knowledge about factors that influence accountability at subunit levels in the local government of Malaysia. Further, this study examines the possibility of significant contingency model paths relationships to provide insights about the ‘fits’ between sets of contingency, control systems and accountability outcomes variables in LAs in Malaysia. This study looks into the public sector control systems that allow managers to manage while holding them accountable for results. There are relatively few research studies that analyze the contingency approach to MCS design in public sector, particularly, the local government, and the mediating effect of levers of MCS on the relationship between the contextual variables and the rendering of the respective dimensions of accountability. The same can be observed about discussions on the relationship between psychological empowerment, task difficulty, situational constraint and levers of control and accountability. Based on the contingency theory modelling, this study proposes a framework that explicates the link between the relevant contextual variables; psychological empowerment, task difficulty, situational constraint, levers of MCS and the dimensions of accountability.

This study was conducted on all three types of local authorities in Peninsula Malaysia, namely the city council, municipal council and district council. Primary data was collected through questionnaire survey on a sample of 665 head of departments and supervisory subordinates of local authorities departments comprising mainly those providing direct services to the public.

The results of the tests on the hypotheses can be summarized as follows: Firstly, using cluster analysis, results identified three dimensions of accountability to exist in the Malaysian local authorities. Managerial/public, fiduciary and political accountability classify the disposition of Malaysian LA departmental managers’ discharge of accountability; Secondly, the path analysis results indicated that (1) psychological empowerment has significant direct effects on the respective dimensions of accountability; (2) task difficulty has significant inverse direct effect on the respective dimensions of accountability. On the contrary, there is no significant inverse direct relationships between situational constraint and accountability; (3) levers of MCS has significant direct influence on the respective dimensions of accountability; (4) the levers of MCS have full mediating function on the relationship between psychological empowerment and task difficulty and dimensions of accountability. In conclusion psychological empowerment and the extent of task difficulty faced by departmental heads and subordinates influence the rendering of respective types of accountability by those departments but not situational constraint. The four levers of control enhanced the multifarious types of accountability. Furthermore, the levers of MCS mediate the relationships between psychological empowerment and task difficulty and accountability of departmental managers in local authorities in Peninsula Malaysia. Finally, the study suggests directions for future research.

ملخص البحث

تهدف هذه الدراسة للمساهمة في التطور المعرفي بشأن طبيعة المسؤولية والعوامل المؤثرة على طريقة المسؤولية، كما شوهدت في أجزاء من وحدات سلطات الحكومات المحلية في ماليزيا. ومن ثم تمتحن هذه الدراسة إمكانية مهمة الإطار الاحتمالي حول الروابط التي تعدّ التبصر في التوافق بين بعض الإطارات الاحتمالية، ونظم التحكم، وأبعاد المسؤولية والمتغيرات في الإدارة المحلية شيئاً مهماً بماليزيا. وتهتم الدراسة بالنظر إلى نظم التحكم في القطاع العام مما يسمح للمدير التدبير والتحكم في العمل، وفي نفس الوقت يكون مسؤولاً عن نتائجه. هناك حلّلت بعض الدراسات السابقة نسبياً، أن طريقة الإطار الاحتمالي في نظم التحكم الإداري، مخططة في القطاع العام خصوصاً على السلطات المحلية، والتأثير المتوسط لنظام التحكم في الإدارة في الروابط بين المتغيرات القرينية، وأداء المسؤولية بأبعادها الخصوصية. ويلاحظ في نفس الأمر أهمية المناقشة في الروابط بين التفويض النفسي، وصعوبات المهمة والتقييدات الوضعية ورافعات نظم التحكم والمسؤولية. وانطلاقاً من نظرية الاحتمالات أو المصادفات، تقترح هذه الدراسة إطاراً يوضح الروابط بين المتغيرات القرينية المناسبة والتفويض النفسي وصعوبات المهمة والتقييدات الوضعية ونظم التحكم وأبعاد المسؤولية.

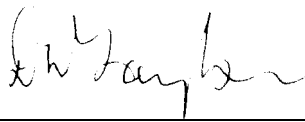
أجريت هذه الدراسة على أوساط كل مكونات السلطات المحلية الثلاثة في غرب ماليزيا، والمتمثلة في مجلس المدينة، المجلس البلدي، ومجلس المقاطعة. تم جمع البيانات الأولية عن طريق الاستبيان قد وزّع على عينة تتكون من 665 من رؤساء الأقسام، ومشرفين مساعدين في أقسام السلطات المحلية، والتي تتكون عادة من الأقسام التي تُقدم خدمات مباشرة للجمهور.

وتم تلخيص النتائج المتحصل عليها على النحو التالي: أولاً، عند استعمال التحليل العنقودي، تم تعريف ثلاثة أبعاد للمسؤولية في أقسام السلطات المحلية. هذه الأبعاد الثلاثة هي المسؤولية الإدارية العامة، المسؤولية الإنمائية، والمسؤولية السياسية التي تُقسم إلى واحدة من ثلاثة أصناف من المسؤولية، والمأخوذة من السلطة العامة لمديري الأقسام نحو المسؤولية التوجيهية المحددة لأقسامهم. وثانياً، نتائج التحليل المجازي أوضحت: (1) أن التفويض النفسي له تأثير إيجابي ذو معنى في كل أبعاد المسؤولية، (2) والمهمة الصعبة لها تأثير مباشر وعكسي ذو مغزى في كل بُعد من أبعاد المسؤولية. وفي المقابل، ليس هناك علاقات مباشرة بين التقييدات الوضعية وأبعاد المسؤولية، (3) ونظم التحكم في الإدارة لها تأثيرات إيجابية ومباشرة، وذات معنى على كل أبعاد المسؤولية، (4) فكل النظم الأربعة للتحكم في الإدارة لها تأثير متوسط وكامل في سبيل علاقتهم بين كل من التفويض النفسي وصعوبة المهمة وأبعاد المسؤولية. والاستنتاج هو، عندما يواجه رؤساء الأقسام، ومشرفين مساعدين فيها على التفويض النفسي وصعوبة المهمة الممتدة، فإن ذلك يؤثر في أداء كل نوع خاص للمسؤولية لأقسام السلطات، ولكن لا يحدث ذلك في التقييدات الوضعية. وكذلك يزيد كل النظم الأربعة للتحكم في الإدارة المسؤولية المتعددة الأنواع في طبيعتها. وإلى هذا، فإن نظم التحكم في الإدارة تتوسط العلاقات بين التفويض النفسي، وصعوبة المهمة والمسؤولية على مديري الأقسام في السلطات المحلية في غرب ماليزيا. وأخيراً، يُقترح أن يُوسع هذا البحث في المستقبل بكتابة أبحاث أخرى عن هذا الموضوع المهم.

APPROVAL PAGE

The thesis of Rohana binti Othman has been examined and is approved by the following;

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DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

Rohana binti Othman

Signature: _____

Date: _____

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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LISTS OF ABBREVIATIONS

BLIF	Beliefs Control Systems
BOUND	Boundary Control Systems
CEO	Chief Executive Officer
DCS	Diagnostic Control Systems
EMPOW	Psychological Empowerment
FIDUC	Fiduciary Accountability
HOD	Head of Departments
ICS	Interactive Control Systems
ISO	International Organization of Standardization
LAs	Local Authorities
LG	Local Government
MCSs	Management Control Systems
MGLPUB	Managerial/Public Accountability
MHLG	Ministry of Housing and Local Government
NPM	New Public Management
NCLG	National Council of Local Government
OECD	Organization for Economic Co-operation and Development
POLITIC	Political Accountability
SCONST	Situational Constraints
SS	Supervisory Subordinates
TSKDIF	Task Difficulty
UK	United Kingdom
US	United States

CHAPTER 1

INTRODUCTION

1.1 PREAMBLE

Public awareness of public sector reforms in Western countries has grown in Malaysia over the past two decades. There exists a large body of knowledge about the ‘new public administration’ reforms in the United Kingdom (UK), the United States (US), Australia and New Zealand aimed at achieving more efficient and effective utilization of public resources (e.g., Gray and Jenkins, 1993; Hopwood, 1984, Cochrane, 1993; Glynn and Murphy, 1996). This body of knowledge has debated and investigated aspects of theory and practice aimed at improving public sector service delivery through increased operational efficiency and effectiveness and enhanced accountability. The promotion of new models of administrative reforms promises to provide heightened accountability through managerial control (Sinclair, 1995).

The international emergence of the ‘New Public Management’ (NPM) and ‘managerialism’ movement have focused on outputs (efficiency) and outcomes (effectiveness) of performance and accountability (Pollitt, 1993; Kloot, 1999; Brignall and Modell, 2000). Anthony and Young (1984) suggest the use of effectiveness and efficiency to judge the performance of any organization. Performance is viewed as the means of rendering accountability (Kluvers, 2001). There has now emerged a paradigm shift bringing about significant organizational changes in the local government sector as a consequence. This shift has involved the introduction of a private sector management model, discarding bureaucracy as well as ensuring organizational and managerial accountability (Pollit, 1990; Kloot, 1999). Further

explanation on the public sector reform movement in Western countries is in Chapter 4.

Several factors have inhibited the spread of public sector reforms, and particularly the broadening of accountability requirements and practices, to the public sector in Asian countries (Sirajuddin and Aslam, 1995). A lack of accountability becomes evident when there are weak controls over public servants engaging in various practices which are against the public interest. Breakdowns in moral values and the greedy pursuit of personal gains encourage bribery, corruption, nepotism and other negative aspects of public administration. Such practices can become rampant when there is a decline in moral values and ineffective management control systems. It is increasingly difficult to enforce accountability in an environment where bribery, maladministration and nepotism are considered an acceptable practice. Public servants become vulnerable to various administrative malpractices for which they need to be held accountable. Unless they are held accountable, these malpractices tend to multiply and the public do not receive the services they need or deserve. As suggested by Sinclair (1995), accountability is not independent of the person occupying a position of responsibility, nor of the context. She has stressed that efforts to enhance and promote accountability should develop from personal experience. She also argues that the definition of accountability should focus on the way it is internalized and experienced, in addition to the strengthening of Management Control Systems (MCS) in public sector entities.

Public sector accounting research does suggest that both accountability and management control systems (MCS) in public sector entities are multi-dimensional in nature (Sinclair, 1995; Kloot and Martin, 2001; Norman, 2001; Cunningham and Harris, 2001). Although the literature on accountability in the public sector is

extreme, the literature on MCSs has been related predominantly to the private sector. Very few studies have been undertaken to investigate the role of MCSs in the public sector entities, particularly their relationship to accountability outcomes. Yet the design of an MCS, in its multiple dimensions, is likely to play a critical role in mediating the impacts of cognitive and contingency factors on the public sector manager's discharge of multiple dimensions of accountability.

Turning to research on accountability in the public sector, it is much more prevalent. The past two decades is marked by proposals for change in the focus of accountability to meet demands for reforms to the roles of public sector agencies. The concern about, and study of, accountability in the public sector have belatedly been extended to local authorities (LAs). In relation to local government accountability, demand for greater disclosure by LAs to the local community and concerns for the right of redress for aggrieved ratepayers are all part of a movement towards re-defining the notion of discharging accountability.

The growing complexity of local government has made it more difficult to identify who is to be held accountable. The most basic form of accountability is consistent with the hierarchical Westminster system of government whereby the chief executive officer (CEO) of a government-funded agency or department is accountable to the ministers who in turn are accountable to the parliament. The parliament is then accountable to the people. In this hierarchical sense, the view of accountability by bureaucrats working in public sector entities is for subordinates to be accountable only to their superiors and not necessarily accountable to the politician or public. However, an argument can be raised as to the effectiveness of this simple doctrine of discharging accountability when addressing service users' or the public's satisfaction on matters that directly affect them. Such direct servicing of the public occurs most

frequently at the local government level. For LAs, the source of service user or public dissatisfaction would be most visible at the middle management or operation area where direct contact emanates. However, the traditional hierarchical perspective of accountability has prevailed in LAs in Malaysia. Within the organizational structure of LAs, operating managers within departments tend to be more focused on their accountability to their immediate superior than to the public they deal with. This approach is reinforced by international authority such as Parker and Gould (1999), who state that ‘those accountable (the accountees) are in some sense subordinate to those who oversee their activities (the accountors).’

LAs face the challenge of meeting the rising expectations of a demanding public. They have to cope with demands for better services from the public who are more conscious of its rights and more critical of the LAs’ services. Communities in local municipalities make demands about the availability, quantity, frequency, accessibility and quality of services provided by LAs. Expectations of the local ratepayers and service users have been poorly met and, in many instances, dissatisfaction has grown over the accountability of particular departments in LAs. Hence, the dissatisfaction towards services received has led to demands for greater accountability.

Anecdotal evidence in the popular local media in Malaysia do suggest that LAs have performed poorly in providing services due to economic difficulty and restraints on their resources. This has resulted in allegations of high inefficiency in terms of the speed, cost and quality of service delivery (Chandrasekaran, 2003). It is common to observe an implicit tension between resource constraints and the continuing demand for public services. However, the issue of how LAs make use of public resources is regularly raised in the Malaysian local press (The Star Online 11 June 2003). The

media has played a pivotal role in disclosing the inadequacy and in competency of LAs in handling public funds. Criticisms about fastidious and conservative procedures and bureaucracy and inefficiency as well as corruption have been openly disclosed (Ling, 2003; The Star Online 13 June 2003; Jong, 2003; The Star Online 23 June 2003; McIntyre, 2003; Muthiah, 2003). As a result, these LAs have to restore their credibility, and the confidence of the local people they are serving, since they are the nearest governmental bodies to local communities. Accordingly, it is apparent that in the climate in which LAs in Malaysia are perceived to be operating, the concept of accountability takes on a fundamental importance. Accountability by LAs is not only a matter of importance to local ratepayers but also to the federal and state governments that have oversight roles in making LAs accountable to them and to the public.

Another question raised in the local media is whether LAs are burdened by too few human resources to deliver too wide a scope of duties. The result could be that officers in the LAs are turning a blind eye to public complaints, or even allowing corrupt practices to creep in. It is apparent that some important LA departments are working with insufficient staff while some non-critical departments are overstaffed. LAs in Malaysia have always been entangled with problems of acute shortage of manpower (Malek Shah, 1994:319). Despite an on-going concern about staffing shortages in the Malaysian LAs, there is an issue that LA officials must see themselves as managers, be equipped with the necessary managerial skills and operate in an organizational framework that supports and requires their managerial skills.

Despite the size and importance of the public sector, a review of MCS literature has revealed a lack of systematic research on MCSs and their effectiveness in public sector organizations (Shield, 1997; Sharma, 2002; Chenhall, 2003). Rather,

the focus of MCS-related research beyond the private sector has focused on not-for-profit organizations (Covalski and Dirsmith, 1983; Coombs, 1987; Rayburn and Rayburn, 1991; Abernethy and Stoelwinder, 1991). These studies have indicated that the traditional roles of an MCS expounded for manufacturing organizations require a re-orientation if MCSs are to effectively serve the needs of not-for-profit organizations. This re-orientation stems from differences in the nature of operations, the organizational context and the performance targets of manufacturing enterprises compared with not-for-profit organizations.

According to Sharma (2002), in advancing our knowledge and understanding of contingency modelling and when certain contingency relationships may hold, industry type should not be a limiting factor. Accepting this point, this study will extend contingency modelling research on relationships between cognitive and contingency variables, control systems and accountability outcomes to the public sector area of LAs.

Given the importance of local government in providing services to localities, it was somewhat surprising that a comprehensive review of the management accounting and public sector literature has not revealed any empirical studies examining MCSs or the effect of personal and contextual variables on MCSs in public sector agencies. Nor have prior studies been found addressing the relationship between MCSs and accountability outcomes in public sector agencies.

1.2 PROBLEM STATEMENT

As mentioned in the previous section, both accountability and MCSs are expected to display multidimensional characteristics in LAs. However, prior research on

accountability and MCSs in local government especially in Malaysia is still very much underdeveloped.

The first research problem of this study, in its setting of departments of LA's that deal directly with local service users in Malaysia, is that accountability becomes a more sensitive matter than would be the case in many other types of organizations. Senior departmental managers in LAs will be at the forefront of demands from service users and will also be answerable to potentially more political and administrative tiers in the hierarchies of local, state and federal governments. Therefore, a way of providing a better understanding of the dimensions of accountability that apply to Malaysian LAs is needed. Empirical research on accountability in Malaysian LAs is currently minimal.

The second research problem is that contingency theory modelling of workplace factors that impact on accountability has not been extended to LAs. Yet departmental managers of LAs in Malaysia are likely to face considerable situational constraints in their work setting arising from inadequate funding, lack of skilled employees, time pressure and political interference. They are also likely to face high task difficulty due to the complexities of managing various types of service users and resource providers. The extension of contingency modelling research into this new setting has not previously been justified and tested by prior researchers. Basically, the general contingency theory argument is that superior organizational performance is a result of the appropriate match or best fit between organizational control subsystems design and a particular set of contextual variables (Burns and Stalker, 1961; Thompson, 1967; Lawrence and Lorsch, 1967; Miller and Friesen, 1983). Hence, the application of a contingency framework in the public sector is expected to identify the