

School of Accounting

**Accountability and Performance Measurement in
Australian and Malaysian Government Departments**

Maria Anna Mucciarone

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Declaration

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

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ABSTRACT

During the late 1980s, government agencies in many countries commenced the implementation of public sector management reforms in an effort to improve their efficiency and effectiveness. Many of these reforms arose as a result of demands placed on governments for improved use of public funds. These reforms, which have been wide ranging, have involved important improvements in the methods in which public sector agencies collect and report information related to accountability, particularly in the area of performance measurement.

This study seeks to add to the literature on public sector accountability and performance measurement by undertaking a comparative cross-country study involving Australia and Malaysia, a developed and a developing country. Each of these countries have adopted, in varying degrees, reforms to their public sector reporting mechanisms as a result of major demands for changes to public sector funding, accountability and reporting methods. Within the study, a multiple theory approach is undertaken which uses aspects of both agency theory and institutional theory to provide a more informed understanding of the impact specific influential parties have on the level of disclosure and dissemination of accountability related information.

This study examines the impact of agency and institutional related variables on the extent and frequency of the disclosure and dissemination of performance measurement information by Australian and Malaysian government departments. The major sources of data for this study comprise firstly, an analysis of the 2003/2004 annual reports of Australian and Malaysian government departments, secondly semi-structured interviews with senior finance officers of selected government departments and thirdly, a questionnaire survey forwarded to senior finance officers of all government departments in Australia and Malaysia.

The findings of the content analysis and interviews concerning performance indicator disclosure by Australian Federal government departments show that cost and effectiveness performance indicators are the most disclosed indicator. For Malaysian Federal government departments, results and quantity performance indicators are the most disclosed indicators. For Australia, performance dissemination happens most often on a monthly basis whilst for Malaysia this occurs more regularly on an annual basis. In relation to performance indicator dissemination, Australian government departments are making increased use of the web to disseminate performance indicators whilst the main method of dissemination for Malaysia is their availability upon request.

The major questionnaire was prepared using the annual report content analysis and interviews as a base and it was sent to the senior financier officers of all Australian and Malaysian Government Departments. The questionnaire resulted in a 37.1% response rate for Australia and a 21.7% response rate for Malaysian departments. The questionnaire was used as the base to test the influence of agency theory-related variables and institutional theory-related variables and culture on performance indicator disclosure and dissemination.

The results of the agency theory-related variables rejected the hypothesised influence of oversight bodies on performance indicator disclosure and dissemination for both Australian and Malaysian government departments. The relevant size of government departments was also rejected as being an influence on the frequency of performance indicator disclosure by both countries. However, for Australian government departments, a significant influence for frequency of size of government departments of performance indicator dissemination was found to exist. The citizenry was found to have no significant influence on performance indicator disclosure by both countries. However, in the case of Malaysia, the citizenry were found to have an influence on the level of performance indicator dissemination. The results of the institutional theory-related variables provided evidence that none of the variables have an influence on the frequency of performance indicator disclosure and dissemination in both countries. Finally, the results for culture showed there is a level of influence of culture on the

frequency of performance indicator disclosure and dissemination.

Overall the results of this study indicate both some differences and similarities between Australia and Malaysia government departments in the disclosure and dissemination of performance indicators. There is evidence in this study to indicate that in Australia, both efficiency and effectiveness performance indicators are being disclosed more often in the annual reports of government departments. However, the results for Malaysia show a considerably lower level of disclosure of efficiency and effectiveness performance indicators in government departments' annual reports than in Australia.

Therefore the contrasts between the mail survey results and interview results provide for some future research that could expand the interview survey to include a larger sample to see if the SFOs perceptions are the same or different in regards to performance indicator disclosure and dissemination.

The dual paradigm (agency and institutional) modeling of the determinants of performance indicator disclosure and dissemination have provided important findings from the perspectives of both the variables and the countries on which this study was based. The important findings of this study are that accountability and managerialism have had differing emphases in Australia as compared to Malaysia, and that there are varying levels of disclosure, dissemination and use of performance measurement information between both individual government departments and the countries in which they reside.

A range of future research possibilities are generated by this study. These possibilities range from extending the context of the hypotheses to encompass other government entities, other countries and other forms of performance measurement.

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CHAPTER ONE INTRODUCTION

1.1 THE PREAMBLE

During the past 2 decades performance management and performance evaluation within both the public and private sectors has gained an increased focus from both preparers and stakeholders. This focus has seen the adoption of increased levels of performance management and this in turn has led to greater disclosure and dissemination of performance measures in Annual Reports. Increased disclosure of performance indicators such as those related to efficiency and effectiveness which has taken place during this period. In the public sector, many governments now require full disclosure of performance indicators by their various agencies as a measurement of efficiency and effectiveness against pre determined performance standards.

During this time, governments both in Australia and Malaysia have progressively implemented financial management and reporting reforms for their public sectors. In Australia, reforms have pervaded Federal and State levels of the public sector and include the implementation of concepts of contestability for funds and accountability for performance. Accounting related changes have embraced performance measurement, resources management and accountability reporting. These changes are known by various terms including “Managerialism”, “the financial management improvement program”, and “new public management”. Managerialism, which is a concept embracing the twin intertwined issues of management efficiency and public accountability (Kniss 1999) has been adopted by both the Australian and Malaysian governments. In essence the traditional public sector administrative interest in inputs has been replaced by a focus on outputs (efficiency) and outcomes (effectiveness), referred to by the Australian Public Service Board (1986) as “managing for results”.

During the 1990s, the Australian accounting profession was instrumental in introducing a fundamental shift in the approach to financial reporting by public sector entities. Among other public sector accounting standards, the Public Sector Accounting Standards Board issued AAS 29 “Financial Reporting by Government Departments”. Building on these accounting standards, and responding to the

changing focus of accountability towards managerial accountability, Australian state governments introduced a better, more fully integrated Annual Reporting approach for annual budgets, financial reports and performance indicators in respect of “budget sector” agencies. (Taylor 2000).

Australian governments at both the Federal and State levels have also introduced a more fully integrated reporting approach to the development and disclosure of annual budgets, financial reports and performance indicators in respect of budget sector agencies (Taylor 2000). For example, in Western Australia, the State Treasury’s Financial Reform Division has been driving the phase-in of accrual output-based budgeting and financial reporting since 1997. Under this reporting framework, each government department is required to develop suitable performance indicators (both efficiency and effectiveness) for each output group of their organization and have these reported performance indicators audited by the state’s Office of the Auditor General. These indicators are part of the overall performance management processes of government departments.

The Malaysian government embraced managerialism and introduced a Modified Budget System (MBS) in 1990. The MBS was initially set up as a pilot project and involved three ministries. This project was designed to assess whether the management of the ministries and departments could be improved with greater disclosure of information on performance and accountability (Nichol & Taylor 2001). The Malaysian government is entrusted with responsibilities of providing optimal services to its citizens within available resources. Valid judgements, by both elected parliaments and the public on how well public sector activities have been undertaken could not easily be made unless information on performance is available. Public sector organisations in Malaysia use performance indicators to evaluate performance as a result of the primary objective being to provide services to its constituents, not 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 comparison. These are then monitored at regular intervals and compared to the relevant criterion (Bullen 2003).

Public sector organizations in Australia and Malaysia now use performance indicators as an important aspect of their agencies performance evaluation. Public sector organisations generally have their main objective as the provision of appropriate services to their constituents and not the achievement of a profit or other economic/monetary outcomes. Thus many non-economic indicators have been required to be developed. Each performance indicator identifies the measurement of a specific aspect of important information regarding the performance of a program, expressed as a percentage, index, rate, or other comparison. These are then monitored at regular intervals and compared to the relevant criterion (Bullen 2003).

One of the important rationales for the disclosure of performance indicators is the improvement of efficiency and effectiveness in the delivery of public sector programs (Wilkins 2003). Public sector organizations disclose performance indicators to set and report levels of performance, thus enabling management to assess the extent to which the activities achieve the stated objectives of the organization (Taylor & Pincus, 1999). Management can also determine whether the achievement of the organization's objectives had been undertaken in an efficient and effective manner. Efficiency relates to the inputs used to gain an output and is expressed as a ratio, whilst effectiveness is an expression of how well an objective has been met. It would therefore appear that, with demand for public sector agencies to disclose the use of resources more efficiently and effectively, the disclosure and dissemination of performance indicators would be widespread (Henderson & Pearson 2002).

1.2 THE RESEARCH PROBLEM

Within this paper seven research problems will be addressed. Firstly, what factors are considered important in the discharge of accountability by Australian and Malaysian government departments? Second, what are the types and numbers of performance indicators disclosed by Australian and Malaysian government departments? Third, how often are performance indicators disclosed by Australian and Malaysian government departments? Fourth, to what extent are performance indicators disseminated by Australian and Malaysian government departments? Fifth, how are performance indicators disseminated by Australian and Malaysian government

departments? Six, which of the identified factors influence the level of performance indicators disclosure by Australian and Malaysian government departments? Seven, which of the identified factors influence the extent performance indicators are disseminated by Australian and Malaysian government departments?

To the best of the researcher's knowledge, no research has taken place comparing the Australian and Malaysian public sectors in relation to accountability and performance measurement. There have been a number of studies examining Australia as a single country study in relation to performance indicator disclosure (eg Mucciarone & Taylor 2005; Rosair & Taylor 2000). Conversely there have also been a few studies which have specifically examined Malaysia in relation to performance indicators (eg Nichol & Taylor 2001; Siti - Nabiha 2006).

This study will be multi-theory based in order to provide an explanation of the factors affecting performance indicators disclosure and dissemination by Australia and Malaysia government departments in their Annual Reports. This study will use both agency and institutional theories to provide a better understanding of the influence of accountability and performance measurement practices on government departments of Australia and Malaysia.

1.3 THE OBJECTIVES OF THE STUDY

This study adopts the two theoretical perspectives of agency and institutional theory to determine if they influence the disclosure and dissemination practices of Australian and Malaysian government departments. As detailed in the previous section of this study, the use of multi-theory research into public sector agencies is limited with most studies being conducted at the Local Government level (Eisenhardt 1988; Kalbers & Fogarty 1998; Neilson 2002). Further, it is claimed that agency and institutional theories are complimentary and provide a more expansive way of reviewing entities and comparing results than using one theory (Neilson 2005).

In a previous study, Mucciarone (1999) reviewed the effects of both agency and institutional variables on the types of performance indicator disclosure and dissemination by Australian Federal and State departments in the annual report. The

agency variables were oversight bodies and political visibility and the institutional variables were bureaucrat's qualification, experience and salary. This thesis will extend this study on multi-theory research into governments departments, within Australia and Malaysia.

The research objective of this study is to undertake a comparison of the level of disclosure and dissemination of performance information by Australian and Malaysian government departments. The specific objectives for Australian and Malaysian government departments are as follows:

- (1) To determine the factors considered to be important in the disclosure of accountability information by Australian and Malaysian government departments.
- (2) To determine the types and numbers of performance indicators disclosed by Australian and Malaysian government departments.
- (3) To determine how often are performance indicators disclosed by Australian and Malaysian government departments.
- (4) To determine the extent of performance indicators dissemination by Australian and Malaysian government departments.
- (5) To determine whether oversight bodies influence performance indicators disclosure by Australian and Malaysian government departments.
- (6) To determine whether the political visibility of a government department influences the performance indicators disclosure by Australian and Malaysian government departments.

- (7) To determine whether the citizenry influences the performance indicators disclosure by Australian and Malaysian government departments.
- (8) To determine whether a bureaucrat's accounting ability influences performance indicators disclosure by Australian and Malaysian government departments.
- (9) To determine whether a bureaucrat's salary influences the performance indicators disclosure by Australian and Malaysian government departments.
- (10) To determine whether culture influences performance indicators disclosure by Malaysian government departments.
- (11) To determine whether oversight bodies influence the dissemination of performance indicators by Australian and Malaysian government departments.
- (12) To determine whether the political visibility of Australian and Malaysian Government departments influences the dissemination of performance indicators by those departments.
- (13) To determine whether the Australian and Malaysian citizenry influences the dissemination of performance indicators by those departments.
- (14) To determine whether Australian and Malaysian bureaucrat's accounting ability influences the dissemination of performance indicator information.
- (15) To determine whether a bureaucrat's salary influences the frequency of dissemination of performance indicator

information by Australian and Malaysian government departments.

- (16) To determine whether culture influences performance indicators dissemination by Malaysian government departments.

1.4 THE SETTING

This study is a comparison of the Australian and Malaysian Public Sectors. Australia and Malaysia have been selected for this study as both countries are Commonwealth countries and both are former British colonies.

This study specifically reviews government departments of the two countries. The principal objective of government departments is service delivery, not a profit or economic motive (Henderson & Pearson 2002). Government departments receive funding from parliamentary appropriations and the public provides funding to the government involuntarily through various avenues including taxation. Government departments, as reporting entities, are required to prepare general purpose financial reports which contain information useful to users to indicate where and how a department has used its allocation of taxpayers funds (Australian Accounting Research Foundation 2003).

Australian government departments are specified as reporting entities in the Australian accounting profession's Statement of Accounting Concept No. 2 (SAC 2) Objective of General Purpose Financial Reporting (1990). The link between the concepts of information usefulness and accountability is stated in SAC as:

The rendering of accountability by reporting entities through general purpose financial reporting is encompassed by the broader objective of providing information useful for making and evaluating decisions about the allocation of scarce resources, since users will ultimately require the information for resource allocation decisions (Australian Accounting Research Foundation, 2004 Para 27).

The literature (Hyndman and Anderson 1995; Wilkins 1998) suggests that performance indicators should be linked with accountability. Within the policy

literature, accountability is claimed to be the cornerstone of the Westminster system of government because according to Fountain (1991):

The electorate has a right to know – ie a right to receive facts that explain the actions and expenditure of the executive and legislative arms of government (p 191).

Public administration and professional accounting and auditing literature demonstrate that the concept of public accountability has broadened over time (Lim & Mckinnon 1993; Banks, Fisher et al. 1997; Rosair & Taylor 2000). While once focused on how well the government fulfilled its stewardship role, public accountability now encompasses assessments of program outcomes. Yet, the primary accountability document, the Annual Report, does not meet the needs of users to assess public accountability in its broadened sense. The literature suggests that the needs to assess public accountability can be met through the public reporting of governmental performance information. This study reviews the literature on public accountability, the users of governmental financial reports and their needs, performance measurement reporting and recent efforts to report performance measures. As a direct result of public sector reforms, the practice of Australian government departments disclosing performance indicators in Annual Reports has been increasing in recent years. As each government department has different objectives and outputs, the choice of suitable performance indicators to report is often left to the discretion of management within each organisation. While the need for performance measurement appears to be accepted by both Australian and Malaysian governments, evidence indicates the disclosure of performance indicators is problematical. Prior research by; Mucciarone & Taylor (2005) and Nichol & Taylor (2001) indicates that the extent of the disclosure of performance indicators is not as comprehensive as would be thought desirable as each government department has different objectives and outputs and the choice of suitable performance indicators disclosed is typically left to the discretion of the management of each organization.

Several researchers in the literature emphasize the importance of the Annual Reports as a medium of accountability (Taylor & Pincus 1999; Rosair & Taylor 2000; Nichol & Taylor 2001; Mucciarone & Taylor 2005) while other researchers however cast doubts on the actual role of the Annual Report in relation to accountability

(Hyndman & Anderson 1995; Taylor & Pincus 1999; Nichol & Taylor 2001; Steccolini 2004). Furthermore, accountability is not a universally defined term (Sinclair 1995; Gray, Owen et al. 1996; Rosair & Taylor 2000). There are also differences of opinions amongst researchers in relation to the users of accounting information (Jones 1992) as well as to their information needs (Jones & Pendlebury 2004). Nevertheless governmental supervising authorities such as the Federal government Office of the Auditor – General and the Treasury Department are considered as users of such information in all users' definition instances.

The growth of new public management (NPM) which promotes greater public sector adoption of private sector management practices, is an approach that is underpinned by strategic planning and performance management (Dixon, et al 1998). There is also some evidence that the linking of performance targets to access to resources is now widespread across the Australian and Malaysian public sectors (Proper & Wilson 2003). With the belief in the superiority of private sector practices (Siti - Nabiha 2006), it not surprising that the fundamental concept of NPM is the conviction that the public sector should utilize the practices of the private sector. One of those practices is the use of performance measurement system with its aim of improving the effectiveness and efficiency of public sector agencies. Placing more emphasis on measuring outputs and holding managers accountable is one of these incentives (Hood 1995). In doing so, managers are thought to be motivated to improve decision making. As a result, governmental organisations are generally expected to improve their performance (Van Hengel, Budding et al. 2006).

Thus, NPM concepts have derived much attention and as a result, Australian and Malaysian governments have exhausted considerable time and resources on performance measurement and performance assessment of their government departments (Shah, 2003). Consequently, laws and government directives have been introduced to implement these results– based policies. For example, in Australia, a formal managerialism framework was introduced by the Federal government in 1984 in legislation known as the “Financial Management Improvement Program (Mucciarone & Taylor 2005). In Malaysia the Malaysian government accepted the philosophy of NPM with the adoption of privatization policy and various administrative improvements such as total quality management, benchmarking of

services and quality control circles in the public sector. This emphasis on measuring performance is further enhanced with the launch of specific objectives and strategies by the government to indicate a performance – based culture (Dato' Seri Abdullah, 2005). The Malaysian Accountant General's office objective is to provide quality public accounts in accordance with legal and professional requirements, to manage human resource in accounting for public sector agencies and to provide quality and timely accounting and financial information (The Accountant General Malaysia 2007).

However, evidence from the Nichol & Taylor (2001) study indicates there has been a decrease in disclosure of performance indicators which implies that such information may not be available in the management system of organisations because Malaysia does not have a proper and specified mechanism for measuring performance information (Nichol & Taylor 2001). Section 6 of the Malaysian Audit Act provides for a performance audit of government entities (The Accountant General Malaysia 2007). However, the provisions are aimed at the audit of economy and efficiency indicators. There is no information in the Audit Act as to the audit of effectiveness indicators. One explanation for this is the non-mandatory status of effectiveness audits (an interview between Esmie Nichol and the deputy director of the Accountant – General office in Malaysia 2001).

Due to the ability of government agencies and their staff to manipulate the quantity and quality of performance information included in Annual Reports, this paper adopts an agency theory perspective. Within the accountability and reporting structure of the Australian and Malaysian government, a series of agency relationships exist. These relationships include that between the Government and stakeholders as principles and the employees and management as agents. An agency relationship exists is said to exist when one person (the principal) delegates some authority to another person (the agent). The senior finance officer acts on behalf of the government agencies and is accountable to the government agency for their actions. The actions of parties can thus be explained by an examination of an individual's self-interest which provides the motivation for their actions. The normative prescription that managers should maximise the profitability, or the utility provided from their firms is replaced by the positive assumptions that people always

act from totally self-seeking motives and attempt to maximise their own personal returns (Jensen & Meckling 1976).

Another theory to be examined in this study is institutional theory. Institutional theory claims that organizations gain legitimacy by conforming to external expectations regarding appropriate management control systems in order to appear modern, rational, and efficient to external observers, but tend to separate their internal activities from the externally focused symbolic systems. Studies undertaken on institutional theory include Neilson, (2002), Dacin (1997; Dacin, Goodsteing et al. (2002), Modell (2001) and Scott (1987). Within this study, two aspects of the bureaucracy thought to impact on public policy will be addressed. These are the bureaucrat's accounting ability and bureaucrat's salary. Another independent variable to be examined in this thesis is culture. In relation to culture only the Malaysian culture will be examined to determine its influence on the disclosure and dissemination of performance indicators by Malaysian government departments. This is because Australia is regarded as a multicultural society employing many different cultures and religions and so only culture as affected by a given religious grounding is the aspect of culture used in this study.

1.5 THE SCOPE OF THE RESEARCH

As indicated in Section 1.1 this study is exploratory as there has been no comparative study conducted in Australia or Malaysia on the performance indicator disclosure and dissemination in Annual Reports of Government departments In Australia, only single country studies have been conducted (eg, Mucciarone 1999; Rosair & Taylor 2000; Mucciarone & Neilson 2005).

Both agency and institutional theories are used in this study to determine the influence of agency theory variables and institutional theory variables on the accountability and performance measurement practices of Australian and Malaysian Federal and State government departments (Lim & Mckinnon 1993; Rosair & Taylor 2000; Mucciarone & Taylor 2005). Due to the ability of government agencies and their staff to manipulate the quantity and quality of performance information included in Annual Reports, the paper adopts an agency theory perspective. In Australia, some empirical research has been conducted on the influence of agency

theory variables on accountability disclosures in the Annual Reports of government departments (Lim & Mckinnon 1993; Rosair & Taylor 2000; Mucciarone & Taylor 2005).

Within institutional theory, external pressures arise from sources outside the organisation as the organisation attempts to adopt society norms to gain acceptance and legitimacy amongst organisations (Neilson 2002). It is argued (Siti - Nabiha & Scapens 2005) that the organisation (or the organisation's key decision makers) attempt to secure legitimacy from external constituencies by implementing the new accounting routines, but at the same time decouples them from day to day operations in order to maintain the technical efficiency of the organisation. Meyer & Rowan (1977) argue that organisations tend to avoid the dysfunctions that could be created by imposing new institutional systems that are designed to secure external legitimacy, by decoupling them from internal technical systems. Nevertheless, the notion of decoupling continues to inform accounting studies of public sector management (Modell 2001; Siti-Nabiha & Scapens 2005). However, little attention has been given to the processes through which this decoupling occurs within the organisation.

In this study, a bureaucrat's accounting ability (experience in current position and current organisation and membership of a professional accounting body) and a bureaucrat's salary will be examined. Bureaucrat's accounting ability and bureaucrat's salary are important determinants of how well the bureaucrat (senior finance officer for Australia and Malaysia) can respond to the demands of their department's environment. Institutional theory argues that size of the department and bureaucratic behaviour are responsible for variations in the type of performance indicators disclosed in a department's Annual Report and the extent of performance indicators disseminated by those departments (Downs 1976). The indicators of bureaucrat's accounting ability selected for this study include experience and membership of a professional accounting body. Cheng (1992) studied the effects of bureaucrat's experience and membership of a professional accounting body on state government accounting disclosure and found a positive relationship. Baber (1983) and Baber & Sen (1984) studied bureaucrat's salary and its effect on government disclosure choice and found a positive relationship. Therefore, it is expected that a

bureaucrat's accounting ability and a bureaucrat's salary will influence the frequency of performance disclosed and disseminated by Australian and Malaysian Government departments.

In this study the selected sample respondents are the senior finance officers of Australian and Malaysian Government departments. The reasons for choosing senior finance officers as the selected sample are as follows:

1. This study is concerned with the discharge of accountability by the provision of performance indicator information in the Annual Report of government departments.
2. This study seeks to determine the frequency of performance indicators disclosed and disseminated by government departments of Australia and Malaysia. In Australia it is the senior finance officer of government departments who is responsible for disclosure and dissemination of performance indicators in their departments' Annual Report. In Malaysia it is the senior finance officer of Government Departments who is responsible for disclosure and dissemination of performance indicators in their ministry/ departments' Annual Report.

1.6 MOTIVATION OF THE STUDY

Accountability and performance measurement in the Australian and Malaysian public sectors is an important area of research for the following reasons:

1. The discharge of accountability by both Australian and Malaysian government departments is linked to the quality of disclosure of performance indicators in their organization's Annual Reports. Public sector accountability is deemed to be of greater importance than that of the private sector due to the involuntary nature of the funding of governmental activities by taxpayers (public has no choice they have to pay tax to the government) and the types of activities being funded (e.g., health services, education and police services).

2. Little research has been undertaken via cross– country comparative studies on public sector accountability and performance measurement systems. This study will therefore provide insight into performance measurement systems and discharge of accountability on a cross–country basis. Insight communicated by this study will be of benefit to both Australian and Malaysian government departments in the more effective use of reporting performance indicators via their organization’s Annual Report.

3. From 1980 to the mid 1990s Australian and Malaysian governments progressively adopted financial management and reporting reforms in their departments and other government funded agencies. They embraced the notions of managerialism and new public management to demonstrate efficiency and effectiveness of public sector performance and the discharge of accountability (Nichol & Taylor 2001).

1.7 CHAPTER ORGANISATION

This chapter has introduced the objectives, scope and motivation of the study, together with the research problem and theory from which a model will be adopted.

Chapter Two is divided into two major sections, these being the Australian and Malaysian government settings. The chapter undertakes an initial review of the structure of the Australian government including a brief history of the Australian structure of government, a review of the structure of the Federal and State Parliaments, and a review of government departments. This is followed by a review of the Malaysian Government institution including a brief history of the Malaysian structure of government, a review of the structure of the Malaysian Parliament and a review of Malaysian State Government.

Chapter Three which is divided into two sections these being - accountability and performance Indicators. The accountability section included a review of the definition of accountability and its application to the Australian and Malaysian Government Sectors. This is followed by a review of the concept of new public management. Following accountability is a section on performance indicators which includes a review of the definition of performance indicators and a discussion of

financial and non-financial performance indicators and a review of the dissemination of performance indicators.

Chapter Four presents a literature review of agency and institutional theories and their impact on Federal and State government performance measurement and accountability. The initial section of agency theory reviews the definition of agency theory and its relationship to the Australian and Malaysian Government sectors. The chapter continues with a review of institutional theory and commences with a definition of institutional theory, followed by a discussion of the concepts of legitimacy and isomorphism used in this study. This section further reviews prior studies on institutional theory variables and their relevance to this study. The last section of provides a review of the independent variable culture.

Chapter Five is the hypotheses formulation chapter. This chapter provides an empirical schema showing the independent and dependent variables and their relationships. This is followed by a discussion of agency theory and the relationship of the agency theory variables of oversight bodies, political visibility and citizenry and the frequency of performance indicator disclosure and dissemination together with their respective hypotheses. The following section of this chapter provides a review of institutional theory followed by a discussion of institutional theory variables and the relationship of institutional theory variables bureaucrats' accounting ability and salary to the frequency of performance indicator disclosure and dissemination together with their testable hypotheses. A discussion is also provided on culture and the frequency of performance indicator disclosure and dissemination.

Chapter Six discusses the research methodology to collect the data. This chapter commences with a discussion of the three methods used in this study to collect data. The first research phase includes a content analysis of Annual Reports of Australian and Malaysian government departments. This is followed by semi structured interviews of selected Australian and Malaysian government departments. The final research phase was a questionnaire sent to all Australian and Malaysian government departments. This chapter also presents and discusses the results of the demographic profiles of respondents. Validity, normality and reliability tests of the agency

variables impacting on the disclosure and dissemination of performance indicators are presented followed by discussion of similar tests for institutional theory variables

Chapter Seven tests the hypothesis developed in Chapter Five and details and discusses the results of the data analysis of the study. Tests for the effect of culture on the dependent variables using frequency analysis is then presented and discussed.

Chapter Eight provides the overall conclusions of the thesis and the limitations of the study. These limitations relate to the method of collection of data used in this study and the conclusion should be read with this in mind. The limitations section is followed by discussion of the practical implications, suggestions for future research and concluding remarks.

CHAPTER TWO

AUSTRALIAN AND MALAYSIAN GOVERNMENT SECTORS

2.1 INTRODUCTION

This chapter introduces the structure and governance of the governments in both Australia and Malaysia. Both countries are former British colonies, members of the Commonwealth and both countries have a constitutional monarchy. The first part of the chapter initially reviews the structure of the Australian government with an initial brief review of the history leading to the development of the current government structures.

The second part of the chapter reviews the background of the government of the Malaysia and outlines a brief history of the development of parliamentary democracy. This is followed by a description of the conference of rules and the processes for the election of the king. The following section discusses the Malaysian constitution and covers the areas of executive, legislative and judicial authority and the election processes of the two houses of the Federal parliament. The final section of this part of the chapter reviews the structure and role so of the various agencies of the Malaysian public sector.

2.2 STRUCTURE OF THE AUSTRALIAN GOVERNMENT

The following section contains an overview of the history of government in Australia and details of the structure and responsibilities of the various levels of government within the Australian context.

2.2.1 BRIEF HISTORY OF THE AUSTRALIAN STRUCTURE OF GOVERNMENT

From 1788-1901 Australia comprised six British colonies, these being New South Wales, Tasmania (formerly Van Diemen's Land, founded in 1825), Western Australia (formerly Swan River Colony, founded in 1829), South Australia (founded in 28 December 1836), Victoria (founded in 11 November 1850), and Queensland (founded in December 1859) (State Colonies: Development of Australian Sites 2003).

As a result of the colonies operating independently conflicts arose especially with trading policies and immigration. A common fear was the growing influence in the Pacific of other European Powers. In 1863 each colony was given responsibility for their own defence and was required to pay British troops if needed - in 1887 this was extended to naval protection. This was one of the reasons for the desire to implement a federal system of government. The first draft Constitution in 1891 was acceptable to the people of South Australia, Victoria and Tasmania only. New South Wales residents rejected the proposal and Queensland and Western Australia did not participate. Financial considerations and the location of the federal capital in NSW were the main changes to the 1899 draft which was acceptable to all colonies but Western Australia whose government was holding out for a railway link to the east to be funded by the new federal government. The people of the Western Australian goldfields, largely from the eastern area of the colony, forced the Western Australian government's hand when they petitioned the British government to secede from Western Australia. A referendum of the people of Western Australia in July 1900 was accepted and Western Australia still got its rail link (Janaury 2003).

In 1901, the British Parliament enacted legislation allowing New South Wales, South Australia, Victoria, Queensland, Tasmania and Western Australia to federate under the Australian Constitution and become the Commonwealth of Australia. The constitution outlines the structure of Australian governance (Australian History and Government 2003). Since Federation, several territories have been added, including the Northern Territory in 1907 and Australian Capital Territory in 1911. Australia also has a number of external territories – inhabited and uninhabited. Inhabitable territories include the Australian Antarctic Territories, Christmas Island (Indian Ocean), Cocos (Keeling) Islands, and Norfolk Island. Uninhabited territories include: Coral Sea Islands Territory, and Territory of Ashmore and Cartier Islands (Janaury 2003).

The government of Australia is divided into Federal (Commonwealth), State and local governments. The following section outlines the structure and

responsibilities of the Federal and State governments. Local government will not be detailed as it is not covered in this study.

2.2.2 FEDERAL GOVERNMENT

There are two Houses in Federal Parliament at the Federal level, the Senate and the House of Representatives. These elements, along with the Monarch as head of the government, make Australia a constitutional monarchy and parliamentary democracy (The Australian Government Structure 2003)

The Australian Federal Parliament has five functions:

- To provide for the formation of a government;
- To legislate;
- To provide the funds needed for government;
- To provide a forum for popular representation; and
- To scrutinise the actions of government.

Proposed laws (Bills) must be passed by both Houses of Parliament and assented to by the Governor-General (the Monarch's representative) prior to becoming Acts of Parliament. With the exception of laws relating to revenue and taxation (which must be introduced in the House of Representatives), a proposed law can be introduced in either House (The Australian Government Structure 2003).

The Senate consists of 76 senators and of these, 12 are elected from each of the six states and two are elected from the two territories. State Senators are elected for six year terms and territory Senators are elected for 3 year terms. Historically, the Senate has been regarded as a State's House as the States enjoy equal representation in the Senate, regardless of their population, and state matters are still important to Senators. The Senate is a important chamber as Bills cannot become law unless they are approved by the same terms by each House, except in the rare circumstances of a double dissolution followed by a joint sitting of both the houses (Parliament of Australia 2005c).

The primary role of the Senate is to protect the interests of the less populous states in the Federal Parliament by giving equal representation to all states. The Senate also acts as a check on the power of the government of the day (Parliament of Australia 2005c).

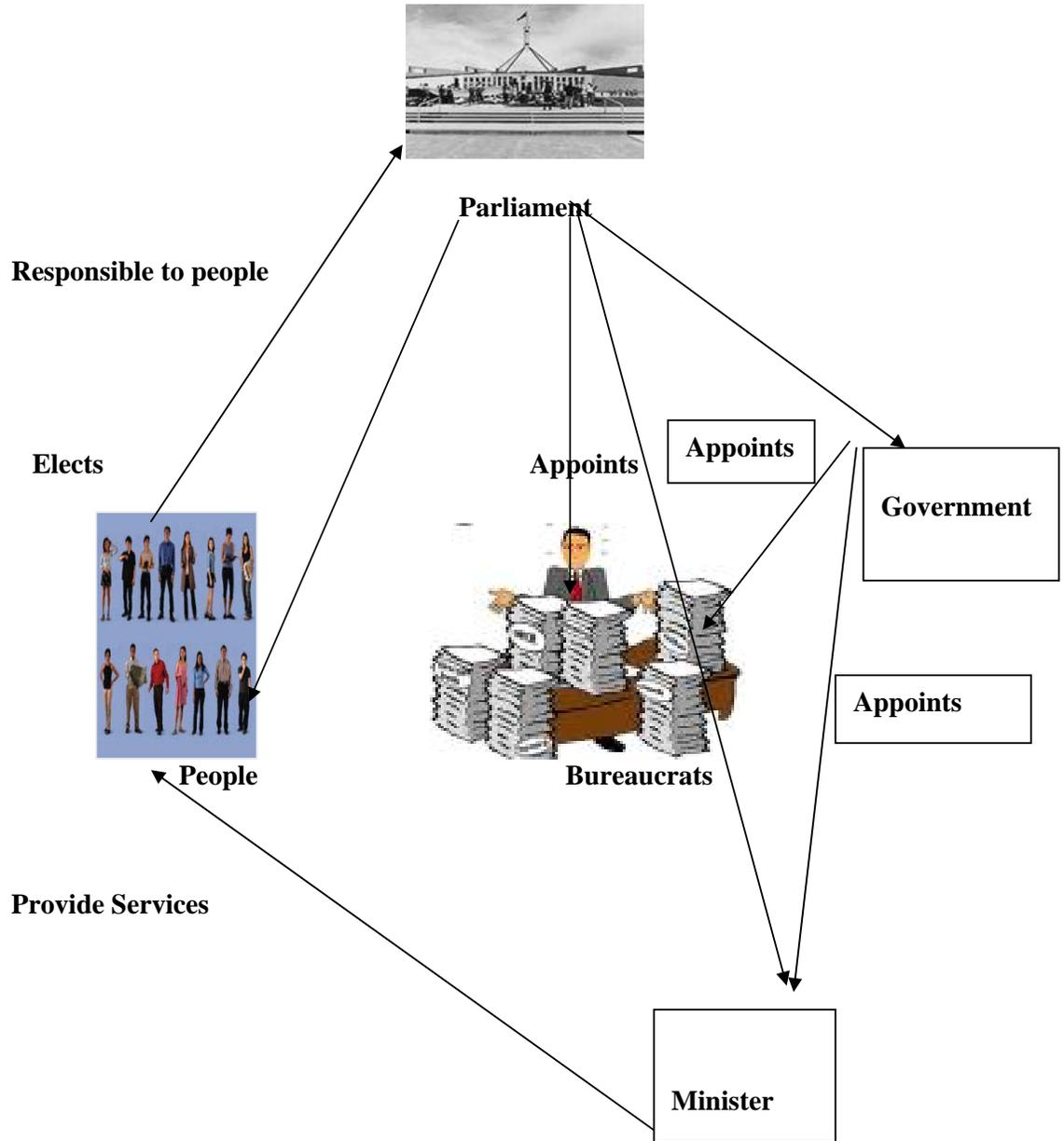
The House of Representatives has 150 representatives with each representing a separate electoral division within Australia. Members are elected for terms of 3 years. The most important feature of the House is that the party or coalition of parties with majority support in the House forms the government (Parliament of Australia 2005a).

The Federal Parliament is responsible for enacting laws in the areas of customs, defence, taxation, telecommunications, money, copyrights and patents, international trade, social security, immigration, external affairs, the territories and industrial relations that cover more than one state (The Australian Government Structure 2003).

Australia is a constitutional monarchy with the Queen of the United Kingdom being the official Head of State. The Governor General, usually an Australian, represents the Queen in Australia, in effect, the Head of State of Australia. The Governor General is nominated by the Prime Minister of Australia and the Queen ratifies the nomination (Parliament of Australia 2003b).

The Governor-General is appointed by the Queen on the advice of the Prime Minister. The Governor-General performs a large number of functions which are defined by the constitution including constitutional and statutory duties, formal ceremonial duties, and non – ceremonial social duties. On all matters, however the Governor General acts on the advice of the Department (Parliament of Australia 2003a).

Figure 2.1
Australia's Westminster System of Government



The Australian Federal political system is a blend of Westminster Parliamentary Government and United States Federalism. The Westminster system of government is derived from the English model. The government comprises members of parliament who belong to the party then which control the lower house. The government survives as long as it is able to maintain the confidence of the lower house. The Westminster system operates in all Australia's Federal, State and Territory Parliaments. It also includes such elements as an independent

judiciary and public service. Westminster principles allow for variations in the role and powers of the upper houses (Australian Politics 2003).

The Australian political system is based on seven sets of constitutional statutes establishing the six states and the federation. The Australian Constitution defines the responsibilities of the federal government, which include the following foreign relations and trade, defence and immigration. Governments of state and territories are responsible for the provision of goods and services such as police and emergency services, prisons, education, public transport, public hospitals, libraries and museums. State parliaments and Territory assemblies follow the principles of responsible government (Australian Politics 2003).

The Australian Constitution details the powers of government in three separate areas, these being the legislature, the executive and the judiciary, but require that members of the executive must also be members of the legislature. In practice Parliament delegates wide regulatory powers to the executive. Changes to the Constitution involve action by Parliament and the people. Both Houses of Parliament must agree on a proposed change, and if agreement cannot be reached, the Governor-General can present a proposal to the people. For a proposal to succeed, it must be favoured by a majority of voters in a majority of the states, and by a majority of voters overall (Parliament of Australia 2005a, c).

Legislative

National legislative power in Australia's Federal section is vested in a bicameral (2 houses) parliament, comprising a Senate and a House of Representatives. The Senate consists of 76 members (12 from each state and 2 from each territory). Senators are popularly elected under a form of proportional representation with senators from states being for a six year term and senators from territories being elected for a three year term (Janaury, 2003).

According to the Australian Constitution, the House of Representatives should have twice as many members as the Senate. The number of members of each state is proportional to its population, but there must be at least five. As of the

2004 elections, the House had 150 members, all of whom are directly elected for a three year term. The Prime Minister may ask the Governor– General to dissolve parliament and call new elections at any time. The Prime Minister also determines the date of parliamentary elections every three years. Australia has universal and compulsory suffrage for all citizens over the age of 18 (Janaury, 2003).

Federal legislative powers are vested in the Senate, the House of Representatives and the monarch, who also holds formal executive power. The Monarch, represented by the Governor-General, holds the key powers of summoning and dissolving parliament, appointing ministers and assenting to legislation. The Governor – General’s role is less central than the constitution suggests because many of the conventions of government are not included in the document (Encarta 2003).

Neither the Prime Minister nor Cabinet are included in the written Constitution, nor are the political parties which have emerged to run the parliamentary system. The Prime Minister is an elected Member of Parliament who is then elected by his political faction as their leader and in turn enjoys a majority representation in the House of Representatives. Ministers are elected members of the parliament and with the Prime Minister form the Cabinet (Janaury, 2003).

House of Representatives

With the House of Representatives each member represents an electoral division. The boundaries of these electorates are adjusted from time to time to contain approximately equal numbers of electors—because of the distribution of Australia's population they vary greatly in area (from a few square kilometres to over two million square kilometres). Members are elected by a system known as preferential voting, under which voters rank candidates in order of preference (Prime Minister Department 2004). Each House of Representatives may continue for up to three years, after which general elections for a new House must be held. Elections are often held before the end of this period (Parliament of Australia 2005a).

The House of Representatives has the following functions (Parliament of Australia 2005a):

- *Makes laws*—The House's central function and the one which takes up most of its time is the consideration and passing of new laws and amendments or changes to existing laws. Any Member can introduce a proposed law (bill) but most are introduced by the Government. To become law, bills must be passed by both the House of Representatives and the Senate. They may start in either house but the majority of bills are introduced in the House of Representatives.
- *Determines the Government*—after an election the political party (or coalition of parties) which has the most Members in the House of Representatives becomes the governing party. Its leader becomes Prime Minister and other Ministers are appointed from among the party's Members and Senators. To remain in office a Government must keep the support of a majority of Members of the House.
- *Publicises and scrutinises government administration*—Debate of legislation and ministerial policy statements, discussion of matters of public importance, committee investigations, asking questions of Ministers (during question time—at 2 pm—Members may ask Ministers questions without notice on matters relating to their work and responsibilities; questions can also be asked on notice for written answer).
- *Represents the people*—Members may present petitions from citizens and raise citizens' concerns and grievances in debate. Members also raise issues of concern with Ministers and government departments.

- *Controls government expenditure*—The Government cannot collect taxes or spends money unless allowed by law through the passage of taxation and appropriation bills. Expenditure is also examined by parliamentary committees.

Senate

It has virtually equal power to make laws with the House of Representatives. It is elected by proportional representation, so that its composition closely reflects the voting pattern of the electors the four senators who represent the Australian Capital Territory and the Northern Territory are elected concurrently with members of the House of Representatives and the duration of their terms of office coincide with those for that House (a maximum of three years). It is elected by proportional representation, so that its composition closely reflects the voting pattern of the electors (Parliament of Australia 2005c).

The proportional system of voting used to elect senators ensures that the composition of the Senate more accurately reflects the votes of the electors than the method used to elect members of the House of Representatives. Proportional representation also makes it easier for independents and the candidates of the smaller parties to be elected. In recent decades this has meant that the government party usually does not have a majority of votes in the Senate and the non-government senators are able to use their combined voting power to reject or amend government legislation (Parliament of Australia 2005a, b).

The powers of the two houses of the Commonwealth Parliament, the Senate and the House of Representatives, are defined by the Australian Constitution. The Senate's law-making powers are equal to those of the House of Representatives except that it cannot introduce or amend proposed laws that authorise expenditure for the ordinary annual services of the government or that impose taxation. The Senate can, however, request that the House of Representatives make amendments to financial legislation and it can refuse to pass any bill (Parliament of Australia 2005c).

The qualification of electors of senators shall be in each State that which is prescribed by this Constitution, or by the Parliament, as the qualification for electors of members of the House of Representatives; but in the choosing of senators each elector shall vote only once. The Parliament of the Commonwealth may make laws prescribing the method of choosing senators, but so that the method shall be uniform for all the States. Subject to any such law, the Parliament of each State may make laws prescribing the method of choosing the senators for that State (Parliament of Australia 2005c). The Parliament of a State may make laws for determining the times and places of elections of senators for the State (Parliament of Australia 2005c).

The Parliament of the Commonwealth may make laws prescribing the method of choosing senators, but so that the method shall be uniform for all the States. Subject to any such law, the Parliament of each State may make laws prescribing the method of choosing the senators for that State (Parliament of Australia 2005c).

Prime Minister

The Prime Minister and other Ministers are appointed from the parties which control a majority in the House of Representatives. The Prime Minister decides on the division of responsibilities between Ministers and allocates portfolios. The broad responsibilities of each Minister and their portfolio are set out in Administrative Arrangements Orders (Prime Minister of Australia 2005).

Ministers are given specific powers and functions under legislation, as well as the broad power to oversee the running of government departments and agencies. The Prime Minister's broad responsibilities extend over the full range of Government activities and involve setting strategic directions for the Government (Prime Minister of Australia 2005). The Prime Minister chairs the Cabinet, which is a forum for collective decision-making by senior Ministers and the key policy-making agency of the Federal Government (Prime Minister of Australia 2005).

Cabinet meets *in Canberra*. Apart from announcements of decisions by the Prime Minister or other authorised Ministers, there is no public record of its proceedings. Cabinet is serviced by a secretariat within the Department of the Prime Minister and Cabinet (Prime Minister of Australia 2005).

Where necessary, legal effect is given to decisions of the Executive by the Executive Council, a formal body presided over by the Governor-General and usually attended by two or three Ministers of State, although all Ministers and Parliamentary Secretaries are members. The purpose of the Executive Council is essentially to receive formal advice, make appointments, accept resignations, issue proclamations and regulations, and approve the signing of formal documents. Similar procedures of Cabinet decision-making are followed by Australia's State Governments (Prime Minister of Australia 2005).

2.2.3 AUSTRALIA'S PUBLIC SERVICE

Policy advice and the implementation and administration of core Federal Government programs are undertaken by the Australian Public Service, six State and two Territory Public Services. All are career services and, generally, staff is recruited on a permanent basis. A Minister of State is accountable to Parliament for each department's functions and activities. Under the Minister is the head of a department, usually referred to as the Secretary (Prime Minister of Australia 2005).

In the Federal and State Governments, there are three broad categories of government institution: those serving directly the respective Parliaments; Departments of State for whose operations, in all respects, individual Ministers are responsible to their Parliament; and others including statutory agencies, corporations, tribunals and commissions (Prime Minister of Australia 2005).

Judiciary

The judiciary is the legal arm of the government. Independent of the legislature and the executive, it is the role of the judiciary to enforce Australia's laws. It must also ensure the other arms of Government do not act beyond the powers granted

to them by the Constitution or by parliament. The High Court of Australia is, as its name suggests, Australia's highest court (Commonwealth Government 2005).

The Constitution provides for the establishment of the High Court of Australia and such other courts as Parliament may create. The judges of the High Court are appointed by the Governor-General in Council (acting on advice of the Federal Executive Council) (Commonwealth Government 2005).

The functions of the High Court are to interpret and apply the law of Australia; to decide cases of special federal significance including challenges to the constitutional validity of laws; and to hear appeals, by special leave, from Federal, State and Territory courts (High Court of Australia 2005).

The High Court is the highest court in the Australian judicial system. The functions of the High Court are to interpret and apply the law of Australia; to decide cases of special federal significance including challenges to the constitutional validity of laws and to hear appeals, by special leave, from Federal, State and Territory courts (High Court of Australia 2005).

2.2.4 STATE GOVERNMENT

Australia has six states – New South Wales (NSW), Melbourne, Queensland, South Australia, Tasmania, and Western Australia (WA). Each of the six states has a Governor (Queen's representative in that state), Parliaments and elected representatives. The Parliaments of each state government are different and each has their own constitution. Most states are bicameral, except Queensland and Tasmania which have only one House. The methods of electing representatives to each house are also different in each state. The relationship between each state and their Governor is like that between the Governor General and Federal Parliament, the Governor can dissolve a state parliament. The Head of Government in each state is called Premier. Like the Federal sphere of government the Premier is not directly elected but selected from the elected representatives, selects the Ministers, and sworn into office by the Governor (The Australian Government Structure 2005). State governments are responsible for education, transport, family services, housing, water, corporations law, industrial relations, urban planning, wills, local government and all other areas the

Australian Constitution does list as Federal responsibilities (The Australian Government Structure 2005).

2.3 STRUCTURE OF THE MALAYSIAN GOVERNMENT

Details of the structure and responsibilities and history of government in Malaysia are detailed in the following sections.

2.3.1 HISTORY OF MALAYSIAN GOVERNMENT

Malaysia is a federal constitutional monarchy with a bicameral federal legislature and unicameral state legislatures. Malaysia has a total land area of 329,758 sq km (127,320 sq mi). The federal territory of Kuala Lumpur is Malaysia's capital and largest city (The Malaysian Government Official Portal 2008).

Malaysia achieved independence from British Colonial Rule on the 31st August 1957, whereupon the Federation of Malaya was established and the National Government promulgated a Federal Constitution. Nine of the thirteen states have hereditary rulers (sultans) who share the position of King (Agong) on a five year rotating basis(The Malaysian Government Official Portal 2008).

Economic and political disputes led to Singapore's departure from the federation in 1965. Indonesia strongly opposed the membership of Sarawak and Sabah, and launched a cross-border campaign of harassment and military incursions, which lasted until 1966. Malaysia was formed on 16 September, 1963 by the federal union of the 11 states of Peninsular Malaysia—then forming the Federation of Malay (an independent nation since 1957)—with the self-governing state of Singapore, and the former British colonies of Sabah (North Borneo) and Sarawak as previously stated. Singapore left the new federation in 1965 (Salleh 2004).

Malaysia consists of a Federal form of government based on the 1957 constitution of the former Federation of Malaya, but including safeguards for the special interests of Sabah and Sarawak. It has been amended several times with amendments in 1974 and 1984 (Salleh 2004).

2.3.2 THE RULERS

The head of state is the Yang Di-Pertuan Agong (paramount ruler), a monarch elected for a five-year term by and from among the hereditary rulers of 9 of the 13 states of the federation (Awang 1998). Executive and legislative authority is vested in the paramount ruler, but he acts on the advice of Parliament and the Cabinet. The hereditary rulers, together with the appointed heads of the four other states, form the Conference of Rulers, which must be consulted on and approve any alteration to state boundaries, the extension to the federation as a whole, Islamic acts and observances, and any amendments to the constitution (Awang 1998).

The Yang Di Pertuan Agong (King or Supreme Sovereign) is the Supreme head of Malaysia. His Consort, the Raja Permaisuri Agong (Queen) takes precedence immediately after him. Every act of Government flows from his authority but (excluding few matters in which he retains a personal discretion) he acts on the advice of Parliament and the Cabinet (Salleh 2004). The appointment of a Prime Minister lies within his discretion. He has the right to refuse to dissolve Parliament even against the advice of the Prime Minister. He appoints the Judges of the Federal Court and the High Courts on the advice of the Prime Minister, in accordance with procedures prescribed in the Federal Constitution. As the “Fountain of Honour”, he can bestow orders of chivalry or give other honors of recognition (Salleh 2004).

Article 55 of the Federal Constitution stipulates that only the King can call for Parliament to be in session. The King also has the special power to end or dissolve the Parliament (Parliament of Malaysia 2004d). Therefore, the King is required by the Constitution to call Parliament to meet within six months between the last proceedings in the next term (Salleh 2004).

The Federal Parliament is the highest judiciary body in Malaysia. Unless dissolved, the Parliament will proceed for five years from the date of the first proceeding session conducted after a General Election (Parliament of Malaysia 2004d). At the end of the five-year period, the Parliament is automatically

dissolved, and within 60 days from the date of its dissolution, a General Election to elect representatives for the Dewan Rakyat has to be held, and the Parliament calls for a meeting at a date not later than 120 days from the date of dissolution (Salleh 2004).

Conference of Rulers

The Conference of Rulers is established by the Constitution and consists of Rulers and the Yang Di - Pertuan Negeri/Governor. Its prime duty is the election of the King and his deputy (in this, however, the Yang Di Pertuan Negeri plays no part). The conference must be consulted on the appointment of Judges, the Attorney General, the Election Commission and the Public Services Commission. The conference must likewise be consulted and concur in the alteration of state boundaries, the extension to the Federation as a whole, In Muslim religious acts and observances and in any Bill to amend the Constitution. Consultation is mandatory in matters affecting public-policy or the special matters affecting the rights, prerogatives and privileges of the Rulers themselves. The Prime Minister and Chief Ministers attend all the meetings of the Conference of Rulers other than a meeting to elect the King or the Deputy Yang Di - Pertuan Agong (Salleh 2004).

The conference as a whole possesses the power of veto over certain types of legislation including that no law can be enacted altering the boundaries of a State except with the consent of the State concerned and of the Conference of Rulers. It has also a veto over any law which provides for a ruler to substitute for the Timbalan Yang Di Pertuan Agong in instances where the Timbalan is unable to perform the duties of the Yang Di Pertuan Agong (Salleh 2004).

The functions of the Conference of Rulers have been enlarged to include the appointing of members of the Special Court under Article 183 and the granting of pardons, reprieves and respites, and the suspending or commuting of sentences under Article 42(2). The Conference of Rulers may exercise their discretionary power in these matters (Salleh 2004).

2.3.3 MALAYSIA'S CONSTITUTION

The Federal Constitution of Malaysia is the supreme and over-riding law of the nation. The Constitution guarantees liberty of the person, protection against retrospective criminal laws and repeated trials, equality before the law, freedom of movement, speech and religion and the right to property (Jameah 2004). The Constitution distributes the power of governance in accordance with the practice of a parliamentary democracy. The Constitution may be amended by a two thirds majority in Parliament (Jameah 2004).

The Executive Authority of Federation

The constitution vests the executive authority of the Federation in the King. This power is exercised either by him personally or by the cabinet or any other minister authorized by the cabinet, although Parliament may from time to time confer executive functions on other persons (Awang 1998). The King appoints or dismisses ministers and assistant ministers on the advice of the Prime Minister; the Attorney General; the High Courts; and the members of various commissions e.g. Public Services, and the Police Force. He appoints an advisory board to consider representations made by individuals held under the laws of detention without trial and receives its recommendations. His decision in these cases is final and without appeal (Awang 1998).

The King is also above the law and not liable to any proceedings whatsoever in any court in Malaysia, and the Court has held that this means that he is not liable in his personal capacity but he is liable in his official capacity (Awang 1998). He is the Supreme Commander of the armed forces of the Federation and grants pardons, reprieves and respites in respect of all of the offences tried by court-martial. He may initiate a state of emergency by issuing a Proclamation of Emergency under Article 150 and if Parliament is not sitting, the Cabinet may legislate through ordinances promulgated by the Yang Di Pertuan Agong. (Awang 1998). He is the head of the Muslim Religion in his own state and the States of Malacca, Penang, Sabah, and Sarawak. He may act on behalf of other rulers in respect of acts, observations or ceremonies which they agree should extend to the country as a whole (Awang 1998).

Legislative Authority

Legislative authority is the power to make laws and also the power to raise taxes and authorize expenditure (Salleh 2004). At the Federal level, legislative power is vested in a bicameral Parliament headed by the King and comprises the Dewan Negara (Senate) and Dewan Rakyat (House of Representatives) (Parliament of Malaysia 2004a).

The Dewan Negara has 70 members, of whom 44 are nominated by the King, 26 are elected by the State Legislative Assemblies and four members represent the Federal Territories of Kuala Lumpur (2), Putrajaya (1) and Labuan (1). The Dewan Rakyat is fully elective and has 219 members (Salleh 2004). Elections of the Dewan Rakyat, where the party/ies with a majority form the Government, must be held every five years. Each State has unicameral legislature for which elections are held every five years (Salleh 2004).

2.3.4 FEDERAL PARLIAMENT

The Malaysian Parliament is closely modeled on that of other previous British colonies in that it is bicameral. The two Houses are the Senate (Dewan Negara) and the House of Representatives (Dewan Rakyat). Parliament is the supreme legislative authority in the Federation. Sovereignty in the Malaysian Federation is vested in the King and Parliament. In order for a bill to become law it must be passed by an absolute majority of both Houses of Parliament and receive the assent of the King (Awang 1998).

The King undertakes a major role within the parliamentary process. He summons parliament from time to time but he must not allow more than six months to elapse between the last sitting in one session and the date appointed for the first meeting in the next session. He may prorogue Parliament and unless dissolved sooner, Parliament continues for a period of five years from the date of its first meeting, and at the end of five years it stands automatically dissolved. In the exercise of these functions the Yang Di Pertuan Agong acts on the advice of the

Cabinet save the withholding of consent to a request for the dissolution of Parliament in which he acts on his own discretion (Awang 1998).

Parliament sits for a period of five years from the date of its first meeting after a general election. On the expiry of each five year term, Parliament is automatically dissolved and within sixty days from the date of dissolution, a general election for representatives for the Dewan Rakyat shall be held and Parliament shall be summoned to meet on a date not later than 120 days from date of dissolution (Salleh 2004).

Functions of Parliament

As the Legislative Authority for the Federation, Parliament makes laws applicable to the Federation as a whole. Parliament also has responsibility for the finances of the Government (Salleh 2004). It thus wields a considerable and far-reaching influence on the life of the Federation (Parliament of Malaysia 2004a).

Parliament passes Federal laws, makes amendments to existing Federal laws, examines the government's policies, approves the government's expenditures and approves new taxes. Parliament also serves as the forum for criticism and the focus of public opinion on national affairs. To enable Parliament to undertake its responsibilities fully and effectively, the Constitution confers certain rights and legal immunities designated "Parliamentary Privileges" upon Parliament. These privileges are enjoyed by each House as a whole, and by individual members of Parliament (Parliament of Malaysia 2004a). Each House is empowered to regulate its own procedure each has exclusive control over its own proceedings, the validity of which may not be questioned in any court and each House can punish members for breaches of the privilege or "contempt" of that House. Members of Parliament individually enjoy immunity from civil and criminal proceedings in respect of things said or done by them in Parliament, and the same immunity protects other persons acting under the authority of either House (Parliament of Malaysia 2004a).

Federal taxes and rates can only be raised under the authority of Parliament as expressed in the form of Federal laws. All revenues raised, however, must be paid into the Federal Consolidated fund and all expenditure can only be made under the authority of Parliament (Salleh 2004).

Structure of Parliament

Each House of Parliament regulates its own procedure and each has its own standing orders. Further, each House may act notwithstanding any vacancies in its membership and members who are absent are not entitled to vote. Decisions of each House are taken either by a voice vote or by a division; a division is ordered when a member requests it and is supported by at least fifteen members in the Dewan Rakyat or eight members in the Senate. The Speaker or President may call for a division in cases where a specified majority of members is necessary, such as a bill amending the Constitution (Awang 1998).

House of Representatives

The House of Representatives is fully elected with 219 members. A general election is held every five years to elect members of the Dewan Rakyat. The party/parties with the greatest number of votes form a government to rule the country (Parliament of Malaysia 2004b).

Customarily, a Bill originates in the Dewan Rakyat. Once approved, it is tabled in the Dewan Negara for further debate. Following approval by both houses of parliament the Bill is presented to the King for his consent (Parliament of Malaysia 2004b). Once approved by parliament and the King, the Bill is then gazetted in the 'Government Gazette', thus making the Bill law (Parliament of Malaysia 2004b).

The Speaker and the Deputy Speaker are elected by members of the House of Representatives. However there is special provision in the Constitution for the Speaker to be elected from outside the membership of the Dewan Rakyat with the person so elected being regarded as a member of the House in addition to the 219

elected members. Membership of the House of Representatives is limited to citizens aged 21 and above who are not members of the Senate. The life of the Lower House is five years, however, it is within the discretion of the Yang Di Pertuan Agong to dissolve Parliament before then, on the advice of the Prime Minister (Salleh 2004).

The Senate

The Senate comprises 70 members of whom 44 are nominated by the King from among citizens who, in his opinion “have rendered distinguished public services” or are representatives of racial minorities or are capable of representing the interest of aborigines. Two members to represent the Federal Territory of Kuala Lumpur and one member each for the Federal Territories of Putrajaya and Labuan shall also be appointed by the King. The remaining 26 are elected by the Legislative Assemblies of the 13 States of Malaysia, with each State returning two senators. The basic qualifications for all senators are that they should be Malaysian citizens, reside in the State they represent and be over thirty years of age. They are subject to the same disqualifications for membership of Parliament under Article 48 as member of the Dewan Rakyat. The tenure of office is a three-year term for a maximum of two terms, applicable to both Federal and State appointments (Parliament of Malaysia 2004c).

The life of the Senate is not affected by the dissolution of Parliament. Senators are drawn from the ranks of persons who have rendered distinguished public services or have achieved distinction in the professions, commerce, industry, agriculture, cultural activities or social service or are representatives of a racial minority or are capable of representing the interests of aborigines (Parliament of Malaysia 2004c).

The Senate, however, exclusively determines questions as to the disqualification of its own members (Awang 1998). Every member, before taking their seat in the Senate, must take the prescribed oath before the President of the Senate. By the oath, the members swear or affirm that they will faithfully discharge their duty as members to the best of their ability, to bear true faith and allegiance to Malaysia and to preserve, protect and defend the Constitution (Parliament of Malaysia

2004c). Both the President and the Deputy President are elected by members of the Dewan Negara from among themselves (Parliament of Malaysia 2004c).

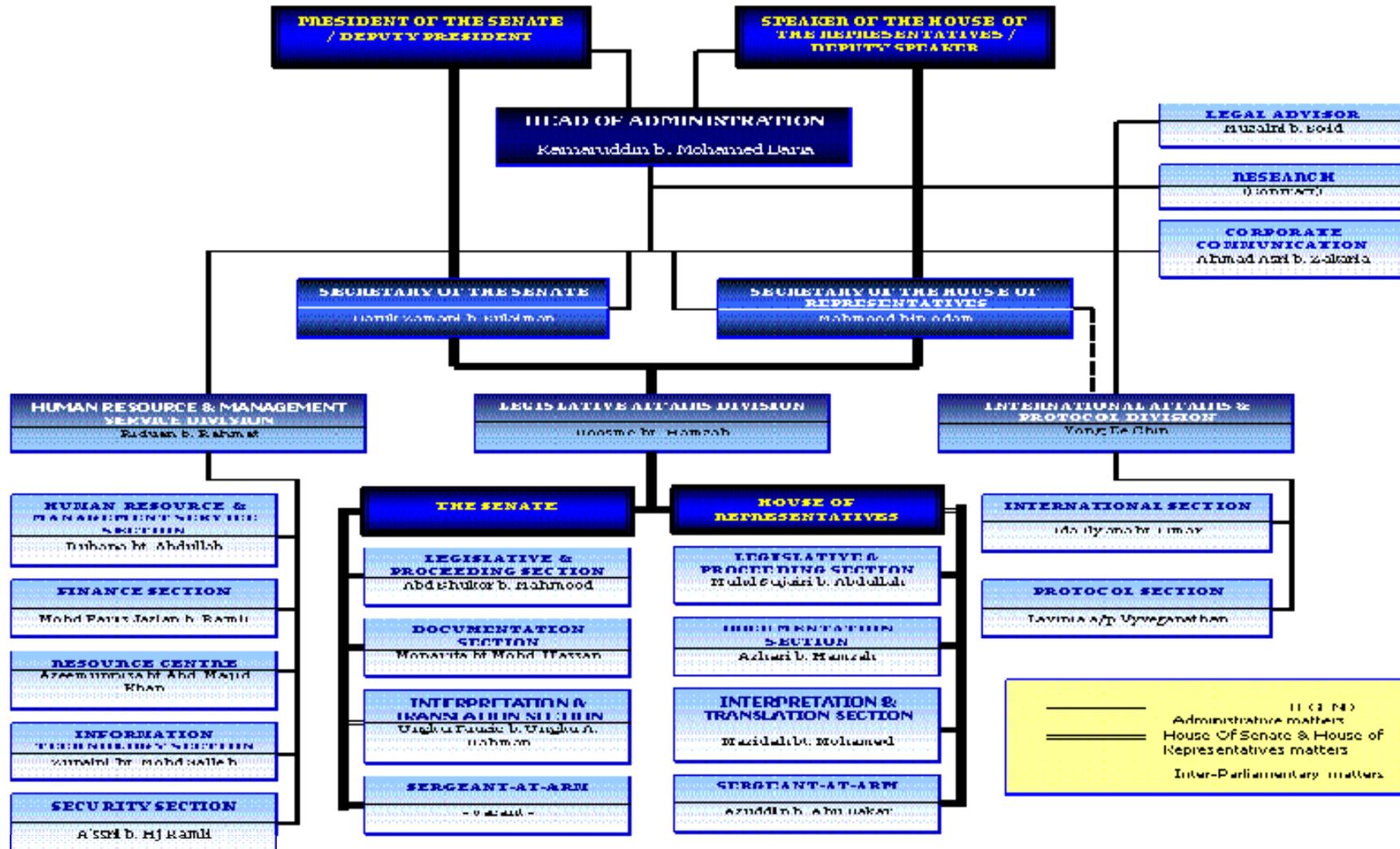
Parliament is empowered by the Constitution to make variations in the composition of the Senate, such as increasing the number of Senators to be elected by each State Legislative Assembly providing for Senators, and reducing the number of, or abolishing, appointed Senators (Salleh 2004).

Prime Minister

As the executive head of the Government, the Prime Minister is responsible to the King for all Government matters. The Prime Minister is the leader of the parties with a majority in the House of Representatives and holds office at the Royal pleasure. He also the head of the Cabinet of Ministers, where he is *primus interpres*, the first amongst equals (Parliament of Malaysia 2004d). The post of Deputy Prime Minister is a conventional one (that is, it is not established under the Constitution or any written law). The Deputy also has a high measure of confidence within the Cabinet and the party and is available to take over the administration in the event of the absence or disability of the Prime Minister (Salleh 2004).

Judiciary

By virtue of Article 121 (1) of the Constitution, the judicial power of the Federation is vested in the High Court of Malaya and the High Court of Sabah and Sarawak and in such inferior courts as provided by federal law (Salleh 2004). The judiciary is empowered to hear and determine civil and criminal matters, and to determine the legality of any legislative or executive acts. The law also confers on it the authority to interpret the Federal and State Constitution (Salleh 2004). The Federal Court is the highest court in Malaysia (Salleh 2004). To enable it to perform its judicial functions impartially, the Judiciary must be independent. This means the independence of the individual Judges in the exercise of their judicial functions and the independence of the Judiciary as an institution (Salleh 2004).



Administrative Structure

The Malaysian Government administrative system comprises three levels, there being:

- 1) Federal
- 2) State
- 3) District Levels (Local Government).

Federal

The Federal Constitution has given extensive provisions to the Federal government where national administration is concerned. However, State governments have more powers over the administration of certain matters within the State Governments jurisdiction. The State governments therefore play an important role in the administration of their states. The administrative duties at the Federal level include all aspects of public services such as economy, social, security, and education. To ensure the smooth implementation of the country's administration, the Malaysian Government has set up various agencies to carry out certain functions to enable the Government to attain its objectives (Salleh 2004).

Federal Agencies

The various Federal government agencies are established by the Government to plan, control, assist and implement all activities planned to attain all the national objectives. To ensure that a Government agency will be able to perform its functions smoothly, the agency concerned must be organised in a proper, systematic and effective manner. In addition, the Government appoints officers to hold public services posts at various levels (Salleh 2004). The administration of a Government agency would be incomplete without financial allocation to pay for its activities. To finance the agencies, a yearly allocation is provided based on the financial needs to enable agencies to carry out the activities and responsibilities entrusted to them. At

present the agencies established are responsible for providing public services in the field of social, economy, security and law (Salleh 2004).

With the Government administrative structure, Government agencies comprise two main components, namely:

- 1) Departments,
- 2) Statutory Bodies.

At Ministerial level the functions of the agencies are to formulate, control and implement Government policies, while at departmental levels the agencies are responsible for implementing all the policies. Agencies of Statutory bodies are semi-Government in structure and are responsible for carrying out duties assigned to them to meet the Government's aspiration (Salleh 2004).

Departments

Government departments are the highest bodies in the federal administrative machinery. Each department is responsible for formulating, planning, controlling and co-ordinating Government policies pertaining to its functions (Salleh 2004). Normally each department is headed by a Minister who holds a certain portfolio. In cases where the portfolio carries heavy and important responsibilities, the Minister would be assisted by a Deputy Minister and Parliamentary Secretaries. However, Deputy Ministers and Parliamentary Secretaries are not included in the Cabinet (Salleh 2004). Most departments were initially established during the colonial era. During British rule over Malaya, government departments were set up to implement policies and carry out activities of the departments concerned (Salleh, 2004).

Usually the functions of a Department are related to certain policy determined by the Government. The daily activities of a government department involve the direct rendering of services to society. The services rendered include social, security, development and other social services (Salleh 2004). A Department is headed by a Director-General who is also the Chief Administrative Officer. The title Director-General is used depending on the size of the Department (Salleh 2004).

Administrative Structures at State Level

To carry out its administrative functions, state governments in Peninsular Malaysia have entrusted the duties to the District Officers which in turn delegate the tasks to several districts (Salleh 2004).

In Sarawak, the state is divided into divisions and each division is divided into districts. Each division is headed by a Resident, while districts are headed by a District Officer as in Peninsular Malaysia. Sabah is divided into several residencies administered by residents. At district level the district officer is the Chief Administrator (Salleh 2004).

Other posts at State level are filled by state officers except for certain posts allocated to Federal Officers who are seconded to the process. In states formerly known as Non-Federated Malay States, all posts are district officers and assistant direct officers are held by federal officers assigned to the areas. The posts are considered administrative and diplomatic services posts. The Malay Civil Services are federal services in states formerly known as the Federal Malay States. Similar services are also available in other states and known as the State Civil Services. The Malay Civil Services are now known as the General Administrative Services (Salleh 2004).

The States

Malaysia is comprised of 13 states, these being Perlis Indera Kayangan, Kedah Darul Aman, Pulau Pinang, Perak Darul Ridzuan, Selangor Darul Ehsan, Negeri Sembilan Darul Khusus, Melaka, Johor Darul Ta'zim, Pahang Darul Makmur, Terengganu Darul Iman, Kelantan Darul Naim, Sabah and Sarawak. These states have agreed to the formation of Malaysia with a strong central government and a common citizenship (Awang 1998). Each state of the Federation has a written constitution and each State Constitution must have the essential provisions as set out in the Eight Schedule to the Federation Constitution. This imposes a considerable degree of uniformity on the states. If a State Constitution lacks these provisions or if it contains Articles or Clauses in violation of these requirements then Parliament may legislate

to remove the inconsistencies or amend the constitution according to the correct model. Any Federal law made for a State in pursuance of Article 71, unless sooner repealed by Parliament, ceases to have effect on such day as a new legislative Assembly, constituted in that state after passing of the Federal Law, may resolve (Awang 1998).

Nine of the Malay states are headed by a hereditary ruler and each of the other four states by a governor appointed by the King. In most important matters of government, each ruler or governor is bound by the State Constitution to act on the advice of the legislature, from among whose members are appointed the Chief Minister, and the other members of the State Executive Council, who are appointed by the rulers or governor on the advice of the Chief Minister. Most states have their own administrative services and all states appoint their own subordinate officers, and there is also an understanding that Federal officers will be accepted to fill out some of the states posts (Awang 1998). All states have unicameral legislatures and elections are held every five years. In the states where there is no hereditary ruler a governor is appointed by the King to be the ceremonial Head of State. The State legislature has the autonomy to pass any law so long as it is consistent with Federal laws (Awang 1998).

The previous two sections (2.2 and 2.3) demonstrate that there are similarities in the structure of the Australian and Malaysian Government. A table showing these similarities is in Appendix 1.

2.4 SUMMARY

This chapter provides an overview of Malaysia and Australia's structure and roles of government. The chapter looked specifically at each country's structure of government, constitution, and parliament. Both countries are former British colonies and both are constitutional monarchies with the Queen Elizabeth II as the head of state. Both countries are also fully developed nations with Malaysia becoming a developed country in August 2006.

Australia follows a Westminster system of government whereby the parliament is elected by the people and the ministers of the government are appointed by the

elected government from amongst its elected members. Australia is a federation of six states and the federal government with two territories also administered by the federal government. With the exception of one state, parliament follows a bi cameral system which consists of two houses, the Upper House (which is classed as a house of review) and the Lower House (from which the party to govern the state or country is selected). The head of the federal government is the Prime Minister and the head of each State is the Premier. Voting in both Federal and State elections is compulsory for Australian citizens aged 18 and over.

The powers of government are divided between the Federal and State Governments. State governments are responsible for more direct state – based programs including education, police, water, electricity and the environment, under the responsibility of a minister of the crown. The Federal government alone possesses the power to levy tax on incomes e.g. income tax and company tax, as well as indirect taxes whilst state governments have indirect taxation powers e.g. stamp duty, transactions tax and resources tax to name a few (Mucciarone 2005).

Malaysia is a constitutional monarchy; the Yang Di Pertuan Agong is the king and Supreme head of the country. The Federal Constitution underlines the separation of governing powers among the Executive, Judicial and Legislative Authorities. The separation of powers occur at both the Federal and State level (Malaysia 2003). The Federal Constitution of Malaysia is the supreme law of the nation that distributes the power of governance in accordance with the practice of Parliamentary democracy. The Constitution may be amended by a two – third majority in Parliament (The Malaysian Government Official Portal 2008).

The Parliament, the legislative authority for Malaysia formulates laws applicable to the country as a whole. The Parliament passes Federal laws, makes amendments to existing federal laws, examines the government’s policies etc (The Malaysian Government Official Portal 2008)

The Malaysian Parliament is divided into three components; The Yang Di Pertuan Agong, the Senate, and House of Representatives. The Yang Di Pertuan Agong performs his official duties upon the advice of the Prime – Minister and his Cabinet

as provided for by the Constitution. He is also the Islamic Religious Head for the States of Penang, Malacca, Sabah, Sarawak, and the Federal Territories. As Malaysia's Supreme Head of State, the Yang Di Pertuan Agong is also the Supreme Commander of the Malaysian Armed Forces. The Yang Di Pertuan Agong is elected every 5 years in accordance with a rotating succession system determined by the Conference of Rulers (Parliament of Malaysia 2004a).

The Senate consists of 70 members – 44 members of which are appointed by the Yang Di-Pertuan Agong on the advice of the Prime Minister, including two members from the Federal Territory of Kuala Lumpur, and one member each from the Federal Territory of Labuan and Putrajaya. The remaining 26 members are elected by the 13 States Legislative Assembly, where each State is represented by two members (Parliament of Malaysia 2004a).

The House of Representatives consists of 219 members who hold office for a period of five years. Members of the House are elected by the people through general elections, where each member represents a constituency (Parliament of Malaysia 2004a).

The Federal Constitution of Malaysia underlines the separation of governing powers among the Executive, Judicial and Legislative Authorities. The separation of powers occur both at the Federal and State level as in keeping with the concept of Federalism which forms the basis of the government administration in Malaysia (The Malaysian Government Official Portal 2008).

The following chapter reviews literature on accountability in Australian and Malaysian governments. The chapter provides a discussion on performance indicators by providing a review of literature of the definition of performance indicators, and types of performance indicators. Financial and non-financial performance measures, dissemination of performance indicators and accountability and performance indicators relating to the government sector and new public management are also discussed.

CHAPTER THREE LITERATURE REVIEW ACCOUNTABILITY AND PERFORMANCE MEASUREMENT

3.1 INTRODUCTION

Public sector organizational and managerial reforms have progressively moved through western countries since the mid 1980's. For example, the United Kingdom has been a leader in corporatisation and privatization reforms, the United States has commercialized practices for government agencies and New Zealand has been a pioneer in government accounting and reporting reform. The commercialisation, public managerialism and accountability philosophies underpinning these reforms have also been adopted by governments in Australia and Malaysia (Rosair & Taylor 2000).

Both Australia and Malaysia recognised the need for public sector entities to improve their efficiency and effectiveness in service provision and, at the same time, provide better accountability and transparency. New approaches to accountability reporting have been specified in legislation and professional accounting standards in both Australia and Malaysia. Australian public sector reforms included the introduction of new accounting standards such as *AAS27 Financial Reporting by Government Departments* and *AAS31 Financial Reporting by Whole of Government*. These and a series of Malaysian standards were part of a wider set of responses by Federal and State governments to the changing focus of accountability.

The shift from fiduciary accountability (accounting for expenditure) to managerial accountability (accounting for efficiency and effectiveness) and annual reporting by public sector entities in Australia and Malaysia was designed to capture both compliance reporting and efficiency and effectiveness reporting by the mid 1990's (Taylor & Pincus, 1999).

Due to the limited amount of information and guidance available to public sector senior finance officers concerning the discharge of their accountability and usefulness of

information in the public sector the aim of this thesis is to determine what factors are considered important in the discharge of accountability by Australian and Malaysian government departments

3.2 ACCOUNTABILITY

Hyndman & Anderson (1995) define accountability as follows:

Accountability involves explaining or justifying what has been done, what is being done and what has been planned. Thus, one party is accountable to another in the sense that one of the parties has a right to call upon the other to give an account of his activities (p 10).

Barret (1993) defines accountability as “the obligation to answer for responsibility conferred. It depends on the quality of the reporting of performance” (p.6).

The United States Government Accounting Standards Board (1987), in Concepts Statement No 1, defines accountability as the main objective in financial reporting. The Australian Statement of Accounting Concepts (SAC 2) states that “general purpose financial reports are prepared to provide users with information about the reporting entity which is useful for making and evaluating decisions about the allocation of scarce resources”(SAC 2).

The link between the concepts of information usefulness and accountability is stated in SAC 2 (The United States Government Accounting Standards Board 1987) as follows:

The rendering of accountability by reporting entities (especially public sector entities) through general purpose financial reporting is encompassed by the broader objective of providing information useful for making and evaluating decisions about the allocation of scarce resources, since users will ultimately required the information for resources allocation decisions (para. 27).

The United States. GASB, (1987) views accountability as the paramount objective in financial reporting although it is acknowledged that the term suffers from imprecise meaning. This concept seems linked with the contemporary view of accounting which is

seen in terms of providing information to satisfy the needs of users (Hyndman & Anderson 1998).

The question then arises as to whom public sector organisations are accountable. The GASB (1987) highlights three groups as primary users of public sector organisations reports, these being the citizenry; legislative and oversight bodies; and investors and creditors. An examination of these lists shows a common position where it is accepted that there is a need to report to those outside the immediate management of a public sector organisation (Hyndman & Anderson 1998).

Performance information is paramount in discharging accountability, and a concentration on the provision of traditional financial accounting information may reduce accountability by focusing on the less important (Hyndman & Anderson 1998).

Martinez-Gonzalez & Marti (2006) argue that accountability and the rendering of accounts are interrelated concepts. They argue that without the delegation of power or a certain capacity to do things, accountability cannot be required, and that accountability is manifested, justified, and complied through a suitable rendering of accounts. This rendering of accounts involves showing performance results in a way which discloses and explains what has been achieved.

A study by Li-Cheng (2006b) argued that an accountability relationship is a bond linking the individuals or institutions who are accountable and those to whom they are accountable. This bond is formed by three elements which are the account, the occasion of accountability and the consequences of the account. The form and substance of the account must be prescribed to specify acceptable values/beliefs and actions to construct the field of accountability. The occasion of accountability not only involves the time and place of accountability but also defines the relationships between the accountors, the one who accounts, and the accountees, the ones to whom he/she is accountable. The consequences of the account reflects the judgement made on the basis of performance

information comparing to the account and the action, such as praise or blame, made by the accountees resulting from the judgement (Li-Cheng 2006b).

These concepts of accountability indicate that information regarding the delivery of the account plays an important role in constructing the accountability relationship. However views based on rationalism might ignore the impact of the power relationships between the accountees and the accountant upon the constitution of performance information (Li-Cheng 2006b). However, Stewart (1984) has a different view in that “The bond of accountability is a relationship of power, only the person to whom the account is given has the power to hold to account the person who gives the account”(p 16). Stewart (1984) further argues that an individual or institution who has the power or authority to hold account, not only has the right to define the account, but also to evaluate the performance of the party which gives the account and to praise or blame the performance.

As discussed previously under definitions of accountability there are two types of accountability – financial accountability and managerial accountability. Fiduciary accountability is a primary focus in Australia with its relevance in discharging the accountability of government departments. Rosair & Taylor (2000) explain why fiduciary accountability is considered inadequate in discharging the accountability of a government department. They explain that pressure was put on the management of public sector resources following the fiscal problems of the 1980’s and perceptions the public sector had become too big because public sector managers were spending the funds entrusted to them on wasted resources (ie, failed government projects). This waste led to demands by the public (involuntary resource providers to the government) to demand that the public sector use resources in a more efficient and effective manner (Rosair & Taylor 2000). They comment that “Fiduciary accountability has been inadequate for measuring the efficiency of government and has failed to hold government accountable for its expenditure” (p 78). The inadequacies of fiduciary accountability in discharging the accountability of a government department have led to the formation of managerial accountability. Managerial accountability is linked to

performance indicators Rosair & Taylor (2000) by requiring an agency be accountable for the efficient achievement of outputs relative to available inputs, and the consequences of those outputs for the effective achievement of policy or programme objectives (Rosair & Taylor 2000). Managerial accountability has two essential elements – efficiency and effectiveness (Hyndman & Anderson 1995).

3.2.1 ACCOUNTABILITY IN THE PUBLIC SECTOR

Accountability and rendering of accounts in the public sector has been a much discussed issue in the public sector literature, where accountability is based on the presentation of accounts or performance in accounting terms (Tomkims 1987). However since the adoption of public sector reforms in many developed countries, researchers have criticised this approach to accountability. For example, Humphrey, Miller & Scapens (1993) argue that “the scope of accountability should be expanded to go beyond the typical accounting justification” (p 24).

Martinez-Gonzalez and Marti (2006) argue that the problem of accountability and the rendering of accounts are difficult in the public sector due the nature of public resources. In the public sector, resources cannot be measured or there cannot be any indicators that can provide immediate and direct information on performance due to the absence of profit. This is why accountability in the public sector is considered of greater importance than the private sector. Thus the United States Government Accounting Standards Board (1987) in Concepts Statements, No.1, considers the objective of public financial information from the point of view of the government’s obligation to be publicly accountable and to permit users to evaluate that accountability (Martinez-Gonzalez & Marti 2006).

IFAC (2000) defines accountability in the public sector as

The process whereby public sector entities, and the individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having

clearly defined roles through a robust structure. In effect, accountability is the obligation to answer for a responsibility conferred (p 137).

Accordingly, within the Westminster system of government, public expenditure and revenue decisions are made by the executive and implemented through the administrative arm, the public service.

There are different definitions of accountability in the public sector accounting literature. Stewart (1984) defines accountability as a ladder distinguishing between performance accountability and accountability for probity and legality. Stewart (1984) also discusses accountability information systems and comments that an accountability information system should report on all levels of accountability that is there is a need for a system which reports both financial information and output and outcomes information. The information needs of users groups may also differ. For example the citizenry may be interested in the results or effectiveness of a public sector entity whilst the concern of oversight and legislative bodies may be jointly focused on wider performance information including efficiency and probity (Hyndman & Anderson 1997).

The financial accountability of the public sector in the Westminster system entails a broad obligation by those exercising expenditure and revenue authority to report, explain and justify the extent and manner of the discharge of their responsibilities. This obligation is an integral part of a wider accountability linking the administration to the executive, the executive to the legislature and the legislature to the electorate. In this system the financial integrity of the executive is thus institutionalised (Jones & Pendlebury 2000).

Li-Cheng (2006b) argues that in a decentralised public sector the focus of accountability is on the responsiveness of local units to the centre. A central government is given the authority to call upon the local units to give account of their activities. Li-Cheng (2006b) claims that

The exercise of accountability involves information that can be used to manifest action taken and outcome achieved by local units for allocated (financial) resources and assigned authority (p 65).

Ezzamel et al. (2006) identify three limitations in the traditional understanding of accountability. These are firstly, accountability which has been closely associated with the idea of giving an account that is explaining or justifying actions, ideally in formal terms as in the case of ministerial answering a question in parliament. However, accountability has an alternative, traditionally underdeveloped understanding, that of taking into account the consequences of one's actions for the welfare of others. Secondly limitations on accountability as implicit in the traditional approach that accountability is always a matter of interpersonal relationships - for example the Health Minister responding to health related issues raised in parliament. However, the public sector is not comprised of masses of individual public servants but rather individuals organised into corporate structures and substructures. Therefore, Ezzamel et al. (2006) argue it is difficult to identify the contribution of individuals to particular outcomes and thus hold an individual accountable for outcomes is difficult. For example is the Annual Report important in accountability regimes but worthless for assessing the work of an individual within an agency?

The third limitation is that accountability has traditionally been closely linked with the idea of top down control in an administrative hierarchy. However recent public sector reforms have introduced more complex structures which devolve authority downwards, reduce the number of administration layers and recognise and encourage a more diverse range of relationships with actors outside traditional hierarchies.

The Parliament, in response to the growing size and complexity of government, has created separate institutions which enhance public accountability. These include the Auditor-General, the Ombudsman, the Administrative Appeals Tribunal and the Freedom of Information Act. These institutions enhance ministerial responsibility by providing government with alternative information or advice about the performance of the public service (Management Advisory Board & Management Improvement Advisory

Committee 1993). Thus here is a continuum of accountability relationships between the electorate, the parliament, the government and the public sector (Management Advisory Board & Management Improvement Advisory Committee 1993).

An important aspect of accountability is the reporting function. Accountability is what one exchanges for trust or empowerment. By definition, it involves an obligation to explain an employee's actions and to justify these actions to those who have responsibility over them. It is the obligation to report, which is distinguished from responsibility, the obligation to act (Taylor & Pincus 1999).

The discharge of accountability to stakeholders is accomplished largely when government departments report financial and other performance information. Government agencies are entrusted with the duties of providing optimum services to citizens, within available resources. Valid judgements on how well governmental activities have been undertaken could not be made easily unless information on performance is available (Taylor & Pincus 1999). Although it is impossible to provide information in any one report sufficient to meet the information needs of stakeholders of a public sector entity, it is generally recognised that a key document in the discharge of accountability to accountees is the entity's Annual Report (Hyndman & Anderson 1998).

Annual Reports of government departments are deemed to be of particular relevance to the discharge of accountability to those accountees external to the public sector, for example taxpayers, rate payers, consumers of government goods and services, suppliers and sub - contractors to government entities. These external users, unlike management, parliament and governmental oversight bodies, are disadvantaged in the sense that they have no special access to information on public sector entities but they have legitimate, economic, political and social interest in the activity of governments (Taylor & Pincus 1999).

It is also important to note that the criteria employed in decision making in the public sector is not based on financial data alone. Efficiency is perceived as a desirable goal and equity is given high priority. The concern for fairness and impartiality in the treatment of clients results in an emphasis on precedent and the justification of individual acts which in turn reinforces the specificity of accountability (Jones & Pendlebury 2000).

3.2.2 NEW PUBLIC MANAGEMENT

During the past decade and a half, Australian governments have progressively adopted financial management and reporting reforms for Federal government departments and other governmental funded agencies. During this time the Australian government embraced new approaches to financial planning, efficiency management and performance and accountability reporting. Reforms in Australia have pervaded both the Federal and State levels of the public sector. Concepts of contestability for funds and accountability for performance have been central to the public sector reform agenda (Mucciarone & Taylor 2005). Accounting related changes have embraced performance measurement, resources management and accountability reporting. Each is important to the broader movement known by different names as “managerialism”, “the financial management improvement program and “new public management program”. Collectively, these changes are referred to as New Public Management, which is underlined by a public sector management philosophy known as Managerialism (Guthrie & English 1997). Parker & Gould (1999) argue that new public management is an adoption of private sector management techniques. Parker & Gould (1999) comment that the:

Public sector tends to adopt private sector management practices including the pursuit of efficiency and effectiveness of service delivery, where the government pays for the services but does not necessarily provide the service (p 110).

Parker & Gould (1999) further comment that “public sector management has been transformed from being administrators and custodians of resources to being accountable managers empowered with greater delegated authority” (p 110). Brignall & Modell (2000) comment on the emergence of new public management as follows

The growing managerialism has been more or less equated with a preconception of performance in terms of efficiency, economy and effectiveness at the expense of non – financial, less easily measurable aspects endorsed by professional service providers (p 282).

Managerialism embraces the two intertwined issues of management efficiency and public accountability (Kniss 1999). The original wave of managerialism reforms of the late 1980's focused on economic efficiency and accountability of administrative bureaus by elected politicians. In Australia, a formal managerial framework was introduced by the Federal government in 1984 in legislation entitled the "Financial Management Improvement Program". The traditional public sector administrative interests in inputs was replaced by a focus on outputs (efficiency) and outcomes, referred to by the Australian Public Service Board (1986) as "managing for results". Stone (1995) argues that managerialism is a corporate management approach to public administration and has three main features which distinguish it from parliamentary control, these being a) an emphasis on strategic, rather than detailed control, b) an emphasis on agency self-evaluation and reporting plus periodic, formal external evaluation, and c) rationalisation of agency responsiveness.

Managerialism includes the following five characteristics:

- 1) Clear, consistent objectives – detailed in corporate plans, performance agreements and individual programmers;
- 2) Greater managerial autonomy – through delegation of ministerial authority, devolution of managerial authority to lower levels of the organization, and management training;
- 3) Performance evaluation – through the development of performance indicators at the organizational and individual programme level;
- 4) Rewards and sanctions for senior public services managers; and

- 5) Competitive neutrality for commercial authorities. (Beringer, Chomiak & Russell, 1986, p 12).

Humphrey, Miller and Scapens (1993) in their study of the UK public sector comment about the emergence of new public management as follows:

Whether it is efficiency scrutinizes, performance indicators, budgets, financial or resource management information systems, value for money audits or inspections, cash limits or the establishment of internal markets, there has been concerted attempts to give a greater profile to the economics of public sector delivery (p 9).

Osborne & Gaebler (1992) argue in favour of reinventing government by separating policy development roles from the service delivery role and introducing market pressures in relation to the service delivery function. The new public management involves a shift in emphasis from rule enforcement and administration to the attainment of results through mission statements, performance management and performance based rewards (Osborne & Gaebler 1992).

The new model of public management supports a greater emphasis on outputs and outcomes including cost effectiveness. The change in the public sector management model has involved a re orientation of public sector organisations from primarily concentrating on administrative discretion and the administration of rules and formal processes to a focus on economic goals, competition and the achievement of results (Bozeman & Straussman 1990).

Performance indicators are central to the new public management as they provide the language or currency for managing the new arrangements. However, the state of their development meant the focus was initially on measurable aspects of finance and organisation. These were mainly inputs (e.g. staff costs) or outputs (e.g. number of services delivered). Outcomes were problematic given the often uncertain connection between the inputs and or outputs, and outcomes (described as uncertainty by (Carter, Klein & Day (1992), and difficulties in defining and measuring outcomes. Additionally

performance indicators have been seen as back seat driving or hands off control by government Carter (1989) as they encourage the management of performance at a distance. The managerial flavour of performance indicators is often in conflict with professional autonomy (Harrison 1999). The discretionary behaviour associated with clinicians generates an irreducible core of professional autonomy that managerialism cannot capture (Rueschemeyer 1983).

Many initiatives measure performance at aggregate levels – the school, hospital, the prison – rather than identifying the individual practitioner although questions about individual performance are raised (Pollitt 1993). The association of performance indicators with new public management stresses the organisational dimension; the role that the manager have in enuring that quality assurance mechanisms (second order activities) are effective (as opposed to service delivery by clinicians (first order activities) (Exworthy et al. 2003).

3.3 INTRODUCTION TO PERFORMANCE MEASUREMENT

There are widely differing expectations of performance reporting in different jurisdictions which in turn places different expectations on any assurance provided. One example of the expectations of performance reporting includes making performance reporting a standard accountability requirement which applies to all departments and agencies. Alternatively, performance reporting could be an additional accountability requirement when an agency has greater independence/autonomy (Wilkins & Mayne 2002).

Performance reporting exists in the context of a wide range of activities associated with the release of performance information - agency based and external evaluation and review are examples. Apart from the Annual Report, information can be generated using internal monitoring benchmarks, customer service measures and performance-based pay systems (Wilkins 1998). Boyne & Law (1991) argue the importance of performance information in the discharge of accountability by government departments.

Effective accountability in practice is impossible without accurate information on local authority performance. In the absence of performance data, the concept of accountability and indeed the whole democratic process is a sham (p 179).

Carter & Greer (1993) argue for setting formal targets linked to objectives. They claim performance indicators look more and more like dials with one critical factor behind this development being the general improvement in the quality and reliability of financial information and performance indicator systems (Carter & Greer 1993). These different types of performance indicator dials versus tin openers have important implications for management styles. The prescriptive indicator is a top down management tool which lends itself to a command style of management, but the difficulty in measuring outputs has constrained the use of this form of indicator by Government departments (Carter 1989). Quite clearly prescriptive performance indicators are closely linked to the top down model. However, the descriptive tin opener suggests the need for a more persuasive style of management, not a simple top down exercise. On the contrary performance measurement needs to involve a contestable and complex process of negotiation between different levels of management and activity (Carter 1989).

The logic, according to Carter (1989), is straightforward:

If the government is to retain control and accountability then the centre must be able to state explicitly the form, quantity, and quality of inputs, outputs and outcomes that it expects the decentralised service to provide (p 133).

The hands off control strategy identified by Carter (1989) are part of the new performance evaluation initiative, “The Next Steps” which is being implemented in the United Kingdom (UK) public sector. An important idea behind the Next Steps initiative is that agencies have a wider accountability. Carter (1989) makes the point that in relation to the Next Steps program in the United Kingdom:

It is this structural reform reinforced by the formal linking of performance indicators and targets to objectives and (ultimately)

resources, which should provide a major incentive to improve and employ performance indicator systems (p 135).

In addition, Carter (1989) states that:

One yardstick by which to evaluate the impact of the changes is by the robustness of the performance indicators and the extent to which the performance indicators are being used by Government departments (p135).

In theory, a reliable system of performance indicators allows a government department to maintain effective hands off control whilst retaining its flexibility. In practice, because the department holds ultimate responsibility for performance, it may not want to let go, it may seek to obtain as much information as possible to allow it to exercise virtual hands on control (Carter & Greer 1993). The monitoring and control system is made explicit by the formalised performance target setting, which is built into the department's business plans. These plans include a number of performance indicators and targets agreed to deliver a specified performance within a given level of resources, taking account of Treasury forecasts regarding areas of uncertainty such as inflation, growth, and unemployment. Such forecasts will be more significant for government departments than government trading enterprises, which raise all or part of their revenue from receipts (Carter & Greer 1993).

The expanding role of performance indicators has already had an impact on the relationship between the Treasury department and agencies. The increasing use of performance indicators in exercising hands off control over government departments provides Treasury with more information about the use of resources in various aspects of departmental activity (Carter 1989). This control is a double edged sword as on the one hand there is less scope for departments to disguise inefficiencies whilst on the other hand, when bids are not fully met, departments can ask ministers to be explicit about the areas of service to be cut.

The Next Steps program resulted from weaknesses in the disclosure of performance indicators. Specifically, that performance measures and indicators provided were often

poorly related to departmental aims and objectives. Key policies frequently had no indicators included in departmental reports (Carter 1989). Another weakness identified by Carter (1989) was the difficulty of measuring performance. There was an overall emphasis on quantitative efficiency indicators and few qualitative effectiveness indicators.

However, as Carter (1989) points out, quality in terms of outcomes can be difficult to measure.

To measure quality in terms of outcomes, ie, the nature of the final product has proven technically very difficult. It can also be complicated and costly to measure (p 138).

Zifcak (1997) argues that despite the difficulties of measuring quality in terms of outcomes, governmental performance can rarely effectively be expressed in quantitative terms alone. The author comments that Performance information must be complemented by qualitative judgements founded upon political, economic, social, administrative and personal experience (Zifcak 1997). Zifcak (1997) further remarks: that “this is not to say performance measurement has no place. It provides valuable source data. It is to say, however, that such data must inform judgement rather than become a substitute for it “(p 107).

Brignall & Modell (2000) discuss that performance may be viewed as institutionally defined as institutional factors determine the interests being pursued by organisations. Meyer & Zucher (1989) claim that:

Generally performance will be defined narrowly to the extent that a) elites dominate an organisation, b) a high degree of professionalisation exists, and c) the organisation performs a technical function, outputs of which are measurable. Performance will be construed much more broadly, by contrast, to the extent that a) the norm of participative democratic governance operates, sometimes in the formal structure or rules of an organisation; b) the interests of multiple constituencies are given recognition, and c) the organisation’s function is non – technical and outputs elude measurement (p 111).

In addition to these determinants of good performance, it is important to consider whether the organisation is dependent on different groups of stakeholders. Brignall & Modell (2000) comment that:

The rationale for this is that the acquiescence to one dominant stakeholder is vital for long term survival, but is also likely to limit the organisation's ability to meet the objectives of other stakeholders (p 285).

3.3.1 PERFORMANCE MEASUREMENT IN THE AUSTRALIAN GOVERNMENT SECTOR

Public sector accountability was used in the 1990's with formal systems of accountability being built into the legislation and the rules and regulations for government bodies (Hyndman & Anderson 1995; Kloot 1999). During this period the accounting profession in Australia also shifted the approach to financial reporting by public sector entities. Among other public sector accounting standards, the Public Sector Accounting Standards Board issued AAS29 "*Financial Reporting by Government Departments*". Building on these accounting standards, and responding to the changing focus of accountability towards managerial accountability, Australian governments at both Federal and State levels introduced a more fully integrated annual reporting approach for annual budgets, financial reports and performance indicators in respect of budget funded agencies (Taylor & Pincus 1999). For example, in Western Australia, the State Treasury's Financial Reform Division has driven the phase in of accrual output-based budgeting and financial reporting since 1997 (Mucciarone & Taylor 2005). Under this reporting framework each government agency is required to choose suitable performance indicators (both efficiency and effectiveness) for each output group of their organisation and report these performance indicators after being audited by the State's Office of the Auditor-General (Mucciarone & Taylor 2005).

The practice of government departments disclosing sets of performance indicators in their Annual Report has become widespread in Australia in recent years. As each government department has different objectives and outputs, the choice of suitable performance indicators to report is typically left to the discretion of the management of each organisation (Mucciarone & Taylor 2005).

Performance measurement is a way of determining whether (or not) government departments' are providing a quality product at a reasonable cost (Taylor & Pincus 1999). Thus the discharge of managerial accountability requires the measurement and reporting of the various types of performance indicators i.e. efficiency and effectiveness. Managerial accountability is where an agency is accountable for the efficient achievement of outputs relative to available inputs and the consequences of those outputs for the effective achievement of policy or program objectives (Rosair & Taylor, 2001).

Performance reporting in Australia is emerging as a major thrust for improving accountability (Wilkins 1998). Systems of public sector accountability have become widely used since the 1990's as formal systems of accountability were built into legislation and rules and regulations for government organisations (Fowles 1993; Hyndman & Anderson 1995). Performance information is necessary for the discharge of accountability and financial and accounting information is often emphasised in determining accountability (Hyndman & Anderson 1995; Kloot 1999). Performance and accountability cover a much broader base than previously. Public sector managers are being increasingly challenged to report on such matters as how ethical, equitable and environmentally friendly their departments have become; not just on the traditional three E's of efficiency, economy and effectiveness. New approaches to service delivery in the Australian public sector have brought the issue of accountability into focus. The Australian government has explored a range of approaches to addressing community needs on a more coordinated or integrated basis (Wilkins & Mayne 2002).

Electors, taxpayers and ratepayers must be able to make informed judgements about the stewardship of public monies and the performance of public sector entities against stated objectives. Profitability cannot be the key performance measure. Instead, a broader, multi-dimensional, measure, accountability, is used to assess the regulatory compliance, efficiency and effectiveness of government funded public sector entities (Taylor & Pincus 1999).

3.3.2 PERFORMANCE MEASUREMENT IN THE MALAYSIAN GOVERNMENT SECTOR

In the 1990s the Malaysian Federal government piloted a modified budgetary system (MBS) with three of its ministries - it was fully operational in 1996. The MBS was orientated towards a managerial approach with particular regard to the final phase of performance evaluation of government departments. The objective of the Malaysian government was to determine whether the management of its agencies would be improved if greater disclosure of information on performance and accountability was adopted (Nichol & Taylor 2001).

Nichol & Taylor (2001) comment as follows:

The Malaysian Federal government is entrusted with responsibilities of providing optimal services within available resources. Valid judgments, by both elected parliaments and the public, on how well public sector activities have been undertaken could not easily be made unless information on performance, as evidence of accomplishments or failings is available (p 37).

Although it is not impossible to provide sufficient information to meet the needs of all users, it is generally agreed that a key document in the discharge of accountability to external users is the government's Annual Report and budget papers (Hyndman & Andersen, 1995). It is suggested in the literature by a number of authors (Buschor 1993; Patton 1992) that the Annual Reports of governments is of value to external users who, unlike public sector managers, have no internal access to information about public sector ministries, departments or agencies. Patton (1992) argues that there would however be users who have legitimate economic, political, or social interest in the activity of governments (Eg the Office of the Auditor – General, Treasury Department, Citizens etc) (p 169).

The Malaysian Federal government's public accounts documents contain information about the whole of government, including a series of selected annual reports for ministries and other significant government funded entities (Nichol & Taylor 2001). In

1995, 5 years after the government introduced the system of managerialism and managerial accountability, the public accounts documents included details about 19 public sector entities in which there were 11 fewer public sector entities disclosed in public accounts documents (Nichol & Taylor 2001).

Post 1990, measurement and disclosure of service efforts and accomplishment received attention (Nichol & Taylor 2001). Consequently, the Malaysian government introduced a fully integrated annual reporting approach which included annual budgets, financial reports and performance indicators for government funded entities. The implementation of this approach raised some complex technical issues, such as a) the full accrual costing of outputs, b) capital user charges associated with an agency's use of assets, c) the accounting treatment of accumulated employee entitlements, and d) the choice of output performance measures (Nichol & Taylor 2001).

Nichol & Taylor (2001) examined the changes in the extent of disclosure of various categories of accountability and performance-related information in the annual public accounts of the Malaysian government for the years 1985 and 1995. The results showed poor disclosure of efficiency and effectiveness information in the public accounts of Malaysian federal ministries for 1995 which is surprising as in 1995 the Malaysian Government adopted a modified budgetary system designed primarily to improve disclosure of performance and accountability information i.e. efficiency and effectiveness performance information.

The Malaysian public service cannot afford to be seen to be lacking in work performance nor can it afford to be deficient in terms of character and integrity, if it is to lead the nation towards progress and prosperity (Soffian et al. 2004; Syed, et al. 2001). Corruption, abuse of power, inefficiency and incompetence are some of the malignancies that could plague the public service and taint its image as the back bone of national development which would results in a decline of public confidence and affect the nation's social and economic well being (Syed et al. 2001). Therefore, transparency and accountability in the Malaysian public sector will continue to be its paramount

characteristic features in the future. Both these features are necessary to build the trust of the public in the administration (Syed 1996). Some action plan objectives currently in place in Malaysian public sector in safeguarding their accountability can be seen in Table 3.1.

Table 3.1
Accountability and Transparency:

Action Plan Objective	Regulatory or legal framework (pls. corresponding document or legal text	Institution in charge of implementation (i.e. ministry, department etc)	Relevant recent or planned reforms in this area, i.e. their objectives, implementation stages, outputs and time frames.
a) Measures and systems to promote fiscal transparency	There is a mechanism to ensure transparency one of which is by way of Treasury Instruction and the directives on government procurement	Treasury Department	On going
b) Adoption of existing relevant international standards and practices for regulation and supervision of financial institutions	The standard adopted by Malaysia is in accordance with International standards and in accordance to domestic laws and regulation	Treasury Department and all Government Agencies	On going
c) Appropriate auditing procedures applicable to public administration and the public sector	Yearly auditing and report by the Auditor general Office in the Parliament	Auditor General Office	
c) measures and systems to provide timely public reporting on performance	There is a system of public reporting adopted and all government agencies are practicing an open day with their clients which is done	All Government Agencies	

and decision making	every month		
d) Appropriate transparent procedures for public procurement that promote fair competition and deter corrupt activity	Under Treasury Instructions procedures for public procurement has been set out to promote fair competition. To deter corruption Section 15 of ACA 1997 prohibits the officers dealing with the procurement to have conflict of interest.	Treasury Department and ACA	On going
e) Enhancing institutions for public scrutiny and oversight	Government procurement by way of open tender	Treasury Department and Ministry of Finance	On going
f) Systems for information availability including on issues such as application processing procedures, funding of political parties and electoral campaigns and expenditures	There is a system where the companies taking part in the contract must be listed and registered with the processing agency	Processing Agency	On going
g) Simplification of the regulatory environment by abolishing overlapping, ambiguous or excessive regulations that burden businesses	The regulations were constantly reviewed to ensure effectiveness and smoothness of the business transaction		On going

(Syed et al (1996) p3

Malaysian public sector entities are now required to capture both compliance reporting and efficiency and effectiveness reporting (Taylor & Pincus 1999). The difficulty in the discharge of this wider accountability-related information is evidenced by the decline in the number of public sector entities disclosing their Annual Reports in the public accounts documents after the reforms. The nature of this wider accountability related

information was discussed by McCandless (1993). The article argues that a statement of objective was the first requirement for managerial accountability reporting. McCandless (1993) views a statement of objectives as:

A statement of what outputs and outcomes public sector entities intend to achieve which provides users with a concrete and meaningful indication of management's direction (p 15).

The Tayib, Cooms and Ameen (1999) study examines the needs and demands of Malaysian local authority taxpayers for financial information published by Malaysian local authorities. The study examined local authorities' taxpayer's perceptions of the accounting information as actual users of financial information. The results from the study show that in Malaysia, anyone wishing to use local authority financial information has greater difficulty in accessing this information than equivalent users in other countries such as the United States of America and the United Kingdom. These findings support the Tayib (1995) earlier study which revealed that easy access to annual financial accounts is limited to councillors, auditors, the State Authority and the Ministry of Housing and Local Government. Any individual who is interested in inspecting the financial accounts of a specific local authority must wait until the financial accounts are published Both the Tayib (1999) and (1995) studies show that access to Malaysian local governments financial reports is difficult for users such as taxpayers as access to the reports is limited to those users who have authority such as councillors, auditors, and the Department for Local Government.

Privatisation is regarded as a success in Malaysia, in reducing the Government's financial burden and shifting the role as the engine of growth from the government to the private sector and improving the delivery of goods and services. Privatisation of Malaysia public sector agencies raises a problem because the Malays and other indigenous people have the political connections to influence the civil servants to award privatisation projects to them (Syed 1996).

A study by Preston (1999) supports this view and argues that responsible accountability is one that is necessary to the cultivation of ethics in government. Preston (1999) believes the term “Malaysia Incorporated” was cultivated by the distortion of ethical standards.

Preston (1999) sums up his view as follows:

Ethics and standards in public life become a high priority in Malaysia for both citizens and governments. Concerns about declining public confidence have alerted government to the need for maintaining high standards and clearly showing that this is being done. At the same time, public sector reforms are transforming the environment within which public officials operate, often creating new types of ethical dilemmas. In that situation the Malaysian government needs to ensure that ethics is placed centre stage in the reform process, along with the goals of economy, efficiency and effectiveness (p 17).

Malaysia’s current Prime minister held meetings on the creation of a “Public Ethics Institute” to be set up under a National Integrity Plan initiated by him Goh (2003). The aim of the plan is to promote good governance, accountability and efficiency in both the public and private sectors (Goh 2003). The focus of the new Malaysian Prime Minister is more on productivity and efficiency in contrast to public sector spending and privatisation which were the focus of his predecessors (Goh 2003).

The emphasis on accountability depends on the operating environments as is specified in the Federal Constitution 1957, Financial Procedure Act 1957, Audit Act 1957 and Local Government Act 1976. The Acts, among other things, state the requirements for financial reporting on public sector agencies in Malaysia (Soffian et al. 2004).

The public sector as measured conventionally by magnitudes of taxes and expenditure is relatively small in Malaysia. In spite of this, tax, tariff, industrial and incentive policies and programmes have been used extensively to guide the market. Continuation of high growth and achieving full economic development by 2020 will require sustaining high savings rates, meeting heavy infrastructural needs and ensuring the development of

Malaysia's human resources. There seems to be a general consensus that the Malaysian public sector should disengage itself from heavy intervention. A switch from input driven to productivity based growth will require new thinking about the use of state powers to guide and utilise the forces of the market (Mahbob et al. 1997).

Reforming the role of the public sector is a complex process involving a broad range of technocratic and political factors. Flatters points out how integration with the global economy will have to remain central to the successful performance of economies like Malaysia's (Mahbob et al. 1997). The Malaysian Government has the desire to attain the status of a fully developed industrialised nation by 2020.

3.4 DEFINITIONS OF PERFORMANCE INDICATORS

Public sector organizations in Australia and Malaysia use performance indicators to evaluate their performance as their primary objective is service delivery and not profit or economic outcomes. A performance indicator defines the measurement of a piece of important and useful information about the performance of a program expressed as a percentage, index, rate or other comparison which is monitored at regular intervals and is compared to one or more criteria (Bullen 2003). An example is if one of a department's objectives is to refer people to services appropriate to their needs, then one performance indicator could be that the proportion of people who contacted them that considered the referred service relevant to themselves and their needs (Bullen 2003).

This study incorporates a review of the extent of disclosure of performance indicators including the number and types of performance indicators disclosed in the Annual Report. In this study an examination is made of the use and development of performance indicators by both Federal and State governments in Australia and Malaysia. Whilst the need for performance measurement is accepted by Australian and Malaysian Federal and State governments there is evidence that the use of performance indicators is problematic. There are indications from prior research (Mucciarone & Taylor 2005; Nichol & Taylor 2001) that the extent of use is not comprehensive. This raises questions of whether the notion of performance measurement is flawed and therefore

unachievable. State and Federal governments' requirements for disclosure of performance indicators are specified in their respective financial administrative acts and associated Treasury Instructions. Usually, the senior finance officer (SFO) of a government department is responsible for ensuring the disclosure of relevant performance indicators in the entities Annual Report.

The rationale for using performance indicators is to improve the efficiency and effectiveness of program delivery. Public sector organizations use performance indicators to set and measure levels of performance. This structure allows management to assess the extent to which the activities undertaken achieved the stated objectives of the organization. Management is also able to determine whether the organization's objectives have been achieved efficiently and effectively (Mucciarone & Taylor 2005).

An efficiency indicator is defined as maximizing output for a given set of inputs or minimizing inputs for a required output. Efficiency indicators are also expressed as a ratio of inputs to outputs. Efficiency indicators are designed to measure how efficiently the tasks are achieved by determining the inputs used to achieve the outputs produced. Examples of efficiency indicators for a hospital may include day case rates, length of stay, maternity unit costs, mental health unit costs and generic prescribing (Li-Cheng 2006a). Efficiency indicators are consistent with notions of financial accountability for all areas of government and are usually measured in financial terms and data such as costs, volume of service and productivity are relatively simple to measure (Kloot 1999).

Effectiveness indicators measure how well or comprehensively tasks have been performed and is consistent with notions of non-financial accountability within the government. Effectiveness indicators are an expression of how well an objective has been met. Determining effectiveness is problematic, given the immeasurable nature of the output of many government services, such as health, education and police. The problems include the inability to accurately measure outputs, difficulty in isolating the effects of the service (the outcomes) from other factors, lack of quantifiability of the effects of services and conflicting interpretations of results (Kloot 1999). Effectiveness

indicators may be partly measured in terms of quality of service, customer satisfaction and achievement of goals, but such indicators appear less often than efficiency indicators, if at all (Kloot 1999). Examples of effectiveness indicators for a health department include the effective delivery of appropriate health care e.g. childhood immunizations and inappropriately used surgery (Li-Cheng 2006a).

It would seem that with a greater demand for public sector organisations to use resources more efficiently and effectively, the use of performance indicators would be widespread (Henderson & Pearson 2002). Performance indicators and predetermined targets are used to measure the efficiency and effectiveness of organisations in meeting their objectives. These targets can be set by a variety of sources. For example in the case of government departments, the targets are usually set by the relevant Minister and government official, while other organisations may have their targets related to criteria set by standards of best practice. Performance is measured against specific output targets, financial targets and activity levels that must be met during the financial year (Davies & Shellard 1997).

Bullen (2003) defines performance indicators as a numerical measure of the degree to which the objective is being achieved (p1)”. Performance indicators are usually seen as numerical measures of achievements which are easy to collect and use. In theory they can only be derived for items over which you have control, however in practice people don’t have absolute control over anything and so having control is really a matter of whether there is enough control for your purpose (Bullen 2003). The author defines Performance indicators as:

A performance indicator defines the measurement of a piece of important and useful information about the performance of an program expressed as a percentage, index, rate or other comparison which is monitored at regular intervals and is compared to one or more criterion (p 1).

For funded bodies, increasing demands for performance indicators are made in a climate of no growth, government funding cut backs, and the rationalisation of services to

distribute the funding dollar equitably. Bullen (2003) claims that an emphasis in organisations on what is being achieved is important. However, to actually improve performance, other aspects besides performance indicators are needed including commitment to providing and developing quality services and staff who are willing and encouraged to ask questions about why they do what they do (Bullen 2003).

Perrin (1999) argues that performance indicators should be viewed as just one possible source of evaluation data, appropriate in some situations but not in other situations. Performance measurement tends to be mandated across the board, whether it makes sense or not. For example the Australian Federal Government General Purpose Reporting Accountability (GPRA) noted that all Federal agencies and departments are required to develop performance indicators for every program they administer (Perrin 1999).

Mintzberg (1994) states that in terms of the limitations of performance measurement “the fact is that assessment of many of the most common activities in government requires soft judgement – something that had measurement cannot provide” (p.1). Further, Handy (1994,) comments that “to disregard that which can’t be easily measured or to give it an arbitrary quantitative value is artificial and misleading.” p 125

Perrin (1998) argues that performance indicators can be useful in some circumstances for monitoring purposes. Performance indicators can help raise questions and identify areas requiring management attention. However, they are severely limited in their ability to assess outcomes properly. Used in isolation, performance indicators invariably reward and encourage the wrong activities and result in less, rather than more, attention on outcomes and quality (Perrin 1998).

Perrin (1998) argues that for performance measurement to be used effectively, programs need to be provided with adequate resources, including technical expertise for the effective development of performance indicators. This recommendation by Perrin (1998) recognises the problems associated with performance measurement in the literature. What qualifies as a performance indicator according to one expert may be seen by

another to be nothing more than a performance measure or management indicator (Winston 1999). Winston (1999) questioned whether all performance measures qualify as performance indicators? If not always, when can these terms be used interchangeably? (p 95).

Other questions that need to be asked then are what make a good indicator of performance? The criteria of accountability and the provision of a worthwhile service are the basic requirement of any public sector organisation. A way of assessing this accountability is through the use of performance indicators (Davies & Shellard 1997). This involves looking at actual performance that is quantified and compared with benchmarks, estimated calculations, predetermined goals and targets. The next question is what does an indicator tell the reader about the service?

The objectives of performance indicators include 1) develop and improve accountability, 2) ensure that value for money is obtained and 3) monitor the quality of the service (Davies & Shellard 1997).

3.4.1 FINANCIAL PERFORMANCE MEASURES

Financial performance measures are defined as performance measures that are monetary in nature. The development of performance measurement for controlling public sector organizations in the 1980s and 1990s was characterized by growing concerns with fiscal probity and accountability, often epitomized by the three E's: economy, efficiency and effectiveness (Modell 2004). In response to growing economic constraints and accusations of inefficiency, accounting gradually became increasingly salient as a legitimating device (Hopwood 1984; Lapsley 1996). The importance of performance measurement, such as management by objectives and obstacles to measuring outcomes often rendered the notion of effectiveness elusive and contributed to narrowing performance measurement to financial and other efficiency based measures (Carter 1991; Carter & Greer 1993; Lapsley & Mitchell 1996).

A number of researchers have made similar claims that performance measurement needs to be broadened to reflect aspects of greater relevance to public sector organizations, with explicit reference to models derived from the private sector (Ballantine, Brignall & Modell 1998; Kloot 1997). Lapsley and Mitchell (1996) claim that the “public sector provides a leading edge on performance measurement.” (p 5). Atkinson, Waterhouse & Wells (1997) disputes this claim and argue that public sector organizations have measured too many things and the wrong things. Chow et al (1998) supports this view and argue that “public sector organizations need to sharpen their focus when identifying the long term issues of mission, objectives, and strategies” (p 278).

This suggests that there are two potential bases for challenging the current state of public sector performance measurement for prospective contestants (Modell 2004). On one side there is reliance on financial and other types of efficiency based performance measurement has largely failed to improve the provision of public services (Modell 2004). Alternatively, the performance measurement practices of public sector organizations may be considered too broad and unfocused to provide strategic direction for action (Modell 2004). Whilst seemingly inconsistent, these two positions are not mutually exclusive but may co exist in public sector organizations and generate ambiguity as to how performance measurement should be improved (Modell 2004).

Pendlebury, Jones & Karbhari (1994) identified performance measures as indicators of economy (cost reduction type indicator), effectiveness (profitability type indicators) and efficiency indicators (unit cost type indicators). They compared the disclosure of financial performance measures in annual reports by agencies in terms of the level of competition faced by agencies. The study sampled 40 U.K government departments and categorized them in terms of the level of competition they faced. The result was that the most frequently encountered financial performance measure was the cost reduction type indicator. 40% of government departments disclosed cost reduction type indicators compared with 17% of profitability indicators and 35% percent of unit cost indicators. The cost reduction type indicator was the result of reporting savings in overall running

costs, For example, the information technology service department of one department set an overall target savings of 4.5% in running costs, which it achieved.

The final financial performance measure analysed by Pendlebury et al (1994) is the unit cost indicator. They argue that the unit cost indicator does provide a partial measure of efficiency in that the indicator attempts to measure the ratio of outputs to inputs. Unit cost indicators are only partial measures because the output is rarely the ultimate output of a service but usually some intermediate level of activity. The result was that 35% of Government departments disclosing at least one unit cost indicator in their Annual Report.

In Australia, Mucciarone & Taylor (2005) studied factors which influence the types of performance indicators reported with Annual Reports of Australian Federal and State government departments (cost reduction, profitability, and unit cost type indicators). The results of the study showed there is strong support for a relationship between the oversight bodies (OAG and Treasury) and the disclosure of financial performance measures by PAO in their departments' Annual Report. The results also showed that the Office of the Auditor-General had a significant positive impact on the disclosure of financial performance indicators, while the Treasury Department had a weak significance impact on financial performance indicators (Mucciarone & Taylor 2005).

Chow et al (1998) claim that the “public sector is under siege and needs to adopt performance measurement systems better responding to multiple stakeholder demands than the plethora of unrelated indicators often in place” (p 264). The integration between financial and non-financial performance information and systematic derivation of measures from strategic objectives inherent in the balanced scorecard had thus been taken to imply that it may, after some modifications, constitute a potent performance measurement tool for public sector (Chow et al. 1998; Kaplan 2001; Kaplan & Norton 2001).

In Malaysia, Nichol & Taylor (2001) undertook a longitudinal study in which they examined changes to the extent of disclosure of various accountability and performance related information categories in the annual public accounts of the Malaysian government and its ministries and other public sector entities for the years 1985 and 1995. The study consisted of a content analysis of the 1985 and 1995 public accounts using categories of information based on the Hyndman & Anderson (1995) framework. The results showed that the extent of disclosure devoted to financial performance information has changed marginally over the decade.

3.4.2 NON – FINANCIAL PERFORMANCE INDICATORS

Public sector traditional accounting measures are increasingly supplemented by non-financial measures (Modell 2004). Non-financial performance measures are defined as performance measures not of a monetary nature. A number of studies have suggested that government performance should measure economy, efficiency, and effectiveness (Hyndman & Anderson 1995; Mucciarone & Taylor 2005; Nichol & Taylor 2001; Palmer 1993). Measuring economy and efficiency is consistent with private sector indicators (Fitzgerald et al. 1991; Kaplan & Norton 1992) and categories of resource utilization and financial performance. Non-financial performance indicators offer some insights into how effectiveness may be measured to enhance accountability of government agencies.

Pendlebury, Jones & Karbhari (1994) suggest that a more accurate and meaningful performance indicator for satisfaction would be one that is targeted at the various groups identified in a department's goals. As it is not possible with a single measure to determine who in fact is actually satisfied, the Pendlebury, Jones & Karbhari (1994) study labels these as low level measures. Low level measures are measures which encourage a concentration on the low level objectives, which are significantly removed from crucial strategic issues and where the difficulties exist (e.g. determining who is satisfied in the achievement of the organization's goals) to a much lesser extent. A concentration on low level measures may not be helpful in complex organizations pursuing low level measures, which are significantly removed from the overall strategic

mission of the organization, may cause confusion and lack of direction. Therefore it is important that principal accounting officers focus on higher level outputs (Pendlebury, Jones & Karbhari 1994).

Anthony & Young (1988) suggest that in the majority of governmental departments there are usually a few key results measures which are important indicators of success. They take the view that:

In any given situation, opinions may differ as to what these essential result measures are, but it is usually worthwhile to give careful thought to identifying them (p 3).

The authors further argue that due to the multiple and complex objectives of most government departments, it is impossible to develop flawless performance measurement systems. They define output vectors as multi-dimensional indicators of output quality and organizational performance. Accordingly such output vectors give clues as to what is happening in a government department. In other words, output vectors should determine whether the government department was effective in achieving its goals (Anthony & Young 1988).

A UK study by Hyndman & Anderson (1995) identified the type and extent of reporting of performance information in the Annual Reports of 57 agencies for the period 1988/89 to 1990/91. They contended that efficiency and effectiveness are two important criteria for measuring performance. The results showed a significant number of government departments reported little or no information on efficiency and effectiveness and the various components parts of performance (i.e. inputs, outputs and results). Forty two percent of UK executive agencies did not report a single measure of efficiency in their Annual Reports and 14% reported effectiveness indicators. One reason given for the lack of publication of performance measures by government departments was the absence of any formal guidance on how to disclose performance indicators in their Annual Reports (Hyndman & Anderson 1995).

In some areas of the public sector, there would seem to be too many, often unfocused and low level measures of performance. Given the explicit call for agencies to publish information on performance, a lack of publication of measures of efficiency and effectiveness points to government departments where accountability is not discharged in the proper manner (Hyndman & Anderson 1995). The authors make the following comment:

One reason for the lack of publication of performance measures by government departments could be the absence of any formal guidance on how to disclose performance indicators in their annual reports (Hyndman & Anderson (1995 p 5).

In Australia the situation is similar as until the 1990's, the guidelines under which reports had been prepared basically required that details of receipts and payments, compared to budget, for each fund and each program be produced. Little else was required, with the exception of information about an increasing range of assets and liabilities (Jones & Pendlebury 2000). This change in focus has been reflected in a change in managerial policy in the public sector and changes in the style of management have been one result of the change in reporting focus (Jones & Pendlebury 2000). Responsibility for the outcomes and reporting of programs has been devolved to program managers. There is a need for information that will both facilitate more effective scrutiny of management performance and assist managers to achieve the levels of performance required (International Federation of Accountants Public Sector Committee 2000).

A comparison of the Hyndman & Anderson (1995) study with their earlier 1992 study shows a change in emphasis in the reporting of performance. The later study revealed a much greater emphasis placed on higher measures of performance (efficiency and effectiveness) and decreased reporting of the component parts of performance (inputs, outputs and results). The analysis also shows a greater emphasis in later Annual Reports of the use of quality as the basis for measures of effectiveness. Sixty one percent of measures of effectiveness in the 1993/94 annual reports were based on quality targets

compared to 41% in the initial study. These results are in contrast to the Pendlebury, Jones & Karbhari (1994) study discussed previously.

The reason for the contrast in results for disclosure of quality indicators between the two studies is that since the results of the Pendlebury et al (1994) study, departments PAOs have disclosed more quality type indicators as effectiveness indicators. Another reason for the increased use of quality performance measures could be the result of the increasing articulation of the importance of measuring quality (Hyndman & Anderson 1998).

The Carter (1989) study supports the findings of the Hyndman and Anderson (1995) study with respect to the difficulties that government department's face in trying to measure efficiency and effectiveness. Carter (1989) found that there are usually several input measures (the resources required to provide a service), but none, or very few, final output (the services provided by the organization), or outcome measures (the impact of the service on the consumer). However, as Carter (1989) argues further, the majority of indicators are tin openers rather than dials. He illustrates this point by saying that by opening up a complex issue, they do not give answers but prompt interrogation and inquiry and by themselves provide an incomplete, inaccurate picture.

In Australia, Mucciarone & Taylor (2005) identified two types of non-financial performance indicators, these being procedural efficiency and quality of output type indicators (non-financial performance measures). The results showed that the Office of the Auditor-General in Western Australia has a significant positive influence on the disclosure of non-financial performance indicators and the Treasury Department also has a significant positive impact on the disclosure of non-financial performance indicators (Mucciarone & Taylor 2005).

Moynihan & Ingraham (2001) studied how performance information is actually used in public decision making. Their study developed a model of performance information use for sampling executive branch government officials in 50 states of the United States.

The result was active that leadership by the Governor and accessibility of information were significant factors. They also found the credibility of performance information increased when there was a performance auditing function (including the audit of data quality and related performance management systems) and this had the effect of increasing use. The quality of the information (based on the range and nature of information provided) only supported greater use only if it was accessible and actively supported by the leaders.

3.5 SUMMARY

This chapter has reviewed the literature on public sector accountability and performance measurement. The literature provides a variety of definitions of accountability. One of the generally accepted definitions refers to accountability as a relationship in which one party/parties (the agent(s)) is required to give an account of its actions to the other party/parties (the principals) (Taylor & Pincus 1999).

Accountability has become increasingly important within both Australian and Malaysian government departments because governments in both these countries adopted some form of public sector reform, which require government departments to disclose performance indicators that are efficient and effective thus improve their accountability to government, parliament and the public.

The concept of accountability now firmly encompasses the notion of accountability for results and performance. There are many users of performance monitoring information, all with an interest in the performance of the public sector. The large number of stakeholders, including taxpayers, employers, staff, consumers and the government, results in numerous lines of accountability. Given the diversity of users of performance information, it is difficult to develop a set of indicators which covers all their needs.

Australian and Malaysian government departments adopted as part of improving accountability the concept of New Public Management. New public management is also referred to as managerialism. New Public Management calls for the introduction of more

private sector incentives into government organisations in order to promote and improve effectiveness and efficiency (Hood 1995; Van Hengel, Budding & Groot 2006). Hood (1995) argues that new public management places more emphasis on measuring the outputs of sub-units and holding managers accountable. Therefore, managers are motivated to improve decision-making and as a result government agencies are expected to improve their performance (Hood 1995).

The next section reviews literature on agency theory and institutional theory. In particular agency theory will be reviewed and the effect of variables such as oversight bodies, political visibility and citizenry will be discussed. Institutional theory will be reviewed together with discussion of variables such as bureaucrat's accounting ability (experience and membership of a professional body) and salary. The last part of the chapter will review literature on culture.

CHAPTER FOUR LITERATURE REVIEW AGENCY AND INSTITUTIONAL THEORY

4.1 INTRODUCTION

This chapter commences with a review of agency theory including its definition and application to the public sector and this is followed by a review of the literature on agency theory variables. This is followed by a discussion of aspects which influence the types of performance indicators disclosed and disseminated by government departments.

The second section of this chapter covers a review of institutional theory, its application to the public sector and the variables which may influence the disclosure and dissemination of performance indicators by government departments.

As indicated in Chapter One (page 11) both agency and institutional theory are applied in this study because this study seeks to explain why agency theory variables (oversight bodies, political visibility and citizenry) and institutional theory variables (bureaucrat' accounting ability and salary) influence the disclosure and dissemination of performance indicators by Australian and Malaysian government departments.

The final section discusses culture and the level of influence culture may have on the disclosure and dissemination of performance indicators.

4.2 AGENCY THEORY

Agency theory is concerned with the principal-agent problem whereby an agency relationship exists when one or more individuals (the principal) assign some services to be performed by another person on their behalf (the agent).

These agency problems arise because of the impossibility of perfectly contracting for every possible action of an agent whose decisions affect both their own welfare and the welfare of the principal (Brennan (1995). With agency theory, the firm is viewed not as

an individual but as an overlapping set of contracts among principles and agents, each of whom is assumed to be motivated solely by self interest.

Jensen & Meckling (1976) define an agency relationship as

A contract under which one or more persons (the principle (s) engage another person (the agent) to perform some service on their behalf which involve delegating some decision making authority to the agent (p 483).

This theory recognises a contracting process exists between owners and managers of organizations, including government agencies. The actions of parties can thus be explained by an examination of an individual's self-interest which may provide the motivation for their actions. The normative prescription that managers should maximise the profitability or the utility provided from their firms, is replaced by the positive assumptions that people always act from totally self-seeking motives and attempt to maximise their own personal returns (Jensen & Meckling 1976).

Agency theory (Fama & Jensen 1983; Jensen & Meckling 1976) is directed at a particular type of organizing problem, the so-called agency problem. It models the relationship between a principal who delegates work to an agent who performs that work. Agency theory attempts to describe that relationship using the metaphor of a contract (Keeley 1980) with the focus being on determining the optimal contract that governs the relationship between a principal and an agent (Eisenhardt 1988).

Eisenhardt (1988) describes agency theory in terms of a number of cases in health care where the principal knows what the agent has done since the principal is buying the agent's behavior - in this case a contract based on behavior is most efficient. In the second case, the principal does not know what the agent has done. In this case a self-interested agent may or may not have performed as agreed. Eisenhardt (1988) advocates that the principal has two options – 1) discover the agent's behavior by investing in information or 2) contract at least partially on the basis of the outcomes of the agent's

behavior. Such a contract motivates behavior by aligning the agent’s preferences with those of the principal but at the price of transferring risk to the agent (Eisenhardt 1988).

The choice between a contract based solely on behavior and one partially based on outcome depends on the trade–off between the cost of measuring behavior and the cost of transferring risk to the agent through a contract partially based on outcomes (Eisenhardt 1988). If it is relatively inexpensive to monitor behavior or expensive to place risk on the agent ie a contract, where the agent is not monitored, a contract based solely on behavior is most efficient (Eisenhardt, 1988). Eisenhardt (1988) summarizes the key idea of agency theory in Table 4.1:

**Table 4.1
Agency Theory**

Key Idea	Organisational practices arise from efficient organisation of information and risk bearing costs
Basis of Organisation	Efficiency
View of People	Self – interested rationalists
Role of Environment	Organisational practices should fit environment
Role of Technology	Organisational practices should fit technology employed
Problem domain	Control problems (vertical integration, compensation, regulation)
Independent variables	Outcome uncertainty, span of control, programmability
Assumptions	People are self – interested People are rational People are risk averse

Source: Eisenhardt (1988. p 489).

Jensen & Meckling (1976) argue that the right to information stems from the need to ensure the agent has actually performed the service or goal desired by the principal. The costs of an agency relationship have been defined as the sum of monitoring expenditure

by the principal, bonding expenditure by the agent, and the residual loss (Jensen & Meckling 1976). Watts & Zimmerman (1979) explain these concepts as follows:

Monitoring expenditures are expenditures by the principal to control the agent's behavior (e.g. costs of measuring and observing the agent's behavior, costs of establishing compensation policies etc). The agent has incentives to make expenditures to guarantee that he will not take certain actions to harm the principal's interest or that he will compensate the principal if he does. These are bonding costs. Finally, even with monitoring and bonding expenditures, the actions taken by the agent will differ from the actions the principal would take himself. The wealth effect of this divergence in actions is defined as the residual loss (p 275).

Monitoring Costs

Monitoring costs are expenditures paid by the principal to measure, observe and control an agent's behaviour. They may include the costs of audits, writing executive compensation contracts and ultimately the cost of firing managers. Initially these costs are paid by the principal, but Fama & Jensen (1983) argue they will ultimately be borne by an agent as his/her compensation will be adjusted to cover these costs.

Certain aspects of monitoring may also be imposed by legislative practices. In the United Kingdom for example, companies are required to provide statements of compliance with the Cadbury (1992) and Greenbury (1995) reports on corporate governance. Non-compliance must be disclosed and explained and the attentions attracted by statements of non-compliance represent an additional source of monitoring.

Denis, Denis & Sarin (1997) argue that effective monitoring will be restricted to certain groups or individuals. Such monitors must have the necessary expertise and incentives to fully monitor management and in addition, they must provide a credible threat to management's control of the company. Bukart, Groom & Panunzi (1997) provide a contradictory view of monitoring by arguing that too much will constrain managerial initiative. Optimal levels of monitoring managerial policies are specific to an individual firm's contracting environment (Himmelberg, Hubbard & Palia 1999). Critics of

Cadbury (1992) have argued that this increased level of monitoring may act as a deterrent to managerial entrepreneurship.

Bonding Costs

Given that agents ultimately bear the monitoring costs, they are likely to set up structures that will see them act in the shareholders' best interests or compensate them accordingly. The cost of establishing and adhering to these systems are known as bonding costs. They are borne by the agent, but are not always financial. They may include the cost of additional disclosures to shareholders but management will have the benefit of preparing these themselves. Agents will stop incurring bonding costs when the marginal reduction in monitoring equals the marginal increase in bonding costs. Denis & Kruse (2000) argue that the optimal bonding contract should entice managers into making all decisions that are in the shareholder's best interests. However, since managers cannot be made to do everything that shareholders would wish, bonding provides a means of making managers do some things that shareholders would like in writing (a contract).

Residual Loss

Despite monitoring and bonding of the agent, the interests of managers and shareholders are still unlikely to be fully aligned. There is therefore the possibility of agency losses arising from conflicts of interest. These are known as residual losses (McColgan 2001). Residual losses arise when the cost of fully enforcing the principal-agent contract outweighs the benefits derived. The result of this is an optimal level or residual loss, which may represent a trade-off between overly constraining management and enforcing contractual mechanisms designed to reduce agency problems (McColgan 2001).

Watts & Zimmerman (1986) argue that to limit the moral hazard dilemma, the principal must monitor the agent's effort or require the agent to incur costs of providing

monitoring information. A moral hazard is the name given to the increased risk of problematical (immoral) behavior, and thus a negative outcome ("hazard"), because the person who caused the problem doesn't suffer the full (or any) consequences, or may actually benefit. Such a concern typically arises in the context of a contract (Jensen & Meckling 1976). The problems of moral hazard mean that fixed wage contracts are not always the optimal way to organise relationships between principals and agents (Jensen & Meckling 1976). A fixed wage might create an incentive to shirk since the compensation will be the same regardless of the quality of work, or effort level (Eisenhardt 1985). The provision of ownership rights reduces the incentive for agents' moral hazard since it makes their compensation dependent on performance (Jensen & Meckling 1976).

Jensen & Meckling (1976) proposed a moral hazard explanation of agency conflicts. Assuming a situation where a single manager owns the firm, they develop a model whereby the manager's incentive to consume private prerequisites, rather than investing in positive net present value (NPV) projects, increases as the ownership stake in the company declines. This framework is easily applied in companies where ownership structure is diverse and the majority of the company's shares are not controlled by corporate managers. This is more often than not the case in most market-based contracting economies such as the UK.

Moral-hazard problems are likely to be more paramount in larger companies (Jensen 1993). While larger firms attract more external monitoring, increasing firm size expands the complexity of the firm's contracting nexus exponentially. This will have the effect of increasing the difficulty of monitoring, and therefore, increase these costs (Colgan 2001).

Under an agency framework, principals have the necessary incentives to monitor agents. This is called a contractual obligation. However, the incentives for gathering information associated with political processes are less than for market processes (Giroux & Shields

1993). The reason for this is that there is less ability to capture benefits from political processes (Watts & Zimmerman 1986). Governmental administrators are responsible for public accountability including financial credibility.

Eisenhardt (1988) describes the agency problem structure in a variety of settings. One example is the employment relationship involving a manufacturing plant manager. Agency theory is concerned with 1) whether the plant manager should be evaluated on the basis of units produced, plant profits or other goals and 2) how the plant manager should be rewarded. Another example discussed by Eisenhardt (1988) is that of executive compensation. Should a firm use straight salary, stock options, or bonuses based on profitability? Agency theory can also be applied to vertical integration relationships (Eccles 1985), budgeting (Demski & Feltham 1978) and inter-organisational relationships (Wolfson 1985).

In reviewing agency theory, Eisenhardt (1989) argues that outcome-based contracts are effective in curbing agent opportunities and therefore principals will favour outcome-based contracts over behaviour-based contracts. On the other hand, the risk aversion of the agent is positively related to behaviour-based contracts. These contractual arrangements have prompted the shift towards differing monitoring information. DeHoog (1985) puts these concepts into a less formal framework by asserting that:

Successful contracting out would seem to require an adequate system of independent monitoring and evaluation of suppliers costs, performance and effectiveness (p 429).

In examining evidence from human services contracting in Michigan state and local governments, De Hoog (1985) finds that both officials and contractors agree that existing feedback did not adequately provide information on contract compliance. Rehfuss (2002) reported that:

Monitoring contracts to assure effective performance is a crucial but little understood and underreported part of the contracting-out process (p 432).

Baber & Sen (1984) identified contracting and regulation incentives for adequate disclosure. Contracts require agents to disclose financial information reflecting their actions. Baber & Sen (1984) also argued that the regulation of financial reporting reduces the liability associated with misleading or inadequate disclosure.

Wright, Mukherji & Kroll (2004) describe agency theory as a co-operative relationship which develops when one individual in an economic exchange (the principal) grants authority to another (the agent) to act on his or her behalf, and the welfare of the principal becomes affected by the decisions of the agent. The concern of this theory is that the welfare of the principal may not be maximized because the principal and the agent tend to have different goals as well as differing predispositions toward risk (Wright, Ferris & Awasthi 1996). Specifically, principals are considered risk neutral in their preferences for individual firm actions since principals can diversify their shareholdings across multiple firms (Wiseman & Gomez - Mejia 1998). (Donaldson 1990) contrasts this by arguing that agents are assumed to be risk averse since agent employment security and income are inextricably tied to a single firm. Wright, Mukherji & Kroll (2004) argue that agents are assumed to be risk averse in decisions regarding the firm in order to lower to personal wealth. (Wright, Mukherji & Kroll 2004)) Comment that “the focus of agency theory is on a contract that minimizes costs associated with an agency relationship” (p 415).

Wright, Mukherji & Kroll (2004) further argue that agency theory is embedded in economic utilitarianism. By narrowly focusing on the principal–agent relationship, and with a given set of assumptions, the contribution of this theory is that it provides logical predictions about the actions of rational individuals if placed in such a relationship. Jensen & Meckling (1976) argue that in the social science doctrine, the agency problem becomes more evident – if both the agent and the principal are utility maximizers - because the presumption is that the agent will not act in the best interests of the principal.

Agency theory has been criticized in the literature for being too narrow in that it emphasizes the contract between a principal and an agent, and the ways in which the contract can be made more efficient from the perspective of the principal (Wright, Mukherji & Kroll 2004). The authors further argue that agency theory focuses on the relationship between the individual principal and the agent as it examines economic exchanges between them. In their study they examine agency theory and its assumptions – that principals and agents have different goal orientations as well as risk preferences.

One agency theory assumption identified by Wright, Mukherji & Kroll (2004) is that agency theory focuses on the relationship between the individual principal and the agent as it examines economic exchanges between them. At the individual level, one extension that may be made regarding agency theory is to relax the assumption of goal conflict between the principal and the agent, where the agent derives pecuniary but also non - pecuniary benefits (or costs) from this relationship (Wright, Mukherji & Kroll 2004).

Wright, Ferris & Awasthi (1996) comments as follows:

The non-financial rewards (or costs) are subject to consumption only by the insider (agent), with shareholder (principal) consumption not possible (p 447).

Jensen & Meckling (1976) describe non-financial benefits as “the physical appointments of the office, the attractiveness of the secretarial staff, the level of employee discipline etc” (p 486).

The non-financial costs relevant to the agent may encompass the additional effort required to search for new profitable ventures or understand new technologies or alternatively the anxieties inherent in the adoption of various innovations (Wright, Mukherji & Kroll 2004). Goal conflict is assumed between the principal and the agent because in this setting different utility functions exist consequently, the agent’s decisions are expected to be costly for the principal (Jensen & Meckling 1976).

Wright, Mukherji & Kroll (2004) argue that if the principal–agent relationship is conceived in terms of enlightened self interest, individual goals may be difficult to decouple from the goals of others (or of the organisation). Wilson (1993) argues that individuals are predisposed to be affected by the welfare of others. Thus, if one is satisfied (or dissatisfied) as others are, selfish goals may have to be realized in the context of the goals of others. Selfish goals may also be subject to realization along with the goals of others of the concept of duty – being faithful to one’s obligations to others. Being dutiful enhances one’s reputation, and in the process elicits the co - operation of others in one’s own endeavors to achieve personal goals (Wilson 1993). Consequently, each person (e.g. agent, community member, employee, or supplier) may be better via actions that also benefit others, including the principal (Wright, Mukherji & Kroll 2004).

The second assumption identified by Wright, Mukherji & Kroll (2004) is that agents, not principals, are risk averse. With respect to the principal, the assumption of risk averseness is relaxed in favor of an assumption of risk neutrality because principals presumably are able to diversify their investments. The assumption of risk averseness is not relaxed with respect to the agent since agents cannot diversify their employment (Wright, Mukherji & Kroll 2004).

Wiseman & Gomez–Mejia (1998) have also criticized the agency–based views on several grounds. First, they state that risk remains an underdeveloped concept within agency theory. They are critical of the agent based corporate governance models that assume agents to be risk averse or even risk neutral, as opposed to exhibiting risk–seeking behaviour. This is in contrast to a substantial body of research on risk taking or risk seeking behaviour that have challenged agency theory ‘s restrictive assumptions (Wright et al 2001). Second, they suggest that a contingency based perspective from behavioral research on risk taking in corporate governance set up. Third, they claim that despite considerable theoretical, analytical and empirical support for a link between governance structure and agent risk choices, the nature of the precise relationship is not clear. Lastly, the same authors discuss the point that an agent’s choice of risk may be affected and influenced by their prior success at selecting risky alternatives. The final

assumption asserted by Wright, Mukherji & Kroll (2004) is that agency relationships encompass an organisation and its groups. They define an organisation as: Legal frictions which serve as a nexus for a set of contracting relationships among individuals (p 484).

Wright, Mukherji & Kroll (2004) claim that since viable organisations tend to grow, the growth of an organisation and its related groups may be expected to entail higher agency costs because agency theory presumes that the self interest of individuals are competitively related to each other. Thereby, suboptimal outcomes may be anticipated for some organisations and their groups. Jensen & Meckling (1976) contend that “Agency relations are the essence of the firm, not only with employees but with suppliers, customers, creditors, etc” (p .483).

Jensen & Meckling (1976) further comment that:

To the extent that a manager of a firm must obtain the co operation of others in order to carry out his tasks and to the extent that he cannot control their behaviour they will be able to appropriate resources for their own needs (p 483).

Consistent with the arguments in team production Jensen & Meckling, (1976) maintain that “Agency costs arise in any situation involving co operative effort by two or more people, (p 483).

Wright, Mukherji & Kroll (2004) make a case that in relation to the implications of this assertion the larger the group becomes, the more potential for agency costs. This is because individuals are utility maximises and it can also be argued that the more numerous the groups within an organisation (ie more horizontally or vertically situated co operative groups are formed), the greater the potential for agency conflict. Jensen & Meckling (1976) supports this argument by stating that “the larger the firm becomes the larger are the total agency costs” (p 522).

Brown Johnson & Droege (2004) argue in their study that agency theory assumes that employees have different goals, act in a self interested manner, and are willing to assume varying degrees of risk. Brown Johnson & Droege (2004) define an agency relationship as follows:

An agency relationship is present whenever one party (the principal) depends on another party (the agent) to undertake some action on the principal's behalf (p 325).

A central problem in agency theory is the alignment of goals between agents and principals or between employers (the principals) and employees (agents) (Fama 1980); (Fama & Jensen 1983). Employers and employees are assumed to have different objectives, with employees preferring leisure or shirking whenever possible (Gerhart & Rynes 2003).

The employer provides a compensation structure that attempts to bring employees behaviour in line with the employer's goals (Jensen & Meckling, 1976). One way to align employer and employee goals is with contract design. Two types of contracts (or a mixture of these types) can be used – behaviour based (time based) and outcome based (incentive based) (Eisenhardt, 1985). A behavioral-based contract links pay to the employer's subjective assessment of the contract's effectiveness (Gerhart & Rynes, 2003). Behaviour-based contracts require that employers monitor employees to ensure they perform as expected while compensating employees for their time (Fama & Jensen, 1983). On the other hand, employers have a high degree of outcome certainty and prefer incentive-based contracts (Eisenhardt, 1989). These contracts tie rewards to achievement – the outcomes are considered more important than the behavior presented (Jensen & Meckling, 1976). Incentive-based compensation can induce employees to aggressively pursue goals directly linked to an employer's goals and tangible rewards (e.g. sales). But it may also lead to behaviour detrimental to the organisation, behaviour that runs the risk of moral hazard and raise the operating costs.

Agency theory assumes that goals, self interest, and risk preferences diverge between employers and employees (Bloom & Milkovich 1998); (Lassar & Kerr 1996); (Miller, Wiseman & Gomez - Mejia 2002);(Worsham, Eisner & Ringquist 1997). Some have been empirical studies which supports those assumptions, but the vast majority of the samples were taken from Western cultures (e.g., Eisenhardt, 1988; Eisenhardt, 1989; (Ghosh & John 2000); (Stroh et al. 1996); (Wolfson 1985).

This study is a comparative study of Australian and Malaysian government departments. The first variable in the agency theory literature is oversight bodies such as the Office of the Auditor General and Treasury. Mayston (1985) regards oversight bodies as monitoring bodies. He identifies the audit commission, the national audit office and regulatory agencies, such as, the governmental accounting standards board (GASB) as oversight bodies. Rosair & Taylor (2000) also regard oversight bodies as monitoring bodies. They identify the Treasury Department as being an oversight body.

The second variable in the agency literature is political costs. Lim & Mckinnon (1993) describe political costs as taking different forms. Political costs may take the form of a re-distribution of a department's resources to other parts of the public sector, the absorption of its functions by other agencies or the replacement of essential senior management. The third variable in the agency literature is the citizenry who include the nature of the accountees i.e. those who have "a right to know" (Fountain 1991; Newberry & Pallot 2004; Rosair & Taylor 2000) recognised the public as those including taxpayers and recipients of goods and services. Oversight bodies, political visibility and the citizenry are examined in section 4.3.

4.3 AGENCY THEORY AND ITS APPLICATION TO THE GOVERNMENT SECTOR

A study by Courty & Marschke (2003) reviewed agency theory and discussed its relevance to the implementation of performance measurement in public sector organisations. The study reviewed agency theory in terms of the principal-agent multi-tasking framework. According to the moral-hazard paradigm of incentive provision, a principal contracts with an agent to perform a set of tasks. Courty & Marschke (2003)

also argue that the moral hazard paradigm is a difficult social welfare measure as the principal cannot contract on what they truly care (Courty & Marschke 2003). Courty & Marschke (2003) use a public funded job training organisation to illustrate how the principal–agent multi tasking framework applies to government organisations. The government acts as the principal and contracts with local training agencies (the agents) to deliver job training services to a target population. The principal employs a performance measure to guide the agent’s effort. The agent privately observes the task’s type (e.g. the motivation, talents, and skills of the applicant) and invests in effort (e.g. substantive training) and in gaming (e.g. subsidized employment that terminates shortly after program completion) (Courty & Marschke 2003).

Incentives have a major presence in new public management which seeks to apply management principals and practices of the market sector to government (Newberry & Pallot 2004). Drawing on notions of agency theory, the premise is that departmental managers (agents) should be freed from traditional bureaucratic constraints and input controls in order to manage more effectively (letting the managers manage). In return it is agreed, that careful specification and monitoring of performance, along with a set of incentives and sanctions, are needed to ensure that the newly–free managers continue to act in the principal’s interests (Newberry & Pallot 2004).

Newberry & Pallot (2004) studied New Zealand government departments with a series of financial management incentives built on an accrual accounting base centered on outputs. The incentives examined by Newberry and Pallot (2004) included a capital charge, the treatment of departmental surpluses and interest earned on cash balances, and performance–based rewards for chief executives. The results of the study suggest that the New Zealand experience with accounting–based financial management incentives, applied from both the purchaser and the ownership interest perspectives, show that the government departments have not operated in a manner conducive to efficiency and effectiveness over the longer term (Newberry & Pallot 2004). Instead, government departments have experienced resource erosion leading to a loss of

capability to deliver services over the longer term which may contribute to a loss of morale and difficulties in attracting and retaining staff (Newberry & Pallot 2004).

Public sector managers would be expected to have superior information, at the operating level, to that available to their principal (the elected officials/CEO) as a result of regular contacts with employees and external parties. As such they are in a position to withhold information enabling them to gain an information advantage or to gain benefits from withholding information from elected officials. Elected officials are responsible for overseeing the actions and decisions of the bureaucracy on behalf of the electors (Neilson 2005). Agency theory predicts that bureaucrats will attempt to maximise their utility by maximizing a high level of information asymmetry – that is by the disclosure of minimal information (Neilson 2005). Neilson (2005) comments that “in contrast elected officials would be inclined to establish monitoring devices over the bureaucrat seeking full disclosure of information and compliance” (p 5).

The Ouchi (1980) study also found that full costs have been applied on the prices of outputs which have made it difficult for departments to compete with the private sector. Their study found technical aspects of some of the incentives have been manipulated in a manner that contributes to this outcome and operated so as to re-impose, rather than remove, the bureaucratic constraints which acted as a disincentive to good management. Newberry & Pallot (2004) comment that “clearly, the incentives have not operated in a way that best motivates agents” (p 283).

Newberry & Pallot (2004) discuss several lessons that can be drawn from the New Zealand experience. First, it is not possible to transfer principal-agent models from the private sector to the public sector without considerable modification. The New Zealand experience highlights some fundamental differences between the two sectors. These differences, according to Newberry & Pallot (2004), can be summarized as follows:

In the private sector, both parties in that sector stand to benefit from an overall objective of capital maintenance and growth. In the public sector, the desirability of capital maintenance and growth cannot be assumed and the incentives developed in New Zealand and likely to be

adopted elsewhere seem designated to achieve the opposite. Commercial accounting which is based on capital maintenance and growth may be inappropriate (p 283).

Furthermore, Newberry & Pallot (2004) argue that there is not only a potential lack of goal congruence between agents and principals but also one between ultimate principals (in particular, between taxpayers who seek lower taxes, and beneficiaries of services who want these services enhanced or at least maintained). An example of this purchase and ownership interest incentives is where central agencies, such as the Treasury, act as a sort of intermediate agent and have the opportunity to impose their own agenda, which may or may not be that of ultimate principals Newberry & Pallot, (2004). Where there is performance ambiguity (difficulty in measuring outputs) and lack of goal congruence (goals shared by agents and principals) market governance models may be inoperable (Gorringe 1995). Newberry & Pallot (2004,) comment that “if problems of performance ambiguity and lack of goal congruence exist even in the private sector, they are surely exacerbated in the public sector” (p 284).

Newberry & Pallot (2004) found in their study that fairness was the most important factor in employment satisfaction in the New Zealand public service. They make the following comment:

Public sector managers are not on a level playing field in relation to private sector competitors, because the financial management system biases prices high, and they cannot hope to maintain capability over the longer term within the amounts received for outputs when resources are extracted from departments using other methods. This lack of fairness, quite apart from other factors, such as uncertain employment, is likely to exacerbate problems of motivation (Newberry & Pallot, 2004, p 263).

Mathews & Schulman (2002) undertook a study which focuses on public sector organisations and government departments. They argue that public sector organisations and government departments are created to fulfill the responsibilities of government and expected to cooperate in the policy development and the delivery of services. In Western

societies, public agencies are often created under the guise of addressing market failure and are maintained to contribute to the common good (Mathews & Shulman 2002).

Mathews & Schulman (2002) comment:

In the case of public sector research and development, their role is also to contribute to the development of industry and the creation of markets, rather than self-serving (p 2).

They further argue that the majority of the writing on competitive advantage builds on agency theory. A general proposition of agency theory is those in control of resources will serve their own interests, rather than those who own the resources (Mathews & Schulman 2002). They comment as follows:

Public sector organisations are created to develop and deliver service for the benefit of the populace, for example public sector agriculture R& D organisations create knowledge of use to producers and other members of the supply chain. Their purpose is not for commercial transactions to benefit a few, but to develop a sustainable capability of the industry in terms of efficiency and effectiveness (Mathews & Schulman 2002, p 2).

Mathews & Schulman (2002) further argue that public sector organisations are funded from a central source of government funds, where the constraints of a largely fixed pie creates competition with other government agencies for funding. Each firm must have resources and capabilities and must take into account their environment and negotiate with relevant sources of funding including the Department of Treasury for resources. In this sense they, they are largely dependent on their environment for resources (Mathews & Schulman 2002). In addition, public sector organisations are dependent upon other bodies, such as ministerial cabinets, for deciding on their direction and scope of operations that are intended to serve their own interests (Mathews & Schulman 2002).

The results of (Mathews & Schulman 2002) study illustrates for public sector organisations, established and funded to provide public good, these are not exceptions but the general case.

Mathews & Schulman (2002) suggest:

The notions of the sustained competitive advantage and the resource based view of the firm do have some application for public sector organisations, but this application is limited to situations where competition is sanctioned and is possible (p 3).

The study showed that these structures can and do co-exist to meet these different resource dependent objectives. It is the recognition and use of these co existing structures that facilitate the management of the public good paradox (Mathews & Schulman 2002).

The study's data analysis suggests that the specific choice of structure is related to whom the manager is responding and for what purpose. For instance, different budget control structures are employed for communicating accountability to the minister, as compared to those used in communicating to a research scientist (Rosair & Taylor 2000).

4.3.1 OVERSIGHT BODIES

Oversight bodies are bodies that perform oversight or review services on behalf of the community. Examples of oversight bodies include parliaments, governments, regulatory agencies, analysts, labor unions, employer groups, media and special interest community groups. Members of this group tend to have indirect or derived interest in general purpose financial reports since they advice or represent those who have a direct interest (Statement of Accounting Concept No. 2, (SAC 2).

Oversight bodies have two major roles with the first role being to determine whether the government department has been operating in the interests of the members of the community. The second role is to determine whether the government department is achieving its objectives and is operating economically and efficiently in carrying out its operations (SAC 2, paragraph 25).

A review of literature on governmental reporting indicates a variety of oversight bodies. Mayston (1993) regards oversight bodies as monitoring bodies. Mayston (1993) identifies the Audit Commission and the National Audit Office, and regulatory agencies, such as the office of Telecommunications (OfTel) in their study.

It is clear from such an identification of oversight bodies that the interests of the above groups will relate not only to financial information but also to wider non-profit measures of performance. Mayston (1985) revealed that oversight bodies are interested not only in financial information of government departments but they also want to ensure that the departments are achieving quality of service delivery. The author argues that even with a decision orientated approach economic decisions must include both managerial decisions made by managers in government departments and political decisions made by the voters, taxpayers, and consumers of goods and services produced by the public sector. The type of political decisions made by voters is on how to cast their votes in response to information on the performance of those in power in delivering satisfactory services in an economic way. This is especially so when voters, taxpayers and consumers do not have the time and expertise to interpret detailed financial statements. Mayston (1985) confirmed that meeting user needs is widely accepted as the central objective of financial reporting in the public sector. The major objective of financial reporting is to provide information useful to users (accountability) for making and evaluating economic decisions about the allocation of scarce resources (SAC 2). This is because users will ultimately require the information for resource allocation decisions. Under agency theory, the right to information stems from the need to ensure that the agent (Government department) has actually performed the service or desired goal by the principal (including oversight bodies).

The role and place of the Auditor-General within the reformed public sector is a contradictory one. Mulgan (2001) suggests that on one hand Auditors-General are the central figure in the new pluralistic public accountability and they have emerged as the champion of transparency and good governance. On the other hand the Auditors-General have also emerged as leading critics of Managerialism or as Mulgan (2001)

quotes:” (p 24). “Cuckoos in the Managerialist nest”. Mulgan (2001) observes that the role of the Auditor–General has been expanding since the 1970s in a move beyond the focus on the accuracy of the financial accounts and the use of funds in accordance with Parliamentary appropriations to include an interest in value for money (VFM). VFM or performance auditing requires that the Auditor– General reviews the efficiency (the most favorable ratio of inputs to outputs), effectiveness (the fullest achievement of desired outcomes) and economy (the most parsimonious use of inputs). Mulgan (2001) further claims that “VFM/Performance auditing emerged as part of the wider tendency towards Managerialism or New Public Management (NPM)” (p 26).

However, Mulgan (2001) argues:

While being an embodiment of NPM Managerialism tendencies the Auditor–General can also be seen as swimming against the NPM tide. This is particularly true when Auditors–General have challenged, privatization contracts, commercial in confidence agreements and private finance agreements (p 28).

Guthrie & Parker (1998) claim that the development and evolution of performance auditing within the Australian National Audit Office was best described as a dramatic performance. Guthrie & Parker (1998) use the imagery of masks, costumes, players and audiences to explore the ongoing debate and experimentation with concepts of economy, efficiency, effectiveness and performance.

They conclude that:

Performance auditing has become a potent force in promoting the economic rationalist agenda of government and contributing to the momentum of the new Managerialism of the Australian Public Sector (Guthrie & Parker 1998, p 329).

The contradiction identified by Guthrie and Parker (1998) and Mulgan (2001) becomes less confusing when NPM is seen as a unitary movement but rather understood as a combination of two loosely–coupled trends; Managerialism and marketisation. This duality of NPM clarifies the contraction, provides a more effective way to understand

the changing role of the Auditor-General within the public sector and provides an explanation for why some Auditor-General seem to have thrived under the changes while others have struggled (Jacobs & Jones 2006). The work of the Auditor-General, particularly in regard to performance auditing, can be understood as part of a broader process of Managerialism with the associated growth in performance measurement. In this sense it would be reasonable to expect jurisdictions whose reform process and new public management have been dominated by a Managerialism approach to see a growth in the role of the Auditor-General and no obvious resistance to that role (Jacobs & Jones 2006). An example of this would be the United Kingdom.

New Zealand's public sector reforms in the 1980s are often considered to be the textbook for the implementation of new public management driven by neo-liberal economics of the Treasury (Jacobs 1998). Pallot (1999) identified the tension between the New Zealand Treasury's privatization agenda and the Audit Office's democratization agenda. Pallot (1999) claims "The Treasury privatization agenda renders the public sector more private" (p134). The policies advocated by Treasury worked to move the public sector away from public discussion and scrutiny, and hence accountability, and more amenable to contracting out or privatization. In this environment accountability becomes merely one of a suite of policies of and techniques aimed at making the public sector more efficient (Pallot 1999). Pallot (1999) further argues that "the Audit Office's concept of accountability, on the other hand, had accountability to parliament and the public at its centre" (p 135).

A review of the literature on governmental reporting has provided information on the type of accountability of most interest to oversight bodies and on the type of accounting information used to evaluate accountability. Oversight bodies have indicated an interest in compliance accountability (Jones et al. 1985; (Wilson 1993), Daniels & Daniels 1991). One source of accounting information which can assist users in determining compliance accountability is the budget comparison statement. Of all financial statements, the statement receiving the greatest attention by oversight bodies is the

revenue and expenditure statement, which is used to assess current operations (Jones et al. 1985; Wilson 1993); (Daniels & Daniels 1991).

There has been little research to support the usefulness of accounting information in assessing efficiency and effectiveness. Rosair & Taylor (2000) identified the Treasury Departments of the relevant Australian state government and lobby groups as legislative oversight and review bodies. Rosair & Taylor (2000) researched the needs and concerns for interests of different user groups with the aim of determining the extent of fiduciary and managerial accountability related disclosure in government departments' Annual Reports.

Rosair & Taylor (2000) identified four user groups as:

- 1) Resource providers – taxpayers in general;
- 2) Recipients of public goods and services – clients of the department (who uses the goods or services of the department);
- 3) Legislative oversight and review bodies – Treasury Department of the relevant government, lobby groups (public and special interest groups); and
- 4) Management and policy advisors – the department's relevant Minister and the CEO.

Rosair & Taylor (2000) hypothesized that there is no relationship between the degree of concern for the interests or demand of the participating parties in government departments and the extent of fiduciary or managerial accountability related disclosures in annual reports of government departments. They surveyed 144 Australian government departments and a regression analysis revealed that participating parties are significantly correlated with accountability related disclosures.

4.3.2 POLITICAL VISIBILITY

An entity which is politically visible is one which attracts a disproportionate share of scrutiny by politicians, the general public or other accountees, causing it to be a possible target for the imposition of political costs (Australian Accounting Research Foundation 2004). Political costs may take the form of re-distribution of a department's resources to other parts of the public sector, the absorption of its functions by other agencies, or the replacement of key senior management.

The literature on political visibility examines the role of political visibility in controlling a principal accounting officer's (PAO) output. Prior research on political visibility has focused specifically on determining if there is a relationship between the political visibility of a government department and the level of voluntary disclosure of financial and non-financial information in their Annual Report. Lim & Mckinnon (1993) hypothesized there is no relationship between the degree of concern for the interests or demands of participating parties in government departments and the extent of fiduciary or managerial accountability related disclosure in annual reports of government departments. In terms of tests of the hypotheses the variable participating parties are significantly positively related to accountability related disclosures. A regression analysis rejected the null hypothesis because the results give a significant positive relationship between the degree of concern for the interests or demands of participating parties in government departments and the extent of accountability-related disclosure in annual reports of government departments.

Lim & Mckinnon (1993) studied the influence of political visibility on the voluntary disclosure of financial and non-financial information by statutory authorities in New South Wales. They formed two hypotheses in their study. Their first hypothesis stated that there is a positive correlation between the political visibility of statutory authorities and their level of voluntary disclosure of financial and non-financial information of a sensitive nature. The second hypothesis was that there is no positive correlation between the political visibility of statutory authorities and their level of voluntary disclosure of financial and non-financial information of a sensitive nature. Lim & Mckinnon (1993)

used three proxies for political visibility, these being firm size, number of employees and level of coverage in the official records of NSW parliamentary debates. Lim & Mckinnon (1993) measured the final political visibility proxy (parliamentary debate coverage) by the level of coverage that authorities received in the Hansard Report.

They tested the hypothesis they constructed using factor analysis. They tested both hypotheses for each of the separate political visibility proxies and for the composite proxy. In hypothesis one, it was predicted there is a positive correlation between the political visibility of statutory authorities and their voluntary disclosure of information of a non-sensitive nature. The results revealed that the correlations between the total voluntary disclosure of non-sensitive information and each of the separate political visibility proxies and the composite proxy are positive. They also examined hypothesis one for financial and non-financial disclosure. An analysis of the results revealed a positive correlation between the political visibility of the statutory authorities and the level of voluntary disclosure of financial and non-financial information.

In hypothesis two Lim & Mckinnon (1993) predicted the level of voluntary disclosure of sensitive financial and non-financial information by statutory authorities would not be positively correlated with their political visibility. An analysis of the results revealed that there is no relationship between the sensitive information disclosure variables and each of the political visibility proxies. From the results of the hypothesis testing, statutory authorities with high political visibility will voluntarily disclose more information of a non-sensitive nature than will those authorities with lower visibility.

Lim & Mckinnon (1993) envisage this non-disclosure of sensitive information by statutory authorities as an attempt to avoid an increase in such visibility. In the case of disclosure of information of a non-sensitive nature, Lim & Mckinnon (1993) envisaged that the behavior of statutory authorities is directed towards decreasing political visibility.

As explained by Rosair & Taylor (2000) in relation to the private sector:

Often sheer size can lead to political costs. Very large firms may be held to higher performance standards, for example, with respect to environmental responsibility, simply because they are felt to be large and powerful (p 80).

Rosair & Taylor (2000) studied the influence of organisational size on the accountability-based disclosure of a government department. They hypothesized that there is no relationship between the size of government departments and the extent of accountability-related disclosure in annual reports of government departments. An analysis of the results for organisational size showed it was significantly positively related to fiduciary accountability. Fiduciary information is information that demonstrates compliance with legal and professional requirements (Rosair & Taylor 2000). The regression analysis revealed that there is no significant relationship between organisational size and managerial accountability. Managerial information includes efficiency and effectiveness performance information (Fountain 1991). The results show that the extent of a government department's political visibility is found to be related to the amount of fiduciary, but not managerial, accountability based-disclosure.

4.3.3 THE CITIZENRY

In this study consideration is given to the nature of the accountees i.e. those who have "right to know" (Rosair & Taylor 2000). Brusca & Montesinos (2006) argue that citizens are especially relevant for government financial reporting. They define citizens as:

Involuntary providers of financial resources: they cannot decide whether or not to pay taxes, and there is no exchange relationship between the resources provided and the services received (p 205).

Brusca & Montesinos (2006) further argue that governments need to be particularly accountable to citizens because while they accept that there are a variety of users of local government financial reports, they consider the electorate should be considered the defining class of user. This is because the primary objective of government financial

reporting is to satisfy the needs of users and help them make decisions. Users are generally held to be citizens, oversight and regulatory bodies, managers, creditors and investors, financial analysts and resource providers.

Brusca & Montesinos (2006) examined the relationship between financial reporting and voting behaviour for 143 Spanish cities. The results from the study show electoral results are influenced by financial information and citizens, therefore are shown to be important users of local government financial reporting even when that reporting is not produced with them in mind.

Another study by Lechner (2006) found that the majority of governments are most likely not reaching their citizens with some the most significant information about their organisation financial and performance data. Lechner (2006) claims:

That even local government rich with readily available financial and performance information won't reach their citizens if they are not interested, and/or the data is not provided in an interesting and understandable way (p 14).

Lechner (2006) argues that a greater challenge will be communicating information in a way that would be understandable to the vast majority of citizens. The author further argues that financial data and how it is reported has become extremely complex, and most citizens will not relate the sheer size of the dollars reported. Lechner (2006) claim that:

The financial and performance data, consistently presented from year to year, may not always paint a rosy picture, but it should convey the reality of the costs of government services (p 14).

In the area of public financial information, the range of accountees or users who can be referred to is even broader and thus even less precise (Matinez-Gonzalez & Marti 2006). They comment:

Targets for information on public accounting include a wide range of collectives, from the governing organs of the institutions to citizens as

such, along with companies and employee organisations, workers and trade unions, suppliers of goods and services, loan companies and other credit institutions, persons responsible for economic, financial and tax policies at their different levels, parliaments and other assemblies, whether legislative or not, organs of outside control responsible to those assemblies and, in general, all those groups that are affected in one way or another by the economic financial activity of the public sector, which are practically, for one reason or another, and from different points of view, all those who make up the political, economic and institutional fabric of society (p 68).

Martinez-Gonzalez & Marti (2006) further explain that such a large conglomeration of targets for financial information on public bodies, together with aspects such as the complexity of the information and the coming into play of the phenomenon of the free-rider, result in a considerable restriction of real users, who at this time can, in practice, be considered to be confined to political institutions and control agencies.

In the literature there have also been some empirical studies on identifying users based on a normative perspective that is to identify actual users of public organisations reporting (Butterworth, Gray & Haslam 1989; Coy, Dixon & Buchanan 1997). According to Jones & Pendlebury (2004) the number of users of such information is likely to be limited. Priest, Ng & Dolley (1999) conducted a survey on potential and actual users of local government annual reports in Western Australia. 15% of the sample declared they are not interested in their council's annual report. Alidjarde (1997) studied the usefulness of financial reporting in Spanish local governments and found that the information they convey may be useful for finance directors, management, Audit Offices and lenders, however it is not used at full scale. Jones & Pendlebury (1996) argue that there is little demand for the information that financial statements provide.

The Ittner & Larcker (1998b) study reflects a trend towards non-financial performance measurement. However the focus is on the measurement of outcomes of economic exchanges with customers. A number of studies explore performance measurement systems that relate to customers (Chenhall & Langfield-Smith 1998; Ittner & Larcker 1998a; Ittner & Larcker 1998b). However these studies typically include a single customer satisfaction performance measure as one item on their survey questionnaire,

revealing little about the processes by which these measures emerge or are developed. Another stream of research has attempted to examine the linkages between customer satisfaction and value type measures in terms of accounting and share market indicators (for example, (Ittner & Larcker 1998b; Said, HassabElnaby & Wier 2003).

A study by Vigoda (2002) argues that modern public administration involves an inherent tension between better responsiveness to citizens as clients and effective collaboration with them as partners. The author further argues this tension stems from tangible differences between the nature of responsiveness and the essence of collaboration. While responsiveness is mostly seen as a passive, unidirectional reaction to the people needs and demands, collaboration represents a more active, bi-directional act between two or more parties. Moreover responsiveness is based on the marketplace view of better service for citizens as clients or customers (Vigoda 2002). Vigoda (2002) comments that:

Answering citizens' needs is seen as vital for government and public administration systems that seek extensive legitimization and high performance (p 528).

On the other hand collaboration highlights a moral value of genuine co-operation and team work between citizens and Government and public administration where each party is neither a pure servant nor the master, but a social player in the theatre of state (Vigoda 2002). The author argues that the opinions of service receivers must be considered good indicators of public policy outcomes. This information can help to 1) understand and establish public needs 2) develop, communicate, and distribute public services and 3) assess the degree of satisfaction with services (Vigoda 2002). The author comments on the method of treating citizens as follows:

The NPM approach advocates the idea of treating citizens as clients, customers, and main beneficiaries of the operation of the public sector that is today more orientated towards assessing its performance. In essence the motivation to meet the demands raised by citizens is equivalent to satisfying the needs of a regular customer in a regular neighborhood supermarket (p 527).

The importance of taxpayers and ratepayers cannot be discounted because of poor results in one study. Therefore, both the Australian and Malaysian public, including taxpayers and rate payers will be examined in this study to determine how much influence the citizenry has on performance indicator disclosure and dissemination

4.4 INSTITUTIONAL THEORY

The literature on institutional theory is diverse with numerous interpretations and explanations. A study by Scott (1987) identifies a series of different formations of institutional theory all claiming to have an institutional focus. These forms of institutional theory include institutionalization as a process of instilling value and institutionalization as a process of creating reality.

The form of institutional theory identified by Scott (1987) that is relevant for this study is institutionalization as a process of creating reality. This form of institutional theory is based on a shared social reality which in turn is a human construction being created in social interaction. It is recognised that a man or woman as a biological organism confronts few limits or constraints in the form of instinctual patterns, yet constraints develop in the form of a social order. Berger & Luckmann (1967) argue that this social order “is an ongoing human production, it is a product by man in the course of ongoing externalization, social order exists only as product of human activity” (p 23). Social order comes into existence since individuals act, interpret that action and share with others their interpretations. The process by which actions become repeated over time and are assigned similar meanings by self and others is defined as “institutionalization”. Institutionalization occurs wherever there is a reciprocal typification of habitualized actions by types of actors (Berger & Luckmann, 1967). Both actions and actors are type-cast: certain forms of actions come to be associated with certain classes of actors. An example of this is in relation to the organisational hierarchy, where a supervisor gives orders and the workers under the supervisor follow the orders given to them.

Institutional theory also explains how organisations react to socially rationalised concepts [rationalised myths] on the practices, procedures and structures of organisations.

Dillard, Rigsby & Goodman (2004) define institutional theory as

A way of thinking about formal organisation structures and the nature of the historically grounded social processes through which these structures develop (p 508).

Scott (1987) summarises institutionalisation as

The social process by which individuals come to accept a shared definition of social reality as defining the 'way things are' and/or 'way things are to be done' (p 496).

This definition takes into consideration Meyer and Rowan's (1977) explanation that:

Institutionalisation involves the processes by which social processes, obligations, or actualities come to take on a rule like status in social thought and action (p 341).

A number of researchers have suggested in the literature that institutionalisation would lead to organisational stability (Di Maggio & Powell 1983; Scott 1987) as well as lead to a more efficient and effective organisational process (Meyer & Rowan 1977). This is consistent with the stabilising influences of rationalised myths (Modell 2004). Di Maggio & Powell (1983) make the following comment in regard to the view of institutionalisation:

Institutionalisation is a 'rational' response; one of the key outcomes of institutionalisation is a homogeneous organisational structure (p 147).

Wrong (1970) argues that:

The homogeneous organisational structure of today is a bureaucracy which is the manifestation of the process of rationalisation (p 32).

Macintosh (1994) shares Wrong (1970) views by stating that:

In bureaucracies organisational tasks are distributed among various positions as official duties and the positions or offices are organised into a hierarchical authority structure (p 138).

Institutional theory refers to the study of organisational practices through institutional theory and its economic and socio-logical variants. According to Scott (1987) “Institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour” (p 33).

Organisations which operate in similar environments are said to experience comparable demands regarding what is generally regarded as acceptable behaviour and consequently, will have similar structure and processes (Di Maggio 1988; Di Maggio & Powell 1983). Carpenter & Feroz (2001) comment that:

An organisation that conforms to societal rules obtains external legitimacy and increases its chances of survival, irrespective of whether the new rules make the organisation more effective (p 569).

Webster (1998) developed a bureaucratic organisational structure as a rational response to the need for organisational control based on technical expertise which is to be performed in accordance with a set of carefully defined rules. Table 4.2 outlines the key characteristics of Webster’s ideal-type bureaucracy:

Table 4.2
Webster's Ideal-Type Bureaucracy

Fixed official duties	Work is systematically divided through clearly defined duties and delegated authority to make decisions.
Hierarchy of authority	Positions are arranged hierarchically according to their level of authority; each lower office is under the control) and accountable to) and a higher office; through a clear chain of command.
Systems of rules	Authority and the conduct of officials are limited by behavioural rules which technical rules define how work is to be performed.
Technical expertise	Promotion is based on the competency of officials to perform specific, specialized duties.
Career Service	Bureaucracies comprise officials who have chosen public service as a career, who receive a salary for their services, and whose offices are not their personal property.
Written documentation	Written records of all rules, decisions, and administrative actions are maintained.

(Tompkins 2005 p 49)

Tompkins (2005) makes the following comment about Webster's (1998) ideal type bureaucracy:

Webster does not consider in his ideal-type bureaucracy elements such as politics and human emotions as they are irrational characteristics (p 54).

The focus on what is rational is supported by Webster's identification of three types of authority, these being: 1) legitimacy-charismatic, 2) traditional and 3) rational-legal. Tompkins (2005) regards rational legal authority regarded as the preferred authority as it relies on the belief in reason as a means to ordinary social relationships. The distinctive basis of legitimacy in the bureaucracy is the legal type of authority (Wrong 1970).

This view is supported by Meyer & Rowan (1977) who state that:

Bureaucratisation is caused in part by the proliferation of rationalised myths in society, and this in turn involves the evolution of the whole modern institutional system (p 347).

In addition Meyer & Rowan (1977) and Scott (1987) argue that organisations conform to external institutional pressures because they form a set of beliefs that are taken as constituting reality. Institutional theory demonstrates how non-choice behaviours can occur and persist, through the exercise of habit, convenience, or social obligation (Jarvinen 2006).

Thus, being efficient is not the only way that organisations can survive. Legitimacy in the external environment, that is, from the state, government, parent companies and external bodies, is another means of ensuring survival (Jarvinen 2006). Such congruence in organisation structures and processes, grounded in environmental pressure is said to have emerged through a process known as *isomorphism*. Di Maggio & Powell (1983) define isomorphism: “a constraining force that forces one unit in a population to resemble other units that face the same set of environmental conditions” (p 148). Dillard, Rigsby & Goodman (2004) defines isomorphism as “the adaptation of an institutional practice by an organisation (p 509). Di Maggio & Powell (1983) identified two types of isomorphism: competitive and institutional, where competitive isomorphism refers to the impact of market forces and institutional isomorphism refers to the impact of organisations including government institutions and professional bodies. This thesis will focus on institutional isomorphism.

Institutional isomorphism is based on the idea that environments are collective and interconnected, and that, in order to survive, organisations must be responsive to external demands and expectations (Di Maggio & Powell 1983). The constituents that exert these institutional pressures are bodies such as central and local government, professional bodies and public opinion. Di Maggio & Powell (1983) identify three

mechanisms through which institutional isomorphic change occurs, each with its own antecedent;

Coercive (response to external pressure), mimetic (organisations modeling themselves on other organisations), and normative isomorphism (arising when professionals operating in organisations are subject to pressures to conform to a set of norms and rules developed by occupational/professional groups) (p 66).

From an institutional perspective, organisations are the way they are for no other reason than that the way they are is the legitimate way to organize (Meyer & Rowan 1977). The central idea behind institutionalization is that organisational action reflects a pattern of doing things which evolve over time and become legitimized within an organisation and an environment. Eisenhardt, (1988) comments:

Therefore, it is possible to predict practices within organisations from perceptions of legitimate behaviour derived from cultural values, industry tradition, firm history, popular management folklore, and the like (p 489).

Table 4.3 below summarises key points of the institutional perspective.

Table 4.3
Institutional Theory Definitions

Key Idea	Organisational practices arise from imitative forces and firm tradition
Basis of Organisation	Legitimacy
View of People	Legitimacy seeking satisfiers
Role of Environment	A source of practices to which organisations conform
Role of Technology	Technology moderates the impact of institutional factors or can be determined institutionally
Problem domain	Organisational practices, in general
Independent variables	Industry traditions, legislation, social and political beliefs, founding conditions that comprise the institutional context.
Assumptions	People satisfied, People conform to external norms.

Source: (Eisenhardt 1988)

4.5 INSTITUTIONAL THEORY AND ITS APPLICATION TO THE GOVERNMENT SECTOR

The institutional literature emphasizes that organisational structure and processes tend to become isomorphic within the accepted norms for organisations of particular types (Di Maggio & Powell 1983). Institutional isomorphism is defined as a process of institutionalization, whereby in a given social setting a specific organisation is induced by specific factors relative to social institutions to assume initially extraneous features, to incorporate them, and then to take them for granted (Lippi 2000). Studies of institutional isomorphism have variously described the adjustment of associative organisations to administrative bureaucracies, or of small firms to large companies. More recently, the concept has been widely employed in the social sciences to formulate hypotheses for analysing similarities between the public sectors of numerous countries (Lippi 2000).

Institutionalisation occurs in part because people conform to or take for granted the ways of doing things (Di Maggio & Powell 1983) Such standard ways of doing things allows people to focus on new problems and to rely on experience for issues that are not pressing (Eisenhardt 1988). Eisenhardt (1988) also contends that organisational structures and processes become part of an integrated whole without unraveling the whole. Rather the use of structures and processes that are legitimated by the environment can be sensible because it implies reasonable management, pleases external others, and avoids potential claims of negligence if something goes wrong (Meyer & Rowan 1977).

In the public sector literature there has been limited research examining the effects of bureaucrats' salary compensation on performance. This is a new issue facing public sector servants due to the public sector reforms. Therefore this study reviews private sector literature with relevance to the public sector. Eisenhardt (1988) reviewed institutional explanations of compensation policies on retail sales compensation for shoe stores. The study developed three hypotheses these being firstly, that the age of a store will be negatively related to the use of salaries and positively related to the use of commissions. Secondly, that the use of commissions will be more common in shoe sales

than in other types of retailing. Thirdly, that purchase size will be negatively related to the use of salaries and positively related to the use of commissions. The results of the study showed support for the first and second hypothesis as newer stores and stores which have other types of retaining are likely to use salaries. The result for the third hypothesis purchase size was not significant. The overall result shows that institutional theory provides a good description of compensation practices in the retail setting (Eisenhardt 1988).

Eisenhardt (1988) discusses reasons why these institutional results occurred. It was found that most store managers supported the compensation policy used in their store, regardless of compensation type, because they wished to portray their stores favourably. However, a more accurate explanation was compensation policy is so institutionalized that the possibility of change is never considered. For example, only one manager of the 53 sampled, remembered a switch between commissions and salaries. The manager's store had been in financial difficulty and management switched to commissions to stimulate sales (Eisenhardt 1988).

In effect, an environment legitimates certain ways of organizing. For example, Zucker (1983) found that over time, civil service reforms were adopted as they became symbolic of good government rather than because they were efficient. Consistent with the institutional perspective, although not a usual institutional argument, is the idea that structures and processes also tend to become isomorphic with contextual conditions which existed at the time the organization was founding (Eisenhardt 1988).

Accounting changes have been studied from an institutional perspective and explained for example as reforms originating from outside the health care sector, and the health care sector and hospitals reacting to the outside pressures. Modell (2001) addresses the issue of institutional aspects of diagnosis-related groups. He sees the adoption of new output measures as institutional pressure and uses Oliver's (1991) hypothesis to predict responses to the adoption of the new reimbursement schemes. Brignall & Modell (2000) predict that as institutional pressures increase to adopt private sector management

techniques in the public sector, de-coupling of performance measures and actual activity is likely to take place. The concept of decoupling resembles new technologies and techniques that appear to be in use but may not be acted upon (Jarvinen 2006). The majority of the activity-based costing research shares these views as for example the Armstrong (2002) and Jones & Dugdale (2002) studies which describe the adoption of activity based costing by institutions (private or public) as mimicry as an attempt to portray themselves as modern corporations.

Pollitt & Bouchaert (2000) claim that mimetic isomorphism occurs when, under conditions of significant uncertainty, the safest organisational strategy appears to be to copy whatever is in fashion with organisations which are perceived as “modern” or “successful” (p 937).

Di Maggio and Powell (1983) make the following comment about mimetic isomorphism:

Mimetic isomorphism is a process that takes place when an organisation attempts to imitate a more successful organisation, a process that is often due to the uncertainty and lack of guidance in its own environment (p 151).

Bowrey (2007) argues that when the findings of successful trials and pilots are made available, organisations in weaker positions may opt to copy and implement the new processes. Pollitt (2001) makes the following comment about normative isomorphism:

Normative isomorphism explains the copying of results from processes of professionalisation and institutionalisation. Professional staff undergo relatively uniform training, and then carry the ideas they have discovered to the many organisations which employ them (p 934).

This type of isomorphism mechanism is based on the collective struggles of members of an occupation to define conditions and methods of work (Dillard, Rigsby & Goodman 2004). For example accountants in the Australian public sector are encouraged to study and attain membership of the professional accounting bodies. The skills of these

professional accountants bring into a public sector organisation is an example of the impact of normative isomorphism. This impact from professional accountants within an organisation supports Zucker (1987) suggestion that “organisations are influenced by normative pressures sometimes arising from within the organisation itself” (p 443).

Oliver (1991) addresses the isomorphic pressures public sector organisations adopt as follows:

Public sector organisations may adopt one or a mixture of five types of strategic responses: acquiescence, compromise, avoidance, defiance and manipulation (p 151).

Bowrey (2007) argues that the selection by an organisation of a particular strategic response will be based on a number of variables such as the nature and influence of the organisation and its senior management and as well as the level of support from other organisations. Meyer & Rowan (1997) claim that “there are an additional two mechanisms (decoupling and the logic of confidence) that organisations can and do use in response to isomorphic pressures” (p 342).

Decoupling is defined as the process of un-coupling the structural elements of different parts of the organisation in response to institutional pressures to comply with inconsistent norms (Meyer & Rowan 1977). Brignall & Modell (2000) argue that decoupling is evident in many organisations and is due to the significant differences between the formal structure of an organisation and its actual day to day work activities. Brignall and Modell (2000 p 300) make a case that “decoupling is not a mechanism to hide dishonest practices but rather it is seen as an attempt to maintain some rough equilibrium between inconsistent norms” Bowrey (2007) provides an example of the use of decoupling in the Australian public sector. The Australian Department of Education and Work (DEWR) is subject to coercive pressure from various institutions and organisations such as the government and central agencies as well as mimetic and normative pressures.

Bowrey (2007) claims:

By keeping the outcome statement relatively ambiguous the Department can maintain standardised legitimating, formal structures while their activities vary in response to practical considerations (p 13).

Bowrey (2007) comments further that “Goal ambiguity is one mechanism for absorbing uncertainty while preserving the formal structure of the organisation” p 13).

Leiter (2005) argues that nonprofit organisations can be expected to resemble one another because they fit the profile of organisations subject to coercive, mimetic, and normative isomorphic forces. Leiter (2005) claims that “Non profits are thought to be highly dependent, especially on their funding sources; hence, they are subject to coercive isomorphic pressures” (p 5).

Oliver (1988) found considerable diversity across a population of social service nonprofits. Oliver (1988) found that organisations netted together by interactions were less similar than organisations that did not interact (and also that did not face similar environmental constraints). She interpreted these findings as showing nonprofit managers maneuvering strategically. Lounsbury (2001), in his study of university staffing of recycling programs, also found diversity, which he ascribed to the influence of a social movement organisation on some, but not all his cases. These studies above shows that institutional forces can help produce heterogeneity when they penetrate an organisational field only partially.

Institutional theorists emphasize that organisational structures tend to conform to institutionalized norms (Scott 1987). Populations of organisations become more similar to one another or isomorphic over time (Meyer & Rowan 1977). Scott (1987) claims that “structural forms are not immutable and may be modified so that an organisation conforms to changes made in other organisations in its population” (p.511). Thus, for example, local governments which operate in predominantly institutional environments may change their structure to conform with, changes in other local governments.

Most institutional theorists identify interest groups as sources of strong institutional pressure (Di Maggio & Powell 1983; Meyer & Rowan 1977; Scott 1987). These researchers defined coercive isomorphism in terms of the pressure that unions bring to bear on local government decisions to privatize. Although unions have not been used as a measure of coercive isomorphism to date, they create strong institutional pressures that seek to preserve the interests of their constituents (Pouder 1996). Pouder (1996) claims that “higher proportions of union members in local government would mean that unions exert substantial pressure to provide a service in-house” (p 105). In his study, Pouder (1996) measured coercive isomorphism using the percentage of non-educational unionized employees in each local government.

Normative isomorphism stems from a common belief formed by professionalisation (Di Maggio & Powell 1983). Pouder (1996) examined whether such a relationship would hold among those local government managers who have undergone a process of professionalisation. The results of the study show that transaction cost variables are stronger predictions of manager’s decisions to privatize services. It appears from the results of the study that privatization may be driven more by concerns for efficiency than by institutional influences. Pouder (1996) argues that these findings do not necessarily diminish the role of institutional factors. Zucker (1983) acknowledges that the structural form originally adopted by a group of similar organisations is often based on efficiency. However she also argues that as time passes, organisations value replication of accepted structures more than structural efficiency.

In the public sector, the trend of new public management has seen the use of performance measurement to drive a more efficient, effective and accountable public sector (Hood 1995). A number of researchers (Kaplan & Norton 1992, 2001) have suggested the use of a strategically focused multi-dimensional performance measurement system to fulfill key stakeholders needs. These researchers also suggest that the four dimensions of the balanced scorecard could be rearranged to suit a public sector organisation context (Kaplan & Norton 1992, 2001). Other researchers such as

(Kloot & Martin 2001; Aidenmark 2001; Chow et al. 1998) have demonstrated the use of multi-dimensional performance measures in public sector organisations.

Brignall & Modell (2000), however argued that those normative frameworks and studies of their applications, are based on rational instrumentalism. Consequently, Brignall & Modell (2000) argue that power relationships and the conflicting interests between stakeholders distinctly faced by modern public sector organisations have been neglected. From an institutional theory point of view, they argued that interests of key stakeholders (ie, the state, various professions, and service purchasers) of a public sector provider are not usually consistent.

Brignall & Modell (2000) comment:

The use of a particular aspect of performance measures within a public sector organisation might depend on the power relationship between its constituents and itself. For example, it is very likely that when facing a more powerful central government, a local unit would have to conform to performance measures (e.g. financial targets) required to satisfy central government's interests (p 295).

Brignall & Modell (2000) maintain that performance measures may thus be used by managers to seek legitimacy from a coercive stakeholder, rather than to deliver managers to seek legitimacy from a coercive stakeholder, rather than to deliver organisational long term objectives. They further discuss as follows:

In order to establish trade-offs between various stakeholders interests, managers may proactively search for performance indicators to provide a particular type of information to mobilize the support of one stakeholder group (Brignall & Modell, (2000), p 290).

Furthermore, Oliver (1991) claims that

When facing pressure from a dominant external constraint, organisational responses may vary from conforming to resistant, from passive to active, from preconscious to controlling, from impotent to influential, and from habitual to opportunistic (p 151).

Oliver (1991) claim further:

How organisations respond to externally imposed pressures depends on why these pressures are being exerted (cause); who is exerting them (constituents); what these pressures are (content); how or by what means they are exerted (control); and where they occur (context), (p 159).

In addition to seeking legitimacy Oliver (1991) asserts that some other institutional factors could also reinforce external institutional pressures towards conformity. These factors include: economic gain, goal consistency, coercion, constituent multiplicity, constraints, uncertainty, voluntary diffusion, interconnectedness and managerial dependence on external institutional pressures (Oliver 1991). For example, managers are less (more) likely to resist external institutional pressure if a higher (lower) degree of social legitimacy or economic gain can be attained from conformity to institutional pressures (Chang 2006).

In a decentralized public sector, central government normally has greater coercive power over local public sector organisations than other constituents (Brignall & Modell 2000; Modell 2001). Central government also enjoys a periodically renewed mandate /political authority over local units. A local unit is obliged to take account of central government's mandate. In order to preserve their reputations, local managers are more likely than not to acquiesce in coercive institutional pressures imposed by central governments (legitimacy coercion) (Brignall & Modell 2000). Furthermore Brignall & Modell (2000) claim that managers within local units are dependent upon central government for the funding of their operations and, to some extent also for their own job security, as well as their ability to deliver central government's targets. Thus the greater the degree to which local managers performance and job security depend upon central government's resources, the more likely they will be to conform to performance measures decided by central government (Brignall & Modell 2000; Oliver 1991).

Chang (2006) make a case that performance measures imposed by central government may not be consistent with local organisations operations, however, and this may give

rise to the increasing likelihood of resistance to central government's pressure (goal congruence). Modell (2001) in his study adopted the Oliver (1991) conceptual framework to investigate local hospital managers responses to financial performance measures imposed by the state. He discovered that managers had attempted to integrate performance measures imposed by dominant central government into their local operations although the performance measures were inconsistent with their organisational objectives and internal constituent's interests (e.g.. medical professions). Modell (2001) also found that in order to seek stability, managers tended to act more proactively to decouple financial and non-financial performance measures to balance conflicting constituent's interests. For example, he established that managers have attempted to separate financial performance measures imposed by the state from the interests of professional staff.

These observations derived from institutional theory suggest that, in a decentralized public sector, managers of local units might perceive that performance measures imposed by central government have little impact on internal performance improvement. However, managers have to provide required performance measurement information to secure their survival and legitimacy in the eyes of a coercive central government. Between 1997 and 2002, the government attempted to adopt a multi dimensional performance measurement system to benchmark local health authorities performance in the New health sector (Brignall & Modell 2000). It was believed by central government at the time that the application of such an approach would lead to the delivery of long term objectives (Brignall & Modell 2000).

Chang (2006) study claims, however that managers of health authorities might resist performance measures imposed by central government where such framework was perceived to be incompatible with local operations and to neglect the interests of other local stakeholders (e.g. clinical professions, local community). How they react to the required performance targets might depend on the power relationships between central governments and local constituents. Chang (2006a) argues that, within new health sector

accountability relationship at that time, central government might have had greater coercive power compared with other constituents. Chang (2006) comments as follows:

In order to seek legitimacy from central government, and secure their own interests, managers would have had to apply central government's mandated requirements in their health communities (p 67).

Chang (2006) study uses Brignall & Modell (2000) conceptual framework to examine whether central government is more coercive and whether local health authority's managers are more likely to conform to central government pressures. The results of the study found that the performance indicators chosen by central government were rather high level and did not take account of local management processes. For local managers the HLPIs were perceived as a top down control mechanism imposed by central government, which ignored factors driving local performance. However, in order to seek legitimacy from central government, local managers had attempted to distort clinical priorities, and manipulate performance information requested by central government. Chang (2006) results show that the use of a so called strategic performance measurement system has its limitations in integrating multiple constituent's interests in the new health sector.

Institutional theorists reason that because an organisation depends for survival on the support of external constituents, it must conform to accept social norms; this reasoning applies especially in government departments (Meyer & Rowan, 1977). This new institutionalism in organisation theory and sociology comprises a rejection of rational actor models, an interest in institutions as independent variables and a turn towards cognitive and cultural explanations that cannot be reduced to aggregations or direct consequences of individual's attributes or motives (DiMaggio & Powell, 1991).

These institutionalized expectations are expressed in a broad class of elements that includes rules, blueprints for action, standard operating procedures, impersonal prescriptions, rationalizing techniques, formalization, and documentation (Meyer & Rowan, 1977). Meyer & Rowan (1977) proposed that the formalized coordination and

control systems of organisational structure serve as rationalized and impersonal prescriptions that identify various social purposes (demonstrating institutional conformity) as technical ones (affecting control) and specify in a rule like way the appropriate means to pursue these technical purposes rationally. Thus, irrespective of the task characteristic of internal work unit operating processes, institutional forces contribute to a heightened emphasis on the relatively document able, bureaucratic mode of control as a form of procedural conformity (Meyer & Rowan, 1977). This new institutionalism considers the relative autonomy of political institutions. The importance of bureau interaction with the environment to policy outcomes has been the focus of the literature.

In this dissertation, two aspects of the bureaucracy thought to impact on public policy are addressed. The first is the bureaucrat's accounting ability. This concept has been the focus of much of the literature on state government reform (e.g. Abney & Lauth, 1986). Institutional theory is full of discussion of the impact of bureaucrats' accounting ability on the outcome of the interaction of bureaucrats and their principals (e.g. Di Maggio & Powell, 1991; Scott, 1987; Meyer & Rowan, 1977).

The second aspect of the bureaucracy is the bureaucrat's salary. Institutional theory literature suggests that decision-makers in government departments are more likely to pursue budget maximization than cost minimization. This is because performance of government departments is evaluated in terms of criteria other than profitability. As such, bureaucrats are assumed to behave differently than managers of profit orientated organisations.

Bureaucrats' salary is assumed to affect their behavior and therefore an increase in the bureaucrat's salary is used as an incentive to increase their performance. Therefore, a principle accounting officer's accounting ability and salary is thought to impact on the incentives and ability of the bureaucrat in government departments towards disclosing the type of performance indicators in their department's annual reports and the extent to which they disseminate performance indicators.

4.5.1 BUREAUCRAT'S ACCOUNTING ABILITY.

A bureaucrat is defined as a senior official of any government department with a separate identifiable budget. These bureaucrats may be either career officials or directly appointed by the elected executive (Niskanen 1981). The bureaucrat's accounting ability is an important determinant of the ability of the bureaucrat to respond to the demands of their department's environment. Institutional theory in the bureaucratic domain argues that "bureaucratic accounting ability is responsible for variations in policy outputs" (Downs 1976). The Niskanen (1981) model was the first model which analysed the bureaucracy on the basis of universal self-seeking assumptions, discarding the public interest Weberian (Weber, 1947) model of the elected government. This institutionalism considers the relative autonomy of political institutions and the importance of bureaucratic interaction with the environment. Abney & Lauth (1996) refer to the importance of "neutral competence" in their study of state and municipal governments. Fama's (1980) notion about managerial market monitoring also supports the inclusion of bureaucrats' accounting ability in their study of State Governments.

Cheng (1992) developed a politico-economic model and posited eleven unobserved theoretical variables that directly or indirectly affect the decisions to provide accounting information by state governments. Cheng (1992) hypothesized that the politico-economic model developed from a priori information and theory provides an explanation for the financial reporting status of state governments. The results reveal that a bureaucrats' accounting ability provides quality information. Bureaucrat's accounting ability that load with LWAGE (LISREL WAGE) is average salaries of accounting personnel; number of certified public accountants in the accounting staff, size of the accounting and audit staff and average salary of the audit personnel. Salary information, along with size of accounting and audit staff, and number of certified employees gives an indication of professionalism, and accounting and audit ability to provide information demanded by forces in the political environment.

A bureaucrat's accounting ability also has a significant positive effect on the extent and quality of financial reporting. Measures of this construct correlates highly with overall

size measures; therefore, in addition to measuring accounting ability this construct also brings to the model the ability of large states to have quality financial disclosure. The results suggest that a bureaucrat's length of service is a consistent causal factor in the decision to provide quality financial reports. Therefore, the conclusion that can be drawn from Cheng's (1992) study is that a bureaucrat's accounting ability is significantly related to the extent and quality of financial disclosure.

Ingram (1984) studied the influence of economic incentives and choice of state government accounting practices and supports the Cheng (1992) findings that a bureaucrats' accounting ability and needs is significantly related to the extent and quality of financial disclosure. Ingram (1984) performed an analysis to determine if a relationship exists between the disclosure quantity index and bureaucratic accounting ability. He identified bureaucrats' accounting ability as represented by managerial professionalism, surrogated by salaries, and the requirement that the auditor be a CPA, and complexity of government, surrogated by state population. The results revealed that a bureaucrats' accounting ability is positively associated with quantity of accounting information. Further results also revealed that quantity of state government accounting disclosure is associated with a bureaucrats' accounting ability.

4.5.2 BUREAUCRAT'S SALARY

Baber and Sen (1984) studied the role of standard or generally accepted accounting and reporting methods in the public sector. An analysis of the relationship between a bureaucrats' salary and the use of standard reporting methods revealed a positive relationship. Alternatively, omitting wages increased the significance of the competition variable, which resulted in a greater overall significance for the competition variable. This suggests that competition and not wages is the factor related with the use of GAAFR (Generally Accepted Accounting Financial Reports). Further analysis for the wages variable was performed to determine the level of significance with the use of GAAFR. The analysis revealed that the wages variable has greater significance, which means that wages display greater classificatory accuracy of GAAFR than models

without wages. Therefore, those departments that do use GAAFR have greater competition and wages than departments who do not prepare / use GAAFR.

Karbhari & Mohammad (2006) study illustrates the impact of the modified budget system in the financial management of the Malaysian government organisations. Their study examined overall financial resources including salary. The results of a questionnaire survey revealed that the majority of respondents indicated no significant increase in their salary. A possible explanation for this is that in Malaysia the Treasury Department has influence over personal matters in respect of issues related to the use of public funds, such as salary of senior finance officers (Karbhari & Mohamad 2006).

Consistent with prior research this study will examine a bureaucrat's salary as a potential variable influencing performance indicator disclosure and dissemination in a government department's annual report.

4.6 CULTURE

In the study of the public sector of a particular country, it is essential to consider the specific socio-cultural circumstances prevailing in the society that impinge on its administrative/ management culture and hence influences the behaviour of its personnel, as well as the extent to which it has institutional ramifications. The socio-cultural circumstances range from socio-cultural expectations, privileges, norms, predispositions and value-orientations. Esman (1972) refers to these socio-cultural circumstances as ecology. Esman (1972) postulates that:

According to ecological concepts, administration cannot be viewed as (is done) by scientific management or the more recent decision theory writers, as a self-contained system, relentlessly pursuing the goals of instrumental efficiency or cost effectiveness. Instead, it is a subsystem of the larger society with which it maintains a continuous pattern of transactions. The prevailing societal values, distribution of political power, communication flows, economic and technical arrangements and political styles condition the behaviour of public administration, for it must depend on them for its authority and resources and for approval of its outputs. Thus, in a society which attaches little value to efficiency, administration will not behave efficiently but will subserve

more salient values. This does not mean that administration must be a pale reflection of the prevailing culture or the balance of political forces in the larger society. Some groups of administrators may work for change; some may respond to demands originating in society... others ...hold office and maintain the status quo. Most of them are likely to participate in the competition for resources, status, influence and even political power (p 16).

However, it should be emphasised that adopting an ecological approach does not mean overlooking that there have been changes in outlook and orientation due to the impact of modernisation and reform in the Australian and Malaysian public sectors.

Malaysia, as a plural society, reflects a myriad of socio-cultural influences due to the juxtaposition of indigenous culture, migrant culture and colonial culture. Indigenous culture is reflected to as the Bumiputera or “sons of the soil” comprising the Malays who are predominantly in the peninsula and the various ethnic groups in East Malaysia. The Malays adhere to Islam as their religion whilst the other indigenous groups reflect a mixture of religious affiliations like Christianity. Migrant culture still prevails as the Indians and Chinese still retain to some extent the socio-cultural legacy of their migrant ancestors, although the majority have maintained their philosophical and religious affiliations to Hinduism and Confucianism–Taoism respectively, a sizeable proportion has been influenced by colonial culture and converted to Christianity (Safi, 2007).

The plurality of Malaysian society which manifests itself in the language, socio-cultural and religious behaviour patterns and values has exerted considerable influence on the public sector. A number of writers have noted that management practices and processes are quite affected by the socio-cultural traits prevalent amongst the major racial groups. However, Esman (1972) believes that the structural pluralism of Malaysian society belies the similar attitudinal and behavioural patterns reflected by senior officials of all races. This can be attributed to convergence in beliefs and world-view derived from traditional cultures, shared secondary socialisation due to British education and employment, and the necessity for non-Malays to conform to the entrenched Malay administrative culture (Esman, 1972).

Hofstede (1991) defined culture as “The collective programming of the mind which distinguishes the members of one group or category of people from another” (p 5). This does not imply that humans are programmed the same way computers are (Swaiden & Hayes 2005). Hofstede (1991) concluded that individuals behaviour is only partially predetermined by their mental programming. Individuals have the ability to deviate from their mental programming. They have the ability to react in ways, which are different than their culture. On the other hand (Hofstede 1991) defined personality as “The unique set of mental programs, which individuals do not share with any other human beings” (p 6).

Culture is recognised as one of the most important variables influencing ethical decision making (Swaiden & Hayes 2005). Differences in individual ethics reflect cultural variation, that is, differences in the collective programming of the mind that distinguishes one culture from another Hofstede (1991). Cultures could be contrasted along five dimensions: individualism/collectivism, power distance, uncertainty avoidance, masculinity/feminine, and Confucian dynamism (Hofstede 1991).

Individualism/collectivism represents the relation between an individual and her/his fellow individuals (Hofstede 1983). Collectivism is characterised by a tight social framework, in which people distinguish between in groups and out groups (Hofstede 1980). Power distance covers how individuals deal with the fact that members of their society are unequal (Hofstede 1983) Uncertainty avoidance involves how society deals with uncertainty because the future is unknown (Hofstede 1983). Masculinity includes the division of roles between the sexes in society (Hofstede 1983). Confucian dynamism measures the extent to which a culture emphasises long term values, in contrast to a culture that emphasises short term values.

Hofstede (2001) defines individualism as “A society in which the ties between individuals are loose: everyone is expected to look after him/herself and her / his immediate family only” (p 225). Individualism is a loosely knit social framework, in which people are supposed to take care of themselves and of their immediate families

(Hofstede 1980, 1991). Individualists value personal independence and pleasure and individual expression and personal time. They tend to believe that personal goals and interests are more important than group interests (Hofstede 1984). Individualists tend to have a high need for personal achievements and value individual rights (Swaiden & Hayes 2005).

Hofstede (2001) stated that collectivism stands for

A society in which people from birth onwards are integrated into a strong cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for UN questioning loyalty (p 226).

Collectivism is characterised by a tight social framework, in which people distinguish between in-groups and out-groups (Hofstede 1980). Collectivist consider themselves as members of an extended family, tripe, nation, or culture (Hofstede & Bond 1988). Collectivists value reciprocation of favours, a sense of belonging, and respect for tradition (Swaiden & Hayes 2005). Collectivist's identity is based on the social system rather than on the self (Swaiden & Hayes 2005). Although the group invades private life of individuals the group provides protection, loyalty, and security for member (Swaiden & Hayes 2005).

Swaiden & Hayes (2005) study identified that cross – cultural ethics could be classified into three major categories: first, research that compared two or more countries as is the case with this thesis comparing Australia with Malaysia. Second, research that explored ethics of people from one country. Third, research that compared ethics of two or more subcultures. Burns and Brady (1996) compared the ethical perceptions of Malaysian and American business students. The cross-cultural research found contradictory results from one study to another and from one country to another. Most research found that individuals from developed countries reject questionable activities more than subjects from developing countries. Burns & Brady (1996) found that Malaysian business students tend to have lower ethical perceptions than American business students.

Standards usually differ from one culture to another, and so actions regarded right by one culture may be in conflict with and judged unethical by another culture (Bartels 1967); (Armstrong & Sweeney 1994; Ralston, Giacalone & Terpstra 1994). Culture is the standard that determines the rightness of individual's behaviour in a given society.

Hofstede (1980 and 1983) work with international personnel of the IBM corporation showed that differences between employees are largely due to national characteristics; from the research he has developed four cultural dimensions to explain and illustrate the major groupings of differences between the thinking of people from different national cultures. He calls these dimensions individualism-collectivism; power distance; uncertainty avoidance and masculinity-femininity. Each of these is seen as a continuum, with the position of any national group being placed somewhere between the extremes.

Australia and Malaysia, the two countries of this thesis, are of specific interest here, and their rankings on the four dimensions have been extracted from Hofstede findings to demonstrate the differences found for the two countries under investigation, and shown in the Table 4.4 Rankings on these dimensions are shown as the position of each country relative to the others studied on a continuum of one to fifty..

For each different dimension, Australia's position is very different from that of Malaysia. This divergence is particularly strong in the case of individualism, with Australia ranking the second most individualistic nation of all those studied, while Malaysia has a much more collectivist orientation.

Table 4.4
Ranking of Australia and Malaysia on Hofstede Dimensions

	Individualism	Power Distance	Uncertainty Avoidance	Masculinity
	Rank/50	Rank/50	Rank/50	Rank/50
Australia	49	13	17	35
Malaysia	17	50	8	26-27

(Hofstede 1983, p 49)

Swaiden & Hayes (2005) hypothesised that an individual will be more sensitive to ethical problems than collectivists. They concluded that individualism/collectivism strongly influences the moral reasoning of individuals. Ethical implications of this dimension include members of individualist societies (Australia) frequently questioning the ethical standards established by their societies. On the other hand members of collectivist cultures such as Malaysia accept these standards blindly.

Australia and Malaysia are also placed very differently along the power distance dimension, with Australia registering a low power distance, while that of Malaysia is high. This corroborates earlier about Australians generally not having a great deal of respect for authority and expecting everyone to be respected and treated equally. For Malaysian people it is totally acceptable, for decisions to be handed down from the government; this reflects a high power distance orientation.

In uncertainty avoidance, Australia and Malaysia are about equally spaced along the continuum. Malaysia and to a greater extent Australia are more inclined to prefer greater structure, standardisation and specialisation. Both countries however, fall into the lower half of the countries studied with respect to this dimension, showing a greater adaptability to change and uncertainty than over half the countries studied in Hofstede multinational comparison.

Swaiden & Hayes (2005) hypothesised that individuals with large power distance will be less sensitive to ethical problems than individuals with small power distance. Based on Hofstede study Malaysian people will be less sensitive to ethical problems than Australian people. Past research has indicated that individuals who are low in uncertainty avoidance are more likely to take risks (Hofstede 1983). From an ethical perspective the tendency of taking risks is highly correlated with unethical behaviour (Swaiden & Hayes 2005). While these findings appear to be in conflict there is sufficient evidence to support that uncertainty avoidance has a direct relationship with ethicality (Swaiden & Hayes 2005).

Malaysia is very close on the masculinity/femininity dimension showing that it is intermediately placed with regard to achievement orientation as opposed to social values. Australia is seen as being closer to the achievement orientated, competitive end of the scale.

The uncertainty avoidance score shows Australia and Malaysia willingness to take risks and tolerate uncertainty, and both countries have high achievement-orientation and competitiveness.

Hofstede (1980) found that the single most important difference between people's perceptions and attitudes is attributable to their national identity and the values connected with it. Irrespective of other differences between personnel, such as age, sex, job, or status, national identity and differences in cultural background were consistently the dominant factors.

Trompenaars (1993) study found that there are continuing substantial differences in modal cultural values of organisation employees and that these are largely consistent with differences reported by Hofstede (1980). The results suggest that the dimensions defined by Hofstede (1983) as individualism–collectivism and power distance may be better defined as representing varying orientations toward continuity of group membership (loyal involvement / utilitarian involvement) and varying orientation toward the obligations of social relationship (conservatism/egalitarian commitment) (Smith, Dugan & Trompenaars 1996).

Another issue that helps define a national culture is whether people “put themselves or the interests of the group first”. The countries which score most highly as individualists are the Canadians, and closely followed by the Americans. Houlter (1996) claim that “English is one of the few languages in which ‘is’ written with a capital letter (p 12).

The importance a culture places on individual freedom can determine the success of pay for performance schemes. Although they work reasonably well in individualist societies such as the USA, the Netherlands and the UK they may not be so successful in more collectivist cultures such as France, Germany and large parts of Asia (Houlder 1996).

Other issues that Trompenaars believe define a culture are: do people display or mask their emotions; how far do people confine relationships to specific areas of their life; is status something that is worked for, or assigned by factors such as age, class and gender; what relative importance do people give to the past, present and future? Do people feel in control of nature, or subjugated to it? Understanding a different point of view is one thing; reconciling differences is another (Houlder 1996). Trompenaars believes that it is possible to bring out the best of both approaches by “putting one orientation in the context of the other” (Houlder 1996).

Globalisation has impacted on every level of government as well as the delivery of services, locally and across the globe. Local and state governments and their representatives deal with foreign companies and governments on a daily basis. Recruiting employees who understand cultural differences and their values guarantees success in the new global paradigm (Venezia 2005).

Culture and globalisation are two forces that are thought to influence administration. The studies shown above illustrate how a country's values are developed though time impacts everything from how culture is perceived and desired, cooperation or competition and decision making. National culture is the internal mechanism that drives the behaviour of a people (Venezia 2005).

Dwivedi (2001; Dwivedi 2003) see a relationship between a nations' culture, tradition, and style of government. He believes that the West has an obligation to respect the local customs, culture, and tradition when implementing reforms. To assure success of reforms, time is needed to determine whether the reforms are suited to the nation. In place of Cultural Globalisation, the belief in one management culture, Dwivedi suggests Biodiversity. Biodiversity is the inclusion of developing models of government from other continents and nations as an alternative to broaden the language and success of the new global paradigm (Venezia 2005).

The research that has been discussed above demonstrates that standards do differ from one culture to another and thus what is considered ethical by one culture may not be considered ethical by another culture. In this study two culturally different countries are examined – Australia and Malaysia. The former is a fully developed country with a multicultural society and the latter a developing country. In regards to making decisions in government in Australia these decisions would be based on ethical guidelines and judgement whereas in Malaysia such decisions would be based on religious beliefs. Therefore it has been decided to examine the effects of culture on performance measurement only for Malaysian government departments.

4.7 SUMMARY

This literature review has reviewed areas concerning agency theory and its associated variables (oversight bodies, political visibility, and the citizenry), institutional theory and its associated variables (bureaucrat's accounting ability and bureaucrat's salary) and culture.

Two institutional theory variables which affect the disclosure and dissemination of performance indicators were discussed. These variables are a bureaucrat's length of service and a bureaucrat's salary.

Following a discussion of institutional theory and institutional theory affecting the disclosure and dissemination of performance indicators, this chapter reviewed the last independent variable of this thesis “Culture”. Prior literature using Hofstede (1983, 1991 and 2001) was reviewed in relation to the influence of culture on the disclosure and dissemination of performance indicators in the annual reports of Malaysian government departments.

The following chapter will develop the hypotheses for testing which will be based on whether there are any influences on the types of performance indicators disclosed by Australian and Malaysian government departments and the extent of dissemination of performance indicators by those departments.

CHAPTER FIVE

HYPOTHESES FORMULATION

5.1 INTRODUCTION

There has only been limited research within the public sector accounting literature on performance measurement using a combined theory approach (such as agency and institutional theory). Mucciarone & Taylor (2005) used agency theory to identify factors (oversight bodies and political visibility) that influence the disclosure of performance indicators in the annual reports of Australian government departments. The authors found that oversight bodies do have an influence performance indicator disclosure in the annual reports of Australian government departments. Using institutional theory Mucciarone & Taylor (2005) also examined whether a bureaucrat's accounting ability (qualifications and experience) and salary influences performance indicator disclosure in the annual reports of Australian government departments. The results of the study found that bureaucrat's salary does have an influence on profitability and procedural–efficiency type performance indicators disclosed, whilst a bureaucrat's experience influences the unit cost and quality of output type performance indicators. Bureaucrat's qualification was found to have no significant influence on any types of performance indicators disclosed. The authors argue that the results for the institutional theory–driven variables bureaucrat's salary and experience point to agency theory–driven relationships between the bureaucrat's salary and the disclosure of profitability and efficiency type performance indicators. They further claim that a bureaucrat's experience level is found to affect the disclosure of both cost and quality performance indicators that are more likely to arise from a more advanced underlying accounting information system in the organisation.

This thesis brings the perspective of two theories to bear on determining the disclosure and dissemination of performance related information within the annual reports of Australian and Malaysian Government departments. Aspects of agency theory and the institutional theory of organisational behaviour are used to support arguments concerning the relationships between conditions faced by, and motives of, senior finance officers and the disclosures of accountability and performance of their departments.

The chapter is further concerned with the development of hypotheses to test the extent of the influence of oversight bodies; political visibility, bureaucrat's accounting ability, bureaucrat's salary, and culture on the disclosure and dissemination of public sector performance indicators.

The chapter commences with an empirical schema followed by the development of hypotheses for the variables associated with agency theory. This is followed by the development of the hypotheses for the institutional variables of the study.

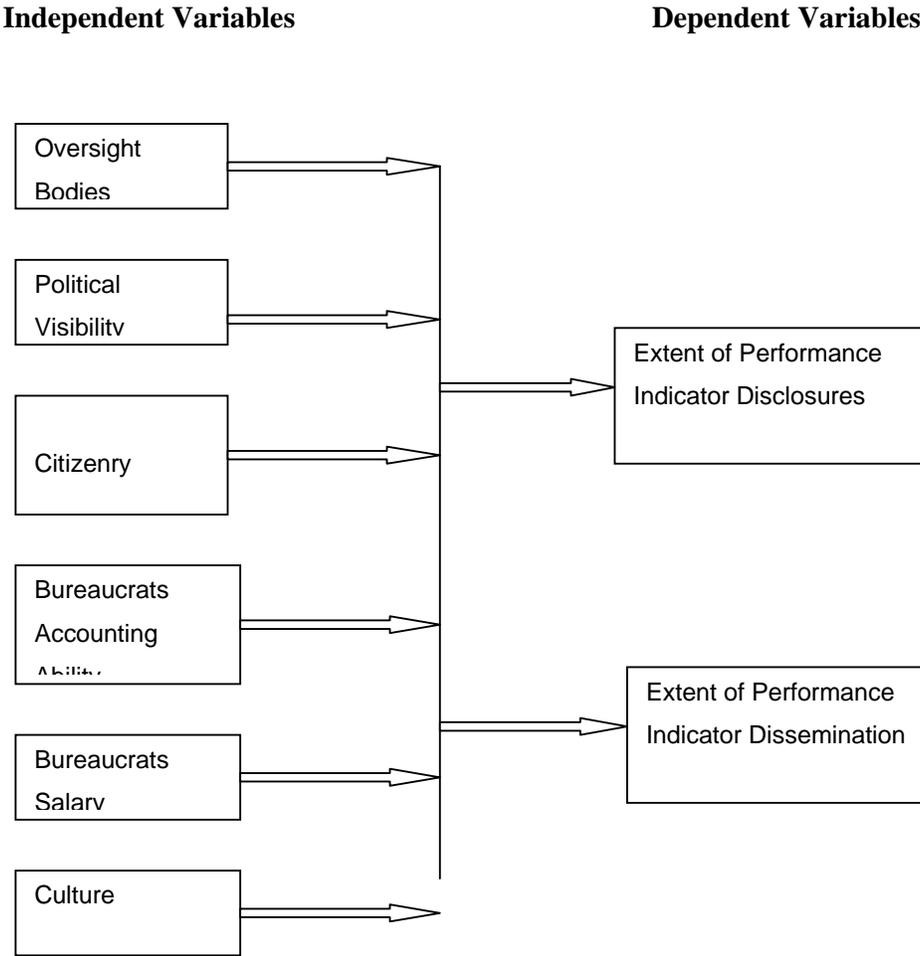
5.2 EMPIRICAL SCHEMA

Two dependent variables and six independent variables have been identified for this study. The dependent variables are: 1) Frequency of performance indicators disclosed and 2) the extent of performance indicator dissemination. The six independent variables are: 1) oversight bodies; 2) political visibility; 3) citizenry of each country; 4) bureaucrat's accounting ability; 5) bureaucrat's salary; and 6) culture. The empirical schema details the relationships between the dependent and independent variables is shown in Figure 5.1.

5.3 AGENCY THEORY VARIABLES AND FREQUENCY OF PERFORMANCE INDICATOR DISCLOSURE AND DISSEMINATION

As explained in Chapter 4, agency theory is the delegation of authority from one party (the principal) to another (the agent) and this authority involves some levels of decision making (Jensen & Meckling 1976). Within these delegations a series of agencies problems arise as the agent's interests are not always align with those of the principal. As a result, mechanisms need to be put in place to mitigate the agency problems. These mechanisms may take the form of audits, executive compensation contracts, disclosures to shareholders etc. As a result of the impossibility of fully aligning the interests of the principal and the agent there still remains the possibility of agency losses and or value losses arising from any conflicts of interest. Therefore in an agency contract situation, Jensen & Meckling (1976) claim "there are costs of any contract which cannot be contracted away and these are termed a 'residual loss' (p 310).

Figure 5.1
Empirical Schema
Determinants of Frequency of Performance Indicator Disclosure and
Dissemination by Australian and Malaysian Government Departments



Agency theory also extends efficiency theories such as those concerning structural contingencies and transactions costs in several ways. One is the treatment of information in that information is regarded as a commodity that has a cost and can be purchased. These characteristics give an important role to formal information systems as those used in budgeting, and to informal information systems, like those used in supervision. The result is a dynamic view of information that is unique in organisational theory (Eisenhardt 1988).

Eisenhardt (1988) also views agency theory as pushing the ramifications of uncertainty to their implications for creating risk by stating that “in agency theory,

uncertainty is viewed as it is in accounting, and finance – in terms of risk – reward tradeoffs and not a hindrance to planning” (p 491).

Further, as discussed in Chapter 4, agency theory argues that under conditions of incomplete information and uncertainty, which characterizes most business settings, two agency problems can arise those of adverse selection and moral hazard. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for which he is being paid. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989).

According to Jensen and Meckling (1976) “the agency relationship exists at every level of management in firms”(p 305). To the extent that a manager of a firm must obtain the cooperation of others in order to carry out his tasks and to the extent that he cannot control their behavior Jensen & Meckling further comment “They will be able to appropriate resources for their own ends” (p 306).

5.3.1 OVERSIGHT BODIES

According to Statement of Accounting Concepts No. 1 of the Australian Conceptual Framework,

Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on the general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources “ (Australian Accounting Handbook, 2004, SAC 2).

Government departments satisfy this definition as there are large numbers of users of general reports requiring information concerning government activities. According to AAS 29 Para 5.1.4, there are three main groups, these being: 1) the providers of resources, e.g. taxpayers and creditors, 2) those who receive goods and services, e.g. consumers and finally, 3) those who have an oversight function or review the activities of the departments on behalf of the community, e.g. regulators, community

groups and the media. The needs of these groups are met, to some extent, by treating government departments as reporting entities. Treating government departments as reporting entities allows these groups to investigate the allocation of scarce resources by the government departments. Consumers of the goods and services provided by government departments may wish to know how resources are being used in catering for their interests.

An Australian study of local government reporting by Neilson (2005) reviewed a series of agency relationships between oversight bodies. The study claims that there exists a chain of principal–agent relationships, firstly, between the electors and elected councilors and secondly between elected councilors and the bureaucrats. These relationships can be illustrated by reference to the Western Australian Local Government Act (1995) and the Financial Management Regulations (1995). Indicators of the existence of an agency relationship between the elected councilors and the bureaucrats are detailed in the Act which states that “a local government can delegate to the CEO the exercise of any powers or the discharge of any duties under this Act”. An agency relationship also exists between the CEO and other employees which allows the CEO to delegate to any employee of the local government the exercise of any of the CEO’s powers or the discharge of any CEO’s duties under the Act (Neilson 2005).

At the Australian Federal and State government levels agency relationships also exist between principals and the agents. These relationships can be identified by reference to the Western Australian Financial Administrative and Audit Act (FAAA) and Financial Management Regulations. These relationships exist between the performance indicator preparer and the CEO and between the CEO and the minister of the relevant department. There is also an agency relationship between the CEO and the Cabinet and the Cabinet is responsible to the parliament. There are also agency relationships between the government department and the public. From a legal perspective, agency relationships exist between the government department and Parliament, Cabinet and Ministers.

At the Malaysian Federal and State level agency relationships also exist as for example between the Senior Finance Officer and the CEO. In each Federal Ministry,

an agency relationship exists between the Federal ministry and the parliament and the public. At the State level an agency relationship exists between the various departments and the Treasury.

The person responsible for the preparation of the monthly and annual financial reports and budgets holds senior positions within a government department. In Australia this person is the Performance Indicator Preparer (PIP) and in Malaysia it is the Senior Finance Officer (SFO). Both these bureaucrats are often appointed by the CEO and report directly to the CEO on the financial affairs of their government agency. The CEO is an agent of the appointed Minister (the principal) and the PIP and SFO are agents of the CEO. The PIP and SFO, by virtue of their responsibilities and processes of their position, obtain and control particular information regarding the financial position of their federal or state agency not generally available to the CEO. This information, other than that which may be obtained from other means by the principals, is known as private information. Even if the information were available to, or known to the principal, it may require financial or accounting expertise to interpret.

In these situations the PIP and SFO have a monopolistic position regarding the information and the principal is unable to fully monitor the PIP and SFO actions – information asymmetry prevails. This monopolistic behaviour has the potential for goal conflict between the principal and the agent (Giroux 1989). The PIP and SFO will often have access to a range of financial and non-financial information such as information on the costs and benefits of certain agency programs and outputs, the financial position and reporting methods of other government agencies, and disclosure requirements of the accounting profession and changes therein. This access places the PIP and SFO in an information asymmetry position with incentives, under agency theory, to divulge only minimal information or information which will reflect well on them.

Mulgan (2001) studied the role of Auditor-Generals in Australia at both the Commonwealth and State levels, focusing on their own growing contribution to public accountability and their relationship with some aspects of public sector reform. Mulgan (2001) commented as follows on the role of Auditor – Generals in Australia;

In a number of jurisdictions, Auditor–Generals have emerged as highly effective champions of public accountability, standing up for values such as transparency, probity, and good governance in the face of evasive government and officials (p 24).

Rosair & Taylor (2000) examined the effects of oversight bodies on Australian government departments' accountability disclosures in annual reports. They identified the Treasury Department of the relevant state government, and lobby groups as legislative oversight and review bodies. The study found that participating parties is significantly related to accountability related disclosures. Those user groups who directly participate in the decision processes of the department influence the amount of accountability-based disclosure provided by a government department. In the study oversight bodies were the Office of the Auditor–General and the Treasury Department at both federal and state levels.

Mucciarone & Taylor (2005) studied the level of influence of oversight bodies on the types of performance indicators disclosed in the Annual reports of Australian government departments. Oversight bodies included the Office of the Auditor–General and the Treasury Department. The results indicated that the Office of the Auditor–General had a significant positive impact on the disclosure of both financial and non–financial performance indicators, whilst the Treasury Department had a significant positive impact on disclosure of non–financial performance indicators and a weak influence on financial performance indicators disclosure. In addition, the Office of the Auditor–General was significantly positively related to performance indicators of cost reduction, profitability, unit cost, procedural–efficiency, and quality of output. The influence of the Treasury was found to be significantly related to procedural efficiency and quality of output performance indicators.

Mucciarone & Neilson (2005) studied the influence of oversight bodies on the disclosure of categories of performance–related information in Australian State government Annual Reports. They identified oversight bodies as the Office of the Auditor–General and Treasury Department. The results from the study showed that the Office of the Auditor–General did not have a strong a level of influence as previous studies have produced. Mucciarone & Neilson (2005) also examined the influence of oversight bodies and the extent performance indicators are disclosed in

the annual reports of state government department's annual reports. The result for state oversight bodies showed a strong significant result.

The oversight bodies of Malaysia include the Accountant-General and the Treasury Department. The Accountant – General's Department is responsible for the accounting services for all government agencies. It is also responsible for all accounting policies and practices. It oversees public accounts, computer systems and other accounting projects. The Accountant-General department role in the Malaysian public sector is equivalent to the Office of the Auditor-General in Australia.

In 1990 three accounting standards relating specifically to financial reporting by government organisations was introduced into the accounting profession in Malaysia (Nichol & Taylor 2001). The aim of the introduction of these accounting standards into the Malaysian public sector was to change the focus of accountability towards managerial accountability. With a shift in the emphasis of the discharge of accountability, the Malaysian Government required public sector entities to capture efficiency and effectiveness reporting in their annual reports (Taylor & Pincus 1999).

Nichol & Taylor (2001) studied the extent of disclosure of the various categories of performance information by groups of ministries and other public sector entities. They performed a content analysis of a selection of 1985 and 1995 public sector accounts. The analysis of the public accounts found performance indicators are seriously lacking within the public accounts. The study found that the disclosure of efficiency and effectiveness performance indicators declined to only 6 instances in 1995, of which only 2 were justified. In terms of performance indicators, the authors did not find any efficiency indicators in the 1995 reports. A possible explanation for the poor results above is explained by Nichol & Taylor (2001) as:

There has been no proper and specified mechanism for measuring performance information. Furthermore, the deficiency in reporting of effectiveness indicators was possibly due to the non-mandatory status of effectiveness audits (p 43).

Section 6 of the Malaysian Audit Act 1978 provides for a performance audit of government entities. But the provisions are aimed specifically at the audit of economy and efficiency information (Nichol & Taylor 2001).

Within Australia, State and Federal legislation requires each government departments' principal accounting officer (PAO) to prepare and submit to the respective Minister by a specified date each year, an Annual Report containing:

- (a) Financial statements for the financial year;
- (b) Performance indicators and such other information as may be directed;
- (c) A report on the operations of the department during the financial year; and
- (d) Such other information as the minister may direct in writing (Western Australian Treasury Department, 2006).

The Annual Report is an important medium for government departments to communicate information regarding their performance. As a communication medium, the Annual Report is both an explanatory document and a public record. For example the Western Australian Treasury Instructions (TI904) states that "government departments' PIP's must provide information which will enable users to assess performance in discharging objectives established for their department". The Act requires that PIP's must assess their department's performance by enforcing disclosure in the annual report of each of their department's programs efficiency and effectiveness performance indicators (Western Australian Treasury Department, 2006).

Rosair & Taylor (2000) examined the way principal accounting officers (PAOs) perceive the rendering of accountability by their entity through annual report disclosures. The authors assumed that the annual report is a significant means of discharging accountability. Rutherford (1992) claims that voters have only a cursory interest in general – purpose financial reports of public sector entities. They further argue that "to send voters off to read financial statements partly because they would find it difficult to predict how they might share in any gain achieved by voting in a more efficient administration" (p 268). Banks et al (1997) contrasts this view they argue that annual reports are "a primary vehicle by which institutions communicate

accountability information about their activities to their stakeholders “(p 15). Davis et al (1989) notes in their study that the Royal Commission on Australian Government Administration viewed annual reports as:

The vehicle by which departments furnished an account of their activity and performance as means of providing background information necessary for an understanding by Parliament, government and the public of each department’s performance controls in the expectation of better results (p 45).

Other researchers advocate other sources of information as being more effective in communicating performance information to users of the annual reports. Petravich (1999) for example, supports the view that the Annual Report is the primary means of disclosing performance information to users of the reports. The Management Improvement Advisory Committee Report entitled “Accountability in the Commonwealth Public Sector” (1993) identified the annual report as a key external document, an avenue available to public servants for the reporting on their performance and accounting for the appropriate discharge of their duties (p 15). Hyndman & Anderson (1995) make a comment that “it is generally recognised that a key document in the discharge of accountability to external users is the annual report “(p 2).

In this thesis, oversight bodies are the Auditor-General, Minister, Treasury Department and lobby groups. In order to test the hypotheses, where more than two of the above groups (i.e. three or more) are statistically significant, the hypothesis is accepted.

Therefore on the basis of the discussion above, Hypothesis 1a and 1b are as follows:

H1a: A relationship exists between the influence of oversight bodies and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments.

H1b: A relationship exists between the influence of oversight bodies and the frequency of performance indicator dissemination by Australian and Malaysian government departments.

5.3.2 POLITICAL VISIBILITY

Lim & Mckinnon (1993) studied the influence of political visibility on the voluntary disclosure of financial and non-financial information by statutory authorities in New South Wales. They hypothesized that statutory authorities would make disclosures in order to manage their political visibility and hence minimise their political costs. Lim & Mckinnon (1993) defined an entity as politically visible if it attracted a disproportionate share of scrutiny by politicians, the general public, or other accountees, causing it to be a possible target for the imposition of political costs. Political costs can take the form of a re-distribution of a department's resources to other parts of the public sector, the absorption of its functions by other agencies, or the replacement of key senior management. Thus, they argued that government departments may attempt to manage their political visibility by making disclosures in their Annual Reports as a means of minimizing political costs. The study found a positive correlation between the political visibility of the statutory authorities and the level of voluntary disclosure of financial and non-financial information. They confirmed the political cost hypothesis of Watts & Zimmerman (1986) that entities subjected to a greater amount of scrutiny are more likely to disclose information than those subjected to less scrutiny.

Mucciarone & Taylor (2005) examined the effect of size on the types of performance indicators disclosed in State government departments' Annual Reports. They measured the size of government departments by the number of employees. The results showed that all types of performance indicators showed a low and non-significant regression coefficient.

Mucciarone & Neilson (2005) studied performance indicator disclosure to determine if the size of a government department influences the level of performance indicator disclosure in the Annual Report. They measured the size of a government department by the number of employees and total revenue and tested the variable size of government departments using univariate analysis. The result for total revenue and number of employees (combined) showed that no significant relationship exists between size and the extent performance indicators are disclosed in the annual

reports of State government departments. The researchers also examined the variables separately and the results yielded no significant differences.

In the Malaysian public sector literature there are no specific studies which empirically examine the size of a department as a variable. There is however some research conducted in the private sector in Malaysia. Pham & Morris (2003) examined corporate financial reporting transparency in Malaysia before and after the Asian financial crisis of 1997/1998. They measured transparency in terms of compliance with Malaysian accounting standards (MASBs) as well as voluntary adoption of items in International Accounting Standards (IASs) and US GAAP covering a range of financial reporting issues. The authors hypothesised that the greater the size of Malaysian firms, the higher the transparency of their financial reports. The results found evidence that in both 1996 and 2001, all mandatory and voluntary transparency indexes were significantly positively associated with firm size.

Smidt (2000) study considered organisational performance innovation in the Western Australian Public Sector. The study specifically examined a set of hypotheses regarding the implementation of an innovation to measure organisational performance in government organisations. Specifically, Smidt (2000) hypothesised that the decision to adopt a measurement approach to organisational effectiveness will be a function of organisational type and that this will be mediated by organisational size and extent of decentralisation. She used the number of employees to measure organisational size. The results showed that no positive relationship existed between organisational size and organisational effectiveness.

In this study overall disclosures of performance indicators are examined to determine if the size of a government department influences the level of performance indicator disclosure in its Annual Reports. The political visibility of government departments uses the size of a government department measured by the number of employee's, total revenue and total expenditure of each department.

Therefore hypothesis 2a and 2b are as follows:

H2a: A relationship exists between the political visibility of Australian and Malaysian government departments and the frequency of performance indicator disclosure in the Annual Reports of those departments.

H2b: A relationship exists between the political visibility of Australian and Malaysian government departments and the frequency of dissemination of performance indicators by those departments.

5.3.3 CITIZENRY

Ammon's (1995) identified citizens as key beneficiaries of improved performance measurement and claimed that "with proper measures, citizens would have a simple yardstick by which to gauge whether they were getting efficient government or inefficient government"(p 39).

In an era of information overload, the public mind will almost certainly differentiate between material that it finds interesting and that which it does not. Editors of mass media label the interesting information "newsworthy" and display it prominently. Information deemed uninteresting is banished altogether (Ammons 1995). Local government performance information tends to lack "fast breaking news" quality which automatically garners front page coverage. Most often, local government performance measures have the attention-grabbing quality of a list of ingredients in packaged breakfast cereal (Ammons 1995). Many consumers read those ingredients lists and sometimes even study them, largely because they are presented in the form of a comparison with recommended daily allowances of various nutrients.

Ammons (1995) asks if the level of public attention is raised by comparison with relevant standards, why then is the performance of most local government functions so infrequently reported in this way? His concern is that local officials are reluctant to see an unfavourable presentation of their organisation's performance coupled with a lack of initiative by citizen groups to force disclosure of relevant information.

Citizens are unable to force such disclosure of relevant information because they are unaware of the standards (Ammons 1995).

The results from that study show that more widespread adoption of performance measures and enhancement of performance measure quality where indicators are collected may require more than an appeal to managers and governing bodies for managerial and oversight purposes.

Maschmeyer & Daniker (1979) undertook a study in 50 states of the United States to determine the information needs of those persons analysing state government financial activities. The objectives of the study were to:

- Evaluate the usefulness of general purpose financial statements;
- Examine respondents concerns with respect to current reporting practices; and
- Compare users responses relative to state versus local authority reporting (Maschmeyer & Daniker 1979).

The results of the Maschmeyer & Daniker (1979) study found the respondents groups were generally less satisfied with local government reporting practices than with state reporting practices. In terms of usefulness of financial statements, they found that the Statement of Income and Expenditure was the most important fundamental financial statement at both the state and local authority levels. The Statement of Changes in Fund Balances and Financial Position were viewed as generally useful but the Balance Sheet was perceived as the least useful tool for decision making (Maschmeyer & Daniker 1979).

Ammons (1995) suggests that a new direction may be required, that is to make performance measurement interesting.

If performance indicators can be devised that are of sufficient interest to attract the attention of more than a trivial portion of the general public, that result will inevitably lead to greater managerial attention, and the boosting of accountability as it does so (p 40).

Ammons (1995) also argues that performance measurement should be made interesting to the public. The development of indicators should not signal the demise of other types of efficiency and effectiveness measures where they are now in use; it can be expected to promote their usefulness. Measures of last year's unit cost, service quality, and responsiveness or comparisons of those indicators to detect trends in a single jurisdiction over several years may capture little public interest on their own (Ammons 1995).

De Lancer & Holzer (2001) studied the factors which affect the utilization of performance measurement in local government. One of the factors they identified was the influence of the public. The results of the study showed that in terms of use of performance measures, efficiency and outcomes measures are used less often for strategic planning, resource allocation, program management, monitoring and evaluation, and reporting to citizens. This finding is consistent with previous Governmental Accounting Standards Board studies showing that governmental organisations continue to develop and use output measures more often than outcome and efficiency measures. Further all measures are used less frequently to report on and for strategic planning purposes.

In addition, the results for the citizenry support the view that continued success of performance measurement depends on the continued support of the public. De Lancer & Holzer (2001) comment that "budget constraints and indifference from elected officials contribute to the lack of use, the community must be willing to accept change and pay for it" (p 693).

De Lancer & Holzer (2001) also comment about the minimal use of performance measures in each municipality and the lack of support from citizens by claiming that "Our citizens do not like a lot of administration so we run performance measures on a shoe string and do not want to change it" (p 693).

Rosair & Taylor (2000) conducted a study on the interests and demands of the public and the extent of influence the public has on the accountability-related disclosure in

Australian government departments annual reports. They hypothesized that there is no relationship between the PAOs concerns for the interests or demands of their department's publics (taxpayers, and recipients of goods and services) and the extent of accountability-related disclosure in their department's annual report. The results indicated that there is no significant influence of concern for the interests or demands of the citizenry on accountability related disclosure in Annual Reports of government departments. Rosair & Taylor (2000) comment that:

The conclusion is that the amount of accountability-based disclosure provided by a government department will be influenced by those user groups that directly participate in the decision processes of the department, not the ultimate accountees of governments i.e. taxpayers and recipients of public goods and services (p 92).

The financial information provided by public service organisations should assist users in assessing the ability of government organisations to manage their affairs and resources efficiently and effectively. In other words, the needs and interests of the users of the public service can be met by providing such information in the financial accounts of such organisations (Tayib, Cooms & Ameen 1999).

In general it can be said that the concerns of users rests mainly on the cost of public services, the adequacy of revenues to meet those costs, and the stewardship and efficiency of elected and appointed public officials in administering the government's financial transactions (Tayib, et al 1999). Of these three users, the citizenry as taxpayers are the main focus in this study.

There has been little research in the area of dissemination of performance indicators and the influence of the citizenry. The research previously conducted is based on local government studies. A study by Collins et al (1991) in the United Kingdom examined the usage, understanding and the nature of information provided in local authorities annual financial accounts.

The results of the Collins, Keenan & Lapsley (1991) study found the following:

- There is little evidence of substantial use of local authority annual financial accounts by the external parties with direct access, except the Account Commission;
- The evidence on which the general public might make use of local authority annual financial accounts was indirect, but consistently negative; pressure groups were more concerned about national rather than local perspectives; and
- There was evidence of the users of local authority financial accounts by both councillors (lay, elected members of authorities) and officers (full time officials). (Collins, Keenan & Lapsley 1991).

The vast majority of the studies reviewed above showed a positive relationship except for one study which resulted in little or no relationship between the influence of the citizenry and disclosure and dissemination of performance indicators. Therefore hypothesis 3a and 3b are as follows:

H3a: No relationship exists between the influence of the citizenry and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments.

H3b: No relationship exists between the influence of the citizenry and the frequency of performance indicator dissemination by Australian and Malaysian government departments.

5.4 INSTITUTIONAL THEORY VARIABLES AND FREQUENCY OF PERFORMANCE INDICATOR DISCLOSURE AND DISSEMINATION

As discussed in Chapter Four, institutional theory is concerned with how organisations structure themselves to gain acceptance and legitimacy which may be at the expense of efficiency. Legitimacy is the acceptance of an organisation by certain social actors in society as not all parties have the standing to confer legitimacy. Pressures to conform arise from a variety of factors including uncertainty and task requirements, professional norms and standards, and the broader normative environment (Dacin, 1997).

The literature on institutional theory is diverse because a range of interpretations and explanations is possible. Scott (1987) identifies a number of different formations of institutional theory, all claiming to have an institutional focus. The forms of institutional theory identified by Scott (1987) are expressed as either institutionalization as a process of instilling value, as a process of creating reality, as a class of elements or as distinct societal spheres.

The form of institutional theory identified by Scott (1987) who has relevance for this study is institutionalization as a process of creating reality. This form of institutional theory is based on a shared social reality which in turn is a human construction being created in social interaction. Berger & Luckmann (1967) argue that this social order “is an ongoing human production, it is a product by man in the course of ongoing externalization” (p 45). Scott (1987) argues that “social orders exist only as a product of human activity” (p 494). He further comments that “social order comes into existence since individuals act, interpret that action and share with others their interpretations. The process by which actions become repeated over time and are assigned similar meanings by self and others is defined as “institutionalization” (p 495).

Institutional theorists reason that because an organisation depends for survival on the support of external constituents, it must conform to accept social norms; this reasoning applies especially in government departments (Meyer & Rowan, 1977). This new institutionalism in organisation theory and sociology rejects rational actor models, an interest in institutions as independent variables and a turn towards cognitive and cultural explanations that cannot be reduced to aggregations or direct consequences of individual’s attributes or motives (DiMaggio & Powell, 1991).

These institutionalized expectations are expressed in a broad class of elements which includes rules, blueprints for action, standard operating procedures, impersonal prescriptions, rationalizing techniques, formalization, and documentation (Meyer & Rowan, 1977). Meyer & Rowan (1977) proposed that the formalized coordination and control systems of organisational structure serve as rationalized and impersonal prescriptions which identify various social purposes (demonstrating institutional conformity) as technical ones (affecting control) and specify in a rule like way the

appropriate means of pursuing these technical purposes rationally. Thus, irrespective of the task characteristic of an internal work unit's operating processes, institutional forces contribute to a heightened emphasis on the relatively document able, bureaucratic mode of control as a form of procedural conformity (Meyer & Rowan, 1977).

This new institutionalism considers the relative autonomy of political institutions. The importance of bureaucratic interaction with the environment and policy outcomes has been the focus of the literature. In this study, two aspects of the bureaucracy thought to impact on public policy are addressed. The first is bureaucrats accounting ability. This concept has been the focus of a substantial amount of the literature on state government reform (Abney & Lauth, 1986). Institutional theory discusses the impact of bureaucrats' accounting ability on the outcome of the interaction of bureaucrats and their principals (DiMaggio & Powell, 1991; Scott, 1987; Meyer & Rowan, 1977). The second aspect of the bureaucracy is the bureaucrat's salary. Institutional theory literature suggests that decision-makers in government departments are more likely to pursue budget maximization than cost minimization, because the performance of government departments is evaluated in terms of criteria other than profitability. As such, bureaucrats are assumed to behave differently than managers of profit orientated organisations.

Bureaucrats' salary is assumed to affect their behavior because bureaucrats are wealth maximisers and risk takers so an increase in the bureaucrat's salary is used as an incentive to increase their performance. Therefore, a principle accounting officer's accounting ability and salary is thought to impact on the incentives and ability of a bureaucrat (in government departments) towards disclosing the type of performance indicators in his/her department's annual reports and the extent to which they disseminate performance indicators.

5.4.1 BUREAUCRAT'S ACCOUNTING ABILITY

A review of literature on governmental accounting indicates a variety of different indicators of bureaucrats' accounting ability. Cheng (1992) developed a model and posited eleven unobserved theoretical variables which directly or indirectly affect the decisions of State governments to provide accounting information. This study,

conducted in the U.S explores the bureaucrat's accounting ability and its influence on state government accounting disclosure. The results reveal that a bureaucrats' accounting ability improves the quality of information provided by State governments.

A bureaucrat's accounting ability also has a significant positive effect on the extent and quality of financial reporting. Measures of this construct correlate highly with overall size measures; therefore, in addition to measuring accounting ability this construct also brings to the model the ability of large states to have quality financial disclosure.

The results suggest that bureaucrats accounting ability is a consistent causal factor in the ability/capacity to provide quality financial reports. Therefore, the conclusion that can be drawn from Cheng's (1992) found evidence that bureaucrat's accounting ability is significantly related to the extent and quality of financial disclosure.

The Cheng (1992) study supports the findings of the Ingram (1984) study that bureaucrats' accounting ability and needs are significantly related to the extent and quality of financial disclosure. Ingram (1984) examined the influence of economic incentives and the choice of US state government accounting practices. The author performed an analysis to determine if there exists a relationship between the disclosure quantity index and bureaucratic accounting ability. He defined bureaucrats' accounting ability as represented by managerial professionalism, surrogated by salaries, and the requirement that the auditor be a CPA, and the complexity of government, surrogated by state population. The results revealed those bureaucrats' accounting ability is positively associated with quantity of accounting information. Further results also revealed that the quantity of state government accounting disclosure is associated with bureaucrats' accounting ability.

Consistent with the results from Cheng (1992), this thesis will measure a bureaucrat's accounting ability via two constructs – EXPERIENCE (length of service) and MEMBERSHIP (membership of a professional body). In order to test hypothesis 4a and 4b below, it is assumed that both the constructs need to be statistically significant to warrant the hypothesis being proved or disproved.

Therefore, on the basis of the above discussion, hypothesis 4a and 4b are as follows:

H4a: A relationship exists between a bureaucrat's accounting ability and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments.

H4b: A relationship exists between a bureaucrat's accounting ability and the frequency of performance indicator dissemination by Australian and Malaysian government departments.

5.4.2 BUREAUCRAT'S SALARY

Ingram (1984) used a number of items including salary and selection criteria in study which found that a significant positive relationship existed between salaries and selection criteria. Baber (1983) and Baber & Sen (1984) included salary and found an expected positive relationship between salary and the quality of financial reports. Baber (1983) and Baber & Sen (1984) included official wages as a proxy for quality. Baber (1983) confirmed the expected positive relationships of Baber & Sen (1984) that a relationship exists between salary and quality of financial reports.

Mucciarone & Taylor (2005) studied the level of influence a bureaucrat's salary had on the types of performance indicators disclosed by in the Annual Reports of Australian Government departments. They hypothesised there was no relationship between the performance indicators preparer's (PIP) salary and the types of performance indicators disclosed in the annual reports of government departments. The results from their study showed that the salary level of the PIP is significantly positively related to both profitability-type performance indicator disclosures and procedural efficiency-type performance indicator disclosures.

Mucciarone & Taylor (2005) claim that:

Salary increases and promotions could be enhances for the PIP (and his/her colleagues in top management) if these types of performance levels by the entity are seen to be achieved (p 18).

In Malaysia government officials salaries are lower when directly compared with those paid within the private sector. However when a series of fringe benefits are

included in the total remuneration e.g. the non-contributory pension scheme, low interest loans for housing, conveyance and computer and the opportunities for specialist training or post graduate studies etc their incomes equate to or are even higher than in the private sector. There is the consensus that job security is more assured than in the private sector (The Malaysian Bureaucracy 1995).

In 1992 the Malaysian government introduced a new remuneration system providing accelerated promotion for a small number of staff who achieved high levels of performance. This has produced a competitive spirit amongst many civil servants to excel despite the prolonged controversy on the evaluation system. In every agency many staff will strive to produce top quality work as well as to perform work beyond the call of duty in order to compete and to excel (The Malaysian Bureaucracy 1995).

Based on the above discussion Hypothesis 5a and 5b are as follows:

H5a: A relationship exists between a bureaucrat's salary and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments

H5b: A relationship exists between a bureaucrat's salary and the frequency of performance indicator dissemination by Australian and Malaysian government departments.

5.5 CULTURE AND FREQUENCY OF PERFORMANCE INDICATOR DISCLOSURE AND DISSEMINATION

As indicated in Chapter 4 Australia is a multi cultural society which consists of people from many different races and religions. In Australia it is illegal to discriminate against another person because of their race or religion (The Economist Intelligence Unit 2006). Therefore, in the questionnaire, questions relating to culture were only asked in connection with the Malaysian questionnaire.

Malaysia is a predominantly Muslim country and religion is documented in the literature to affect politics in government. The anti-British movement was led by Malayan National Party (MNP), established in 1945 and later became known as Partai Al-Islam Se-Malaysia (PAS), and its rival UMNO (the United Malay National

Organization), and founded a year later in 1946. Anti-British sentiments were sparked by, among others, the growing economic power and influence of ethnic Chinese under the British rule. In the course of reasserting the Malay rights and interests the two parties were confronted with the question of “who is Malay?” Whereas UMNO chose race, language, and custom as the criteria of Malay ness, MNP opted for the criteria of religion, race, and language. The choice of Islam as a fundamental criterion for ‘Malaya ness’ set MNP apart from UMNO, and soon became a defining element in the evolution of its identity. MNP twice changed its name before settling with its current one. The Party was renamed Pan-Malayan Islamic Party (PMIP) in 1951, and again Party Al-Islam Se-Malaysia (PAS) in 1973 (Safi 2007).

In Malaysia Islam is the official religion. The constitution states that Islam is the religion, but other religions are free to be practiced. During the past two decades government has actively promoted and favoured Islam as the primary religion.

Safi (2007) further argues that a stumbling block in the face of PAS’s efforts to promote a distinctively Islamic agenda has been its failure to relate Islamic precepts to modern life. PAS, for instance, has repeatedly failed to articulate a model for inter-religious cooperation in the context of the multi-religious and multi-cultural Malaysian society.

In Malaysian public sector literature there have been no studies that empirically test culture as a variable. There are however, some studies examining culture empirically in the private sector. Haniffa & Cooke (2002) studied the influence of culture on accounting and used Hofstede (1980) model to test the influence of culture. Haniffa & Cooke (2002) argued that the ethnic mix of Malays and Chinese on corporate boards and the ethnicity of Malaysian companies’ chief executive officers would be associated with voluntary disclosure levels. Haniffa & Cooke (2002) specifically examined the effects that companies with a higher proportion of ethnic Malays on the Board of Directors and/ or with an ethnic Malay chief executive officer will disclose less than companies where ethnic Chinese predominated. The results from Haniffa & Cooke (2002) study found a positive relationship between the proportion of ethnic Malays on the Boards of Malaysian firms and transparency of their financial reports.

Pham & Morris (2003) studied the corporate financial reporting transparency in Malaysia before and after the Asian financial crisis of 1997/1998. They hypothesised the greater the proportion of ethnic Malays on the Board of Malaysian firms, the lower the transparency of their financial reports. The results show that there is no support for an association between the ethnicity of Board of Directors and Board Chairman. Pham & Morris (2003) also hypothesised that companies with ethnic Malays as chief executive officers will have lower transparency in their financial reports than companies with ethnic Chinese chief executive officers. However, the study found no support for this hypothesis.

There has been considerable research conducted on the relationship between the tenants of Islam and accounting. Kamla, Gallhofer & Haslam (2006) studied Islam and accounting for the environment. They argue that the environment is central in Islam. The Islamic Shari that guides Muslims reflects such concerns (Kamla, Gallhofer & Haslam 2006).

In Islam there is no separation between the sacred and the secular and emphasis on this eschews abstractions from the guiding ethics in pursuit of, for example, a secular and instrumentalist materialism (Kamla, Gallhofer & Haslam 2006). Lewis (2001) claims “Muslims cannot in good faith compartmentalize their behaviour into religious and secular dimensions, and their actions are always bound by Shari Law (p 103).

Tinker (2004) shares the view of Muslims as follows:

Islam and Islamic Shari, therefore, do not merely represent a personal religion; they also imply a mode of organizing society and its institutions, as well as serving as a guide for the conduct of individuals within the institutional and social context. Thus, accounting as a social institution and practices in an Islamic context would reflect the range of Islamic principles of relevance (p 443).

Therefore, the views from these studies are that there is no evidence that Islam has an influence on politics in the Malaysian government.

Therefore, based on above discussion Hypothesis 6a and 6b are as follows:

H6a: No relationship exists between Malaysian culture and the frequency of performance indicator disclosure in the Annual Reports of Malaysian government departments.

H6b: No relationship exists between Malaysian culture and the frequency of performance indicator dissemination by Malaysian government departments.

5.5.1 SUMMARY OF HYPOTHESES

Table 5.1 contains a summary of the hypothesis developed throughout this chapter for ease of reference:

Table 5.1
Summary of Hypotheses

Hypothesis Number	Hypothesis
1	<p>H1a: A relationship exists between the influence of oversight bodies and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments.</p> <p>H1b: A relationship exists between oversight bodies and the frequency of performance indicator dissemination by Australian and Malaysian government departments.</p>
2	<p>H2a: A relationship exists between the political visibility of Australian and Malaysian government departments and the frequency of performance indicator disclosure in the Annual Reports of those departments.</p> <p>H2b: A relationship exists between the political visibility of Australian and Malaysian government departments and the frequency of performance indicator dissemination by those departments.</p>
3	<p>H3a: No relationship exists between the influence of the citizenry and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments.</p>

	H3b No relationship exists between the influence of the citizenry and the frequency of performance indicator dissemination by Australian and Malaysian government departments.
4	H4a: A relationship exists between a bureaucrat's accounting ability and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments. H4b: A relationship exists between a bureaucrat's accounting ability and the frequency of performance indicator dissemination by Australian and Malaysian government departments.
5	H5a: A relationship exists between a bureaucrat's salary and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments. H5b: A relationship exists between a bureaucrat's salary and the frequency of performance indicator dissemination by Australian and Malaysian government departments.
6	H6a: No relationship exists between Malaysian culture and the frequency of performance indicator disclosure in the Annual Reports of Malaysian government departments. H6b: No relationship exists between Malaysian culture and the frequency of performance indicator dissemination by Malaysian government departments.

5.6 SUMMARY

This chapter has developed arguments for the combination of agency theory and institutional theory and their associated variables underpinning these theories on the disclosure and dissemination of performance indicators in the Annual Reports of Australian and Malaysian Government departments. Australian studies (Mucciarone & Taylor 2005; Rosair & Taylor 2000) have been conducted in the area of performance measurement where factors have been examined to determine if they influence disclosure in the Annual Reports of Australian government departments using agency theory. In relation to institutional theory Mucciarone & Taylor (2005) examined whether institutional factors (bureaucrat's accounting ability and bureaucrat's salary) influence the disclosure of types of performance indicators in the

Annual Reports of Australian government departments. The authors found that bureaucrat's salary and experience does influence the disclosure of performance indicators but these results are driven by an agency – theory driven relationships. Therefore consideration of both agency and institutional theory in this study was undertaken. There is limited sector research using both agency and institutional theory in the public sector. Previous studies which have combined the use of agency and institutional theory have been undertaken in local government context (Neilson, 2005).

The chapter commenced with the presentation of an empirical schema showing diagrammatically the 2 dependent variables used in the study (performance indicator disclosure and performance indicator dissemination) and the six independent variables of oversight bodies, political visibility, the citizenry, bureaucrat's accounting ability, bureaucrat's salary and culture.

Agency and institutional theories were used as the basis for the development of the various hypotheses of the study. Hypotheses were developed to test the relationship of the variables and the agency aspects of the study, these being oversight bodies, political visibility and the citizenry. This was followed by development of the institutional hypotheses of the study, these being a, bureaucrat's accounting ability, bureaucrat's salary and culture on the frequency of performance indicators disclosure and the extent of dissemination of performance indicators by those departments. Agency theory and institutional theory are discussed based on prior literature to assist in the generation of the hypothesis for the study. Six sets of hypothesis have been generated and will need to be tested in the following chapters tested to determine whether they should be accepted or rejecting them.

Chapter Six covers the research methodology and includes the results of the pilot study, interviews and demographic data.

CHAPTER SIX

RESEARCH METHODOLOGY AND DESCRIPTIVE STATISTICS

6.1 INTRODUCTION

Chapter Four analysed the literature for this study into two types, these being agency and institutional types of literature. The agency literature detailed the specific aspects of agency theory relative to this study, these being the potential influence of oversight bodies, political visibility and the citizenry on performance reporting by Australian and Malaysian government departments. The institutional theory variables related to this study are the bureaucrat's accounting ability and salary and whether culture influences performance reporting by the Australian and Malaysian government departments. To investigate the potential of these variables to influence disclosure and dissemination, three research methods are used.

As indicated at the beginning of this thesis (Chapter One) this study is exploratory as there is limited public sector accounting research available in this area of research – accountability and performance measurement. Therefore to be able to undertake this study to achieve the objectives discussed in Chapter One three research methods are employed. The first method involves a content analysis of both Australian and Malaysian government departments Annual Reports. The second method involves face to face interviews with senior finance officers (SFO) of a sample of both Australian and Malaysian government departments. The third method is a questionnaire survey of senior executives of Australian and Malaysian government departments.

The content analysis of Australian and Malaysian government departments' Annual Reports will be undertaken to determine: 1) the level of documentation of performance measurement information disclosed by Australian and Malaysian government departments and 2) identification of the types of performance information provided by Australian and Malaysian government departments. The data gathered from this study is then used to create questions for the second research method – semi structured face to face interviews.

The interviews are used to confirm the findings of the content analysis and discover other performance indicator information that will be used to aid in formulating questions for the third and main research method of this study – the survey.

This chapter provides a description of each of the data collection methods. It also provides an analysis and discussion of the results for the pilot studies, namely the content analysis of annual reports and face to face interviews. The data analysis concerned with variable measurement and hypothesis testing is presented in the next chapter.

6.2 RESEARCH DESIGN

This study consists of three distinct research phases. Phase one is a content analysis of the 2003/ 2004 Annual Reports of 13 Australian and 13 Malaysian government departments. This phase is also the pilot study for the project. The pilot study consists of an analysis of the financial and non-financial performance indicators disclosed by Australian and Malaysian government departments. These performance indicators are classified as per the descriptions content in Table 6.1.

The second phase of this study is based on a series of semi-structured interviews conducted with SFOs of selected Australian and Malaysian government departments. The third and final research phase is based on a questionnaire survey forwarded to the SFOs of Australian and Malaysian government departments. The remainder of this chapter discusses each of the research phases in detail.

6.3 PHASE ONE - CONTENT ANALYSIS OF ANNUAL REPORTS

A content analysis was selected for this study as it enables the researcher to sift through large volumes of data in an orderly fashion. It's also a useful technique for discovering and describing the focus of the trend of reporting performance indicators in Federal and State government departments (Stemler, 2001).

A content analysis of a departments' annual report involved the extraction of a checklist of the significant items of information pertaining to performance indicators. The

identification of categories of information considered relevant and important was loosely based on Hyndman & Anderson's (1995) taxonomy framework which focused on a three stage inputs to output ratio (Table 6.1). Categorisation of the types of information into performance groupings was completed in a manner that sought mutually exclusive categories. This was necessary to ensure the allocation of each information item drawn from the content analysis of the performance report was categorized unambiguously.

Table 6.1
Categories of Performance Indicators

Performance Indicator Disclosure Categories	Definition/Criteria Used
Efficiency	Ratio of inputs used to outputs achieved.
Effectiveness	Extent to which outputs or outcomes achieved meet pre-stated targets, objectives or policy directives.
Objectives	Management's specifications of what they intend to achieve, expressed in terms of specific measurable outputs and outcomes from services or programs.
Strategies	Plans of action on how programs are to be executed or services generated and delivered.
Quality	Degree of excellence of a good/service.
Inputs	Resources (financial, physical, human, or time) used in providing a service.
Outputs	Actual goods or services produced or delivered by the programs or reporting units.
Results/Outcomes	Extent or quality of impact upon clients or situation arising from outputs.

Source: (Hyndman & Anderson, 1997 p 160)

As shown in Table 6.1, performance indicator dimensions are divided into eight categories, these being efficiency, effectiveness, objectives, strategies, quality, inputs, outputs and results. The five dimensions of inputs, outputs, results, efficiency and

effectiveness are as per the Hyndman & Anderson (1992) model. Only four of these can really be termed performance indicators in the accountability sense of those measures. Objectives, strategies and inputs are basically input or process variables. Quality, outputs and outcomes are components required to develop efficiency and effectiveness measures rather than being accountability measures in themselves. However the government departments Annual Reports reviewed disclosed all of the categories in Table 6.1 as performance indicators, thus highlighting the difficulty of government departments identifying performance indicators.

The content analysis of the government departments, involves the process of analysing each department's Annual Report by searching specifically for performance indicators of efficiency, effectiveness, quality, inputs, outputs, outcomes, objectives, strategies, and results. For each one of these indicators the researcher undertook a count of the number in each department's Annual Report. Each category is subjected to a disclosure frequency count in order to determine the extent of their disclosure for the 2003/2004 financial year. Performance indicators are deemed to exist only if they are actually disclosed in their reports.

6.3.1 AUSTRALIAN GOVERNMENT DEPARTMENTS

Australian government departments Annual Reports contain both financial and non-financial information relating to their programs and activities, in addition to their expenditure, budget allocations and operations information. This study involves the analysis of the 2003/2004 Annual Reports of thirteen Australian government departments. Thirteen government departments' annual reports were selected at random due to the availability of the reports. The purpose of the pilot study is to determine the types of performance indicators disclosed in government departments Annual Reports so that the questions for the second and third phase of this study can be determined. As an aid to developing the questionnaire only a sample of departments from across Australia have been selected and analysed.

6.3.1.1 DISCLOSURE RESULT OF AUSTRALIAN PERFORMANCE INDICATOR INFORMATION

The extent of disclosure of the various categories of performance indicator information by Australian Government departments is shown in Table 6.2. This table shows the number of performance indicators each department discloses in their Annual Report. The results indicate that department A6 has the highest number of effectiveness indicators (52). This result indicates that the department is focused on achieving outcomes as effectiveness indicators are associated with the achievement of specific outcomes. This is followed by Departments A10, A8 and A3 in the number of Effectiveness-type indicators disclosed. The lowest number of Effectiveness-type indicators disclosed is by Department A2 with only one disclosed.

The results in Table 6.2 also show that department A9 discloses the highest number of efficiency indicators (21) and also discloses 17 Effectiveness indicators. Department A6 discloses the next highest number of Efficiency-type performance indicators with a score of 14. Only one other department (A12) discloses more than one Efficiency-type indicator. This table further shows that department A5 discloses the highest number of performance indicators (296); however of these indicators disclosed (110) are Results and (124) are Objectives. In relation to efficiency and effectiveness performance indicators department A5 discloses no Efficiency indicators and (15) Effectiveness indicators. At an interview with a SFO of department A5, the following comment about the low level of disclosure of efficiency and effectiveness indicators by his agency was made:

There has been no proper and specified mechanism for measuring efficiency and effectiveness performance indicators. Furthermore; the deficiency in reporting these indicators is possibly perpetuated by the non – mandatory status of effectiveness audits.

Table 6.2
Number of Performance Indicators
Disclosed By Australian Government Departments

Discipline	Effic	Effective	Output	Out	Time	Strategy	Objective	Results	Total PIs
A1	0	0	0	0	0	1	0	0	1
A2	1	1	1	30	1	1	1	1	37
A3	1	18	6	2	4	4	0	0	35
A4	0	0	109	2	0	0	0	0	111
A5	0	15	0	0	0	47	124	110	296
A6	14	52	1	0	1	0	0	0	68
A7	0	12	0	14	0	0	0	0	26
A8	0	22	50	0	0	0	0	0	72
A9	21	17	5	0	5	0	0	7	55
A10	0	28	0	0	0	0	0	0	28
A11	0	3	5	4	5	9	1	1	28
A12	7	7	4	1	1	0	10	16	46
A13	0	17	1	1	1	60	0	37	117
Total PIs	44	192	182	54	18	122	136	172	920

Notes: Effic = Efficiency, Effect = Effectiveness, Time = Timeliness, Out = Outcomes

Table 6.2 also shows that the most disclosed performance indicator by all sampled government departments is effectiveness indicators (192) closely followed by output indicators. This result is surprising as at the interviews with SFOs of these departments they commented that the indicators that they disclose the most are outcomes. However, the results from Table 6.2 show that Outcomes are the second lowest disclosed indicator in their Annual Reports. The results in this table highlight discrepancies between what SFOs are disclosing in their departments' 2003/2004 annual reports and what performance indicators they believe are disclosed.

Table 6.2 further shows that department A1 discloses the least number of indicators (1) being Strategies with no Efficiency and Effectiveness performance indicators disclosed. From the interviews an explanation for the low level of disclosure of efficiency by government departments may be that the government does not provide any direction as to what constitute efficiency or effectiveness performance indicators. A comment made in an interview was that the government is not interested in performance indicators and

therefore they (the government) are not concerned about what types of performance indicators are being disclosed by departments as long as the departments show how they are allocating their funds. The majority of the interviewees discussed their regret at the government's stance on performance indicators and would like to see more direction and importance placed on performance indicators by the government. The Chief Financial Officer of a major Australian department interviewed believed that efficiency indicators are very important as they give an indication of the health and safety of the sector in which they provide services. However it must be pointed out that while for some departments it appears the more indicators disclosed the better, performance indicator information is costly to provide and difficult to analyse and utilise effectively.

At an interview with an SFO of an Australian department, the following comment was made:

Due to no formal guidance in regards to disclosing efficiency and effectiveness performance indicators, it is very costly and time consuming to train our staff. If the requirement was mandatory that we have to provide efficiency and effectiveness performance indicators in our Annual Reports then we will comply with the reforms but until then for this agency we will continue to do what we have always done and report our performance based on results and objectives.

During a further interview, the SFO of another Australian department made the following statement:

My department provides a vital service to the community using tax payer's money by the government. As a result the community expects us to spend the money wisely. Therefore we feel that it is better to provide as many performance indicators as possible to show the community that we are delivering the best possible service to them.

With a total of 920 performance indicators disclosed between the 13 departments, this is an average of 71 per department – a very high number for external users to read and understand. This really raises the question of whether there is a case of information

overload particularly when one department discloses a total of 296 performance indicators in the Annual Report.

6.3.2 MALAYSIAN GOVERNMENT DEPARTMENTS

An analysis of the performance indicators produced by Malaysian government departments enables them to be grouped on the basis of common performance indicators. Performance indicator analysis in the study comprises a content analysis of thirteen key Malaysian government departments 2003/04 Annual Reports. Like with the Australian sample, the purpose of this phase is to act as an aid to developing the questionnaire. Thirteen Malaysian government departments Annual Reports have like Australia been selected at random, because this was the number of reports that were available for the study.

As indicated previously in this study, the Malaysian Government objective in regard to performance measurement is to ensure programmes and activities of their departments/departments are implemented efficiently and effectively with set objectives, As a consequence of this in 1993 the Malaysian government produced a manual entitled “Guidelines for Establishing Performance Indicators in Government Departments”. The performance indicators were incorporated into the agency’s Annual Reports to provide feedback to the government on the agency’s performance (United Nations 2007). No similar manual with guidelines has been developed across the Australian government sector.

During An interview with a SFO of department M3 mentioned that:

In Malaysia, we have a system in place called the new appraisal system which is based on managing for results: - this links rewards and recognition to performance indicators. We are required to have annual work targets that are quantifiable. These targets are monitored at intervals to examine my performance and my staff performance.

At an interview with the SFO of department M4 he discussed the role of the Auditor-General as including performance of performance audits which focus on the degree of efficiency, economy and effectiveness used by departments to pursue their department's objectives. The Auditor-General is then required to submit the findings to the Parliament for close scrutiny by the public accounts committee.

The SFO discussed further:

The powers and duties of the Auditor-General has succeeded in Malaysia to keep government departments alert to issues of efficiency and effectiveness.

6.3.2.1 DISCLOSURE RESULTS OF MALAYSIAN PERFORMANCE INDICATOR INFORMATION

A content analysis of the 2003/2004 Annual Reports of 13 Malaysian departments was performed to determine the types of performance indicators disclosed by these departments in their Annual Reports. The extent of disclosure of the various categories of performance indicator information by Malaysian government departments is shown in Table 6.3. This table shows the number of performance indicators each department discloses in their Annual Report. The results show that Malaysian departments disclose efficiency, effectiveness, economy, outcomes, timeliness, quality, and results type performance indicators. Table 6.3 shows that the most disclosed performance indicator by Malaysian departments is results (137).

Table 6.3 also shows that of the 13 Malaysian departments analysed, all disclose one or more Efficiency and results type indicator. Table 6.3 further shows that 12 departments disclose effectiveness performance indicators (77) in their Annual Report. Efficiency and effectiveness performance indicators (77) are the second highest number of indicators disclosed by Malaysian government departments in their Annual Reports. This indicates that Malaysian departments are to some extent following Public Sector reforms in reporting efficiency and effectiveness performance indicators in their Annual Reports. Table 6.3 also shows that the least disclosed performance indicator by Malaysian government departments is timeliness (18).

Table 6.3
Numbers of Performance Indicators Disclosed
By Malaysian Government Departments

Discipline	Effic	Effective	Output	Out	Time	Quality	Results	Total PIs
M1	1	0	0	0	0	0	25	26
M2	3	9	18	0	15	15	15	75
M3	15	13	6	0	0	15	27	76
M4	5	4	0	0	0	3	5	17
M5	7	6	0	10	1	5	11	40
M6	5	4	0	10	0	2	5	26
M7	10	8	2	8	1	8	10	47
M8	6	5	0	10	0	1	10	32
M9	3	3	0	5	0	0	2	13
M10	7	6	0	9	1	1	9	33
M11	3	5	0	3	0	4	5	20
M12	7	9	0	0	0	2	7	25
M13	5	5	0	8	0	10	6	34
Total PIs	77	77	26	63	18	66	137	464

Notes: Effic = Efficiency, Effect = Effectiveness, Time = Timeliness, Out= Outcomes

A possible explanation for the high disclosure of efficiency indicators is revealed in an interview with the SFO of Department M16:

Efficiency indicators are very important as they give an indication of the success or failure of the service delivery of my department". My department provides a very important service to the community and therefore satisfying community needs and expectations are our priority.

It is interesting to note that the highest number of performance indicators disclosed by all departments is Results with 137 disclosures. The number of Results indicators disclosed by department's ranges from a minimum of 2 to a maximum of 27 by Department M3. A further item of note is that Department M1 discloses no Efficiency indicators which seem to be contrary to the Malaysian governments requirements on performance indicators.

There are a total of 464 performance indicators disclosed by Malaysian government departments which is an average of 35 performance indicators per department – a high number of performance indicators to be understood and reviewed by external users.

6.4 PHASE TWO - SEMI – STRUCTURED INTERVIEWS

For this phase of the study, semi - structured interviews were conducted using qualitative research as there is little empirical research on the subject of the use, disclosure and dissemination of performance indicators in government departments in either Australia or Malaysia. The data obtained from the interviews formed the basis of the design of the questions for the third phase, the questionnaire survey.

Interviews were undertaken with a sample of performance indicator preparer's from government departments in Australia and Malaysia. The subjects were selected from the government departments which due to their size and importance were deemed to be more politically visible in the public domain. Due to the availability of the interviewees and time constraints to conduct the interviews in both Australia and Malaysia, twelve interviews with Australian and Malaysian government departments SFOs were conducted. The Australian government departments are classified as AUS 1, AUS 2, AUS 3, AUS 4, AUS 5, AUS 6, AUS7, AUS 8, AUS 9, AUS 10, AUS 11, and AUS 12 and the Malaysian departments' are classified as M1, M2, M3, M4, M5, M6, M7, M8, M9, M10, M11 and M12. The purpose of this phase and the previous phase (the content analysis of annual reports) was to gather information on the type and number of performance indicators which can aid in the formation of questions for the third phase (questionnaire). The relationship between the departments in each of the research phases is outside the scope of this study.

Due to confidentiality agreements no individual department are able to be identified. The interviews were scheduled for an hour and actually lasted between thirty to forty five minutes. The length of the interviews depended on the detail provided by the respondents.

The interviews were conducted to examine performance measurement practices of Australian and Malaysian government departments and they focused on senior management responses to reforms. The researcher identified SFOs actively involved in the design and use of performance indicators in response to recent reforms with the

names of key informants being obtained from the senior executives of each of the sampled departments.

The interviews were semi-structured in the form of a questionnaire consisting of three sections. Section One contained twenty questions on accountability and of these seventeen were open-ended requesting respondents to express an opinion relating to their department. Section Two contained sixteen questions on performance indicators and of, six were open ended. The questions allowed the respondent to include additional information on performance measures. Section Three was a general section allowing the respondent to add additional information pertinent to the issues raised in the interview.

The researcher used a note taker to conduct the interviews, requesting permission for its use before the interviews. The interviewees were supplied with a copy of the questionnaire. In Malaysia it is widely recognised that Government staff, particularly those in top management are expected to know how to communicate in English. Therefore the researcher conducted the interviews without the aid of an interpreter.

6.4.1 AUSTRALIAN INTERVIEWS

The interviews involved a series of questions on the types of performance indicators disclosed by the department (Appendix Four). For example, one question asked “Do you have the following types of performance measures in your Annual Report”? The question then detailed a list of performance indicators. A decision was made to include all the types of performance indicators identified in Phase One except strategy and objective as they do not fit the description of performance indicators as per the identification and categorisation of performance indicators specified by the Australian Department of Finance and Administration. This department considers that performance indicators should be limited to outputs and outcomes and specifies that objectives and strategies are methods of achieving the performance indicators (Australian Government Department of Finance and Administration, 2006) Further it was decided to include the old type of performance indicators (quality, quantity and cost) in this analysis to determine whether government departments SFOs are still reporting these or reporting

the new performance indicators (efficiency and effectiveness). Categorisation of the types of information into performance groupings was then completed in a manner that sought mutually exclusive categories. This was necessary to ensure the allocation of each information item drawn from the questionnaire was categorised unambiguously.

Interviews were conducted during February 2006, were scheduled for an hour and lasted between forty minutes and one and a half hours in length. The length of the interview depended on the detail provided by the respondent. The results of the interviews in the areas of disclosure and use of performance indicators by government departments are shown below in Tables 6.4 and 6.5.

Table 6.4 discloses the responses to Question One of the interviews which covered the types of performance indicators disclosed by each department in their Annual Report. This table shows that Department A2 disclosed performance indicators in each of the 8 categories followed by Department A10 which disclosed performance indicators in 7 categories. . The results in Table 6.4 also show that 3 government departments, these being A1, A4 and A9 disclose only one type of performance indicator in their Annual Reports. The other departments have varying degrees of disclosure of performance indicators. The least type of performance indicator disclosure by Australian departments is for Quantity indicators (only disclosed by 4 departments).

A comment concerning the level of performance indicator disclosure was made during an interview with an SFO of an Australian government department as follows:

Annual Reports are not mandatory for (internal use). Only reports of financial performance are presented to top management for information.

Table 6.4
Disclosure of Performance Information
By Australian Government departments

Discipline	Effic	Effect	Output	Outcome	Time	Quality	Quantity	Cost	Total PIs
A1	0	0	0	0	0	1	0	0	1
A2	1	1	1	1	1	1	1	1	8
A3	1	1	1	1	1	1	0	0	6
A4	0	0	1	0	0	0	0	0	1
A5	0	1	0	0	0	1	1	1	4
A6	1	1	1	0	1	0	0	0	4
A7	0	1	0	1	0	0	0	0	2
A8	1	1	1	0	1	0	0	1	5
A9	0	1	0	0	0	0	0	0	1
A10	0	1	1	1	1	1	1	1	7
A11	0	1	0	1	1	0	1	1	5
A12	1	0	1	1	1	1	0	1	6
Total PIs	5	9	6	7	7	6	4	6	50

Notes: Effic = Efficiency, Effect = Effectiveness, Time = Timeliness

The most disclosed type of performance indicators by the 12 government departments are Effectiveness indicators (9). This result is consistent with the result obtained from the content analysis of annual reports where effectiveness performance indicators were also the most disclosed indicator (see Table 6.2).

Table 6.4 also shows that there are only 5 departments disclosing efficiency indicators which are the second lowest level of indicators disclosed. An interesting interview, which ran contrary to the above findings) with the Chief Financial Officer of one of these departments revealed that they considered efficiency indicators to be very important as they give an indication of the health of the sector.

One possible explanation for the lower level disclosure of efficiency indicators is explained in an interview with an SFO of department A1:

There has been no proper and specified mechanism for measuring performance information. Furthermore; the deficiency in reporting efficiency indicators is possibly perpetuated by the non-mandatory status of effectiveness audits.

Another possible explanation for the low disclosure of Efficiency indicators by Australian government departments could be that governments do not provide any direction as to what constitutes an efficiency and effectiveness performance indicator. A comment in one interview was that the government is not interested in performance indicators and therefore they (the government) are not concerned as to what types of performance indicators are disclosed by departments, as long as the departments show how they allocate their funds. The majority of those interviewed discussed their regret at the government's stance on performance indicators and would like to see more direction and importance placed on performance indicators by the government.

The poor disclosure results from the interview analysis for efficiency indicators is consistent with the results from the content analysis (see Table 6.3) which showed that efficiency indicators are also the second lowest disclosed indicator.

Table 6.4 further shows that all of the sampled interviewees disclosed at least one type of performance indicator within their Annual Report. This result is of some concern even given that the reporting of performance is not mandatory in the Annual Reports of Australian departments. However, in respect of the concept of managerialism, the results show that government departments at both State and Federal levels still continue to report the "older" type of performance indicators of quantity (4), quality (6), timeliness (7), cost (6), outputs (8) and outcomes (7). In relation to the new types of performance indicators 28.3% of these departments are disclosing Efficiency and Effectiveness indicators.

One possible explanation for the low disclosure of efficiency and effectiveness indicators may be that government departments are still relatively inexperienced at disclosing these indicators. This assertion is supported by respondents comments made at the interview. A question asked the respondents whether their department provides training to assist in both the preparation and understanding of performance indicators. Only one department of the 12 interviewed provides training and understanding of performance indicators for their staff.

Table 6.5 shows the results for the level of use of performance indicators by Australian government departments. This table shows that numbers of government departments never use some of the types of performance indicators quality, quantity, efficiency, effectiveness, and cost, timeliness, outputs and outcomes indicators. Most government departments use performance indicators on a monthly basis. The least use of performance indicators by Australian government departments occurs on a weekly basis with only 2 departments using quantity and quality performance indicators are on a weekly basis. Table 6.5 further shows that in relation to efficiency indicators, 4 out of the 12 departments never use these indicators for management purposes which for determining the attainment of objectives are somewhat concerning. Table 6.5 also shows that all sampled departments use Outcomes indicators more often for their departmental use. An interview with a SFO of a department made the following comment:

The Government is not concerned with efficiency and effectiveness indicators, hence the no mandatory status of the disclosure of these indicators in the Annual Report. The Minister of our department gives us goals that he wants my department to achieve my job is to ensure that my department meets those goals.

An SFO of another department commented:

We are provided with a number of objectives from government that we must meet. Our aim is to achieve these objectives. The majority of our performance indicators in our Annual Reports are only prepared to show the public that we are preparing performance indicators but we do not use them for any other purposes. We have a different set of performance indicators that we report internally that we use for the purpose of achieving the government's objective for our department.

Table 6.5
Use of Performance Indicators by
Australian Government Departments

	Quality			Quantity	
	Total Dept's using PIs	Percent		Total Dept's using PIs	Percent
Weekly	1	8.5	Weekly	1	8.5
Gt than weekly	0	0	Gt than weekly	0	0
Monthly	4	33	Monthly	5	41.5
Semi-Annual	1	8.5	Semi-Annual	1	8.5
Annually	3	25	Annually	3	25
Never Use It	3	25	Never use it	2	16.5
Total	12	100.0	Total	12	100.0

	Cost			Timeliness	
	Total Dept's using PIs	Percent		Total Dept's using PIs	Percent
Weekly	0	0	Weekly	0	0
Gt than weekly	0		Gt than weekly	0	0
Monthly	5	41.5	Monthly	4	33
Semi-Annual	1	8.5	Semi-Annual	1	8.5
Annually	3	25	Annually	4	33
Never Use It	3	25	Never use it	3	25
Total	12	100.0	Total	12	100.0

	Efficiency			Effectiveness	
	Total Dept's using PIs	Percent		Total Dept's using PIs	Percent
Weekly	0	0	Weekly	0	0
Gt than Weekly	1	8.5	Gt than Weekly	1	8.5
Monthly	3	25	Monthly	2	16.5
Semi-Annual	2	16.5	Semi-Annual	2	16.5
Annually	2	16.5	Annually	3	25
Never Use It	4	33	Never use it	4	33
Total	12	100.0	Total	12	100.0

	Outputs			Outcomes	
	Total Dept's using PIs	Percent		Total Dept's using PIs	Percent
Weekly	0	0	Weekly	0	0
Gt than Weekly	1	8.5	Gt than Weekly	1	8.5
Monthly	5	41.5	Monthly	5	41.5
Semi-Annual	4	33	Semi-Annual	5	41.5
Annually	2	16.5	Annually	1	8.5
Never Use It	0	0	Never use it	0	0
Total	12	100.0	Total	12	100.0

6.4.2 MALAYSIAN INTERVIEWS

The field survey included interviews with senior finance officers (SFOs) of 12 Malaysian government departments. Due to confidentiality agreements no individual department will be identified the interviews involved a series of questions about the types of performance indicators being used by SFOs in their department. The Malaysian government departments were obtained from the internet on (http://pkukmweb.ukm.my/-kimia/Skimia/C_Links/Myindex.html).

Semi-structured interviews were conducted during February and March 2005, were scheduled for an hour and actually lasted between forty minutes and one and a half hours. The length of the interview depended on the detail provided by the respondent (Appendix Five).

The extent of disclosure of the various categories of performance indicator information by Malaysian government departments is shown in Table 6.6 (These categories are the same as those used for Australian government departments). This table shows the responses to the question on performance indicators disclosed by each department in their Annual Report. The results indicate that 2 of the 12 departments do not disclose any performance measures in their Annual Report. The result presented in Table 6.6 also show that Quantity Indicators are disclosed most by Malaysia departments in their annual reports From Table 6.1 it can also be seen that quantity indicators represent the number/ amount of goods/services being administered. This result is different to the result obtained from the content analysis of annual reports which showed that results were the most disclosed indicator (see Table 6.3). A possible explanation for the difference could be that of those annual reports analysed there was no quantity indicators disclosed. However the second highest disclosed performance indicator by interviews

are efficiency indicators (7) which is consistent with the content analysis results which also show this indicator as the second highest disclosed indicator (77) (see Table 6.3).

Table 6.6 shows that 10 of 12 Malaysian government departments are disclosing performance indicators in their department's Annual Reports. This result is quite high considering the reporting of performance is not mandatory in Malaysia in the Annual Reports. However, in respect of the concept of managerialism, the results show that Malaysian government departments continue to report the older type of performance indicators of quantity, quality, timeliness, cost, outputs and outcomes. One possible explanation for the low disclosure of efficiency and effectiveness indicators may be that government departments are still relatively inexperienced at disclosing these indicators. This assertion is supported by respondents' comments made at the interview. A question asked the respondents if they are provided with any training to assist in both the preparation and understanding of performance indicators. Only one department of the twelve interviewed provides training and understanding of performance indicators for their staff. Once again it was interesting to note that only six of the Malaysian departments interviewed claimed they disclosed all of the eight types of performance indicators.

Table 6.6
Disclosure of Performance Information
By Malaysian Government Departments

Department	Effic	Effect	Output	Outcome	Time	Quality	Quantity	Cost	Total PIs
M1	1	0	1	0	1	1	1	1	6
M2	0	0	0	0	0	0	0	0	0
M3	1	1	1	1	1	1	1	1	8
M4	1	1	1	1	1	1	1	1	8
M5	1	1	1	1	1	1	1	1	8
M6	1	1	1	1	1	1	1	1	8
M7	0	0	0	0	0	0	1	0	1
M8	0	0	1	0	1	0	1	0	3
M9	0	0	1	0	1	1	1	1	5
M10	1	1	1	1	1	1	1	1	8
M11	1	1	1	1	1	1	1	1	8
M12	0	0	0	0	0	0	0	0	0
Total PIs	7	6	9	6	9	8	10	8	63

Notes: Effic = Efficiency, Effect = Effectiveness, Time = Timeliness

Table 6.6 also indicates that the least disclosed performance measures disclosed from the interviews were Effectiveness and Outcomes indicators with 6 of 12 departments disclosing these. One possible explanation for the lower level of disclosure of efficiency and effectiveness indicators is explained in an interview with department M1:

There has been no proper and specified mechanism for measuring performance information furthermore; the deficiency in reporting effectiveness indicators is possibly perpetuated by the non-mandatory status of effectiveness audits.

Section 6 of the Malaysian Audit Act (1967) provides for a performance audit of government entities but the provisions are aimed specifically at the audit of economy and efficiency information (Nichol & Taylor 2001).

Table 6.7 shows that the greatest use of performance indicators overall is on an annual basis and the least use occurs on a weekly basis. Very few departments, (2 out of 12), regularly use departmental indicators greater than a monthly basis. Table 6.7 also shows that 4 departments do not use cost, quality and timeliness indicators for management purposes.

Table 6.7 further shows that 5 departments never use efficiency and effectiveness performance indicators with the most indicators used by departments being quantity and outputs. This result may indicate that department's performance measures appear to only be provided for the purpose of window dressing. That is, for the sake of showing that at least they are preparing the indicators even though they may not be actually using them.

In an interview with a SFO of a Malaysian government department he commented as follows:

We only report efficiency indicators internally as the Minister and CEO want to ensure our department is operating efficiently. For our annual reports which are distributed externally it is only necessary to report what we achieve.

6.5 PHASE THREE: QUESTIONNAIRE SURVEY

During June 2006, a questionnaire (Appendix Eight) with instructions for completion together with a covering letter and a self-addressed reply envelope were sent to the SFOs of eighty six Australian Federal government departments and one hundred and forty Australian State government departments. The questionnaire was also sent to the SFOs of forty Malaysian Federal departments and one hundred and thirty State government departments (Appendix Nine). The questions were written in English for the Australian sample and Bahasa Malaysian for the Malaysian departments. Though it is known from the interviews that Malaysian SFOs speak and write English, it was recommended that by sending the covering letter and questionnaire in Bahasa Malaysian it would motivate a greater response to the questionnaire.

The covering letter and questionnaire were translated into Bahasa Malay by a professional interpreter and then sent to an independent translator for back translation to ensure that both the English version and Bahasa Malay version were compatible. The responses received in Bahasa Malaysian were translated into English by a qualified interpreter. A copy of the survey results were offered upon request.

The questionnaire was designed to find information on accountability and the types of performance indicators disclosed and disseminated by government departments. The questionnaire contained five sections, these being Section One- accountability, Section Two – external influences, Section Three – performance indicators, Section Four – demographic data and Section Five – general. This same questionnaire, except for one question, was identical for both the Australian and Malaysian samples. The question that differed for the two countries covered the fact that the Australian government has an Office of the Auditor-General and the Malaysian government has an Accountant-General Office. The questions in the questionnaire are a mixture of Likert scale and open ended type questions. The questionnaire required ticks to be placed in boxes or a circle placed around the Likert scale number that applied to the respondent.

Table 6.7
Use of Performance Indicators By
Malaysian Government Departments

	Quality		Quantity		
	Total Departments using PIs	Percent		Total Departments using PIs	Percent
Weekly	0	0	Weekly	1	8
Gt than weekly	0	0	Gt than weekly	0	0
Monthly	4	33	Monthly	4	33
Semi – Annual	1	8	Semi – Annual	1	8
Annually	3	25	Annually	3	25
Never use it	4	33	Never use it	3	25
Total	12	100.0	Total	12	100.0

	Cost		Timeliness		
	Total Departments using PIs	Percent		Total Departments using PIs	Percent
Weekly	0	0	Weekly	0	0
Gt than weekly	0	0	Gt than weekly	0	0
Monthly	4	33	Monthly	3	25
Semi – Annual	1	8	Semi – Annual	1	8
Annually	3	25	Annually	4	33
Never use it	4	33	Never use it	4	33
Total	12	100.0	Total	12	100.0

	Efficiency		Effectiveness		
	Total Departments using PIs	Percent		Total Departments using PIs	Percent
Weekly	0	0	Weekly	0	0
Gt than week	0	0	Gt than week	1	8
Monthly	3	25	Monthly	1	8
Semi – Annual	2	17	Semi – Annual	2	17
Annually	2	17	Annually	3	25
Never use it	5	42	Never use it	5	42
Total	12	100.0	Total	12	100.0

	Outputs		Outcomes		
	Total Departments using PIs	Percent		Total Departments using PIs	Percent
Weekly	0	0	Weekly	0	0
Gt than week	0	0	Gt than week	1	8
Monthly	3	25	Monthly	1	17
Semi – Annual	3	25	Semi – Annual	2	8
Annually	3	25	Annually	3	33
Never use it	3	25	Never use it	5	33
Total	12	100.0	Total	12	100.0

A total of 232 questionnaires were sent to Australian Federal and State Government departments. Of the 86 questionnaires sent to Federal government departments 26 (30.23%) were returned and of the 146 questionnaires sent to SFOs in Australian State Government departments, 59 (40.4%) were returned. In August 2006 a follow up letter (Appendix 10) and questionnaire was forwarded to departments who had not responded. The responses from the follow up survey yielded a total of 39 responses (22.54%). These include 10 responses from Federal Government departments and 29 responses from State Government departments.

Table 6.8 below shows the breakdown of the responses for Australian government departments:

Table 6.8
Australian Government Departments
Survey Responses

	Surveys Received	Surveys Sent	% Returned
Federal	26	86	30.24%
New South Wales	12	51	23.50%
South Australia	4	13	30.76%
Queensland	11	24	45.80%
Tasmania	3	10	30.06%
Victoria	11	16	68.75%
Western Australia	19	32	59.30%
Total	86	232	37.07%

Table 6.8 shows the majority of State responses returned; with 19 out of 32 replies (59.30%) were received from Western Australian (WA) state government departments. New South Wales had the lowest response rate with only 12 replies out of 51 (23.5%) returned. Victoria had the actual highest response rate with 10 out of 16 surveys returned (68.75%).

A total of 170 questionnaires were sent to Malaysian Federal departments and State Government departments. Of these, 70 questionnaires were sent to Malaysian Federal

departments and 100 questionnaires were sent to Malaysian State government departments. Of the 37 responses returned, 25 (67.5%) were from Malaysian Federal Government departments and 12 (32.4%) from State Government departments.

Following the survey a follow up letter and questionnaire was sent in August 2006 to those departments which have not responded. Of the 14 responses returned, 8 were returned from Federal departments and 6 from State Government departments. Due to the large number of Malaysian States (13) and the cost and time involved in analysing the data and the low response rate, it was decided not to analyse the individual Malaysian State responses. A copy of the pre-questionnaire letter, questionnaire and follow up letter can be found in Appendix Eleven.

Table 6.9 shows the breakdown of responses for Malaysian Government Departments.

Table 6.9
Malaysian Government Departments - Survey Responses

	Surveys Received	Surveys Sent	% Returned
Federal	25	70	35.70%
State	12	100	12.00%
Total	37	170	21.65%

6.6 RELIABILITY AND VALIDITY TESTS

In empirical research, it is necessary to test those variables which have more than one measure for their construct validity and reliability. In this study, there are two dependent variables – Types of performance indicators disclosed (Mean disclosure) and Extent of performance indicator dissemination (PI diss mean). Both dependent variables are multi item measures. This study also examines the disclosure of accountability information by SFOs. This variable is also a multi – item measure which contains 5 items (Information relating to department’s objectives, information relating to efficiency PIs, information relating to effectiveness PIs, information confirming a department’s compliance with relevant legislation, and trends in financial statements).

The single agency theory – based empirical model multi item variable is oversight bodies (EI Auditor - General, EI Minister, EI Treasury Dept, and EI Lobby Groups). Reliability tests for the variables political visibility of government departments and the citizenry were not performed as these variables are both single item measures where reliability test are not possible.

Within the institutional theory – based empirical model, there is only one multi item variable “Accounting ability” (Experience and Membership of a professional accounting body). The other institutional theory based variable salary has only one measure and thus it is not possible to undertake a reliability test.

Validity refers to the extent to which a variable measures the stated concept that it is meant to measure. Reliability measures the accuracy and precision of a measurement procedure this is considered important in terms of validity testing for those variables that use attitude or perception scales because some assurance is needed for that measurement to have an acceptable degree of construct validity (Hair et al. 2005).

In factor analysis, variates are formed to maximise their expectations of the entire set, not to predict a dependent variable. The principle components factor model is chosen as the method of extracting the factors. In determining how many factors to extract, the latent root criterion is used as a guideline where only the factors having Eigen - values greater than one are considered significant and all factors with Eigen- values less than one are discarded. Factor loadings indicate the degree of correspondence between each item in the variable and the factor, with higher loadings making the item representative of the factor (Hair et al. 2005). For the principal components factor analysis, a “varimax” rotational approach is used because it centres on simplifying the columns of the factor matrix. With the “varimax” rotation, there tends to be some high (i.e, close to 1) and some low loadings near 0 in each column of the matrix. The logic is that interpretation is easiest when the item – factor correlations are either closer to 1, thus indicating a clear association between the item and the factor, or 0 indicating a clear lack

of association. Typically, loadings of 0.5 or greater are considered significant (Hair et al, (2005).

While factor analysis provides a method of testing for construct validity of the multi items within each variable (oversight bodies and experience) used in this study, the reliability of these variables is tested using Cronbach alpha statistic. A measure is said to be reliable to the degree that it supplies consistent results. Reliability is a contributor to validity and is necessary but not sufficient condition for validity. Reliability is concerned with estimates of the degree to which a measurement is free of random or unstable error. Reliable instruments can be used with confidence that transient and situational factors are not interfering (Cooper & Emory, 1995). Cronbach alpha is a widely used reliability coefficient based on the average correlation of items on the variable with each other if the items are standardised, or the average covariance among items if the items are not standardised. If items in a variable are, to a certain extent, measuring a common entity, they will positively correlate with each other. The benchmark for Cronbach alpha is that a positive coefficient of 0.6 or greater will be sufficient for the presence of reliability (UCLA Technology, 2008).

For the principal component analysis, a varimax rotational approach is used because it centres on simplifying the columns of the factor matrix (Hair et al. 2005). With the varimax rotation method there appears to be some high (i.e close to 1) and some low loadings near 0 in each column of the matrix. This enables easier interpretation when the item–factor correlations are either closer to 1 thus indicating a clear association between the item and the factor, or 0 indicates a lack of association. In addition, loadings of 0.5 or greater are considered significant (Hair et al. 2005).

Reliability is concerned with estimates of the degree to which a measurement is free of random or unstable errors. Reliability refers to the consistency, stability, and repeatability of a data collection instrument. A reliable instrument does not respond to chance factors or environmental conditions; it will have consistent results if repeated overtime or if used by two different investigators. The reliability of an instrument says

nothing about its validity. It can be measuring the wrong concept in a consistent, stable fashion (Net Tom 2007).

Cronbach alpha is a widely used reliability coefficient based on an internal consistency test. It is thus based on the average correlations of items of the variable with each other if the items are standardised, or the average covariance among items if the items are not standardised. If the items in a variable are, to a certain extent, measuring a common entity, they will be positively correlated with each other (Hair et al. 2005). A variable is considered reliable if the Cronbach alpha is both positive and greater than 0.6.

Table 6.10
Australia Sample - Reliability Tests

Dependent Variables	No of Items	Cronbach Alpha
Frequency of Performance Indicator dissemination (PIDissmean).	7	0.803
Frequency of Performance Indicator disclosure (Meandiscl)	6	0.931
Discharge of Accountability Information	5	0.695
Independent Variables		
Oversight Bodies	7	0.605
Experience	2	0.775

Table 6.10 shows the reliability test results for Australian Government Department variables of performance indicator disclosure, performance indicator dissemination, disclosure of accountability information, oversight bodies and experience. A variable is considered to be reliable if the Cronbach alpha is both positive and greater than 0.6. The results can be seen in Table 6.10. The results show that all dependent and independent variables tested are reliable because the Cronbach Alpha (@) is positive and greater than 0.6 for each multi item variable tested.

Table 6.11 shows the reliability test results for Malaysian Government Department variables of performance indicator disclosure, performance indicator dissemination,

disclosure of accountability information, oversight bodies, length of service and culture. The results in Table 6.11 shows that only one variable – the disclosure of accountability information - fails the reliability test because the Cronbach alpha (@) is less than 0.6. and all 5 items of the variable are not correlated with each other. The other dependent and independent variables examined are reliable because the Cronbach alpha (@) for each of these variables is positive and greater than 0.6.

Table 6.11
Malaysia Sample - Reliability Tests

Dependent Variables	No of Items	Cronbach Alpha
Frequency of Performance Indicator dissemination (PI _{dissmean}).	7	0.767
Frequency of Performance Indicators disclosed (Me _{andiscl}).	6	0.940
Discharge of Accountability Information	5	0.506
Independent Variables		
Oversight Bodies	7	0.802
Experience	2	0.832
Culture	3	0.777

Table 6.12 presents the results of a validity test using principal components factor analysis for Australian Government departments on the items that relate to external influences on the entity's disclosure and dissemination of PIs. The variables that tested for validity were the influence of oversight bodies and experience. Table 6.12 shows that the variable the influence of oversight bodies loads onto three factors and experience items load onto one factor. There were no variables that loaded onto Factor 2. Factor 3 only consisted of the Influence of the Minister.

Table 6.12
Australian Government Departments: Eigen Values for External Influences Items

	1	2	3
Influence of the Auditor – General	0.533	0.184	0.496
Influence of the Minister	0.175	0.029	0.834
Influence of consulting with Treasury Department	0.819	-0.392	-0.144
Influence of suggestions of Treasury Office	0.773	-0.451	-0.213
Influence of Lobby Groups	0.615	0.003	-0.034
Experience in current organisation	0.904		
Experience in current position	0.904		

Table 6.13 presents the results of a validity test using principal components factor analysis for Malaysian Government departments on the items that relate to external influences on the entity's disclosure and dissemination of PIs. The variables tested for validity were the influence of oversight bodies, bureaucrat's accounting ability (experience) and culture (Culture and culture dissemination). Table 6.13 shows that the bulk of the variable, influence of oversight bodies, loads on to Factor 1. However the influence the variables bureaucrat's accounting ability and culture loads on to Factor 1.

Table 6.13
Malaysian Government Departments: Eigen Values for External Influences Items

	1	2	3
Influence of the Accountant – General	0.723	-0.335	
External Influence of then suggestion of the Minister	0.793	-0.220	
Ext Influence of consulting with Treasury Department	0.742	-0.444	
Influence of Treasury's suggestions	0.805	0.321	
Influence of Lobby Groups	0.745	-0.089	
Experience in current organisation	0.926		
Experience in current position	0.926		
Culture	0.924		
Culture Dissemination	0.939		

6.7 DESCRIPTION OF INSTRUMENTS USED

The following section details the instruments used in this study. Two dependent variables: (disclosure and dissemination of performance indicators) and six independent variables: (1) oversight bodies, 2) political visibility, 3) the citizenry, 4) bureaucrat's accounting ability, 5) bureaucrat's salary and 6) culture) have been selected and are discussed below.

6.7.1 DISCLOSURE OF PERFORMANCE INDICATORS

The dependent variable disclosure of performance indicators includes the types and numbers of performance indicators disclosed by Australian and Malaysian government departments and how often the indicators are disclosed by those departments. Data on the types of performance indicators disclosed, was gathered by using scales adapted for this study from phase one; the content analysis of Annual Reports and also from work by Mucciarone & Taylor (2005). Secondly; data was gathered from the interviews where the respondents were presented with a list of performance indicators and asked whether they disclose any of the indicators.

In relation to how often performance indicators are disclosed data was collected using a questionnaire where respondents were asked to indicate on a 5 point Likert scale ranging from 1 – weekly, 2 – monthly, 3- quarterly, 4 – half yearly and 5 – yearly how often respondents computed efficiency, effectiveness, quality, quantity, cost, and timeliness indicators. The data analysis showing frequencies is discussed in Chapter Seven.

6.7.2 DISSEMINATION OF PERFORMANCE INDICATORS

Independent State legislation and Federal government legislation in Australia requires a government department's performance indicator preparer to prepare and submit an Annual Report containing performance indicators to the relevant minister. The Annual Report is an important medium by which government departments communicate information on their performance to stakeholders (for example the public, taxpayers, the minister, and legislative oversight and review bodies). However, there has been

widespread criticism of the usefulness of the Annual Report to users. The critics argue the Annual Report is far too complicated for users of the reports, the majority of which have no formal training in accounting or finance Bartlett & Chandler 1999, Petravich (1999) and Blazenko (1999) advocate other sources of information as being more relevant and effective in communicating performance information to users of the Annual Report. These include internal management reports and external reports to the Office of the Auditor - General or Treasury and reports Tabled in Parliament.

However, a number of researchers advocate that the Annual Report is a important document in the discharge of accountability to external users, primarily the legislature, government oversight bodies, creditors and the citizenry (Hyndman & Anderson 1995) & (Patton 1992). It is also suggested that governmental Annual Reports would be of more value to those external users who, unlike public sector managers, have no special interest access to information about public sector departments or departments (Nichol & Taylor 2001). Patton (1992) also argues that these external users include “those who have legitimate economic, political or social interest in the activity of governments” (p 169).

Data on the dependent variable, extent of performance indicator dissemination, was collected in two parts using scales adapted from studies by Mucciarone & Taylor (2005) and Hyndman & Andersen (1995). First, data on the use of performance indicators disseminated was collected using a Likert Scale in five response categories with the dimensions of weekly to yearly. Secondly, data on where performance indicators were disseminated was gathered by a two dimension table. The first dimension consists of eight avenues through which performance information can be disseminated. The eight avenues for performance indicator dissemination were obtained from Blazenko (1999); the second dimension consists of a series of performance indicators including effectiveness and efficiency indicators. Respondents were asked to place a tick in the box for each area in which they disseminated these indicators. The data analysis is shown in Chapter Seven.

6.7.3 OVERSIGHT BODIES

Oversight bodies which include parliament, government committees, regulatory departments, analysts, labour unions, employer groups, media, and special interest community groups who perform oversight or review services on behalf of the community. Members of this group tend to have indirect or derived interest in general purpose financial reports since they advise or represent those who have a different interest (Australian Accounting Research Foundation, 2004).

Rosair & Taylor (2000) studied Australian government departments' Annual Reports. They conducted an empirical review of the needs and interests of oversight bodies and the extent to which the needs and interests of these bodies related to accountability-related disclosure in a government agency's Annual Report. Their study found the demands and interests of the Treasury Departments (oversight bodies at both Federal and State government levels) had the strongest significant positive impact on managerial accountability disclosures in Annual Reports. The Treasury department also had the second strongest impact on fiduciary accountability disclosures. Based on the strong result of both managerial and fiduciary accountability disclosures, oversight bodies will be analysed in this study.

In Australia the Federal government and each of the State governments appoint an Auditor-General. Each of the Auditor-Generals responsibilities and authorities are governed by an independent act of each Parliament. However even though each state government and the Federal government have separate legislation for the Auditor-General they share common traits such as each scrutinises the public sector to ensure waste of taxpayers' resources has not occurred and that government departments deliver services in an equitable, efficient and effective manner to the benefit of all citizens. The Auditor General is thereby an 'ally of the People and Parliament'. He must act, and be seen to be acting, independently in carrying out all his powers and duties (The Western Australian Office of the Auditor - General 2007).

In Malaysia the Accountant-General Department is the equivalent of the Auditor-General Office in Australia. The Accountant-General is the Chief Accountant for the

Federal Government and Head of the Accountant-General's Department with authority for approving accounting matters and procedures in respect of the Federal and State accounts (The Accountant - General Department Malaysia, 2007).

The objectives of the Accountant-General's Department include: 1) to enhance accountability and transparency in Federal Government's accounting and financial management; 2) to enhance accounting and financial management system for all government agencies; 3) to assist government in making effective decisions; 4) to develop and implement human resource management system for the accounting services and 5) to enhance the enforcement of the Unclaimed Monies Act 1965 (The Accountant-General Department Malaysia, 2007). Data regarding the influence of the oversight bodies on the types of performance indicators used and the extent of dissemination of performance indicators was gathered using a Likert Scale in five response categories.

6.7.4 POLITICAL VISIBILITY

Lim & Mckinnon (1993) defined an entity as politically visible if it attracts a disproportionate share of scrutiny from politicians, the general public or other accountees, causing it to be a possible target for the importance of political costs (Lim & Mckinnon 1993). Political costs may take the form of re-distribution of a department's resources to other areas of the public sector, the absorption of its functions by other departments, or the replacement of essential senior management. Lim & Mckinnon (1993) used three proxies for political visibility, these being firm size, number of employees and level of coverage in the official records of NSW parliamentary debates. Rosair & Taylor (2000) used the size of government departments measured by number of employees as a proxy for political visibility.

In this study, data regarding the political visibility of a government department was gathered in two parts. Firstly, in determining the political visibility of a government department, respondents were asked to indicate the number of employees in their department. Second, for political visibility, respondents will be asked to rank the amount

of influence lobby groups, board of management, Hansard and the Minister have on the preparation of performance indicators.

6.7.5 CITIZENRY

Data regarding the level of influence of the citizenry on the types of performance indicators used and the extent performance indicators are disseminated was gathered in two parts. First, in the survey, respondents were asked to indicate on a scale of 1 (being never) to 5 (always) whether citizens and/or citizen groups were involved in the development of performance measures. To identify whether citizens influence the types of performance indicators disclosed in government departments reports and whether taxpayers influence the extent government departments disclose performance indicators. Second, respondents were asked to indicate on a scale of 1 (being never) to 5 (always) whether they have difficulty in getting citizens and/or citizen groups to accept their performance measures.

6.7.6 BUREAUCRAT'S ACCOUNTING ABILITY

Cheng (1992) developed an eco - political model to explain U.S state government accounting disclosure choice. The model contained eleven theoretical variables that directly or indirectly affected the decisions to provide accounting information by state governments. With the variable of bureaucrats' accounting ability and needs, the following aspects were used, namely: 1) salary 2) professional certification of the auditor-general and chief accountant, 3) size of the accounting and auditing departments, and 4) number of CPAs. The Cronbach reliability score for bureaucrat's accounting abilities instrument in this study was $\alpha = 0.143$. The reliability of the variable is violated here, as there is a very low alpha. To be a good indicator bureaucrats accounting ability should have a positive alpha that is above 0.6. Therefore, in the study bureaucrats accounting ability will not be examined as one independent variable but rather as experience and qualification.

Data regarding bureaucrat's accounting ability was obtained in two parts. First, data was obtained on senior finance officer's experience using an ordinal scale ranging from less

than 1 year to more than 6 years. Second, data was gathered for senior finance officer' membership of a professional accounting body was obtained from a similar scale to determine whether they are members of a professional accounting body. In Australia, the major professional accounting bodies include CPA Australia and the Institute of Chartered Accountants of Australia (ICAA). In Malaysia the main professional accounting bodies are the Malaysian Certified Public Accountants (MAPA) and the Malaysian Institute of Accountants (MIA). The respondents were asked the question yes or no whether they were members of a professional accounting body?

6.7.7 PREPARERS' SALARY

Ingram (1984) used salaries and CPA status as a surrogate for bureaucrats accounting ability. Baber (1983) and Baber & Sen (1984) included official wages as a measure for bureaucrats accounting ability and needs. For this study, data regarding performance indicator preparers' salary was gathered using an ordinal scale. Respondents were asked to indicate their remuneration package with the scale in the range of \$80,000 to \$130,000 and above for the Australian sample and the Malaysian sample salary range between 14,000 to 36,000 ringgits per year.

6.7.8 CULTURE

The data obtained in the questionnaire on the culture of the country of the performance indicator preparer was gathered using the Hofstede (1991) model. Hofstede (1991) surveyed different nations in which IBM was located in regards to international employee attitudes. Hofstede (1985) derived his categories from IBM data and originated his own scales. The study concluded that all cultures are different although those differences can be expressed as positions of relative salience on four variables (power distance, individualism, masculinity and uncertainty avoidance). Furthermore, the study concludes that cultural differences among national subsidiaries arise not only between headquarters and local managers in the subsidiaries, but also between the headquarters and expatriates from the home country (Hofstede & Bond 1994). The Hofstede (1985) study includes Australia and Malaysia as countries which had IBM employees.

The questions relating to culture were only asked of the Malaysian respondents. There are three questions relating to culture in the Malaysian survey. These are as follows: The data obtained in the questionnaire on the culture of the country of the performance indicator preparer was gathered using the Hofstede (1991) model. Hofstede (1991) surveyed different nations in which IBM was located in regards to international employee attitudes. Hofstede (1985) derived his categories from IBM data and originated his own scales. The study concluded that all cultures are different although those differences can be expressed as positions of relative salience on four variables (power distance, individualism, masculinity and uncertainty avoidance). Furthermore, the study concludes that cultural differences among national subsidiaries arise not only between headquarters and local managers in the subsidiaries, but also between the headquarters and expatriates from the home country (Hofstede & Bond 1994). The Hofstede (1985) study includes Australia and Malaysia as countries which had IBM employees.

The questions relating to culture were only asked of the Malaysian respondents. There are two questions relating to culture in the Malaysian survey. These are as follows:

1. As a multicultural country, do you believe culture is important in your decision regarding performance indicator disclosure; and
2. As a multicultural country, do you believe differing cultures have an impact on the dissemination of performance indicators?

Both of the above questions required requested respondents to indicate by placing a tick against yes or no.

6.8 STATISTICAL DESIGN

This study uses the statistical method of multiple regressions to test the hypotheses formulated in Chapter Five. The study also uses descriptive statistics specifically frequencies and cross tabs for the pilot study and interviews.

6.8.1 MULTIPLE REGRESSION ANALYSIS

Multiple regression analysis is a statistical technique which can be used to analyse the relationship between a single dependent (criterion) variable and several independent (predictor) variables (Hair et al 2005). The independent variables to be predicted in this study are oversight bodies, political visibility, the citizenry, bureaucrat's accounting ability, bureaucrat's salary, and culture all of these are qualitative. As a result, dummy variables on a scale of 0 and 1 will be applied to turn the qualitative data into metric data. There are six independent variables identified for this study (oversight bodies, political visibility, the citizenry, bureaucrat's accounting ability, bureaucrat's salary and culture and six dummy variables will be used (n-1). Due to the data on culture being yes or no frequencies will be used to test the data for culture.

The data was also analysed using independent - T Tests. T Tests are tests to assess the statistical significance of the difference between two sample means for a single dependent variable (Hair et al, 1995). This study has a series of hypotheses which will be analysed using T Tests to test if these null hypotheses are confirmed that there are no significant relationships existing or the alternative that the null hypotheses is rejected and there is 95% significance that a relationship does exist between the dependent and independent variable. The researcher interpreted the results using the SPSS v15 statistical program.

6.8.2 DESCRIPTIVE STATISTICS

Descriptive statistics are used in this study to determine frequencies of the data for the first and second phase of this study (pilot study and interviews). Descriptive statistics are used to describe the basic features of the data in this study as they provide simple summaries about the sample and the measures (Research Methods Knowledge Base

2007). Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data. Descriptive statistics are used to simplify large amounts of data in a sensible way. Each descriptive statistic reduces lots of data into a simpler summary.

Phase One of this study is a content analysis of the 2003/2004 Australian and Malaysian government departments Annual Reports. The content analysis involved the process of analysing each department's Annual Report looking specifically for the performance indicators of efficiency, effectiveness, quality, timeliness, quantity, cost, strategies, outputs and results. For each one of these indicators the researcher undertook a count of their number in the Annual Report of each department. The categories of information listed in Table 6.1 (Efficiency, effectiveness, objectives, strategies, quality, inputs, outputs, and results/outcomes) are each subjected to a disclosure frequency count in order to determine the extent of their disclosure for the 2003/2004 financial year. Performance indicators are deemed to exist only if they are actually disclosed in the reports. Descriptive statistics was used as it enabled the researcher to sift through large volumes of data with relative ease in an orderly fashion. Its also a useful technique for allowing us to discover and describe the focus of the trend of reporting performance indicators in Federal and State government departments (Stemler 2001).

Descriptive statistics was also used for phase two of this study – the semi-structured interviews. The semi-structured interviews with performance indicator preparers of a sample of Australian and Malaysian government departments included a series of questions on the types of performance indicators disclosed by the department. For example, one question asked do you have the following types of performance measures in your Annual Report. The question then detailed a list of performance indicators.

The central tendencies of descriptive statistics such as the mean and standard deviation were used to analyse the data from the interviews questionnaire. The central tendency of a distribution is an estimate of the "centre" of a distribution of values. There are three major types of estimates of central tendency:

- Mean
- Median
- Mode

The Mean or average is the most commonly used method of describing central tendency. To compute the mean all the values are tallied and divided by the number of values. For example, the mean or average quiz score is determined by summing all the scores and dividing by the number of students taking the exam. For example, consider the test score values (Research Methods Knowledge Base 2007):

15, 20, 21, 20, 36, 15, 25, 15

The sum of these 8 values is 167, so the mean is $167/8 = 20.875$.

The Standard Deviation is a more accurate and detailed estimate of dispersion because an outlier can greatly exaggerate the range. The Standard Deviation shows the relation that set of scores has to the mean of the sample (Research Methods Knowledge Base 2007). The computation of the standard deviation is a rather complex process to calculate manually. To obtain the standard deviation, the square root of the variance is used. In this study the descriptive statistics central tendencies of the mean and standard deviation are calculated using SPSS version 15.0 software package.

6.9 DEMOGRAPHICS

Table 6.14 shows the demographic details of the respondents and their government department for gender and age from the questionnaire. Of the 232 questionnaires sent to Australian Federal and State Government Departments, a total of 86 were returned, a response rate of 37.06%. Of those who responded, 26 (30.23%) were from Federal Government Departments and 60 (69.76%) were from State Government Departments. Of the 170 questionnaires sent to Malaysian Federal Departments and State Government Departments, a total of 37 were returned, a response rate of 21.76%. Of those who responded, 25 (67.56%) were from Federal Departments and 12 (32.43%) were from State Government Departments.

Table 6.14 shows that the majority of Australian respondents (76%) were male with 25% female. This trend is the same in Malaysia with 65% of respondents being male and 35% of respondents being female. This result indicates there is a male domination in senior finance level position in both countries. With age, the majority of Australian respondents are aged between 40 to 49 which represent 42% and in Malaysia 30%. Australian respondents aged 50 to 59 represent 26% of the total sample. This result perhaps suggests that Australian Federal and State Government Departments are hiring more experienced staff to full fill senior finance positions. In Malaysia, however, as respondents get older the number of respondents holding senior finance position declines.

Table 6.14 also shows that there are only 4 (11%) respondents from Malaysia aged between 50 to 59 and only 2 (5%) respondents aged over 60 years. An interview with a SFO of a Malaysian department revealed that in the Malaysian public sector, it is normal practice to get promoted based on an individual's performance regardless of how many years that person has been working in a position. This sentiment appears to be supported by the results in this study.

Table 6.14
Demographics of Respondents
Gender and Age

	Australia			Malaysia			Total		
Respondents	Federal	State	Total	Federal	State	Total	Total Federal	Total State	Overall Total
Gender									
- Male	18	47	65	18	6	24	36	53	89
- Female	8	13	21	7	6	13	15	19	34
Total	26	60	86	25	12	37	51	72	123
Age Range:									
< 30	2	0	2	4	3	7	6	3	9
31 to 39	7	16	23	10	3	13	17	19	36
40 to 49	11	25	36	7	4	11	18	29	47
50 to 59	5	17	22	2	2	4	7	19	26
> 60	1	2	3	2	0	2	3	2	5
Total	26	60	86	25	12	37	51	72	123

Table 6.15 shows the demographic details of the respondents and their Government department for salary, size of government department and professional qualification from the questionnaire. Table 6.15 shows that almost 61% of Australian respondents earned between \$80,000 and \$130,000 compared to 51% of Malaysian respondents. The Malaysian salaries were converted to Australian dollars (1 AUS\$ = 2.5 MY). Of the Australian respondents 27% were from Federal Government Departments and 50% were from State Government Departments. Table 6.15 also shows that 51% of Malaysian respondents earned between \$80,000 and \$130,000. Of the Malaysian respondents 44% of respondents were from Federal Government Departments and 67% of respondents were from State Government Departments. This result suggests that in both countries there is not a great deal of difference in terms of income whether you work in a Federal department or State department. There is a slight advantage in working in Malaysian Government Departments than Australian Government Departments. However, the living conditions in both countries are vastly different and to appreciate income earned it is necessary to consider the cost of living as well. The cost of living however is outside the scope of this study.

With the size of a government department, both countries have the highest response from departments with 100 to 1,000 employees with Australia at 37% and Malaysia at 54%. The responses are similar for Federal and State departments. 50% of Australian respondents are from a Federal Government department and 32% of respondents are from a State Government department. 48% of Malaysian respondents are from a Federal Department with 100 to 1,000 employees and 67% are from a State Government Department. These results show that both countries employ similar number of people.

Table 6.15 further shows that 44% of Australian respondents have been working in their position for greater than five years. Of these respondents, 26% were in a Federal Government department and 74% work in a State Government department. In Malaysia, 41% of respondents have been working in their position for greater than five years. Of these respondents, 53% have worked in a Federal Government Department and 47%

work in a State Government Department. This result shows that in Malaysia, more people are staying longer in senior positions at a State level than a Federal level.

In relation to membership of a professional body, the results show that 52% are from Australian government departments respondents were members of a professional accounting body. Of these respondents 61% were from a Federal Government Department and 48.5% percent of respondents were from a State Government Department. In contrast, 13% of Malaysian respondents were members of a professional accounting body. Of these respondents, 16% were from a Federal Government Department and 8% of respondents were from a State Government Department. This result shows that membership of a professional accounting body in Malaysian Federal and State levels is not as important for a senior position as it is for Australia.

Table 6.15
Demographics of Respondents

Respondents	Australia			Malaysia			Total		Overall Total
	Federal	State	Total	Federal	State	Total	Total Federal	Total State	
Salary									
< \$80,000	1	14	15	5	2	7	6	16	22
\$80,000 to \$100,000	6	20	26	6	2	8	12	22	34
\$100,000 to \$130,000	9	17	26	5	6	11	14	23	37
> than \$130,000	10	9	19	9	2	11	19	11	30
Total	26	60	86	25	12	37	51	72	123
Size									
< 100	1	7	8	2	3	5	3	10	13
100 to 1,000	13	19	32	12	8	20	25	27	52
1,001 to 5,000	8	19	27	7	1	8	15	20	35
5,001 to 10, 000	1	2	3	2	0	2	3	2	5
> 10, 000	3	13	16	2	0	2	5	13	18
Total	26	60	86	25	12	37	51	72	123
Experience									
< 1 year	7	12	19	3	1	4	10	13	23
1 to 3 years	5	10	15	11	2	13	16	11	27
3 to 5 years	4	10	14	2	2	4	6	12	18
> 5 years	10	28	38	8	7	15	18	35	53
Total	26	60	86	25	12	37	51	72	123
Membership of professional accounting body									
Yes	16	30	46	4	1	5	20	30	50
No	10	30	40	21	11	32	31	41	72
Total	26	60	86	25	12	37	51	72	123

6.10 SUMMARY

This chapter presented the research methodology adopted for this thesis and the descriptive statistics results for the content analysis and interviews. Data collection has been undertaken through three research phases consisting of Phase one a content

analysis of the Annual Reports of forty eight Australian and Malaysian government departments. Phase two consists of semi-structured interviews with senior finance officers of Australian and Malaysian government departments. Phase three is a survey used to collect data relevant to this study. The questionnaires were distributed to SFOs of 232 government departments in Australia and 170 government departments in Malaysia. The names of Australian government departments were obtained from the Australian Government website and the surveys were addressed for the attention of the SFO of the respective department. The names of the Malaysian government departments were obtained from the Malaysian department of the Prime Minister and Cabinet. The surveys were addressed to each department with attention SFO of that department. The survey yielded a response rate of 37 % for Australia and 21.8% for Malaysia.

This chapter also reviewed demographic data (gender, age, salary, size, experience and membership of a professional body) for respondents of both countries from the questionnaire.

Chapter Seven presents the analysis of data from the questionnaire and testing of hypotheses. Specifically descriptive statistics is used to examine the level of disclosure of accountability information by Australian and Malaysian government departments. In addition, hypotheses are tested using multiple regression analysis to measure the effects of the independent variables - oversight bodies, political visibility, the citizenry, bureaucrat's accounting ability and salary on the dependent variables – disclosure and dissemination of performance indicators in the Annual Reports of Australian and Malaysian government departments and results discussed. In the last section of the chapter the effects of culture on the disclosure and dissemination of performance indicators by Malaysian government departments are tested using descriptive statistics and results discussed.

CHAPTER SEVEN

DATA ANALYSIS AND DISCUSSION

7.1 INTRODUCTION

This chapter contains an analysis of the data obtained from the major mail questionnaire. As discussed in Chapter Six, the original source data for the questionnaire was partially obtained from the responses of SFOs of government departments in Australia and Malaysia to a series of semi-structured interviews. The responses to these interviews were then used as the foundation for the major questionnaire.

The initial section of the chapter encompasses aspects of the disclosure of accountability information by government departments as obtained from the main questionnaire. The section reviews the jurisdictional differences between State and Federal departments in Australia and Malaysia. The following section provides a descriptive profile of the dependent variables of this study. The chapter then proceeds to the hypothesis testing using multiple regression analysis to evaluate the impact of agency-related variables on the dependent variables. Further, multiple regression analysis is undertaken to ascertain the impact of the institutional-related variables on performance indicator disclosure and dissemination.

The final stage of the analysis in this chapter relates to culture. This independent variable, in relation only to Malaysia, is tested for its relationship to the dependent variables using frequency tables to analyse performance indicator disclosure and dissemination in Malaysian Annual Reports. The reasons and discussion of the limitations for this partial analysis of the culture aspects of Malaysia were detailed in Chapter Four.

7.2 DISCLOSURE OF ACCOUNTABILITY INFORMATION

Within the questionnaire were a series of questions related to the disclosure of accountability information by Australian and Malaysian government departments (see Appendix 11). The first question requested respondents to indicate, on a 5 point Likert scale, ranging from 1 (no importance) to 5 (highest importance), their

perceptions of the aspects which influence accountability disclosures in Annual Reports. The results are presented in Table 7.1.

Table 7.1
Discharge of Accountability by Government Departments

Accountability Disclosure	Australian Means	Malaysian Means	Sig (2 – tailed) (p-value)*
Objectives	4.30	4.16	0.374
Efficiency	3.59	3.97	0.025
Effectiveness	4.17	4.16	0.927
Compliance	3.88	4.03	0.388
Trends	3.38	4.05	0.000

Legend:

Table 7.1 above is an independent sample t – test. This table is based on a 5 point likert scale (range from 1 = no importance to 5 = highest importance).* highly significant at $p < 0.1$

The above table is based on a sample size of 123 cases (86 Australia and 37 Malaysia).

Table 7.1 shows that both Australian (mean of 4.30) and Malaysian (mean of 4.16) government departments believe information relating to a department's objectives is in the range of very important to of the highest importance. It is important to note that all scores in Table 7.1 are above the 3.0 midpoint on the Likert scale. The table also indicates high rankings by departments of both countries of the importance of disclosing effectiveness indicators and slightly lower rankings for the disclosure of efficiency and compliance with legislation. Interestingly, respondents considered the disclosure of trends in performance indicators was not as important for Australian departments (mean of 3.38) but was of importance for Malaysian departments (mean of 4.17) Eighty six Australian respondents believe that all information disclosures above are significant in the discharge of their accountability.

The Australian result in Table 7.1 is supported by comments in an interview with Department A3 who stated that:

All information relating to performance indicators, such as objectives, efficiency, effectiveness, compliance and trends, are very important in the discharge of accountability.

During an interview with an Australian department, the SFO commented that:

We are only concerned with effectiveness indicators because the Minister only wants to know that we have achieved our goals - he is not concerned with how we achieve our goals. Therefore for me and my department effectiveness indicators are more important.

The high result from Table 7.1 for effectiveness for Malaysian departments is interesting as from interviews with the SFOs of Malaysian departments; they believed that the achievement of outcomes was the most important in the discharge of accountability. Further, Nichol & Taylor (2001) studied the importance of accountability information in the Malaysian federal public accounts and found there was a decline in the disclosure of effectiveness performance information with 9 effectiveness indicators being disclosed in the 1985 Malaysian public accounts compared to 6 indicators in 1995. The result in the current study would therefore tend to indicate that since 1995, the disclosure of effectiveness performance information has gained a higher level of importance amongst the SFOs of Malaysian government departments. A possible explanation for this increase could be the adoption of the public sector reforms by the Malaysian Government.

In relation to efficiency performance information, Table 7.1 shows that it is highly significant ($p=0.025$) for both countries (Australian mean of 3.59 and Malaysian mean of 3.97). This result indicates that government departments in both countries consider efficiency information to be very important in the discharge of accountability information. This result is interesting because during an interview with the SFO of an Australian government department, the comment was made that information relating to the achievement of outcomes is most important. Further the interviewee commented that their Minister is not concerned at how the department achieves their goals, so long as the goals are achieved. A similar situation arises in Malaysian government departments. During an interview with the SFO of department M3, the following comment was made:

In Malaysia we do not have a specified mechanism for measuring performance information. Further the government has instructed us to focus on outcomes only.

The results for information relating to a department's objectives are similar for both Australian and Malaysian government departments with the majority of SFOs (90% for Australia and 81% for Malaysia) considering the disclosure of a department's objectives to be in the range of very important to highest importance (See Appendix 11 for Australia and Appendix 12 for Malaysia). A similar situation arises in relation to efficiency information in that more Malaysian Federal and State SFOs (76% and 67%) consider efficiency information to be very important compared to Australian SFOs (61% and 60%). This result for Malaysia is very interesting as it has been found in the Nichol and Taylor (2001) study that Malaysian Federal government departments did not report any efficiency indicators in the period 1985 to 1995 in their public accounts.

Further the results in Appendix 13, which indicate low levels of disclosure of efficiency and effectiveness information, are surprising given that the Malaysian Government embraced the managerialism movement in the early 1990s to improve efficiency and effectiveness in the Public Sector. Performance assessment requires concise and clearly defined objectives, which serve as benchmarks for gauging the effectiveness of actual outputs and outcomes that have been accomplished (McCandless, 1993). One possible explanation for the low levels of importance is highlighted by the SFO of department M3:

I am accountable to my Secretary-General and CEO: they want to know that I get the job done but are not concerned how I do it but just that I did the job. Therefore I do not believe that efficiency and effectiveness information is important in the discharge of accountability.

Finally there is a substantial difference between Australia and Malaysia SFOs perceptions of the importance of disclosing performance information in Annual Reports in relation to trends in financial statement figures. As noted from Table 7.1, trends is highly significant ($p=0.000$). Appendix 12 and 13 show that 81% of Malaysian SFOs, compared to 43% of Australian SFOs, consider trends in financial statement figures as being in the range of very to highest importance.

Two other questions relate to the importance of the disclosure of accountability information, specifically its form and content in an organisation's Annual Report. The first question sought perceptions on the level of influence specific groups (taxpayers, the Auditor-General, Treasury, lobby groups, the Minister, and the CEO) have on the **form** of information included in the Annual Report (see Table 7.2). The data reveals that the Australian Auditors-General, with a mean of 2.34, has some influence on the form of information to be included in the Annual Report of Australian government departments. In Malaysia the Accountant-General is the equivalent of the Auditor-General in Australia. The results for Malaysia show that the Accountant-General has a mean of 3.35 thereby indicating an influence over the form of performance information disclosed in the Annual Report. The p value indicates that the Auditor-General is highly significant ($p=0.000$). This result is not surprising as the Auditor-General has the core responsibility for performing a performance audit of government agencies.

Table 7.2:
Influence of Selected Parties on the FORM of Information Included in the Annual Report

External Influences	Australian Mean	Malaysian Mean	Sig (2 – tailed) (p-value)
Taxpayers	1.93	2.54	0.004
Auditor-General/ Accountant General	2.34	3.35	0.000
Treasury	2.21	2.49	0.152
Lobby Groups	3.73	3.70	0.888
Minister	2.21	3.38	0.934
CEO	4.22	3.92	0.064

Legend:

Table 7.4 is an independent sample t – test. This table is based on a 5 point likert scale (ranging from 1 = no influence to 5 = highest influence).* highly significant at $p<0.1$. The above table is based on a sample size of 123 cases (86 Australia and 37 Malaysia).

Table 7.2 also shows that taxpayers is highly significant ($p=0.004$) thus indicating that taxpayers have the highest level of influence on the form of information included in the annual report. However as can be seen from the table, Australian taxpayers has a mean of 1.93 indicating only some influence and for Malaysia the mean is 2.54 indicating that taxpayers have a higher level of influence.

Table 7.2 also shows a large difference in the results for the Minister between the two countries. The results for Australia show a mean of 2.21 (indicating some influence) compared to 3.38 (indicating a higher level of influence) for Malaysia. The SFO of an Australian department commented that the Minister is responsible and accountable for the department, therefore before the Annual Report is prepared, a meeting is held with the Minister to discuss the format and content of the report. This table further shows that the Chief Executive Officer (CEO) is highly significant ($P < 0.1$), ($P = 0.064$) and has the highest level of influence on the form of the Annual Reports.

The next issue was the respondents' views on the influence of specific groups on the **content** of information to be included in the Annual Reports (see Table 7.3).

Table 7.3:
Influence of Specific Parties on the CONTENT of Information
Included in the Annual Report

External Influences	Australia Means	Malaysia Mean	Sig T (p-value)
Taxpayers	1.90	2.57	0.003
Auditor-General/ Accountant - General	2.22	3.19	0.000
Treasury	3.64	3.65	0.970
Lobby Groups	2.06	2.11	0.811
Minister	3.34	3.27	0.773
CEO	4.28	3.84	0.016

Legend:

Table 7.3 above is an independent sample t – test. This table is based on a 5 point likert scale (ranging from 1 = no influence to 5 = highest influence).* highly significant at $p < 0.1$. The above table is based on a sample size of 123 cases (86 Australia and 37 Malaysia).

Table 7.3 shows that in both Australian and Malaysian Government departments, the CEO has the greatest level of influence on the content of information included in the Annual Report, with a mean of 4.28 for Australian departments and 3.84 for Malaysian departments. Therefore from the mid point of 3 the CEO is highly significant ($p = 0.016$). From an Australian aspect, the high influence of the CEO on the content of Annual Reports is closely followed by the influence of the Treasury

(mean of 3.64); the lower influence of the Treasury in respect of Australian government departments is somewhat unexpected.

Table 7.3 also shows that in Malaysian departments, respondents consider the Treasury Department has the second highest level of influence on the content of information included in the Annual Report (mean = 3.65). The Treasury Department is thus highly significant ($P < 0.1$). The results for the Treasury Department is not surprising as in contemporary areas of disclosure (ie matters of efficiency and effectiveness) are predominantly determined by the Treasury department of each country.

Table 7.3 presents the results for the Auditor-General and taxpayers, which indicates that for Australian and Malaysian departments the variances from the mid point of 3 are significant (for the Auditor-General $p = 0.000$ and for taxpayer $p = 0.003$). The Auditor-General and taxpayers both have significant influence on the content of information to be included in the Annual Report. The conclusion which may be drawn from these results is that the government department may well be influenced by the user groups that directly participate in the decision making process of the department (the Auditor-General in Australia and the Accountant-General in Malaysia). However, the significant result for taxpayers is not expected. It has been general consensus that government departments are only influenced by those parties involved in the decision making and review process of the department (Parliament, Auditor-General, Minister, CEO) not by the ultimate accountees of government (taxpayers). Perhaps the strong significant result for taxpayers could be attributed to the fact that the SFOs of government departments feel accountable to taxpayers who provide funds involuntary to their department for goods and services.

The results for the Minister in Table 7.3 shows that for both countries the Minister does not have as high a level of influence over the content of information to be included in the Annual Report ($p = 0.773$) as for other parties. In both Australia and Malaysia, the Minister is above the mid point of 3 (Australia mean = 3.34 and Malaysia mean = 3.27) thus indicating some influence on the information content of the annual report. This result is not surprising given the Ministers are elected

members and may not have qualifications in the financial area. Even the Minister has ultimate responsibility to Parliament for the performance of their department.

The strong significant result for the Auditor-General in Australian government departments supports the findings of an earlier study by Mucciarone & Taylor (2005). In this study, the authors found a strong level of influence of the Auditor-General on the levels of performance indicators disclosed by Australian government departments.

The strong significant result for the Accountant-General in Malaysia may be explained by the increase in quality of accountability-related disclosure required by Malaysian government departments. The Nichol & Taylor (2001) study of Malaysian departments found a major shift in the disclosure categories of performance indicators between 1985 and 1995. Of the six categories of compliance there were three categories in which important changes had occurred: these being compliance reporting category; certificate of the Auditor-General; number and types of abridged consolidated financial Statements.

Another issue which arises is whether the public accounts should contain the summarised audit report in relation to the government entities major programmes. All 12 SFOs of Malaysian Federal departments' respondents disagreed with this Statement with one respondent arguing:

The Auditor-General's opinion is sufficient for the discharge of accountability in relation to government entities major programmes because the public accounts are audited by the Auditor-General. The Auditor-General's role is to check the public accounts of the Public Sector and form an independent opinion on whether Malaysian Federal departments or other Public Sector entities conform to their audit requirements. Unless it is a fundamental error discovered by the auditor then changes are made to the drafting of the Annual Report.

These Malaysian SFOs were also asked whether they believed that reporting of internal controls should be made mandatory and all 12 respondents agreed that such reporting should not be made mandatory. A SFO of a Federal department stated that:

Internal controls are not governed by any external factors. We do monthly checking of accounts. This is referred to as Accountability of control. The internal control report is transferred to the Central administration system in Malaysia.

The overall results in Table 7.3 indicate that the parties with significant levels of influence over the content of information included in the annual report are taxpayers, the Auditor-General and CEO. The table also shows that at the 90% confidence level the Treasury Department has strong influence over the content of information included in the annual report. However other parties, such as lobby groups and the Minister, proved not to be significant despite being considered in the public sector of both countries to be participants in the decision making process of government departments.

7.3 DISCLOSURE OF PERFORMANCE INDICATORS

There has been little research conducted on the frequency of performance indicators disclosed in the Annual reports of Australian and Malaysian government departments. Mucciarone & Taylor (2005) studied the factors affecting the types of performance indicators disclosed in the Annual Reports of Australian government departments. A survey instrument similar to that used in the Mucciarone & Taylor (2005) study to measure the types of performance indicators disclosed (efficiency, effectiveness, quality, quantity, timeliness and cost) was used in this study.

Table 7.4
Frequency of Performance Indicator Disclosure

Performance Indicator	Australian Mean	Malaysian Mean	Sig T (p-value)
Efficiency	81.233	70.365	0.451
Effectiveness	86.512	72.932	0.340
Quality	70.994	80.338	0.493
Quantity	67.634	65.365	0.863
Timeliness	61.988	61.622	0.978
Cost	55.006	67.149	0.339

Legend:

Table 7.4 is an independent sample t –test.

A question on the survey requested respondents to indicate, on a scale of 1 (weekly), 2 (monthly), 3 (quarterly), 4 (half yearly) and 5 (yearly), how often they disclosed a series of performance indicators

during the previous financial year. The above table is based on a sample size of 123 cases (86 Australia and 37 Malaysia).

In order to effectively use this data for analysis, it was transformed using the mid-point of the 5 periods from the questionnaire. Therefore weekly (1) was transformed as 3.5, monthly (2) as 15, quarterly (3) was transformed as 45; six-monthly (4) was transformed as 90, and annually (5) was transformed as 182.

It is interesting to note that all scores in Table 7.4 are above the 45 (quarterly) mid-points on the Likert scale. Table 7.4 also reveals that on average, both Australian and Malaysian government departments seldom disclose performance information more than quarterly.

Table 7.4 shows that regardless of whether a department is in Australia or Malaysia, the frequency of disclosure is not significant. This is an interesting finding in that given the differing cultural factors and levels of economic development, it could be expected that Country would be an influencing factor when determining the frequency of disclosure of performance indicators.

The generally high frequencies of disclosure in both the Australian and Malaysian departments indicate that agencies do not disclose performance indicators on a weekly or monthly basis. They are more often disclosed on a half yearly basis. For example, in Australia effectiveness indicators are disclosed most often on a half-yearly to annual basis (mean of 86.51) and for Malaysia quality indicators are also disclosed more often on a half-yearly to annual basis (mean of 80.34). One reason for Australian government departments not disclosing performance indicators more frequently was outlined in an interview with the SFO of an Australian government department:

We do not report performance indicators in the Annual Reports due to the nature of the services and programs we provide - it is impossible to report performance indicators weekly or monthly as our strategies and objectives are constantly changing. Our strategy today maybe different in a week or months time as situations beyond our control arises.

Further during an interview with the SFO of a Malaysian department, it was commented that:

In Malaysia we follow an outcomes based approach to reporting performance. We only therefore report outcomes on a monthly basis but not performance indicators. Performance indicators are reported internally to senior management and are thus only reported on an annual basis.

The results of the survey of the frequency of performance indicator dissemination indicate that they do not appear to form an important role in evaluating management and department performance on a regular monthly basis. This is revealed from the fact that no department in Australia or Malaysia discloses the information on a regular monthly basis. This would indicate a perception by government departments that performance indicators are not as important in management performance as other available information.

7.4 PERFORMANCE INDICATOR DISSEMINATION

There has been little research conducted on the extent performance indicators are disseminated by Australian and Malaysian government departments. As result of both countries adopting public sector reforms in an effort to improve their efficiency and effectiveness, this thesis also examines the extent performance indicators are disseminated by government departments. A question on the extent of performance indicator dissemination requested respondents to indicate how performance indicators are disseminated and whether they are: a) available on request, b) mailed to citizens, c) on their organisation's website, d) on display in the public libraries, e) on display in their organisation's libraries, f) released to news media or g) discussed at public meetings. The results are presented in Table 7.5.

Table 7.5 indicates that, for Australia, performance indicators are disseminated mostly by being available on the web (mean of 3.85 and $p = 0.008$), closely followed by performance indicators being available on request (mean of 3.84 and $p = 0.026$). With this form of dissemination it would mean that interested parties would need to actually contact the department and request a copy of the Annual Report. Also performance indicators discussed at public meetings is significant ($p=0.032$ and

mean of 2.37). However despite this significance their dissemination method is only rarely used as per the Likert scale. The least method of dissemination by Australian government departments is by being mailed to citizens (mean of 1.94). A possible explanation for this low result is that the majority of government departments have a web site and information relating to both financial and non-financial information is available to download.

Table 7.5 shows that for Malaysia, performance indicators available upon request are the most common form of dissemination (mean of 3.24). With this aspect a person interested in the performance of a government department actually has to contact the department for a copy of the required information. The concern about this is that citizens actually need to contact the department for information and it is not generally freely available. An interesting aspect from Table 7.5 is that both Australian and Malaysian government departments (mean of 3.85 and mean of 3.08) are making increased use of the web to disseminate their performance indicators, as both means are above the mid point of 3.

Table 7.5
Dissemination of Performance Indicators in Annual Reports

Performance Indicators	Australian Means	Malaysian Mean	Sig T (p-value)
On request	3.84	3.24	0.026
Mailed to citizens	1.94	2.27	0.159
On the web	3.85	3.08	0.008
On display in public library	2.74	2.57	0.574
On display in organisation's library	3.24	3.16	0.799
Released to news media	2.60	2.65	0.871
Discussed at public meeting	2.37	2.92	0.032

Legend:

Table 7.5 is an independent sample t-test based on a 5 – point likert scale. 1(never), 2 (rarely), 3(sometimes), 4(most of the time) and 5 (always), Midpoint of 3. P<0.1 = highly significant. The above table is based on a sample size of 123 cases (86 Australia and 37 Malaysia).

Table 7.5 further shows that in Malaysian departments, dissemination of performance indicator information by being mailed out to citizens is the least used method of information dissemination (mean = 2.27). It is interesting to note that

performance indicators available on the web are the third most common method of dissemination (mean = 3.08). It should be noted that these scores for Malaysian government are relatively low and thus in some ways open to interpretation. Further, the highest mean score of 3.24 is just above the mid point of 3. With the third highest dissemination method for Malaysia where performance indicators are available on the web, this result is surprising as only a small number of Malaysian Federal and State departments have their own web sites. In addition those Malaysian government departments that do have a website disclose financial and performance information in Bahasa–Malay and only general information about the products and services that the department provides is provided in English. An interview with the SFO of a Malaysian department revealed the following comment:

We only started our own websites after we saw what you did in Australia. We do not get a lot of enquiry about our departments from outside Malaysia which is why we only show financial and performance related information on our website in Bahasa Malay and not English.

A possible explanation for the low levels of dissemination of performance indicators may be explained in an interview with the SFO of a Malaysian department:

Annual Reports are not mandatory. Only reports on financial performance are presented to top management for information. So the information on my departments' performance is internally generated. All other information about our departments we provide externally to those that are interested such as the library, citizens or other departments.

The findings in this study show that the public's ability to assess performance of a government organisation in Malaysia is somewhat limited.

The Nichol & Taylor (2001) study mentioned that:

Non-quantified and poorly/non justified performance disclosures make it problematic for users of the public accounts to assess the reliability of the information or to make their own assessment of performance (p 43).

In summary, the results indicate a greater use of the web for dissemination of performance indicator information in Australia than by Malaysia. They also indicate very limited use of direct mailing to citizens as a method of dissemination as is any discussion at public meetings. In the case of Malaysia, this would again tend to indicate a greater difficulty of interested parties to obtain information on particular departments performance indicators.

7.5 HYPOTHESIS TESTING FOR AGENCY THEORY-RELATED EFFECTS ON PERFORMANCE INDICATOR DISCLOSURE AND DISSEMINATION

In this section, hypotheses relating to performance indicator disclosure and dissemination are tested using multiple regression analysis. Multiple regression analysis is used in this study as there are two dependent variables – frequency of performance indicators disclosed and the extent of performance indicator dissemination and also five metric independent variables (oversight bodies, political visibility, citizenry, bureaucrat’s accounting ability, salary) and one non-metric independent variable (culture). This study includes 2 country contexts, that of Australia and Malaysia. Multiple regression analysis enables the direction and extent of any relationships between the dependent and various independent variables to be determined. Further, it enables a determination of each independent variable’s relative importance in the explanation of the dependent variable (Hair et al. 2005).

The linear models underlying the regression analysis in this section are specified in the following equations:

$$\text{MEANDISCL} = a + b_1\text{EI AG} + b_2 \text{EI MINISTER} + b_3 \text{EI TREAS} + b_4 \text{EI LOBBY} + b_5 \text{SIZE} + b_6 \text{EI CITIZENS} + e$$

$$\text{MEANDISS} = a + b_1\text{EI AG} + b_2 \text{EI MINISTER} + b_3 \text{EI TREAS} + b_4 \text{EI LOBBY} + b_5 \text{SIZE} + b_6 \text{EI CITIZENS} + e$$

Where:

MEANDISCL = mean of performance indicator disclosure

MEANDISS = mean of performance indicator dissemination

EI AG = external influence of the Australian Auditor-General's Office or the Malaysian Accountant-General

EI MINISTER = external influence of the relevant Minister

EI TREAS = external influence of the Treasury Department

EI LOBBY = external influence of lobby groups

SIZE = size of government departments

EI CITIZENS = external influence of citizens

e = Error term

Within the equations, the regression coefficients resulting from standardised data are termed "beta coefficients". The standardised beta enables the elimination of problems associated with different units of measurement and they also reflect the relative impact of a change in one standard deviation on the dependent variable. When there are several independent variables in a regression equation as is the case in this study (seven independent variables), a test for the presence of multicollinearity needs to be applied, using the variance inflation factor (VIF). The multicollinearity, amongst the variables can have the effect of substantially distorting the results or making them unstable. A small VIF value indicates low intercorrelation between the variables included in the regression. (Hair et al. 2005).

Before proceeding with the multiple regression analysis, the normality of the data for each variable was checked and was found to satisfy the normality requirements for parametric statistical testing (see Tables 6.10 - 6.13). A separate multiple regression equation was undertaken for each of the two dependent variables, these being *frequency of performance indicators disclosed* and *extent of performance indicators disseminated*. The following section reviews the multiple regression analysis of the relationship between the dependent variables (frequency of performance indicator disclosure and dissemination) and the agency theory related independent variables (i.e. oversight bodies, political visibility and citizenry). A regression analysis was performed using performance indicator data obtained from a content analysis of the 2003/2004 Annual Reports of Australian and Malaysian government departments. The independent variables tested were COUNTRY and SIZE. The dependent variable that was tested for its relationship with the above independent variable was

performance indicator disclosure (MEANDISCL). The regression results are presented in Table 7.6.

Table 7.6 shows that the independent variable COUNTRY is strongly significant at the 95% confidence level (p value = 0.01). There is a significant strong relationship between the country i.e. Australia or Malaysia, and performance indicator disclosure in the Annual Reports of government departments. In the analysis, Australia was coded as 1 and Malaysia as 2. The results indicate there is a higher level of performance indicator disclosure by Australian government departments than by Malaysian departments. The conclusion that can be drawn is therefore that COUNTRY is a significant predictor of the level of performance indicator disclosure.

Table 7.6
Impact of Country on Performance Indicator Disclosure in Government Departments Annual Reports

<i>Dependent Variable</i>	<i>Independent Variable</i>	<i>Std Beta</i>	<i>T – Score</i>	<i>Sig T (p-value)</i>	<i>VIF</i>
MEANDISC	COUNTRY	-2.71	-2.622	0.01	1.00
Model Fit Adj R2= .053 F value = 2.633 Sig F = .055					

Legend:

Table 7.6 is a multiple regression method with 95% confidence level. The above table is based on a sample size of 123 cases (86 Australia and 37 Malaysia). The variable country includes all Australian and Malaysian government departments.

It should be noted that the low value of R-squared is of concern and should be considered when analysing the variables for significance.

The regression results for jurisdiction revealed that at the 95% confidence level, JURISDICTION was not significant. As a result, jurisdiction (Federal or State) does not have a significant influence on the disclosure of performance indicators and will be ignored for the remaining analysis.

7.5.1 MULTIPLE REGRESSION RESULTS – PERFORMANCE INDICATOR DISCLOSURE

In this study, a linear multiple regression analysis is undertaken using a backward regression method. The regression tests the hypothesised relationships between the agency–theory related variables – oversight bodies (EI AG, EI MINISTER, EI TREAS, and EI LOBBY), political visibility (SIZE) and CITIZENRY, and performance indicator disclosure by Australian and Malaysian government departments (MEANDISC). Chapter Five hypothesised that OVERSIGHT BODIES (**H1a**) and SIZE (**H2a**) are related to the level of performance indicator disclosure in the Annual Reports of Australian and Malaysian Government departments. Further, CITIZENRY (**H3a**) was hypothesised as having no significant influence on the levels of performance indicator disclosure in government department’s Annual Reports. An analysis of the backward regression indicates that for **Australia**, model four and for **Malaysia** model six of the regression, provides the best indicator of significance. This is presented in Table 7.7. In this table, using the backward regression model six for Malaysia means that the variable CITIZENS is excluded from the analysis but it is included for Australia in model four.

Table 7.7
Agency Theory–Based Variables Affecting Frequency
Of Performance Indicator Disclosure

<i>Dependent Variable</i>	<i>Independent Variable</i>	<i>Australia</i>		<i>Malaysia</i>		<i>Combined</i>	
		Beta	P - value	Beta	P-value	Beta	P-value
MEANDISC	CONSTANT		0.000		0.000		0.00
	AUDITOR – GENERAL	-2.30	0.043**			-2.68	0.019
	ACCOUNTANT - GENERAL			-0.337	0.051**	-2.207	0.029
	MINISTER	.139	0.234	n/a	n/a	n/a	n/a
	CITIZENS	-0.69	0.548	n/a	n/a	n/a`	n/a

Legend:

Table 7.7 is a linear regression model with backward regression (Model four for Australia and model six for Malaysia). The above table is based on a sample size of 123 cases (86 Australia and 37 Malaysia).

** indicates significance at $p < 0.05$.

Australia – model fit Adj r squared 0.026, F value = 1.722 and Sig F = 0.169

Malaysia – model fit Adj r squared 0.086, F value = 4.096 and Sig F = 0.051

Combined model fit Adj r squared, 0.039 F value = 3.344 and Sig F = 0.039,

Table 7.7 provides the results of regression analysis testing hypothesis 1a, hypothesis 2a, and hypothesis 3a. The table provides p-values and coefficients. The regression result in this table for Australia shows that the variable, external influence arising from oversight bodies associated with the Auditor-General (EI AG), are significantly related ($p < 0.05$) to the frequency of performance indicator disclosure in Annual Reports (MEANDISCL). However, the other possible external organisational influences – MINISTER, TREAS, and LOBBY are not significantly related to performance indicator disclosure in Annual Reports (MEANDISCL). The strength and direction of the effects of the independent variable is seen in the standardised regression co-efficient (beta) and its significant level.

Table 7.7 further indicates that the only oversight body to have significant influence is the AG – (beta of -2.30 and $p = 0.043$). The regression analysis indicates that the AG has an influence on the frequency of performance indicator disclosure by Australian government departments. However, three other oversight bodies (EI Minister, EI TREAS, and EI Lobby) do not have a significance of greater than 0.05 and are thus excluded. A further analysis with the backward regression method indicates that model six of the regression proves significant for the combination (Australia and Malaysia) with the AG (Auditor-General) for Australia ($p = 0.019$) and AG (Accountant-General) for Malaysia (0.029) having a significant relationship on disclosure. Therefore, for Australia, hypothesis 1a, based on the decision criteria in chapter 5, is rejected. In Australia there has been little research conducted examining the factors which influence the frequency of disclosure of performance indicators in annual reports of government departments. The results of one study, the Mucciarone & Taylor (2005) study, found the Office of the Auditor-General does have a strong influence over the types of performance indicator disclosure.

Table 7.7 also provides the results of a backward regression analysis for Malaysia testing hypothesis 1a, 2a and 3a. This table illustrates that the only oversight body to have an influence on the frequency of performance indicators disclosed in Malaysian government department's annual reports is the AG (Accountant-General) (beta of 0.337 and significance of 0.051). However all other oversight bodies (EI MINISTER, EI TREAS, and EI LOBBY), have a SIG T > 0.05 and therefore are not significant. Hypothesis 1a, for Malaysia, based on the decision criteria in Chapter 5, is thus

rejected as it did not meet the minimum decision criteria level. This result for the Accountant-General in Malaysia is not surprising as the position is responsible to enhance the accounting and financial management system for all government agencies. In addition the Accountant-General's department is responsible to enhance accountability and transparency in government accounting and financial management.

Table 7.7 also presents the regression results for Australian and Malaysian government departments using SIZE, as a surrogate for political visibility, as the independent variable. The table illustrates that SIZE of a government department is excluded from model four for **Australia** and model six for **Malaysia** and therefore are not significant. Therefore; hypothesis 2a is rejected indicating no significant relationship between the political visibility of Australian and Malaysian government departments and the frequency of performance indicator disclosure in the annual reports of those departments.

Table 7.7 further indicates the results of multiple regressions for testing hypothesis 3a. This table illustrates that the variable CITIZENS does not have significant influence as it is excluded from model six. Thus citizenry do not have an effect on the frequency of performance indicator disclosure in the Annual Reports of Australian government departments. Thus the null hypothesis 3a is accepted. It is assumed in this thesis that citizens and users are the same groups. I.e. users of a government's goods and services are also citizens of the country.

In support of the finding from the multiple regressions, frequency tables (Appendix 14) indicate that 47% of Australian government departments' SFOs believe that Australian citizens do not have any influence on the disclosure of performance indicators.

Table 7.7 shows for Malaysian government departments the variable citizenry, is not applicable as it is excluded from the backward regression model (six). Therefore Hypothesis 3a is rejected; there being no significant relationship between the influence of the citizenry and the frequency of performance indicator disclosure in the annual reports of Malaysian government departments.

This section tested the hypothesis relationships (H1a, H2a and H3a) between the agency theory related variables and the frequency of performance indicators disclosed by Australian and Malaysian government departments. The results show that hypothesis 1a is rejected for both Australian and Malaysian government departments. In relation to the second agency theory related variable size, this variable was excluded from both the Australian and Malaysian backward regression models (four and six), therefore hypothesis 2a is also rejected for both countries. In relation to the citizenry, the results indicated that for Australia hypothesis 3a is accepted as it has a p value >0.05 , and for Malaysia this variable was excluded from the backward regression model (six), therefore H3a is accepted.

7.5.2 MULTIPLE REGRESSION RESULTS - DISSEMINATION OF PERFORMANCE INDICATORS

Table 7.8 presents statistical results of the relationship between agencies theory-based independent variables of oversight bodies (AG, MINISTER, TREAS, and LOBBY), SIZE and CITIZENRY and the extent of dissemination of performance indicators by Australian and Malaysian government departments. Chapter Five hypothesised that OVERSIGHT BODIES (**H1b**) and SIZE (**H2b**) are related to the extent performance indicators are disseminated in the Annual Reports of Australian and Malaysian government departments. Further, CITIZENRY (**H3b**) was hypothesised as having no significant influence on the levels of performance indicator dissemination by government departments.

Table 7.8 shows the results of multiple regressions with a backward regression method for testing hypotheses 1b, 2b and 3b. The table provides p-values and coefficients of all independent variables in the regression model. It includes the control variable size. An analysis of regression indicates that model three of the regression provides that for Australia, none of the oversight bodies (AG, MINISTER, TREAS, and LOBBY) have any significant influence on the extent of performance indicator dissemination by Australian government departments.

All have a p-value >0.05 and thus hypothesis 1b is rejected. However it must be noted that model three does show the AG as the only variable having a beta of 0.180 and p

value = - 0.110 which is just outside the $p < 0.1$ significance. This indicates that the AG has an influence on the extent performance indicators are disseminated by Australian government departments. This result is not as expected as the role of the Auditor-General is often expected to have an influence on performance indicator dissemination as the position is responsible to Parliament for the good conduct for government departments.

Table 7.8
Agency Theory-Based Variables Affecting Frequency of
Performance Indicator Dissemination

<i>Dependent Variable</i>	<i>Independent Variable</i>	Australia		Malaysia		Combination	
		Beta	P-value	Beta	P-value	Beta	P-value
MEANDISS	CONSTANT		0.000				0.000
	AUDITOR - GENERAL	0.180	0.110			0.166	0.131
	ACCOUNTANT - GENERAL					0.144	0.188
	MINISTER	-0.85	0.424	0.544	0.001*	n/a	n/a
	TREAS	-.070	0.524	-3.72	0.038*	n/a	n/a
	LOBBY	n/a	n/a	-1.64	0.268	n/a	n/a
	SIZE	-3.01	0.06	n/a	n/a	-0.262	0.004
	CITIZENS	n/a	n/a	0.473	0.003*	0.177	0.049

Legend:

Table 7.8 is a linear regression model with backward regression (Model three for both Australia and Malaysia). The above table is based on a sample size of 123 cases (86 Australia and 37 Malaysia).

** indicates significance at $p < 0.05$

Australia – model fit Adj r squared 0.085, F value = 2.986 and Sig F = 0.024

Malaysia – model fit Adj r squared 0.369, F value = 6.258 and Sig F = 0.001

Combined model fit Adj r squared, 0.113 F value = 4.888 and Sig F = 0.001

A further analysis of the regression indicates that model three of the regression provides the best indicator of significance for SIZE of government departments. The result in Table 7.8 for Australia shows that the SIZE of government departments, with a beta of -0.301 and a p-value of 0.06, is significant. The result means that hypothesis 2b is accepted in that political visibility of Australian government departments is related to the extent performance indicators are disseminated by those departments. This result confirms the findings of the Lim & Mckinnon (1993) study. Further the regression results in the De Lancer & Holzer (2001) study indicated that continued success of performance measurement depends on the continued support of citizens. This view is supported by comments from the interviews with Australian

Government departments. In order to determine what information is considered important by both Australian and Malaysian SFOs for the discharge of accountability, a question asked SFOs whether a series of definitions of accountability best describes the discharge of accountability by their department. The respondents were given a choice of six different definitions and the one definition interviewees claimed to be the most important was:

The state of being obliged to explain one's actions to justify what one does. Accountability requires governments to answer to the citizenry to justify the raising of public resources and the purpose for which they were used (Government Finance Officer's Association, 1988).

Lim & McKinnon (1993) found a correlation between the political visibility of statutory authorities and the level of voluntary disclosure of financial and non-financial information. Lim & McKinnon (1993) confirmed the political cost hypothesis of Watts & Zimmerman (1986) that entities subjected to a greater amount of scrutiny are more likely to disclose information than those subjected to less scrutiny.

A further linear regression analysis with backward regression for the whole sample (Australia and Malaysia) combined demonstrates that model four of the regression proved significant for the variables CITIZENRY ($P=0.049$) and SIZE ($p=0.004$) as having an influence on the extent of performance indicator dissemination. This result is consistent with the findings from individual hypothesis testing by country.

Model three of the regression excludes the variable CITIZENS thus null hypothesis 3b is accepted. There is no significant influence by the citizenry on the extent of performance indicator dissemination by Australian government departments.

A further analysis was performed to examine the effect of citizenry on the extent of performance indicators dissemination. The cross table frequencies results (Appendix 15) indicate that only 16% of Australian SFOs believe that citizens have an influence on the dissemination of performance indicators this result supports the regression results that citizens have no influence on the extent performance indicators are disseminated.

In addition, the SFO of an Australian department commented that:

Now that we are so busy with the demands set by our Minister and so we put all our information on the web to enable people such as the citizens to access information they need about us. In the past before technology and use of the internet become widespread we used to get a lot of demands for citizens for information but now they can go to our website and download whatever information they need and in their time.

Table 7.8 also shows the results of multiple regressions for the Malaysian sample for testing hypotheses 1b, 2b and 3b. An analysis of regression indicates that model three of the regression provides the best indicator of significance for two of the oversight bodies - the MINISTER (beta of 0.544 and $p = 0.001$) and TREAS (beta of 0.372 and $p = 0.038$). The variable the MINISTER and TREASURY are shown as being significant at the $p < 0.05$.

Thus, with the exception of the variables MINISTER and TREAS there is no statistical relationship between the oversight bodies and the extent of performance indicator dissemination by Malaysian government departments. Therefore, hypothesis 1b is rejected as it fails to satisfy the decision criteria detailed in Chapter Five.

Model three of the backward regression analysis has excluded the variable SIZE of Malaysian government departments. Therefore, there is no relationship between SIZE of government departments and the extent of performance indicator dissemination by Malaysian government departments. Thus, hypothesis 2b is rejected. Model three however does provide evidence that CITIZENS do have a relationship to the extent of performance indicator dissemination as it has a beta of 0.543 and p-value of 0.003. Therefore, null hypothesis 3b is rejected. The beta result for the variable CITIZENS indicates that CITIZENS do have an influence on the extent of performance indicator dissemination by Malaysian government departments. This result is interesting as the majority of interviews with SFOs of Malaysian government departments resulted in SFOs not believing Malaysian citizens have influence on their decision to disseminate information. This decision is usually made by the CEO of the department.

At an interview with the SFO of Department M2, the SFO commented that:

I am accountable to my CEO and the Secretary –General. I am given direction by these people as to what performance measures need to be reported and what budget I have to account for that. In the Malaysian public sector we now have a modified budget system where managers have more power to manage their resources ie let the managers manage.

7.5.3 SUMMARY OF HYPOTHESIS TESTING RESULTS FOR THE EFFECTS OF AGENCY THEORY VARIABLES

Table 7.9 presents a summary of the multiple regression results from the testing of agency theory variables (oversight bodies, political visibility and citizenry) on the frequency of performance indicator disclosure and dissemination by Australian and Malaysian government departments:

Table 7.9
Summary of Multiple Regression Results - Effects of Agency Theory Variables

Hypothesis	Proved/Disproved	Australia	Malaysia
<i>H1a: A relationship exists between the influence of oversight bodies and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments.</i>	Australia: Disproved Malaysia: Disproved	Reject (n.s)	Reject (n.s)
<i>H1b: A relationship exists between the influence of oversight bodies and the frequency of performance indicator dissemination by Australian and Malaysian government departments.</i>	Australia: Disproved Malaysia: Disproved	Reject (n.s)	Reject (n.s)
<i>H2a: A relationship exists between the political visibility of Australian and Malaysian government departments and the frequency of performance indicator disclosure in the Annual Reports of those departments.</i>	Australia: Disproved Malaysia: Disproved	Reject (n.s)	Reject (n.s)
<i>H2b: A relationship exists between the political visibility of Australian and Malaysian government departments and the frequency of performance indicator dissemination</i>	Australia: Proved Malaysia: Disproved	Accept (+significance)	Reject

by those departments.

(n.s)

H3a: No relationship exists between the influence of the citizenry and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments.

Australia: Proved

Accept
(+significance)

Malaysia: Proved

Accept
(+significance)

H3b: No relationship exists between the influence of the citizenry and the frequency of performance indicator dissemination by Australian and Malaysian government departments

Australia: Proved

Accept
(+significance)

Malaysia: Disproved

Reject
(n.s)

7.6 HYPOTHESIS TESTING FOR INSTITUTIONAL THEORY–RELATED EFFECTS ON THE FREQUENCY OF PERFORMANCE INDICATORS DISCLOSURE AND DISSEMINATION.

In this section, hypotheses relating to the frequency of performance indicators disclosure and dissemination by Australian and Malaysian government departments are tested using multiple regression analysis. The linear model underlying the multiple regression analysis is as per the following equations:

$$\text{MEANDISCL} = A + b_1\text{MEANEXPERIENCE} + b_2 \text{ MEMBERSHIP} + b_3 \text{ SALARY} + e$$

Where: MEANDISCL = Mean of disclosure of performance indicators

MEANEXPERIENCE = Mean of length of service in current organisation and current position.

MEMBERSHIP – Membership of a professional accounting body.

SALARY = Remuneration of the SFO

e = Error term

The second equation is developed for testing the main interaction and the effects of the independent variables (Mean experience and salary) on the dependent variable (MEANDISS).

$$\text{MEANDISS} = a + b_1 \text{ MEAN EXPERIENCE} + b_2 \text{ MEMBERSHIP} + b_3 \text{ SALARY} + e$$

Where: MEANDISS = mean of the extent of performance indicators disseminated

MEANEXPERIENCE= Mean of length of service in current organisation.

MEMBERSHIP = Membership of a professional accounting body.

SALARY = Remuneration of the SFO.

e = Error term

Backward multiple regressions was used to select the variables for inclusion in the regression model whereby the best predictor of the dependent variables will be selected first and any additional independent variables are chosen based on the incremental explanatory power they can add to the regression model. The independent variables may also be excluded from the equation if their predictive power dropped to a non significant level (less than 95% confidence level).

7.6.1 MULTIPLE REGRESSION RESULTS - FREQUENCY OF PERFORMANCE INDICATOR DISCLOSURE

A linear regression analysis with a backward regression was utilised to test the hypothesised relationship between the institutional theory-based variables of a bureaucrat's accounting ability (MEANEXPERIENCE and membership of a professional accounting body MEMBERSHIP) and SALARY, on performance indicator disclosure in the annual reports of Australian and Malaysian government departments (MEANDISCL). It was hypothesised in Chapter Five that both a bureaucrat's accounting ability and salary are related (**H4a** and **H5a**) to performance indicator disclosure in the annual reports of government departments (MEANDISCL).

Table 7.10 presents the statistical results of a linear regression analysis with backward regression for the Australian sample testing hypothesis 4a and hypothesis 5a. The table provides p-values and coefficients of all independent variables in the regression model. It illustrates that the variable, EXPERIENCE related to the SFOs accounting ability is not significant as it has a p-value of 0.202. Therefore hypothesis (**H4a**) for accounting ability is rejected. In relation to the variables MEMBERSHIP and SALARY, model three demonstrates that these variables are excluded and therefore not significant. Therefore hypothesis (**H5a**) is also rejected for Australia.

Table 7.10, an analysis of the regression indicates for Malaysian government departments that model four of the regression is the best predictor of significance. However as illustrated in Table 7.10, all variables are excluded therefore **H4a** for accounting ability is rejected. The table illustrates that hypothesis 5a is also rejected (SALARY). This result indicates there is no significant relationship between a bureaucrat's salary and the level of performance indicator disclosure in the Annual Reports of Malaysian government departments. Further analysis was undertaken testing the same variables for their relationship to the extent of performance indicator dissemination excluding country. Table 7.10 confirms the earlier results above that none of the institutional–theory related variables have a significant relationship to the extent of performance indicator dissemination.

Table 7.10
Institutional Theory–Based Variables Affecting the Frequency of Performance Indicators Disclosure

<i>Dependent Variable</i>	<i>Independent Variable</i>	Australia		Malaysia		Combined	
		Beta	Value	Beta	P - value	Beta	P- value
MEANDISC	CONSTANT		0.002		0.000		0.069
	MEAN EXPERIENCE	0.142	0.202			0.112	0.229
	MEMBERSHIP	n/a	n/a	n/a	n/a	0.108	0.244

Legend:

Table 7.10 is a linear regression model with a backward regression method (Model three for Australia and model four for Malaysia). The above table is based on a sample size of 123 cases (86 Australia and 37 Malaysia).

** indicates significance at $p < 0.05$

Australia – model fit Adj r squared, 0.008 F value = 1,657 and Sig F = 0.202

Malaysia – model fit Adj r squared, 0.000

Combined model fit Adj r squared, 0.007 F value = 1.420 and Sig F = 0.246

Further analysis was performed using cross tabulation frequencies to test whether Australian and Malaysian SFOs accounting ability impacts on the disclosure of performance indicators in Annual Reports. Appendix 16 shows the results which illustrate that 44% of Australian SFOs who have worked in their current organisation

for longer than 5 years tend to disclose more performance indicators. Appendix 16 also shows the Malaysian results which indicate that 40% Malaysian SFOs who have worked longer in their current organisation also tend to disclose more performance indicators. This result is somewhat less than may have been expected as it could be assumed that the longer a SFO has worked in their organisation, the more performance indicators they disclose due to them becoming more experienced at the expectations of their department.

The results in the Mucciarone & Taylor (2005) study of Australian government departments indicated that the salary level of the preparer of the performance indicators is significantly related to performance indicator disclosures.

7.6.2 MULTIPLE REGRESSION RESULTS OF THE DISSEMINATION OF PERFORMANCE INDICATORS

Multiple regression analysis was used to test the hypothesised relationship between the institutional theory-based variables of bureaucrat's accounting ability (MEAN EXPERIENCE and MEMBERSHIP) and salary (SALARY) on performance indicator dissemination by Australian and Malaysian government departments (MEANDISS). It was hypothesised in CHAPTER FIVE that both a bureaucrat's accounting ability and salary are related (**H4b** and **H5b**) to performance indicator dissemination by Australian and Malaysian government departments (MEANDISS).

Table 7.11 presents the results of a backward regression for Australian government departments testing hypothesis 4b and hypothesis 5b. An analysis of the regression results for Australia indicates that model two of the backward regression model provides the best indicator of significance. It shows that EXPERIENCE and SALARY are not significant as their p-values are 0.227 and 0.322 respectively. Therefore hypotheses 4b and 5b are rejected. The variable MEMBERSHIP is not presented in Table 7.11 as it was excluded from the model indicating no significance at the 95% confidence level. Table 7.11 also presents the results of the multiple regressions for Malaysian government departments testing hypothesis 4b and hypothesis 5b. An analysis of regression indicates that model three of the regression shows that none of the variables, EXPERIENCE, MEMBERSHIP and SALARY, are significant ($p < 0.05$). Of the three variables, only one SALARY falls into model three with a beta of 0.205 and $p = 0.223$. Therefore there is no significant relationship

between a bureaucrat's accounting ability and salary and performance indicator dissemination by Malaysian government departments. Thus hypotheses **H4b** and **H5b** are rejected.

Table 7.11
Institutional Theory – Based Variables Affecting Frequency of Performance Indicator Dissemination:

<i>Dependent Variable</i>	<i>Independent Variable</i>	Australia		Malaysia		Combined	
		Beta	P value	Beta	P - value	Beta	P- value
MEANDISS	CONSTANT		0.000				0.000
	MEAN EXPERIENCE	0.132	0.227	n/a	n/a	0.087	0.340
	SALARY	-0.108	0.322	1.242	0.223	n/a	n/a

Legend:

Table 7.11 is a linear regression model with backward regression method (Model two for Australia and model three for Malaysia). The above table is based on a sample size of 123 cases (86 Australia and 37 Malaysia).

** indicates significance at $p < 0.05$

Australia – model fit Adj r squared, 0.005 F value = 1.197 and Sig F = 0.307, sample size = 86

Malaysia – model fit Adj r squared, 0.015 F value = 1.541 and Sig F = 0.223, sample size = 37

Combined model fit Adj r squared, -0.00115 F value = 0.917 and Sig F = 0.340

Further analysis was performed using the full sample (Australia and Malaysia) combined. Table 7.11 illustrates that model three of the backward regression model proves the best indicator of significance. However, the only variable included in the model is EXPERIENCE ($p=0.340$) confirming H4b and H5b that a bureaucrat's ACCOUNTING ABILITY and SALARY have no significant relationship on the extent of performance indicator dissemination by Australian and Malaysian government departments.

A further analysis was performed for Australia and Malaysia using cross tabulation frequency to determine the impact (if any) that a SFOs salary has on the extent performance indicators are disseminated. The results from the cross tabulation frequency (Appendix 17) show that 44% of respondents from Australian Government departments who have worked in their organisation for more than 5

years have disseminated the most performance indicators. This result is lower than may have been expected as it may be assumed that the longer a SFO has worked in their position, the more performance indicators they may disseminate. One possible explanation for this low result is that SFOs role is to report performance indicators internally to senior management - they may not be concerned with how performance indicators are to be disseminated. This is supported in an interview with the SFO of an Australian department:

My job as senior finance officer is to prepare the annual report only for presentation to the Minister of my department. I do not have any authority as to where the report is distributed. In relation to your question I would need to consult with my colleagues as to where our performance information is distributed.

Due to the low number of research studies undertaken in government departments on the relationship between bureaucrat's salary and extent of performance indicator dissemination, further analysis was performed using cross tabulation frequencies. The results of cross tabulation frequencies (Appendix 17) indicate that 41% of Malaysian Government departments' SFOs who have worked for more than 5 years in their organisation tend to disseminate more performance indicators.

7.6.3 SUMMARY OF HYPOTHESIS TESTING RESULTS FOR THE EFFECTS OF INSTITUTIONAL THEORY VARIABLES

Table 7.12 presents a summary of the multiple regression results from the testing of institutional theory- variables (bureaucrat's accounting ability and salary) on the frequency of performance indicator disclosure and dissemination by Australian and Malaysian government departments.

Section 7.5 and 7.6 discussed the results of hypothesis testing relating to the frequency of performance indicator disclosure and dissemination by Australian and Malaysian government departments for agency theory-related variables and institutional theory-related variables using multiple regressions with a backward regression analysis. The results for the agency theory related-variables provide evidence that **H1a, H1b and H2a** are rejected.

Table 7.12
Summary of Multiple Regression Results - Effects of Institutional Theory Variables

Hypothesis	Hypothesis Proved/Disproved	Australia	Malaysia
<i>H4a: A relationship exists between a bureaucrat's accounting ability and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments.</i>	Australia: Disproved	Reject (n.s)	
	Malaysia : Disproved		Reject (n.s)
<i>H4b: A relationship exists between a bureaucrat's accounting ability and the frequency of performance indicator dissemination by Australian and Malaysian government departments.</i>	Australia: Disproved	Reject (n.s)	
	Malaysia: Disproved		Reject (n.s)
<i>H5a: A relationship exists between a bureaucrat's salary and the frequency of performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments</i>	Australia: Disproved	Reject (n.s)	
	Malaysia: Disproved		Reject (n.s)
<i>H5b: A relationship exists between a bureaucrat's salary and the frequency of performance indicator dissemination by Australian and Malaysian government departments.</i>	Australia: Disproved	Reject (n.s)	
	Malaysia: Disproved		Reject (n.s)

Hypothesis **H3a** is accepted for both Australian and Malaysian government departments. In relation to the frequency of performance indicator dissemination, the results indicate that **H2b** and **H3b** are accepted for Australian government departments but rejected for Malaysian government departments. For the institutional theory - related variables the results provide evidence that none of the variables have a significant influence on the frequency of performance indicator disclosure (**H4a**

and H5a) and dissemination (H4b and H5b) by Australian and Malaysian government departments.

7.7 CULTURE AND FREQUENCY OF PERFORMANCE INDICATOR DISCLOSURE AND DISSEMINATION

As outlined in Chapter Five, there is little empirical research examining the effects of culture on the frequency of performance indicator disclosure in the Annual Reports of Malaysian Government departments. The studies conducted in Malaysia to date relate to the private sector and include, for example Haniffa & Cooke (2002) and Pham & Morris (2003). As a result, in this study, frequency tables have been used to test the hypothesised relationship between Malaysian culture and the frequency of performance indicator disclosure in the Annual Reports of Malaysian government departments. A preliminary analysis using logistical regression (questions are categorical yes or no) failed to show any significance. Therefore a frequency distribution was used and this produced a series of results. The results are presented in Table 7.13.

The questionnaire contained 2 questions relating to culture. The first question requested respondents to indicate “yes” or “no” as to whether they believe culture had an important impact on performance indicator disclosure. The second question requested respondents to indicate whether they believe culture has an impact on the dissemination of performance indicators. It was hypothesised in Chapter Five that a relationship exists between Malaysian culture and the frequency of performance indicator disclosure and dissemination in the Annual Reports of Malaysian government departments.

7.7.1 CULTURE AND FREQUENCY OF PERFORMANCE INDICATOR DISCLOSURE

Table 7.13 presents the results of frequency statistics for Malaysian Government departments using *culture* as the independent variables for culture and the frequency of performance indicator disclosure as the dependent variable.

Table 7.13
Impact of Culture on Performance Indicators Disclosure

	Frequency	Percent
No	9	24.30
Yes	28	75.70
Total	37	100.0

Table 7.13 is a frequency distribution. The above table is based on a sample size of 37 cases.

Table 7.13, demonstrates that 75.7% of respondents from Malaysia believe that culture does have an impact on the frequency of the disclosure of performance indicator information. This result appears to be contrary to the interview results with Malaysian SFOs. For example, the SFO of a Malaysian government department commented that:

When making decisions about performance indicators – whether it be what type or when to disclose in the reports. I obtain my instructions from my head of the department. He makes a decision based on what the government wants from our department. Culture does not play a role.

A further analysis was performed using cross tabulation to test the relationship between cultures on the frequency of performance indicator disclosure in the annual reports of Malaysian departments. The results of the cross tabulation using culture as the independent variable and efficiency, effectiveness, quality, quantity, timeliness and cost-type performance indicators as the dependent variables is presented in Table 7.14.

The results show that for the variable, culture, 75.6% of SFOs believe that culture does influence the frequency of efficiency, effectiveness, quality, quantity, timeliness and cost performance indicators disclosure in the annual reports of Malaysian government departments. This result confirms the frequency statistics results presented earlier. Therefore, hypothesis 6a is disproved as there is a significant level of relationship between Malaysian culture and the frequency of performance indicators disclosed in the annual reports of Malaysian government departments.

Table 7.14
Impact of Culture on Frequency of Types of
Performance Indicator Disclosure

	Culture	
	Yes	No
Efficiency	28	9
Effectiveness	28	9
Quality	28	9
Quantity	28	9
Timeliness	28	9
Cost	28	9

Table 7.14 is a cross tabulation frequency. The above table is based on a sample size of 37 cases.

The results in this study support the relationship found in the Haniffa & Cooke (2002) study on the relationship between culture and voluntary disclosure levels in Malaysian companies. It also confirms the Pham & Morris (2003) study on the relationship between ethnic Malays on the board of Malaysian firms and the lower transparency of their financial reports, which produced similar results, where culture did influence disclosure of information in financial reports.

7.7.2 CULTURE AND DISSEMINATION OF PERFORMANCE INDICATORS

Table 7.15 presents statistical results of the relationship between Malaysian culture and extent of performance indicator dissemination in Malaysian government departments.

The frequency results of the Malaysian data set reported in Table 7.15 finds 70.3% respondents believe that the Malaysian culture does influence the extent performance indicators are disseminated by Malaysian government departments. This result is consistent with evidence obtained from the interviews with Malaysian government SFOs.

The majority of SFOs interviewed supports this view including the following comment made by the SFO of a Malaysian department:

I am responsible to my CEO but my department would not exist if it were not for the Malaysian people. Malaysian people give money to the government to provide services such as health and education. If we do not provide good service then Malaysian people will get angry at the government. That is the way it is here in Malaysia people do not

give money unless the government delivers on what the people expect. This is why understanding Malaysian culture is as important in my job as a SFO of my department.

Table 7.15
Impact of Culture on Performance Indicator Dissemination

	Culture	
	Frequency	Percent
No	11	29.7
Yes	26	70.30
Total	37	100.0

Table 7.13 is a frequency distribution. The above table is based on a sample size of 37 cases.

Table 7.16 presents the results of cross tabulations for Malaysian Government departments using culture dissemination as the independent variables and frequency of performance indicators disseminated (available on request, mailed to citizens, on the organisation's website, on display in public libraries, on display in the organisation's library, released to news media and discussed at public meetings) as the dependent variable.

The result in Table 7.1 provides evidence that 70.3% of respondents believe that culture does have an influence on the frequency of performance indicator dissemination. This result is consistent with evidence obtained from Table 7.15 above and interviews. The findings from Table 7.5 and Table 7.15 together with Table 7.16 all support the notion that culture does have an influence on the extent of performance indicator dissemination by Malaysian departments. Thus hypothesis 6b is rejected in that there is a relationship between Malaysian culture and performance indicator dissemination by Malaysian government departments.

Table 7.16
Impact of Culture on Frequency of Performance Indicator Dissemination

	Culture	
	Yes	No
Available on request	26	11
Mailed to citizens	26	11
Available on web	26	11
On display in public library	26	11
On display in organisation's library	26	11
Released to news media	26	11
Discussed at public Meeting	26	11

Table 7.13 is a frequency distribution. The above table is based on a sample size of 37 cases.

7.7.3 SUMMARY OF HYPOTHESIS TESTING FOR THE EFFECTS OF CULTURE VARIABLES

Table 7.17 presents a summary of the results from the testing of culture-variables on the frequency of performance indicator disclosure and dissemination by Malaysian government departments.

Table 7.17
Summary of Results - Effects of Culture Variables

Hypothesis	Hypothesis Proved/Disproved	Malaysia
<i>H6a: No relationship exists between Malaysian culture and the frequency of performance indicator disclosure in the Annual Reports of Malaysian Government Departments</i>	Disproved	Reject (ns)
<i>H6b: No relationship exists between Malaysian culture and the frequency of performance indicator dissemination by Malaysian government departments</i>	Disproved	Reject (ns)

This section has summarised the evidence of testing the hypotheses and discussing the results for the impact of Malaysian culture on the frequency of performance indicator disclosure and performance indicator dissemination. Frequencies and cross tabulation statistics disproved both hypothesis 6a and 6b thus indicating Malaysian

culture does influence the frequency of performance indicator disclosure and dissemination.

7.8 SUMMARY

This chapter commenced by providing a discussion of the disclosure of accountability information by Australian and Malaysian SFOs, together with the subsequent results for the types of information considered important by Australian and Malaysian SFOs in the discharge of accountability by their departments. The chapter then continued by discussing performance indicator disclosure and dissemination together with the related results. This discussion was followed by hypothesis testing for the agency theory-related impacts on performance indicator disclosure and dissemination. The following section discussed hypothesis testing for institutional theory-related impacts on performance indicator disclosure and dissemination. The final section reviewed culture and the frequency of performance indicator disclosure and dissemination.

The descriptive statistics in this study show that SFOs of Australian Government departments believe information relating to a department's objectives is in the range of very important to of the highest importance. Malaysian Federal government SFOs consider that in the discharge of accountability, information relating to efficiency is most important whilst Malaysian State SFOs believe that trends are the most important information in the discharge of accountability.

Descriptive statistics also indicate that Australian and Malaysian Government departments tend to disclose performance indicators more often on a quarterly basis. In relation to dissemination of performance indicators, descriptive statistics show that Australian government departments disseminate more performance indicator information on the web. Malaysian government departments disseminate performance indicators more often upon request and discussed at public meetings.

The regression analysis results for the agency theory-related variables related to the influence of oversight bodies on the frequency of performance indicator disclosure indicates that for Australia and Malaysia, no significant relationship exists between the dependent and independent variables – thus all of the variables related to agency

theory-related arrivals are rejected. No significant relationship was found to exist between the political visibility of Australian and Malaysian government departments and the frequency of disclosure of performance indicators by those departments. Thus, this hypothesis is rejected. No statistical relationship was found to exist between the influence of the citizenry and the disclosure of performance indicators, thus the hypothesis is accepted.

For the agency theory-related variables related to the dissemination of performance indicators, for both Australia and Malaysia, the hypotheses in relation to oversight bodies are rejected as there was found to be no significant influence. In relation to the influence of political visibility of Australian government departments and dissemination of performance indicators, the results indicated a significant relationship. However the results for Malaysian government departments showed no relationship, therefore hypothesis 2b is accepted for Australian and rejected for Malaysian government departments. The results for the citizenry proved to be as expected for both Australia and Malaysia in that there is no significant influence on Australian and Malaysian government departments' dissemination of performance indicators and therefore hypotheses 3b is proven.

The regression analysis results for the institutional theory-related variables of bureaucrat's accounting ability and salary affecting the frequency of performance indicator disclosure and dissemination did not provide evidence to support hypothesis 4a and 5a for both Australian and Malaysian government departments therefore they were both rejected.. The regression results also provided no evidence to support hypothesis 4b and 5b for both Australian and Malaysian government departments they were also rejected.

Descriptive statistics results for Malaysian culture indicated that respondents from Malaysia believe culture does have a significant influence on both the disclosure and dissemination of performance indicator information. Thus hypotheses 6a and 6b in relation to culture were not supported, as there is strong evidence to suggest that a relationship does exist between Malaysian culture and the frequency of performance indicator disclosure and dissemination.

A summary of the results of the analysis of the data, in conjunction with the practical implications of the findings for Australian and Malaysian government departments, limitations of the study, suggestions for future research and concluding remarks are discussed in Chapter Eight.

CHAPTER EIGHT CONCLUSIONS

8.1 INTRODUCTION

This thesis has applied agency theory and institutional theory to identify specific attributes which may influence performance indicator disclosure and dissemination by Australian and Malaysian Government Departments. Australia and Malaysia have been examined in this study in the context of being former British colonies and members of the Commonwealth of Nations. Both countries have adopted extensive public sector reforms, including the concept of “New Public Management” (NPM), to undertake reforms of their government departments to become more efficient and accountable. Modell, Jacobs & Fredrika (2006) argue that NPM reforms have been characterised by an increasing emphasis on devolved performance management, by transition from a heavy reliance on centralised planning to management by objectives or managing for results, as a dominant mode of governance and control.

Accountability has gained increasing recognition as an issue in not-for-profit government departments in order to hold them more accountable for outputs rather than inputs and for further devolution (Kloot 2007; Modell, Jacobs & Fredrika 2006). The claimed benefits of NPM include greater accountability, transparency and resource efficiency (Brown, Ryan & Parker 2000). As the discharge of accountability is an important aspect of the public sector, this study has examined the importance of performance indicator disclosure and dissemination information in the discharge of accountability by Australian and Malaysian government departments.

Previous government accounting literature has focused on public sector reform, in particular NPM and performance measurement within a single country. For example studies in Australia include Mucciarone & Taylor (2005), Bowrey (2007) and Rosair & Taylor (2000). In Malaysia studies include Nichol & Taylor (2001) and Siti-Nabiha (2006). This comparative study has created new knowledge to provide both Australian and Malaysian government departments with information in the measurement and reporting of performance.

Given that, to date, there has only been limited empirical research on these important public sector reporting issues, the research programme has been undertaken in three phases. The first phase involved a content analysis of the 2003/ 2004 Annual Reports of 13 Australian and 13 Malaysian Government Departments. The idea of this phase was to identify the numbers and types of performance indicators disclosed by these government departments and to formulate questions on the performance indicators to form the basis of the second phase, the interviews. The second phase consisted of semi-structured, face to face interviews with 12 Australian and 12 Malaysian government departments. These interviews were conducted as there is a lack of empirical research on performance indicators in Australian and Malaysian government departments. The third phase consisted of a questionnaire survey of the SFOs of Australian and Malaysian government departments, to ascertain their views on the importance of accountability-related information particularly related to performance indicator disclosure and dissemination.

The remainder of this chapter discusses the research findings of this thesis in depth. These include conclusions in relation to each of the three research phases, reliability and validity testing of the data and conclusions in relation to specific research hypothesis. This is followed by a review of the study's limitations including discussion on the possible implications of the findings for both theory and practice. The last part of this thesis contains suggestions for future research in the area of accountability and performance measurement in the Australian and Malaysian public sectors and concluding remarks.

8.2 SUMMARY AND CONCLUSIONS RELATING TO THE EMPIRICAL FINDINGS

This section reviews the results of the findings from this study within the areas of: 1) frequencies of accountability information disclosure of by Australian and Malaysian SFOs, 2) frequencies of performance indicator disclosure and dissemination, 3) validity and reliability of the empirical measures, 5) results of agency theory variables influence on performance indicator disclosure and dissemination by Australian and Malaysian

Government Departments, 6) results of institutional theory variables influence on performance indicator disclosure and dissemination by Australian and Malaysian Government Departments, and 7) results of the effect of culture on performance indicator disclosure and dissemination by Malaysian Government Departments.

8.2.1 DISCLOSURE OF ACCOUNTABILITY INFORMATION

To answer the research question of the financial information considered important in the discharge of accountability by Australian and Malaysian government departments, a content analysis of Annual Reports followed by a series of semi-structured interviews and a questionnaire survey were adopted. The data was analysed using descriptive statistics. The results indicate that the SFOs of Australia government departments consider information relating to a department's objectives as being very important in the discharge of accountability (Federal mean of 4.38 and State mean of 4.27) (see Table 7.1). The results for Malaysia revealed that at the Federal level, SFOs consider information relating to effectiveness performance indicators in the Annual Report as being most important (mean of 4.28) and at the State level, SFOs consider that trends in financial statement figures are most important (mean of 4.17) (see Table 7.1).

McCandless (1993) argues that key indicators of performance should be reported to enhance the visibility of government's efficiency and effectiveness and thereby accountability. Similarly, an SFO of a Western Australian State Government department argued that:

Two key indicators of efficiency and effectiveness are an essential component of the accountability process, enabling people external to the organisation to assess the extent to which program or entity objectives have been achieved.

The SFO further argues that the disclosure of performance measures in terms of cost/number per unit and a specified target, against which the outcome or result is evaluated, needs to be given explicitly, in order for performance information to be directly meaningful to users. This did not happen in either the 2003/2004 Annual Reports of Australian or Malaysian government departments. The reporting emphasis of

Australian Federal and State government departments was found to be heavily and increasingly weighted to the *Statement of Objectives*. In Malaysian Federal departments, the reporting emphasis was found to be heavily and increasingly weighted towards *effectiveness* information and at the State level; the reporting emphasis was found to be heavily and increasingly weighted towards *trends* in financial statement figures.

Another question requested respondents to indicate the level of influence specific external users (i.e. users of the department's goods or services, Treasury Department, lobby groups, Minister, CEO, Citizens and Auditor-General) exert on the *form* of information included in the Annual Report. The Australian results revealed that at the Federal level, respondents believe the Minister has the highest level of influence (mean of 4.05) on the form of information included in the Annual Report. At the State level, the results revealed that lobby groups are considered to have the highest level of influence (mean of 3.46) (see Table 7.2). The Malaysian results revealed that at both the Federal and State level, the CEO is considered to have the highest level of influence (Federal mean of 3.80 and State mean of 4.17) (see Table 7.2) on the form of information included in the Annual Report.

A final question asked respondents to indicate the level of influence specific external users) exerts on the *content* of information included in the Annual Report. The Australian results revealed that at both the Federal and State level, respondents believe that CEOs have the highest level of influence (Federal mean of 4.38 and State mean of 4.27) (see Table 7.3) over the content of Annual Reports. The Malaysian results revealed that the CEO also has the highest level of influence (mean of 3.84) and at the State level, the Treasury Department is considered to have the highest level of influence (mean of 3.92) (see Table 7.3).

8.2.2 DISCLOSURE OF PERFORMANCE INDICATORS

With performance indicator disclosure, this study examined two research questions. The first question examined performance indicator disclosure by Australian and Malaysian government departments. The second research question examined how often

performance indicators are disclosed by Australian and Malaysian government departments. To examine the first issue, a questionnaire was developed based on two phases, the first phase being a content analysis of Annual Reports and the second phase, a series of semi-structured interviews. To answer the first question a content analysis of the 2003/2004 Annual Reports of 13 Australian and 13 Malaysian Government departments was undertaken. This was followed by a series of semi-structured interviews undertaken with SFOs of Australian and Malaysian government departments.

The results of the content analysis of the 2003/2004 Annual Reports of a series of Australian Government departments revealed the most disclosed indicators (192) were those relating to *effectiveness* performance indicators and *efficiency* indicators (44) were the second lowest disclosed indicators (see Table 6.2). A comment made by the SFO of department A6 on the low disclosure levels of efficiency indicators revealed the following:

My goal is to focus on achieving what the Minister wants for my department; the Minister is not concerned how I achieve the goals he sets. The Minister only wants to know that I have achieved all the goals set for my department. Therefore effectiveness and outcomes are important to me, not efficiency.

A content analysis of the 2003/2004 Annual Reports of Malaysian departments revealed that *results* (137) were the most disclosed performance indicators and *timeliness* indicators (25) were the least disclosed indicators (see Table 6.3). In Malaysian government department's efficiency and *effectiveness* indicators were the second most disclosed indicator (77) (see Table 6.3). The high disclosure of results type indicators is surprising given that the Malaysian Government adopted public sector reform in the mid 1990s with the aim of improving the efficiency and effectiveness of Government services.

The results from interviews with the SFOs of Australian government departments revealed that effectiveness indicators (9) were the most disclosed indicator and quantity indicators (4) were the least disclosed indicator (see Table 6.4). The interviews also

examined the level of use of performance indicators by Australian government departments. The results showed that Australian government departments are using performance indicators more often on a monthly basis and least use is occurring on a weekly basis (see Table 6.5). These results are different to the content analysis of Annual Reports where effectiveness indicators were the most disclosed indicator. The difference in the results between the content analysis of Annual Reports and interviews indicate that what Australian SFOs are measuring using performance indicators is different to what they think that they are measuring. One possible explanation for the difference could be that SFOs are confused as to the precise definitions of efficiency and effectiveness indicators as there is no direction given by the government as to what constitutes an efficiency and effectiveness indicator.

Interviews with the SFOs of Malaysian government departments revealed that *quantity* indicators (10) were the most disclosed and effectiveness indicators (6) were the least disclosed (see Table 6.6). The interviews were also used to determine the level of use of performance indicators by Malaysian government departments. The results show that Malaysian government departments use performance indicators more often on an annual basis and least on a weekly basis (see Table 6.7). In relation to efficiency and effectiveness indicators, 5 Malaysian departments never use these indicators.

The difference in the results (content analysis and interviews) illustrates that the actual disclosure of performance indicators in Annual Reports is different to that which the departments claim to be doing. One possible explanation for the differences could be the lack of training SFOs receives in relation to understanding and measuring efficiency and effectiveness performance indicators.

It was indicated in an interview with the SFO of department M2 that:

There is no formal mechanism in place for measuring performance information, particularly the efficiency and effectiveness of government programs.

In relation to the second issue examined in the study (how often performance indicators are disclosed by Australian and Malaysian government departments), the Australian results revealed that government departments disclose performance indicators more regularly on a quarterly basis (Federal mean of 3.50 and State mean of 3.30) (see Table 7.4). The Malaysian results revealed the same results as Australia; in that performance indicators are disclosed more regularly on a quarterly basis (Federal mean of 3.24 and State mean of 3.17) (see Table 7.4).

A comment made by the SFO of Australian government department A1 was that:

We only provide disclosure of our performance indicators on a quarterly basis for external users as it is more important for us to use performance indicators internally for making decisions regarding our services hence for internal purposes we disclose performance indicators on a weekly basis.

Interviews with Malaysian SFOs produced the same responses as those for Australia.

8.2.3 PERFORMANCE INDICATOR DISSEMINATION

In the area of performance indicator dissemination, this study put forward two research questions. The first question was stated as "To what extents are performance indicators disseminated by Australian and Malaysian Government departments?" The second research questions queried "how are performance indicators disseminated by Australian and Malaysian Government departments". To examine the first question, a survey was developed based on a content analysis of Annual Reports and semi-structured interviews. One of the questions requested Australian and Malaysian SFOs to indicate how often they disseminated performance indicators.

The Australian results for the first question revealed that at the Federal level, performance indicators are most commonly disseminated (mean of 3.58) via the organisation's website and at the State level, performance indicators are disseminated most often (mean = 4.07) on request from the users (see Table 7.5). The Australian Federal result is not surprising as the majority of Australian Government departments

have their own websites which contains such important information including the services are provided by the department , staff information, financial information, community projects etc.

Most Australian State government departments also have websites for each individual department and do also provide financial and operating information on their organisation's website. However, the results from this study show that performance indicators are generally most often disseminated on request from users.

The Malaysian results reveal that at the Federal level, performance indicators are most commonly disseminated both when requested by users and when they are on display in the organisation's library (mean of 3.32) (see Table 7.5). At the State level, performance indicators are most commonly disseminated (mean of 3.08) on the request of users and when they are discussed at public meetings.

During an interview with Malaysian Federal Department M4, the SFO commented that in Malaysia the Public Service is not as computer literate as Australia. At the Malaysian Federal level most departments have their own websites containing information about the department, which is available in both English and Bahasa Malay. However, financial information on the website is limited and only available in Bahasa Malay. Malaysian State Government departments also have their own websites with information about their services, staff information and general information and financial and operating information - however the information is in Bahasa Malay only.

In an interview with a Malaysian Federal Department, the SFO commented that:

In Malaysia we want to do like Australia and have all our financial and operating information on our website and in English but we do not have the people who can help us to do this. Computer technology is not considered very important in Malaysia. Also, only officers at a senior level in Malaysian Public Service need to have a good knowledge of English so we lack the staff expertise to have a system like you have in Australia, which is very good.

8.2.4 VALIDITY AND RELIABILITY OF THE EMPIRICAL MEASURES

Prior to multiple regression analysis being performed on the data from the Australian and Malaysian government departments, a validity test of each of the variables was performed using the SPSS statistical programme. A factor analysis for each country of the multi-items within each of the agency theory-related variables was undertaken to determine if they loaded onto one factor. The results for Australia shows that the agency theory variable ‘oversight bodies’ loaded onto three factors. In the case of Malaysia, they loaded onto two factors. Factor analysis was also performed for both countries on the multi items within each of the institutional theory-related variables. In the case of Australia the variable, length of service, loaded onto one factor. In the case of Malaysia, the institutional theory variable, length of service, loaded onto one factor and ‘culture’, a separate independent variable, loaded onto one factor.

In addition to validity tests, reliability tests were performed for both countries using a Cronbach alpha method which found each of the multi-item measures for Australia (Frequency of performance indicator dissemination, types of performance indicators disclosed, and discharge of accountability information, oversight bodies and experience) satisfied the test. With Malaysia, the reliability tests found that each of the multi item measures satisfied the test, except for the multi item measures “discharge of accountability information”.

8.2.5 QUESTIONNAIRE

As stated previously, there has been little comprehensive research undertaken of Australian (e.g. Mucciarone & Taylor 2005; Rosair & Taylor 2000) and Malaysian (Nichol & Taylor 2001; Siti - Nabiha 2006) Government departments in relation to performance indicators. This study adds to the literature with a survey of the SFOs of Australian and Malaysian Government Departments, to ascertain their views on: 1) how agency theory-related variables influence performance indicator disclosure and dissemination; and 2) how institutional theory-related variables influence performance indicator disclosure and dissemination and, 3) how culture influences performance indicator disclosure and dissemination by Malaysian Government Departments.

The empirical schema diagram in Chapter Three details six independent variables and two dependent variables. A correlation analysis was performed to test for multicollinearity of the variables and indicated that all independent variables significantly correlated with the dependent variables and thus are included in the hypothesis testing. The results of hypothesis testing for agency theory-related variables and institutional theory-related variables on performance indicator disclosure and the dissemination by Australian and Malaysian Government departments are discussed below.

8.2.5.1 RESULTS OF AGENCY THEORY-RELATED VARIABLES ON PERFORMANCE INDICATOR DISCLOSURE AND DISSEMINATION

In Chapter Seven, the multiple regression analysis for both Australia and Malaysia was used to test various hypotheses on how agency theory-driven determinants influence performance indicator disclosure. The independent variables used for the Australian sample to predict the extent of influence on the performance indicator disclosure are oversight bodies (EI Auditor-General, EI Minister, EI Treasury Department, and EI lobby groups.), political visibility (Size of Government Departments) and the citizenry (EI Citizens). With the exception of the Accountant-General replacing the Auditor-General, the variables used in Malaysia were the same as Australia.

Oversight bodies were hypothesised as having an influence on performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments. This was based on agency theory literature concerning the level of monitoring of the agent activities by the principal. For example, in Australia the Auditor-General acts as a principal that monitors the activities of the agent (government departments). The role of the Auditor-General is to ensure effective use of taxpayers' resources in the delivery of a departments services and that government agencies deliver services in an equitable, efficient and effective manner to the benefit of all citizens. In Malaysia, the Accountant-General acts in a similar role as a principal and monitors the activities of the Malaysian government agencies. The role of the Accountant-General is to provide advisory services and approve accounting and financial

systems in line with best practices and to provide consultancy services on accounting and financial matters to all agencies in the public sector (The Accountant-General Department Malaysia 2007).

The regression results for Australian government departments indicated that the aspect of the variable, oversight bodies, associated with the Office of the Auditor-General, is significantly related to performance indicator disclosure in the Annual Reports of Australian government departments. However, the remaining oversight influences are not significant. Therefore hypothesis 1a for Australia is rejected. The regression results for Malaysian government departments indicate that the Accountant-General has an influence on performance indicators while other oversight bodies do not have any significant influence. Therefore hypothesis 1a is also rejected for Malaysia.

Political visibility was hypothesised to be related to performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments. This was based on agency theory reasoning that agents are more likely to disclose information if it is in their self interest, particularly if the government department is a large or significant agency. The regression results for both Australian and Malaysian government departments indicated that the size of government departments has no significant influence performance indicator disclosure in Annual Reports. Therefore hypothesis 2a for both Australian and Malaysian government departments is rejected.

The citizenry of both countries was hypothesised to have no influence on performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments. This was based on agency theory reasoning that user interests are served as much, as if not more, by financial reporting fulfilling its traditional role of monitoring and promoting stewardship and control in (public sector) organisations concerned, rather than by its seeking more directly to inform economic decisions (Mayston 1993). The regression results for both Australian and Malaysian government departments indicate the citizenry has no influence on performance indicator disclosure in the Annual Reports. Therefore hypothesis 3a is accepted for both Australian and Malaysian government departments.

The results from the multiple regression analysis used to test hypotheses concerning how the agency theory variables influence the extent of performance indicator dissemination was presented in Chapter Seven. The independent variable, oversight bodies, was hypothesised to have an influence on the extent performance indicators are disseminated by government departments. This was based on agency theory reasoning concerning the level of monitoring by the principals of the agent's activities. The regression results for Australian government departments indicated that none of the oversight bodies examined have a significant influence over the extent performance indicators are disseminated by Australian government departments. Therefore, hypothesis 1b is rejected for Australian government departments.

The regression results for Malaysian government departments indicated that none of the oversight bodies have any significant influence on the extent performance indicators are disseminated, therefore in relation to Malaysia, hypothesis 1b is rejected.

Political visibility for the Australian sample was hypothesised to have an influence on the extent performance indicators are disseminated by Australian Government departments. This was based on agency theory reasoning regarding the level of monitoring by the principals of the agent's activities. It is argued in the private sector literature (eg. Watts & Zimmerman, 1986; Lim & McKinnon 1983) that larger firms subjected to a greater amount of scrutiny are more likely to disclose information than those subjected to less scrutiny. The regression results indicated that the size of Australian government departments does have a significant influence on the extent performance indicators are disseminated. This was not however found to be the case for Malaysian government departments. Therefore, hypothesis 2b is accepted for Australian government departments but rejected for Malaysia.

The variable, the citizenry, was hypothesised to have no significant influence on the performance indicator disclosure and dissemination by Australian and Malaysian government departments. The results of the testing indicated that no significant

influence exists and therefore hypothesis 3a & 3b are rejected for both Australian and Malaysian government departments.

8.2.5.2 RESULTS OF INSTITUTIONAL THEORY-RELATED VARIABLES ON PERFORMANCE INDICATOR DISCLOSURE AND DISSEMINATION

The results of the multiple regression analysis used to test the hypothesis concerning the influence of institutional theory variables influence performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments are discussed below.

The variable, bureaucrat's accounting ability was hypothesised to have a relationship with performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments. This was based on institutional theory, normative isomorphism. Normative isomorphism explains the copying of results from processes of professionalisation and institutionalisation (Bowrey 2007).

Pollitt (2001) comments:

Professional staff undergoes relatively uniform training and then carry the ideas they have learned to the organisation which employ them (p 938).

The results for both Australian and Malaysian government departments indicate that a bureaucrat's accounting ability has no relationship with performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments. Therefore, hypothesis 4a is rejected for both Australia and Malaysia.

The variable, bureaucrat's salary, was hypothesised to have a relationship with performance indicator disclosure in the Annual Reports of Australian and Malaysian government departments. This was based on institutional theory reasoning concerning normative isomorphism. Zucker (1987, p 443) argues that "Organisations are influenced by normative pressures sometimes arising from within the organisation itself. The results for both the Australian and Malaysian government departments indicate that there is no

relationship between a bureaucrat's salary and performance indicator disclosure in the Annual Report. Therefore hypothesis 5a is rejected for both countries.

The results from the multiple regression analysis used to test hypothesis concerning how institutional theory variables influence the extent performance indicators are disseminated by Australian and Malaysian Government Departments were presented in Chapter Seven. The variable 'bureaucrat's accounting ability' was hypothesised to have an influence on the extent performance indicators are disseminated. This was based on institutional theory reasoning regarding normative isomorphism. An interview with a SFO of an Australian Federal Department commented that the longer SFOs work in their organisation, the more they disseminate performance indicator information. The regression results for Australian government departments indicated there is no relationship between a bureaucrat's accounting ability and performance indicator dissemination. Therefore, for Australia, hypothesis 4b is rejected.

A possible explanation for this result arises from a comment made at an interview with the SFO of an Australian Federal government department who stated that:

My job as SFO is to prepare the Annual Report only for the presentation to the Minister of my department.

The regression results for Malaysian government departments also indicated there is no relationship between the bureaucrat's accounting ability and performance indicator dissemination by Malaysian government departments. Therefore, hypothesis 4b is also rejected for Malaysia.

The variable 'bureaucrat's salary' was hypothesised to have a relationship with the extent performance indicators are disseminated by Australian and Malaysian Government Departments. This was based on institutional theory reasoning regarding normative isomorphism. There is an association between wages and qualifications and experience. I.e. a SFO with a higher wage would be expected to hold a suitable post-graduate qualification and appropriate level of expertise and a SFO with a lower wage

would be someone that has only an undergraduate degree and minimal experience. The regression results indicated that for Australian and Malaysian government departments no relationship exists between the bureaucrat's salary and the extent performance indicators are disseminated. Therefore, hypothesis 5b on bureaucrat's salary is rejected for both Australian and Malaysian government departments.

8.2.6 RESULTS OF THE CULTURAL INFLUENCE ON MALAYSIAN PERFORMANCE INDICATOR DISCLOSURE AND DISSEMINATION

The results from the descriptive statistics, used to test the effects of culture influencing t performance indicator disclosure in the Annual Reports of Malaysian Government Departments were presented in Chapter Seven. The variable, culture, was hypothesised to have no influence on performance indicator disclosure in the Annual Reports of Malaysian Government departments. There has been little research (eg Haniffer & Cooke, 2002; Pham & Morris 2003) that has examined the effects of Malaysian culture on the disclosure of Malaysian department's performance indicators. The results of this current study indicate that 75.7% of Malaysian SFOs view culture to have an impact on performance indicator disclosure in their departments Annual Reports. Therefore, hypothesis 6a is accepted.

The results from the descriptive statistics, used to test the hypothesis of the influence of culture on the disclosure and dissemination of performance indicators were presented in Chapter Seven. The variable, culture, was hypothesised to have a relationship with performance indicator are dissemination by Malaysian government departments. The results indicate that 70.3% of Malaysian SFOs believe culture does have an impact on the dissemination of performance indicators. Therefore, hypothesis 6b is rejected.

8.3 PRACTICAL IMPLICATIONS OF THE RESULTS

The content analysis points to a limited understanding by SFOs in both Australia and Malaysia of the importance of these performance indicators (efficiency and effectiveness). SFOs in Australian departments commented on the difficulty of disclosing efficiency and effectiveness performance indicators as there is no formal

guidance given on what constitutes such indicators. It was commented that outcomes are more meaningful to government departments than efficiency and effectiveness performance indicators as the Minister wants to know whether the department has achieved their objectives or not. Disclosure of performance measures in terms of cost/number per unit and a specified target, against which the outcome is evaluated, needs to be given explicitly in order for performance information to be directly meaningful to users (Nichol & Taylor (2001).

It was indicated in an interview with the SFO of a Malaysian Federal department that:

There is no formal mechanism in place for measuring performance information, particularly the efficiency and effectiveness of government programs.

It was evident at the interviews that SFOs were unclear on a number of aspects of accountability, including to whom they are accountable and to whom they consider their department is accountable and why. The reporting emphasis of Australian departments was found to be heavily weighted towards the Statement of Objectives. The reporting emphasis of Malaysian Federal departments was found to be heavily and increasingly weighted to information relating to effectiveness. Malaysian State government departments SFOs believed that information relating to trends in financial statement figures was important in the disclosure of accountability.

The survey results indicate that oversight bodies, in particular the Auditor-General in Australia and Accountant-General in Malaysia, are important in monitoring performance indicator disclosure by government agencies in their Annual Reports. The survey results also indicate that in Malaysia, the Accountant-General, is an important factor in monitoring where performance indicators are disseminated by government departments.

The survey results indicate that the citizenry of Australia and Malaysia do not have an impact on the disclosure and dissemination of performance indicators by government departments, yet the public play an important role in ensuring the accountability of

government agencies (as involuntary resource providers of funds). Therefore consideration needs to be taken of the role the citizens of a country have in any legislative changes which impact on the disclosure and dissemination of performance indicators by government agencies.

The results of this study indicate that from a practical situation, the bureaucrat's accounting ability (experience in their current position and organisation) is an influencing factor in Australia in the determination performance indicator disclosure. However, this is not the case in Malaysia. In Australia SFOs tend to disclose more performance indicators the longer they work in their current position and organisation. In Malaysia a possible explanation for the difference is through an interview with the SFO of a Malaysian department:

Only since the mid 1990s has the government required performance indicators of efficiency and effectiveness to be disclosed in our Annual Reports. Most SFOs who have been working for long time have found it difficult to suddenly disclose performance indicators as they have never done it before and there is no training provided to assist us. Therefore bureaucrats should consider this factor in the determination of any proposed changes to the disclosure of performance indicators.

With the dissemination of performance indicators, the Australian and Malaysian results indicate that the SFOs accounting ability is not an important factor. Interviews with SFOs of Australia and Malaysia indicated the difficulty in having no formal guidance as to the preparation and understanding of performance indicators.

The results of this study also indicate that the salary of the SFO in Australian is not an important factor in the disclosure and dissemination of performance indicators. The SFO of an Australian department commented that their salary is driven by their experience in undertaking the position and their qualification. However, in Malaysian departments, salary is indicated as having an influence on performance indicator disclosure in Annual Reports. The findings in this study also do not support the notion that a more experienced SFO would disclose and disseminate more performance indicators. Baber & Sen (1983) argue that if wages to bureaucrats are low then agents have incentives to

suppress public disclosure of information. Conversely, they argue that if wages are high incentives are competed away and incentives to increase information disclosed to the public are reduced.

The results of this study for culture indicate that Malaysian SFOs do consider culture as an important factor in the disclosure and dissemination of performance indicators. They also consider this factor needs to be taken into consideration in determining proposed changes to both the disclosure and dissemination of performance indicators by Malaysian government departments. At an interview, the SFO of a Malaysian department commented that as the SFO, he is required to take responsibility for his actions in regard to performance indicators as it he is not only accountable to his department but also to the government.

The overall results from this study indicate that from a practical situation, in a reformed public sector climate, governments and the community increasingly rely on performance reporting as an alternative to traditional rule-bound, hierarchical control (for example, Alford and O'Neill 1994; Boston et al 1991; Jenkins et al 1998; Osborne & Gaebler 1992). The failure to effectively implement performance reporting mechanisms renders a significant proportion of public expenditure outside of effective scrutiny. In this regard, a contingency approach to measuring the performance of public sector organisations might improve compliance with performance reporting by legitimising a variety of approaches to performance measurement. For example, a performance reporting framework that incorporates goal attainment as well as systems-based performance measures would go some of the way to acknowledging the peculiar tasks of traditional public sector government departments. This, in turn, gives government departments the flexibility to implement performance measures which provide a more valid and reliable indication of their performance, rather than being restricted to a narrow range of prescribed measures (eg efficiency and effectiveness) that are suitable for only one type of government organisation.

The important implication for public sector administration are the requirement for clearer instructions to the SFOs of government departments concerning the requirement to produce performance indicators more related to the efficiency and effectiveness of government departments. It is also important that government agencies in both Australia and Malaysia update the types of performance indicators used by government agencies. A further implication is that government departments, particularly in Australia, need to be aware of the impact of the presentation and dissemination of large number of performance indicators in their Annual Reports. The inclusion of high numbers of questionable performance indicators in government Annual Reports can be confusing to users who do not know the intricate workings of a department. The number of performance indicators should be limited to those which are clear, concise and assist users' decision making regarding the performance of a government department.

8.4 LIMITATIONS

The results and conclusions of this study need to be read with a number of limitations in mind, these being: 1) limitations in the design and undertaking of the content analysis, 2) limitations in the design and administration of the interviews, 3) limitations embodied in the design and administration of the questionnaire, 4) limitation of the multiple regression analysis and 5) limitations in the scope of the interpretation of the results.

8.4.1 LIMITATIONS EMBODIED IN THE DESIGN AND UNDERTAKING OF THE CONTENT ANALYSIS

The first phase of this study was a content analysis of the 2003/2004 Annual Reports of Australian and Malaysian government departments to identify the types of performance indicators disclosed by Australian and Malaysian government departments. There are limitations in the collection of data for analysis through a content analysis of Annual Reports. These include three important factors as follows. The measurement of disclosure levels of the different types of performance indicators has relied on an element of judgement by the researcher when undertaking the content analysis of Annual Reports. All performance indicators were allocated into a specific single category for scoring purposes, although there were cases in which the performance

indicators may have fallen between two categories. The inclusion or omission of the performance indicators required some judgement, particularly for disclosures of a non-quantitative nature (Krippendorf 2004). These limitations are common limitations with a quantitative study; however the results will provide important insights into the performance measurement practices of Australian and Malaysian government departments. Further, it is hoped the results will contribute to an area of public sector research that is deficient and will provide new knowledge that would encourage future research.

8.4.2 LIMITATIONS EMBODIED IN THE DESIGN AND ADMINISTRATION OF THE INTERVIEWS

The second phase of this study was semi-structured interviews with SFOs of a selection of Australian and Malaysian government departments. The interviews were conducted for two purposes, these being to develop questions for the third phase, the survey, and to gain an understanding of the SFOs perceptions of performance measurement and accountability in a face to face setting. There are however limitations with this approach. The first limitation is that SFOs may feel their responses do not fit any of the designated answers. The second limitation is that, due to the semi-structured nature of the interviews, there is little room for unanticipated discoveries (Oatey, 2007). The interviews are a technique that relies on the respondent being willing to give accurate and complete answers (Oatey, 2007). The interviews in Malaysia were conducted in English as it is a requirement in Malaysia that all Malaysian public servants at a senior level possess a good understanding of English. Despite the interviews being conducted at the Malaysian SFOs office and the interviews conducted in English without the assistance of an interpreter, there is some possibility that the Malaysian SFOs may not have fully understood some of the questions being asked.

8.4.3 LIMITATIONS EMBODIED IN THE DESIGN AND ADMINISTRATION OF THE QUESTIONNAIRE

This study is subject to the limitations of questionnaire data collection, including likely undetected biases due to respondents halo effect, acquiescence and fatigue (Bowerman, O'Connell & Hand 2001). The data collected for this study is perception driven because

viewpoints of respondents (Australian and Malaysian government departments' SFOs) are required. A particular limiting factor is the design of the accountability instrument as a self assessment tool, leaving it open to respondents providing desirable answers or inflated self-ratings. Although financial and other objective measures may be more credible (Rosair & Taylor 2000), perceptual measures have also been used in empirical studies on accountability (e.g. Kloot & Martin 2001). Furthermore, prior research has shown that subjective self-ratings of performance are highly correlated with objective measures and superior ratings of performance (Furnham & Springfield, 1994; Bommer et al, 1995).

8.4.4 LIMITATIONS OF MULTIPLE REGRESSION ANALYSIS

Limitations exist in the analysis of the data used in this study. Multiple regressions are statistical techniques for studying the single and joint relationships between independent and dependent variables (Hair et al 2005). Part of these limitations of the multiple regressions used in this study are that up to 6 independent variables have been used generating multiple regression equations. With this number of variables there exists the possibility of the occurrence of multicollinearity. The problem of multicollinearity is that it can cause the regression to be unstable and prevent the independent variables from exhibiting their unique contribution to the explanation of the dependent variables (Hair et al 2005). However in this study the multiple regressions all satisfied the test of the variable inflation factor (VIF) for multicollinearity.

8.4.5 LIMITATIONS OF SCOPE IN INTERPRETING THE RESULTS

A possible data collection weakness resulted from the researcher using personal judgement to assess the different types of performance indicators disclosed by Australian and Malaysian government departments in their Annual Reports, and hence in assigning a score of 1,2,3,4 or 5 to the frequency of the performance indicators disclosure. In addition, the inclusion or omission of the performance indicators required some judgement because, from a review of the literature, only Mucciarone & Taylor (2005) have developed a list of performance indicators used by Australian government departments.

A further data collection weakness is that the researcher used personal judgement in determining the different media that government departments use to disseminate performance indicators and hence, in assigning questions relating to dissemination of performance indicators.

Lastly, as the purpose of both Phase One and Phase Two is to act as an aid to developing the survey, the state department's data analysis results of each country were combined with the federal results. The survey results did reveal that country had no significant effect and therefore no differences between federal and state government departments were found.

Despite these limitations the study provides valuable insights into the performance measurement practices of Australian and Malaysian government departments during a time when both countries have embraced public sector reforms.

8.5 SUGGESTIONS FOR FURTHER RESEARCH

As a preliminary study, there is a large scope for further research. The following are some considerations for further research. Firstly, this study considered only one unit of analysis, that of government departments. Future studies could replicate this study by comparing government departments and government trading enterprises. This is an interesting area in which to undertake research because both government departments and government trading enterprises are different forms of government agencies with the former including not-for-profit departments and the latter being a profit seeking enterprise controlled a government.

Secondly, this study compared two culturally different countries – Australia, a developed country and Malaysia, a developing country. There have been a number of studies which have examined Australia as a single study in relation to performance indicators (eg Mucciarone & Taylor, 2005; Rosair & Taylor, 2002). Conversely there have been few studies which have specifically examined Malaysia in relation to

performance measures (eg Nichol & Taylor, 2001; Siti - Nabiha 2006). There have however been a number of studies in other counties such as the United Kingdom (eg Hyndman, 1995 and 1997). The United Kingdom is very similar to Australia as both are part of the Commonwealth, both are developed countries and both have similar government structure. Possible research in the future which could create new knowledge and enhance the public sector accounting literature could be conducted comparing Australia with another developing country such as Indonesia or Thailand.

Thirdly this study examined six independent variables which may have had an influence on performance indicators disclosure in the Annual Reports of Australian and Malaysian government departments and the extent of performance indicator dissemination by those departments. Besides these six independent variables, there are other factors not included in this study, such as management compensation schemes, strategic goals, and legislative power and outside audit arrangements which can be examined.

Lastly, this study used a content analysis of Annual Reports of Australian and Malaysian government departments as an aid to developing the questionnaire. Future research could replicate this study and use the content analysis as a major research strategy.

8.6 CONCLUDING REMARKS

This thesis seeks to make an original contribution to the public sector accounting literature of Australian and Malaysian. It provides insights into the reporting and accounting disclosure practices of Australian and Malaysian government departments by reviewing the disclosure and dissemination of performance information within their Annual Reports. The thesis builds on agency and institutional theory to generate empirical evidence about oversight bodies, political visibility, the citizenry, bureaucrat's accounting ability, bureaucrat's salary and culture influencing the disclosure and dissemination of performance indicators in the Annual Reports of Australian and Malaysian government departments.

This study is an exploratory study as little research has been conducted comparing a developed country (Australia) with a developing country (Malaysia) - therefore the findings of this study would fill a gap in the public sector accounting literature.

The thesis will add to the growing body of literature on public sector accounting and broaden the interpretation of the classifications of public sector performance indicators. These findings may prove useful to a number of key groups in the two countries including government administrators, government departments/agencies, public sector accounting standard setters, academics and other groups that would like to implement the public sector reforms and new public management performance measurement practices.

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APPENDIX 1

STRUCTURE OF THE AUSTRALIAN AND MALAYSIAN GOVERNMENT

AUSTRALIA

MALAYSIA

Constitutional Monarchy	Constitutional Monarchy
Westminster system of government	Westminster system of government
Six States, two territories and a Federal Government.	13 States, two territories and a Federal Government.
The Australian political system is based on seven sets of constitutional statutes establishing the six states and federation	Federal Constitution of Malaysia is the over riding law of the nation. The Constitution may be amended by a two third majority in Parliament.
Two houses of Parliament – The Senate (Upper house) and House of Representatives (Lower House)	Two houses of Parliament – The Senate (Upper house) and House of Representatives (Lower House)
Head of Federal Government is the Prime Minister.	Head of Federal Government is the Prime Minister.
Each of the six states of Australia is headed by a Premier.	Yang di Pertuan Agong (King) is the Head of State, appointed for five years
The executive authority is vested in the Prime Minister and is exercisable by a Cabinet of Ministers and Prime Minister who is the head of the Cabinet of Ministers.	The executive authority is vested in the Yang di Pertuan (King) and is exercisable by a Cabinet of Ministers headed by the Prime Minister.

APPENDIX 2

August 10, 2005

Dear Sir/Madam

I am undertaking research for my Doctor of Philosophy in the area of accountability and performance measurement practices used by Australian and Malaysian government departments

The aim of my study is to undertake a comparison of the level of use of performance measurement systems between Federal and State public sectors in the two countries. My study includes a review of whether performance indicators are effectively used by senior finance officers in each Australian government department and the extent to which they are used in the public accounts of Australian government departments.

Your assistance is requested in carrying out this research study on performance indicators of public sector organizations. The findings will provide insights of value for the state and federal public sector, and your organization in particular, on alternative ways to develop and report performance indicators. We can provide you with a copy of the aggregated results of this study.

The data collection for this study will involve a number of methods including face to face interviews with the preparers of performance indicators. These face to face interviews will be scheduled at times of mutual convenience and will take approximately 35-45 minutes. I am planning to travel to Canberra to conduct the interviews in the middle of November. I would very much like the opportunity to be able to interview the Performance Indicator Preparer of your department during this time. Please find enclosed an interview acceptance form. It would be appreciated if you could please return the completed interview acceptance form together with a hard copy of your 2003/2004 annual report, in the reply paid envelope supplied. In order to enable timely collection of the data it would be appreciated if your response is received by no later than 30 September 2005.

Your kind co – operation in assisting with the collection of the data for my PhD research is very much appreciated. If you have any queries or comments regarding this request please contact me either by email: mucciarone@cbs.curtin.edu.au or telephone 61 8 9266 7435 or by fax on 61 08 9266 7196.

Yours sincerely

Maria Mucciarone
PhD Candidate
School of Accounting

Assoc Prof John Neilson
Supervisor
School of Accounting

APPENDIX 2
INTERVIEW DETAILS
ACCOUNTABILITY AND PERFORMANCE MEASUREMENT IN
AUSTRALIAN AND MALAYSIAN GOVERNMENT
DEPARTMENTS

Department Name

**Name of Performance
Indicator Preparer**

Date of Interview

Time of Interview

Comments

Signed

Please return to Maria Mucciarone (PhD Student)
School of Accounting
Curtin University of Technology
GPO Box U1987
Perth Western Australia 6845
Australia.

APPENDIX 3

20/10/03

Dear Sir,

I am undertaking a PHD in accounting at Curtin University in Perth Western Australia. The title of my proposed study is "Accountability and Performance Measurement in the Australian and Malaysian Public Sectors: A Comparative Study". The aim of my study is to undertake a comparison of the level of use of performance measurement systems between the Australian and Malaysian Public Sectors. My study will look specifically at whether performance indicators are being used by senior finance officers in each federal ministry and state government department and the extent they are used in the public accounts of the Malaysian government.

I have chosen to study Malaysia because Malaysia shares similar traits to Australia such as both countries are commonwealth countries and former British colonies. Both countries have also adopted public sector reforms such as Managerialism. The Malaysian government introduced a modified budgetary system (MBS) in 1990 to three ministers as a pilot project. The Australian federal government introduced a Financial Management Improvement Program in 1984.

For my data analysis I would like to conduct interviews with the senior finance officers in Malaysian federal ministries and state government departments. The interviews will take approximately 60 minutes and will examine performance measurement practices of Malaysian federal ministries and state government departments. An interpreter will be present at the interviews. After the interview interviewees will be given a copy of the interview tape and permission will be sought for using the information they have provided. I am planning to travel to Malaysia to conduct interviews and distribute questionnaires in late 2004, early 2005.

Following the interview a questionnaire together with a covering letter and a self addressed envelope will be mailed to the senior finance officers in Malaysian federal ministries and state government departments. The questions will be written in both English and Bahasa Malay. Respondents will be assured about anonymity and confidentiality of information submitted for this research project. A request will also be made to respondents for either a hard copy of the latest edition of their annual report or the web address where the annual report can be downloaded to assist in collecting data. A copy of the survey results will be offered upon request.

I believe my study would provide greater understanding of the use and benefit of performance measures. Is it possible to interview senior finance officers in Malaysia's federal ministries and state government departments and distribute questionnaires and are the Public Accounts publicly available?

If you have any further queries, please do not hesitate to contact me either by email: mucciarone@cbs.curtin.edu.au or telephone 61 08 9266 7196.

Yours sincerely

Maria Mucciarone
PhD Candidate
School of Accounting

Dr John Neilson
Head School of Accounting
School of Accounting

APPENDIX 3

INTERVIEW DETAILS

**Accountability and Performance Measurement in Australian and
Malaysian Government Departments**

Department Name

**Name of Senior Finance
Officer**

Date of Interview

Time of Interview

Comments

Signed

**Please return to Maria Mucciarone (PhD Student)
School of Accounting
Curtin University of Technology
GPO Box U1987
Perth Western Australia 6845
Australia**

APPENDIX 4

Questions for Face to Face Interviews with Performance Indicator preparer of Australian Federal and Western Australian Government Departments.

Identifiers: **Name**

Department

Date of Interview

(Obtain a copy of their 2003/2004 annual report).

Accountability

“Accountability is an aspect of the public sector which has been claimed to be one of the important discriminators between the public and private sectors”. In your opinion I would like to know

- 1) Which one of the following definitions would you say best describes the discharge of accountability by your department?
 - a) The duty to provide an account or reckoning of those activities for which one is held responsible (Gray et al 1996).
 - b) The giving and demanding of reasons for conduct in which people are required to explain and take responsibility for their actions (Sinclair, 1995).
 - c) The methods by which a public agency or a public official fulfils its duties and obligations and the process by which that agency or the public official is required to account for such action (Jabbra & Dwivedi, 1988).
 - d) The responsibility to account for the delivery of a range of government objectives within time and on budget (Sinclair, 1995).
 - e) The state of being obliged to explain one’s actions to justify what one does. Accountability requires governments to answer to the citizenry to justify the raising of public resources and the purpose for which they were used (Government Finance Officers Association, 1988).
 - f) The requirement to provide an account by those whose have authority over public resources in terms of compliance, efficiency and effectiveness (House of Representatives, Standing Committee, 1990).

2) What aspect of Accountability is most important to you as a Performance Indicator Preparer of your department?

3) The following is a quote from an article by Parker:

“Public sector management has been transformed from being administrators and custodians of resources to being accountable managers empowered with greater delegated authority”

Do you agree or disagree and why?

4) Who are the main oversight bodies of the performance, accountability and reporting of your department.

5) Who do YOU consider you are accountable to and why?

6) Who do you consider your department is responsible to and why?

7) There are six categories of accountability information by the Auditor – General Office relating to consolidated accounts and selected entities reports such as:

- Compliance Reporting
- Auditor's Certificate
- Financial Statements
- Sanctions – Rewards Statement
- Quality of Internal Control
- Statement of Accomplishment

In your opinion which of the above categories of accountability information has changed considerably over recent years? In what way have they changed?

8) In relation to the content of the certificate of the Auditor – General on the consolidated public accounts only one page is devoted to the Auditor – General's report (ie a certificate only). Do you believe that this is adequate discharge of accountability? If not what do you consider would be adequate discharge of accountability by the Auditor – General?

9) The disclosure of statements of accomplishments has declined substantially since 1985. Do you think this has been the case and if so why?

10) Do you consult with the Auditor – General office during the course of preparing the annual report? If so how much consultation?

11) How often are changes made to the drafting of the annual report on the suggestions of the Auditor – General Office during the audit review process?

12) Do you consult with the Treasury Department during the course of preparing the annual report? If so how much consultation is there?

13) To who are your reports distributed?

14) Do you have any queries on your annual reports from other departments, organisation etc.

15) Are financial reports required to be placed on the web?

Yes/No

Details

16) What factors would influence you to provide your financial statements on the web?

17) In regard to your financial report, which of the following would best describe your dissemination of the annual financial report?

- a. Don't disseminate (except to parliament)
- b. Don't disseminate (except to parliament) but are actively trying to disseminate more widely
- c. Disseminate slightly
- d. Major dissemination to a large audience

Performance Indicators

1a) Do you have the following types of performance indicators in your annual reports?

- a) Quality measures
- b) Quantity measures
- c) Cost measures
- d) Timeliness measures
- e) Efficiency
- f) Effectiveness
- g) Outputs
- h) Outcomes

1b) Do you use the information from the performance indicators in your department's annual report?

Y/N

If yes for what purpose

If no why not?

2) Do you use the information contained in your department's annual report?

Y/N

If Yes for what purpose?

If no why not?

3) How often do you use the performance indicators contained in your department's annual report?

	GT Weekly	Weekly	Monthly	Quarterly	Semi – Annually	Annually	Never Use it
Quality							
Quantity							
Cost							
Timeliness							
Efficiency							
Effectiveness							
Outputs							
Outcomes							

- 4) Should performance information be prepared by?
- a. Department's management
 - b. The Auditor – General
 - c. Management and audited by the Auditor – General

Why?

- 5) Are the performance indicators verified by the Auditor – General?

Y/N

- 6) Do you use performance indicators internally?

- a) No
- b) Yes, if so for what purpose
 - i) For the allocation of resources
 - ii) For reviewing the effective use of resources
 - iii) To determine human resource needs for the organisation
 - iv) For the evaluation of performance
 - v) Other detail

7) In each of the following cases please indicate your level of agreement, which 1 being strongly agree and 5 being strongly disagree.

SA = Strongly Agree, A= Agree, U= Undecided, D= Disagree, SD = Strongly Disagree

	SA	A	U	D	SD
a) Performance information enables me to make comparisons between department/s					
b) I understand the meaning of performance information					
c) The performance information enables me to compare different years.					
d) The performance information is important and does influence my decisions regarding resources allocations					

8) Who was included in the development of your performance indicators?

- a) CEO
- b) Other senior managers
- c) External experts
- d) The Auditor – General
- e) Myself
- f) Others – please specify

9) Have your departments performance indicators changed in the last five years? (That is, are you using new performance indicators?)

Yes – please give details

No

10) Has training been provided to assist in both the preparation and understanding of performance indicators?

a) Preparation

I. Yes – please provide details

II. No

b) Understanding

I. Yes – please provide details

II. No

11) Do you believe that public sector managers have a clearer understanding of their objectives as a result of providing performance indicators?

Yes – Please provide details

No, Why?

12) In your organisation as a scale of its measures with 1 being extremely effective and 5 being not effective how effective has been the implementation of performance indicators in relation to the following?

EF = Extremely Effective, E =Effective, U = Undecided/ Unknown, P = partially effective, N = Not effective

	EF	E	U	P	N
a) An increase in the awareness of performance measures					
b) A reduction in duplication of services					
c) An increase in quality of services					
d) A reduction in inefficient services					
e) An increase in awareness of the aspects effecting outputs and outcomes					
f) An increase in the responsiveness to our customers					

13) How useful do you believe the introduction of performance indicators has been to?

a) Your department

b) Public Sector generally

c) The community at large

14) What factors would influence you to print your financial statement on the web?

15) Are there any departmental performance indicators not included in the annual report?

Yes – Which ones are these?

16) Are there any differences between the performance indicators in your report to parliament and the reports available to the public?

General Section

- 1) Are there any other comments you would like to make in regards to the matters raised in the interview?

(Obtain a copy of their 2003/2004 annual report).

APPENDIX 5

Questions for Face to Face Interviews with Senior Finance Officers of Malaysian Federal Departments and Selangor State Government Departments.

Identifiers: **Name**

Ministry/Department

Date of Interview

(Obtain a copy of their 2003/2004 annual report).

Accountability

“Accountability is an aspect of the public sector which has been claimed to be one of the important discriminators between the public and private sectors”. In your opinion I would like to know

- 2) Which one of the following definitions would you say best describes the discharge of accountability by your ministry/department?
 - a) The duty to provide an account or reckoning of those activities for which one is held responsible (Gray et al 1996).
 - b) The giving and demanding of reasons for conduct in which people are required to explain and take responsibility for their actions (Sinclair, 1995).
 - c) The methods by which a public agency or a public official fulfils its duties and obligations and the process by which that agency or the public official is required to account for such action (Jabbra & Dwivedi, 1988).
 - d) The responsibility to account for the delivery of a range of government objectives within time and on budget (Sinclair, 1995).
 - e) The state of being obliged to explain one’s actions to justify what one does. Accountability requires governments to answer to the citizenry to justify the raising of public resources and the purpose for which they were used (Government Finance Officers Association, 1988).
 - f) The requirement to provide an account by those whose have authority over public resources in terms of compliance, efficiency and effectiveness (House of Representatives, Standing Committee, 1990).

2) What aspect of Accountability is most important to you as a Senior Finance Officer of your ministry/department?

3)The following is a quote from an article by Parkers

“Public sector management has been transformed from being administrators and custodians of resources to being accountable managers empowered with greater delegated authority”

Do you agree or disagree and why?

4)Who are the main oversight bodies of the performance, accountability and reporting of your department.

5) Who do YOU consider you are accountable to and why?

6)Who do you consider your ministry/ department is responsible to and why?

7) There are six categories of accountability information by the Accountant – General Office relating to consolidated accounts and selected entities reports such as:

- Compliance Reporting
- Auditor’s Certificate
- Financial Statements
- Sanctions – Rewards Statement
- Quality of Internal Control
- Statement of Accomplishment

In your opinion which of the above categories of accountability information has changed considerably over recent years? In what way have they changed?

8) In relation to the content of the certificate of the Auditor – General on the consolidated public accounts only one page is devoted to the Auditor – General’s report (ie a certificate only). Do you believe that this is adequate discharge of accountability? If not what do you consider would be adequate discharge of accountability by the Auditor – General?

9) The practice in Malaysia has been to issue a separate annual report of the Auditor – General of Malaysia where a 2 or 3 page summary of the findings is given. In view of the importance of independent auditor’s report to the discharge of accountability it has been suggested that the public accounts should at least ALSO contain the summarised audit report in relation to the government entities major programs. Do you agree or disagree? If disagree why?

10) Do you believe that the current formats of federal ministries/ state government department's abridged consolidated financial statements are useful to external user's decision making? If so why?

11) Internal controls by ministries and other public sector entities in Malaysia require the monthly checking reconciling and confirming of balances in these entities with the records of the Accountant – General's department. This type of disclosure about internal controls has been declining since 1985 because such reporting is not mandatory. Do you believe that this type of reporting should be mandatory?

12) The disclosure of statements of accomplishments has declined substantially since 1985. Do you think this has been the case and if so why?

13) Do you consult with the Auditor – General office during the course of preparing the annual report? If so how much consultation?

14) How often are changes made to the drafting of the annual report on the Suggestions of the Auditor – General Office during the audit review process?

15) Do you consult with the Government Treasury Department during the course of preparing the annual report? If so how much consultation is there?

16) To who are your reports distributed?

17) Do you have any queries on your annual reports from other departments, organisation etc.

18) Are financial reports required to be placed on the web?

Yes/No

Details

19) What factors would influence you to provide your financial statements on the web?

20) In regard to your financial report, which of the following would best describe your dissemination of the annual financial report?

- a. Don't disseminate (except to parliament)
- b. Don't disseminate (except to parliament) but are actively trying to disseminate more widely
- c. Disseminate slightly
- d. Major dissemination to a large audience

Performance Indicators

1a) Do you have the following types of performance measures in your annual reports?

- a) Quality measures
- b) Quantity measures
- c) Cost measures
- d) Timeliness measures
- e) Efficiency
- f) Effectiveness
- g) Outputs
- h) Outcomes

1b) Do you use the information from the performance measures in your department's annual report?

Y/N

If yes for what purpose

If no why not?

2) Do you use the information contained in your ministry/ department's annual report?

Y/ n

If Yes for what purpose?

If no why not?

3) How often do you use the performance measures contained in your department's annual report?

	GT Weekly	Weekly	Monthly	Quarterly	Semi – Annually	Annually	Never Use it
Quality							
Quantity							
Cost							
Timeliness							
Efficiency							
Effectiveness							
Outputs							
Outcomes							

4) Should performance information be prepared by?

- d. Department's management
- e. The Auditor – General
- f. Management and audited by the Auditor – General

Why?

5) Are the performance measures verified by the Auditor – General?

Y/N

6) Do you use performance measures internally?

a) No

b) Yes, if so for what purpose

- vi) For the allocation of resources
- vii) For reviewing the effective use of resources
- viii) To determine human resource needs for the organisation
- ix) For the evaluation of performance
- x) Other detail

7) In each of the following cases please indicate your level of agreement, which 1 being strongly agree and 5 being strongly disagree.

SA = Strongly Agree, A= Agree, U= Undecided, D= Disagree, SD = Strongly Disagree

	SA	A	U	D	SD
a) Performance information enables me to make comparisons between department/s					
b) I understand the meaning of performance information					
c) The performance information enables me to compare different years.					
d) The performance information is important and does influence my decisions regarding resources allocations					

8) Who was included in the development of your performance measures?

- a) CEO
- b) Other senior managers
- c) External experts
- d) The Auditor – General
- e) Myself
- f) Others – please specify

9) Have your departments performance measures changed in the last five years? (That is, are you using new performance measures?)

Yes – please give details

No

10) Has training been provided to assist in both the preparation and understanding of performance indicators?

a) Preparation

III. Yes – please provide details

IV. No

b) Understanding

V. Yes – please provide details

VI. No

11) Do you believe that public sector managers have a clearer understanding of their objectives as a result of providing performance measures?

Yes – Please provide details

No, Why?

12) In your organisation as a scale of its measures with 1 being extremely effective and 5 being not effective how effective has been the implementation of performance measures in relation to the following?

EF = Extremely Effective, E = Effective, U = Undecided/ Unknown, P = partially effective, N = Not effective

	EF	E	U	P	N
a) An increase in the awareness of performance measures					
b) A reduction in duplication of services					
c) An increase in quality of services					
d) A reduction in inefficient services					
e) An increase in awareness of the aspects effecting outputs and outcomes					
f) An increase in the responsiveness to our customers					

13) How useful do you believe the introduction of performance measures has been to?

d) Your department

e) Public Sector generally

f) The community at large

14) What factors would influence you to print your financial statement on the web?

15) Are there any departmental performance indicators not included in the annual report?

Yes – Which ones are these?

No

16) Are there any differences between the performance indicators in your report to parliament and the reports available to the public?

General Section

- 1) Are there any other comments you would like to make in regards to the matters raised in the interview?

(Obtain a copy of their 2003/2004 annual report).

APPENDIX 6

June 2006

The Senior Finance Officer

Dear Sir/ Madam

INFORMATION SHEET

I am continuing research for my Doctor of Philosophy in the areas of accountability and performance measurement of Australian and Malaysian government departments. The aim of this study is to undertake a comparison of the level of use and dissemination of performance measurements in both the Australian and Malaysian Public Sectors. The study will specifically review whether performance indicators are effectively used by senior finance personnel in government agencies, the extent they are used in the public accounts of the government departments and also the level of dissemination of the reports.

Your assistance is requested in undertaking this research study on performance measures of public sector organisations. The findings will provide insights of value for the state and federal public sectors on alternative ways to develop and report performance indicators. A copy of the aggregated results of this study can be provided to your organisation.

This research requires information on the types of performance indicators being disclosed and disseminated by senior finance personnel in Australian and Malaysian government departments

A copy of the questionnaire is enclosed and I would be very appreciative if you could please personally complete the questionnaire and return it in the enclosed envelope by 17 July 2006. If you are not directly responsible for the preparation of your agencies performance indicators, could you kindly pass this questionnaire to the responsible person for completion. In completing the questionnaire, I assure you of complete confidentiality in that no respondent or organisation will be separately identified – the result will only be used in aggregate. Further, at the completion of the statistical analysis for the research project, the questionnaires will be destroyed by the researcher.

On completion of the questionnaire, which is anticipated will take no more than 15-20 minute; please return it in the enclosed reply-paid envelope.

Your assistance in providing this information is greatly appreciated. If you have any queries or comments regarding this request please contact Dr John Neilson within the School of Accounting by email john.neilson@cbs.curtin.edu.au or by telephone (08) 9266 7435.

You are advised this study has been approved by the Curtin University Human Research Ethics Committee. Contact details of the Secretary of the Human Research Ethics Committee are: phone (08) 9266 2784; email l.teasdale@curtin.edu.au

Yours faithfully,

Maria Mucciarone
PhD Student
School of Accounting

Associate Professor John Neilson
Supervisor
School of Accounting

APPENDIX 7

June 2006

Tuan,

Surat Pemberitahuan

Saya sedang meneruskan pelajaran dalam peringkat Doktor Falsafah (PhD) dalam bidang kebertanggungjawaban dan penilaian prestasi antara jabatan kerajaan Australia dan Malaysia. Kajian ini bertujuan membandingkan tahap penggunaan dan taburan penilaian prestasi bagi sektor-sektor awam di kedua-dua buah negara. Kajian ini akan mengulas dengan lebih lanjut sama ada prestasi kakitangan dinilai secara efektif oleh kakitangan bahagian kewangan dalam agensi-agensi kerajaan, sejauh manakah penggunaannya dalam laporan awam, and tahap taburan laporan tersebut.

Bantuan tuan amatlah diharapkan dalam meneruskan penyelidikan ini. Penyelidikan ini diharap dapat menghasilkan pemahaman terhadap cara-cara alternatif merekod dan menilai prestasi dalam agensi-agensi persekutuan dan jabatan-jabatan negeri. Salinan hasil akhir penyelidikan ini akan diserahkan atas permintaan pihak tuan.

Kajian ini memerlukan maklumat berkenaan jenis penilaian prestasi oleh pegawai kanan kewangan dalam jabatan kerajaan Australia dan Malaysia.

Bersama surat ini saya kepilkan satu salinan borang soal selidik dan diharap tuan dapat mengisi borang berkenaan dan memulangkannya dalam sampul surat yang dibekalkan sebelum xxxxx. Soal selidik ini hanya akan mengambil masa 15-20 minit sahaja.

Diharap pihak tuan dapat memastikan bahawa soal selidik ini diisi oleh pihak yang terlibat secara langsung dengan penialain prestasi di agensi tuan sahaja. Soal selidik ini ditanggung sulit dan tidak akan dikenalpasti oleh mana-mana pihak. Hasil kajian ini adalah dalam bentuk penjumlahan keseluruhan dan pihak tuan tidak akan ditimbang sebagai satu entiti. Selain itu, setelah soal selidik ini keseluruhannya berakhir, semua borang jawapan akan dihapuskan.

Untuk sebarang pertanyaan atau komen terhadap kajian ini, sila hubungi Dr John Neilson ditalian (08) 9266 7435 atau emailkan kepada john.neilson@cbs.curtin.edu.au

Kajian ini telah disahkan oleh Curtin University Human Research Ethics Committee. Jika ada sebarang keraguan tentang kajian ini, sila hubungi Curtin di talian (08) 9266 9266.

Bantuan tuan dalam penyelidikan saya ini amatlah dihargai.

Yang Benar,

Maria Mucciarone
Pelajar PhD
School of Accounting

Associate Professor John Neilson
Supervisor
School of Accounting

APPENDIX 8

QUESTIONNAIRE

PERFORMANCE MEASUREMENT IN THE PUBLIC SECTOR

This questionnaire seeks information on the accountability and types of performance indicators disclosed by government agencies.

The majority of the questions require your view or opinion. There is no right or wrong answer. However your careful consideration of each response, based on your own experiences and beliefs is requested.

Your responses will be anonymous and only statistical aggregations will be reported. Please complete the following sections of the questionnaire:

Section One	Accountability
Section Two	External Influences
Section Three	Performance Indicators
Section Four	Demographic Data
Section Five	General

This questionnaire will take approximately 15 – 20 minutes to complete. Unless otherwise requested, please circle your response to each question.

Please return the completed questionnaire in the self addressed envelope by no later than 7 July 2006.

Your kind participation in this study is greatly appreciated.

SECTION ONE: ACCOUNTABILITY

1) In discharging the accountability of government departments, how important, in your opinion, is disclosure of the following information in annual reports?

	No importance	Little importance	Quite important	Very important	Highest importance
a. Information relating to a department's objectives	1	2	3	4	5
b. Information relating to efficiency e.g. ratios of outputs to inputs	1	2	3	4	5
c. Information relating to effectiveness e.g. achievement of stated objectives	1	2	3	4	5
d. Information confirming a department has complied with relevant legislation	1	2	3	4	5
e. Trends in financial statement figures e.g. annual performance for the past 3 years	1	2	3	4	5
f. Other items of information which you believe are important to disclose in annual reports. Please specify:	1	2	3	4	5

2) To whom do you consider you are accountable? Please rank each of the following responses from 1 to 5 (with 1 being the most important).

- a) Chief Executive Officer _____
- b) Parliament _____
- c) Public at large _____
- d) Treasury _____
- e) Minister _____

3) In your opinion, when preparing the annual report of your government department how much influence do the following parties have on the FORM of information that will be included in the annual report?

	No influence	Little influence	Reasonable influence	High Influence	Highest influence
a. Taxpayers	1	2	3	4	5
b. User's of the department's goods or services	1	2	3	4	5
c. Treasury	1	2	3	4	5
d. Lobby Groups	1	2	3	4	5
e. Minister	1	2	3	4	5
f. Chief Executive Officer	1	2	3	4	5

4) In your opinion, when preparing the annual report of your government agency, how much influence do the following have on the CONTENT of information included in the annual report?

	No influence	Some influence	Reasonable influence	High Influence	Highest influence
a. Taxpayers	1	2	3	4	5
b. User's of the department's goods or services	1	2	3	4	5
c. Treasury	1	2	3	4	5
d. Lobby Groups	1	2	3	4	5
e. Minister	1	2	3	4	5
f. Chief Executive Officer	1	2	3	4	5

5) Our organization's performance measures are made available to the public.

Never	Rarely	Sometimes	Most of the time	Always
1	2	3	4	5

If not, why not

6) Performance Indicators are:

	Never	Rarely	Sometimes	Most of the time	always
a) Available on request	1	2	3	4	5
b) Mailed to citizen groups.	1	2	3	4	5
c) On our organisation's website	1	2	3	4	5
d) On display in the public libraries	1	2	3	4	5
e) On display in our organisation's library	1	2	3	4	5
f) Released to news media	1	2	3	4	5
g) Discussed at public meetings	1	2	3	4	5

SECTION TWO: EXTERNAL INFLUENCES

With questions 7 to 34, the following scales apply:

1 Never	2 Seldom	3 Sometimes	4 Often	5 Very Often

7) There is consultation with the Auditor - General Office during the course of preparing the annual report.

1 *2* *3* *4* *5*

8) Changes are made to the drafting of the annual report on the suggestions of the appointed minister.

1 *2* *3* *4* *5*

9) Changes are made to the drafting of the annual report on the suggestions of the Auditor - General office during the audit review process.

1 *2* *3* *4* *5*

10) There is consultation with the Treasury Department during the course of preparing the annual report.

1 *2* *3* *4* *5*

11) Changes are made to the drafting of the annual report on the suggestions of Treasury officers.

1 *2* *3* *4* *5*

12) The views of major lobby/interest groups are taken into consideration when preparing the annual report.

1 *2* *3* *4* *5*

13) Specific needs of lobby/interest groups are satisfied by certain information included in the annual report.

1 *2* *3* *4* *5*

14) There is consultation with the board of management or similar before preparing the annual report.

1 *2* *3* *4* *5*

15) A working group is established consisting of individuals both within and outside our organisation to develop our performance measures.

1 *2* *3* *4* *5*

16) The managers (senior, middle and/or line) are involved in the development of all performance measures.

1 *2* *3* *4* *5*

17) Experts are employed to assist with the development of our organisations performance measures.

1 *2* *3* *4* *5*

18) Lower level employees are involved in the development of our performance measures.

1 *2* *3* *4* *5*

19) Citizens and/or citizens' groups are involved in the development of our performance measures.

1 *2* *3* *4* *5*

20) We have difficulty getting managers (senior, middle and/or line) to accept our performance measures.

1 *2* *3* *4* *5*

21) We have difficulty in getting lower level employees to accept our performance measures.

1 *2* *3* *4* *5*

22) We have difficulty in getting citizens and /or citizen groups to accept our performance measures.

1 *2* *3* *4* *5*

23) We have little or no control over the choice of the performance measures reported on our organisation's performance.

1 *2* *3* *4* *5*

24) We undertake performance audits in our organisation

1 *2* *3* *4* *5*

25) Performance audits take place,

Less than once a year More than once a year

Once a year other: Please write the information in the box below

26) Performance audits are undertaken by,

External Auditor Auditor – General

CEO Other: Please write the information in the box below

With the following questions (29-39) please tick the appropriate box.

29) How is the information on performance measures disseminated?

	Efficiency	Effectiveness	Quality	Quantity	Timeliness	Cost	Others
a. Annual Report							
b. Internally to Senior Management							
c. Internally to all staff							
d. Externally to Auditor – General or Treasury Department							
e. Tabled in document to Parliament							
f. Externally through pamphlets							
g. Externally through news sheets							
h. Externally through web sites							
i. Not applicable							

30) Our performance measures are derived from the missions, goals, objectives, and service standards established for our programs and/or organisation.

Never	Rarely	Sometimes	Most of the time	Always
<input type="checkbox"/>				

31) When developing performance measures, we focus on what is important to measure rather than the availability of data.

Never	Rarely	Sometimes	Most of the time	Always
<input type="checkbox"/>				

32) We use our performance measures to track performance over time.

Never	Rarely	Sometimes	Most of the time	Always
<input type="checkbox"/>				

33) We have difficulty compiling and distributing the data from our performance measurement system in a timely manner.

Never	Rarely	Sometimes	Most of the time	Always
<input type="checkbox"/>				

34) We have difficulty measuring the quality of our programs and services

Never	Rarely	Sometimes	Most of the time	Always
<input type="checkbox"/>				

35) We have difficulty keeping our performance measures current and up to date.

Never	Rarely	Sometimes	Most of the time	Always
<input type="checkbox"/>				

36) Our staff lack the analytical skills needed to effectively analyse the performance measurement data we collect.

Never	Rarely	Sometimes	Most of the time	Always
<input type="checkbox"/>				

37) We establish standards and targets for most of our performance measures.

Never	Rarely	Sometimes	Most of the time	Always
<input type="checkbox"/>				

SECTION FOUR: DEMOGRAPHIC DATA

Tick (√) the appropriate box:

38) Male **Female**

39) Age Range

1. Under 30 <input type="checkbox"/>	4. 50 to 59 <input type="checkbox"/>
2. 30 to 39 <input type="checkbox"/>	5. 60 and over <input type="checkbox"/>
3. 40 to 49 <input type="checkbox"/>	

40) What is your current annual remuneration package (Gross)?

- 1. Less than \$80,000
- 2. \$80,000 to \$100,000
- 3. \$100,000 to \$130,000
- 4. \$130,000 and above

41) Approximate size of your organisation (head count, including part – time and casual employees)

- More than 10,000 employees
- Between 5,001 – 10,000 employees
- Between 1,001 – 5,000 employees
- Between 100-1,000 employees
- Less than 100 employees

42) Are you a member of a professional accounting body?

Yes

No

If yes, please tick all applicable boxes:

1. CPA Australia
2. ICAA
3. ACCA
4. Other (please specify below)

43) Please indicate your length of service

a) In your current organisation

Less than 1 year More than 5 years

1 to less than 3 years

3 to less than 5 years

b) In your current position

Less than 1 year More than 5 years

1 to less than 3 years

3 to less than 5 years

44) Which category is most appropriate to your organisation?

Federal Government Agency

State Government Department. In which state are you located?

SECTION FIVE: GENERAL

45) Please make any further comments in regards to your organisation's performance measurement system below

Thank you for your time in completing this questionnaire

Would you like an analysis of the results of this study?

Yes No

Name: _____
Organisation _____
Address _____

Please return in the attached prepaid envelope to:

**Maria Mucciarone
PhD Student
School of Accounting
Curtin University of Technology
GPO BOX U1987
Perth Australia 6845**

**SOAL SELIDIK
UKURAN PRESTASI DALAM SEKTOR AWAM**

Soal selidik ini mencari maklumat mengenai kebertanggungjawapan dan jenis penunjuk prestasi yang didedahkan di agensi kerajaan.

Kebanyakan soalan tersebut memerlukan pandangan atau pendapat anda. Tiada terdapat jawapan yang betul atau salah. Walau bagaimanapun pertimbangan teliti anda terhadap setiap jawapan, berdasarkan pengalaman dan kepercayaan anda sendiri adalah diharapkan.

Jawapan anda akan tanpa nama dan hanya pengagregatan statistik akan dilaporkan. Sila lengkapkan seksyen soal selidik yang berikut:

Seksyen Satu	Kebertanggungjawapan
Seksyen Dua	Pengaruh Luar
Seksyen Tiga	Penunjuk Prestasi
Seksyen Empat	Data Demografi
Seksyen Lima	Umum

Soal selidik ini akan mengambil kira-kira 15 – 20 minit untuk selesai. Kecuali jika diminta, sila bulatkan jawapan anda bagi setiap soalan.

Sila kembalikan soal selidik yang telah dilengkapkan di dalam sampul beralamat sendiri selewat-lewatnya pada 1 September 2006. Penyertaan anda dalam kajian ini amatlah dihargai.

SEKSYEN SATU: KEBERTANGGUNGJAWAPAN

- 1) Dalam melepaskan kebertanggungjawapan jabatan kerajaan, pada pendapat anda sejauh manakah pentingnya pendedahan maklumat yang berikut di dalam laporan tahunan?

	Tidak penting	Penting Sedikit	Agak penting	Sangat penting	Terlalu penting
1. Maklumat yang berkaitan dengan objektif jabatan	1	2	3	4	5
2. Maklumat yang berkaitan dengan kecekapan, contohnya nisbah output dengan input	1	2	3	4	5
3. Maklumat yang berkaitan dengan keberkesanan, contohnya pencapaian objektif yang dinyatakan	1	2	3	4	5
4. Maklumat yang mengesahkan sesebuah jabatan telah mematuhi perundangan yang berkaitan	1	2	3	4	5
5. Trend dalam angka penyata kewangan, contohnya prestasi tahunan untuk 3 tahun yang lalu	1	2	3	4	5
6 Perkara lain daripada maklumat yang anda yakin adalah penting untuk didedahkan di dalam laporan tahunan. Sila nyatakan:	1	2	3	4	5

2 Kepada siapakah yang anda anggap anda bertanggungjawab ke atasnya? Sila tempatkan kedudukan setiap jawapan yang berikut daripada 1 hingga 5 (dengan 1 sebagai yang paling penting).

- a) Ketua Pegawai Eksekutif _____
- b) Parlimen _____
- c) Orang awam secara keseluruhan _____
- d) Perbendaharaan _____
- e) Menteri _____

3) Pada pendapat anda, semasa menyediakan Laporan Tahunan jabatan kerajaan anda, sejauh manakah pengaruh langsung atau tidak langsung pihak yang berikut mempengaruhi BENTUK maklumat yang akan dirangkumkan di dalam Laporan Tahunan?

	Tiada pengaruh	Sedikit pengaruh	Pengaruh yang berpatutan	Pengaruh yang tinggi	Pengaruh yang amat tinggi
Pembayar cukai	1	2	3	4	5
Pengguna barangan atau perkhidmatan jabatan	1	2	3	4	5
Perbendaharaan	1	2	3	4	5
Kelompok Lobi	1	2	3	4	5
Menteri	1	2	3	4	5
Ketua Pegawai Eksekutif	1	2	3	4	5

- 4) Pada pendapat anda, semasa menyediakan Laporan Tahunan agensi kerajaan anda, sejauh manakah KANDUNGAN maklumat yang dirangkumkan di dalam Laporan Tahunan dipengaruhi oleh perkara yang berikut.

	Tiada pengaruh	Sedikit pengaruh	Pengaruh yang berpatutan	Pengaruh yang tinggi	Pengaruh yang amat tinggi
Pembayar cukai	1	2	3	4	5
Pengguna barangan atau perkhidmatan jabatan	1	2	3	4	5
Perbendaharaan	1	2	3	4	5
Kelompok Lobi	1	2	3	4	5
Menteri	1	2	3	4	5
Ketua Pegawai Eksekutif	1	2	3	4	5

- 5) Ukuran prestasi organisasi kami disediakan kepada orang awam.

Tidak pernah	Jarang sekali	Kadangkala	Kebiasaannya	Sentiasa
1	2	3	4	5

Jika tidak, mengapa tidak

6) Penunjuk Prestasi adalah:

	Tidak pernah	Jarang sekali	Kadangkala	Kebiasaannya	Sentiasa
a) Disediakan apabila diminta					
b) Diposkan kepada kumpulan rakyat.					
c) Pada tapak web organisasi kami					
d) Dipaparkan di perpustakaan awam					
e) Dipaparkan di perpustakaan organisasi kami					
f) Disiarkan kepada media berita					
g) Dibincangkan di mesyuarat awam					

SEKSYEN DUA: PENGARUH LUAR

Dengan soalan 7 hingga 34, skala yang berikut digunakan

1 = Tidak pernah	2 = Jarang-jarang	3 = Kadangkala	4 = Sering	5 = Amat Sering

7) Rundingan diadakan dengan Akauntan - Pejabat Awam semasa tempoh penyediaan laporan tahunan.

1

2

3

4

5

8) Perubahan dibuat pada draf laporan tahunan berdasarkan saranan menteri yang dilantik.

1 *2* *3* *4* *5*

9) Perubahan dibuat pada draf laporan tahunan berdasarkan saranan Akauntan - Pejabat awam semasa proses kaji semula audit.

1 *2* *3* *4* *5*

10) Rundingan diadakan dengan Jabatan Perbendaharaan semasa tempoh penyediaan laporan tahunan.

1 *2* *3* *4* *5*

11) Kami membentuk kumpulan yang terdiri daripada kedua-dua individu di dalam dan di luar organisasi kami untuk membangunkan ukuran prestasi kami.

1 *2* *3* *4* *5*

12) Perubahan dibuat pada draf laporan tahunan berdasarkan saranan pegawai Perbendaharaan.

1 *2* *3* *4* *5*

13) Pandangan sebahagian besar kelompok sekepentingan/lobi dipertimbangkan semasa menyediakan laporan tahunan.

1 *2* *3* *4* *5*

14) Kehendak khusus kelompok lobi / sekepentingan dipenuhi oleh maklumat tertentu yang dirangkumkan di dalam laporan tahunan.

1 *2* *3* *4* *5*

15) Rundingan diadakan dengan lembaga pengarah atau yang serupa sebelum menyediakan laporan tahunan.

1 *2* *3* *4* *5*

16) Pengurus kami (kanan, pertengahan dan/atau lini) terlibat dalam pembangunan semua ukuran prestasi.

1 *2* *3* *4* *5*

17) Kami menggajikan pakar untuk membantu dalam pembangunan kebanyakan ukuran prestasi organisasi kami.

1 *2* *3* *4* *5*

18) Kami melibatkan para pekerja peringkat yang lebih rendah dalam pembangunan ukuran prestasi tersebut.

1 *2* *3* *4* *5*

19) Kami melibatkan rakyat dan / atau kelompok rakyat dalam pembangunan ukuran prestasi kami.

1 *2* *3* *4* *5*

20) Kami mengalami kesukaran untuk membuat para pengurus (kanan, pertengahan dan/atau lini) untuk menerima ukuran prestasi kami.

1 2 3 4 5

21) Kami mengalami kesukaran untuk membuat para pekerja peringkat bawah untuk menerima ukuran prestasi kami

1 2 3 4 5

22) Kami mengalami kesukaran untuk membuat rakyat dan /atau kelompok rakyat untuk menerima ukuran prestasi kami.

1 2 3 4 5

23) Kami mempunyai sedikit atau tiada kuasa terhadap pilihan ukuran prestasi yang dilaporkan terhadap prestasi organisasi kami.

1 2 3 4 5

24) Kami menjalankan audit prestasi kami dalam organisasi kami.

1 2 3 4 5

25) Berapa kerapkah audit prestasi ini diadakan,

Kurang daripada setahun Lebih daripada setahun

Setahun sekali lain-lain: Sila tuliskan maklumat dalam petak di bawah

26) Siapa yang menjalankan audit prestasi?

Juruaudit Luar

Akauntan – Umum

Juruaudit – Umum
bawah

Lain-lain: Sila tuliskan maklumat dalam petak di

27) Apakah yang terangkum dalam audit prestasi tersebut? Sila jawab kedua-dua pernyataan di bawah

a) Pengesahan data prestasi

1

2

3

4

5

b) Pengesahan data kewangan

1

2

3

4

5

SEKSYEN TIGA: PENUNJUK PRESTASI

28) Berapa kerapkah anda mengira jenis ukuran prestasi jabatan yang berikut semasa tahun kewangan yang lalu? (Sila tandakan petak yang sesuai)

	Mingguan	Bulanan	Suku Tahunan	Setengah Tahun Sekali	Tahunan
Kecekapan	1	2	3	4	5
Keberkesanan	1	2	3	4	5
Kualiti	1	2	3	4	5
Kuantiti	1	2	3	4	5
Ketepatan Waktu	1	2	3	4	5
Kos	1	2	3	4	5
Lain-lain (sila nyatakan)					

Sila tandakan petak yang sesuai untuk soalan yang berikut (29-39).

29) Bagaimanakah maklumat mengenai ukuran prestasi disebarkan?

	Kecekapan	Keberkesanan	Kualiti	Kuantiti	Ketepatan waktu	Kos	Lain-lain
Laporan Tahunan							
Secara dalaman kepada Pengurusan Kanan							
Secara dalaman kepada semua kakitangan							
Secara luar kepada Akauntan – Umum atau Jabatan Perbendaharaan							
Dibentangkan dalam dokumen kepada Parlimen							

Secara luar melalui risalah							
Secara luar melalui helaian berita							
Secara luar melalui laman web							
Tidak berkaitan							

30) Ukuran prestasi kami adalah terbitan daripada misi, matlamat, objektif, dan piawai perkhidmatan yang diwujudkan untuk program dan / atau organisasi kami.

Tidak pernah	Jarang sekali	Kadangkala	Kebiasaannya	Sentiasa
<input type="checkbox"/>				

31) Semasa membangunkan ukuran prestasi, kami cenderung untuk memberi perhatian terhadap apa yang penting untuk diukur daripada ketersediaan data.

Tidak pernah	Jarang sekali	Kadangkala	Kebiasaannya	Sentiasa
<input type="checkbox"/>				

32) Kami menggunakan ukuran prestasi untuk mengesan prestasi kami setelah beberapa waktu.

Tidak pernah	Jarang sekali	Kadangkala	Kebiasaannya	Sentiasa
<input type="checkbox"/>				

33) Kami menghadapi kesulitan menyusun dan mengagihkan data daripada sistem ukuran prestasi secara yang menepati waktu.

Tidak pernah	Jarang sekali	Kadangkala	Kebiasaannya	Sentiasa
<input type="checkbox"/>				

34) Kami menghadapi kesulitan mengukur kualiti bagi kebanyakan program dan perkhidmatan kami.

Tidak pernah	Jarang sekali	Kadangkala	Kebiasaannya	Sentiasa
<input type="checkbox"/>				

35) Kami menghadapi kesulitan mengemas kini ukuran prestasi kami.

Tidak pernah	Jarang sekali	Kadangkala	Kebiasaannya	Sentiasa
<input type="checkbox"/>				

36) Kakitangan kami kurang berkemahiran analitis untuk menganalisis secara berkesan kebanyakan data ukuran prestasi yang dikumpulkan.

Tidak pernah	Jarang sekali	Kadangkala	Kebiasaannya	Sentiasa
<input type="checkbox"/>				

37) Kami mewujudkan piawai dan sasaran untuk ukuran prestasi kami.

Tidak pernah	Jarang sekali	Kadangkala	Kebiasaannya	Sentiasa
<input type="checkbox"/>				

38) Adakah anda fikir bahawa budaya memainkan bahagian yang penting dalam keputusan yang dibuat berkenaan dengan penunjuk prestasi?

Ya

Tidak

39) Adakah anda percaya bahawa budaya memberi kesan terhadap penyebaran penunjuk prestasi?

Ya

Tidak

40) Adakah anda menyediakan apa-apa penunjuk prestasi yang khusus dengan memberi penekanan tertentu dari segi aspek budaya?

Ya

Tidak

41) Male Female

42) Age Range

- | | | | |
|-------------|--------------------------|----------------|--------------------------|
| 4. Under 30 | <input type="checkbox"/> | 4. 50 to 59 | <input type="checkbox"/> |
| 5. 30 to 39 | <input type="checkbox"/> | 5. 60 and over | <input type="checkbox"/> |
| 6. 40 to 49 | <input type="checkbox"/> | | |

Jika ya, sila jelaskan

SEKSYEN EMPAT: DATA DEMOGRAFI

Tandakan (✓) pada petak yang sesuai:

43) Apakah pakej gaji tahunan semasa anda (Jumlah Kasar)?

- | | |
|------------------------------|--------------------------|
| 1. Kurang daripada RM 10,000 | <input type="checkbox"/> |
| 2. RM 10,000 hingga RM20,000 | <input type="checkbox"/> |
| 3. RM20,000 hingga RM 30,000 | <input type="checkbox"/> |
| 4. RM40,000 dan ke atas | <input type="checkbox"/> |

44) Anggaran saiz organisasi anda (kiraan kepala, termasuk pekerja separuh masa dan sambilan)

Lebih daripada 10,000 kakitangan

Antara 5,001 – 10,000 pekerja

Antara 1,001 – 5,000 pekerja

Antara 100-1,000 pekerja

Kurang daripada 100 pekerja

45) Adakah anda merupakan ahli badan perakaunan profesional? (sila tandakan)

Ya

Tidak

Jika ya, sila tandakan semua petak yang berkaitan:

1. MACPA

2. MIA

3. Lain-lain (sila nyatakan)

46) Sila nyatakan tempoh perkhidmatan

a) Dalam organisasi anda

Kurang daripada 1 tahun Lebih daripada 5 tahun

hingga kurang daripada 3 tahun

hingga kurang daripada 5 tahun

c) Dalam jawatan anda sekarang

- Kurang daripada 1 tahun Lebih daripada 5 tahun
- hingga kurang daripada 3 tahun
- hingga kurang daripada 5 tahun

47) Kategori manakah adalah yang paling sesuai bagi organisasi anda?

- Kementerian Persekutuan
- Jabatan Kerajaan Negeri

Jika organisasi anda adalah Jabatan Kerajaan Negeri, Negeri manakah anda berada?

SEKSYEN LIMA: UMUM

48) Adakah apa-apa komen lanjut yang ingin anda nyatakan berhubung dengan sistem ukuran prestasi organisasi anda. Sila lakukan (tuliskan) di bawah

Terima kasih kerana meluangkan masa untuk melengkapkan soal selidik ini

Adakah anda menghendaki analisis keputusan kajian ini?

Ya

Tidak

Nama: _____

Organisasi _____

Alamat _____

Sila kembalikan di dalam sampul berbayar yang dilampirkan kepada:

**Saudari Maria Mucciarone
Pelajar PhD
School of Accounting (Sekolah Perakaunan)
Curtin University of Technology
GPO BOX U1987 Perth Australia 6845**

APPENDIX 10

21 August 2006

Dear Sir/Madam

Re: Questionnaire on Accountability and Performance Measurement

I do appreciate that this is a busy time of the year but in June 2006, we sent you a questionnaire to complete on accountability and performance measurement by Australian and Malaysian government departments.

If you have already returned the questionnaire, please accept our thanks and appreciation for your time and effort and disregard this reminder. Your important participation in the research project has contributed to our greater understanding of accountability and performance measurement in the public sector.

If you have not completed or returned the questionnaire, we would be most grateful if you could do so as soon as possible. We do realise there are many demands on your time, and as such, do appreciate the 15 – 20 minutes you are likely to spend in completing and returning the questionnaire. Please note the reliability of the survey depends on every response. For your assistance, a copy of the questionnaire is attached. As addressed in the original questionnaire your response to the questionnaire will be kept strictly confidential

Your assistance in providing this information is greatly appreciated. If you have any queries or comments regarding this request please contact Dr John Neilson within the School of Accounting by email john.neilson@cbs.curtin.edu.au or by telephone on (08) 9266 7435.

You are advised this study has been approved by the Curtin University Human Ethics Committee. Contact details of the Secretary of the Human Research Ethics Committee are: phone (08) 9266 2784; email l.teasdale@curtin.edu.au

Yours faithfully

Maria Mucciarone
PhD Student
School of Accounting

Associate Professor John Neilson
Supervisor
School of Accounting

APPENDIX 11

Kepada Pegawai Kewangan Kanan

Tuan/Puan

HELAIAN MAKLUMAT

Saya sedang meneruskan penyelidikan untuk ijazah Kedoktoran Falsafah saya dalam bidang kebertanggungjawaban dan ukuran prestasi jabatan kerajaan Australia dan Malaysia. Tujuan kajian ini adalah untuk membuat perbandingan tahap penggunaan dan penyebaran ukuran prestasi dalam kedua-dua sektor Awam Australia dan Malaysia. Kajian ini akan meninjau secara khusus sama ada penunjuk prestasi digunakan secara berkesan oleh kakitangan kewangan kanan di agensi kerajaan, sejauh mana ia digunakan dalam akaun awam jabatan kerajaan dan juga tahap penyebaran laporan yang berkenaan.

Bantuan anda dikehendaki untuk menjalankan kajian penyelidikan ini mengenai ukuran prestasi organisasi sektor awam. Penemuannya akan memberi wawasan yang bernilai untuk negeri dan sektor awam negeri dan persekutuan mengenai cara alternatif untuk membangunkan dan melaporkan penunjuk prestasi. Salinan keputusan teragregat kajian ini boleh diberikan kepada organisasi anda.

Penyelidikan ini memerlukan maklumat mengenai jenis penunjuk prestasi yang didedahkan dan disebarkan oleh kakitangan kewangan kanan di jabatan kerajaan Australia dan Malaysia

Salinan soal selidik ini dikepilkan dan saya amat menghargai jika anda boleh melengkapkan soal selidik ini secara peribadi dan kembalikannya di dalam sampul yang kepilkan selewat-lewatnya pada 7 Julai 2006. Jika anda tidak bertanggungjawab secara langsung bagi penyediaan penunjuk prestasi agensi anda, diharap anda dapat menyampaikan soal selidik ini kepada orang yang bertanggungjawab untuk menyelesaikannya. Setelah melengkapkan soal selidik ini, saya memberi jaminan kerahsiaan penuh kepada anda dan tiada responden atau organisasi akan dikenal pasti secara berasingan – keputusannya hanya akan digunakan dalam agregat. Seterusnya, apabila analisis statistik untuk projek penyelidikan tersebut selesai, soal selidik ini akan dihapuskan oleh penyelidiknyanya.

Apabila soal selidik in telah selesai, yang dijangka akan mengambil tidak lebih daripada 15-20 minit; sila kembalikannya di dalam sampul jawapan-berbayar yang dikepilkan.

Bantuan anda dalam memberi maklumat ini amatlah dihargai. Jika anda mempunyai sebarang pertanyaan atau komen terhadap permintaan ini, sila hubungi Dr John Neilson di School of Accounting melalui e-mel john.neilson@cbs.curtin.edu.au atau dengan menelefon (08) 9266 7435.

Anda akan dijelaskan bahawa kajian ini telah diluluskan oleh Jawatankuasa Etika Penyelidikan Insan Universiti Curtin. Butiran hubungan Setiausaha Jawatankuasa Etika Penyelidikan Insan adalah: telefon 61 (08) 9266 2784; e-mell.teasdale@curtin.edu.au

Yang ikhlas,

Maria Mucciarone
Pelajar PhD
School of Accounting (Sekolah Perakaunan)

Profesor Madya John Neilson
Penyelia
School of Accounting (Sekolah Perakaunan)

APPENDIX 12
Descriptive Statistics of the Discharge of Accountability
By Australian Government Departments

Accountability Disclosure	Federal	State	Total
<u>Objective</u>			
-Little	0	1	1
-Quite	3	5	8
-Very	10	31	41
- Highest	13	23	36
<u>Total Departments</u>	26	60	86
<u>Efficiency</u>			
-Little	3	8	10
-Quite	7	17	24
-Very	12	30	42
- Highest	4	6	10
<u>Total Departments</u>	26	60	86
<u>Effectiveness</u>			
-Little	0	0	0
-Quite	3	9	12
-Very	13	34	47
- Highest	10	17	27
<u>Total Departments</u>	26	60	86
<u>Compliance</u>			
-Little	1	2	3
-Quite	9	15	24
-Very	11	28	39
- Highest	5	15	20
<u>Total Departments</u>	26	60	86
<u>Trends</u>			
-Little	7	8	15
-Quite	12	22	34
-Very	2	22	24
- Highest	5	8	13
<u>Total Departments</u>	26	60	86

APPENDIX 13
Descriptive Statistics of the Discharge of Accountability
By Malaysian Government Departments

Accountability Disclosure	Federal	State	Total
<u>Objective</u>			
-Little	1	0	1
-Quite	1	5	6
-Very	12	2	14
- Highest	11	5	16
<u>Total Departments</u>	25	12	37
<u>Efficiency</u>			
-Little	0	1	1
-Quite	6	3	9
-Very	13	4	17
- Highest	6	4	10
<u>Total Departments</u>	25	12	37
<u>Effectiveness</u>			
-Little	0	0	0
-Quite	2	5	7
-Very	14	3	17
- Highest	9	4	13
<u>Total Departments</u>	25	12	37
<u>Compliance</u>			
-Little	0	1	1
-Quite	6	3	9
-Very	9	5	14
- Highest	10	3	13
<u>Total Departments</u>	25	12	37
<u>Trends</u>			
-Little	0	1	1
-Quite	5	1	6
-Very	15	5	20
- Highest	5	5	10
<u>Total Departments</u>	25	12	37

APPENDIX 14
Frequencies of Australian and Malaysian Citizenry and Disclosure of
Performance Indicators

	Australia	Malaysia
Mean of Disclosure		
- Never	40 (47%)	18 (49%)
- Seldom	30 (35%)	4 (11%)
- Some	15 (17%)	8 (22%)
- Often	1 (1%)	7 (18%)
Total Departments	86	37

Legend

Mean of Disclosure = The average calculation of the following items

How often are Efficiency PIs carried out * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

How often are effectiveness carried out * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

How oftent are Quality carried out * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

How often are Quantity carried out * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

How often are Timeliness carried out * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

How often are Cost carried out * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

APPENDIX 15
Frequencies of Australian and Malaysia Citizenry and Dissemination of Performance Indicators

	Australia	Malaysia
Mean of PI Dissemination		
- Never	41 (48%)	18 (49%)
- Seldom	30 (35%)	4 (11%)
- Some	14 (16%)	8 (22%)
- Often	0 (0%)	7 (18%)
Total Departments	86	37

Legend

Mean of PI dissemination = The average calculation of the types of PIs disseminated

PI are avail request * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

PI mail to citizens * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

PI avail on web * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

PI on display in library * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

PI on display in org library * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

PI released to news media * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

PI discussed at pub meeting * Jurisdiction - federal or state * External Influence citizens involved in developing PMs

APPENDIX 16
Frequencies of Australian and Malaysian SFOs Experience and Disclosure of
Performance Indicators

	Australia	Malaysia
Experience in current organisation		
LT 1	20 (23%)	5 (13%)
1-3	14 (16%)	13 (35%)
3-2	14 (16%)	4 (11%)
GT 5	38 (44%)	15 (40%)
Total Departments	86	37
Experience in current position		
LT 1	27 (31%)	6 (16%)
1-3	22 (25%)	11 (30%)
3-2	18 (21%)	9 (24%)
GT 5	19 (22%)	11 (30%)
Total Departments	86	37

APPENDIX 17
Frequencies of Australian and Malaysian SFOs Experience and Dissemination
of Performance Indicators

	Australia	Malaysia
Experience in current organisation		
LT 1	20 (24%)	5 (13%)
1-3	14 (16%)	13 (35%)
3-2	14 (16%)	4 (11%)
GT 5	38 (44%)	15 (41%)
Total Departments	86	37
Experience in current position		
LT 1	27 (31%)	6 (16%)
1-3	22 (26%)	11 (30%)
3-2	18 (21%)	9 (24%)
GT 5	19 (22%)	11 (30%)
Total Departments	86	37