

**MANAGEMENT ACCOUNTING CHANGE:
A CASE STUDY OF UNIVERSITI
MALAYSIA SABAH**

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**THESIS SUBMITTED IN FULFILLMENT
FOR
THE DEGREE OF MASTER OF
ACCOUNTING**

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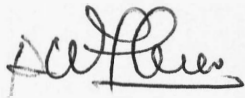
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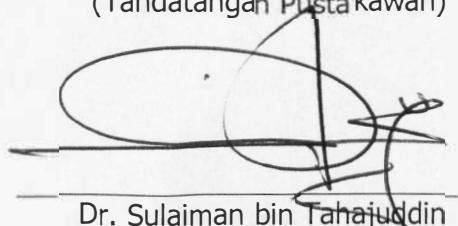
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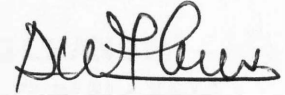
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ACKNOWLEDGEMENTS

BismillahirRahmannirRahim,

Praise be to Almighty Allah SWT for giving me the light, insight and strength to complete this thesis.

This thesis was completed with the help of a number of individuals and institutions to whom I would like to express my sincere appreciation and gratitude.

Special thanks to my Supervisor, Dr. Sulaiman bin Tahajuddin, an expert in the accounting field of study, has been my greatest confident during the whole duration of my research. His constructive criticism, patience and understanding are beyond compare. My sincere appreciation goes to Yg Bhg Professor Datuk Dr Mohd Harun bin Abdullah, the Vice Chancellor for his continuous support and encouragement in pursuing my advanced degree in my field. Special thanks to the participants who are the key informants, directly and indirectly, are the individuals who contributed to the realization of my research. Lastly to the Faculty of Business, Economics and Accounting work force particularly Professor Dr Rasid Mail and Assoc Prof Dr Rahman Nordin, the former and current Deans of the Faculty for their support.

In addition, my gratitude goes to my wonderful family especially to my dearest wife, Hajah Badariah Ab Rahman who has been the greatest pillar of support and endless encouragement throughout the period of my research. To my precious children Nurfatim, Ali Fitra, Ali Firdaus, Ali Faris and Nurfairuz whom I cannot be more proud of, thank you for your all the love and support. To my late parents, Haji Othman Maun and Hajah Siti Jabedah Hamid, would certainly be proud of my achievements. To my brothers and sisters, thank you for your blessings.

RIZAL OTHMAN
24TH JULY 2017

ABSTRACT

The thesis discusses on organization's management accounting change (MAC) in Universiti Malaysia Sabah (UMS) a public university in Malaysia during the process of Organizational Change (OC). More specifically to understand and explain on how MAC emerge in UMS during the OC processes context period from its birth in 1994 until 2014. The research has three objectives. Firstly, to identify factors and explain how these factors interact thus create the phenomena of change that influenced the emergence of MAC in UMS. Secondly is to analyze the interaction between organizational macro external environment and micro internal factor that influenced the process of MAC during the OC context in UMS. The final objective is to provide better understanding on the process of MAC for policy makers, stakeholders and management in decision making in UMS. The methodology applied in this research is primarily qualitative and a single case study research design. The data collection method used was mainly semi-structured interviews and triangulated with archival documents and direct observations. The Laughlin Organizational Change Models (1991) rooted from Habermas Societal Development Theory and the research paradigm guided by Burrell and Morgan work on Social Theory (1979) is the fundamental theoretical lens employed in this research. The findings shown that organization's MAC activities and their emergence in UMS during the process of OC was dynamic and very much affected by constantly changing environment initiated continuously through state reform initiative and transformation programs or disturbances on higher education (HE) sector since her birth in 1994 that penetrate and influence the coherent balance of the organization elements which emancipatory shaped UMS organizational models of change. This dynamic interaction between the organizational external environment factors with the internal factors and wider interplay of the historical, social, politics and economic context within UMS during the process of OC from birth in 1994 to 2014 adds significant finding on the understanding of the models of OC during the formative year of new establishment of an organization such as UMS that amplifies the embryonic and skeleton in nature of formative model of OC. In specific, this finding provides insight on the amplification of the embryonic and skeleton nature as the author name as Formative OC model. In particular this Formative model of OC subjected to be further elaborated to the conventional conception models of OC in order to provide understanding on their content, context and the processual causal effect within the organization during the process of OC context. The study implies that understanding the formative phase of a new establishment of an organization such as UMS is essential to policy makers, stakeholders and management in making decision for organization survival.

ABSTRAK

PERUBAHAN PERAKAUNAN PENGURUSAN: SATU KAJIAN KES DI UNIVERSITI MALAYSIA SABAH (UMS)

Tesis ini membincangkan tentang organisasi perubahan perakaunan pengurusan (MAC) di UMS, sebuah universiti awam di Malaysia semasa berlakunya proses perubahan pengorganisasian (OC). Secara khususnya, tesis ini menghuraikan bagaimana MAC muncul ketika berlakunya proses OC UMS bermula daripada penubuhannya pada tahun 1994 hingga 2014. Penyelidikan ini mempunyai tiga objektif; Pertama, mengenal pasti faktor-faktor organisasi dan menerangkan bagaimana faktor-faktor organisasi ini berinteraksi dalam memberi kesan terjadinya fenomena perubahan yang mengakibatkan timbulnya proses MAC di UMS. Kedua, menganalisa interaksi antara persekitaran luaran makro dan faktor dalaman mikro di organisasi yang mempengaruhi proses MAC dalam konteks OC di UMS. Berikutan daripada itu, objektif ketiga pula memberikan kefahaman jelas tentang proses MAC dan OC di UMS kepada para pembuat dasar, pemegang taruh dan pihak pengurusan dalam pembuatan keputusan di UMS. Metodologi kajian penyelidikan ini, secara dasarnya menggunakan pendekatan kualitatif dan strategi penyelidikannya pula adalah merupakan satu kajian kes sahaja. Metod pengumpulan data utama yang digunakan dalam penyelidikan ini adalah kaedah temu bual mendalam separa berstruktur. Data dikumpulkan secara tematik dan ditranskripsikan dengan dokumentasi arkib dan pemerhatian secara langsung. Penyelidikan ini menggunakan "Models of Organizational Change" diperkenalkan oleh Laughlin (1991) berdasarkan interpretasi berakar-umbi daripada Teori Habermas "Societal Development Theory". Paradigma penyelidikan kajian ini adalah berpandukan kepada kacamata Teori Sosial "Social Theory" yang dibangunkan oleh Burrell dan Morgan (1979). Hasil kajian mendapati bahawa aktiviti organisasi MAC dan kemunculannya semasa proses OC di UMS adalah dinamik kesan daripada faktor persekitaran luaran organisasi sentiasa berubah akibat gangguan (disturbances) secara berterusan oleh kerajaan melalui inisiatif reformasi dan program transformasi ke atas sektor pengajian tinggi. Secara dinamikanya, faktor luaran ini berinteraksi dengan faktor dalaman organisasi serta dipengaruhi oleh konteks sejarah, sosio-politik dan ekonomi lokasi organisasi yang luas semasa proses OC sejak penubuhan UMS pada tahun 1994. Situasi perhubungan yang kompleks dan dinamika perakaunan pengurusan dalam organisasi semasa proses dinamika organisasi secara emansipasi membentuk model perubahan dalam organisasi sejak UMS ditubuhkan pada tahun 1994 sehingga 2014. Hasil dapatan secara khusus dapat memberi tambahan kefahaman dalam memahami konsep konvensional mengenai model OC yang dinamakan oleh penyelidik sebagai model 'formative'. Justeru pemahaman mengenai kandungan (content), konteks (context) dan proses kesan dan akibat dalam organisasi semasa proses OC perlu kajian selanjutnya. Implikasi hasil dapatan ini dapat memberi pemahaman tambahan kepada pembuat dasar, pemegang taruh dan pihak pengurusan dalam pembuatan keputusan bagi merencana program perancangan masa depan.

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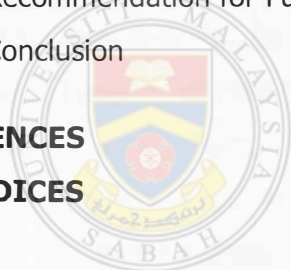
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LIST OF ABBREVIATIONS AND ACRONYMS

3E	Efficient, Effective and Economic
ABC	Activity-based Costing
ABM	Activity-based Management
APEX	Accelerated Programme for Excellence
BSC	Balance Score Board
ETP	Economic Transformation Programme
EU	European Union
GST	Goods and Services Tax
GTP	Government Transformation Programmes
HRM	Human Resource Management
IFAC	International Federation of Accountants
K-Economy	Knowledge Economy
KPI	Key Performance Indicator(s)
KRA	Key Result Area
MA	Management Accounting
MAC	Management Accounting Change (System & Practice)
MASP	Management Accounting System & Practice
MEBHEP	Ministry of Education Blueprint, Higher Education Sector Plan
MCA	Malaysian Chinese Association
MIC	Malaysian Indian Congress
MOE	Ministry of Education
MASP	Management Accounting System & Practice Change
MOF	Ministry of Finance
MDP	Malaysian Development Plan
NEP	New Economic Policy
NDP	New Development Policy
NEM	New Economic Model
NPM	New Public Management
OC	Organizational Change
OECD	Organization for Economic Co-operation and Development
OBB	Outcomes Based Budgeting
PSD	Public Services Department (Jabatan Perkhidmatan Awam (translation))
PU	Public University
PWD	Public Work Department
PPBS	Program Performance Budgeting System
R&D	Research and Development
RTM	Radio Television Malaysia
SOP	Standard Operating Procedures
SAGA	Government Accounting Standard for Government Agencies
SGMOE	Secretary General Ministry of Education
TNHESP	The National Higher Education Strategic Plan
TYT	Tuan Yang Terutama
TM	Telekom Malaysia
UK	United Kingdom
USA	United States of America
UMS	Universiti Malaysia Sabah
UMNO	United Malays National Organization
USM	Universiti Sains Malaysia

UKM	Universiti Kebangsaan Malaysia
UPM	Universiti Putra Malaysia (Formerly Pertanian)
UTM	Universiti Teknologi Malaysia
UIAM	Universiti Islam Antarabangsa Malaysia
UUM	Universiti Utara Malaysia
UUC	Universities and University Colleges
UM	Universiti Malaya
UNIMAS	Universiti Malaysia Sarawak
VC	Vice Chancellor
YJ-ITM	Yayasan Sabah-Institute Teknologi Malaysia
YS	Yayasan Sabah



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CHAPTER 1

INTRODUCTION AND BACKGROUND OF STUDY

1.1 Introduction

This chapter briefly presents the essence of this research endeavor that highlights the underlying problems that becomes the main subject of the research. The chapter begins with the background of the study that briefly explained the development on the learning of Management Accounting Change (MAC) and their research activities in developed and developing countries particularly Malaysia. Subsequently, the discussion was focused to the Malaysian government's aspiration on the public universities as the organizational environmental disturbance. This organizational environmental disturbance had triggered and influenced the emergence of the organization's MAC during the organizational change (OC) context processes in Universiti Malaysia Sabah (UMS), a public university in Malaysia. Then, this chapter concluded by highlighting the research problems, research objectives, scope of the study and the significance of the study and ends up with its conclusion.

1.1.1 Background of the Study

MAC emerged within the organizations and has become an important area of research since the mid-1970s in the United Kingdom (UK) (Wickramasinghe and Alawattage, 2007). This issue is an important topic of arguments among practitioners and scholars due to the fact that they begin to recognize the MAC information provided from social perspectives, were essential for companies' survival in the competitive business environment. In addition, the conventional MAC research is seen as static and purely technical in nature. In response, this conventional MAC research is unable to provide useful financial and non-financial information that is related to the Management Accounting (MA) dynamic activities and the complex nature of the social world. The organizational external environment such as globalization, rapid technological change and the uncertainties

of the domestic and world economy climate also has significantly contributed to the complex nature of the social world in the competitive business environment (Johnson and Kaplan 1987; Laughlin 1987, 1991; Wickramasinghe and Alawattage 2007; Mail 2007; Tahajuddin 2013; Wanderley and Cullen 2013).

Generally, in respect of the accounting discipline, MA is viewed as an extension or a branch of accounting. According to International Federation of Accountants (IFAC) (2002) in Langfield-Smith (2013), MA is referred to as the processes and techniques that focused on the efficient use of organizational resources to support the managers in the tasks of enhancing both customers' value and shareholders' value. In organizations, MA is defined as a management-oriented accounting (Sunarni 2013) that produces information for internal users or managers and forming an important integral part of the strategic process within the organization (Tahajuddin 2013:85). Subsequently, it provided essential financial and non-financial information required by management for better decision-making process in the contemporary competitive business environment. For that reason, a well-designed management accounting system (MAS) is able to produced useful financial and economic information (Abd Rauf *et al.*, 2012) to the management in private and public sectors in order to provide competitive advantages to a company relatively to its competitors (Langfield-Smith 2006, 2013; Scapens 2006a, 2006b). Therefore, based on the above definitions in conception, MA is one of the branches of accounting discipline and functions as the management-oriented accounting in organizations that produces essential information to the management for the organization's survival in the contemporary uncertainty and competitive business environment.

In relation to their function in organization, MA as the branch of accounting discipline plays an integral part within an organization. MA activities within an organization are dynamic in nature. It involves the processes and techniques that focus on the efficiency and effectiveness of the organizational resources; thus subsequently producing information that will support the internal users or managers in the task of enhancing both the customer's value and shareholders' value. In addition, the information produced by Management Accounting System and Practices (MASP) mechanism, is not limited to financial in nature. But also

provides non-financial information that is relevant to assist internal users or managers for the organization to improve their decision-making process in the competitive business environment. Therefore for the purpose of this study, MAC is conceptualized and operationalized as a product of social interaction that is dynamic in nature. It is a complex phenomenon of change nested within organization occurs during the process of OC context (Laughlin 1987, 1991; Broadbent and Laughlin 2005).

MAC development in the mid of 1980s in developed countries such as UK and United States of America (USA) have shown that the issues of relevance, nature and roles of MASP are important within organization (Johnson and Kaplan, (1987). These issues became a popular topic of debate among MA researchers and practitioners. Johnson and Kaplan, (1987) in his book entitled '*Relevance Lost: The Rise and Fall of Management Accounting*', 1987 highlighted the main issue that was debated is on the non-changing nature of MASP in the contemporary competitive business changing environment. The issue of MASP discussed was related to the question of why the MA techniques do not respond to meet the dynamic changes of organizational external environment such as the rapid technological changes, vigorous global and domestic competition, and enormously expanding processing capabilities. Therefore based on the above scenario, logically in the strict sense of the conventional MA techniques used were unable to support the growing demand for MA information that is essential for organization survival.

Since then, in 1990s onwards, there have been numerous research on MAC conducted in the UK, USA and Europe (Wickramasinghe and Alawattage 2007; Tahajuddin, 2013; Wanderly and Cullen 2013). The results of those research activities, various academic papers have been produced. In addition, a wide range of theories have been drawn together with several new advanced techniques that have been developed and introduced (Wickramasinghe and Alawattage 2007; Tahajuddin, 2013; Wanderly and Cullen 2013).

In the context of Asia, the development of MA appeared to be slow where numerous Asian managers and owners seemed to be complacent with the

traditional methods and assumed a negative attitude towards adopting new strategic approaches (Nishimura and Walle, 2005: 232). In relation to the above, the learning of MAC can be understood by the introduction of new advanced MA techniques that has taken place since 1990s particularly in UK and USA. This MA development can be categorized under three major title; (1) cost accounting, (2) strategic MA, and (3) MA in new organization (Wickramasinghe and Alawatange 2007: 2). In addition, MAC also can be understood as a process of change in the manner that the managers or owners used or practiced the traditional and/or new systems to generate MA information (Nishimura and Willett 2005; Wanderley and Cullen 2013). In summary, conceptually MAC occurs when new techniques that is created and introduced. It is also the manner that the managers or owners used or practiced the traditional systems to generate MA information; thus acknowledged MAC emergence in organizations.

In the same vein, with regard to MA practices, studies found that the external and internal environment played their part in shaping the MA practices in organization (Wickramasinghe and Alawatange; 2007; Mail R., 2007; Tahajuddin 2013). In another study on OC shown that the organizational life factors environment can also be shaped by MA (Moll 2003; Moll, Burns, and Major, 2006; Wanderley and Cullen 2013). Therefore, based on the discussions, studies of MAC according to Wanderley and Cullen (2013), can be concluded as follows:-

- 1). the study that focusing on the process of MAC itself; and
- 2). the impact of MAC on the organizational change.

As mentioned above that there have been numerous research activities that has taken place since 1990s on MAC in the developed countries. According to Wanderley and Cullen (2013), it was argued that research in the field of MAC can be categorized by its methodological diversity which includes interpretive research, critical research and traditional functionalist and positivist research. Wanderley and Cullen (2013) further exclaimed that a variety of research methods being used including surveys, fieldwork, and case studies and ethnographic studies, as well as studies adopted a more conventional quantitative approach, such as contingency-type studies. In addition, researchers have drawn on a wide range of theories". In

summary, it can be concluded that research on MAC was a heterogenic field of research with non-dominant paradigm.

Based from above statement, it was an evident that research in MAC is not new. In addition, most of the research studies revolve around the issue of relevance, nature and roles of MASP in providing the essential information to the management for organization survival in the contemporary competitive business environment. In relation to development of the MAC, there have been various research activities done and conducted in private and public sector organization such as manufacturing, healthcare, utilities and local council services; mostly in the developed countries context (Johnson and Kaplan, 1987; Laughlin, 1991; Innes and Mitchell, 1999; Broadbent and Laughlin, 2005; Scapen, 2006; Tahajuddin, 2013). However, less emphasis were highlighted in the developing countries (Nashimura and Willet 2005; Mail 2007; Upping and Oliver, 2011; Tahajuddin 2013) leaving the research on MAC that take into account the socio-organizational and historical context factors was limited in the public universities in Malaysia particularly UMS.

The development of MA practices in UMS was still subservient to the financial reporting data. In addition to the MA tools or techniques employed such as budgeting, costing and performance measurement systems were principally guided by circulars issued by Federal Treasury, Ministry of Finance (MOF) from time to time. In other words, it has been the responsibility of the MOF as the financial authority to provide a technically efficient, effective and economic (3E) that was in line with the government financial management principle of the legality and the accountability concept. For example the MA tools or techniques introduced such as budgeting system, costing and performance management system must in compliance with the standard requirements set-forth by the government (Abd Rauf *et al.*, 2012). It is therefore, considering that Malaysian currently being challenged with the government's aspiration to position the country as the high income nation by year 2020; reviewing Goods Services Tax (GST) was necessary. The GST as the new source of income replacing the present Sales and Service Tax system regime for Malaysia to have a more stable source of income that can provide a sound or good financial position and sustainable to the country. This new Tax system is more transparent, efficient and effective.

In the strict sense logically based from the above given situation, it was apparent and important that research on MAC in public universities has to take into account the organizations wider socio-economic and political context influence to the OC and MAC where the public universities operate. This is because public university such as UMS, rely or highly dependent on the main source of income from public money particularly annual grant-in-aid. Therefore, understanding the process of MAC during the context of OC process that take into consideration of the macro environmental disturbances or factors influence was important in this study. The qualitative research approach from the alternative perspective can provide insight on this subject matter to the policy makers, management and researchers in the Malaysian public universities particularly UMS.

In this sense, UMS is required to be prepared in order to cope with external environmental disturbances from government through their policies and initiatives such as the implementation of New Public Management (NPM) initiative reforms in the public sector. Subsequently, the financial distress or constraint associated to the Asian and Global economic crisis in late 1990s. In the year 2000s, another related external organizational environment or forces identified were the rapid advance technology change and globalization era. All the external organizational environmental disturbances mentioned above, had affected the operation and financial stability of the public universities in Malaysia in particular UMS. Therefore, MAC research focusing on the broad influence in relation to the wider interplay of the historical, socio-economic and political context to the process of MAC during the process of OC within the organization is timely (Laughlin 1987; Tayib and Amir Hussein 2003; Mail 2007; Tahajuddin 2013). However, research on the process of organization's MAC during OC context processes in Higher Education sector was limited. The researcher believed that this research can be considered as under-researched in UMS, a public university of Malaysia. In addition, previous researches conducted in this area mostly from the conventional MAC researchers that seem to be static and technical focusing on the function of MA to organizational effectiveness (Laughlin's, 1987, 1991; Tayib and Amir Hussein, 2003; Abdul Rahman *et al.*, 2005; Broadbent and Laughlin's, 2005; Wickramasinghe and Alawattage, 2007; Mail, 2007; Tahajuddin, 2013; Wanderley and Cullen, 2013).

Malaysia, as a progressive and developing country aspiring to become a high income nation in 2020, the development of research activities on MAC was relatively low and limited. Most of the previous research studies on MAC were dominated by the economic and contingency theory-based perspectives researchers employing quantitative research approach (Tayib and Amir Hussein, 2003; Abdul Rahman, Omar, Sulaiman and Zainal Abidin, 2005; Wickramasinghe and Alawattage, 2007; Mail, 2007; Tahajuddin, 2013; Mahadi, 2013). This type of research studies were seen static where they focused on technical phenomenon of MA used by managers for organizational effectiveness, such as budgeting and control, costing and performance measurement systems. All of these tools has been generally accepted as the most important MA tools (Tayib and Amir Hussein, 2003; Abdul Rahman, Omar, Sulaiman and Zainal Abidin, 2005; Wickramasinghe and Alwattage, 2007; Ab Rauf *et al*, 2012; Langfield-Smith, 2013). For example, Abdul Rahman *et al.*, (2005), conducted research on private and public listed companies and the finding concluded that MA practices in local companies in Malaysia are still at rudimentary stage where its application are subservient to financial accounting data. While Tayib and Amir Hussein (2003) stated that the research employed the model on the good characteristics on budgeting system on the private sector. It was noted that the findings indicated the public universities do adopt the said system from the private sector; however the MAC faced with some limitation related to behavioral aspect. In addition, a related research in the higher education sector by Ahmad and Farley (2013), focused on the funding reforms of public universities in Malaysia transition towards a competitive funding, suggested that a new funding model for higher education sector. All research discussed here employed quantitative research approach.

However, there is quite a number of alternative perspectives research on MAC that applied the qualitative research approach. For example Tahajuddin (2013) based on the Laughlin's Models of OC rooted from the interpretation of Habermas critical theory in the local council in Malaysia. His findings highlighted the need to further elaborate on conventional disturbance conception of environment disturbance into desired and undesired, and their impact on the magnitude and momentum of change within the organization. Another example Campanale *et al.* (2010) employed qualitative research approach to study on process of change of