CHAPTER ONE

1.1 Introduction

The Modified Budgeting System (MBS) was introduced into Malaysian Government budgeting system as a result of an intensive study conducted by an external consultant under the Commonwealth Fund for Technical Cooperation (CFTC) in the late 1980's culminating in the pilot implementation in 3 Government agencies namely Health Ministry, Works Ministry and Welfare Ministry in 1989. Thereafter the system was gradually introduced to other agencies in stages. Since its implementation however, not much has been done on the impact of the new system.

The MBS was introduced as a result of the weaknesses of the existing budgeting system which had failed to address the issue of matching resource allocation with the performance measurement. The Program Performance Budgeting System (PPBS) which was practised prior to MBS placed too much emphasis on inputs according to divisions of functions, programs and activities and lacked the essential elements for relating resources to program achievement. The system did not allow policy planners and financial controllers to see the matching of funds with the output of the agency concerned. For example an agency would be allocated funds based on past expenditure but never based on any planned future performance target. It was in a nutshell a type of incremental budgeting system.
1.2 Background and Statement of Problem

The MBS has been in operation for the past 6 years and the effectiveness of the system has never been seriously evaluated. For example were the budgetary reforms such as Expenditure Target, Threshold, Program Agreement, New Policy & One-Offs and others adequate in addressing the problem of performance measurement, performance evaluation, increasing accountability and prudence? Did the system enhanced financial prudence and care in spending or was it just another budgeting system to be implemented because it was a directive by the Government? Is the system infallible? Has there been a significant improvement in the management of the many Government programs? What about the perception of implementing agencies and employees involved in the system? Has the system assisted them in planning and implementing the annual operating budget or has it given them added burden that should had been dispensed? These and many more questions are lingering issues that has clouded the implementation of the MBS in Malaysia.

In view of the manifold issues that has yet to be adequately answered, the purpose of this study is to test using a small representative number of Government employees involved directly with the system and to ascertain their views and opinions with regard to the MBS. Although the scope of MBS is wide, the purpose of this study is merely exploratory to see the impact of the new system from the perspective of users of the system specifically to see the extent to
which the MBS reforms have been well received and assimilated by government agencies and to evaluate the effectiveness of the reforms in assisting the practitioners of the system in planning and executing the operational budget. In addition, the study would also attempt to evaluate the extent to which budgetary flexibility and responsibility have become intertwined to produce better performance accountability.

In this context my problem statement is as follows:

"Users of MBS are indifferent as to the effectiveness of MBS to improve the budgetary system among public sector managers i.e. the reforms introduced under MBS did not produce the desired impact in the form of greater budgetary efficiency and effectiveness in the management of Government programs"

1.3 Rational and Importance of Study

MBS has been the cornerstone of public budgeting and finance since its inception. The evaluation of the system is therefore vital in order to assess the relative merits and weaknesses that the system contains as well as to fortify its strong points. In general most agencies are in their infant stages of MBS implementation with possible exception of a few pioneer agencies such as the Ministry of Health, Public Works and Welfare.
Because of its infancy nature, it is therefore not surprising to see that most agencies do not view it at all necessary at this point in time to do an impact assessment of the system given the limited time and resources and are more keen to see that the system actually takes off the ground.

Even if an agency performed an impact assessment or evaluation of MBS, there is little doubt that they can revert back to the old system, if the study had proved that MBS has resulted in adverse impact. Given the background above it is therefore imperative that an evaluative study be conducted to assess the overall impact of the system and the extent that users are satisfied with the reforms as well as the general budgetary improvements that the system has made.

The importance of this study can also be seen from the perspective of the extent the system has complied with the two fundamental principles that the budget modifications are based: (i) Managers nearest to where outputs are produced should be given as much flexibility as possible; and (ii) Authority must match accountability. This study would therefore also assess the extent managers have been given the requisite authority to manage the budget to match the performance accountability.
1.4 Objective of Study

The study would seek to explain the relevance of the package of reforms proposed by the CFTC consultant in the light of the experience of Malaysian public managers. The study would also attempt to see the linkage between authority and responsibility and the extent this dual relationship has contributed to the improvement in the management of Government programs. Besides the above area, the purpose of the study would explore the extent the reforms have been received by implementing agencies in the planning and execution of the annual operating budget ie whether the system has actually assisted controllers and managers in managing the respective agency programs or has it actually increased the burden and made it more difficult to plan and monitor the operating budget.

1.5 Methodology and Analysis

The approach in this study is to use primary sources of information since this is essentially to gauge users' perception of the system. In this regard two implementing agencies were chosen from which respondents were selected. The agencies concern are the Ministry of Health (MOH) and the Ministry of Agriculture (MOA) including departments under the MOA such as Department of Agriculture (DOA), Department of Fishery (DOF), Drainage and Irrigation department (DID), and Veterinary Services Department (VSD). Both the agencies represent agencies implementing MBS under phase one and two respectively.
The respondents selected from MOH and MOA come from diversified levels of seniority from special grade officers to non-managerial levels and who were chosen principally because they are the Responsibility Centre (RC) heads or are actively involved in the operationalisation of the annual operating budget. These respondents were also chosen from different levels of organisation from district to federal level. The respondents from Treasury are Budget Review Officers since they are responsible for recommending and monitoring the budget of their respective agencies under them.

For Health Ministry, all the general hospitals and the bigger hospitals at district levels were chosen since they would have a larger operating budget to handle. For the departments under Agriculture Ministry, all RC's with sizable operating budgets are included and RC's with small operating allocation are excluded. This distinction is made because these departments under MOA operate dual funds, i.e., development and operating in their daily operations.

The respondents selected were sent questionnaires by post. The Ministries and the departments under study have consented to give a forwarding letter to their respective managers at the state and district levels to ensure that there would be better cooperation and compliance on their part in filling the questionnaires. A total
of 230 questionnaires were sent out by post or passed out by hand wherever possible. The number of questionnaires received and suitable for analysis was 127.

The questionnaire was simple to fill utilising Likert scale measurement where respondents were asked to give their opinion on some statements regarding MBS and the extent to which they agreed or disagreed with each statement. The questionnaire was divided into 5 section as follows:

- Section A
There were 10 statements aimed at measuring the extent MBS has managed to instil budgetary control and discipline among managers and whether the system has created greater awareness for matching available resources with responsibility and accountability.

- Section B
In this section respondents were required to state the extent of their satisfaction with some of the budgetary reforms introduced under MBS.

- Section C
This section merely invites the respondents to state their personal preference of the type of budgeting system and to gauge their perception as to the ultimate aim of MBS implementation.

- Section D
This section attempts to measure the extent to which MBS has assisted managers in planning, management of resources and implementation of programs.
- Section E

This section asks for the biodata of respondents.

The questionnaires were coded and inputted into SPSS program for analysis purposes. For questions in section A, B and D the scales were summated and these were given new labels, namely Control, Satisfaction and Effectiveness respectively. To test whether the scales utilised were reliable or not for the summated scale, a reliability test was conducted to compute the Cronbach Alpha (values range from 0 to 1.0). A commonly used threshold value for accepting validity is 0.70 although this is not an absolute standard and values below 0.70 have been deemed acceptable in exploratory research (Hair, Anderson, Tatham, Black: Multivariate Data Analysis). Factor analysis was also done to see if these factors can be further divided into new dimensions.