

UNIVERSITI TEKNOLOGI MARA

**MANAGEMENT CONTROL
SYSTEMS AND PERFORMANCE:
EVIDENCE FROM MALAYSIAN
LOCAL AUTHORITIES**

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Thesis submitted in fulfilment
of the requirements for the degree of
Doctor of Philosophy

Faculty of Accountancy

March 2016

CONFIRMATION BY PANEL OF EXAMINERS

I certify that a panel of examiners has met on 21st September 2015 to conduct the final examination of Norazlina binti Ilias on her Doctor of Philosophy thesis entitled “Management Control Systems and Performance: Evidence from Malaysian Local Authorities” in accordance with Universiti Teknologi MARA Act 1976 (Akta 173). The Panel of Examiners recommends that the student be awarded the relevant degree. The Panel of Examiners was as follows:

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AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

The purpose of this study was to investigate the structural relationship between organizational culture, management control systems (MCSs) and the performance of Malaysian local authorities. This study was motivated by the inconsistent findings concerning the relationship between the control system and performance that appeared in the current literature, as well as the personal observations of the researcher. Due to the inconsistencies in the findings, several studies suggest that future researchers investigate MCSs as a tool to improve the performance of organizations. Therefore, this study integrated the organizational culture and MCSs literature by investigating the control systems variable, as control systems have been widely discussed in management accounting literature as an important variable for the purpose of achieving organizational objectives. In this study, three dimensions of MCSs have been identified: external control, internal formal control, and internal informal control. The performance of the local authorities under study was measured using three dimensions of performance: financial, service quality, and procedural. A questionnaire-based survey was carried out to seek responses from 449 departments attached to the local authorities within Peninsular Malaysia. Out of the 449 questionnaires distributed, 367 were returned, which resulted in 335 usable responses that were used for further analysis. This study performed two phases of data analyses: preliminary analysis and structural equation modeling (SEM) analysis. The preliminary data analysis was performed using the statistical procedures of SPSS version 19.0, while SEM analysis was performed using AMOS 18.0. The findings of the study showed that the organizational culture significantly affects the internal formal control, internal informal control, financial performance, service quality performance, and procedural performance. The results also revealed that the external control and internal formal control were significantly associated with all three performance dimensions, as expected. However, the internal informal control only had a direct relationship with the service quality performance, and did not have a significant relationship with the financial performance and procedural performance. Additionally, external control was also found to be significantly related to the internal formal control. This study also reported that the external control, through the presence of the internal formal control, had a stronger relationship with the financial performance, service quality performance, and procedural performance, as compared to the direct relationship between the external control and performance. The relationships between organizational culture and service quality performance and procedural performance, through the internal formal control and the internal informal control were also reported to be significant. Therefore, this study supported the premise of the contingency theory, which holds that organizational culture can influence the practices of internal control systems, and, eventually affects the organizational performance. The results also generally support the hypothesis that internal formal control and internal informal control serve as important mediators in the relationship between organizational culture and performance, as well as between external control and performance.

ACKNOWLEDGEMENT

Alhamdulillah. All praises is due to the Almighty Allah S.W.T. for the abundant blessings that have enabled me to successfully complete this long and challenging journey.

I wish to express my heartfelt gratitude and thanks to the following people who in many different ways have provided me with the encouragement and support to complete this thesis.

First and foremost, I owe a deep debt of gratitude to my supervisor, Associate Professor Dr. Nik Kamaruzaman Abdulatiff, and co-supervisor, Professor Dr. Nafsiah Mohamed, who have assisted, guided and given me very good moral support over the years in the most conscientious way, with confidence, style and professionalism. Their understanding of my condition and difficult time were very much appreciated. Any mistakes I made were always corrected gently and with great care. They have made this journey a meaningful and memorable one. I am truly indebted to both of them.

My appreciation goes to my beloved husband, Mohd Abdul Baasit Samsudin, who has constantly inspired, encouraged me and provided psychological and emotional support, helped me whenever and wherever needed. I also truly owe my special dedication to both of my lovely children, Muhammad Hafiy and Fatimah Azzahra for their love, caring and understanding. Also, I would like to extend my deepest love to my parents, who have sacrificed much to make me the person I am now.

In addition, I dedicate this thesis to all my other family members, with all my love for their support and encouragement, and my colleagues who have contributed in no small way in making this work a success. Also, I would like to thank Universiti Teknologi MARA especially the Faculty of Accountancy, for accepting me as a PhD candidate. Finally, I would like to extend my gratitude to Universiti Malaysia Terengganu and the Malaysian Government for the financial support they have given me to pursue my studies. Thank you all for the wonderful support.