Accountability in government linked companies: an empirical finding

Jamaliah Said and Nur Hidayah Binti Jaafar*

Accounting Research Institute and Faculty of Accountancy, Universiti Teknologi MARA, 40450 Shah Alam, Selangor, Malaysia

Abstract

This study aims to assess the accountability outcomes of selected GLCs. Based on 102 responses received the findings revealed that the mean score of each accountability items were above the mid-point. This has indicated that Malaysian GLCs are serious in implementing accountability concept in their daily activities. Most respondents agreed their organization utilized funds properly and in the manner authorized; have a clear operating goals to be achieved every year; ensures there is a strategy for regular and effective communication with all stakeholders such as public, customers, funders.

© 2014 Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (http://creativecommons.org/licenses/by-nc-nd/3.0/).

Peer-review under responsibility of the Accounting Research Institute, Universiti Teknologi MARA.

Keywords: Accountability; Government Linked Companies; Transparency

1. Introduction

Accountability conveys an image of trustworthiness and transparency of the organization to the public (Pitima, 2006; Bovens, 2007). It also present as one of a good governance criteria. Board of directors should be accountable to shareholders and the management should be accountable with the board of directors (Blair and Stout, 2001). In order to ensure this accountability, the board of directors must always be accessible to shareholders inquiry concerning their key decisions affecting the company’s strategic direction (Schillemans, 2011). Boards are by definition the internal governing mechanism that shapes firm governance, given their direct access to the two other axes in the corporate governance triangle: managers and shareholders (owners). Boards of directors are one of the important criteria of corporate governance reform. In effect, the board of directors has emerged as both a target of blame for organization misdeeds and as the source capable of improving corporate governance (Aguilera, 2005).

* Corresponding author. E-mail address: jamaliah533@salam.uitm.edu.my
Based on the Auditor General’s Report, 2010, it was stated that the board of directors component in the several numbers of Government-Linked Companies (GLCs) in Malaysia are not independence and lack of professional qualification ("Auditor General’s Report," 2010). From the report, it seems that some of the board of directors in Malaysian GLCs is less efficient and it could lead to the accountability problem. GLCs performance is very crucial since the investments of monies are coming from the public. Thus, the public will be expecting that the fund are to be manage, used and invested properly without any wastage and misused. The fundamental of accountability can be delivered through building the confidence of the stakeholders and the public.

In addition, there is an unprecedented result in Malaysian general election held in 2008, where the Opposition front manage to capture five (out of 13 states) key states in Malaysian Peninsula to form the State Governments (Bakar, Saleh, and Mohamad, 2011). From the election’s result, it proof that the public call for a change towards more transparent and accountable government. Consequently, as the Federal Government now, they need to strengthen the rules and regulations and to have a stronger checks-and-balances’ system as to meet the public’s expectations. Thus, in the case of GLCs, they also need to strive to be more transparent and accountable because they also apart of government which the government use the public money to invest in such companies. As such this study aims to assess accountability outcomes of GLCs.

2. Government-linked companies

Government-linked companies (GLCs) are controlled by the Malaysian government via the Federal Government-linked Investment companies (GLICs). GLCs can be defined as companies that have a primary commercial objective and in which the Malaysian government has a direct controlling stake. Controlling stake can be refers to the percentage ownership by the government or the government’s ability to appoint the Board of Director, the senior management and make a major decisions for example contract awards, strategy, restructuring and financing, acquisition and divestment for GLCs either directly or through GLICs. Whereby, GLICs are companies that allocate the government funds to the GLCs such as Khazanah Nasional Berhad, Pension Trust Funds, Employees Provident Fund, and Permodalan Nasional Berhad.

Previously, GLCs were known as government agencies or public enterprises to provide services for social purposes. However, in the early 1980s, Malaysia’s privatization polite were being introduced resulted from the objectives of the New Development policy, the rising national debt as well as from the belief that it would drive the government agencies to become more efficient and cost effective (Mohd Alwi and Abdul Khalid, 2009). The government still holds a significant controlling stake even though the companies were being privatized. Subsequently, the performance of GLCs becoming important issue in Malaysia. In 2012 alone the Malaysian Government has invested RM30.599 billion in 56 GLCs. Thus, with this investment made by the government, the public is expected that the investment provides return and GLCs are more accountable in utilizing the fund.

The important role of GLCs for Malaysian economy is proved as GLCs constitute 49% of the Bursa Malaysia of market capitalization. Putrajaya Committee on GLCs High Performance (PCG) reported that the 17 GLCs recorded an all-time high net income of RM 20.1bil from only RM9bil in 2004 reflecting a growth of 18.2% per annum. PCG also reported that the total shareholders’ return on FBM KLCI outperformed the non-G20 by 0.8% per annum, growing at 13.7%. The market capitalization more than doubled to RM319bil from RM140bil over the same period and delivered a return on equity of 11.8% in 2011, up from 10.6% in 2010.

Despite exemplary achievement of a group of leading GLCs, an Overview of 2011 National Audit Report Initiatives and Updates Related to State Owned Corporations, 28.6% of the GLCs showed a loss amounted to RM1.720bil. The National Audit Department indicate that 11 GLCs was suffered at lost for the year ended 2008 until 2010. The losses are due to the several factors including the unsuccessful of business strategy (Lau and Tong, 2008). Based on the report, if the GLCs continue to be non-performer, it can taint up the GLCs’ reputation and later will harm the public trust on the government in managing the public fund.
3. Research Problem

GLCs play an important role in enhancing the economic growth in Malaysia. Thus, approaching to year 2020, Malaysia aims to be progress and high-income nation, to be able in attracting outside investors and to be able to compete on a regional and global stage. Hence, in order to achieve this vision, the cooperation and contribution from the private sector and the government are very important. The government will provide the fund to invest in the GLCs to ensure that the GLCs perform well. But, if the fund is not properly used and managed, it will contribute to the losses which could tarnish the public trust.

However, the public perception on the GLCs in Malaysia has been ruined by the poor performance of the key players, such as Malaysia Airlines System (MAS) and Proton Holdings Berhad (Lau and Tong, 2008). MAS had plunged into losses in three consecutive years begin in 2004 with RM326. This loss is increasing in 2005 with amounted to RM 1.251. This is due to the excessive cost over its sales generated during the year. Meanwhile, in 2006, the losses is reduce by RM134 million respectively. However the losses still incurred in 2010 and 2011 by RM237 million and RM2.5 billion respectively, even though the MAS is in process in implementing the business turn around process (MAS, 2012). Proton Holdings Berhad also showed a poor performance when the share price of Proton Holdings in year 2006 fell sharply due to the Volkswagen dropped plans to invest in the organization. As a result, Proton Holding suffered a pretax loss of RM240.5 million in 2006. Proton also suffered for losses before tax before government grant for three consecutive years beginning 2007, 2008, 2009 and 2011, this was varnish the perception of public in regards to the creditability of Proton as a first car producer in Malaysia (Proton, 2011).

According to Auditor General’s Report, 2010, it was found out that several numbers of GLCs are still lacking of accountability in the corporate activities due to the lack of board effectiveness in the organization. It was stated that the board of directors’ component in the several numbers of Government-Linked Companies (GLCs) in Malaysia are not independence and lack of professional qualification. This report has proof that the GLCs in Malaysia are still lacking of board effectiveness in the organization.

Furthermore, Malaysian government election in 2008 showed an unexpected result where the opposition manages to capture five out of 13 states in Malaysia (Bakar et al., 2011). This result had proved that there is an increasing public awareness for a government to be more transparent and accountable in the public matter. The government has to promote a greater accountability by strengthening the internal control practices in the Ministries and also in the GLCs as to gain back the public trust. In addition, there is a little study that has been carried out in Malaysia regarding the accountability outcomes of GLC.

4. Accountability

The Malaysian High Level Finance Committee on Corporate Governance (Finance Committee, 1999, p. 52) defines the term as:

“…Corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholders value, whilst taking into account the interests of other stakeholders…”

Every citizen all over the world have been demanded for a greater accountability from their government (Bracci and Llewellyn, 2012; Bovens, 2007; Kolk, 2011). Bovens (2007) had distinguished five different dimensions of accountability such transparency, liability, controllability, responsibility and responsiveness. He also stated that in these five dimensions each icon has their own umbrella concepts themselves. There is an arguments where Mo (2001) stated that privatization increases the degree of public accountability. However, there is also an argument, where privatization will reduce the degree of public accountability. Hence, Mo (2001) conducted this study to investigate this matter. To examine the issue, the author use both qualitative and quantitative methods, where qualitative method, he had analyzed five international cases of bus operations; a franchise system of Seoul, Korea, a pure public system of the New York City Transit Authority (NYCTA), a franchise system of New York City Department of Transportation (NYCDOT), a competitive tendering system in London and a pure privatization case of “Outside London” in the UK. For the quantitative analysis, this study has collected data on U.S bus systems through an extensive survey and it has utilized the National Transit Database (NTD) of the Federal Transit Administration (FTA).
Past study on the accountability outcomes produced conflicting findings. A group of studies discovered high level of accountability being practiced in their sample organizations whereas another group of studies discovered opposite results. In line with studies carried out by Barrett (2008), Geer (2009) and Shaoul, Stafford, and Stapleton (2012) this study aims to assess the level of accountability practices by GLCs in Malaysia.

5. Research Methodology

5.1 Sample

This study was conducted among Malaysian Government-linked companies (GLCs). In this study, 462 databases of GLCs are developed based on information available from website. At the same time, numerous telephone calls were made to get the names full address and the respective person of the GLCs. This was done one week prior to the mailing of the questionnaires. A total of 462 sets of questionnaire were distributed to the accountant of state and federal level GLCs.

5.2 Measurement of Accountability

The questionnaire requires respondents to express their opinion on the level of accountability in the organization. The questionnaires were adopted with some modifications from several studies to reflect all those accountability outcomes of GLCs. The studies were from Barrett (2008), Geer (2009) and Shaoul, Stafford, and Stapleton (2012). Respondents are requested to answer by using a seven point Likert-type scales from “strongly disagree” to “strongly agree”.

6. Findings

Part 1 of the questionnaires asked questions related to respondents’ demographic profile. Out of 102 questionnaires received, 58 (56.9%) of the respondents are female and 44 (43.1%) are the male. Majority of the respondents were below 30 years old (51%), followed by the age between 30 to 40 years old which carry 37.3% and the rest of the respondents were more than 40 years old (11.7%). The job position can be categorized into 4 levels which are top management, middle management, lower management and the support staff. The majority of the respondents are from middle management 54 (52.9%) respondents followed by top management 40 (39.2%) and lower management which around 8 (7.8%).

Table 1. Descriptive statistics on Accountability

<table>
<thead>
<tr>
<th>Accountability items</th>
<th>Mean</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensures funds are used properly and in the manner authorized.</td>
<td>6.80</td>
<td>1</td>
</tr>
<tr>
<td>Sets clear operating goals to be achieved every year.</td>
<td>6.01</td>
<td>2</td>
</tr>
<tr>
<td>Comply to procedure and requirement for fund disbursement.</td>
<td>5.82</td>
<td>3</td>
</tr>
<tr>
<td>Recognises the organisation’s responsibilities towards its wider communities, society and environment</td>
<td>5.71</td>
<td>4</td>
</tr>
<tr>
<td>Fosters collaboration with other related agencies as well as other types of organizations.</td>
<td>5.56</td>
<td>5</td>
</tr>
<tr>
<td>Produces several performance measures concerning the quality of services delivered.</td>
<td>5.51</td>
<td>6</td>
</tr>
<tr>
<td>Maintain detailed and up-to-date records for supplies, office equipment and other departments</td>
<td>5.45</td>
<td>7</td>
</tr>
<tr>
<td>Supports the process of learning from mistakes and successes, ensuring external views taken into account.</td>
<td>5.37</td>
<td>8</td>
</tr>
<tr>
<td>Provides complaints and redress mechanisms.</td>
<td>5.34</td>
<td>9</td>
</tr>
<tr>
<td>Provides transparent financial information for public view</td>
<td>5.32</td>
<td>10</td>
</tr>
<tr>
<td>Develop financial and non-financial measures</td>
<td>5.31</td>
<td>11</td>
</tr>
<tr>
<td>Develop adequate internal control systems</td>
<td>5.24</td>
<td>12</td>
</tr>
<tr>
<td>Upholds and applies the principles of equality and diversity and ensures that we are fair to open to all sections of the communities</td>
<td>5.20</td>
<td>13</td>
</tr>
<tr>
<td>Practices transparent reward systems to employees</td>
<td>4.98</td>
<td>14</td>
</tr>
</tbody>
</table>
To measure the level of accountability in the GLCs in Malaysia, fourteen questions were asked. Respondents were required to express their agreement/disagreement based on seven points likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). The mean score were obtained by averaging the respective scores for the questions.

Table 1 exhibit the findings of the study. The highest mean score was top management of my organization ensures funds are used properly and in the manner authorized with a mean score of 6.80. This indicates that most respondent agrees top management in their organizations are accountable for fund allocated. This is followed by top management of my organization sets clear operating goals to be achieved every year (mean =6.01). The mean score on whether the top management in their organization comply to procedure and requirement for fund disbursement has scored the third highest mean score (mean = 5.82).

However, the respondents feels that the top management in their organization is not very transparent in paying a reward systems to employees (mean =4.98 )and their organization needs to upholds and applies the principles of equality and diversity and ensures that we are fair and open to all sections of the communities (5.20). Similarly, the respondents are not quite agrees that their organization has developed adequate internal control systems (mean = 5.24).

7. Conclusion

Government, as well as other public sector organizations, has use more and more sophisticated accountability measures to improve their organization performance in the past several years, however many citizens still have doubts about them and believe they are still not accountable. Hence, this study examined the level of accountability among GLCs in Malaysia. Accountability items were adopted with modification from previous studies such as Barrett (2008), Geer (2009) and Shaoul, Stafford, and Stapleton (2012).

The finding has provided evident on the level of accountability outcomes of GLCs. The average score for each accountability outcomes were all above mid-points indicating Malaysian GLCs are serious in promoting a greater accountability by ensuring funds are used properly and in the manner authorized; Sets clear operating goals to be achieved every year; Comply to procedure and requirement for fund disbursement; Recognises the organisation’s responsibilities towards its wider communities, society and the environment; Fosters collaboration with other related agencies as well as other types of organizations; Produces several performance measures concerning the quality of services delivered; Maintain detailed and up-to-date records for supplies, office equipment and other Department; Supports the process of learning from mistakes and successes, ensuring external views are taken into account. Thus, since the GLCs are performing well, this will embedded trust on the public for the better way of the government in managing the public funds.

This study is not without limitations. First, to measure accountability level respondents were asked to rate subjectively on a seven point Likert scale for all items listed in the questionnaire. These evaluations will subject to personal bias and judgment error. Thus, future research should include data collection from multiple sources which can also be a tool of balance check between the respondents and the actual result. Second, this study provides cross-sectional picture at a single point in time, which means the recommendations are applicable only if external variables are unaffected. External variables could be environment, economic, rules and policies and others. Nevertheless, the findings of the factors affecting GLCs performance do shed light on the understanding of the impact of board effectiveness, internal control practices and leadership qualities. Third, the sample was drawn from a single industry, namely GLCs. Although this sampling frame allowed to control for environment factors and to provide results for major sector, the findings may not be relevant or generalizable to other sector. Replication of this study by future research on GLCs or federal /state owned enterprise in other countries and in different government jurisdictions would help to determine the generalizable of the combined influences other factors on accountability.

Acknowledgment

We would like to thank Accounting Research Institute (ARI), Universiti Teknologi MARA, in collaboration with Ministry of Higher Education Malaysia (MOHE) in providing the financial support for this research project. We are indeed very grateful for the grant, without which we would not be able to carry out the research.
REFERENCES


