

# Financial Sustainability as a Structural Challenge in Malaysian Public Higher Learning Institutions: An Institutional Theory Perspective

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## ABSTRACT

Financial sustainability has emerged as one of the most pressing structural challenges confronting Malaysian public higher learning institutions (HLIs). Although there has been a strong articulation of policy commitments in successive national blueprints, the financial structure of public universities in Malaysia has continued to be characterised by a strong and structural reliance on government grants, decreasing per-student spending, and insufficient ability to generate autonomous income. This conceptual paper, based on Institutional Theory and in particular the terms of institutional logics and loose coupling, critically discusses the nature, factors, and implications of financial unsustainability in Malaysian public HLIs. This analysis has shown that financial sustainability is not simply a fiscal management issue but an even more institutional phenomenon influenced by conflicting logics of academic mission and market accountability. The paper goes further to explore how Malaysia Higher Education Blueprint 2026-2035 (MHEB 2026-2035) and the New Funding Formula (NFF) reconfigure the financial governance terrain, escalating institutional demands on public universities to diversify their revenue streams and achieve performance-based results. In its argument, the paper contends that it is not only necessary to technically reform funding mechanisms but also contextually sensitive institutional strategies that align competing organisational logics in order to achieve financial sustainability in the Malaysian context. Moreover, the analysis contributes to the higher education finance literature as it provides a policy-synthesized, theoretically based analysis of financial sustainability within a developing-country setting.

**Keywords:** financial sustainability, Malaysian public universities, institutional theory, New Funding Formula, higher education funding,

## INTRODUCTION

Higher Learning Institutions (HLIs) around the world are facing unprecedented financial strains due to a combination of dwindling funding by the state, increased costs of operation, increased student enrolment, and heightened expectations of accountability and performance in institutions (Organisation for Economic Co-operation and Development [OECD], 2025). Such pressures are especially acute in developing and middle-income economies where the role of public universities as heavily reliant on state funding is combined with the need to deliver the results of internationally competitive standards (Jaafar et al., 2023; Schiller and Liefner, 2007).

The vast majority of operational expenditure of Malaysian public HLIs has historically been based on government grants. The Malaysian government had funded about 80 to 90 per cent of the total amount of public universities since the inception of Universiti Malaya in 1960 (Nik Ahmad et al., 2019). Nonetheless, this set up has been subjected to a long-term and structural change throughout the last twenty years. As of 2007, the government financing had decreased to about 70 per cent of operating expenditure, and further decreases were made in 2016 and 2017 (Jaafar et al., 2023). The most authoritative current policy document, the Malaysia Higher Education Blueprint 2026-2035 (MoHE, 2026), acknowledges that the Compound Annual Growth Rate (CAGR) of government expenditure on higher education between 2013 and 2023 was recorded at negative one per cent, confirming that the sector has experienced a decade of real-terms fiscal contraction, not a temporary fiscal adjustment but a long-term structural shift that demands fundamental institutional change.

Against this framework, financial sustainability has been formally identified as one of the 11 principal gaps and challenges confronting Malaysian HLIs in the MHEB 2026-2035 (MoHE, 2026). The Blueprint also adds a strategic thrust, which is shift 4: Financial Sustainability, and indicates a fundamental change in direction towards a core national policy objective of centralised funding and resources to sustainable funding and resources. This policy change is operationalised, at least partially, by the New Funding Formula (NFF), an output-based allocation model created by the Ministry of Higher Education (MoHE) as an alternative to traditional block grants to bring performance-based and per-student funding based on certain specific institutional outcomes (Ahmad et al., 2023; Ahmad et al., 2024).

Despite these important policy changes, the academic discourse on financial sustainability in Malaysian public HLIs is still fragmented and limited in methodology. Quantitative research has discussed diversification strategies in revenue and their association with financial performance (Jaafar et al., 2023; Mamat et al., 2021), and qualitative research has evaluated the relationship between institutions meeting competing demands of academic mission and financial accountability (Mamat et al., 2021). Nevertheless, a conceptual analysis that is policy-sensitive, theoretically developed, and explores financial sustainability as an institutional phenomenon, a phenomenon driven by conflicting organisational logics, governance systems, and contextual policy pressures, has not yet been developed in the Malaysian higher education literature.

This gap is addressed in this paper that based on the Institutional Theory and, more precisely, on the notions of institutional logics (Friedland and Alford, 1991; Thornton et al., 2012) and loose coupling (Weick, 1976) where the paper constructs a theoretically based analysis of the financial sustainability as a structural issue in Malaysian public HLIs. The essence and causes of financial unsustainability, assesses the impact of the MHEB 2026-2035 and the NFF on institutional financial governance, and proposes theoretical and practical implications for policymakers and institutional leaders.

Table 1 summarises the documented evolution of government funding and the corresponding structural shifts in Malaysian public higher learning institutions, based on evidence reported in prior studies and national policy documents.

Table 1: Government Funding Trends and Structural Changes in Malaysian Public HLIs

Period / Data Point	Empirical Evidence	Source	Interpretation (Strictly Evidence-Based)
Historical funding structure	Government funded <b>80–90%</b> of public university expenditure	Nik Ahmad et al. (2019)	Indicates strong structural dependence on state funding
2007 funding level	Reduced to approximately <b>70% of operating expenditure</b>	Jaafar et al. (2023)	Evidence of initial reduction in dependency
2013–2023 trend	Government expenditure CAGR = <b>-1% (real terms)</b>	MoHE (2026)	Confirms long-term fiscal contraction
Policy recognition	Financial sustainability identified as a <b>key national challenge</b>	MoHE (2026)	Institutional issue formally acknowledged
Policy response	Introduction of <b>New Funding Formula (NFF)</b>	Ahmad et al. (2023; 2024)	Shift toward performance-based funding

## Theoretical Framework

### Institutional Theory and Higher Education

The Institutional Theory offers a highly useful analytic lens through which it is possible to explain the reason why organisations take on specific structures and practices not necessarily because of efficiency or strategic decision-making, but due to the normative, coercive and mimetic pressures that organisations face as a result of being in an institutional environment (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). Within the framework of higher education, governments impose institutional pressures on higher education in the form of funding and regulatory policies, accreditation agencies in the form of a quality standard, global ranking systems in the form of a competitive performance standard and industry in the form of the graduate employability expectation.

The institutional logics concept as developed by Friedland and Alford (1991) and furthered by Thornton et al. (2012) refers to the historically constructed patterns of material practices, assumptions, values and beliefs that enable the rules of the game to organisations functioning within a particular institutional order. In the context of higher education, two competing but predominant logics have been discernible from the literature: an academic logic that focuses on teaching, research, scholarly independence, and public service; and a market logic that focuses on efficiency, performance accountability, income generation, and competitive positioning (Mamat et al., 2021; Thornton et al., 2012).

Such conflicting logic is particularly topical when it comes to financial sustainability reform. The governments that implement performance-based funding systems like the NFF are, in institutional theory terms, importing and legitimising a market logic into an organisational domain that used to be dominated by an academic logic in the past. Institutional tension thus does not necessarily resolve itself neatly between one logic or the other, but instead usually leads to institutional arrangements that are of a more hybrid nature that Weick (1976) described as loose coupling: the co-existence of structurally decoupled systems where formal policy commitments and actual organisational practices are only loosely aligned.

### Resource Dependency Theory as a Complementary Lens

Resource Dependency Theory (RDT) is an analytical approach that was developed by Pfeffer and Salancak (1978) and proposes a complementary analysis of organisations as networks of external resource dependencies. RDT states that the influence of external actors on an organisation is proportional to how the organisation relies on the actors to provide it with important resources. As applied to the finance of higher education, RDT has a strategic importance of the diversification of revenues: the less an institution relies on a particular source, the less susceptible it becomes to the coerced power of that source and the more organisational autonomy it gains (Fowles, 2014).

Relevance of RDT to the HLIs of the Malaysian populace is direct. The systematic reliance of Malaysian universities on government grants, at rates of up to 80 to 90 per cent historically, makes them extremely susceptible to changes in fiscal policy, budgetary cuts, and the terms and conditions surrounding governmental grants (Idris Jusoh, 2016). The deliberate transformation of performance linked funding via the NFF amounts to a reorganization of the dependency relationship: instead of the funding as an entitlement based on historical allocation, institutions now have to achieve it through performance outcomes (Ahmad et al., 2023; Ahmad et al., 2024). This restructuring has far-reaching consequences on institutional strategy, behaviour and governance.

Although RDT and Institutional Theory have slightly different analytical approaches, they are theoretically complementary in the financial sustainability. RDT sheds light on the structural facets of resource dependency and strategic rationale of diversification, and Institutional Theory sheds light on the normative and cultural aspects of the way organisations interpret, react to, and are bound by financial reform pressures. Collectively, they offer a more comprehensive and contextually sensitive theoretical platform to examine financial sustainability in Malaysian public HLIs as compared to either theory individually. Application to higher

education empirically in higher education, this complementarity has been applied empirically by Kivisto (1999) and Tolbert (1985).

Table 2 presents the key theoretical constructs underpinning the analysis, integrating Institutional Theory and Resource Dependency Theory to explain financial sustainability in Malaysian public HLIs.

Table 2: Theoretical Foundations of Financial Sustainability in Malaysian Public HLIs

Theoretical Lens	Core Concept	Definition (Source-Based)	Application in HLIs Context
Institutional Theory	Institutional logics	Socially constructed belief systems guiding organisational behaviour (Thornton et al., 2012)	Explains tension between academic and market priorities
Institutional Theory	Loose coupling	Weak alignment between formal policies and actual practices (Weick, 1976)	Explains symbolic compliance with financial reforms
Resource Dependency Theory	Resource dependence	Organisations depend on external actors for critical resources (Pfeffer & Salancik, 1978)	Explains reliance on government funding
Resource Dependency Theory	Diversification strategy	Reducing dependence by expanding revenue sources (Fowles, 2014)	Strategy to improve financial sustainability
Integrated perspective	Complementarity of theories	Institutional + structural constraints jointly shape behaviour	Explains hybrid institutional responses

The conceptual analysis has an integrated theoretical framework that can be seen in figure 1. The two models of analysis, Institutional Theory and Resource Dependency Theory are used as complementary theories that provide different forms of construct that, when combined together, stand out as explanatory variables of the normative, cultural and structural aspects of financial sustainability within Malaysian public HLIs. Institutional Theory describes the influence of competing logics and isomorphic pressures on organisational responses to funding reform, and Resource Dependency Theory describes how structural dependence on government constrains institutional strategic autonomy. Both lenses centre financial sustainability as the main analytical output, which is placed in the policy context of the Malaysia Higher Education Blueprint 2026 to 2035, the New Funding Formula, and the governance constraints of the Universities and University Colleges Act 1971.

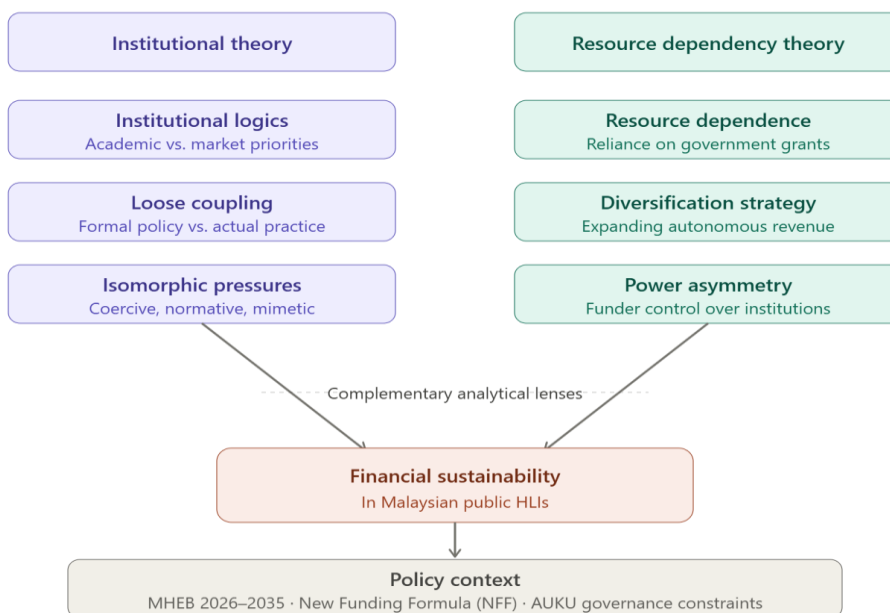


Figure 1: Integrated Theoretical Framework for Financial Sustainability in Malaysian Public HLIs

## LITERATURE REVIEW

### **The Global Context of Higher Education Financial Sustainability**

In the 2020s, financial sustainability has become a characteristic issue in the higher education systems around the world. OECD (2025) reports that more institutions of higher learning are increasingly finding themselves in unfavourable financial positions due to the overlapping of shrinking state subsidies, growing operations expenses, shifting demographic trends in relation to enrolment, as well as the escalated international competition of students, talent, and research resources. According to the report, to become financially sustainable, institutions must be able to recapture the full economic cost of their operations and ensure adequate investment in human, intellectual, and physical capital in order to achieve their strategic and societal missions.

A study by PricewaterhouseCoopers (2024) in the United Kingdom estimated that by the academic year 2024-2025, about 36 per cent of institutions of higher education will be projected to be in financial deficit, due to real-terms declines in domestic tuition fees, and the increased susceptibility of institutions to changes in international student enrolment. The University of Australia has 39 member universities in Australia of which 25 reported operating deficits in 2023 (OECD, 2025). These trends, which are largely concentrated within advanced higher education systems, highlight the systemic nature of financial sustainability pressures, and their impossibility to be solved by gradual policy changes.

Financial sustainability issues in developing country settings are further complicated by structural constraints of the public finance systems, the political economy of higher education funding, and the importation of Western performance funding models that are based on institutional settings with vastly different resource endowments and governance capacities (Schiller and Liefner, 2007). According to Jaafar et al. (2023), though revenue diversification is now widely promoted as a strategic solution to financial pressure, the capacity of developing countries and the regulatory environment severely limits its effectiveness.

### **Financial Sustainability in Malaysian Public Higher Learning Institutions**

Financial sustainability of Malaysian public HLIs is an issue that has been of increasing scholarly interest since the mid-2010s, following the financial governance reforms entrenched in the Malaysia Education Blueprint 2015-2025 (Higher Education) (MoE, 2015). The Shift 5 on financial sustainability of the Blueprint directly demanded that public universities diversify their revenues, cease relying on government grants, and improve cost efficiency, creating the policy environment in the context of which later studies have taken place.

A survey-based study of top officers in all 20 Malaysian public universities by Nik Ahmad et al. (2019) revealed that respondents were generally open to financial sustainability issues impacting their institutions but noted that there were strong limitations to revenue increase. Raising tuition was not viewed as a practical solution and full utilisation of available resources was the most practical approach that could be taken in the near future. The research was able to point to the mismatch between the desire of the policy and institutional capability to diversify revenue in a meaningful manner.

In the study by Mamat et al. (2021), the conceptual and empirical comprehension of the financial sustainability of Malaysian higher education institutions was further developed with the help of the qualitative design based on semi-structured interviews and document analysis in the leading Malaysian universities. Based on New Institutional Sociology and the institutional logics approach, the research concluded that universities dealt with the conflict between academic and financial logics by compartmentalising functions and loosely coupling them to allow the co-existence of the two logics without basic resolution. The theoretical implications of this finding are important, as they indicate that reforms to financial sustainability can be institutionally accommodated in ways that will not alter the surface compliance, but leave deeper institutional structures intact.

A panel data analysis of financial sustainability of 20 Malaysian public universities was conducted by Jaafar et al. (2023) using data between 2008 and 2017. The Hirschman-Herfindahl Index was used to measure revenue diversification and the Return on Assets and Net Profit Margin was used to measure financial sustainability. The researchers established that the diversification of revenues was significantly related to the financial sustainability, in terms of Return on Assets. The authors observed that the previous decades of structural

dependency on government funding had constrained the institutional capacity and organisational inclination towards market-based income generation.

In particular, Ahmad et al. (2023) investigated the NFF in terms of the implementation strategy and defined institutional readiness, transparent performance indicators, and consistent policy support as the three determinants critical to the successful formula implementation. Their later work (Ahmad et al., 2024) stressed the need to design funding mechanisms in alignment with long-term national development goals and that sustainable funding reform cannot be attained by mere technical redesign of allocation mechanisms. The body of these studies collectively confirms that the issue of financial sustainability in Malaysian public HLIs is a multi-dimensional and institutionally embedded issue and not just technical.

### Revenue Diversification: Strategies, Limitations, and Contradictions

The policy reaction to the problems of financial sustainability in Malaysian public HLIs has been predominantly revenue diversification since the establishment of the University Transformation Programme (MoHE, 2016). The Purple Book details the general strategies of income generation, including improvement of commercial activities and establishment of the endowment and waqf funds. Based on this framework, Malaysian universities have more opportunities to expand on similar lines, such as commercialising research, raising funds through alumni, corporate sponsorship, and offering professional development courses.

Regardless of these efforts, the empirical studies indicate that the revenue diversity in Malaysian public universities is not extensive and profound in its effect. A study by Jaafar et al. (2023) revealed that the Hirschman-Herfindahl Index values of Malaysian universities reflected low degrees of income diversification, with the majority of the institutions being overweighted to government grants and student fees. Similar results were reported in a study by Nik Ahmad et al. (2019), which revealed that generation of income was focused on regular and low risk activities, with minimal participation in more value entrepreneurial and commercialisation approaches. These are in line with Makki and Al-Filali (2024), who have shown within the framework of Saudi Arabian HLIs that strategic enablers, specifically good governance and regulatory structures, are fundamental in ensuring financial sustainability. These enablers were determined by their modelling approach to be causally precedent over other financial sustainability initiatives. Table 3 synthesises the key drivers and constraints of financial sustainability in Malaysian public HLIs, as identified across empirical studies and policy analyses.

Table 3: Drivers and Constraints of Financial Sustainability in Malaysian Public HLIs

Dimension	Evidence-Based Drivers	Evidence-Based Constraints	Source
Financial	Revenue diversification strategies	Low diversification levels	Jaafar et al. (2023)
Institutional	Performance-based funding (NFF)	Institutional readiness challenges	Ahmad et al. (2023)
Governance	Policy reform under MHEB 2026–2035	Regulatory constraints (AUKU)	MoHE (2026); Bernama (2026)

Even the few qualitative studies that exist portray significant contradictions in the quest of revenue diversification. Mamat et al. (2021) discovered that the financial sustainability agenda generated conflicts within universities between academic personnel accustomed to commercialisation being contrary to scholarly ethics and administrators aiming to increase income-generating endeavours. These strains were addressed by means of loose coupling, which is also a trend in line with the predictions of the Institutional Theory of the way organisations react to the consonance of institutional logics. Nevertheless, loose coupling also means that the financial sustainability agenda might not be highly institutionalised, which calls in question its long-term efficiency.

### Conceptual Analysis: Financial Sustainability as an Institutional Challenge

#### The Nature of Financial Unsustainability in Malaysian Public HLIs

The financial unsustainability of Malaysian public HLIs is not a new reality, and not necessarily an effect of fiscal austerity. It is a structural phenomenon based on the historical pattern of government-university funding relationship, the cultural institution of public universities and the system of governance in which Malaysian

higher education is conducted. The MHEB 2026-2035 (MoHE, 2026) explicitly recognises that a portion of the private HLIs have been shut down because of unsustainable funding models, and that the financial strains experienced by the public institutions have undermined the quality of education, research productivity, and institutional resilience.

The institutional theory viewpoint on financial unsustainability of the Malaysian public higher learning institutions (HLIs) can be interpreted as a disposition of an institutionalised resource dependency (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). The historical tradition of high government funding provided an organisational field, in which the strategies of the public universities were formed under the premise of the high state support. This pressure on this funding model, especially since the 2007 National Higher Education Strategic Plan has created a structural mismatch between the environment that institutions were created to work in and the environment institutions are presently in.

The lack of alignment is further worsened by the constraints of governance. Being statutory bodies under the Universities and University Colleges Act 1971 (AUKU), the public universities are subject to vast government directives regarding human resource management, procurement, finance management, and the development of academic programmes (Bernama, 2026). These restrictions pose a significant setback to the institutional nimbleness required by financial sustainability. Regarding resource dependency, the regulatory framework is in itself a dependency that defines the strategic environment to institutions (Pfeffer and Salancik, 1978).

### Competing Institutional Logics and the Financial Sustainability Agenda

The proposed theory that can explain the introduction of performance linked funding in the form of the New Funding Formula (NFF) is a collision of two institutional logics that have historically co-existed in an uneasy state of equilibrium in Malaysian public universities: an academic logic and a market accountability logic (Friedland and Alford, 1991; Thornton et al., 2012). The scholarly rationale Favours the quality of the teaching, excellence in research, scholarly independence, and a sense of mission in serving the public. The market accountability argument Favours quantifiable performance metrics, economic efficiency, revenue growth, and competitive advantage. The NFF operationalises the market accountability logic in a very direct and consequential way by conditioning institutional funding on the meeting of certain output requirements (Ahmad et al., 2023; Ahmad et al., 2024). Those institutions which score high on the output criteria of the formula get more funding and those which do not get less. This constitutes a fundamental reorganization of the incentive environment in which public universities are situated, which focuses institutional attention and resource allocation on the activities that are formula eligible and rewarded in the formula, potentially to the detriment of the activities that are institutionally prized but not formula eligible (Jaafar et al., 2023; Nik Ahmad et al., 2019).

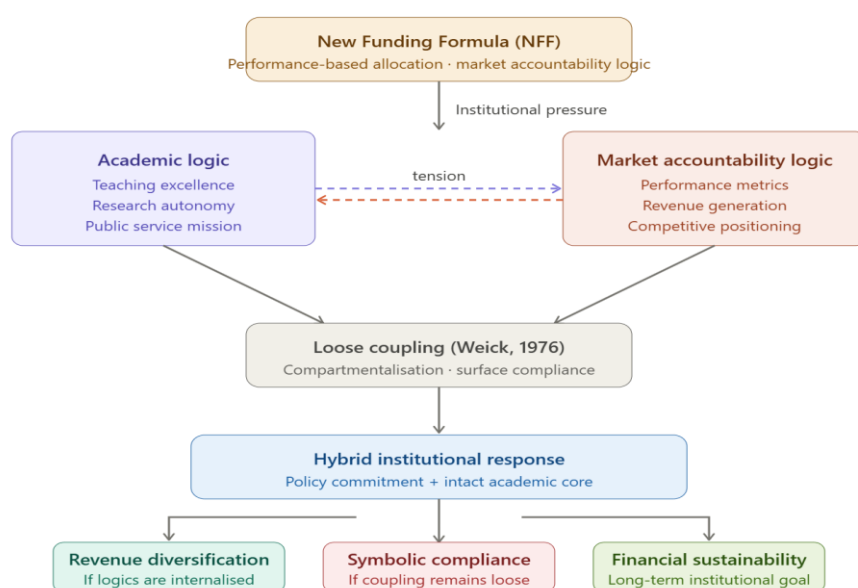


Figure 2: Competing Institutional Logics, Loose Coupling, and the Role of the NFF in Malaysian Public HLIs

This is exactly the dynamic described by Mamat et al. (2021) in their study of Malaysian public universities response to the financial sustainability agenda, as the institutions did not employ compartmentalisation and loose coupling as a deliberate resistance to change but as a means to coexist between the academic and financial logic. The results show that universities juggle the academic and financial logic that is incompatible to survive and appear legitimate (Mamat et al., 2021). Through compartmentalisation of functions of the major divisions and the loose coupling, universities can sustain two logics, and they are formally committed to the financial sustainability agenda on the policy level, and at the same time retain the academic logic in the day-to-day operations (Mamat et al., 2021). This structure is consistent with the larger fact that loose coupling enables organisations to be legitimate amidst competing institutional pressures (Weick, 1976; Meyer and Rowan, 1977). Although this strategy conserved institutional legitimacy and minimized internal conflict, it also constrained the extent of institutional change to attain true financial sustainability. Similar trends of selective coupling and compartmentalisation have been noted in other developing country university settings where academic and business logics are in contention (Mkasiwa, 2022; Baker, 2024).

The theoretical implication is considerable: the effectiveness of the NFF as a financial sustainability mechanism will require not only the technical specifics of the input and output criteria design but the extent to which the market accountability logic it inculcates will be internalised by institutional actors and not merely accommodated with the help of loose coupling (Schiller & Liefner, 2007; Dougherty and Natow, 2020). It is exactly such an interpretive, institutional question, that the qualitative, context sensitive scholarship is singularly well placed to answer and exactly such a question that has not been answered in the extant literature on higher education finance in Malaysia.

Figure 2 illustrate the institutional conflict in the heart of the financial sustainability reform in the Malaysian public HLIs. The New Funding Formula is the main generator of institutional pressure, bringing in a market accountability logic that is structurally in conflict with the historically dominant academic logic. The figure is based on the institutional logics approach (Friedland and Alford, 1991; Thornton et al., 2012) and the notion of loose coupling (Weick, 1976) to show how universities react to this tension by compartmentalising and engaging in surface compliance, which creates a hybrid institutional form. This reaction produces two possible paths, one with real diversification of revenues and sustainable financial performance in the long term, with market logic internalised, and one with symbolic obedience to the loose coupling that preserves the underlying organisational structures intact.

### **The MHEB 2026-2035 and the NFF: Escalating Institutional Pressure**

The MHEB 2026-2035 (MoHE, 2026) represents a significant opportunity for Malaysian public HLIs to embrace financial sustainability and enhance their long-term viability. By prioritising financial sustainability as a strategic change, recognising the decade long contraction in per-student government funding, and strategically shifting towards centralised to sustainable funding, the MHEB 2026-2035 gives Malaysian public universities the ability to adopt the future of financial independence. The days of high and unconditional government subsidies are being discontinued in favour of a more dynamic and sustainable model of funding.

The policy implications of this policy course are far-reaching. According to the MHEB 2026-2035, total institutional funding will be comprised of a mixture of government grants, student tuition fees and independently generated institutional revenue (MoHE, 2026). This three-part structure implicitly makes institutional income generation not a side activity but a structural requirement, without which the overall cost of education cannot be met. The market accountability logic is further embedded in the funding architecture by the government promise to award similar grants based on the performance and sustainability outcomes.

The NFF, being the main funding tool that this policy intent is implemented with, is not, therefore, a technical update to resource allocation processes. It is a governance tool whereby the Malaysian government aims at bringing about a fundamental behavioural change among the public universities: a passive recipient of state subversion to a performance-based and performance-oriented institutions able to compete and justify the resources they get. The interpretation of this instrument of governance, its responses, and the limitation of institutional actors in Malaysian public universities is thus of first-order policy importance.

## DISCUSSION AND POLICY IMPLICATIONS

### Theoretical Contributions

The present paper contributes to the literature on higher education finance in two main ways. First, it contributes to the Institutional Theory as a theoretical framework of analysis of financial sustainability in the context of developing-country higher education. Although Institutional Theory has been used in the context of governing higher education in developed-country contexts (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Thornton et al., 2012), its application in the context of the particular issue of financial sustainability in Malaysian public HLIs is new. As shown in the analysis, financial sustainability cannot be narrowed down to technical matters of how funding mechanisms are designed or how a revenue diversification strategy should be designed; it is essentially an institutional problem that is conditioned by competing logics, path dependency, and governance and is shaped by the normative expectation of various stakeholder communities.

Second, the paper incorporates Institutional Theory and Resource Dependency Theory into a mutually supportive analytical framework that encompasses the aspect of cultural-normative, and structural-strategic of financial sustainability. The integration adds to the theoretical repertoire that researchers could use when studying financial sustainability in higher education by allowing them to simultaneously study how institutions are culturally constrained by institutional logics and strategically constrained by resource dependencies. The combined framework presents a more contextually sensitive and analytical platform than either theory do alone.

### Policy Implications

The discussion formed in this paper produces a number of the tangible policy implications to the Ministry of Higher Education and the leadership of the Malaysian public HLIs. First, institutional capacity building needs to be sustained, as the NFF is being implemented. It is proven throughout the existing literature that the strategic enablers of financial sustainability, such as the quality of governance, leadership ability, and organisational culture, are as significant as the technical design of funding mechanisms is (Al-Filali et al., 2024; Ahmad et al., 2023). It is not possible to redesign the allocation formulas and expect that institutions would be able to move out of decades of structural dependency to actual financial self-reliance.

Second, the input and output criteria of the NFF should be designed as a careful calibration to the reality of Malaysian public universities. The risk that performance-linked funding will direct institutional attention toward easily measurable outputs at the expense of less quantifiable but institutionally vital activities is well documented in the international literature (OECD, 2025). The policy environment of Malaysia, which has a specific set of governance restraint, cultural demands, and resource scarcity increases this risk. Even the MHEB 2026-2035 (MoHE, 2026) admits this tension, making the human-focused values and the sustainability of the institutions the priorities to be on the same level with performance and efficiency.

Third, the governance system in which Malaysian state universities are conducted should also change along with the financial sustainability agenda. Governance is one of the areas of reform proposed by the Malaysia Higher Education Blueprint 2026-2035 (MHEB) (Ministry of Higher Education Malaysia [MoHE], 2026). This emphasis implies that the current governance systems might have historically limited the reforms. Hence, governance reform and financial sustainability reform should be prioritized and coordinated but not followed as two parallel but unrelated policy streams. Institutions cannot be supposed to exhibit the financial nimbleness and strategic enterprise which the New Funding Formula (NFF) requires in governance systems that are created to deal with passive receivers of resources, as opposed to competitive and results-oriented institutions.

Fourth, the transition in policy about centralised to sustainable funding should be handled with clear focus on equity. Equity is a fundamental desire in the Malaysia Higher Education Blueprint 2026-2035 (Bernama, 2026). The design of the funding formula should thus include equity adjusting mechanisms which ensure financial sustainability of newer, smaller, less research-intensive state universities which are most structurally constrained in adjusting to a performance-based funding environment.

## Implications for Future Research

The following are some of the key directions this paper outlines in regard to future empirical research. To begin with, qualitative and interpretive research on the understanding of the logic of the NFF by institutional actors at the Malaysian public universities in terms of the criteria of its inputs and outputs and how they adjust their institutional strategies in response to the structures of its incentives is urgently required. These studies would fill the biggest gap in the literature that has existed in the existing literature: a lack of context-sensitive, institution-level analysis of the experience and response of the institutions under the NFF to the institution.

Second, longitudinal studies of the financial performance of Malaysian public universities prior to the adoption of the NFF and following its adoption would be valuable in providing empirical findings on the effectiveness of the formula as a financial sustainability tool. These studies must use several indicators of financial sustainability, not limited to profitability indicators, but reflecting the wider sense of institutional financial well-being found in international literature (OECD, 2025).

Third, comparative research on the application of performance-linked funding mechanisms in various higher education systems in developing countries would yield valuable contextual information. The international literature has shown that the success of performance-based funding is very much influenced by the institutional setting in which it is being applied (Schiller and Liefner, 2007). Comparative studies would assist in determining the boundary conditions within which such mechanisms are likely to work in such similar contexts like in Malaysia.

## CONCLUSION

This paper has discussed the concept of financial sustainability as a structural issue facing Malaysian public higher learning institutions and has used Institutional Theory and Resource Dependency Theory to formulate a theoretically informed conceptual analysis. This analysis illustrates that financial unsustainability in Malaysian public HLIs is an intensively institutional phenomenon based on historical trends of resource dependency, competing organisational logics, and governance constraints, and not just a technical issue of funding mechanism design. The NFF and the MHEB 2026-2035 (MoHE, 2026) are the boldest and most far-reaching policy action in response to the issue of financial sustainability in the history of Malaysian public higher education. In committing financial sustainability as a strategic change, following ten years of negative real-terms growth in per-student government spending, and signalling a fundamental change in the institutional funding model of Malaysian higher education institutions towards sustainability, the Blueprint is an undoubted and irreversible shift in the financial management of the Malaysian public higher education sector.

However, the analysis also shows that the current policy approach has significant shortcomings. Technically-designed financial sustainability reforms which are institutionally-mandated but not institutionally embedded run a risk of being accommodated by the loose coupling of formal compliance on the surface whilst underlying institutional structures and institutional academic logics are maintained. To realise true financial sustainability in Malaysian public HLIs thus does not simply lay in the redesign of funding mechanisms nor does it lie in an ongoing, contextually aware programme of institutional change which deal with governance capability, leadership ability, organisational culture and the structural circumstances which have traditionally limited institutional financial agility. The stakes are high. The systemic effects of financial breakdown in state universities, in access by students, research capacity and national development, are immense, as the MHEB 2026-2035 recognizes, some higher learning institutions have already been shut down owing to unsustainable financial models, and the systemic impacts of financial failure on higher education institutions are vast. This paper is part of the academic background needed in evidence-based, contextually specific policy and institutional reactions to one of the most severe problems of Malaysian higher education over the next decade.

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