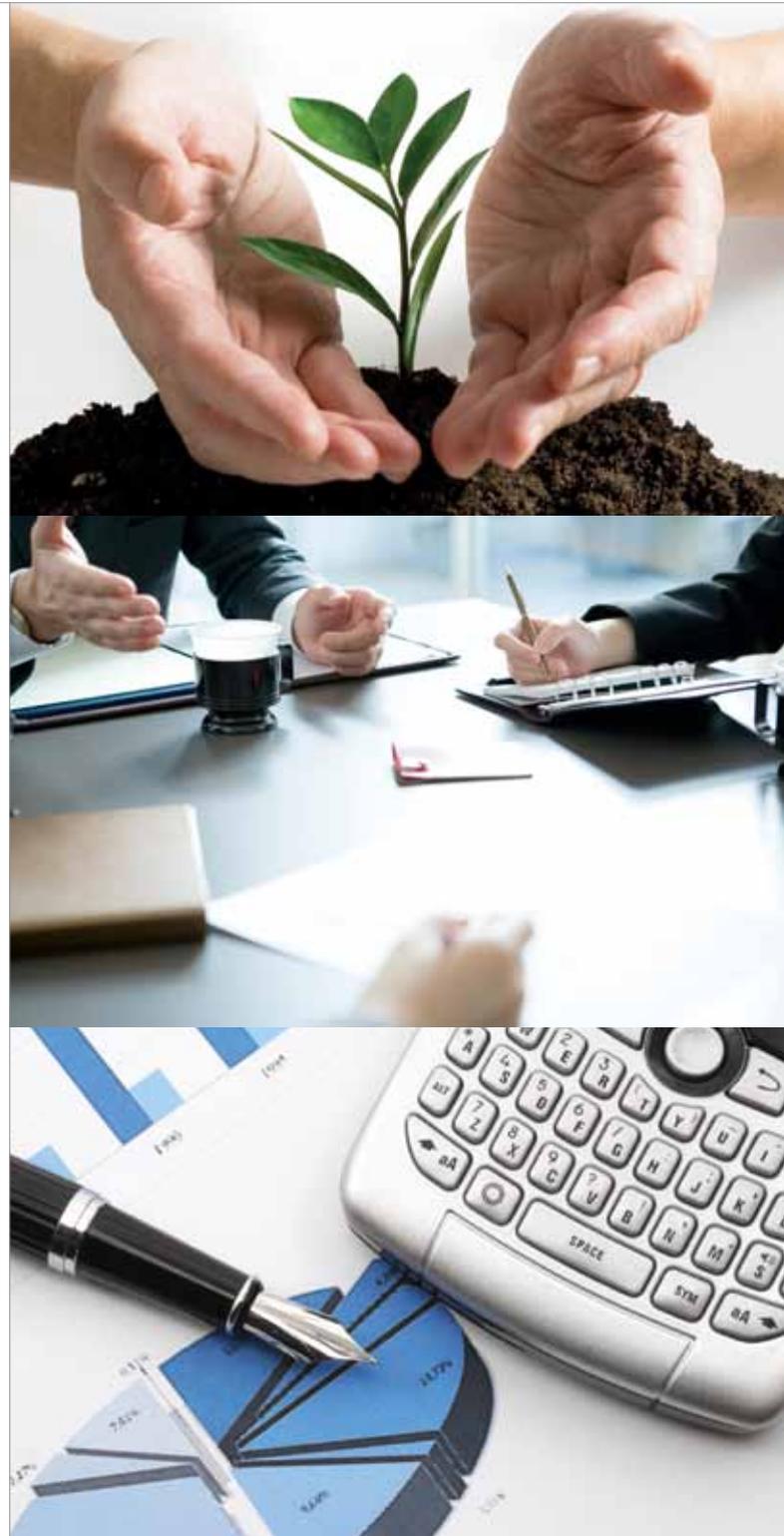




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FOREWORD by MIA PRESIDENT

ABDUL RAHIM ABDUL HAMID

Once again, we are pleased to extend to you this e-book which features a compilation of the winning articles of the Malaysian Institute of Accountants (MIA) Articles of Merit Award on Professional Accountants in Business (PAIB) 2009.

A majority of our membership is made up of accountants in business. It is important for us to continue to engage members and move them towards enhancing their professional knowledge and skills consistently.

This e-book intends to provide a platform for engagement on important concerns that shape the profession. It will spur the adoption and development of best practices in order to promote the value of professional accountants in business. Member development is a key MIA agenda. Hence we are committed towards recognising the contribution of the members of our profession.

It is with these objectives in mind that the Articles of Merit Award initiative was conceptualized. Apart from offering insights into the latest developments in the profession, it is also meant to recognise the authors of articles that are judged to make a distinct and valuable contribution to the development of the roles and domain of the professional accountants in business.

In July 2009, the competition was opened to professionals, academicians and students from the accountancy fraternity. Following an adjudication process, the three winning articles were chosen and they are featured in this e-book. The articles are current and are in relation to the events shaping challenging the business landscape of our time. We certainly hope the e-book will offer much value to readers.

Hopefully many more articles of a higher standard will be put forth in times to come and challenge the intellect of the practitioners of the profession. That said I wish you a pleasant and interesting time reading these articles.

Thank you.

FOREWORD by PAIB COMMITTEE CHAIRMAN

YEO TEK LING

On behalf of the Malaysian Institute of Accountants, it gives me great pleasure to present to you this e-book featuring the winning articles of the 2009 Malaysian Institute of Accountants (MIA)'s Articles of Merit Award on Professional Accountants in Business. This is the second year that MIA has organised this Award.

The PAIB Committee constantly strives to facilitate the adoption and development of best practices with the purpose of promoting the value of professional accountants in business and assisting MIA members in enhancing their professional skills and knowledge. These objectives are achieved via channels for exchange of information, such as this manner, on important issues that shape the profession.

One of PAIB's primary goals is to study and review suitable publications issued by the Professional Accountants in Business Committee of the International Federation of Accountants (IFAC) and/or other relevant sources and to promote the publications to members and the public at large.

In July 2009, the competition was opened to professionals, academicians and students from the accountancy fraternity. Articles submitted were then subjected to a two-tier review by our PAIB Committee Review Team and a Panel of Judges to the stringent criteria in line with the conditions of the contest. In the end, three were deemed relevant and current in creating awareness and challenge thought leadership.

The articles are important in ensuring and preserving the way forward for the professional accountants in business. Besides offering insights into the latest developments in the profession, the objective of the publication is to give due recognition to the authors of these articles of merit.

I believe the readers will be able to relate to these journalistic endeavors which are close to the heart of the accounting profession. Suffice to say, at the end of the day our actions are always for the best interest of the public we serve.

Thank you.

ACKNOWLEDGEMENTS

We hope you find these articles interesting and insightful. We wish to record our appreciation to the parties that have made this Award and the publication of the e-book possible namely the Panel of Judges and the Review Team of the Professional Accountants in Business Committee.

We also wish to thank the PAIB Committee members for their guidance and the MIA PAIB Department Management team for their hard work in this Award.

To the authors who participated and contributed their time and effort in submitting their articles, we thank you.

Panel of Judges

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NOTE: Members of the PAIB Committee or Panel of Judges are not restricted from participating in this Award. However, if they are part of the review team they are excluded from assessing their articles and will not be given access to the markings of their articles.

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GOLD AWARD

Environmental Management Accounting: Some Empirical Evidence from Malaysia

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ABSTRACT

This preliminary study on environmental management accounting focuses on three pertinent issues: the extent companies in Malaysia implement EMA, the association between environmental management accounting (EMA) and environmental reporting (ER) and the perceptions of management (accountant) towards the development of EMA. Data was gathered through a postal questionnaire survey of 154 companies listed on Bursa Saham Malaysia. Of the 19 companies that responded, only 8 reported that they have proper accounting systems to handle environmental issues. Respondents who have EMA in place tend to disclose environmental information in their annual reports. On respondents' perception regarding the importance of EMA the results indicate that most respondents agree that EMA assists companies in generating environmental

information. Despite the advantage of EMA in assisting companies to generate environmental information, the respondents felt that EMA development should not be compulsory for all industries. The respondents believe that only industries whose activities have an impact on the environment should implement EMA. Additionally, they agree that the environmental sensitivity of industry influence the development of EMA and ER practices of the companies. The social issue life cycle theory is used to explicate the findings. Finally, the implications of the results are discussed.

1.0 INTRODUCTION

Society is increasingly becoming more concerned with environmental matters. Unless steps are taken to address such concerns, this changing view on environmental issues may well be a significant threat to the continued existence of any business organisation. Consequently, environmental issues are now regarded as strategic issues that go beyond mere compliance of environmental regulations. Companies are now developing systematic, proactive responses to environmental matters. This means that there is increasing pressure for companies to take a more holistic approach to environmental management.

The recent trend of companies adopting formal environmental management systems (EMS) is encouraging. However, just having an EMS may not be adequate. Firms need to ensure that environmental matters be

integrated fully into the accounting systems so that environmental considerations are factored into all business decisions. More importantly, there is a need to put in place an environmental management accounting (EMA) system so that good environmental management can provide opportunities for reducing costs. Given this, an environmentally proactive firm should have in place a formal EMS as well as a proper EMA system. Most importantly, to be effective, an EMS should be integrated with an EMA system (Birkin, 1996; Lodhia, 2003). While there have been many studies examining environmental reporting (ER) practices (e.g. Burritt and Welch, 1997; Nik Ahmad and Sulaiman, 2004), studies focusing on EMA, particularly in a developing country such as Malaysia, is still lacking.

Theoretically, environmental reporting (ER) should be based on information gathered

by a company's EMA system. However, this may not hold true in practice. Companies may embark on ER without having an EMA¹. Thus, this raises a very pertinent question: Is there a link between ER and EMA? Finally, what accountants say about EMA may provide an indication as to where we (accountants) are heading as far as environmental issues are concerned. Accordingly, this study attempts to examine three important questions pertaining to EMA.

Q1: To what extent are companies in Malaysia implementing EMA?

Q2: Is there an association between EMA and ER?

Q3: What are the perceptions of accountants towards EMA?

Our research is pertinent for three main reasons. Firstly, given that prior studies

dealing with environmental issues in Malaysia, have largely focused on ER practices (e.g. Nik Ahmad and Sulaiman, 2004; ACCA, 2004), extending our study to EMA will enhance literature in this area. Secondly, while prior studies have examined the link between environmental performance and economic performance, no empirical work on the link between ER and EMA has been undertaken. As indicated elsewhere in the paper, the absence of a proper EMA may have prevented firms from realising various opportunities for cost reduction. In traditional accounting, the internal accounting system generally supports external reporting. In environmental accounting, however, companies may provide environmental reports without putting in place a proper EMA system (a point alluded to earlier). Thus, the results of our empirical work may provide some evidence on the (fragile?) link between EMA and ER. Finally, our study will also provide evidence as to whether accountants perceive EMA as

¹ This is particularly true since ER is usually undertaken by the Corporate Communications division.

being relevant. The remainder of the paper is structured as follows. Section 2 discusses the components of environmental accounting, its benefits and the need to link EMA with ER. The theoretical perspective to understand the extent companies are implementing EMA is discussed in section 3. The theory of interest is the social issue life cycle theory.

The research method is explained in section 4 while section 5 discusses the results of the survey. Section 6 concludes with the implications of the results and suggestions as how environmental issues can be addressed by accountants and accounting professional bodies.

2.0 ENVIRONMENTAL ACCOUNTING

Companies are increasingly recognising that environmental performance has a positive influence on its economic performance. In other words, it pays to be “green” – that waste minimisation and energy efficiency schemes can result in substantial benefits. Thus, integrating environmental accounting into mainstream corporate accounting is essential. Environmental accounting (EA), according to Lodhia (2003) is the accountant’s contribution towards environmental sensitivity in organisations. Consequently, companies should develop a more integrated and complete accounting system which will specifically take into account the most significant environmental impacts of their activities. However, there are various perceptions and concepts of EA (Burritt, 2003). According to the Canadian Society of Management

Accountants, EA can be defined as “the identification, measurement and allocation of environmental costs, and the integration of these into business decisions, and the subsequent communication of the information to an organisation’s stakeholders” (Corrigan, 1998). Given this, EA, thus, encompasses both environmental reporting (ER) and environmental management accounting (EMA). However, EMA is sometimes referred to as environmental cost accounting, full cost environmental accounting, and green accounting (Mathews, 2003). For the purpose of this paper, we regard EMA as a system of accounting that integrates environmental issues with traditional accounting systems. Its primary objective is to provide information for external reporting (ER) and for internal decision making.

2.1 Environmental Reporting (ER)

Prior empirical studies on ER have provided evidence that companies are increasingly reporting the impacts of their activities on the environment, either in a stand alone environmental report or in their annual reports (e.g. Frost and Wilmhurst, 1996; Bewley and Li, 2000). In Malaysia, for example, a study commissioned by the Association of Chartered Certified Accountants (ACCA) in 2004, found an increasing number of companies reporting on the environment (ACCA, Malaysia Division, 2004). In 1999, there were only 25 companies reporting on the environment. In 2004, the number has increased to 60, a 140% increase. Thus, while this increasing trend in ER is encouraging, companies must now realise that they should move their focus beyond simple corporate environmental reporting towards the development of an integrated environmental accounting system that is capable of assisting

management in their day to day operations and strategic planning. More importantly, there is a need to put in place an EMA so that good environmental management can lead to cost reduction. Subsequently, this will lead to improved bottom lines.

Nyquist (1999) argues that while many companies are reporting on environmental issues, they rarely exhibit such information in their financial systems. This is not surprising. With companies not having an EMA system in place, it is very unlikely that they can capture the monetized amount of the impact of their activities on the environment. At best, such costs are aggregated or “hidden” under overheads (IFAC, 2005). Additionally, most companies’ ER generally report on the physical quantities (on the use of resources and the generation of waste). Very few are actually putting a monetary value on the amount of resources used or waste generated.

2.2 Environmental Management Accounting (EMA)

Because conventional accounting systems do not provide adequate information for environmental management, companies may not be able to realise the full benefits of being environmentally proactive (ED, IFAC, 2005). Thus, there have been suggestions that companies implement a proper EMA. There is no universally accepted definition of EMA. However, IFAC's guideline broadly defines EMA as the identification, collection, analysis, and use of two types of information for internal decision making: "physical" information on the use, flows, and fates of energy, water, and materials (including waste) and "monetary" information on environment-related costs, earnings and savings.

Accordingly, there are two pertinent issues when one discusses EMA. The first is its focus on quantitative physical information (as in kg,

joules, meters, and lbs,) and the second, the focus on monetary information. To reduce the potential environmental impacts of an organisation's products firms must have accurate data on the amounts of waste and emission, both in physical as well as monetised amounts.

Many companies are currently reporting on the physical quantities of resources used and waste generated. This is primarily because environmental issues are traditionally regarded the domain of HSE personnel (Health, Safety and Environment). Accordingly, the monetised amount of information on the generation of waste (apart from disposal costs) is lacking. It is only when environmental issues are made the responsibility of accountants that we can start measuring environmental impacts in monetary terms. To do this, the focus should now move beyond simple corporate environmental reporting towards the development of an integrated

environmental (management) accounting system. Such a system will be capable of assisting management in their day to day operations and strategic planning. In this, it is undeniable that the accountant should be an integral part of a company's process, a point alluded to earlier. The core elements of EMA (see Appendix A) focus on cost accounting, financial management, risk assessment and information systems. Firms must realise that having an EMA system in place will improve both its economic and environmental performances. The fundamental premise behind EMA rests on the need for companies to internalise environmental costs (Lodhia, 2003).

2.3 Association Between ER and EMA

The emergence of EMA in the last two decades according to Burritt, Hahn and Schaltegger (2002), is parallel to the need for companies to satisfy their stakeholders who

require environmental-related information. The authors further emphasised that the current conventional accounting practices do not support the generation of environmental-related information. The development and adoption of EMA will aid companies to identify specific environmental-related issues and allow them to manage the impact of their activities on the environment, as well as to report their performance (Frost & Wilmshurst, 2000). It is therefore essential for companies, particularly those in environmentally sensitive industries, to develop EMA in order for them to manage and report on their environmental performance. The old saying, "what is measured gets managed" is particularly applicable in the case of environmental matters. Li (2004) found that the lack of proper measurement of environmental accounting information can hinder companies from disclosing their environmental information. Masanet-Llodra (2006), in contrast, found

that most of the environmental management accounting information is largely used for internal purposes rather than for external reporting, thus indicating that there is no link between ER and EMA.

To better understand the extent EMA is implemented in Malaysian companies, the social issue life cycle theory is proposed. This is discussed next.

3.0 SOCIAL ISSUE LIFE CYCLE THEORY

One of the theories that may help us understand how companies have incorporated environmental issues in their business decisions is the social issue life cycle theory. The theory suggests that social/environmental issues follow a predictable evolutionary trajectory (Nasi et al., 1997: 298) incorporating three (3) distinct phases: the Policy Phase, the Learning Phase and the Commitment Phase. In the Policy Phase social/environmental issues become a managerial concern but management response is to generate a general policy to deal with the issue. In the Learning Phase, a specialist is given the responsibility to implement the company's social policy. This may be evidenced by the setting up of a specific division/department headed by a qualified professional to handle environmental matters. Finally, in Phase 3,

the company incorporates environmental/social issues into their business decisions. The issue then becomes the responsibility of the line managers. It is at this stage that the company begins to include environmental/social issues in performance evaluation and thus the involvement of accounting personnel becomes more prominent.

On the basis of the theory just discussed one may conclude that with regards to EMA implementation, Malaysia is at Phase 2 if the results show that most of the respondent companies have a separate Environmental Department headed by a qualified professional to handle environmental issues pertaining to the activities of the companies. However, if companies are actually incorporating environmental issues in their decision making

and strategic planning, then we are at Phase 3. More importantly, it is at this Phase that we will witness accountants and environmental professionals working together. Thus, environmental issues would no more be just the domain of environmental professionals. Alternatively, if a significantly large number of companies is just paying lip service to environmental issues with just a policy (on environmental matters) being indicated in the annual report and nothing else, then we are at the initial phase. As far as companies in Malaysia are concerned, having a policy that specifically addresses environmental issues is rather common. However, it remains just at the policy stage, with no concrete evidence to show that such companies are proactively addressing environmental matters².

Mahon and Waddock (1992) argue that the development of an issue, from one phase to the next, is generally associated with the public perceptions on the issue. According to them, the change in public perception of business organisations throughout the years forces companies to be aware of any emerging social issues in order to survive and gain success. Given the heightened awareness of environmental issue in Malaysia, one would expect the public to steer companies towards achieving the third phase, eventually.

² *It is interesting to note that in reporting about the environment, the 2001 annual report of a listed company in Malaysia referred to the fact that the company had its premises and the surrounding areas well lighted so as to improve the environment!*

4.0 RESEARCH METHOD

A mail questionnaire survey was used to gather data on the extent companies in Malaysia implement EMA. The questionnaire was sent to the Chief Finance Officer (CFO)/ Head of Finance Division/Finance Director.³

Together with the questionnaire was a cover letter, as well as a self-addressed envelope and stamp to encourage the respondents to respond and consequently to increase the response rate.

4.1 The Research Instrument

The questionnaire is adapted from Frost and Wilmshurst (2000) with some additional questions added to suit the purpose of the study. The questionnaire is divided into two (2) sections consisting of both open and close ended questions. Section A focused on examining if respondent companies have some kind of EMA in place. Three pertinent areas were examined. The first asked respondents on whether environmental matters have been included within their

existing management accounting systems such as in the costing system, budgets, capital budgeting, investment appraisal, performance measurement, internal reporting and risk assessment.

The second asked respondents if they have specific accounting procedures on the following items:

³ The title is different for some companies, but still refers to the one who handles the company's finances.

Waste
Energy usage
Recycling
Returnable packaging/containers
Pollution
Environmental contingent liabilities
Life cycle cost analysis in product development
Environmental costs in production costs
Addressing legal regulations

Finally, the third question focused on whether respondent companies have undertaken environmental audits to evaluate their environmental impacts. They were asked if their companies had undertaken either general environmental audits, waste or/and energy audits. Additionally, there were also questions on environment-related initiatives undertaken by respondent companies such as whether they have an environmental department, or if they have an EMS or whether there is a budget for research and development related to environmental matters.

In order to determine if a company has substantially incorporated environmental issues in their accounting system, we calculated the percentage of EMA procedures instituted by each company. This was done by taking the number of procedures that a company has and comparing that with the total number of procedures that they should have. From the procedures that they should have, we deducted those procedures that are perceived as not being applicable to them (based on their responses). A score of '1' is given if the company has the particular EMA procedure/tool in place (i.e. for a "Yes" answer), and '0' for "No". If the respondent answered "Not Applicable," the response was excluded from the calculation. Accordingly, a total score of 19⁴ (100%) is allocated for this section. However, the total score is flexible, depending on the responses of the respondents⁵. The formula is as follows:

⁴ There are 19 characteristics (EMA procedures/tools) listed on the questionnaire.

⁵ Flexibility is necessary as the 'Not Applicable' response is excluded from the calculation.

$$\text{Percentage of EMA instituted by company} = \frac{\text{Total "YES" x 100\%}}{\text{Total Score}}$$

OR

(in the case of companies answering "Not Applicable")

$$\text{Percentage of EMA instituted by company} = \frac{\text{Total "YES" x 100\%}}{19 - \text{Total "Not Applicable"}}$$

We regard companies that achieve 50% and more as those that have implemented EMA.

To examine the association between ER and EMA (i.e. Q2) respondents were asked about the environmental reporting practices of their companies. While it may be better if we had undertaken a content analysis of the annual reports of respondent companies, this was not possible since the responses were anonymous. In addition, respondents were also asked if they agreed to the following statement:

By having an Environmental Management Accounting (EMA) system in place, environmental disclosure/reporting of a company will be enhanced.

The final question in Section A focused on examining the perceptions of management on the importance of implementing EMA.

Section B comprised the general demographic questions, such as the place of operation, company's controlling stake, the sector the company is in, gross total assets, as well the annual turnover.

4.2 The Sample

The sample consisted of 154 companies listed on the Main Board of Bursa Malaysia. A systematic sampling method was used to choose the companies for the study. Companies were first classified according to the various industry classifications: consumer products, industrial products, construction, trading and services, finance, infrastructure, hotel, properties, plantation, mining and technology. The classification

of the industry is intended to ensure that all industries are taken into account during the sample selection. Every sixth company was then selected from the list and in total there were 154 companies selected.

5.0 RESULTS

5.1 Response Rate

A total of 19 useable responses were received. This represents a response rate of 12.3%. Due to time and cost constraints, there were no follow-up letters or calls made. Although the response rate appears low, this is consistent with other studies conducted in Malaysia (e.g., Ahmad, Hassan & Taha, 2004 and Mohd. Yusuff, 2004).

5.2 EMA Implementation

As for incorporating environmental issues in a company's existing accounting system, out of the 19 companies that responded, more than 50% said they have included environmental matters in their operational budgets as well as in risk assessment.

Table 1 : The Inclusion of Environmental Information in the Existing System

	N = 19			
	Yes	%	No	%
The costing system	5	26.3	14	73.7
The budgeting system	10	52.6	9	47.4
Capital budgeting and expenditure	8	42.1	11	57.9
Investment appraisal	6	31.6	13	68.4
Performance measurement and appraisal	6	31.6	13	68.4
Internal reporting mechanisms	7	36.8	12	63.2
Risk assessment	10	52.6	9	47.4

On whether companies have “stand alone” environmental accounting procedures, the results indicate that companies concentrated more on complying with legal regulations (10 companies) as opposed to being proactively involved in addressing environmental issues as in life cycle costing and the implementation of proper product costing systems to incorporate environmental costs. What is rather interesting is to have respondents indicating that they regarded accounting for

waste and energy usage as something that is not applicable to their companies. The same can be said of recycling. This may indicate that to Malaysians, being environmentally responsible does not include issues pertaining to the wastage of paper and the usage of water or energy. Clearly, this misconception needs to be addressed if companies in Malaysia are serious in addressing environmental degradation.

Table 2 : Stand Alone Environmental Accounting Procedures

	N = 19					
	Yes	%*	No	%*	Not Applicable	%*
Waste	8	42.1	5	26.3	6	31.6
Energy usage	8	42.4	6	31.6	5	26.3
Recycling	8	42.1	6	31.6	5	26.3
Returnable packaging/containers	5	26.3	6	31.6	8	42.1
Pollution	8	42.1	6	31.6	5	26.3
Environmental contingent liabilities	5	26.3	7	36.8	7	36.8
Life cycle cost analysis in product development	3	15.8	7	36.8	9	47.4
Environmental costs in production cost	3	15.8	7	36.8	9	47.4
Addressing legal regulations	10	52.6	3	15.8	6	31.6

* Out of a total 19 companies.

Unlike conventional audits, to date, there is no regulation imposed on companies to perform environmental audits. According to Watson and MacKay (2003), it is important to conduct environmental audits as it is a means to assess environmental information. More importantly, a company can evaluate its environmental performance through proper environmental audits. Table 3 presents the results. More than 50% of the respondents did not have any of the environmental audits

listed in the questionnaire, namely general environmental audits, waste audit and energy audit. The low rate of environmental audits amongst these companies provides an indication on the current state of Malaysian companies' practices with regards to these new types of audits. It is rather interesting (and indeed alarming!) to note that 9 companies said that energy audits were not applicable to them.

Table 3 : Environmental Audits

	N=18*					
	Yes	%	No	%	Not Applicable	%
General environmental audits	8	44.4	6	33.3	4	22.2
Waste audit	5	27.8	8	44.4	5	27.8
Energy audit	4	22.2	5	27.8	9	50.0

*One respondent offered redundant answers and had to be excluded.

The number of procedures that a company has was then calculated and compared with the total number of procedures that they should have. Only 8 of the 19 companies have more than 50% of the environmental management accounting procedures/tools listed in the questionnaire (see Appendix D for details). Thus, about 58% of the respondents have very few accounting procedures incorporating environmental issues. Accordingly, many of the companies (11) surveyed have not integrated environmental information in their decision-making process. Further, EMA implementation, at less than 45% (8 out of 19 companies), appears low. On the basis of this,

one may conclude that as far as environmental accounting is concerned, most companies in Malaysia may just be at the “Policy” phase. Or at best, Malaysian companies would be at Phase 2. Looking at the responses on whether respondent companies had an environmental department may provide further insight into this. Of the 19 companies that responded, 8 had an environmental department, 7 have an EMS in place and 4 have a budget specifically for research on environmental issues. Accordingly, given the results just discussed, one may also conclude that Malaysian companies may be at Phase 2 of the social issue life cycle theory.

5.3 Environmental Reporting And EMA

Of the 19 companies that responded, only 7 companies said they disclosed environmental information in their annual report. Thus, only about 37% of the respondents disclosed environmental information in their annual report. Of these, 5 of the companies have EMA in place. This means that 2 of the companies disclosed environmental information without having proper EMA procedures. Additionally, given that 8 companies have some kind of EMA in place and only 5 are reporting, this would mean that 3 companies are not disclosing environmental information despite having accounting procedures to enable these companies to do so. No further statistical analysis was possible given the low response rate and the small number of environmental reports that have EMA systems. Thus, this study is not able to support the hypothesis that there is a relationship between EMA and ER. However, respondents' answer to the

following statement may provide some insight into whether they perceive EMA supports ER.

By having an Environmental Management Accounting (EMA) system in place, environmental disclosure/ reporting of a company will be enhanced.

The respondents were also asked to provide reasons for their responses. Fifteen (15) respondents agreed with the above statement. Thus, accountants perceived the importance of EMA in supporting ER. Four (4) respondents believed that EMA helped them to monitor their environmental information, while 3 felt that EMA provided necessary and accurate environmental information for reporting purposes. Among the responses were:

Respondent 3: "Perhaps it can draw more focus to the area to 'what gets measured gets done'."

Respondent 12: "EMA is able to provide necessary and accurate data for environmental disclosure."

Respondent 16: "Creation of central depository of information which can be used for reporting."

Three respondents did not provide any reasons as to why they felt there is a link between EMA and ER. For respondents who did not agree with the statement, one believed that environmental information is not important to be disclosed as investors only look at the profit figures, while the other claimed that environmental information can be generated without EMA. One respondent was concerned with the cost and had this to say about EMA.

Respondent 8: "It really depends on what a company wants to report especially on environmental information. Having EMA in place may be a start but really one should weigh the cost of implementing EMA."

5.4 Importance of EMA implementation: Perceptions of accountants

To explore accountants' perception on the importance of implementing EMA, respondents were asked if they agreed with the following statement:

In your opinion, should Environmental Management Accounting (EMA) be implemented in all companies?

Similar to the first statement above, respondents were also asked to provide reasons for their responses. Eight (8) respondents agreed with the statement. Thus, less than 50% of the respondents viewed EMA as important. One respondent felt that there should be an environmental accounting standard issued by a professional accounting organisation. This is perhaps an indication that the Malaysian Institute of Accountants (MIA) should play a proactive role in assisting accountants to address environmental issues. Another felt that EMA is important as a means to encourage compliance with good environmental management practices. More importantly, one respondent felt that the implementation of such a system will create awareness of environmental issues.

Meanwhile, 10 respondents did not agree that EMA should be undertaken by all companies. They perceived that the implementation of EMA would be costly. In addition, they also believed that not all industries are involved with activities that create negative impact on the environment. Accordingly, the implementation of EMA in all companies may not be significant. Exact quotations from respondents follow:

Respondent 1: "Not every business is involved with environmental issues."

Respondent 6: "Not relevant for all industries. EMA is more appropriate for the manufacturing industry."

Respondent 7: "If costs exceed benefits, EMA should be exempted for non-qualifying companies."

Respondent 9: "Depends on the nature of the business and also the costs versus benefits."

Respondent 10: "Should be voluntary. Not mandated."

Respondent 12: "It may not be feasible for some companies to do it in terms of time and cost."

The above responses appear to be similar to anecdotal evidence gleaned from conversations with accountants in Malaysia. Perhaps this points to the fact that currently, accountants in Malaysia are still not convinced that being environmentally responsible would actually enhance their economic performance.

6.0 DISCUSSION AND CONCLUSION

There are three pertinent issues examined in this preliminary study. The first investigated the extent companies are implementing EMA. Our findings suggest that although companies may have integrated environmental issues in their accounting systems the percentage is rather low. Of the 19 companies that responded, only 8 reported that they have proper accounting systems to handle environmental issues. Further, of the 8 companies, 5 actually reported on environmental matters in their annual report. However, because of the low response rate, we were not able to support the hypothesis that there is an association between EMA and ER. More importantly, given that disclosure in annual reports is largely decided by the corporate communications division, the relationship between EMA and ER is, at best, tenuous. With regards

to the respondents' perception on the importance of EMA, the results indicate that most respondents agreed that EMA assists companies in generating environmental information. Despite the various advantages of EMA, respondents felt that EMA development should not be compulsory to all industries. The respondents believed that only industries whose activities impact on the environment should implement EMA. Additionally, they agreed that the environmental sensitivity of an industry influences the development of EMA and ER practices of the companies. On the basis of the results obtained in this study, we are definitely not at Phase 3 of the social issue life cycle theory as far as environmental matters are concerned. At best, we would be at Phase 2, the Learning Phase. The challenge for us now is to think of ways to encourage

companies and accountants to incorporate environmental issues in their decision making process and strategic management.

One of the ways to address this is for professional accounting bodies to take this issue on board. The EMA guidelines issued by IFAC are a step in the right direction. The ACCA-MESRA is another good example of creating awareness on environmental issues amongst companies in Malaysia. The Climate Change Week organised by a giant conglomerate, YTL Corporation, in Malaysia a couple of years back, has certainly pushed environmental matters at the fore front. The Malaysian Institute of Accountants, undoubtedly, has an important role to play. For a start, workshops on EMA and ER should be conducted for its members. Further, the MIA should also work in consort with the Malaysian Accounting Standards Board (MASB) to come up with guidelines on EMA to help proactive members to tackle this increasingly important issue.

The Malaysian government has rightly placed environmental issues a priority in the development of the country with increased legislations. However, it must be emphasised here that punitive measures and legislations may not be the answer. What is essential is perhaps to introduce a “green” tax. Green tax not only increases tax revenue but it also helps preserve the environment (Lim, 2009). While we concur with the idea on the green tax, we are of the opinion that such a tax should be in the form of tax credits.

Measures instituted by the government and professional bodies just discussed may not lead to any success in tackling environmental matters without the proactive stance of businesses. It is essential that companies need to systematically address environmental problems⁶. To be proactive on environmental issues, business organisations need to focus on various pertinent areas such as integrating environmental matters into capital

⁶Appendix B provide examples as to what other companies are doing to tackle environmental problems.

expenditure decisions; understanding and managing environmental costs; introducing waste minimisation schemes; understanding and managing lifecycle costs; measuring environmental performance and to embark on a strategic approach to environment related management accounting and performance evaluation. More importantly, companies must realise that environmental initiatives are not necessarily financial burdens but can contribute to financial value. Given that accountants are particularly good at integrating varied business functions from marketing to engineering, and since the environment is fast becoming another business function, it is only natural that accountants take on board this very important issue. Their understanding of cost accounting systems and easy access to managers from all divisions of the organization would place them in a unique position to advance the environmental agenda of a company. Accounting education is next. Accounting academics should introduce

environmental accounting as a course in institutions of higher learning for it is through education that a country can change the mental paradigm of its citizens.

Finally, and most importantly, companies must realise that being environmentally proactive would prove less costly in the long run. Efficient use of resources and proper environmental management and putting in place an EMA system, more often than not, result in simultaneously improving the biosphere and the company's bottom line (see Appendix C for the suggested steps to implement an EMA). As a concluding comment, it is worth our while to ponder on what Frank Popoff, the CEO of Dow Chemical once said about environmental responsibility of business organisations. According to him,

"No matter how competitive you are and how globally you trade, if you are environmentally irresponsible someone can and will - and should - padlock your door."

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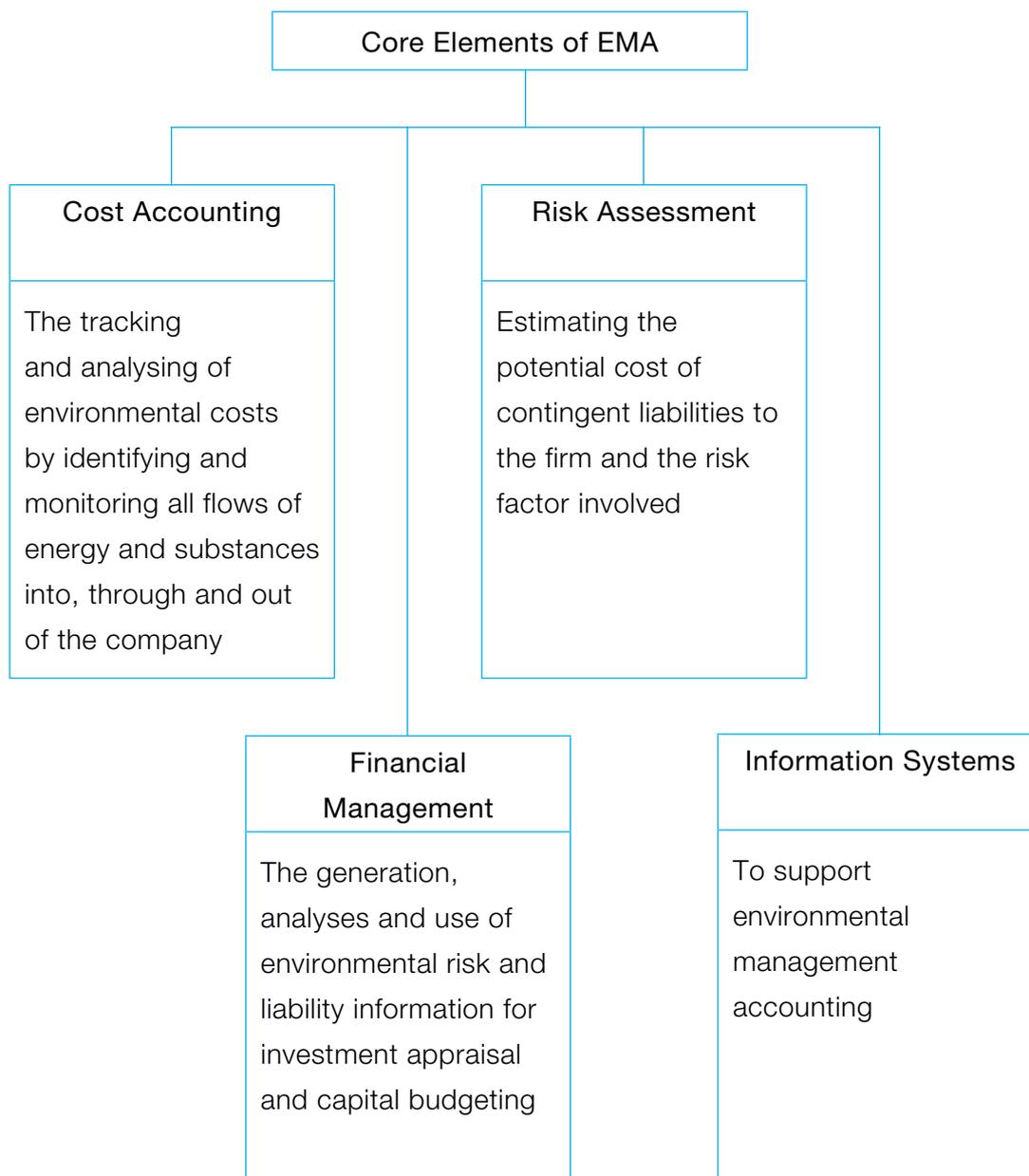
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Appendix A: Core elements of EMA



Appendix B: Some examples of how proactive companies address environmental issues (Sulaiman and Nik Ahmad, 2002).

Motorola

One way that a company can work towards sustainable development is through process innovations. In a manufacturing setting, process innovations would mean looking at how to produce a product more efficiently. Efficiency can come in the form of cutting the steps and/or the materials used. Motorola, for example, formerly used chlorofluorocarbons to clean their printed circuit boards. When the chemical was no more legal, they redesigned the whole soldering process so that it required no cleaning operations at all. The new process is not only ecologically more superior, it is also cheaper and the final product, better.

Xerox Corp

It was reported that Xerox Corp saved US

\$ 1billion by “remanufacturing” its new, entirely reusable or recyclable line of “green” photocopying machines.

Alpha Metals

The German Packaging Ordinance of 1993 requires all companies to accept returned packaging from customers without charge. This means that a company must be responsible for its products from “cradle” to “grave”. The “take-back” policy ensures that the responsibility of products and raw materials, at the end of the product’s useful life, rests with the manufacturers. With the new legislation, Alpha Metals, a German company that deals in (toxic) lead containing solder paste, had to think of a way that would enable them to use the returned containers. If, prior to the legislation they sold the paste in glass jars, with the take-back policy, they had to innovate and change to recyclable containers made from tin. The returned containers are then melted to become raw

materials for another process. Not only does this reduce costs but it is also environmentally positive.

Interface

Another proactive step that business enterprises can adopt to ensure sustainable development, is through a fundamental change in business models, i.e. from one that sells products to one that delivers services. For example, a manufacturer of carpets would not think of itself as in the business of selling carpets but as a provider of floor covering services. Interface, a carpet supplier in the US, is no more in the business of selling carpets. Instead, through its subsidiary, Evergreen Lease, Interface is now leasing carpets. Since at most 20% of an area typically shows at least 80% of the wear, replacing only the worn out parts reduces the consumption of raw materials by about 80%. Thus, energy is saved from not producing whole carpets and so are the raw materials. More importantly,

perhaps is the fact that replacing only worn out parts would mean minimal disruption to the customers.

Dow Chemical and Safety Kleen

Taking on board the new business model, Dow Chemical and Safety Kleen are no more selling solvents but in the business of leasing “dissolving” services. The new model allows them to reuse the same solvent over and over again, thus reducing costs and enhances environmental improvement. Advocates claimed that this new model benefits the whole economy and will also encourage long-term relationship with customers.

Source: Sulaiman, M. and Nik Ahmad, N.N. (2002) Ways Green Consumers Can Help New Straits Times, July 23rd.

Appendix C: Steps to be taken in implementing an EMA system in your company (Deegan, 2003)

1. Gaining support from senior management

From the beginning it was imperative to be able to signal to employees that senior management support the project.

2. Defining the boundaries of the proposed system

Are we to look at a product, a division, or an entire organisation? What is the scope of the costs to be considered (will we ignore, for example, 'societal costs')?

3. Ascertaining what are the organisation's significant environmental impacts

Refer to material supporting any existing environmental management systems. Ensure the environmental management team is involved. Can dollar values be put on the impacts?

4. Determining, how if at all, environmental impacts are being accounted for

Identify, if at all, where costs are being recorded for each environmental impact. Some of the information may be of a quantitative form, whereas other is qualitative. Note which costs do not seem to be recorded. Apply some form of process mapping. What waste-streams appear significant enough to justify additional review?

5. Defining environmental costs

Defining environmental costs early in the process will minimise any ambiguity that might arise for interested stakeholders both internal and external to the organisation.

6. Determining who will be in the 'review team'

You will need a mix of expertise, with the mix being somewhat dependant upon the boundaries of the proposed system.

A typical project team would include:

- an individual with accounting expertise who understands the existing accounting system;
- an individual who understands how environmental management accounting can be used within the organisation and what opportunities it can provide;
- an individual with environmental expertise who is able to explain the significant environmental impacts of the organisation;
- an individual who understands the resources consumed, or environmental costs being generated by the processes or activities to be investigated;
- an individual with information technology expertise who is able to advise on whether particular IT suggestions are practical and feasible; and lastly,
- an individual from senior management who is able to 'champion' the project within the organisation.

The importance of a multidisciplinary team cannot be overemphasised here.

7. Reviewing existing accounting systems

Determine how environmental costs are presently accounted for. Are the costs attributed to products by way of arbitrary allocations or by some form of activity based costing? Clearly list the environmental costs to be analysed and the bases of allocation currently being employed. This task will require close work with the accounting staff. Remember to consider what costs might be 'hidden'.

8. Identify environmental revenue or cost cutting opportunities currently being ignored

Where can improvements be made? Can waste be better sorted and recycled? Is waste being generated because of inferior materials being acquired? Is packaging currently being recycled and if not, why

not? Could alternative suppliers who accept responsibility for packaging be used? How would such initiatives influence costs?

9. Suggest changes to existing accounting system

The changes need to be clearly documented and it is essential that all implications of the changes be considered. For example, it is necessary to advise all users of the system about the changes, and why they are being made. Where possible, the process should include input from the people involved in preparing and using the data to ensure that suggested changes are practical. For example, if additional measurements are required, it would be useful to obtain opinions on what is the best way to incorporate the measurements.

10. Trial system by way of a pilot test

As with all information systems, it is necessary to trial a system and to 'iron out the bugs' before the system goes 'live'.

Note:

Continual communication and education about the project is extremely important to ensure its success and that staff understand the importance and benefits associated with being more environmentally focused.

Source: Deegan, C. (2003). Environmental Management Accounting: An introduction and case studies for Australia, Institute of Chartered Accountants, Australia

Appendix D: Descriptive Statistics on the Extent of EMA Application in Malaysian Companies

CHARACTERISTICS	COMPANY																		
	1	2*	3*	4*	5	6	7	8	9	10	11	12	13	14*	15*	16	17	18*	19*
1. The Inclusion of Environmental Information in the Existing System																			
• The costing system	x	✓	✓	x	x	x	x	x	x	x	✓	x	x	x	x	x	x	✓	✓
• The budgeting system	x	✓	✓	x	✓	x	x	x	✓	x	✓	x	x	✓	✓	x	✓	✓	✓
• Capital budgeting and expenditure	x	✓	✓	x	✓	x	x	x	x	x	x	x	x	✓	✓	x	✓	✓	✓
• Investment appraisal	x	✓	✓	x	✓	x	x	x	✓	✓	x	x	x	x	x	x	x	x	✓
• Performance measurement and appraisal	x	✓	✓	x	x	x	x	x	✓	x	✓	x	x	x	x	x	x	✓	✓
• Internal reporting mechanisms	x	✓	✓	x	x	x	✓	x	✓	x	✓	x	x	x	x	x	x	✓	✓
• Risk assessment	x	✓	✓	x	x	x	✓	✓	✓	x	✓	✓	x	✓	x	x	x	✓	✓
2. Stand Alone Environmental Accounting Procedures																			
• Waste	x	✓	✓	•	•	•	x	x	✓	x	•	x	✓	•	✓	•	✓	✓	✓
• Energy usage	x	✓	✓	•	•	•	x	x	✓	x	•	x	✓	•	✓	•	✓	✓	✓
• Recycling	x	✓	✓	•	•	•	x	x	✓	x	•	x	✓	•	✓	x	✓	✓	✓
• Returnable packaging/containers	x	•	✓	•	•	•	x	x	✓	x	•	•	x	•	•	x	✓	✓	✓
• Pollution	x	✓	✓	•	•	•	x	x	✓	x	•	x	✓	•	✓	x	✓	✓	✓
• Environmental contingent liabilities	x	✓	✓	•	•	•	x	x	✓	x	•	x	•	•	•	x	✓	✓	x
• Life cycle cost analysis in product development	x	✓	x	•	•	•	x	x	✓	x	•	x	•	•	•	•	x	•	✓
• Environmental costs in production costs	x	✓	x	•	•	•	x	x	✓	x	•	x	•	•	•	•	x	•	✓
• Addressing legal regulations	•	✓	x	✓	•	•	✓	x	✓	x	•	✓	✓	•	✓	•	✓	✓	✓

APPENDIX D (continued)

CHARACTERISTICS	COMPANY																		
	1	2*	3*	4*	5	6	7	8	9	10	11	12	13	14*	15*	16	17	18*	19*
Environmental Audits																			
• General environmental audits	x	✓	✓	•	•	•	x	✓	✓	x	•	x	x	•	✓	x	✓	✓	✓
• Waste audit	x	✓	x	•	•	•	x	x	✓	x	•	x	x	•	✓	x	•	✓	✓
• Energy audit	x	✓	x	•	•	•	x	x	✓	x	•	x	x	•	x	x	•	✓	✓
Total ✓ (A)	0	18	14	2	3	0	4	2	15	1	5	2	4	3	9	0	11	16	18
Total x (B)	18	0	5	7	4	7	15	17	4	18	2	16	11	4	6	15	6	1	1
Total • (C)	1	1	0	10	12	12	0	0	0	0	9	1	4	12	4	4	2	2	0
TOTAL* – (C)**	18	18	19	9	7	7	19	19	19	19	7	18	15	7	15	15	17	17	19
%***	0	100	73.7	22.2	42.9	0	21.1	10.5	78.9	5.3	71.4	11.1	26.7	42.9	60	0	64.7	94.1	94.7

"Yes" "No" "Not Applicable" No answer

* Environmental Discloser

* TOTAL denotes the total number of EMA procedures/tools listed in the questionnaire (19 in total).

** "Not Applicable" is excluded from the calculation as it is assumed that "Not Applicable" signifies that some tools are irrelevant to the company's business activities.

*** (%) is the percentage of the application of EMA tools/procedures in a company. Percentage (%) is obtained by taking [(A) divided by (TOTAL* – C**) x 100].

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SILVER AWARD

Intellectual Capital Information: Preparer's and User's Perspectives

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ABSTRACT

Intellectual Capital (IC) or intangibles is not only recognised as a significant contributor to companies' competitive advantage in recent years, it is also regarded as an important resource for corporate value creation. In the field of corporate reporting, this is evidenced by the voluntary disclosures of IC information in the annual reports and the increasing demand for information on IC matters. However, the supply of IC information by the preparers may not be sufficient and may not be that desired by the users. This paper explores the nature of IC information reported externally and that deemed important to the financial analysts and fund managers. Data was obtained from 100 randomly chosen annual reports. A check list of 76 IC items was initially developed to review the types of IC information disclosed in the annual reports. Fifteen interviews were then conducted on

15 financial analysts and fund managers to find out the types of IC information sought after by them in reviewing companies. The study found that IC information provided by Malaysian companies in their annual reports falls short of what is desired by the fund managers and financial analysts. On the other hand, only specific IC information was sought after by financial analysts and fund managers. The findings of this study provide an insight into the current external reporting of IC from both the preparer's and user's perspectives which is vital for the further development of the IC reporting framework.

1.0 INTRODUCTION

Intellectual Capital (IC) or intangibles is not only recognised as a significant contributor to companies' competitive advantage in recent years, it is also regarded as an important resource for corporate value creation. In the field of corporate reporting, this is evidenced by the voluntary disclosures of IC information in the annual reports. There is also a growing demand for disclosures on IC matters as evidenced in an extensive global survey by Taylor and Associates (1998) which reported that disclosure of IC information is ranked in the top ten information needs of users. Holland and Johanson (2003) too found that there is a strong demand for and use of corporate IC information by fund managers and analysts. According to Beattie, McInnes and Fearnley (2002) external reporting should give the capital market actors an opportunity to see the firm through the eyes of management,

implying that it is IC information that is used in managing the firms that should be reported.

Though external IC information is needed in investors' decision making, companies may or may not have produced enough IC-related information for them. According to Garcia-Ayuso (2003), companies are now disclosing an increasing amount of voluntary information on their intangibles. However, while disclosure of information on intangibles has been increasing in recent years, there are no clear signs that investors' and analysts' demands for information have been met. Steven Wallman, Commissioner of the Securities and Exchange Commission, predicts that the disclosure of IC-related information will one day become the most central emphasis of a firm's annual report (Edvinsson and Malone, 1997).

Since IC disclosure is at the discretion of the preparers, different kinds of IC information are disclosed externally which may not be those desired by financial analysts or fund managers. This paper explores the external disclosure of IC comprising human capital, customer capital and structural capital information in the annual reports as compared to that sought after by financial analysts and fund managers. The paper is structured as follows. The next section reviews literature

concerning IC and its components, external IC information disclosures and the need for external IC information. This is followed by section three which describes the research method. Section four provides a discussion of the empirical results. The paper then ends with some implications of the study in the concluding remarks.

2.0 LITERATURE REVIEW

2.1 Intellectual Capital and Its Components

There is no fully agreed upon definition of IC. The Organisation for Economic Co-operation and Development (OECD, 1999: 158) describes IC as 'the economic value of two categories of intangible assets of a company: organisational (structural) capital and human capital'. Meritum (2002) states that the terms 'intangible' or 'intellectual capital' are frequently employed interchangeably, without a clear definition, not always consistently and often applied to different concepts. Technically speaking, IC is intangible in nature but not all intangibles are intellectual in nature. However for the purpose of this paper the semantic difference between 'intangibles' and IC is ignored and the terms are used interchangeably.

Similarly, there is no unanimously accepted classifications or components of IC. Generally, most IC models assume three categories which are concerned with external relationships (relational or customer capital), internal infrastructure (structural or organizational capital), and people (human capital). In this paper, IC comprises human capital, customer capital and structural capital.

2.2 External IC Disclosures

Most studies on external IC disclosures in the past were conducted in isolation without comparing with IC information desired by users. The first content analysis on such study was conducted by Guthrie, Petty, Ferrier and Wells (1999) on the annual reports of top 20 Australian companies. The types of IC that

are most reported included human resources, technology and intellectual property rights and organisational and workplace structure. Brennan (2001) has subsequently replicated the study on 11 Irish knowledge-intensive companies and found that the level of disclosure was low and in qualitative form. Bozzolan, Favotto and Ricceri (2003) too replicated Guthrie et al.'s (1999) study and found that disclosures by Italian companies were concerning customers, distribution channels, business collaboration and brands.

In New Zealand, the voluntary IC disclosure is relatively low as companies often only report mandatory information (Wong and Gardner, 2005). There is little indication of trends in IC reporting within industries and no consistent application of methods of disclosures among these companies. In the UK, Williams (2001) investigated the annual reports (from 1996 to 2000) of 30 publicly listed companies and found a continuous upward trend in the

average amount of disclosure on IC.

In Sri Lanka, Abeysekera (2004) reviewed the 1998-1999 annual reports of the top 30 companies listed on the Colombo Stock Exchange and found that Sri Lankan companies are active in IC reporting, despite not employing the term 'intellectual capital' explicitly. IC was mostly reported in narrative form.

In Malaysia, Goh and Lim (2004) revealed that the voluntary disclosure of IC in the annual reports of 20 top profit-making companies was high but mainly non-quantitative. Three attributes were disclosed by all twenty companies namely, corporate culture, management philosophy and entrepreneurial spirit. Eighty percent were found to disclose work-related knowledge and work-related competencies. It was found that very limited disclosure was made on patents, copyrights, trademarks,

franchising agreements, know-how and vocational qualification. However, the sample size was small and only accounted for 2.4% of listed companies at the time. It can be assumed from their study that slow progress in measuring IC and the use of qualitative disclosure would be expected from Malaysian companies, as there is no evidence of IC statements reported by them to date. Foong, Loo and Balaraman (2009) too found that the extent of voluntary IC disclosure among public listed companies in Malaysia is low and mainly narrative in nature with no systematic or consistent reporting framework.

2.3 Need of External IC information

Financial analysts and fund managers as intermediaries and capital market participants scrutinise and analyse information provided by companies. Financial analysts also provide investors with buy, hold or sell recommendation reports or earnings

forecast. They sort out useful information and communicate the information to their clients via the analyst report. Arvidsson (2003) found that analyst reports contain a considerable amount of information on intangibles implying that analysts do look at IC in reviewing companies.

Studies in the US and the UK have shown that analysts value information about intangible resources (Coleman and Eccles, 1997). Vance (2001) too states that financial analysts are becoming more interested in the intangible aspects of business and analysts are asking more probing questions relating to these aspects. Holland and Johanson (2003) too found that there is a strong demand for, and use of, corporate IC information by financial analysts and fund managers.

Studies have shown that analysts obtain a large proportion of information through different sources, such as on-site visits,

management presentations, and conference calls, to obtain timely and relevant information about quality of management or strategic credibility (Pike, Meerjanssen and Chadwick, 1993; Breton and Taffler, 1995). These studies also revealed that financial analysts recognise IC information as a leading indicator of future performance and it is used in earning forecasts. Financial analysts obtain specific IC indicators and information in separate meetings. Some argue that such information should be made available in the annual reports to all users, rather than being disclosed only when requested at separate meetings, if it is relevant.

Based on the stakeholder theory, all stakeholders have a right to be provided with information on how organisational activities impacted them, even if they choose not to use the information. According to Guthrie, Petty and Ricceri (2006), organisations voluntarily disclose information about their intellectual, social and environmental performance, over and above mandatory requirements, in order to meet real or perceived stakeholder expectations.

3.0 METHODOLOGY

3.1 Content Analysis

The annual reports of 100 companies listed on the main board of Bursa Malaysia were randomly chosen using the stratified, systematic sampling technique. These companies were from the industrial products, consumer products, trading and services, technology, infrastructure, construction and property sectors.

A check list of 76 IC items (27 human capital items, 26 structural capital items and 23 customer capital items) was initially developed to review the types of IC information in the annual reports. The following coding system was adopted where '0' represents non-disclosure and '1' represents disclosure. The annual reports examined in this survey were for the years ended between 31 July 2004 and 30 June 2005. The non-mandatory sections in

the annual reports were the main focus of the content analysis. Key words were first searched using Adobe Reader 7.0. When a word was found, the sentence was read carefully to check whether it was relevant and whether any further explanation or description is given to that word.

3.2 Interview

A total of fifteen face-to-face, semi-structured interviews, five with stock broking firms, six with unit trust management firms and four with investment advising firms were conducted in March 2005. A series of pre-established questions were used to obtain views on what IC information is utilized and desired by the fund managers and financial analysts when reviewing companies. Interviewees are kept anonymous in this paper. Hence, a letter (A to O) is assigned to each interviewee.

4.0 FINDINGS AND DISCUSSION

4.1 IC Disclosures in the Annual Reports

Table 1 shows the disclosures of IC items by companies in percentage. As this paper compares IC disclosure in the annual reports with that sought after by the financial analysts and fund managers, Table 1 is not described in detail here but will be referred to in the discussion below.

4.2 Human Capital Information

Though IC is not specifically considered by the financial analysts and fund managers, there is specific information on human capital, structural capital or customer capital information that they looked for when reviewing companies.

Management information

Most of the human capital items disclosed in the annual reports were centred on directors (ranked 2, 5 to 7, 9 and 11 in Table 1) while financial analysts prefer more information regarding management or the real decision maker. But, information regarding expertise is currently vague in the annual reports and centred on directors only.

Table 1

IC Items Disclosed in the Annual Reports

IC Items	Rank	HC/CC/SC	% of Companies
Management processes	1	SC	97
Directors' skills	2	HC	85
Company strategies	3	SC	83
Growth in business or service volume	4	CC	80
Directors' training programme	5	HC	80
Directors' education	6	HC	76
Directors' knowledge	7	HC	65
Company direction	8	SC	65
Directors' expertise	9	HC	57
Quality of product/service	10	CC	56
Directors' competence	11	HC	51
Documentation of knowledge in manuals, databases, SOPs etc.	12	SC	49
Information systems	13	SC	43
Employees' training programme	14	HC	42
Succession plan	15	HC	34
Brands	16	SC	32

IC Items	Rank	HC/CC/SC	% of Companies
Market share/demand	17	CC	24
Development of new ideas/ products	18	SC	24
Customers' satisfaction with organisation/product	19	CC	23
Employees' skills	20	HC	23
Work safety & health	21	HC	23
Organisational culture	22	SC	23
Employees' competence	23	HC	21
R&D	24	SC	21
Employees' innovation/ entrepreneurial spirit	25	HC	18
Distribution channels	26	CC	17
Employees' expertise	27	HC	15
Management philosophy	28	SC	15
Leadership qualities of employees	29	HC	14
Employees' knowledge	30	HC	14
Partnership	31	CC	14
Business Collaborations	32	CC	14
Recruitment policy	33	HC	13
Corporate databases/software	34	SC	13

IC Items	Rank	HC/CC/SC	% of Companies
Leadership qualities of directors	35	HC	12
Employees' loyalty	36	HC	12
Business Alliance	37	CC	12
Long-standing relationship with our customers	38	CC	10
Timeliness of product delivery	39	CC	10
Employees incentive/reward scheme	40	HC	9
Customers' loyalty to our organisation/product	41	CC	9
Feedback from customers	42	CC	8
Licensing/Franchising agreements	43	CC	7
Data systems providing access to information	44	SC	7
Society's image of company	45	SC	7
Networking systems	46	SC	7
IT systems	47	SC	6
Internal communication policy	48	SC	6
Internal sharing of knowledge & information	49	SC	6
What customers want	50	CC	6
Customer networks	51	CC	6

IC Items	Rank	HC/CC/SC	% of Companies
Employees' motivation	52	HC	6
Employees' education	53	HC	5
Customer acquisition	54	CC	4
Customer complaints & response to complaints	55	CC	4
Joint Venture	56	CC	4
Patents	57	SC	3
Management control system	58	SC	3
Trademark	59	SC	3
Product life-cycle	60	SC	2
Implementations of new ideas	61	SC	2
Employees' profitability	62	HC	2
Employees' satisfaction	63	HC	2
Employee turnover	64	HC	1
Employees' IT literacy	65	HC	1
Copyrights	66	SC	1
Customer profitability	67	CC	1
Dependence on key customers	68	CC	1
Post-training evaluation exercises	69	HC	0

IC Items	Rank	HC/CC/SC	% of Companies
Dependence on key employees	70	HC	0
Length of time for product design/development	71	SC	0
Software licenses purchased	72	SC	0
R&D effectiveness	73	SC	0
Customer profile	74	CC	0
Updated customer list	75	CC	0
Favourable contracts	76	CC	0

MORI (2006) reveals that the perceived quality of management is the single most crucial factor for an analyst's rating and today's companies need to promote the experience and expertise of their senior managers to inspire trust in analysts. In addition, Beattie (1999) states that users consider disclosure regarding the quality of management to be insufficient. There is a need to improve

disclosures regarding the quality of management in Malaysian annual reports. Some interviewees stressed the importance of monitoring the movement of key people and especially teams in the company such as how well the company manages human resources, the human to machine ratio as well as company's dependence on labour.

Employees' incentive/reward schemes

When reviewing companies, interviewees G, H and C do consider how employees are compensated and rewarded. But, only 9% of companies sparsely reported such information in the 100 annual reports reviewed. Most interviewees try to get this information themselves by exchanging views with others or by asking their contacts.

Employees' loyalty

Interviewee L looks at employees' loyalty such as what makes them stay in a company. However, only 12 out of 100 companies disclosed this information. Information such as what makes employees stay can only be obtained by interviewing the employees via company visits or other sources. Most Malaysian companies only blandly acknowledged their appreciation of their employees' loyalty in the annual reports.

Employee training

Certain fund managers and financial analysts do look at information related to employee training. Interviewee D sees employees' training detail as relevant to his task but he said such information is not in the companies. Forty two percent of the companies disclosed information on employee training and some companies included financial and numerical figures in them. However, financial analysts and fund managers still find such disclosure inadequate.

4.3 Structural Capital Information

Some fund managers and financial analysts believe that the structural capital, or organisation structure, is important to the success of the companies. For example, interviewee E said that, "There must be clear philosophy, objectives, and guidelines in terms of procedures, everything documented."

However, management philosophy was only disclosed by 15 companies in their annual reports. As for documentation and operating procedures, 49% of the companies mentioned it in their internal control and corporate governance statements indicating that they are aware of and are putting operating procedures in place in their companies. Though management processes was ranked first (see Table 1) the interviewees do not regard this information as important. However, the interviewees do consider some specific structural capital information.

Company strategies and direction

It is generally accepted that disclosure should reflect management's understanding of the strategy and the value creation process of a company (Bukh, 2003). Company strategies (ranked third in Table 1) is quite frequently referred to in the corporate governance statement and internal control statement in

the annual reports, but it is generally vague. The fund managers and financial analysts need more detailed information, such as the execution of plans and how companies arrive at their targets. Such information is vital for them to establish projections for the companies and is frequently obtained by company visits.

Research and development (R&D)

This is one of the items most commonly looked for by the financial analysts and fund managers. They want to know information such as the allocation for R&D, the track record and revenue generated per R&D. However, the information actually disclosed in the annual reports is more on the amount already spent on R&D and it is reported in the income statement and balance sheet in mechanical compliance with financial reporting requirements. R&D reported in the other statements is purely non-quantitative.

No comment was made on the effectiveness of R&D expenditure.

Product development

This information, according to interviewee H, is highly relevant to the technology sector. A track record of the development from design to product is monitored for comparison purposes. In the annual report survey, 24 of the companies (one from the technology sector) disclosed qualitative information on product development focusing on their commitment and efforts put in to develop new products. However, further explanations such as product design stage and the length of time the company took to develop a product ready for sale were not provided.

Quality of product or service

Though quality of product or service is ranked tenth in Table 1, it is apparently hardly

looked at by the financial analysts and fund managers. Interviewee K is the only one who said that he looked at the quality awards which the companies have won; from these he forms a view on the relationship between the company and its customers. Three companies disclosed a list of quality awards and recognition in their annual reports.

Investment in IT and Information systems

Forty three percent of the companies commented on this in their annual reports. However, when interviewees were asked whether this is looked at when they review companies, most of them replied negatively. This could be because it is difficult to justify the return from such investments. However, A considers IT investments to be an important component in the company evaluation process, since they can contribute to the creation of future value.

Brands

Thirty two companies wrote in the annual reports about their commitment to brands and the aims to be achieved through brands. Brand information is deemed important by most of the fund managers and financial analysts during interviews. This is consistent with what Holland and Johanson (2003) found; that is users have become increasingly interested in qualitative information such as management's brand and management skills.

4.4 Customer Capital Information

Financial analysts and fund managers revealed that customer capital information is less sought after as compared to human capital. However, some interviewees do seek for specific customer information such as customer satisfaction, market share and customer relationship.

Customers' satisfaction

Fund managers and financial analysts C, F, and H look at information about customers' satisfaction in their company review. The content analysis reveals that only 23 companies disclosed such information, all in qualitative form, except for one which provides a figure for its average satisfaction level.

Market share

Eccles and Mavrinac (1995) found that analysts ranked market share and market growth highly as compared to training investment, employee and customer satisfaction. Similarly, interviewees D and G looked for market share when reviewing companies. Twenty four companies provided information on market share in their reports but only six incorporated some numerical figures. But, no projected market share rates are given in the annual reports reviewed.

Customer relationship

During the interview, D said that customer relationships are important especially for Initial Public Offerings and 'small cap' companies. They are also generally more important than supplier relationships. Ten companies disclosed some form of relationship with their customers in qualitative form.

5.0 CONCLUSIONS AND RECOMMENDATIONS

IC is not specifically valued as a single item by fund managers and financial analysts. The current IC information provided by Malaysian companies in their annual reports falls short of what is desired by the fund managers and financial analysts. But, they do find the limited information, already being produced under different categories of IC, to nevertheless be useful. According to the financial analysts and fund managers, when the disclosure of IC information does not meet their requirements, they will look for such IC information at private or public meetings or via other channels.

The external disclosure of IC information in the annual reports is vague and too general and mostly in discursive or qualitative form. Financial analysts and fund managers prefer more detailed information and they usually

try to get more information from primary research. More incisive analysis of IC items should be included in the annual reports to assist external users in their decision making. According to Jenkins (The 21st Century Annual Report, 1998) analysts press for information to be in a standard format to enable it to be easily transferred to a spreadsheet and used for comparison with the performance of other businesses around the globe. However, the current reporting of IC in Malaysian annual reports is non-standardised and inconsistent which does not allow comparison to be made between firms.

Though companies in Malaysia voluntarily disclose or supplement information in response to the expectations of the stakeholders, based on the results of this

study, fund managers' and analysts' influence on the voluntary disclosure of IC information may be perceived as weak. Much of the information about IC desired by the fund managers and analysts is not currently being disclosed in the annual reports.

Analysts may have inferior information regarding firms' IC as compared to the managers giving rise to an inefficient economic allocation of society's resources. In addition, the information asymmetry and insider trading issues are aggravated by limited public disclosure of IC information (Aboody and Lev, 2002). Improving the external disclosure of IC information should help to resolve some of the above issues, but without proper guidelines it is difficult for IC reporting to move forward. It is time to consider disclosing non-competitive sensitive IC information to external users rather than making it exclusive to analysts via primary research only. If IC measures can be reported

from year to year, comparisons can be made by the financial analysts and fund managers. The Italian (Loro, 2002) and Norwegian (Roberts, 2002) analyst associations have collectively attempted to enhance their demand for more structured information on knowledge intensive intangibles from companies. Besides, companies should experiment with IC disclosure since even unsuccessful attempts indicate a commitment to developing IC to create value, and to communicating it to stakeholders.

On the other hand, financial analysts are also aware that they may not have access to corporate executives all the time. Holland and Johanson (2003: 476) state that analysts have to 'earn' their access by playing an active role in the feedback of information to, and from, companies in exchange for new information on intangibles. Better information from companies to investors will make the analysts' intermediary role less necessary or

the earnings forecasts irrelevant. According to Lipschutz (1999), disclosing more information about the value of intangible assets in the financial statements may reduce the value of analysts' earnings forecasts and increase the value of financial statements. Moreover, expert investment analysts argue that they can implicitly understand the IC components to corporate value creation and can assess their impact on stock prices (Fincham and Roslender, 2003). These could be reasons for financial analysts and fund managers not to strongly support more mandatory public disclosure of IC information.

However, it is important for managers to realise the need to reduce the gap between what is being disclosed and what is sought after by the analysts and fund managers. Though companies recognise that IC is often at the heart of competitive advantage, they prefer to keep their IC under wraps (Holland and Johanson, 2003). External users do not

get enough IC information to see businesses in the same way as the managers see them. Therefore, more structured IC information should be supplied, rather than the current ad hoc disclosure, to the external users. Such IC information included in the operation reviews will help users in assessing the future prospects of a company.

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BRONZE AWARD

Current Mechanisms and Future Initiatives Shaping Ethical Behaviour of Professional Accountants in Malaysia

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EXECUTIVE SUMMARY

Following serious breaches of ethical conduct increasingly occupying some companies' dealings, calls for a more sound enforcement of the mechanisms constituting policy statements and other regulatory frameworks currently in place are timely and justifiable. Many of the cases reported have shown that such breaches have caused the collapses of several large companies throughout the world. Often professional accountants become the main target based on their technical functions in accounting and auditing that lead to the so-called accounting scandals. In this instance, accounting scandals are normally associated with their acts by way of exercising professional duties not in the best interest of the companies' principals and other stakeholders. To a certain extent, such scandals may cause these companies to suffer huge losses out of

misconduct or negligence on the part of some professional accountants. These events have also resulted in accountancy bodies around the globe becoming another target of blame for their "failure" to appropriately monitor the discharge of various technical duties among their professional members. Considering issues highlighted above, this paper discusses the ethical state of professional accountants and also the mechanisms that are currently in place so as to design future initiatives to resolve critical ethical issues. This is due to aggressive calls for adherence to a code of ethics and other mechanisms as platforms for the accounting profession to contain many of the problems particularly when the confidence of those affected has eroded over the profession. At this end, a continuous and holistic approach should be assumed by accountancy bodies and other related authorities in a way that they work

hand-in-hand with corporate organisations to regain public trust by working on some realistic measures such as refined policy initiatives and

a more stringent enforcement of the current mechanisms.

1.0 INTRODUCTION

Given the importance of ethics to the practices of accounting functions, some of the insights provided by this paper are therefore aimed at discussing the mechanisms that are currently in place which might have influenced professional accountants to maintain ethical values when discharging their technical duties.

This paper basically responds to the claim that the reputation of the accounting profession has been questioned by many parties and this is believed to be caused by individual members' or organisations' practices that do not seriously internalise ethics mechanisms. Generally, this claim is based on a number of cases in which the discourse of ethics within the accounting profession around the world has received critical alerts from various stakeholders. Events such as bank failures, insider trading and other accounting scandals

throughout the world not only resulted in intense scrutiny of professional accountants but also encouraged a revival of ethics.

The corporate and accounting scandals in the then outstanding companies such as Enron, WorldCom, HIH Insurance and Lehman Brothers have raised a number of questions about the roles accountants and auditors play. Interestingly, it was noted that a common theme in many of these companies was the misuse of generally accepted accounting principles to create fictitious profit figures or to hide liabilities. All these concern ethics which have become the main issue debated in the academia, business community and governmental levels as they involve behavioural aspects of professional accountants (made up of accountants and auditors).

Ethical behaviour is basically vital to the status and credibility of the accountancy profession. Incidentally there have been a number of fatal breaches of ethical conduct among professional accountants which has given a bad impression of the accountancy profession as a whole. Although there are claims that professional accountants should professionally act without fear and favour and should always discharge their duties in the best interest of various stakeholders, it is uncertain whether these professionals seriously assume such principles in enabling affected parties to make wise and sound financial decisions based on the reported cases stated above.

According to Leung & Cooper (1995), ethical problems are inherent in the working environment of professional accountants. In carrying out their professional practices, professional accountants have to interact with a wide array of stakeholders including

individuals, entities and organisations in which various interests are embedded in. Such interactions, in many cases, may result in potential conflicts of interest especially when they involve fiduciary relationships. As asserted by Keller et al. (2007), the fiduciary relationship between accountant and corporation formalises the trust of the corporation in which its identity will be faithfully rendered.

Allegations of professional accountants' violations of public trust have also led to government's intervention in a number of accounting profession policies and activities. This can be explained simply by observing a series of scenarios that have taken place in the accountancy world in which an absence of ethics leads to a reduction in the level of trust that exists in a group of people. Basically, this group of people tend to resort to formal mechanisms of increased regulation and surveillance as they lose faith in the mechanisms currently installed.

A major factor in this loss of confidence was the unprecedented implosion of one of the then “Big 5” accounting firms, Arthur Andersen, with the loss of thousands of jobs worldwide and the loss of public trust in the accounting profession that accompanied it. These developments led to the promulgation of the Sarbanes-Oxley Act of 2002 in the USA; the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) CLERP Act 2004 in Australia; and similar legislations in Malaysia such as the introduction of the Code on Corporate Governance in 2000 and a more recent introduction of the National Integrity Plan in 2004; in addition to MIA’s Code of Professional Conduct and Ethics, designed specifically for the members of the Malaysian Institute of Accountants (MIA).

At some instances, the business scandals discussed above have called for adherence to a code of ethics or similar mechanisms

as fundamental platforms for the accounting profession. Many firms, however, have failed to incorporate training on ethics but rather relied on self-awareness of the ethical issues as proved by some research findings. As such, great challenges have to be assumed by accountancy bodies and other authorities as self-awareness of the ethical issues do not seem to be effective all the time since they are based on values promoted by individuals. Nevertheless, it is acknowledged that the social values are made up of the collective individual values as professional norms that a group of practitioners adopt. This concept concerns the culture that such a group believes should exist in the accountancy profession as these practitioners are accountable to various stakeholders affected by their acts.

2.0 SOCIAL VALUES

The importance of culture on the behaviour and attitude towards accounting and auditing practices is well recognised among many professional accountants throughout the world. Culture is defined by Trompenaars (1993, p. 6) as “...the shared ways groups of people understand and interpret the world and the way in which a group of people solves problems”. The concept of culture is somewhat broad since it covers social, political, and other factors that influence individuals’ behaviour. One of the elements of culture is societal values, which include norms, ethics, belief systems, and philosophy. An understanding of social values is important, not only because it reflects the

mechanism of shared beliefs that provide norms for human conduct at a particular point in time, but also because it indicates the standards which influence members of the society to behave according to the mechanism adopted. Likewise, value systems may influence perceptions and meanings of accounting and auditing concepts such as accountability, trust, and independence when the professional functions offered by accountants and auditors are associated with such values.

3.0 ISSUES IN PROFESSIONAL ETHICS

Having reviewed the perspective of societal values above, it can be concluded that ethical issues will never stop to continue. This is based on the notion that few financial scandals are the result of methodological errors rather, they occur from errors in judgement. This has increasingly been shown in some high profile corporate collapses and audit failures associated with organisations such as WorldCom and Enron in the USA as discussed above where there was a lack of attention on the ethical and professional values of honesty, integrity, objectivity, due care and the commitment to the public interest before one's own interest despite the misuse of generally accepted accounting principles. The result has been an apparent breakdown in society's belief that accountants act in the public interest. The

number of accounting abuses has served as prima facie evidence that something more is needed in terms of accounting ethics. Hence, firm and sound enforcement of the existing ethics mechanisms and strengthening of some policies should be promoted as part of the solution to such abuses. An issue like we mention above can lead to a series of more complicated issues that might tarnish the image of the accountancy profession throughout the world if no further move is initiated from now.

A possible reason to have such initiatives is due to the profession's experience that the collapse of large corporations has serious financial implications for investors, employees and the public, giving rise to a credibility crisis. Professional bodies, business community and

public at large have responded by calling for more ethics awareness upon the profession level as a whole. At this critical juncture, policy initiatives that may further promote ethical behaviour among professional accountants are greatly demanded due to the important role it plays in rebuilding public trust or at least increase awareness among the business community and professional accountants to avoid similar cases to badly affect the Malaysian atmosphere. This should

not be taken lightly by especially, accountancy bodies because many corporate organisations have started focusing considerable efforts in promoting ethics to instil ethical behaviour among employees to avoid future litigations. Hence, ethics insights provided by this paper contain an ethics component which attempts to engender a sense of empathy for, and moral commitment to, the other.

4.0 ETHICS AND PROFESSIONAL ACCOUNTANTS

One main problem of ethics in the eyes of professional accountants is that ethical issues are often hidden and they often lack the ethical sensitivity to recognise ethical dilemmas when they arise (Leung and Cooper. 1995). In this regard, ethical sensitivity is based on the premise that a dilemma is recognised as an ethical issue, or at least containing an ethical component. Ethical sensitivity refers to the ability to identify and recognise ethical issues when they arise. This has made professional judgement more difficult and complicated as it involves individual preference that is reflected in one's behaviour. Therefore, professional accountants must be able to professionally adjust their behaviours to recognise the ethical component in a dilemma before an ethical decision can be made.

Some studies have suggested that the culture and values of firms have an important negative influence on accountants' behaviour. Jackling et al. (2007) conducted a study to identify, among others, the perceptions regarding the types of ethical issues faced by accountants. The results of this study indicate that the ethical issues perceived to be most likely to occur in accounting practices and business entities were conflicts of interest (including self-interest). The results also show that "self-interest" and a "failure to maintain objectivity and independence" were considered to be the most likely factors to cause ethical failure. In addition to these, lack of enforcement of a code of ethics and other ethics mechanisms has also caused ethical failure in which it shows no seriousness of certain authorities to combat the misconducts of professional accountants.

With regard to external auditing, the need for external auditors may be seen as a response to the agency problem that exists as a result of the principal-agent relationship (Messier et al., 2007). In this instance, the audit functions should be seen as a mechanism to attest to the accountability and stewardship of company management and reinforce trust and confidence of the shareholders in financial reporting. According to Jackling et al. (2007), the auditing profession is organised around a central ethical conflict. In the case of Malaysia, the companies appoint the approved company auditors as required by Companies Act 1965 and pay the fees for the audit work done. Under such engagement, the auditors are supposed to conduct the audit in an independent fashion, adhering to the profession's "covenant with society" to audit in the interest of the public. Such arrangements have caused trust of the public and other stakeholders to fade away and have led to many other ethical conflicts

that question moral judgement of professional accountants in this specific accounting profession compounded with major business issues.

A number of studies have examined and compared the moral judgement levels of various groups, including the accounting profession (Gaa, 1995; Leung and Cooper, 1995; and Jackling et al., 2007). According to Gaa (1995), the moral reasoning of accountants differs in a number of ways from both the general population and from other occupational groups. In general, empirical evidence indicates that accounting professionals do not compare favourably with similar occupational groups or the adult population.

In summary, individuals vary in their sensitivity to ethical issues. Prior accounting studies of ethical sensitivity have suggested various personal factors, e.g. ethical reasoning;

ethical orientation; locus of control; age; education level; employment position; and expertise that affect or do not affect the professional accountants' ethical sensitivity process. Therefore, awareness is considered

as an active element that should be well comprehended by all professional accountants to handle ethical issues responsibly.

5.0 AWARENESS OF ETHICAL ISSUES

Increased awareness of the public interest is considered to be an important ethical issue that challenges the professional accountant in today's environment. The notion of the public interest implies that the professional accountants' responsibilities are not exclusive to the needs of an individual client, employer, nor themselves, but all stakeholders who rely on the reports prepared and audited by them. The accounting profession has been criticised for seeking to protect its self-interest rather than the interests of third parties. Self-interest threats arise where there is a conflict of personal interest and the interests of those served by the professional, leading to the possibility of compromise. The conflict between the public interest and self-

interest is increasingly under scrutiny, with highly publicised corporate collapses and alleged accounting failures. Consequently, the accounting profession has been taken to task for a variety of ethical issues, ranging from a lack of independence by public accountants on audit engagements, engaging in creative accounting, tax fraud and evasion, and conflicts of interest, as well as a failure of the duty of care towards shareholders and the public. Hence, this paper discusses some ethics policies and mechanisms that are currently installed under the Malaysian environment to address the extent these mechanisms influence the accounting practices.

6.0 CURRENT ETHICS MECHANISMS IN MALAYSIA

Many parties including the accounting bodies and governments throughout the world have responded to ethical issues by calling for as well as introducing stringent regulations and continuous watch of those parties' activities associated with ethical scandals. Malaysia is no exception. Companies established in this country are required to observe some regulations and requirements of Companies Act 1965, Bursa Malaysia Listing Requirements and the like. Recently, a number of accounting scandals have been exposed. Due to the concerns of the public of the professional accountants' ethical behaviour, the professional code of conduct was issued by Malaysian Institute of Accountants (MIA), followed by the Malaysian Code on Corporate Governance (MCCG), the National Integrity Plan (NIP) supported by the Integrity Institute

of Malaysia (IIM) just to name a few. Internal audit departments were also established in some companies. All these mechanisms were introduced to protect stakeholders' interests and each is briefly discussed below.

6.1 Professional Accountancy Body's Requirements

Commonly, professional accountants are registered as members of at least a professional accounting body. This can be also observed in Malaysia. Since inception, most accounting bodies throughout the world have been self-regulatory. As part of the self-regulatory process, some of these professional bodies impose requirements on their members as to their behaviour through the establishment of a code of conduct such

as the MIA By-Laws (on Professional Ethics, Conduct and Practice). These requirements are enforced by way of disciplinary penalties. This aspect is seen as important in order to obtain public recognition over the accounting profession. As such, code of conduct and other similar tools used together with rigorous, accountable and transparent disciplinary processes which enforce the ethical codes are essential. Through readily declaring the public interest, these ethical codes have been claimed as facilitating the profession to act in the public interest. The credibility of the profession and its self-regulatory regime are therefore dependent on the enforcement of these codes being seen to be effective.

There are some justifications used by the accounting profession that put more focus on ethical behaviour with accountants and auditors regarded as “moral agents” of corporations and societies. Although codes of ethics are an important device, they do not

guarantee that members of the profession will comply with the code. More important is the recognition that ethics and ethical behaviour are underpinned by moral reasoning. These are translated in the MIA By-Laws issued by the MIA as per requirement under S. 10(a) of the Accountants Act 1967. The MIA By-Laws define members’ duties to community which cover the qualities of integrity, objectivity, competency and professionalism expected of professional accountants.

6.2 The Malaysian Code on Corporate Governance (MCCG)

Compliance with the MCCG is not mandatory but listed companies are required under the Listing Requirements of Bursa Malaysia to include in their annual reports a narrative account of how they have applied the principles and best practices set out in the MCCG, and to identify and give reasons for areas of non-compliance, together with alternative

practices adopted, if any. In this regard, professional accountants and other management teams should observe and respect the requirements expected of them.

Marked a significant milestone in corporate governance reform in Malaysia, it codified the principles and best practices of good governance and described optimal corporate governance structures and internal processes. Since the release of the MCCG, the Malaysian corporate scene has made significant strides in corporate governance standards. The mandatory reporting of compliance with the MCCG has enabled shareholders and the public to assess and determine the standards of corporate governance by all listed companies.

6.3 The National Integrity Plan (NIP)

As mentioned above, another area to consider under the Malaysian environment is

the NIP. The NIP is fast gaining prominence and is beginning to have a profound effect on the conduct of both business and social development in Malaysia. The NIP and its components is a subject that covers a wide spectrum of issues such as corruption, public service delivery systems, corporate governance and business ethics, family, and quality of life. It is set precisely because of this broad spectrum that cooperation is needed from all stakeholders to ensure its success. The NIP was accepted by the Government and various sectors of society as a plan of action to enhance ethics and integrity. Launched by the fifth Malaysian Prime Minister, YAB Dato' Seri Abdullah Haji Ahmad Badawi on the 23 April 2004 at Putrajaya, the NIP has an overall objective of realising the aspirations of Vision 2020, that is, "to establish a fully moral and ethical society whose citizens are strong in religious and spiritual values and imbued with the highest ethical standards". As part of this plan, the Malaysian government has outlined

key strategic objectives to be achieved within the next five years. Among the objectives are: to reduce corruption, mismanagement and abuse of power; to enhance the level of efficiency in the public delivery systems of the civil service; and to improve corporate governance and business ethics. These certainly increase the level of responsibility of the business community in general and professional accountants specifically to have a more transparent conduct of business activities.

6.4 The Integrity Institute of Malaysia (IIM)

The IIM was established to complement the NIP's agendas and to ensure that all the planning, implementation, coordination, monitoring and evaluation related to the implementation of the NIP are carried out by an autonomous and independent agency. The core business of IIM includes research, reporting, communication and training in

relation to integrity. To date, IIM has provided Malaysians with an opportunity to voice their concerns about the level of corruption and to suggest ways of addressing it, as well as promoting transparency and integrity in the country.

6.5 The Internal Audit Department

Some companies do establish the internal audit department. The internal audit departments are basically responsible for auditing financial and non-financial information including verifying that all expenditure, profits and assets and stock have been managed according to the relevant law, rules and regulations. With this mechanism in place, it is envisaged that fraud, forgery and embezzlement of the companies' assets and interests can be eradicated.

7.0 FUTURE INITIATIVES TO CONSIDER

At its most critical end, this paper proposes a number of possible measures to enable all professional accountants and, to a certain extent, accountancy bodies in Malaysia and those operating internationally to react upon.

Firstly, the ethical culture should have started and be cultivated from now without delay any longer simply because accounting plays a key role in the social and economic progress of a nation. Investors, lenders, and others rely on the integrity of accounting information, especially in corporate financial reports of public listed companies. Such integrity can only be achieved when professional accountants consider ethics as their main principle when discharging their duties. An explanation to this is that ethics is a central element of the accounting profession

especially when they deal with ethical dilemmas. Hence, this should have been aggressively introduced and emphasised in some CPE or CPD courses and this measure should even start as early as during the tertiary education stage of those accountants-to-be so that their exposure is well comprehended before they join the profession.

Next, professional accountants should not be merely be reporters and verifiers of data provided to them. They rather need to seek to provide information and form independent opinions in a way that connotes their responsibility towards upholding public interest. This should be well upheld and become their main priority rather than monetary objectives in common. Hence, the role of ethics in protecting the interests of

many parties represents a vital component of the accounting profession's ongoing commitment to ensuring its own survival.

Another point to ponder is that, the professional accountancy bodies have to first understand the factors which shape the ethical norms that will help them in developing appropriate ethics programmes and help organisations to develop appropriate ethics training for their employees. More importantly, organisational support of the ethics and compliance program should also be initiated by individual organisations through training and communication efforts. Failure to bring appropriate ethical standards to the workplace will surely hamper the commitments of professional accountancy bodies to serve the public interest. As such, continuous and effective communication with professional members is important and indeed highly demanded.

Finally, yet important, is the consideration of the monitoring processes that the current mechanisms can champion. The accountancy bodies in a more general ground should actively monitor and enforce the available regulations to ensure ethical professional practices over time. There are four important elements related to the monitoring process that can be promoted in shaping ethical behaviour of professional accountants which covers:

- The on-going monitoring process that concerns compliance with the rules and regulatory frameworks;
- The existence of follow up procedure to ensure that appropriate change occurs in response to changes in new rules and regulatory frameworks;
- The provision of protection for whistleblowers and information; and

- The roles and responsibilities of the individual firms and professional members should be positively encouraged towards ethical conducts.

These elements are recommended in response to the shortcomings of the existing

mechanisms practised throughout the world in which many scandals have resulted into huge losses and the mechanisms could do much to protect the interests of affected parties.

8.0 CONCLUSION

At this point, a revisit of critical professional accounting mechanisms concerning ethics should be fully supported and enforced to regain public confidence in the accountancy profession. It should be noted that the basic purposes of introducing those mechanisms remain relevant until now although some modifications have been made to suit specific needs. This reflects that mechanisms of ethics are important in every respect of practices as they monitor a number of organisational functions that are exposed to misconducts by many parties, especially those of professional accountants. As such, it can be argued that current mechanisms do shape professional accountants in the accountancy profession to behave according to values promoted by accountancy bodies worldwide. However, care must be observed by all accountancy bodies and other relevant authorities as there

seem to be some kind of reluctance and ignorance among professional accountants in certain critical areas of accounting functions. In this regard, they are not vividly seen as being able to maintain a high level of performance and maintain a high standard of conduct with the current mechanisms of ethics in place. Therefore, it is obvious that ethics is important to the accountancy profession because professional accountants are expected to conduct themselves at a higher level than most other members of the society so that the public may have confidence in the quality of services provided.

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