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WEAKENING

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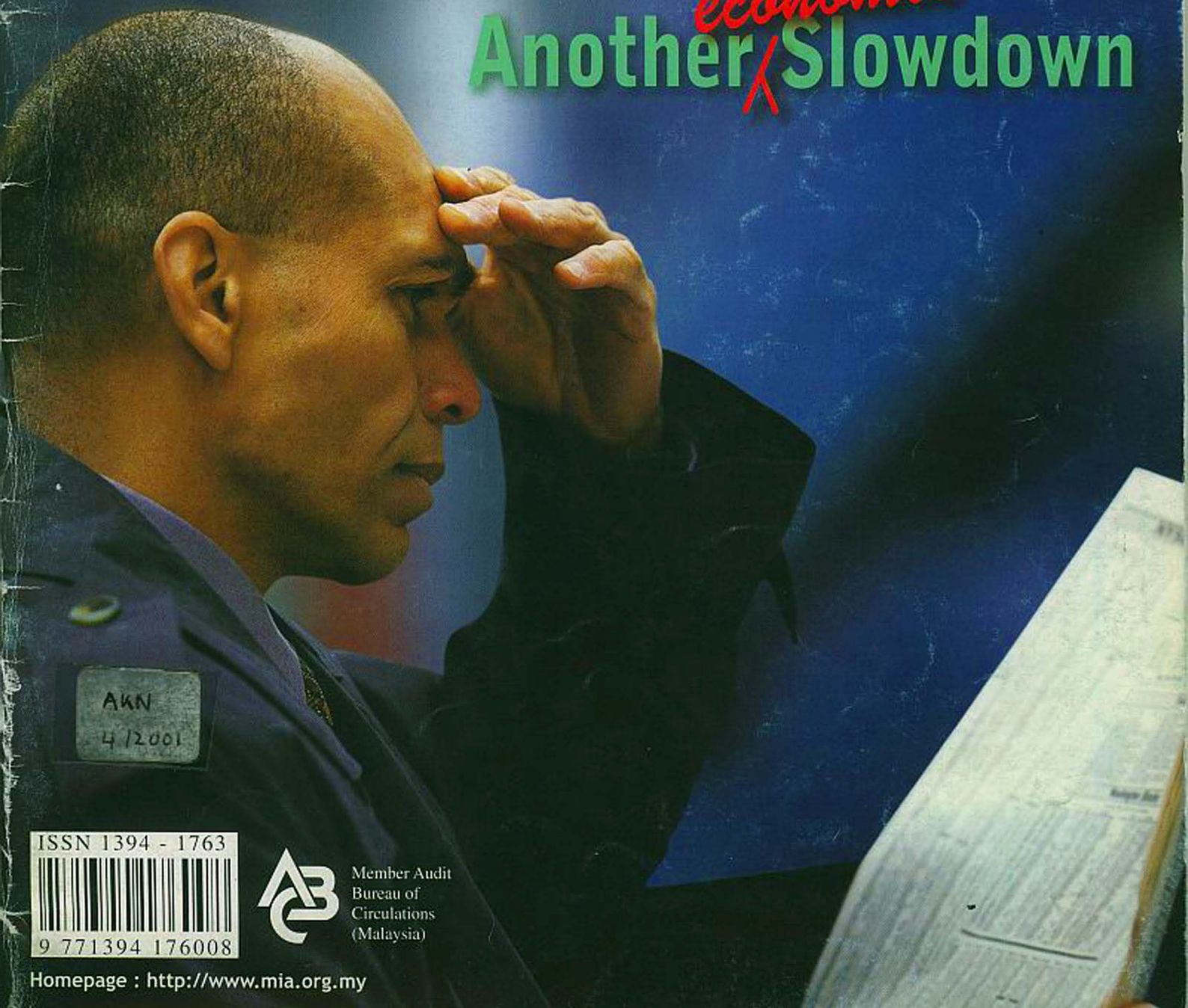
Making Sense of Another economic Slowdown



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Editor, Akauntan Nasional
Dewan Akauntan, 2 Jalan Tun Sambanthan 3, Brickfields, 50470 Kuala Lumpur, Malaysia
Tel : 03-2274 5055, Fax : 03-2274 1783, e-mail : editor@mia.org.my Homepage : http://www.mia.org.my

PUBLISHING CONSULTANT
Executive Mode Sdn Bhd (317453-P)
Tel : 03-711 3200, 3205, 3230 Fax : 03-711 3220
e-mail : executivemode@executivemode.com.my
Homepage : http://www.executivemode.com.my

PRINTER
Ultimate Print Sdn Bhd (62208-H)
40 Jalan Penchala, 46050 Petaling Jaya
Tel : 03-7787 5688 Fax : 03-7787 5609

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Malaysian Institute of Accountants
Registered Office and Address
Dewan Akauntan
2 Jalan Tun Sambanthan 3, Brickfields
50470 Kuala Lumpur
Tel : 03-2274 5055 Fax : 03-2274 1783, 2273 1016
e-mail : mia@mia.org.my
Homepage : http://www.mia.org.my

FROM THE EDITOR

In the Face of another Economic Challenge

Which word or phrase has been used most often in recent months? Your guess is as good as mine, and there is no prize if you have picked the word 'economic slowdown'.

As a slowdown in the US and the world economy begins to take effect, the impact on other countries such as Malaysia is being felt.

It is intuitively easy to see why a slowdown in the US economy is of concern to Asia and our country — but it is also easy to overestimate the effect. For instance, electronics exports account for a huge chunk of the total for Malaysia but the import content is high because components are imported and then assembled or processed for export.

It is the net value that matters — value-added in Malaysia for electronics exports is around 20-30 per cent, in which case it will be misleading to take the full value of these exports in computing the effect on GDP growth.

Still, it cannot be denied that a major impetus to growth will be removed when the US economy slows considerably or contracts. Hopefully, if the slowdown is not prolonged, growth will resume after a year but this is by no means certain.

Given this continued vulnerability to external factors, it is imperative that Malaysia looks at its policy options and long-term strategy to keep the country on a sustainable-growth path.

It took a while for Malaysia to respond appropriately to the Asian financial crisis and implement a radical programme to stabilise the currency and interest rates. But where do we go from here? There is so much more work to be done to maintain the economy on the path of high growth.

The mood of caution has begun to slip in again, in a manner similar to that just prior to the Asian financial crisis. It is not that there is no money in the system — there is plenty, as reflected in the paltry interest rates one gets from the banks — but no one seems to want to spend much.

If the Asian financial crisis taught us a lesson, it is to be prepared for the unexpected and to take measures to overcome it, based on proper information, analyses and deliberation. We cannot afford to let our guard down.

Some obvious short-term measures to keep growth up would be for the government to step up its spending and to encourage consumers to do the same. To some extent, this has already been done.

For long-term growth, the basics should never be ignored and education — appropriate, quality education — is the most necessary factor to help increase long-term productivity, which is so essential for improving living standards.

Planning, implementing, reassessing and making changes should be a continuous process — it should not be done in spurts and bits and pieces. There has to be coherence in overall planning and, where necessary, the experts — wherever they may be — should be pulled in. We should not be shy about learning from anyone.

Only through these can we continually renew and change ourselves to keep the competitive edge and improve living standards, which is the ultimate aim of sustainable economic growth.

Editor

Letters to the Editor

A key element in the world of publishing is what readers have to say. We want to hear from you on just about anything that appears in each issue of *Akauntan Nasional*. Why not drop us a line now?

CONTRIBUTION OF ARTICLES

The *Akauntan Nasional* welcomes original and previously unpublished contributions which are of interest to accountants, executives and scholars. Manuscripts should cover domestic or international accounting developments. Lifestyle articles of interest to accountants are also welcomed.

Manuscripts should be submitted in English or Bahasa Malaysia and range from 2,500 to 5,000 words (double-spaced, typed pages). They should be submitted in hardcopy and diskette (3.5 inch) form in Microsoft Word or Lotus Wordpro. Manuscripts are subject to a review procedure and the Editor reserves the right to make amendments which may be appropriate prior to publication.

VISION AND MISSION

The Malaysian Institute of Accountants is the exclusive accountancy body, representing the voice of all accountants in Malaysia and a leading partner in nation-building. The Institute is committed to serving the profession and the nation with integrity and professionalism.

Its mission is :

- To promote and monitor professional standards and integrity.
- To provide education and training to meet the challenge of the ever-changing global economy.
- To conduct and promote research and development for the enhancement of the profession.

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Towards a Stronger Relationship

President's visit to Melaka strengthens ties, fosters greater understanding.

MIA President, Abdul Samad Alias', recent courtesy visit on the Chief Minister of Melaka, Datuk Wira Mohd Ali Rustam, has paved the way for more fruitful ventures and stronger ties between MIA and the State.

Accompanying the President to the Chief Minister's office in Air Keroh, Melaka, were Vice-President Yue Sau Him, Melaka Branch Chairman Lee Hin Kan and Branch committee members. The visit was Samad's first to the State since he took office as President in September last year.

The President of MIA, Abdul Samad Haji Alias (right) presenting a memento to Melaka Chief Minister, YAB Datuk Wira Mohd Ali Rustam

"Given the fact that Melaka is experiencing rapid development, MIA feels it is vital to offer its assistance to the State to prosper further. This is the Institute's approach towards its commitment in nation-building and sustaining economic growth," said Abdul Samad.

Reiterating the President's comments, Lee said efforts to assist the State Government in every aspect of the profession are well in place. "Support for the State Government is always available as the Institute is made up of a good cross-section of individuals from various industries."

This is evident from the appointment of two senior members of the State Government to the MIA Melaka Branch Committee. Other committee members include two academicians and representatives from the private sector.

In view of the fact that the public sector employs a large number of accountants in various facets of the Government administration, MIA has made it its priority that this sector be given due attention. Samad expressed his concern over the continued usage of cash accounting in the Government sector whereas the business community had long since shifted to accrual accounting and is in fact moving ahead to fair value accounting.

"This new development is a reflection of global trends and is something that the Government sector needs to adopt", Samad said, adding that in order to remain competitive in a knowledge-based economy, the government sector needs to "move with the times".

"We are working closely with the Accountant-General and the Auditor-General's offices in assisting the Government sector to embrace the shift to fair value accounting".

"The challenge for the nation is to get people and the organisations they represent to accept and embrace change, and this includes the accountancy profession. As a regulatory body, we are committed to assisting our members and other related parties on the present expectations in the profession."

In highlighting some of the challenges faced by the State, the Chief Minister said some of the small and medium-sized firms in the State are not providing efficient and value-added services.

"Since the services are not really comprehensive and efficient, it has caused us a lot of problems and we have resorted to hiring the big firms to assist us", said Mohd Ali.

It is believed that the Chief Minister was referring to the 1998 report on Melaka by the Auditor-General that revealed some irregularities in the spending of Federal allocations.

He suggested that MIA, with its expertise, could provide continuous educational programmes to educate and promote efficient ways of practising the profession.

"MIA should contribute its knowledge and know-how in educating the society, especially entrepreneurs and students, on the importance of having proper and up-to-date book-keeping records."

In responding to Mohd Ali, MIA Melaka Branch Vice-Chairman Abdul Halim Husin said, MIA members' firms in Melaka are willing to provide the State with whatever assistance within their means and capabilities. "To my knowledge, no MIA members' firms were

… continued in *Institute News* (page 64)

MAKING SENSE OF ANOTHER ECONOMIC TURBULENCE

US and Japan really represents on link in the chain

By Nazatul Izma Abdullah

Just a few months ago, hopes were high that the US would be able to steer its overheating economy to a soft landing. Most analysts had faith that Federal Reserve czar, Alan Greenspan, would manipulate interest rates in a wily fashion to cushion an economic downturn.

Today, that attitude seems like blind faith. Some quarters now say that monetary maestro Greenspan read the signs of weakness too late, and reacted too slowly. The rate cuts made recently were not the panacea for the gloom that now shrouds the world's most influential economy. The prayed-for soft landing is nowhere in sight. Indicators point in the direction of prolonged economic agony, with some parties predicting that the US is tottering on the precipice of recession (defined as two subsequent quarters of negative growth).

Although the consumer confidence index rose in March 2001 for the second consecutive month, up to 117.0 from February's 109.2, other economic indicators were trending downwards as of February. Durable goods orders, orders for non-defence capital goods, new and existing home sales all lost ground from January to February.

Layoffs are being announced, a raft of corporate earnings warnings have been issued, and investor confidence is badly dented, as proven by the panicky lemmings who are now abandoning the New York Stock Exchange (NYSE) and National Association of Securities Dealers Automated Quotation System (NASDAQ) in droves. From a peak of 5,000, the NASDAQ index slid below the psychological support level of 2,000 recently, while the Dow Jones Industrial Average fell below 10,000 points.

Nevertheless, despite the massive decrease in investor wealth, some analysts still don't see a bottom yet for NASDAQ. Licensed investment advisor, Capital Dynamics Sdn Bhd, said in a recent capital report that it retained a bearish 1,000-1,400 target for the NASDAQ. The Dow is still considered "richly valued" and the nadir could be a long way off.

Across the globe in Asia, Japan, an erstwhile economic prodigy and model of our eighties "Look East" policy, can't jumpstart its economy despite a decade in the doldrums. In spite of negative real interest rates, consumption has remained weak. Deflation is still a bugbear, and the Bank of Japan recently adopted an inflation target as part of monetary policy. Until its ailments are cured, Japan could not possibly stand in for the American economic engine.

Presently, there is no substitute for the US, the prodigal consumption economy. As the cliché goes, when America sneezes, the rest of the world catches a cold. Malaysia is no exception, since we are highly dependent on the US's prodigious appetite for our exports.

Even though Malaysia has been diversifying export markets over the past few years, the reality remains that America is a core market for our products. For 2000, the US, Singapore and Japan were the major destinations for the country's exports, absorbing RM193.9 billion or 51.9 per cent of total exports.

Malaysia's major export items, electrical and electronics (E&E) products, constituted the largest chunk or 58.8 per cent of total exports last year. More than a quarter of that or 26.8 per cent worth RM58.8 billion went to the US. The other big markets for Malaysia's E&E exports were Singapore with 21.4 per cent valued at RM46.9 billion and Japan with 11 per cent valued at RM24.1 billion last year. Other major export items were crude petroleum (four per cent of total exports), chemicals and chemical products (3.8 per cent), textiles and apparel (3.7 per cent) and liquefied natural gas (3.7 per cent).

Obviously, a sickly America affects our economic health, especially when there are no other mega-economies around to take up her slack. Already, trade numbers seem to be trending down, with January trade showing a 3.1 per cent dip to RM53.1 billion from RM54.8 billion in December last year. International Trade and Industry Minister, Datuk Seri Rafidah Aziz, reportedly said recent trade data indicated that Malaysia would be affected by the economic slowdown in the US. Although there will be export growth, it will pale in comparison to last year. Bank Negara projects that the export growth of manufactured goods is projected to rise by 8.5 per cent this year compared to 2000's 17 per cent growth.

Other indicators also demonstrated fallout in Malaysia as a result of the American situation. For instance, the current account of the balance of payments is expected to remain in significant surplus, but this surplus should be whittled down to RM22.1 billion or 6.8 per cent of Gross National Product (GNP). The narrowing surplus reflects the slowdown in export growth from 16.1 per cent last year to a projected 4.9 per cent this year. Import growth is also expected to moderate from 25.7 per cent last year to about 8.4 per cent this year.

Elsewhere, job losses are popping up again. Said investment portal Surf88.com in a recent posting, "The negative export multiplier already appears to be working through the system with MNCs announcing retrenchment, job cuts or voluntary separation schemes (VSS)."

High-profile multinationals in the chip sector, such as Motorola and Seagate, were among those cutting staff in an effort to contain costs. Reportedly, recent figures from the Economic Planning Unit showed a 30 per cent increase in staff layoffs in February compared to January. However, official projections expect unemployment in 2001 to remain steady at about 3.1 per cent.

Since Malaysia can't depend on external factors, domestic demand will have to perk up the local economy. Capital Dynamics commented, "stimulating domestic demand is the quickest way to prevent the Malaysian economy from being overwhelmed by a possibly severe global economic slowdown."

On 27 March 2001, the government announced a supplementary budget designed to boost domestic demand. This package of pre-emptive measures is meant to "ensure that growth momentum is sustained." (See table on next page)

"Japan and America ...
As the cliché goes, when the Giants sneeze,
the rest of the world catches a cold."

The Tech Wreck Hits Home ... The US appetite for info-tech is not as unending as everyone thought. Asian manufacturers are struggling to cope.

Specifically, an additional RM3 billion will be spent as a fiscal stimulus in addition to the RM28.8 billion already approved under Budget 2001. This addition is expected to increase Gross Domestic Product (GDP) growth by 1.1 percentage points. Without the effects of the stimulus package, the official GDP forecast for 2001 was 5.0 per cent, down from the original estimate of seven per cent announced in the Budget tabled in October 2000.

Thanks to the stimulus, the government is predicting that GDP growth will be six per cent for 2001. Also as a result of the extra measures, Bank Negara has stated that the adjusted overall budget deficit is projected to remain large, at 5.1 per cent of GNP (4.7 per cent of GDP). Public sector expenditure is projected to expand by 10.4 per cent this year to cushion the slowdown in external demand, and to provide the impetus for the continued growth in domestic consumption and investment.

However, several analysts still feel that six per cent will be a bit of a stretch. Certain local stockbroking houses are betting that GDP growth will hover between three to five per cent, while Capital Dynamics thinks "economic growth for 2001 is more likely to be in the range of one to two per cent."

The reasons? First, the measures outlined below are short-term in nature, and may not have a broad-based impact. As things stand, the construction sector will be the greatest beneficiary. Construction

THE PRE-EMPTIVE MEASURES ANNOUNCED ON 27 MARCH 2001

1 Increase the Fiscal Stimulus

i. The Government will increase the fiscal stimulus by about RM3 billion in addition to the RM28.8 billion already approved under Budget 2001. This addition is expected to increase GDP growth by 1.1 percentage point. New projects that have been identified for immediate implementation include the following :

[a] 200 single session schools under Phase II, amounting to RM2 billion;

[b] 193 community colleges in all parliamentary constituencies, of which 11 colleges will be implemented immediately, amounting to RM0.9 billion;

[c] four universities in Perlis, Melaka; Pahang and Negeri Sembilan, amounting to RM1.6 billion;

[d] 6,600 units of housing quarters for the Malaysian Armed Forces in KL.

ii. The Government will undertake the earlier implementation of major infrastructure and utilities projects, including the Bakun Hydro-electric Power Project and assist in the implementation of Pulau Bunting Coal Power Generation Project and Pelabuhan Tanjung Pelepas, Johor as well as the Westport Project;

iii. To ensure that the fiscal stimulus has immediate impact on the economy, we will closely monitor the implementation of these new projects and those already approved. For this purpose a Flying Squad has been established in the Ministry of Finance. In this regard, Ministries and Agencies will have to intensify their efforts to ensure the speedy implementation of these projects. To assist Ministries and Agencies in expediting project implementation, the Ministry of Finance has reviewed the Government's procurement procedures. In particular, the Ministry of Finance has delegated its powers to Ministries with respect to the following :

[a] Ministry's Tender Committee can approve tenders of up to RM30 million and up to RM50 million for selected statutory authorities and government companies;

[b] For restricted tenders, Ministries can approve contracts not exceeding RM20 million and for procurements based on price, quotations up to RM200,000; and

[c] Six selected Ministries can approve the procurement of capital equipment up to RM15 million.

2 Promote Consumption

Given the anticipated moderation in export growth in the light of a US slowdown, domestic demand has to be strengthened to drive growth. In the 2001 Budget, higher tax rebates have already been given to the low and middle-income groups, amounting to RM434 million to encourage consumption. To further promote consumption, the following measures will be undertaken :

i. Temporary reduction in employees' contribution to EPF for a period of one year effective 1 April 2001. The effect of the reduction on GDP is as follows :

Rate of reduction	Increase in real GDP (percentage point)
1%	(0.14-0.19)
2%	(0.24-0.36)
3%	(0.35-0.53)

It is recommended that the employees' contribution to EPF be reduced by 2% from 11% to 9%.

ii. To promote the sales of passenger cars, Government employees will now be eligible for car loans every five years instead of the present seven years. In addition. Government employees will be eligible for car loans on completion of one year of service; and

iii. To encourage the greater use of credit cards, the tax of RM50 on credit cards introduced in 1997 will be abolished.

3 Reduce the Property Overhang

i. To help reduce excess stocks in the property market, in particular residential units, incentives provided during the Housing Campaign will be reinstated for this year with immediate effect. These incentives include the exemption of stamp duty, waiver of processing fee and higher margin of financing;

ii. To discourage further addition in property stocks, local authorities will be directed not to approve any new construction of office and commercial space in view of the existing large property overhang; and

iii. Changes will be made with regard to the Foreign Investment Committee's (FIC) rules and regulations pertaining to foreign equity as well as property and asset acquisition by foreigners. This is to provide a more liberal environment for foreign investors and the inflows of FDI. An announcement on the changes will be made very soon.

4 Continue the Accommodative Monetary Policy

We will continue to maintain an accommodative monetary policy to ensure that the private sector continues to have access to funds at a reasonable cost. In this regard, financial institutions are required to achieve an annual loan growth of 8%. BNM will monitor closely the growth and direction of bank lending. BNM will also review the present ceiling for the purchase of shares and unit trusts.

5 Promote Financing of SMEs

To further improve access to financing, especially for Small and Medium Enterprises (SMEs), the size of special Funds as well as the eligibility criteria will be expanded as follows :

i. The Food for Fund (3F) will be increased by RM300 million to RM1.3 billion;

ii. The New Entrepreneur Fund (NEF) will be raised by RM250 million to RM1.5 billion;

iii. The SMI Funds will be doubled to RM400 million while the eligibility criteria will be expanded to include the non-export sector;

iv. A new Entrepreneur Rehabilitation and Development Fund (ERDF) of RM500 million will be set up incorporating rehabilitation measures such as advisory services, new cataracts and financial support; and

v. In addition, the lending rate to borrowers for 3F will be lowered to 3.75%, while that for the NEF to 5.5% and SMI Fund to 5.5%. Bank Negara will announce details on the additional funds

6 Promote the Services Sector

Measures will be undertaken to enhance incomes, revenues and foreign exchange. These include the following :

i. The Government will promote tourism more aggressively, particularly from ASEAN, West and East Asia and India;

ii. Malaysia Airports Holdings Berhad will aggressively promote the Kuala Lumpur International Airport (KLIA) as a regional hub. MAHB will study the strategies and experience of regional and other international hubs; and

iii. The Government will continue to encourage full utilisation of ports and port-related activities,

7 Maintain the Ringgit Peg

Given the need to ensure a continued environment of predictability and certainty, the Government will also continue to maintain the ringgit peg.

source : thestar.com.my

companies, cement manufacturers, and manufacturers of prefabricated building materials will be the major recipients of the RM3 billion largesse. Among the new projects for immediate implementation as announced by the government are 200 single session schools costing RM2 billion, 193 community colleges at RM0.9 billion, four universities at RM1.6 billion and 6,600 housing quarters for the armed forces amounting to RM1.5 billion. Other big-ticket projects such as the beleaguered Bakun Dam will be implemented earlier.

Time to buckle up for another turbulence

Second, consumption might not rise as expected despite the reduction in Employee Provident Fund (EPF) contributions and the removal of the RM50 fee imposed on credit cards since 1997. The temporary one-year cut in EPF contributions from 11 per cent to nine per cent might not be a sufficient incentive for consumers to spend.

Although this may seem like a positive move, it comes in the wake of job losses and potential lay-offs in the electronics sector, in addition to the planned Voluntary Separation Scheme (VSS) by various financial institutions. Similarly, allowing government servants to apply for car loans every five years instead of seven years might not be effective either in the face of waning consumer confidence.

Third, it won't be so easy to demolish the property overhang. Although the previous home ownership campaigns were fairly successful from a domestic viewpoint, it remains to be seen whether the eventual revision of FIC rules and regulations will be attractive enough for foreign buyers. After all, other countries are also in the same leaky economic boat, and will also be competing for the same foreign buyers.

In addition, the ringgit peg could be a deterrent in attracting foreign direct investment (FDI), points out an analyst. With the weakness in the yen vis-à-vis the dollar, there could potentially be another round of currency devaluations in the region in an effort to maintain competitiveness, in which case Malaysia could lose out. States Capital Dynamics, "with the ringgit pegged to the rising value of the US dollar, we also have to guard against a possible loss of competitiveness of the ringgit." However, the government perceives that the peg provides stability. Plus, says another analyst dryly, "remove the ringgit peg and we're perceived as flip-flopping again. Inconsistency is not what we need right now."

However, the government's pump-priming package is a step in the right direction, as is its focus on domestic demand. And to prove the government's seriousness, the Finance Ministry has established a "flying squad" to ensure speedy implementation of new and existing approved projects.

But what happens next if these measures still can't perk up Malaysian growth? If the US economy slows down beyond its expectations, the Government has said that it is prepared to undertake further measures, "including bringing forward the implementation of selected projects approved under the Eighth Malaysia Plan." Government departments and agencies are therefore required to prepare a package of projects that can be implemented immediately if additional stimulus becomes necessary.

Elsewhere, some analysts feel that cutting interest rates further could be another good measure for the economy. If real lending rates come down, bank lending could be stimulated. Bank Negara has set a target of eight per cent annual loan growth for 2001 for the banking sector, but this could be wishful thinking. Even given last year's robust economy, bank lending averaged a monthly growth rate of only 0.4 per cent. Capital Dynamics estimates that for bank lending to grow eight per cent, loan growth has to average about 0.6 per cent per month.

States Capital Dynamics, "With economic activities slowing down significantly and demand for loans expected to also be significantly lower, we doubt that this target could be achieved."

Nevertheless, it is in Malaysia's best interest if these measures turn out to be truly pre-emptive. Says a local analyst, "The writing was on the wall some months back. I still feel that we have been too complacent. I just hope that these measures aren't a case of too little, too late." AN

ALL'S NOT LOST

Without doubt, a global economic crisis is looming. Not since 1974 has the world seen the US and Japan, the two bastions of global economy, teetering on the brink of recession simultaneously.

By Megan S.

Japan and the US account for 47 per cent of the global economic output. The wilting economies of these two countries are causing stock markets around the world to melt. Currency jitters, not seen since the 1997/1998 Asian crisis, has returned to spook the South East Asian economies.

Although the Malaysian economy is fairly insulated, as the ringgit is not tradable outside the country, it is not spared the heat. The trade surplus is reducing on the back of a weak external demand. Although exports, after four months of trending downwards, increased by 1.5 per cent in January this year, it is no respite.

The increase in export numbers for January is said to be an unreliable yardstick due to the festive season. What is more worrying is that imports fell by 11.8 per cent in January, indicating intermediate goods that are brought in before being re-exported are fast slowing down. The sharp drop in intermediate goods heralds the resumption of declining exports which in turn reduces the trade surplus.

According to economists, the cocktail of a fixed exchange regime, deficit budget and shrinking trade surplus is a potent recipe to exert enormous pressure on the ringgit's fixed exchange rate.

Not surprisingly, this has fuelled rumours that the ringgit could be re-pegged. But will this be the case?

Despite assurances by the government and even Bank Negara Governor, Datuk Dr Zeti Akhtar Aziz, that the ringgit will not be re-pegged, many are not convinced. The stock market, which is a leading indicator, has slipped sharply since late March on the back of concerns that the ringgit could be re-pegged. The international rating agency, Standards and Poor has relegated Malaysia's rating from triple-B to stable. This means there would not be any upgrades for the moment.

Bank Negara Governor, Datuk Dr Zeti Akhtar Aziz stressed that the ringgit will not be re-pegged

Looking at the figures, Malaysia can afford to have a deficit. Its international reserves of RM29 billion are enough to sustain 4.5 months of imports. The minimum requirement is three months of imports. The short term external debt is only about 11 per cent of total external debt.

The government may not need to resort to external resources to finance the deficit. There is ample liquidity in the local banking system. Based on the banking system's loans to deposit ratio of 83 per cent, economists say the banking system is sitting on surplus liquidity of about RM77 billion. The government can also rollover maturing Malaysian Government Securities. About RM6 billion is due to mature this year, with RM3.3 billion due in two months time.

Based on Bank Negara's report, although the economy is forecasted to slow down to between five and six per cent in 2001, Malaysia's fundamentals are sound. Inflation is expected to be low at between 1.5 per cent and two per cent, the current account surplus at 6.8 per cent of Gross National Product (GNP) and Gross National Savings at 36.5 per cent of GNP.

More importantly, the banking sector is in a better footing compared to two years ago because the bulk of the bad loans have either been written down or restructured. The Non-Performing Loans (NPLs) in the banking system is 6.3 per cent while the Risk Weighted Capital Ratio is a healthy 12.3 percent, much higher than the minimum of eight per cent.

So, taking into account all the positive factors, what ails the economy? Many economists feel that the lack of confidence in the domestic economy is a major problem.

The economic fundamentals of Malaysia are to a large extent a factor of the strong US economy, which is Malaysia's largest export market. It is an undisputed fact that Malaysia's recovery from the 1998 deep recession was led by exports.

Last year, the economy grew by 8.4 per cent on the account of an excellent performance by the export-oriented electrical and electronic sector. However exports are coming down fast mainly due to the slowdown in the US economy and oversupply in the electronic sector.

Recognising the global slowdown, Prime Minister Datuk Seri Dr Mahathir Mohamad announced a supplementary budget to the tune of RM3 billion in the last week of March to stimulate the domestic economy. The objective of the RM3 billion-stimulus package is to spur domestic demand.

The additional budget is to be spent on building schools, colleges, housing quarters, universities and subsidies to palm oil and rubber smallholders. Other pump-priming measures include reduction of two per cent in the employees contribution to the Employees Provident Fund (EPF) until April next year, relaxation of car loans for civil servants and expediting implementation of projects in the port and power sectors.

The supplementary budget also touched on revision in FIC rules and regulations pertaining to foreign acquisition of equity and assets. This is to help prop up Foreign Direct Investments (FDIs) and the property market.

The main objective of the stimulus package is to reinvigorate domestic demand. Of

particular concern is the investment and consumption of the domestic private sector, which is still far behind compared to the pre-crisis levels.

Private investment is expected to drop sharply from 26.7 per cent in 2000 to 9.2 per cent while private consumption is expected to decelerate from 12.4 per cent to seven per cent this year. Public investment is to fall from 21.7 per cent to 8.9 per cent while consumption is to grow from 1.7 per cent to 12.3 per cent.

Out of the four components of aggregate demand, only public consumption is expected to see a significant increase. Thus, it is easy to see why the government is encouraging people to spend.

But will it be enough?

Japan's economy has not been out of the doldrums since 1989 despite several stimulus packages. Interest rates are at zero level and yet the public is not spending. There are even suggestions that Japan, to counter the deflationary forces, prints money (inflationary) to infer to the people that prices will rise if they do not buy.

Privately, economists are predicting a growth of anywhere between one and four per cent for Malaysia in the coming year. This is because based on past track record, public projects are rarely implemented as fast as the government would like to see it happen.

Also, economists are not expecting the two per cent cut in EPF contribution to enhance private sector consumption significantly. In fact, due to the higher number of lay-offs, rising prices or goods and utility bills and poor stock market sentiments, households are inclined to save more for rainy days ahead.

The banking sector's lending is still far behind the eight per cent target because financial institutions still view some local corporations suspiciously.

Thus, mere gentle persuasion methods to spend may not be enough to stimulate the domestic economy. The effects of the global slowdown will definitely affect Malaysia. How far it can be mitigated lies solely with the domestic forces. Now more than ever, worthy projects must be implemented on a fast track basis to instil confidence all round. It is about the only way out of gloomy weather. AN

HOW MALAYSIA FARES COMPARED TO THE REGION

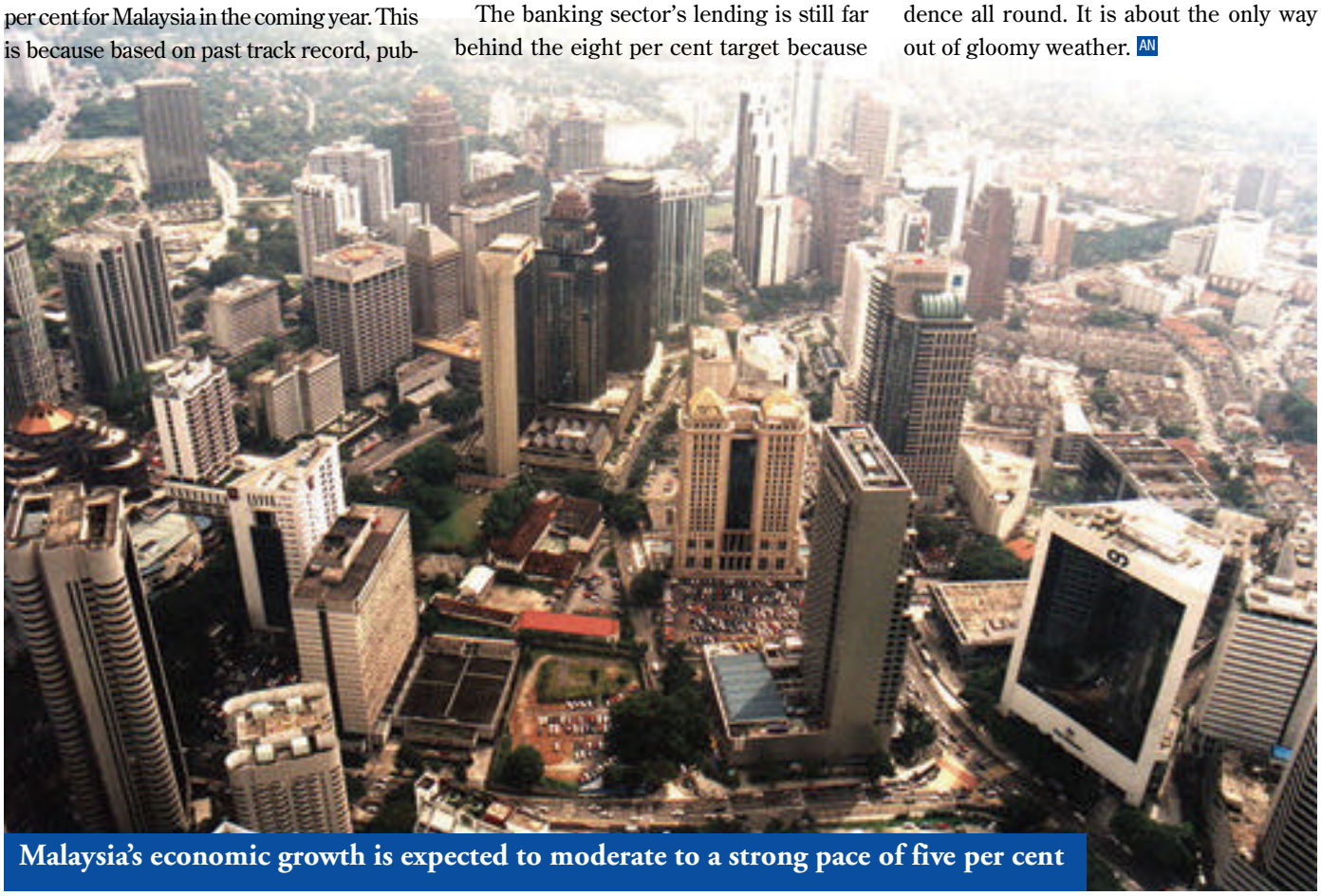
	1999	2000	2001
	Real GDP (% change)		
Region	6.5	7.7	5.7-6.0
Thailand	4.2	4.5	3.0-4.5
Philippines	3.3	3.9	3.8-4.3
Hong Kong SAR	3.1	10.5	4.0
Indonesia	0.2	4.8	4.5-5.5
Singapore	5.4	9.9	5.0-7.0
Malaysia	**5.8**	**8.5**	**5.0-6.0**
S. Korea	10.7	9.0	5.3
Taiwan	5.4	6.0	5.3
China	7.1	8.0	7.0

Source : Bank Negara

MALAYSIA'S SOVEREIGN CREDIT RATING COMPARED TO ITS EAST ASIAN PEERS

Country	Rating	Outlook
Singapore	AAA	Stable
Japan	AA+	Stable
Taiwan	AA+	Negative
Hong Kong	A+	Stable
South Korea	BBB	Positive
Malaysia	BBB	Stable
China	BBB	Stable
Thailand	BBB –	Stable
Philippines	BB+	Negative
Indonesia	B –	Negative

Source : S&P (as at 5 April 2001)



Malaysia's economic growth is expected to moderate to a strong pace of five per cent

MAINTAINING MORALE DURING AND AFTER DOWNSIZING : THE MANAGER'S ROLE

By Dorri Jacobs

In recent years, as a result of mergers, acquisitions, changing economic conditions, and the desire to lower operating costs, downsizing has become a popular policy in many organisations.

It may be a sensible business idea. Yet, though practical, frequently it is implemented without adequate preparation. The human factor is forgotten. In too many cases, planning to reduce future problems does not occur.

Think about how your own firm was reorganised. Did your corporate strategists spend considerable time in careful analysis, at the beginning of the process, prior to eliminating any overlapping functions? Jobs considered readily dispensable were abolished. Perhaps attractive packages encouraged long-term employees to take early retirement. After several months, or whenever everyone to be moved was in place, planning probably ceased. An assumption was made that normal routines could be resumed and work would go on as usual.

Such an expectation just isn't realistic. Companies that do not pay sufficient attention to how their employees are affected by executive decisions are misguided. Eventually a price is paid for their insensitivity.

Your Role as a Manager

Where increasing company profits is a priority, the message to managers is "show us results now." Conscientious managers

then direct their efforts toward completing tasks, while the people who perform them become secondary. This tactic may be successful — but not for long.

It's actually counterproductive to ignore the human side of increasing output. Cutbacks create all sorts of pressure. Even though they may wish to do so, people cannot shut off their feelings.

Morale soon decreases. Eventually, individual performance is adversely affected. As a manager in close contact with your employees, you know this. All around is evidence of the negative repercussions of widespread staff reductions.

What Can be Done to Remedy the Situation?

As a manager, you should be taking an active part in raising morale. This is a seven-step process. First, sensitise yourself to the impact of downsizing on employees. To understand what you're up against, establish a dialogue that clarifies employee concerns. Next develop a method of empowering employees so that they feel less passive and more in control of their own circumstances. Then figure out how to improve communication with everyone.

Your role also involves transition planning to prevent or alleviate stress in the interim period. Provide support by building a positive work environment. Finally, evaluate your accomplishments and identify potential trouble spots.

Downsizing : The Emotional Impact

You may believe that those who remain after downsizing should not worry at all. Since their behavior indicates the opposite, find out the reason why this is so. The answer given by one woman employee in a Fortune 500 service company is typical. She said, "Yes, they keep promising that there won't be any more cuts. I'm a single parent with three school-age children to support. January makes 15 years that I've been here. How can I be sure that my job isn't on the line? It's only a matter of time."

She's right. Gaps between what a firm officially states and what actually transpires reduces credibility. Additional emotional fallout stems from employees wanting to keep on working yet knowing they are powerless to control their own job security. Friends who were forced by major cutbacks to leave the firm increase their sense of loss. "Nothing ever happens here" now becomes "I wonder what will happen to me."

"Companies that do not pay sufficient attention to how their employees are affected by executive decisions are misguided. Eventually a price is paid for their insensitivity."

People no longer feel safe. Their loyalty and commitment to the company can't guarantee job stability. Confusion about new responsibilities causes further distress. Too many changes at once are not comfortable for most of us. In the reorganisation that usually follows downsizing, employees are so busy trying to adapt to added job functions, new reporting relationships, and sometimes even different surroundings that they feel overwhelmed.

"I used to look forward to coming in," another employee of this Fortune 500 company told me. "It used to be fun being here. Working hard is my thing. But now every day is a drag."

Tension can be felt by everyone. To make matters worse, no one bothers to address any of these anxieties.

Establish a Dialogue

You can show your department that, in your areas, people count. Establish a dialogue to identify major areas of concern, choosing a meeting time when absence from work is the least disruptive.

In the firm referred to earlier, a series of two-hour luncheon meetings was held. Participation was voluntary. Food and beverages were provided, and the sessions were conducted on a different floor from the workstations.

At an introductory session to arouse interest, the reasons for getting together should be announced, so that participants can see where they are heading. For example, you may wish to reiterate the numerous recent changes that are causing dissatisfaction. Tell those assembled that you hope to find ways to make life on the job better.

Structured discussion is best. Otherwise, meetings may turn into gripe sessions. It's always easier to blame someone else for the mess in which we find ourselves. Moving the group to a higher degree of awareness — using on finding solutions — patience, but it is well worth the effort.

Empower Others to Act

What response can be expected?

At the Fortune 500 company, attendance was 100 per cent at the first session and remained high throughout the project. People reported that they appreciated having an opportunity to express themselves.

Letting employees know that they are heard certainly does help. It demonstrates to them that someone really cares how they feel.

Discussions should facilitate the ability to cope during a period of transition. Aim to have each person take more responsibility for improving both the work environment and his or her own performance.

Change diminishes self-esteem. Adapting to change demands so much energy and skill that people feel inadequate. Here, your own attitude makes a difference. Operate from a self-fulfilling prophecy : Assume that your staff is fully competent, capable, able to come up with viable solutions for the problems they raise. Your group's behavior will begin to reflect the manner in which they are treated.

A good manager not only motivates but also empowers others. Instead of emphasising mainly the negative, he or she helps them develop a fresh perspective. People who realise that they have choices, who act instead of waiting for someone else to fix things, are able to accomplish what seemed unlikely before.

There were 10 basic questions around which talks were focused, with empowerment in mind :

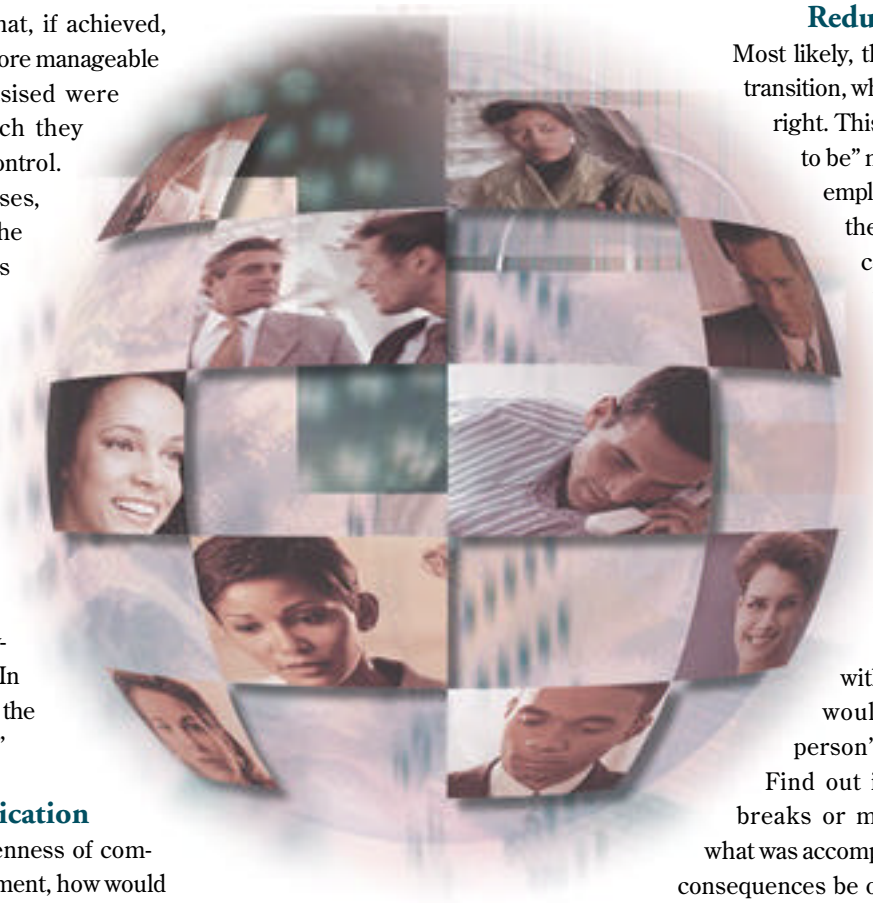
1. What on-the-job problems exist that affect you personally and that you would like to see improved or resolved?
2. Which of these are most/least important to you? Prioritise them.
3. For how long has your number one problem been in existence?
4. Why did it begin? Why is it still a problem?
5. What have you done to remedy it?
6. What were the results?

7. How might you have inadvertently perpetuated this problem — through action or inaction?
8. What will you risk if you try to resolve the situation?
9. In this situation, what is within your control? Beyond your control?
10. How much would you be willing to do — if you knew how — to improve the situation? Why?

After extended discussions, each employee was encouraged to write one to three short-term goals that, if achieved, would make work much more manageable from day to day. Emphasised were problem areas over which they thought they had some control. To broaden their responses, they were asked to finish the phrase, "In what ways might I … ?" Examples of employee goals were :

- "In what ways might I more quickly and comfortably learn to use our new computer?"
- "In what ways might I feel less tired at the end of each day?"

A goal that came from several different people was : "In what ways might I improve the communication in my unit?"



Improve Communication

If asked to rate the openness of communication in your department, how would you answer? Consider the ease with which people come to you with questions for clarification. Evaluate your willingness to listen without judgment. How often and about what do you initiate conferences?

Managers in our project complained about staff, "They don't think. They are inefficient." Meanwhile, subordinates claimed, "They don't have time for me. They're never around when I need them." The underlying message of both was, "It's their fault!"

The hierarchy of power and authority in the employer-employee relationship establishes artificial boundaries beyond which neither party will readily cross. Adversary positions hinder the kind of understanding that would greatly reduce the stress of downsizing.

Meetings on a regular basis with mutually selected agendas clear the air. One extremely busy manager saw his unit for a half-hour every morning. The sessions altered everyone's rigid "we-they" perspective. Decide on the approach that fits your needs and schedule. Should it seem relevant, ask to be invited to some of the work meetings you don't usually attend.

Conversations can be informal. Your accessibility to employees is important. It demonstrates your interest in how they are managing in a stressful time. Communication from management is especially needed in the midst of reorganising. Employees want direction. Without it, they flounder. To facilitate trust, the department head and his assistant at the Fortune 500 company shared their vision with those they supervised. The group talked about staff and managerial expectations, department priorities, and areas of confusion. A lively interchange paved the way for future discussions.

How you communicate affects the listener's receptivity. Try to become more aware of using a relaxed manner, balancing constructive criticism with praise. Recognise employee contributions to the department — complimenting them with a memo or handshake on a job well done. When a problem exists, explore causes and possible solutions. Avoid angry confrontations. Said sincerely, "I made a mistake," gains greater employee cooperation — and it does not lose you respect.

Above all, be patient. Remember that everybody is experiencing similar stresses, and that you are, after all, human.

Transition Planning to Reduce Stress

Most likely, there will be a period of transition, when nothing seems to go right. This is when "life as it used to be" must be mourned. Allow employees — and yourself — the space to grieve while continuing on with customary routines.

It's normal to feel unsettled or anxious during this somewhat chaotic period. Acknowledging insecurity and providing sufficient time for adjustment will alleviate any symptoms of stress.

In your discussions with employees, ask what would help to make each person's performance easier. Find out if they require coffee breaks or merely recognition for what was accomplished. What would the consequences be of temporarily lowering standards or extending a deadline to take the pressure off!

Set transition goals and decide together on a feasible time-line for achieving them. Solicit suggestions from your staff. Involve them in problem-solving. Instead of trying to plan completely by yourself, ask for ideas and assistance. You may wish to create a task force that prioritises and then addresses department problem areas.

Set the Tone

"Quick fix" techniques rarely produce results. It's slow, steady, "keep on plugging" approaches that work. Realise that you're right in the middle of an ongoing

process, that you'd better stop striving so hard for the impossible.

Concentrate instead on a more positive working environment. You can provide continuity through follow-up discussions, reviews of progress, extra coaching when needed and scheduling frequent short conferences. Do everything you can to set a more relaxed tone. Are you reinforcing employees' (and your own) negativity or finding ways to foster growth? Individual productivity thrives when you encourage, develop, and build up rather than tear down. Begin to notice small accomplishments. Maintain a sense of humor, don't be so quick to find fault.

Changing your own outlook and management style has a surprising rippling effect.

Concentrate on team-building. Develop a more cohesive unit by holding more social functions, group brainstorming, rotating jobs for variety, or working together on projects across units.

Evaluate Your Accomplishments

Planning without reassessment at appropriate intervals is unwise. Every few months — or more often, if this feels right — review where you are with your staff. Evaluate in terms of department goals achieved, assess employee match with a particular job, and consider the need for job rotation.

Examine time wasters, energy-drainers, the effectiveness of communication, the kinds of support missing, and any apparent obstacles to effectiveness.

Set current priorities and goals. Check perceptions by asking for feedback, not only telling people what you think. Probe. Expand upon an idea until implementation seems feasible. AN

Points To Remember

Raising morale, as you can see, is certainly within your power. Use this checklist to remind yourself how to proceed :

1. Understand why morale is low. Review recent events, the period of time involved, and employee preparation. Analyse your own feelings.
2. Let your staff know that you're aware of how they feel. Meet with them to discuss their concerns.
3. Develop an approach that allows people to take charge of their situation. Help them to see what they can control.
4. Play down your managerial position so employees perceive you as more accessible and interested in their welfare.
5. Work on improving communication— in all directions. Provide information, ask questions, solicit feedback, and discuss issues fully.
6. Set the tone in your department. Focus on the positive. Be patient. Develop untapped talents. Praise efforts, not only results. Provide support even when it isn't asked for.
7. Allow time both for mourning losses and for adapting to change.
8. Plan before, during and after transitional periods. Share these plans with your people. Allow for contingencies and readjustments.
9. Maintain a sense of humor at all times.
10. Re-evaluate progress as often as seems necessary.

Tips for Downsizing Survivors

STEP 1 UNDERSTANDING CHANGE

- Recognise that for most people downsizing is stressful. Pretending it isn't only makes everything worse.
- Acknowledge your feelings about recent events. Your confusion, sense of inadequacy, anger, frustration, fear or sadness are normal reactions to change and only temporary.
- Accept the fact that, regardless of how you may feel now, change is a constant part of your environment today, both at work and in your personal life.
- Expecting the present situation to be over soon will only lead to disappointment. Change isn't linear, tangible or orderly. It's an amorphous, chaotic, confusing process, without a definite beginning or end.
- Remember that you've always somehow managed to deal with change. Find strength in knowing that you are a survivor.
- Think about the ways you've coped with changes in the past. Make a list of the techniques that have worked for you and made things easier.
- Acknowledge losses: your job security, friendships, feeling of being on top of things and in control.
- Take the time to mourn them. You won't be ready to go forward until you do.
- Expect your own and others' initial resistance to change. Complaints, fits of anger, undeserved criticism of cooperation and silence are symptoms. Realise that resistance is normal and part of the process.
- Anticipate and prepare for future changes. Get the facts so you know what is coming.

STEP 2 UNDERSTANDING THE ORGANISATION

- Be sure that you really understand the rationale behind downsizing, including what the company hoped to accomplish by cutting personnel and why it occurred now. This may help you to accept recent changes and adjust.
- Obtain up-to-date information about company policies and procedures, instead of blindly following what you used to do.
- Remember that you're a member of a team. Know your role and where it fits into the whole organisation.
- Consider becoming part of a task force that addresses employee concerns and works toward improved productivity in the midst of major organisational change.
- If your company is involved in a merger or acquisition, there's going to be dramatic shifts in corporate culture and ways of operating. Try to anticipate these changes by learning all you can about the other company, its leadership, management style, products and policies.

STEP 3 PERFORMING YOUR JOB

- Redefine the parameters of your job. Find out what your new responsibilities are—both what you're supposed to be doing and what you aren't.
- Ask questions about the work for which you'll be accountable, what is expected of you in terms of performance and how it will be measured.
- Prioritise your tasks each week, then each day.
- Set realistic short and long-term goals.
- To give you a sense of security, establish routines you can follow.
- Keep track of your accomplishments, rather than your deficiencies.
- Be clear about where you're having difficulty in getting the job done, and what gets in the way of your efficiency.
- Clarify things you do that are clearly time and energy wasters. When it seems reasonable, stop doing them.
- Know your limits. There's no point in trying to do what is impossible. You'll only sabotage yourself.
- Brainstorm ways to solve problems or improve performance.
- Choose five of these steps or actions to take that are easiest and do them this week.
- If you are working with a new data management or computer system, give yourself time to learn it. Schedule regular practice sessions, even if this means staying late.
- Be less of a perfectionist. Recognise the fact that in the beginning of a major change, you'll feel inadequate and won't be up to normal speed.
- If you still can't get your work done, no matter what you've tried, instead of pretending that things are all right for fear you may be criticised, speak up. Ask for the information, clerical or professional assistance, or resources necessary for you to do your job effectively.
- Instead of complaining about a problem, find ways to become part of the solution.
- Try to be flexible. Stretch. Expand your range. You can do more than you may have thought humanly possible. Pick up new skills, or learn how to do things differently.
- Enrol in training to upgrade your skills or advance your position.

STEP 4 RELATING TO YOUR CO-WORKERS AND YOUR MANAGER

- Realise that your co-workers and managers are human beings who probably are also feeling stressed out by recent events. Treat them accordingly.
- Set the tone with "good morning" greetings and smiles.
- Be patient with others. Treat them as you would like them to treat you.
- Communicate clearly. Explain what you are saying. Then check to be sure it is understood.
- Try to take things less personally when others overreact.
- Focus on the positive. When possible, give praise rather than criticism or complaints.
- Regardless of deadline crunches or lack of personnel, do your best to get along. This will make the work environment less stressful.
- If you are transferring to another department or floor where you know few people, reach out to others. Be open to developing new relationships.

STEP 5 TAKING CARE OF YOURSELF AND YOUR PERSONAL LIFE

- Try not to compare yourself to anyone else. We each respond differently to the same stressors, and adapt in our own time and fashion.
- Assume you are competent and capable of success. Review your strengths and assets.
- When you find yourself stuck, to make things more manageable, revise goals - or the time frame for reaching them.
- Start career planning for the future. Consider which skills you have that can be used in another firm or line of work.
- Create a support system. Find allies at work, people you trust and can talk to.
- Clarify your choices. Know what is and isn't in your control.
- Try not to make important decisions under pressure. Wait until you feel less stressed.
- Put balance back in your life. Start a regular exercise program, plan enjoyable leisure activities, see friends often, eat right and get sufficient sleep.
- Be your own best friend. Treat yourself with kindness. Pamper yourself.
- Assume that eventually things will get better.

THE IMPORTANCE OF DOCUMENTATION

By Gursharan Singh

Introduction

The importance of maintaining relevant, accurate and comprehensive documents, and keeping them safely should never be minimised. This is also very true in the case of construction projects where the stakes can be very high such as in the case of mega projects (infrastructure and buildings), where the cost could be in the billions and the financial implications of neglect could be in the millions. The impact would be even greater with the advent of globalisation. Normally, compliance of approved standards, prescribed financial procedures and internal controls would require that all transactions be substantiated by documentary evidence that may be needed to be made available for several decades. Auditors, regulatory authorities and laws such as those pertaining to companies and inland revenue, also require documentation that is comprehensive, accurate, properly indexed and be made available for the prescribed lengths of time that can be several years.

Responsibility for Documentation

It is the responsibility of all parties involved in transactions to ensure that the relevant documents are accurate, comprehensive, properly indexed/filed and kept in a safe location for the duration of their possible need. There are generally two main parties involved in the case of building and infrastructure construction projects. They are the contractors/consultants and the project owners. There is a third party involved in the case of property development projects where the constructed properties are to be sold to individual buyers. The importance of documentation is normally best appreciated when a claim is received and subjected to legal action or arbitration. This is because all legal actions are based on documentation. A few actual cases are given here to illustrate losses that were incurred by the involved parties in construction projects and could have been avoided or minimised had there been proper documentation.

In addition it is essential that documentation is prepared continuously as a standard practice as the project progresses. It should not be delayed and created later only when there are problems.

CASES ILLUSTRATING THE IMPORTANCE OF PROPER DOCUMENTATION

Case No.1 — RM10 MILLION

(Loss to the owner and gain to the contractor) (Indirect beneficiaries legal firms for both parties)

A project owner engaged a foreign engineering consulting firm to supervise the implementation of a mega infrastructure project that was to be constructed on the design and build concept. The input of in-house expertise was minimal. The project was completed within three years after some delays at a total cost of RM570 million. There were consistent complaints during the construction period by the contractor about delays in settling interim claims and compensation for variations to works. The contractor submitted claims totalling RM3 million in respect of some outstanding variations. The appointed consulting firm scrutinised the claim but recommended only RM1 million for payment. As the project had been completed and commissioned except for this outstanding RM3 million claim, the services of the foreign engineering consulting firm were considered as completed. Their fees were fully settled (RM35 million) and they left the country before the outstanding claim could be settled. The contractor rejected the offer of RM1 million. The owner refused to reconsider his earlier offer or enter into any discussions and negotiations to settle the matter. This left the contractor no choice but to take legal action as provided for in the contract documents.

The legal firm representing the contractor filed for legal action for recovery of claim that had now escalated to RM7 million. Variations (RM3 million), mobilisation costs for delays (RM2 million) and finance costs for delays in payments (RM2 million). The project department of the owner now offered to settle the contractors original claim of RM3 million on condition the contractor withdrew his other claims. The contractor on the advice of his legal advisors rejected this. A further six months had elapsed since the legal action had been filed and the legal advisors of the contractor submitted a revised claim of RM12 million comprising of

variations (RM3 million), mobilisation costs for delays (RM4 million) and finance costs for all delays (RM5 million).

The owners' technical professionals scrutinised the revised claim together with the documentation presented to substantiate the quantum of RM12 million and also referred the new claim and the documentation to the original foreign consulting firm for advice. This process took another 12 months. Based on the advice received, the owner now offered RM7 million in full and final settlement of all claims. The contractor again rejected this and submitted a new revised claim totalling RM27 million by adding claim for opportunity losses. The owner finally negotiated and settled the dispute with full and final settlement of RM12 million.

A study of the relevant files filed by the auditor revealed that there were several reasons that were contributory factors that led to the loss of about RM10 million. The main reason for the loss was attributed to inability to dispute the quantum of claims due to absence of relevant documentation that was accurate, comprehensive, properly indexed and filed.

Other probable factors were :

[a] Attitude of the owner and his technical/non-technical professionals

[b] Total trust in the appointed engineering consulting firm and legal advisors

[c] Owners lack of confidence in in-house expertise and professionals

[d] Insufficient involvement by the owners technical/non-technical professionals

[e] Missing documents due to several changes in personnel and office locations

There was absence of any commitment in the owners' team as their involvement began only when the project had been completed and claims problems surfaced and also lack of vested interest (reward in case of success). Against this there was total commitment of the contractors legal advisors to ensure maximum claim recovery. It was understood that in addition to their prescribed fee payment there were additional honorarium payments. Also the lawyer responsible received a very handsome bonus as is the normal practice in the commercial world.

The owner could have been able to substantially reduce his losses and settle the matter promptly and amicably had his documentation system been relevant, comprehensive, accurate, properly filed and indexed for easy reference to substantiate the equitable quantum of claims and reject others. In addition, the owner would have saved on substantial legal costs.

This particular case gave the owner the opportunity to learn (though expensive) about the importance of documentation. Other very valuable lessons learnt for future projects include the following :

[a] Management and in-house professionals to be responsible.

[b] Be aware and monitor services of appointed consultants (technical/non-technical).

[c] Have in-house professionals fully involved (assigned) from the very early stages that could also assist in upgrading expertise

CASE NO. 2 — RM1.2MILLION

(loss to consultants and gain to owner)

A consortium of technical consultants (architect, engineers (C&S and M&E) and quantity surveyor) had agreed to a negotiated fee of eight per cent of the final cost of a high rise office building or maximum cost of RM80 million, whichever was lower. Subsequent to the award of the contract and during piling works, the project faced some structural problems that resulted in delay in completion. There were further delays due to the inability of the owner to make prompt decisions pertaining to several matters such as selection of specialist sub-contractors for M & E works, fittings, built-ins, colour schemes, etc. Also there were many decisions that required revisions to approved drawings. All these resulted in many hours of input by the technical consultants and their support staff. The final project cost totalled RM110 million and an overall delay of two years.

The consultants submitted an additional claim of RM2.4 million for the extra manpower input and administrative costs. The claim was based on a fee of eight per cent on additional cost of RM30 million (being the difference between the final project cost of RM110 million and original maximum cost of RM80 million). This additional fee claim was not substantiated by documentary evidence as the consortium had not maintained any records of time input by the technical professionals or support staff or any administrative expenses. Consequently, the additional claim was rejected by the

building owner citing contract conditions.

The consortium sought the advice of the auditor who advised direct discussions and compromise between the two parties as the owner did not dispute additional costs. However, he could not agree to consider or pay the additional claim due to a lack of documentation to support the quantum of payment. Nevertheless, it was noted that some support evidence could be collected from various records such as instructions, minutes of meetings, progress reports, site records, correspondence files, photographs, site inspection reports but that would have been a cumbersome task. Thus in order to avoid this tedious and time-consuming exercise that would have cost further expenditure to both parties, it was mutually agreed that the dispute could be settled with the payment of an additional fee of RM1.2 million.

In this instance the consortium lost about RM1.2 million due to lack of documentation that should have been prepared in the early stages when it became apparent that the delays and indecision would cause additional costs. The building owner gained at the expense of the consortium in this instance but it should be remembered that in other cases the reverse could have applied to him and he could have been the loser. Thus the lesson is applicable to both parties.

CASE NO.3 — RM600,000

(loss to contractor and gain to owner)

A local contractor was awarded a tender for the construction of a R.C.Bridge val-

ued at RM12 million. The contractor employed a foreigner as the superintending engineer for the implementation of the construction works. The bridge was in the final stage of completion when the son of the contractor returned from overseas as a qualified civil engineer. There were some delays and also several changes to the specifications for which the contractor had outstanding claims with provisional value of RM600,000. The relationship between the foreign engineer and the contractor's son soon deteriorated due to the arrogance and overbearing nature of the son. It culminated in the foreign engineer being dismissed at very short notice though with due compensation.

The contractor, or his son, did not take adequate precautions to ensure that all relevant contract documents pertaining to the project were handed over prior to the dismissal or departure of the foreign engineer or settlement of his dues. The documents included those pertaining to the claims estimated at RM600,000 that were yet to be finalised and agreed with the bridge owner. The contractor was not able to reconstruct or substantiate the claims. He was also not able to convince the project owner to approve the claims based on copies of all documents that were in the possession of the owner. The owner's rejection was based on the reasoning that any consideration of this type would be against existing procedures and might also be construed as criminal under the anti-corruption laws of the country. The owner advised the contractor to seek the assistance of his former foreign engineer and obtain the relevant documents to substantiate his claim of RM600,000. The contractor failed in his attempts to contact the foreign engineer. Consequently the contractor had to forgo his claims.

In this case the contractor lost RM600,000 due to lack of documentation and the project owner gained as he did not have to pay any compensation for the delays or the cost of the changes. Here the contractor, and especially the son, had hopefully also learnt other lessons that include :

[a] Treating your professional, and other employees, with respect.

[b] Ensuring there is a proper hand over of important documents, especially those with financial and legal implications

[c] The contractor (father) should also have monitored the doings of others (son) before giving them absolute authority and a free hand.

CASE NO. 4 — RM61,000

(Gain to individual shop lot buyer and loss to developer) (Indirect beneficiaries legal firms of both parties)

A property developer offered for sale individual shop lots and office space in a high rise commercial complex. The sale and purchase agreement prescribed the completion period as three years from the date both parties signed the S&PA. The agreement also provided for payment of interest at the rate of eight per cent p.a. be compounded on a daily basis, by the purchaser (for delay in settlement of scheduled progress payments instalments of the purchase price) and developer (for delay in completion of the project).

There were several instances when there were delays in payment of the progress payments for which the developer imposed the prescribed rate of interest. The purchaser settled all such claims promptly. The project suffered delays that continued to lengthen. This prompted the purchaser to make verbal inquiries and also to send periodical reminders to the developer inquiring about the projected date of completion. A written acknowledgement was obtained for all communications sent to the developer. The project was finally certified completed and handed over to the purchaser after a delay of 49 months.

The Purchaser then sent a legal notice to the developer claiming compensation for late delivery as provided for in the S&PA plus interest up to the date of settlement. The purchaser's lawyer filed all the necessary documents together with supporting evidence to substantiate the claims. The developer, who was one of the largest and most well-established property developers in the country, won the case even though his documentation was incomplete. An appeal was filed against the judgement. The appeal was finally heard after four postponements. At the hearing, the court directed the developer to substantiate with documentary evidence that the purchaser had been given notice that the shop lot was ready for hand over. The developer could not do this as the correspondence file containing the necessary documents was missing due to the many changes in personnel and shifting of site offices in the previous six years. He offered evidence of the prescribed notices that had been sent to other purchasers in the same complex but could not provide the notice in respect of this claimant. This was not acceptable to the court and judgement amounting to about RM61,000 was awarded to the purchaser. The developer made a last minute effort to locate the purchaser's file but again failed and finally settled the case by remitting a cheque for the award sum.

The purchaser gained because of having documents whereas the developer lost due to non-availability of documents.

CONCLUSION

The importance of documentation is appreciated only when there is a dispute which has financial implications. The disputes can be settled amicably if both parties have documents that are accurate, comprehensive, and filed/indexed properly for ready reference to substantiate the quantum of claims. The alternative is legal action and additional costs that may be irrecoverable. The winner in almost all legal actions is generally the party with the better documentation and the other the loser. The clients may win or lose but their legal representatives will always win. AN

Note : The writer is currently a specialist trainer in construction projects. His accomplishments include : establishing an internal audit unit in KESEDAR and special audit experience of portfolio manager services appointed by Federal Government financial agencies.

A reflection on THE PSYCHOLOGY OF INVESTMENT

By Lai Ming Ming
FACULTY OF MANAGEMENT
MULTIMEDIA UNIVERSITY

The disappointing and gloomy year of 2000 in the Malaysian stock market has made many think again about the right investment strategy to be adopted in the year 2001. But, have we ever thought of the psychology of investing? This article provides a brief review on the psychology of investing (sometimes known as behavioural finance) that may help to explain and understand important aspects of market behaviour and stock market fluctuations. Jomo (1998, p.192) describes the "financial crisis (1997) as having been precipitated by 'irrational pessimism' writ large by herd behaviour and contagion" effects. To truly succeed, investors and portfolio managers need to understand human behaviour, as market players are just ordinary human beings. Baruch (1958) describes the stock market as follows :

"What registers in the stock market's fluctuations are not the events themselves but the human reactions to these events, how millions of individual men and women feel these happenings may affect the future. Above all else, in other words, the stock market is people."

Evensky (1997) said that Benjamin Graham, the father of fundamental investment theory, concluded that investment decisions were 25 per cent intelligence and 75 per cent psychology. The concept of rational people is actually based on the classical economic model in which humans (investors) have access to all the information, and thus use all the available information in making

decisions. They behave rationally and maximise their expected utility. However, much evidence has demonstrated that people behave irrationally in their thought processes. Many analyses have provided substantial evidence of the absence of a truly rational investor in the real investment world. Bensman (1997) argued that stock investors did not just trade on available news and rational response. Investors displayed their irrational impulses. This irrationality explains market anomalies such as the outperformance of value and momentum of stocks over the broad market or the well-known "January effect". He added that there was an increasingly outspoken group of non-believers who argue that not only was the species of a 'truly rational man' rare, it may not exist at all.

Financial researchers and scholars have begun to wonder why 'traditional finance' was incapable of explaining the stock returns. With the burgeoning of behavioural finance which reconstructs financial theories along human behavioural, it is viewed that it would be able to offer a better explanation of the anomalies and market inefficiency. Statman (1999, p.19) offered a different view : "some people think that behavioural finance introduced psychology into finance, but psychology was never out of finance." Kahneman, Slovic, and Tversky contributed greatly to the development of the field of behavioural finance.

Evensky (1997) also pointed out that Thaler and other leading proponents of behavioural finance observed that the actual behaviour of people was different systematically from their rational behaviour and they were seldom rational. People (investors) have limitations in processing all the available information in decision-making. As a result, people feel comfortable with short-term events. The investors use the judgment of heuristics that lies on rules of thumb and mental shortcuts. Investors adopt this simplified decision-making process rather than a rational decision making model. But, heuristics can be misleading and dangerous, too (Tversky and Kahneman, 1974).

Tversky and Kahneman (1974) said that representativeness heuristics was the tendency and that if an item was similar to members of a particular category, it was probably a member of that category itself. For instance, the newspapers, including *the Wall Street Journal,* made comparisons on the recent events with the remembered past events on 19 October 1987 (two days after the crash), about stock prices before 1929 and stock prices before 17 October, 1987. This assumption was reasonable in most cases. This representativeness heuristic can be illustrated from the following study. Someone is flipping a coin, recording the order of heads (H) and tails (T). Subjects were asked which of these sequences was the least likely :

1. HHHHHHHH
2. HHHHTTTT
3. HHHHHHHT

The study indicated that most people who had no training in probability theory thought sequence 1 was the least likely even though all three sequences were equally likely. A sequence of all heads seemed unrepresentative of the usual experiences. Based on probability theory, after a run of four heads, another head had the same chance to be a tail on the next flip.

"What registers in the stock market's fluctuations are not the events themselves but the human reactions to these events, how millions of individual men and women feel these happenings may affect the future. Above all else, in other words, the stock market is people."

Representativeness heuristics emphasises the case data over the base data. Base data refers to the statistical data of the reality. Despite the problem of representativeness heuristics, investors still use the representativeness as an investment guide. Evensky (1997) also stated that the tendency to emphasise the case data (story) over the base data (reality) would lead to making investment decisions like buying high and selling low. He also pointed out that successful professional investors like Warren Buffett had learned to avoid this trap.

Tversky and Kahneman (1974) stated that, availability heuristics refers to the heuristics that a future event relies on the available information in the memory or "what comes to mind". As a result, people use this approach rather than going through all the available information which is what they are supposed to do under the rational decision-making framework. Hence, there is a tendency to put more emphasis on recent information and good case data rather than the reality. However, heuristics allows people (investors) to make easier and faster decisions than the rational decision-making process.

How common or how often an event happens to people depends on how many memories or examples of that event are available to the people concerned. People have problems in recognising how much information is enough and how much is too much. Thus, in many cases, investors use the "judgmental heuristics" to make investment decisions.

Kahneman and Tversky in their *Prospect Theory* (1979) discovered behaviour patterns that had never been recognised by the rational decision-making model. Their theory asserts that human beings have an irrational tendency to be less willing to gamble with profits than with losses. Putting this theory into the stock market scenario, investors sell stocks more quickly when making profits. However,

they will not sell the stocks if the stocks show losses. We have a cognitive dissonance when we try to avoid actions indicating that our assumptions have been wrong. Selling loser stocks would confirm a mistake that we made. The findings revealed that there are two human shortcomings. First, emotions often destroy the self-control that is essential to rational decision-making. Second, people are often unable to understand fully what they are dealing with. Investors dislike risk when they are offered a choice in one setting and then they turn into risk-seekers when they are offered the same choice in a different setting.

Shiller (1997) found that it is human tendency to place particular events into mental compartments based on superficial attributes. People may tend to place their investment into arbitrarily separate mental compartments, and react separately to the investments based on which compartment they are in. We decide an investment belongs to a category and think how the performance of this investment should resemble the other members in this category. He also highlighted that firms that were considered similar to each other tended to observe each other, and then they followed the behaviour of others. This behaviour may be social, rather than individual, and hence may have aggregate effects.

Herd behaviour can also be seen from the October 1987 crash. Market practitioners claimed that the crash was caused by the panic produced by investor overreaction. The Dow Jones Industrial Average fell on 19 October 1987, Monday, by 23 per cent to 1,739 points in seven hours. Panic selling spilled over to other regions of the world. The following morning, the crash was over with the positive opening of the world stock markets. Tvede (1999, p.134) said that "a strange mood spread through the stock market and everybody was asking one single question : What on earth happened?" Shiller's 1987 survey on the October 1987's crash evidence also revealed that investors were reacting to each other during these crashes, rather than to hard economic news. Shiller observed that people who interacted with each other regularly tended to think and behave similarly. This is called "herd behaviour". This finding was consistent with Asch (1952) who had conducted an experiment and indicated that people rationally took into account the information revealed by others' actions. These findings are further reinforced by Jost (1995) that the tendency for people in groups to think and behave similarly seems to suggest some kind of irrationality, such as a loyalty induced psychological motivation to be in accord with group members. Instead, they tend to observe others before making their own decisions. This observation can also be discovered in models of Banerjee (1992) and Bikhchandani, Hirshleifer, and Welch. (1992). They affirmed that people acquired information in sequence by observing the actions of other individuals in their group who preceded them in the sequence. Banerjee (1992) illustrated that people would be doing what others were doing, even if their own information suggested doing something quite different.

"Herd behaviour can be seen from the October 1987 crash. Market practitioners claimed that the crash was caused by the panic produced by investor overreaction. The Dow Jones Industrial Average fell on 19 October 1987, Monday, by 23 per cent to 1,739 points in seven hours. Panic selling spilled over to other regions of the world."

Another psychological phenomenon, regret theory, explains human behaviour in the bearish market, in particular. The regret theory refers to the person who tries to avoid actions that confirm that he or she has made mistakes. Shefrin and Statman (1985) in their regret theory, Ferris, Haugen, and Makhija (1988) and Odean (1996) indicated that investors deferred selling of stocks that had gone down in value, and accelerated the selling of stocks that had gone down in value. It implied that investors avoided selling stocks that had gone down in value in order not to finalise the error they made, and not to feel regret. Similarly, they sold stocks that had gone up in order that they could not regret failing to do so before the stock later fell.

Goetzmann and Peles (1993) observed the same phenomenon in which money flowed in more rapidly to mutual funds that had performed extremely well than money flowed out from mutual funds that had performed extremely poorly. Investors in losing funds were unwilling to confront the evidence that they made a bad investment by selling their investments. Evensky (1997) indicated that investors valued on losses than gains, which resulted in a reluctance to "cut losses", and they frequently endowed their investments with personal characteristics or social commentary. If he or she lost money, his or her friend viewed that he or she was stupid and unlucky.

In addition, investors also experience emotional loss and behave irrationally during a bearish market. Lifson and Geist (1999, p.22) believe that investors suffer psychological and paper loss when they encounter a situation in which the price of a fundamentally sound stock began to go down. As one investor described it, "I saw the stock going down and down and down some more. All I could think of was that I was losing everything. I brought back all the losses in my life. It got to the point where I couldn't stand it anymore and just sold out for a huge loss. I knew I shouldn't be selling, but I just

couldn't stand living with the feeling of loss. The monetary loss was awful, but it was such a relief to not think about losing and that for a moment it almost made it worth it." On the other hand, according to somatic marker theory (Tvede, 1999), strong threats create body reactions that reinforce sustained panic. This usually happens during a bearish market or periods in which the significant stock prices decline. It is viewed that the panic and stress can provoke quick changes in our attitudes.

During bearish periods, weak market sentiment and adverse news are surrounding the stock market followed by poor companies' performances, which have driven stock prices down as a whole. Selling pressures have pushed all the stocks down even the 'winner' stocks. When the market falls, investors get fearful and they are going to keep losing money and they want to sell stocks. Meanwhile, the investors also suffer social comparisons between their colleagues and friends who can be a damaging influence especially if they implement contrarian investment strategies. Cassidy (1999) pointed out the social comparison related to a contrarian strategy. He says that if investors talk about contrarian in the bullish market, their colleagues and friends will ask these questions of them, "How can you stand to miss the chance?" or "Why did you already sell that star performer on the way up (and too soon)?"

On the contrary, price persistence and momentum are evident during bullish periods in the stock market. During bullish periods, strong buying sprees and good capital gains with high investors' confidence push the stock prices, in general, to the next 'high', including 'loser' stocks. Hence, positive stock returns are found in general. The good news and cheering from stockbrokerage firms are so "loud", thus investors get greedy and want to make more money. The bullish market also makes their ego feel so great and thus raising their ego to an unrealistic state of prices. Investors care no more about the fundamentals of the stocks or the stocks' past performances. In a bullish market, investors have the tendency to place the "bullish" market conditions into their mental compartments. Stock prices tend to go up when the market is categorised under "bull run". Hence, regardless of the stocks' past performances, the stock prices will go up as well. Furthermore, investors observe each other and they tend to be part of the herd, which results in herd behaviour.

Not only do the investors behave irrationally themselves, the media also reinforces the irrational behaviour and plays a part in this respect. Cassidy (1999, p. 100) says that "in a high market, media behaviour acts to reinforce existing biases toward holding big gainers, tempting investors to jump onto bandwagons late, when prices are high. The media, in sum, reinforce through repetition what is obvious. In so doing, they keep stockholders increasingly comfortable as prices go higher and tempt us to plunge (out of greed and/or frustration) at just the wrong time. Conversely, in a declining phase, the media reinforces or heightens out late-developing fears and this prompts our ill-timed selling."

A few tips are suggested to portfolio managers and investors in which they have to be aware of the social comparisons and do not take advice from their colleagues and friends. Treat these people as one of the contrary indicators. Meanwhile, they are recommended not to raise the profit targets if the stocks have been going up for sometime. They have to learn how to sell.

Then, the portfolio managers and investors have to learn to manage and control their ego with the winning stocks. In particular, when they talk so proudly of the market success or even think of becoming full-time investors or speculators, all these symptoms might indicate the end of the market 'top'. They have to be self-disciplined and psychologically prepared to buy and sell. Finally, "psychology is hard to escape; it touches every corner of the financial landscape, and it is important. Financial practitioners need to understand the impact that psychology has on them and those around them. Practitioners ignore psychology at their peril" (Shefrin, 2000 p.309). AN

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THE IMPORTANCE OF NON-TECHNICAL SKILLS IN ACCOUNTING GRADUATES

Noor Azizi Ismail, Faisol Elham and Kamarul Bahrain Abdul Manaf
SCHOOL OF ACCOUNTANCY, UNIVERSITI UTARA MALAYSIA
and Rosmawati Mamat
MATRICULATION CENTRE, ARAU, PERLIS

The purpose of this study is to look at the quality issue from the perspective of one of the most important customers of higher education institutions, employers who hire the accounting graduates. Specifically, this study determines how well skill requirements match skill preparedness of accounting graduates. Results revealed that the five most important non-technical skills required by employers were the ability to perform assigned tasks, initiative, teamwork, computer literacy, and problem solving. Employers, however, perceive that higher education institutions have failed to prepare accounting graduates with all the skills required. The study also highlights the strengths and weaknesses of local accounting graduates. Finally, the study reveals suggestions by employers to improve the quality of accounting graduates, and also recommendations for future research.

Introduction

Malaysian higher education has undergone substantial growth in the last few years as a result of the efforts made by the Ministry of Education to expand the education industry. The introduction of new legislations such as the new Education Act, 1996, the National Council on Higher Education Act, 1996, the Private Higher Educational Institutions Act, 1996, the National Accreditation Board Act, 1996, and the National Higher Education Fund Board Act, 1997, manifest the Government's commitment to make Malaysia a regional centre of excellence in education. These legislations will help produce a new generation of Malaysian graduates who are able to acquire knowledge and skills, and are intellectually competent, scientifically minded, emotionally stable, morally upright and socially apt.

The Government's policy in education is consistent with its manpower planning to

provide the country with the right human skills to keep pace with growth. Many changes have been made to cope with the demands for education including restructuring the higher education institutions, incorporating them, shortening tertiary courses from four years to three years, and revising the Universities and University College Act. The development of virtual universities, distance learning, franchise and twinning programmes, as well as the construction of branch campuses of foreign universities have also contributed to the recent growth of Malaysian education. The rapid development in education will lead to a more competitive environment among Malaysian higher education institutions. Each university has developed its own competitive strengths, positioning itself as a centre of selective excellence. Courses and programmes offered are demand-driven and sensitive to changes in the global environment.

This study addresses two important issues. First, what are the non-technical skills most needed by employers from accounting graduates? Second, do accounting graduates meet the skills requirements of the industry? These issues have become more important recently due to the rapid development of Information Technology (IT) that has led the country into a borderless environment. The world has observed changes in political, social, legal and regulatory, environmental and technological issues due to new business deals i.e. globalisation. Accounting, being the provider of financial information about an entity, will inevitably be affected by the rapid developments of IT and business deals. Hence, accounting education needs to be upgraded to catch up with the continuously changing business environment. A number of studies carried out in other countries such as the US and the UK reveal that higher education institutions have failed to prepare students with the necessary skills to compete in an increasing global economy (Buckley, Peach & Weitzal, 1989; Hotch, 1992; Mukherjee, 1993; Oliver, Que, Farinch & Garland, 1996; Parry, Ruthford & Merrier, 1996; Rosmawati, 2000). Therefore, this paper addresses issues that are related to the quality of non-technical skills of accounting graduates from the perspective of one of the most important customers of the higher education institutions — the firms that hire these graduates.

Problem Statement

Great forces such as the rapid development of IT, growth of international capital markets, new business models, and globalisation are pushing higher education into a new environment. Higher education institutions need to respond to these pressures to produce quality graduates or be overwhelmed by it. Concerns relating to the growing trend of mismatch between education and employment in many countries, especially, developing ones, was highlighted by Oliver *et al.* (1996). It found that the curriculum revisions are not yet sufficient for today's job market for accounting professionals. It suggested that there are still some gaps between the levels desired and the levels found by employers of accounting graduates' background attributes.

Industry and business have challenged education to respond to the need for providing graduates who are ready to join the work force. Graduates need not only have basic academic skills, but many other skills and abilities not expected from education in the past. Business and industry are seeking employees who have the ability to think, be self-motivated and have the desire to be life-long learners.

Views about the decline of recent graduates' capabilities have given rise to questions concerning the accountability of Malaysian higher education institutions. The implementation of a new three-year degree program in 1997 for example has put extra burden to higher education institutions in producing quality graduates. The revised Universities and University College Act is also said to restrict students' activities and thus create more passive graduates. The increasing number of private colleges offering accounting diplomas or degree programmes, be it franchise or twinning programmes, and the increasing number of students enrolling in distance learning education, and other factors have given rise to the question of the quality of local accounting graduates.

Overview of Industry Needs

Businesses require a broad blend of technical and strategic skills (Sheridan, 1993). Hence, there is no general consensus about what skills are needed by businesses and who possesses these skills (Cappelli, 1992). To solve this problem, several institutions have established a standard routine procedure to survey businesses that hire their graduates (Rau, 1995). Schmidt (1991) conducted a survey and provided a list of non-technical skills required from business graduates such as creativity, communications, ethics, entrepreneurship, globalisation, IT, interpersonal skills and problem solving. Levenburg (1996) then supported the findings of the study. He found that problem analysis skills ranked high, along with oral communication, teamwork, written communication, honesty and integrity, decision-making skills, reliability, self-initiative, computer

skills and leadership skills.

The recent explosion of IT, i.e. Internet usage clearly indicates the increasing importance of computer skills. A study by Hammond, Hartman and Brown (1996) reveals a surprisingly low percentage of college courses that require the student to work on computer-based applications despite the fact that businesses routinely rely on computer support to handle real-world operations. The American Assembly of Collegiate Schools of Business (AACSB, 1993) quoted in Willis and Taylor (1999), strongly encourage business schools to include written and oral communication as an important characteristic and provide coverage of ethical and global issues as well as the influence of political, social, legal and regulatory, environmental and technological issues.

"… future accountants also need to develop non-technical skills such as capacity for enquiry, abstract logical thinking and critical thinking, historical consciousness, international and multicultural knowledge and the ability to resolve ethical dilemmas."

As for the accounting profession, Williams (1993) argued, in addition to technical knowledge, future accountants also need to develop the non-technical skills such as capacity for enquiry, abstract logical thinking and critical thinking, historical consciousness, international and multicultural knowledge and the ability to resolve ethical dilemmas. The Accounting Education Change Commission (1990) quoted in Nathan and Dunn (1997) listed a set of skills required for accounting graduates. Those skills include effective reading, writing, analytical and conceptual thinking, an ability to solve diverse and unstructured problems in similar settings, an understanding of organisations and the means by which organisations change, an understanding of the political forces shaping the standard setting, an understanding of the economic, social, cultural and psychological forces that affect organisations, and knowledge of historical and contemporary events affecting the accounting profession.

Cook and Finch (1994) surveyed which quality is viewed as most important to accounting recruiters. The study revealed that the most important quality in a potential employee is educational background, prior-work experience, training potential or others. Others include qualities such as people skills, involvement in campus activities, strong managerial potential, intelligence, personality, common sense, ability to think and act decisively, and ability to meet the demands of the profession.

Oliver *et al.* (1996) surveyed the preferences of employers for the background of entry-level accountants. The results of the study revealed some deficiencies in accounting graduates' background qualifications. The areas include verifying computations by hand, and job and internship experiences, especially ones involving computers.

Universities' Response to Industry Needs

Many critics contend that higher education falls short in meeting the job requirements of industry (Parry *et. al.*, 1996). Colleges and universities have been criticised for several shortcomings. A major criticism is that business schools put too much emphasis on analytical problem solving without regard to the practical implications of managerial actions and decisions. Businesses have also been critical of the lack of curriculum breadth and teaching quality. Maybe an even more important criticism is that too many colleges and universities have shifted from teaching students how to think, to teaching what to think. Teaching the skills of logical analysis and systematic use of evidence so that students are able to examine ideas critically with factual information have been, replaced by emotional interpretation constructs that are not based on reality (Sowell, 1997) quoted in Willis and Taylor (1999). As a result, college graduates who enter the job market may have biased expectations about the level of performance required by industry. More specifically, businesses complain that too many students put their personal career before the goals of the organisation (Hotch, 1992), but this should not be unexpected given the changing employment environment of the present economy.

Higher educationists should continually seek feedback from corporate friends to know how to adjust academic programmes to meet changing job market requirements (Hotch, 1992). They should create a niche that exploits a unique strength to achieve a regional, if not a national, reputation. This type of focusing is fundamental to every quality management programme.

Interestingly, a study carried out by Willis and Taylor (1999) found that most employers felt that the quality of the college business graduate employee had improved in recent years and that colleges are adequately preparing graduates for successful business careers. Findings showed that employers are pleased with the graduate computer skills. However, graduates seemed to lack knowledge in international focus, oral communication skills, and written communication skills. Recently, Rosmawati (2000) conducted a study on the employers' perception towards the quality of Malaysian business graduates.

TABLE 1 Industry Type

Industry	Freq.	Per cent
Accounting Firm	34	29
Non-Accounting Firm	82	71
Total	**116**	**100**

Findings from the study revealed that the five most important skills perceived by employers were the ability to perform assigned tasks, teamwork, initiative, computer literacy, and interpersonal skills. Employers, however, perceived that higher education institutions had failed to prepare business graduates with all the skills needed.

Methodology

The population of this study consisted of 226 accounting firms and 758 non-accounting firms. Non-accounting firms consisted of companies listed at the Kuala Lumpur Stock Exchange (KLSE). These two groups of companies were chosen as they are assumed to employ the biggest accounting graduates. To determine the appropriate sample size, a formula as suggested by Krejcie and Morgan (1970) was utilised. The formula produced a Table of "Sample Sizes Required for Given Population Sizes". With an error limit of ±5 per cent, the sample size was determined to be 254 for KLSE companies and 144 for accounting firms. A systematic sampling procedure was then used to select the sample from each group.

Data and fact-finding were done through questionnaire. The instruments were adopted from a similar study conducted in the UK by Willis and Taylor (1999) with some modifications to suit the local environment. A pilot survey was then conducted to test the validity and relevance of the questionnaire with five companies. Respondents were asked to write comments on the questionnaire, if the instructions were unclear, and to indicate items that were not understood. Based on the returns, the questionnaire was accordingly revised.

The questionnaire was divided into three parts. The first part of the questionnaire addressed demographic data. The second part was a likert-type scale designed to obtain information on the importance of skills required by employers. Respondents were asked to rate each skill using a five-point likert scale (5 = very important, and 1 = not at all important). The third part obtained information regarding the quality of local accounting graduates according to the skills listed. Respondents were required to rate each skill using a five-point likert scale (5 = very prepared, and 1 = not at all prepared).

TABLE 2 Means and Ranking of the Importance and Preparedness of Skills as Perceived by Employers

Skills	Importance		Preparedness			
	Mean	Rank	Mean	Rank	Gap	Rank
Ability to perform assigned tasks	4.66	1	3.08	5	1.58	4
Initiative	4.47	2	2.91	9	1.56	5
Teamwork	4.47	2	3.08	5	1.39	8
Computer literacy	4.33	3	3.71	1	0.62	16
Problem solving	4.32	4	2.65	13	1.67	3
Personal attitudinal	4.31	5	2.98	6	1.33	10
Motivation	4.30	6	2.92	8	1.38	9
Written communication (English)	4.28	7	2.53	16	1.75	1
Interpersonal skills	4.27	8	2.76	11	1.51	7
Oral communication (English)	4.25	9	2.56	14	1.69	2
Leadership	4.23	10	2.71	12	1.52	6
General knowledge to perform job	4.15	11	2.94	7	1.21	11
Analytical/math/statistical	3.95	12	2.92	8	1.03	14
Project management	3.89	13	2.82	10	1.07	13
Written communication (BM)	3.75	14	3.32	3	0.43	17
Oral communication (BM)	3.66	15	3.33	2	0.33	18
Knowledge of other related disciplines	3.62	16	2.54	15	1.08	12
Appearance	3.51	17	3.18	4	0.33	18
Awareness on global issues	3.37	18	2.36	17	1.01	15

Findings

A total of 398 questionnaires were sent through the mail to partners of accounting firms and the accounts managers of KLSE listed companies. From this number, 116 were returned and this represents a response rate of 29 percent.

a. Demographic Information of Respondents

Table 1 shows the profile of respondents according to industry types. Non-accounting firms represent the largest number of responses (71%).

b. The Importance and Preparedness of Skills as Perceived by Employers

Table 2 displays a ranking of the importance and preparedness of skills as perceived by employers. Skills with mean score of 4.0 or more were considered important by employers or sufficiently prepared by higher education institutions. Five important skills with the highest mean scores were the ability to perform assigned tasks, initiative, teamwork, computer literacy, and problem solving. Other important skills include personal attitudinal, motivation, written communication (English), interpersonal skills, oral communication (English), leadership, and general knowledge to perform job. Five skills with the lowest mean scores were awareness on global issues, appearance, knowledge of other related disciplines, oral communication (Bahasa Malaysia), and written communication (Bahasa Malaysia). Results in Table 2 also revealed that higher education institutions do not seem to prepare graduates with all the skills required by businesses. Five skills with the widest gap in mean scores were written communication (English), oral communication (English), problem solving, ability to perform assigned tasks, and initiative.

c. Independent-Samples T-Test

T-test was performed to test the difference between employers' perception from different industries towards the importance of each skill. Results in Table 3 reveal that there are significant differences between employers' perception from different industries and the importance of the following skills: computer literacy, analytical/math/statistical, interpersonal skill, teamwork, written communication (Bahasa Malaysia) and oral communication (Bahasa Malaysia).

T-test was also performed to test the difference between employers' perception from different industries towards higher education institutions' preparedness in providing graduates with the skills needed by employers. Results in Table 4 reveal that there are significant differences between employers' perception from different industries and the preparedness of the following skills: computer literacy, general knowledge to perform the job, and initiative.

Surveyed employers were also asked to identify the major strengths and weaknesses of today's accounting graduates. Results in Tables 5 and 6 show that willingness to learn and work hard, and computer capability were the primary strengths while communication skill was the most frequently listed weakness. Another weakness that was mentioned almost frequently as communication was lack of business experience.

The final question asked what higher education institutions could do to produce quality accounting graduates. Summary results are presented in Table 7. Majority of employers suggested the institutions should teach better understanding of "real work" and communication skills. Other recommendations include motivational courses and company's loyalty.

TABLE 3 Summary Results of Independent T-Test on Industry Type and the Importance of Skills

Skill	Industry	Mean	Mean difference	t	Sig.
Computer literacy	AF N-AF	4.06 4.44	– 0.38	– 2.812	0.006
Analytical/math/statistical	AF N-AF	4.24 3.83	0.41	2.583	0.011
Interpersonal skill	AF N-AF	4.03 4.37	– 0.34	– 2.313	0.023
Teamwork	AF N-AF	4.18 4.59	– 0.41	– 3.270	0.001
Written communication (BM)	AF N-AF	3.44 3.88	– 0.44	– 2.508	0.014
Oral communication (BM)	AF N-AF	3.38 3.78	– 0.40	– 2.172	0.032

P<0.05, AF = accounting firm; N-AF = Non-accounting firm; BM = Bahasa Malaysia

TABLE 4 Summary Results of Independent T-Test on Industry Type and the Skills Preparedness

Skill	Industry	Mean	Mean difference	t	Sig.
Computer literacy	AF N-AF	3.85 3.38	– 0.47	– 2.666	0.009
General knowledge to perform job	AF N-AF	3.05 2.68	– 0.37	– 2.368	0.020
Initiative	AF N-AF	3.03 2.65	– 0.38	– 2.383	0.019

P<0.05, AF = accounting firm; N-AF = Non-accounting firm

TABLE 5 Major Strengths of Accounting Graduates as Perceived by Employers

Attribute	Freq.	Percent
Willingness to learn and work hard	46	41.1
Computer capability	41	36.6
Ambitious	15	13.4
Self-esteem	7	6.3
Others	3	2.7
Total	**112**	**100.0**

TABLE 6 Major Weaknesses of Accounting Graduates as Perceived by Employers

Attribute	Freq.	Percent
Lack of communication skills	51	45.1
Business inexperience	32	28.3
Lack of work ethics	19	16.8
Lack of team focus	6	5.3
Others	5	4.4
Total	**113**	**100.0**

TABLE 7 Employers' Suggestion to Prepare Quality Graduates

Suggestion	Freq.	Percent
Better understanding of "real work"	39	35.8
Internships	33	30.3
Teach better communication skills	31	28.4
Others	6	5.5
Total	**109**	**100.0**

Discussions

The study among other things attempted to identify the importance of non-technical skills required by employers. Results from the study revealed that twelve skills considered important by employers were the ability to perform assigned tasks, initiative, teamwork, computer literacy, problem solving, personal attitudinal, motivation, written communication (English), interpersonal skills, oral communication (English), leadership, and general knowledge to perform the job. The findings supported and confirmed other research findings such as Schmidt (1991), Levenburg (1996), Nathan

and Dunn (1997), and Rosmawati (2000).

Results from the independent t-test showed that there are significant differences between employers' perception from different industries and the importance of computer literacy, analytical/math/statistical, interpersonal skill, teamwork, written communication (Bahasa Malaysia), and oral communication (Bahasa Malaysia). Employers from non-accounting firms are more likely to perceive that computer literacy, interpersonal skill, teamwork, written communication (Bahasa Malaysia), and oral communication (Bahasa Malaysia) as more important than employers from accounting firms.

Secondly, the study attempted to identify the preparedness of higher education institutions in providing the skills required by employers. Results from the study revealed that higher education institutions seemed not to adequately prepare accounting graduates with all the skills desired by employers. The findings supported the findings by Rosmawati (2000) but contradicted with the ones found in Willis and Taylor (1999). The differences may reflect that Malaysian higher education institutions are slow in revising and updating their curriculum to reflect the rapid changes in the business environment and requirements. However, computer skills seemed to please the employers as it received the highest mean. It appears that today's accounting graduates are well equipped with computer knowledge and skills to work effectively in the information age. Among the worst prepared skills were written and oral communication (English), problem solving, ability to perform assigned tasks, and initiative. The findings supported and confirmed the results found in Willis and Taylor's (1999) study. The findings showed that communication skills, though considered among the most important skill worldwide, is an issue faced by most businesses in the world. Finally, results from the t-test showed that employers from non-accounting firms are more likely to perceive that higher education institutions have prepared graduates with computer literacy, general knowledge to perform the job, and with better initiative than employers from accounting firms.

The survey does not reveal, however, the reason why non-accounting firms and accounting firms seemed to perceive differently towards the importance of certain skills and the preparedness of higher education institutions in providing quality graduates. It may be because different industries operate in different business environments. Hence, their perceptions may differ, as they require different skills. The findings from this study also cannot be compared to prior research as to the best of our knowledge, no such study has been undertaken to look at the differences between employers' perception from different industries and the importance of skills and higher education institutions' preparedness in providing graduates with the skills required by employers.

Conclusions and Recommendations

Results from the study shed light on the non-technical skills required by employers from accounting graduates in Malaysia. Among the skills considered important were the ability to perform assigned tasks, initiative, teamwork, computer literacy, problem solving, and personal attitudinal. Secondly, higher education institutions in Malaysia do not seem to adequately prepare their graduates with the skills needed by employers. Five skills with the widest gap in mean scores were written communication (English), oral communication (English), problem solving, ability to perform assigned tasks, and initiative.

The following are some recommendations that could be useful for higher education institutions :

a. higher education institutions should have a close relationship with the industry to get the latest inputs of the business developments and the necessary requirements. This can be achieved through research collaboration and industrial attachment of academicians in various industries. This is important as the students depend upon their instructors to be current in the knowledge of the marketplace and to provide them with the possible education by which to reach their goals.

b. higher education institutions need to emphasise and train students with non-technical skills in addition to technical skills to compete in today's highly competitive business environment.

c. higher education institutions should incorporate more case studies to expose students to the latest developments in the business environment.

d. higher education institutions should lengthen the period of practical training to give more exposure to students of the real business world. AN

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The Concept and Application of BAI' BITHAMAN AJIL FINANCING in Islamic Financial Systems

By Mohd Nasir bin Mohd Yatim
SENIOR LECTURER, DEPARTMENT OF ACCOUNTING AND FINANCE, COLLEGE OF BUSINESS AND MANAGEMENT
UNIVERSITI TENAGA NASIONAL

This article explains how bankers apply Islamic deferred sale or instalment financing. The writer tells you how to calculate cost of funds, annuity factors, profit margins and other related matters. And there is a brief section on the accounting treatment for *Bai' Bithaman Ajil*.

Introduction

Bai' Bithaman Ajil is a contract of sale and purchase for deferred instalment payments. The purpose of a *Bai' Bithaman Ajil* contract is to provide a financing facility for those who cannot afford to pay cash in order to buy or own necessary properties such as houses.

A *Bai' Bithaman Ajil* contract is valid from the *shariah* point of view. However, the use of this concept is invalid if the products being traded are interest-bearing in nature, such as gold, silver, money and food which is exchanged for the same. Such interest-bearing items need to be exchanged concurrently without any delay in either the payment or the delivery of the product.

The following are the essential tenets behind the concept of *Bai' Bithaman Ajil* contracts, which include the seller, buyer, price, property, as well as offer and acceptance.

The rationale behind the necessity of the *Bai' Bithaman Ajil* concept is a transaction of sale with deferred payments or deferred instalments aimed at permitting one to acquire an asset without paying any interest. Therefore, it is actually a way of doing business that is in line with the dictates of Islam. Islam prohibits the giving and taking of usury as quoted in Chapter 2, verse 275 of the Quran which states, "Allah has permitted trading and prohibits *riba* or *usury*."

The Prerequisites to the *Bai' Bithaman Ajil* contract

In ensuring the validity of the contract, each party must be capable of accepting responsibility for his trade. Capability is measured in the following manner. Both seller and buyer must be intelligent, and must be a person of sound mind who has attained the age of puberty or maturity. He must also be a person who is not restricted from business dealings. This means that he must not be a bankrupt and not extravagant.

Since coercion will nullify a contract, neither can be forced into entering a business contract. The above are applicable for both the seller as well as the buyer who are party to this contract.

Other points to be noted concern the prescriptions to the merchandise under the contract. It must be in existence, permissible, valuable or useful, bear beneficial ownership for the seller, deliverable and known to both parties in the contract. Apart from that, the price must also be made known in a specified currency while the offer and acceptance must be of a definite and decisive wording, consistent with the offer. Both the offer and acceptance must be agreed upon during the same occasion.

Determining the Margin of Profit

The basis for determining the profit margin is based on the cost of funds for each financial institution. Therefore, the amount of assets created is dependent on the level of deposits mobilised by an institution as depicted in the following formula.

$$D = \left[\frac{A}{1 - d1 - d2}\right]$$

where;

D = is the required size of deposit
A = is the amount of assets created
d1 = is the statutory reserve requirement
d2 = is the institution's liquidity rate.

Generally, an institution is required to maintain a certain percentage of its deposits on demand as its statutory reserve. However, in the case of its liquidity rate, it is required that the percentage be worked out based on its demand deposits, excluding the amount of investment accounts plus a certain percentage of its investment accounts' deposits alone. The excluded amounts are to be maintained as deposits with the central bank

Therefore, in order to create RM1 in assets, the level of deposits that an institution must maintain can be worked out as follows. In order to work out the solution, let's assume that d1 = 12.5 per cent, d2 = 10 per cent and five per cent respectively and the amount of deposits in investment accounts is 40 per cent of the total demand deposits.

As such;

$$D = \frac{1}{1 - 0.125 - [0.10(0.6) + 0.05(0.4)]}$$

$$= \frac{1}{1 - 0.125 - (0.06 + 0.02)}$$

$$= \frac{1}{0.795} = 1.26$$

Eventually, the financing profit margin is influenced by the cost of funds (kd) that can be depicted as follows.

$$kd = \frac{A}{(1 - d1 - d2)} \hat{} (k - k1d1 - k2d2)$$

This assumes that the expected return from investment (k)^ is equivalent to the return from the same sector in the same economic scenario as k = 0.06, k1 = 0 and k2 = 0.05. Therefore, the kd value is worked out as follows.

$$Kd = \frac{1}{0.795}(k - k1d1 - k2d2)$$

$$= \frac{1}{0.795}\left[(0.06 - 0(0.125 \times 0.06) - [0.05 (0.10 \times 0.06) + 0.05\ (0.05 \times 0.04)]\right]$$

$$= \frac{1}{0.795}[\,0.06 - 0 - (0.003 + 0.001)]$$

$$= \frac{1}{0.795}(0.056) = 0.07$$

In addition to the cost of funds, other costs need to be considered in the determination of the marginal rate of profit for an Islamic institution's financing activities. These are the provisions for doubtful debts and bad debts, the costs of handling assets, the cost of capital for each unit of assets, and the operational costs that ought to be absorbed jointly by the institution and the depositors.

Pricing of a Deferred Payment Sale

The pricing of a deferred payment sale can be determined based on the following two methods.

1. Constant rate of return method.
2. Rule 78 method.

In using the constant rate of return method, firstly one needs to determine the annuity factor as depicted in the following formula.

$$FA = \frac{k(1 + k)^n}{(1 + k)^n - 1}$$

where;

FA = is the annuity factor
k = is the annual constant rate of return by the frequency repayment period such as monthly, quarterly, etc
n = is the number of periodic payments to be made.

By assuming that k = 9.5% and n = 120, the annuity factor is worked out as follows.

$$FA = \frac{\dfrac{0.0079\ (1 + 0.0079)^{120}}{120}}{(1 + 0.0079) - 1}$$

$$= \frac{0.02031}{1.57095} = \mathbf{0.012928}$$

In the next step, one has to work out the amount of the periodic instalment. In this case let us assume that the principal amount of financing is RM100,000. Therefore the periodic repayment will be as follows;

Amount of instalment = annuity factor x amount of financing
= 0.012928 x 100,000 = **RM1,292.80**

Finally, the deferred payment sale price is determined as formulated below.

Sale price = Instalment amount x number of freq. of repayments
= RM1,292.80 x 120 = **RM155,136.00**

In computing the sale price by using the Rule 78 method, one only applies the following formula. However it is worth noting what is meant by Rule 78. A year has 12 months. Rule 78 refers to the summation of these 12 months' digits. Thus, it is the sum of 1 + 2 + 3 + 4 + 5 + ... + 11 + 12 = 78.

The formula is :

$$\text{Sale price} = \frac{\text{principal amount of financing}\ [1+(k \times t)]}{100}$$

So, if we assume that the principal amount is RM100,000 and k is 5.5 per cent and t is 10 years, then the sale price should be :

= RM100,000 x (1.55) = **RM155,000**

Thus, in this case the monthly repayment should be

$$\frac{RM155,000}{120} = \mathbf{RM1,291.67}$$

Also of importance is the manner in which the institution recognises the profit from such a sale. In fact, a businessman who en-

joys this facility would be very much interested in looking at the amount of tax shield from which he could benefit. In the case of Rule 78, the computation for profit recognition by a financial institution would be worked out by using the following formula.

$$\text{Profit to be recognised} = \frac{(n+1)}{\frac{n+1}{2} \times n} - m \times \text{total profit from sale}$$

Where;
n = is the total number of months for a tenure or the facility.
m = is the particular month of the instalment.

Assuming that the previous example is used to work out this issue, then the amount of profit to be recognised by the institution for its first received monthly instalment will be as follows.

$$\text{The first monthly instalment profit to be recognised} = \frac{(120+1)}{\left[\frac{(120+1)}{2}\right] \times 120} - (1 \times 55{,}000)$$

$$= 120 \times 55{,}000 = \textbf{RM909.09}$$

Whilst, in the case of constant rate of return method, the manner in which the profit is to be recognised should be worked out as below. Profit to be recognised for the first month's instalment equals :

$$\frac{\text{The outstanding balance of the principal amount of financing} \times \text{the rate of the annual profit margin}}{\text{Number of periodical repayments in a year}}$$

By assuming that the outstanding balance of the principal amount of financing is RM100,000 and the rate of profit margin charged on the customer is 9.5 per cent per annum, the first monthly instalment profit to be recognised is;

$$\frac{\text{RM}100{,}000 \times 9.5}{1200} = \text{RM}791.67$$

Accounting for a *Bai' Bithaman Ajil* Contract

The objective of financial accounting for this business transaction is to apply uniform rules in the accounting treatment for the recognition, measurement and disclosure of revenues, expenses, gains and losses of assets and *Bai' Bithaman* receivables.

Receivables are to be recorded at inception at their fair face value. At the end of the financial period, receivables are to be measured at their cash equivalent value as debt due from the customer after considering the provision for doubtful debt. Since this kind of sale is a form of credit sale, the tenure can either not exceed the current financial period or exceed the period. In most cases, it exceeds the duration of the current financial period. Another point to note concerns the term of payments to be received in future. These could be in the form of lump sum payments or instalments whether monthly, quarterly, half-yearly, annually, etc.

Thus, these instalments to be received in future could be spread over several future financial periods. The question that may now arise concerns the manner in which profits are recognised. Basically, the recognition of profit can adopt either of the following bases :

1. Allocating profits proportionately over the period of deferment of payment regardless of whether cash is received.
2. Recognising the profit as and when instalments are received.

Recognition of Revenue, Costs of Goods Sold and Deferred Profit.

Revenue and costs of goods sold shall be recognised at the time of concluding the sale contract subject to deferral of profit. They are then used to offset the *Bai' Bithaman Ajil* receivables in the statement of financial position, resulting in the receivable being equivalent to the cost of *Bai' Bithaman Ajil* outstanding.

In the case of early settlement, deduction of part-profit is to offset the *Bai' Bithaman Ajil* receivable and it is to be excluded from the recognised profit in respect of the instalments. The deduction of part-profit is to be made only after the settlement of payments by way of reimbursement to the customer.

Procrastination in Payment

The phenomenon of procrastination could happen in two ways, namely the intentional procrastination and the genuine procrastination. In the case of intentional procrastination, the payment is delayed on purpose. A penalty may be imposed on the customer. The penalty can then be quantified either based on mutual agreement or by court order. The penalty received is then either treated as revenue or allocated to the charity fund. However, if the delay in payment is a form of genuine procrastination due to reasons like insolvency, then a penalty cannot be imposed onto the customer.

Disclosure and Measurement of Asset Value

Disclosure on the asset shall be as *Bai' Bithaman Ajil* receivables either on a gross or net basis. The net basis is used once the receivable has been set off with the deferred profit. The historical cost basis of accounting is used for measuring and recording *Bai' Bithaman Ajil* assets. There may be instances where the possibility of non-recovery of the asset exists. In such a situation the asset is to be measured at the cash equivalent (net realisable) value.

CONCLUSION

Since it works on the basis of a deferred sale, the *Bai' Bithaman Ajil* concept is a practical mechanism in facilitating financing activities which are free from the element of *usury*. Thus, the concept can be a vehicle for term financing to be offered by a financial institution, credit company or even a manufacturing or trading company. AN

Note : *Bai' Bithaman Ajil* is a "deferred payment sale". It is a mode of Islamic financing used for property financing. Technically, this facility is based on the activities of buying and selling. A house or property is purchased by the bank and sold back to you at an agreed price, after both parties have determined the tenure and the manner of the repayments. The price at which the bank sells you the property will include the actual cost of the property and the bank's profit margin.

The ownership of the property is transferred to you when all payments are completed. No interest is charged, as the extra price compensates the bank for its cost of funds. Instalments are fixed over the period of the contract and no adjustment is made if interest rates fluctuate. Fixed monthly instalments are determined by the selling price, repayment period and the percentage margin of financing. Properties that fall under the *Bai' Bithaman Ajil* financing facility are landed properties/assets including houses, shop-houses, commercial buildings and other acceptable properties/assets.

EARNINGS MANAGEMENT BEHAVIOUR AND PERCEIVED EARNINGS QUALITY

By Wan Fadzilah Wan Yusoff
SENIOR LECTURER, DEPARTMENT OF ACCOUNTING AND FINANCE, UNIVERSITI TENAGA NASIONAL

Introduction

In the preparation of annual accounts, managers often devote much time and effort on the earnings figure because they think that's what matters most to the stakeholders. But net income, *per se*, carries no substantive meaning. A net income figure is only an amount derived by accountants through the application of a set of procedures to a set of events based on the generally accepted accounting principles. Yet, the net income figure brings a definitive interest to investors, corporate analysts, regulators, managers and a host of other users. Since net income is reflected in security prices it has, for all intents and purposes, been used as a predictive criterion in the various significant financial decisions like investment matters, managers' bonus, lending and others. Therefore, both the content and timing of annual income numbers become the main criteria in the above considerations.

Financial accounting principles and standards are intended to provide users of accounting information with consistencies and comparability of financial reports between companies.

This practice is essential in understanding the activities of a company and

to provide value in the information.

Thus, if corporate financial statements are found to include accounting changes, restructuring changes, gains or losses from major sales of assets or other similar breaches of consistency and comparability, companies have to face the consequences of having their accounts being labelled as having a lower quality. Companies that indulge in such activities are said to practice earnings management.

> "… earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers."
>
> *Healy and Wahlen (1999)*

The inappropriate practice of an increasing number of public listed companies in managing and smoothing reported earnings is drawing serious concerns from various users of accounting information. The issue of earnings management continues to attract debate and controversy especially with the increasing concerns for transparency, corporate governance and other financial and non-financial disclosures. Arthur Levitt, the Chairman of the US SEC, attributed earnings management to the motivation to meet Wall Street's earnings expectation resulting in an erosion in the quality of earnings and financial reporting. Until recently, the practice of earnings management is often viewed with negative connotations with blames placed on the ulterior motives and unethical practices by managers to achieve personal gains. Current literature is now more inclined to focus discussion of the subject and rationalise them against opportunities provided by the shortcomings in the accounting standards.

What is Earnings Management?

Earnings management as defined by the accounting literature is basically distorting the application of generally accepted accounting principles. Ayres (1994) describes it as an intentional structuring of reporting of production or investment decisions around bottom-line impact but to DePree (1999) it is simply manipulations of reported income through orchestrating the timing of gains or losses to smooth out irregular patterns of earnings, and especially, avoid a decline. Schipper (1989,92) considers it to be "… a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain …." Perhaps a better picture of earnings management can be obtained from Healy and Wahlen (1999) who explain that earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers.

Motivations for Earning Management

Earnings management practices exist as an outcome of managers' reporting incentives and to estimate unexpected accruals for measuring the effects of managers' use of accounting discretion with some degree of error. Managers may have specific reasons for trying to manage earnings but the primary motivation for earnings management is income smoothing and they do so because smooth earnings are more highly valued and minimise the risk of possible debts and dividend violation. Smoothing income is also linked to maximisation of management bonuses. But whatever their intents and purposes are, managers certainly do put in a lot of effort in deciding the earnings figure.

With respect to reporting incentives, the reasons for managing earnings can be grouped into three main motives :

1. Capital market expectations and valuations;
2. Contracts written in terms of accounting numbers; and
3. Anti-trust or other government regulations.

Capital Market Motivation

The widespread use of accounting information by investors and corporate analysts to help value stock has created an incentive for managers to manipulate earnings in an attempt to influence short-term stock price performance. Earnings management information is important for valuation in management buyouts and hypothesises where managers of buyout firms have an incentive to understate earnings and adopt negative (income decreasing) unexpected accruals prior to a management buyout. Firms also tend to report income increasing unexpected accruals prior to equity offers, initial public offers and stock finance acquisitions.

Analysis by financial analysts also provides strong influence on managers to manage earnings to meet the expectations of the analysts or management as firms are pressured to manage earnings upwards to avoid reporting earnings lower than analysts' expectations.

Contracting Motivations

Accounting data is used to help monitor and regulate contracts between the firm and its many stakeholders. Explicit and implicit management compensation contracts are used to align the incentives of management and external stakeholders. Lending contracts are written to limit managers' actions that benefit the firm's stockholders at the expense of its creditors. As such, these contracts create incentives for earnings management because it is likely to be costly for compensation committees and creditors to undo earnings management.

Regulatory Motivations

Both industry and anti-trust regulations create incentives to manage the income statement. This is especially so for industries where regulatory monitoring is explicitly tied to accounting data. For example, banking regulations require that banks satisfy certain capital adequacy ra-

tios requirements that are written in terms of accounting numbers; and utilities have historically been rate-regulated and permitted to earn only a normal return on their invested assets. Banks that are close to the minimum capital adequacy ratio requirements are found to overstate loan loss provision, understate loan write-offs, and recognise abnormal realised gains on securities portfolios. In a regulatory environment, managing earnings is spurred by managerial incentives. A rate-regulated firm, for example an electric utility company, would have the incentive to make income-reducing accruals to justify a case for rate increase. Similarly, managers of firms vulnerable to anti-trust investigation or other adverse political consequences have incentives to manage earnings to appear less profitable. Managers of firms seeking government subsidy or protection may have similar incentives, so do firms in industries seeking import relief, which tend to defer income in the year of application.

"The concept of earnings quality evolves from the fundamental analysis notion of searching for undervalued and overvalued securities."

Factors in Earnings Management

Common techniques used to manage earnings are through the manipulation of accruals management, timing of the adoption of mandatory accounting policies and voluntary accounting changes. Accrual management refers to changing estimates such as assets' useful lives, collectibility of receivables, and other year end discretionary accruals with the intention to alter reported earnings in the direction of a desired target. Making changes to the discretionary accruals may not be obvious from direct observation, but analysis of patterns of accruals could reveal that the cash flow change is moving in a different direction from accruals. Whenever there is a change in accounting standards, firms are allowed two to three years transition period prior for mandatory adoption, although early adoption is encouraged. The long adoption windows provide an opportunity for managers to select an adoption year most favourable to the firm's financial picture. Meanwhile, changes to the accounting method are often made by companies, which experience a decreasing trend in their earnings prior to the changes.

Regardless of what motivates earnings management, a more significant factor is, perhaps, the opportunity made available within the generally accepted accounting principles (GAAP) themselves, although technically GAAP should function as deterring earnings management. While most academics and practitioners are inclined to believe that earnings management results from distortion of the application of GAAP, others claim that it results more from the application of inherently faulty GAAP. A faulty GAAP design enables earnings to be managed by allowing businesses to report income they have not earned and by allowing issuers of financial reports to smooth income.

The central concepts of current GAAP are realisation and allocation. Under the realisation concept, only realised changes in assets and liabilities like sales, purchases, receipts and payments are permitted to be recorded by financial report issuers. Systematic and rational allocation like depreciation, reporting on inventories, investments, income taxes, pensions, goodwill and other intangibles, and liabilities provides the opportunity to distort the application of GAAP.

Of the three classes of earnings management techniques, only the accounting method changes are broadly explained by the accounting principles. It is also easier to detect manipulations using this method as they are subject to disclosure requirements, whereas, those under accruals management, that is, changes in the amounts of discretionary accruals and changes in the timing of transactions is very much left to the investors' own ingenuity in the attempt to detect the use of income manipulation by companies to manage reported earnings.

Perceptions of Earnings Quality

The concept of earnings quality evolves from the fundamental analysis notion of searching for undervalued and overvalued securities. The term earnings quality may be defined as being related to the overall permanence of earnings, which reflects earnings that can be sustained for a long time. It can also be viewed as relating to stock market performance, the stronger the relation between earnings and market returns, the higher the earnings quality.

There are a number of factors related to earnings quality that are important to a manager faced with choices that affect the bottom-line. These factors may affect in-

vestors' and creditors' perception of earnings quality. A company that wants to provide a strong signal about future earnings performance should avoid giving the negative impression that earnings are low in quality. The capital market's perception of the quality of earnings may be as important as the underlying earnings number. Therefore, managers need to consider the trade-off between improvement in reported earnings and a possible negative perception of earnings quality if the improvement in earnings is perceived to result in lower quality earnings. For example, where all other factors are equal, Firms A and B which use a different method of allocating depreciation will show different price-earnings ratio. Firm A, by adopting a straight line depreciation method gives higher earnings and lower price-earnings ratios compared to firm B which uses an accelerated depreciation method. By using a straight line depreciation, Firm A is viewed as giving a signal to the market that the company is seeking to report higher earnings by slow asset write-off. Therefore, its earnings will be perceived to be of lower quality. The market may then discount the future value of Firm A's innovation. Subsequently, this can affect market participants' valuation of earnings increases even if the increase in earnings has no impact on reported depreciation. Essentially, Firm A's use of straight-line depreciation can be viewed as a signal that the company cannot afford to take the faster write-offs associated with the accelerated depreciation. In contrast, Firm B, by using accelerated depreciation, signals its strong financial position.

An often quoted example of the application of changing accounting method is the one used by IBM, when it changed from its usual practice of adopting a markedly conservative accounting method to a rather liberal one when its business began to deteriorate. Interestingly, a financially healthy company is also not excluded from making a similar manipulation to its profit in attempting to smooth earnings. This is evident from the routine practice of General Electric to smooth fluctuations in reported earnings by regularly off-setting one-time gains from sale of fixed assets with restructuring charges, timing sales of some equity stakes and even acquisitions. General Motors, on the other hand, applied accrual management to manage its earnings by fiddling with amortisation schedules. Another accounting technique used by IBM to manipulate its account is in the timing of revenue transactions like recognising revenue when its products were delivered to dealers who could return them and considering all revenue from a long-term computer lease to be immediately earned.

Relationship between Earnings Management and Perceived Earnings Quality

From the earlier examples of depreciation methods adopted by Firms A and B, it would appear that there is a contradiction to the popular belief that stocks with low price-earnings ratios are good buys while those with high price-earnings ratios may be overvalued. However, the empirical results of Beaver and Duke (1972) indicate that the market is able to see through the accounting method choice and capitalises earnings at a rate not affected by the method of accounting.

A summary of the techniques of managing earnings and the relationship with perceived quality is shown below.

PERCEIVED EARNINGS QUALITY		
Techniques	High	Low
• Accruals	Consistent from year to year	Altered frequently as pre-accrual income fluctuates
• Depreciation method	Accelerated	Straight line
• Inventory method	Last-in, first-out	First-in, first-out
• Accounting changes	Decrease income Occur seldom	Increase income Occur frequently
• Income pattern	Reflects underlying cash flow	Appears "managed"
• Disclosure level	High	Low or misleading

The quality of earnings may be detected from a careful analysis of the financial statements but not all users of accounting information are able to meaningfully analyse the annual reports of companies. Most investors would simply rely on the earnings per share (EPS) to make relevant profit performance comparisons among companies. But in some cases the usefulness of the current EPS disclosure evaluation is questionable and may not be adequately sufficient for evaluation purposes. Nevertheless, it appears that the market possesses the ability and sophistication to interpret complicated messages buried in the financial statements by deciphering the earnings disclosures. It is believed that, on the average, the market often under reacts to a corporate earnings report although it gets to be corrected on a delayed basis over six to nine months following the report. In this situation, rational investors should not limit their response to just the good news but to also consider the implication of the news on future EPS. For example, it was found that the investors gave their nods of approval when US West, Inc. shortened the estimated useful life of its telecommunications equipment. The market often has a certain expectation of what the earnings should be and the market would react when the income falls short of its expectations. At the same time, the market is able to adjust quickly and efficiently since it is able to anticipate accurately most of the information provided in the annual report before its actual release. On the changes in the stock prices in relation to the release of earnings report, it was found that since the actual release of the earnings report comes some time later, the market has already absorbed pieces of information released intermittently prior to the actual announcement. In fact, the stock prices in the month of announcement have already factored in 85–95 per cent of the net effect of the in-

formation. The underlying relations between accounting based fundamental signals and security prices suggest that the possibility of under reaction is due to the investors' inefficiency in their fundamental analysis as investors may find some accounting information difficult to be interpreted correctly resulting in consistent and large market under reaction to published accounts.

While it was said earlier that information contained in earnings which have been managed is often inadequately disclosed, it is often argued that the imposition of new reporting requirements through the introduction of new accounting standards have made it difficult for managers to communicate effectively with investors about the qualitative implications on earnings. For as long as the assumption that equity markets are efficient and that investors know the limitations of accounting remain, companies' financial disclosures strategies will continue to have an effect on stock prices. This situation will persist, as investors will continue with their perception that managers have an inherent advantage because of their positions. Notwithstanding this, is the non-alignment of managers' incentives with shareholders' interest and the less than perfect accounting rules and auditing.

Earnings that have been managed generally contain less disclosure of adequate information. This may induce investors, creditors and other users to perceive the earnings to be of a lower quality and would create further problems in the capital markets since investors' reaction to reported earnings level is influenced by their perception of its quality. Some of the factors that influence the capital market's perceptions of the quality of earnings are earnings management, income smoothing and the impression created by the company from its behaviour with respect to earnings. As such, perceived earnings quality is seen to be equally important to actual earning in determining its future market performance.

Since analysts' quality ratings are positively related to the conservatism of accounting estimates and methods, it implies that firms with more conservative accounting estimates and methods engage less in earnings management behaviour.

Summary and Conclusion

There is always a tendency among accounting information users to view earnings management with a negative connotation. However, it is possible to make a distinction between "good" and "bad" earnings management. A "bad" earnings management is intervening to hide real operating performance by creating artificial accounting entries or stretching estimates beyond a point of reasonableness. On the other hand, a "good" kind of earnings management is one which reflects reasonable and proper practices that are part of operating a well-managed business and delivering value to shareholders.

Findings from the various earnings management literatures tend to suggest that the earnings of firms engaging in earnings management are perceived as having low quality. However, earnings management, per se, should not be generalised as a bad thing and earnings of firms found to be engaging in it need not be perceived to be of inferior quality. In fact, it is expected and demanded, both inside and outside the business, by all stakeholders in the capital markets. AN

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SNIPPETS AROUND THE GLOBE

Predicting Global Foreign Direct Investment in 2001-2005

Foreign direct investment (FDI) is far more than mere "capital" : it is a uniquely potent bundle of capital, contacts, and managerial and technological knowledge. It is the cutting edge of globalisation.

The outlook for FDI — in total, and country by country — is therefore a matter of great interest. Forecasting it, however, is far from easy. In a report (*World Investment Prospects*) published by the Economist Intelligence Unit (EIU), it has provided a forecast for FDI extending to 2005 for no fewer than 60 countries.

Global FDI flows are projected to shrink markedly this year, from US$1.1 trillion in 2000 to less than US$800 billion. Almost all of the reduction is forecast to be in FDI to rich countries, driven by the slowdown in America and by the diminishing pace of mergers and acquisitions (which are a principal driver of FDI in the developed economies).

FDI to poor countries merely pauses at around US$220 billion. In subsequent years, flows recover across the board, but growth in flows to poor countries continues to outpace, modestly, growth in flows to rich ones. As a result, the developing countries' share of global FDI inflows is expected to rise slightly to 29 per cent by 2005. By then, the global stock of FDI will have risen to more than US$10 trillion, from less than US$6 trillion last year.

The US, unsurprisingly, is expected to dominate the rankings in 2001-05, accounting for more than 25 per cent of global inflows. Britain is expected to remain the world's second biggest recipient of FDI, accounting for more than nine per cent of the total in 2001-05. In terms of FDI per head, Britain currently ranks seventh, behind (in descending order) Ireland, Belgium, Hong Kong, Sweden, Singapore and the Netherlands. On this measure, the US ranks 14th.

The study's most encouraging finding is that scores for business environment are rising almost everywhere. Comparing 2001-05 with 1996-2000, the EIU marks down only two countries, Hong Kong and Malaysia, and in neither case by enough to alter the overall assessment — "very good" for Hong Kong and "good" for Malaysia. South Korea, Thailand, Poland, Hungary and Mexico are among those expected to move in the other direction, from "moderate" to "good"; likewise Germany, Denmark and France, from "good" to "very good".

The Economist, 22 February 2001

Socially Responsible Investment

The global fund management industry is having to pay increasing attention to the complex issue of ethical, or socially responsible investment (SRI). The reasons for the apparent shift include :

- A sense that companies should not merely act within the law but help enhance social well-being.
- A growing evidence that a company and its share price can suffer serious damage if it jeopardises its reputation.

SRI funds can be in some cases outperform.

The means to assess companies on environmental performance, human rights, social issues and relations with stakeholders (e.g. FTSE's new indices and Dow Jones Sustainability series) could help.

Until now, ethical investment has been primarily the concern of private investors. If international fund managers agree on standards, they could become an important benchmark for the industry.

Financial Times, 28 February 2001

Multilingual Websites — The Next Trend?

"The dominance of English on the Internet is set to decline as companies realise that to leverage the full value of their sites in global markets, they need to approach customers in their own language," Julian Perkin said.

Currently, English documents pervade the Internet. Statistics vary, but the estimates suggest that around three-quarters of the pages on the world wide web are in English. Yet only 5.4 per cent — little more than one in 20 — of the world's population have English as their mother tongue. A further seven per cent of the world's population are proficient speakers, so the language is a good means of communication for around an eighth of the world's population. There are fractionally more native Spanish speakers in the world, and the Chinese languages dwarf English as a native language, spoken by 20.7 per cent of the world's population. Three-quarters of these, or 15 per cent of the world's population, speak Mandarin alone — nearly three times as many people who have English as a first language.

IDC surveys and data from Forrester show that the vast majority of people prefer websites in their native language, especially for leisure activities such as online shopping. Moreover, they are more likely to buy things online if they can use their own language. GlobalSight estimates that, by 2003, only one-third of the projected 603 million Internet users will be English-speaking.

Companies of any size wanting to leverage the Internet to reach global markets, therefore, need to offer versions of their websites in each of the languages of their target markets. But these websites must be localised, rather than merely translated, for them to be effective. Also, one cannot expect everything on the web to be available in every language any time soon.

Financial Times, FT-IT Review, 7 February 2001

Asia's Downside Risks

Asian economies are displaying strong growth in the wake of the 1997-1998 currency crisis that engulfed the region. Regional Gross Domestic Product (GDP) growth should approach 5.5 per cent this year and average 6.5 per cent next year, according to Dismal Scientist. The distribution of that growth, however, is quite fragmented.

A summary of the problems facing the countries within the region include the following :

- Failure of the national governments to fully implement financial sector reforms following the currency crisis — private sector debt overhang, entrenched market mechanism distortions among financial intermediaries and shaky stock markets remain
- Continued burden of non-performing loans that remain on banks' books — these assets have the potential to weigh on bank performance for years to come if they are not disposed of.
- Exposure of the small, open economies in the region to the dual shocks of higher energy and a slower pace of economic expansion in the West.

The energy price shock will provide a boon to the oil exporters of Indonesia and Malaysia, but adversely affect the oil importers of China, Korea, Philippines, Thailand, Taiwan and Singapore. On average, the oil exporters stand to gain almost two per cent of GDP and 30 per cent of their current account due to the higher oil revenues. However, the average net oil importing country in the region will lose more than one per cent of GDP and more than 30 per cent of their current account.

The effects of the slowdown in economic activity in the economies of Western Europe and the US will have more pervasive and uniformly negative implications for the region. The United States alone accounts for anywhere from four per cent to 30 per cent of the exports of various Asian countries, with a regional average of 16 per cent of total exports. Additionally, exports represent anywhere from 10 per cent to 106 per cent of GDP for the region's major countries. Thus, a pronounced and prolonged deceleration in US economic activity will adversely affect all of these countries through trade linkages.

- Weak electronics sector — for the major producers of the region, electronic and information technology goods account for more than 30 per cent of total exports.

There are two forces at work that will have deleterious effects on Asian high-tech industries, firstly, the potential contraction in the information technology sector in the US and, secondly, the worldwide overcapacity in the electronics and information technology sector.

The Dismal Scientist, 16 February 2001

Japan's Financial Woes

Japan's government finances are "near a state of collapse", Finance Minister Kiichi Miyazawa said on 8 March 2001, prompting investors to sell the Japanese currency and causing the US dollar to soar to a 15 per cent high of 120.40 yen. A bearish outlook for the yen has put pressure on most Asian currencies.

Miyazawa's comment referred to Japan's exploding government budget deficit. As at end-March this year, Japan's total public debt will reach around US$5.571 trillion, which significantly exceeds the nation's economic output. The debt is the biggest in the world in absolute terms, and Japan has the highest percentage of debt to Gross Domestic Product, now approaching 129 per cent among major industrialised countries (see *February 2001 AN* issue in "Snippets Around the Globe").

Miyazawa's remark came at a time of mounting concern over Japan's slowing economy and its weak banking system, which is showing renewed signs of severe strain. But on 9 March 2001, he apologised saying : "This is not playing down the statement, but it was inappropriate."

Asian Wall Street Journal, 9-11 March 2001
& *New Straits Times*, 10 March 2001

China's Economy Still Robust

China's economy could grow by between seven and eight per cent this year (eight per cent in 2000), despite feeble growth in rural areas, concerns that a slowing US economy may hit exports and a lacklustre final quarter last year. The main impetus for growth is likely to emanate from a fiscal stimulus package of at least US$18 billion.

The areas of concern include the problematic rural economy with depressed incomes and expectation of a lower foreign trade (export growth forecast of 10 per cent this year vis-a-vis 27.8 per cent in 2000).

However, foreign direct investment (FDI) increased by US$400 million to reach US$40.7 billion in year 2000, while promised FDI last year totalled US$62.4 billion. The latter showed a considerable intent to invest in China after it joins the World Trade Organisation. Separately, consumer spending was relatively robust last year, rising by 9.7 per cent.

Meanwhile, Lee Kuan Yew said China's increasing economic power would compel the 10 countries in the Association of South-East Asian Nations (Asean) to pursue further integration and promote their market of 500 million more effectively. "Without the attraction of a more unified market in Asean, separately we are going to lose more FDI. It is already down by about 40-50 per cent compared to the pre-crisis investment figures and China's has been shooting up."

Financial Times, 28 February & 1 March 2001

Malaysia's Financial Sector Masterplan

Bank Negara Malaysia Governor, Dato' Dr. Zeti Akhtar Aziz released details of the country's financial sector masterplan for the next decade on 1 March 2001. The following are key highlights :

First phase 2001-2003 :
Enhancing capacity of domestic banking institutions and strengthening financial infrastructure.

Second phase 2004-2007 :
Intensifying competition pressure in domestic financial sector.

Third phase after 2007 :
Introduce new foreign competition and assimilation into global arena.

Banking Sector

- Foreign banks will be allowed to enter the Malaysian market after 2007.
- The central bank says core local banks

will be developed as the financial system's backbone.

- Corporations' stakes in banks will not be allowed to exceed 20 per cent.
- Individuals' stakes in banks will not be allowed to exceed 10 per cent.
- Mergers between merchant banks and brokers and discount houses will be permitted.

Insurance Sector

- Malaysia will establish a financial guarantee insurer for the corporate bond market.
- The re-insurance market will be opened to foreign competition.
- Malaysia is to relax the cap on foreign equity for new insurers.
- The central bank will also allow finance and non-financial firms to buy insurers.
- The bank also says it will deregulate the pricing of fire and motor insurance products.

Dr. Zeti said Malaysia had no World Trade Organisation commitment to open its domestic banking sector to more foreign competition, although some suggested the extra time (i.e. introduction of new foreign competition only after 2007) might conflict with Malaysia's promise to open financial markets by 2003 under a World Trade Organisation pact. (*Note* : Foreign banks are already a force in Malaysia. At end-1999, they accounted for 29 per cent of all banking assets and 31 per cent of all loans.)

Consolidation is also under way in the insurance sector, which has 56 general insurers and 19 life insurers, though no core firms have been named nor dates set for mergers.

Meanwhile, Dr. Zeti also said, in reference to the prohibitions on lending of ringgit to non-residents and restriction on internalisation of the ringgit, that "this will remain in place for a long time." Malaysia barred spot and forward trading in the ringgit in the international market, and limited physical cash transfers, while also pegging the currency at 3.8 to the US dollar.

(Note : For details for the Financial Sector Master Plan, visit Bank Negara Malaysia's website : http://www.bnm.gov.my)

Digest from Reuters, 1 March 2001

Note : The above snippets were compiled by Robert Khaw, Senior Manager, Technical Department (Strategy & Planning), MIA.

DEMUTUALISING

By Ashwini K.

Demutualisation was a prominent feature of the recently-unveiled Capital Market Masterplan (CMP). What this means is that Malaysia's exchanges can no longer merely discuss the pros and cons of demutualising but take active steps to ensure that the process is started and completed by 2003, the time frame the CMP has given.

So what exactly is demutualisation? In a nutshell, it is about changing the club-like membership of exchanges into a for-profit organisation, typically through the introduction of new shareholders. In most cases — and this has happened in countries like Australia, Hong Kong and Singapore — the exchange has taken a step further and listed itself on its own bourse.

It is no secret that the traditional broker-owned exchanges are stymied in their progress due to the single-mindedness of its owners, which is to protect the bottom-line of the brokers.

Logically this would put the brakes on efforts to deal with a downward spiral of brokerage fees taking place around the world. In fact the Kuala Lumpur Stock Exchange (KLSE) had argued recently that a demutualised structure would be beneficial, as it would enable it to respond to new challenges.

Increased Competition and Technological Changes

The motivating force of demutualisation is competition. With globalisation becoming increasingly prevalent, exchanges have to compete with one another for the investor's money. And companies seeking to list will choose bourses that have the highest liquidity and investor action.

Technological changes are also having a profound impact on stock markets around the world. Internet trading for example, has forced trading fees down as the use of technology gives the online broker a lower cost structure and therefore the ability to under-cut the traditional fees structure. What online trading has also done is to provide an easy way for investors to trade on markets around the world, all from the click of the mouse.

Another notable development is that of electronic communications networks or ECNs, which essentially are virtual exchanges. They have managed to attract a fair amount of trading volume away from exchanges such as Nasdaq and NYSE (20 per cent and four per cent at last count). Their attraction — faster and more efficient trades at lower costs.

These are among the challenges that exchanges will have to deal with and it does not take a genius to figure out that this needs a dynamic management team whose only concern is the bottom-line of the exchange.

Brokers will Gain Financially

Brokers shouldn't fret though. They stand to gain financially when the exchange is demutualised. While the exact form of demutualisation is still being worked out here by the authorities, it is clear that brokers will have an opportunity to monetise their present ownership of the exchange. In fact the chairman of the Securities Commission, Ali Abdul Kadir, spoke of the "windfall" that brokers will enjoy at the recent press conference announcing the CMP. One indication of this is the price trends of listed exchanges. Using the examples of the stock exchanges of Australia, Hong Kong and Singapore, they all presently trade above their initial public offering prices, even at these depressed times.

A Single Exchange

It should be noted the CMP has detailed a road map of sorts for demutualisation. It states that a single Malaysian exchange (in

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other words an amalgamation of all local bourses) should be established. And two, that this exchange should demutualise and list on its bourse by the year 2003. What this means is that a process of consolidation has to begin in which all of Malaysia's five bourses have to become one. These are KLSE, Commex (which itself is the result of the 1998 merger between Kuala Lumpur Commodities Exchange and the Malaysian Monetary Exchange), KLOFFE, MESDAQ and newest of the lot the Labuan Financial Exchange.

Not only will laws need to be amended to facilitate this process, but the respective exchanges will need to sit down and work out how they can merge their present trading systems into one, in the most effective way.

The Task Ahead

Another issue that they need to eventually tackle relates to the issue of governance. Once the exchange is demutualised and listed, should it still maintain its regulatory function. On the face of it, a potential conflict of interest could surface. Will the new for-profit entity be able to perform its regulatory and surveillance roles with the same objectivity as in the past? And can the new exchange review its own application for its own listing? Yet another issue to be looked into is who will have the majority shareholding of the exchange post demutulisation?

These are not trifle issues and observers are already calling for a special committee to be set up to deal with the said issues. The CMP states that the process should begin with the consolidation phase and be followed by the listing phase. And the three-year time frame given for both should give the relevant parties sufficient time to iron out these issues. AN

CAPITAL MARKET MASTERPLAN : RECOMMENDATIONS

MARKET INSTITUTIONS

1. A single Malaysian exchange should be established through the consolidation of all existing exchanges by 2002.
2. MESDAQ should be merged with KLSE as part of the exchange consolidation process.
3. The Malaysian exchange should demutualise and list on the stock market by 2003.
4. The Malaysian exchange should implement a programme to enhance its value recognition both domestically and internationally.
5. The Malaysian exchange should pursue appropriate strategic alliances internationally.
6. A common trading platform across all exchange-traded products should be established following exchange consolidation.
7. An integrated clearance and settlement system for all exchange-traded products should be established.
8. A single clearance and settlement institution for all exchange-traded products should be created by 2002.
9. The money settlement system should be directly linked with the capital market trading and clearing systems.
10. The settlement cycle should be shortened to T+3 in line with international best practice.
11. A global depository account for each investor will be established in the central depository.
12. The SCANS clearing fee will be reduced from 0.05% to 0.04% with effect from 1 July 2001, subject to a maximum of RM200 per contract.
13. The SCORE fee will be reduced in two stages to 0.005% and 0.0025% with effect from 1 September 2000 and 1 July 2001 respectively. Subsequently, SCORE fees will be reviewed further.
14. The SC levy will be reduced to 0.015% from the present 0.02% with effect from 1 July 2001.
15. Stamp duty should be capped at RM200 per contract for all trades on the KLSE and be further considered for eventual removal of 16 administrative procedures and rule-structures in relation to portfolio investments should be streamlined in order to reduce operational costs to investors.

DEEP VEIN THROMBOSIS : HOW YOU CAN PREVENT IT

By Haris Hussain

Health officials around the world are trying to determine how many airline passengers die from what is commonly called "economy-class syndrome."

In London, at least 30 people have died of blood clots after arriving on long-haul flights at London's Heathrow Airport in the past three years, says a study conducted by a nearby hospital. "They are all people who collapsed after getting off a flight, or after getting up at the end of an overnight flight," says John Belstead of Ashford Hospital in southeast England. "Most of them come from baggage claim, they seem to walk about a half-mile, then go down."

"Economy-class syndrome" — the medical condition known as deep vein thrombosis — begins as blood pools in the legs when an airline passenger sits still for a long flight. The condition got its nickname because of the way airline passengers are often cramped in the confined economy-class seats of some airlines. Despite the nickname, the condition can occur in first-class seating, in cars or in offices.

When the legs are motionless in the sitting position for long periods of time, blood clots can form. These clots may stay in the legs. But hours or even days later when the person is more active, the clots can be swept up to other parts of the body. When these clots lodge in vital organs, the resulting medical emergency can be fatal. About five million people suffer from such blood clots each year in the US. About 800,000 are hospitalised.

Nobody knows how many begin on airliners, but doctors are trying to find out. In addition to the London study, the clinic at Tokyo's Narita airport documented 25 deaths in eight years. None of the US deaths have to be reported to aviation officials, and many are thought to occur days after an airline passenger is back in a normal routine.

"It may not be associated with the flight," says Russell Rayman of the Aerospace Medical Association. "A physician examining a patient may forget to ask whether or not they had been flying the last couple of days. At least one person a month dies of a blood clot on the lungs on arrival at Heathrow Airport, say doctors. They believe at least 2,000 people a year in the UK may die from blood clots linked to long-haul air travel.

UK airlines are concerned about the incidence of cases of deep vein thrombosis (DVT) and British Airways, along with other carriers, have started issuing information to passengers about how to prevent the condition.

The condition has been dubbed "economy class syndrome" because it is thought the cramped conditions in the cheaper seats may put people more at risk. But patients who had travelled in more spacious seating had also developed problems.

The problem was simply related to sitting still for long periods of time, and for this reason people on long overnight flights were at higher risk. The clots are dangerous when they block blood vessels in the leg, or worse, in the lungs.

Travellers are advised to cut down alcohol, drink plenty of water and go for a stroll during the trip. Passengers have been told to consider taking an aspirin to thin the blood, and wearing support stockings or socks.

In Australia 800 people are suing airlines because they have developed blood clots during long flights. But only the most severe cases became apparent at the airports. Most passengers who suffer the condition will only go to their General Practioner after a few days or weeks.

Another problem in tracing the extent of the condition is that not all hospitals record whether blood clot patients have been on a plane. The relatives of one passenger who died in November from deep vein thrombosis are believed to be considering legal action against the airline that carried him shortly before he fell ill.

Father-of-four Thomas Lamb, 68, died shortly after arriving at Heathrow from Australia. Business class passenger Susan Mavir-Ross, from north Wales collapsed and died on a Virgin flight from San Francisco earlier this year. AN

(To be continued in next issue)

RISK FACTORS

- Increasing age above 40 years
- Pregnancy
- Former or current malignant disease
- Blood disorders leading to increased clotting tendency
- Personal or family history of DVT
- Recent major surgery or injury, especially to lower limbs or abdomen
- Oestrogen hormone therapy, including oral contraceptives
- Immobilisation for a day or more
- Dehydration
- Heart failure
- Trauma
- Varicose veins
- Obesity
- Tobacco smoking

Source : QANTAS

SNIPPETS AROUND THE GLOBE

Predicting Global Foreign Direct Investment in 2001-2005

Foreign direct investment (FDI) is far more than mere "capital" : it is a uniquely potent bundle of capital, contacts, and managerial and technological knowledge. It is the cutting edge of globalisation.

The outlook for FDI — in total, and country by country — is therefore a matter of great interest. Forecasting it, however, is far from easy. In a report (*World Investment Prospects*) published by the Economist Intelligence Unit (EIU), it has provided a forecast for FDI extending to 2005 for no fewer than 60 countries.

Global FDI flows are projected to shrink markedly this year, from US$1.1 trillion in 2000 to less than US$800 billion. Almost all of the reduction is forecast to be in FDI to rich countries, driven by the slowdown in America and by the diminishing pace of mergers and acquisitions (which are a principal driver of FDI in the developed economies).

FDI to poor countries merely pauses at around US$220 billion. In subsequent years, flows recover across the board, but growth in flows to poor countries continues to outpace, modestly, growth in flows to rich ones. As a result, the developing countries' share of global FDI inflows is expected to rise slightly to 29 per cent by 2005. By then, the global stock of FDI will have risen to more than US$10 trillion, from less than US$6 trillion last year.

The US, unsurprisingly, is expected to dominate the rankings in 2001-05, accounting for more than 25 per cent of global inflows. Britain is expected to remain the world's second biggest recipient of FDI, accounting for more than nine per cent of the total in 2001-05. In terms of FDI per head, Britain currently ranks seventh, behind (in descending order) Ireland, Belgium, Hong Kong, Sweden, Singapore and the Netherlands. On this measure, the US ranks 14th.

The study's most encouraging finding is that scores for business environment are rising almost everywhere. Comparing 2001-05 with 1996-2000, the EIU marks down only two countries, Hong Kong and Malaysia, and in neither case by enough to alter the overall assessment — "very good" for Hong Kong and "good" for Malaysia. South Korea, Thailand, Poland, Hungary and Mexico are among those expected to move in the other direction, from "moderate" to "good"; likewise Germany, Denmark and France, from "good" to "very good".

The Economist, 22 February 2001

Socially Responsible Investment

The global fund management industry is having to pay increasing attention to the complex issue of ethical, or socially responsible investment (SRI). The reasons for the apparent shift include :

- A sense that companies should not merely act within the law but help enhance social well-being.
- A growing evidence that a company and its share price can suffer serious damage if it jeopardises its reputation.

SRI funds can be in some cases outperform.

The means to assess companies on environmental performance, human rights, social issues and relations with stakeholders (e.g. FTSE's new indices and Dow Jones Sustainability series) could help.

Until now, ethical investment has been primarily the concern of private investors. If international fund managers agree on standards, they could become an important benchmark for the industry.

Financial Times, 28 February 2001

Multilingual Websites — The Next Trend?

"The dominance of English on the Internet is set to decline as companies realise that to leverage the full value of their sites in global markets, they need to approach customers in their own language," Julian Perkin said.

Currently, English documents pervade the Internet. Statistics vary, but the estimates suggest that around three-quarters of the pages on the world wide web are in English. Yet only 5.4 per cent — little more than one in 20 — of the world's population have English as their mother tongue. A further seven per cent of the world's population are proficient speakers, so the language is a good means of communication for around an eighth of the world's population. There are fractionally more native Spanish speakers in the world, and the Chinese languages dwarf English as a native language, spoken by 20.7 per cent of the world's population. Three-quarters of these, or 15 per cent of the world's population, speak Mandarin alone — nearly three times as many people who have English as a first language.

IDC surveys and data from Forrester show that the vast majority of people prefer websites in their native language, especially for leisure activities such as online shopping. Moreover, they are more likely to buy things online if they can use their own language. GlobalSight estimates that, by 2003, only one-third of the projected 603 million Internet users will be English-speaking.

Companies of any size wanting to leverage the Internet to reach global markets, therefore, need to offer versions of their websites in each of the languages of their target markets. But these websites must be localised, rather than merely translated, for them to be effective. Also, one cannot expect everything on the web to be available in every language any time soon.

Financial Times, FT-IT Review, 7 February 2001

Asia's Downside Risks

Asian economies are displaying strong growth in the wake of the 1997-1998 currency crisis that engulfed the region. Regional Gross Domestic Product (GDP) growth should approach 5.5 per cent this year and average 6.5 per cent next year, according to Dismal Scientist. The distribution of that growth, however, is quite fragmented.

A summary of the problems facing the countries within the region include the following :

- Failure of the national governments to fully implement financial sector reforms following the currency crisis — private sector debt overhang, entrenched market mechanism distortions among financial intermediaries and shaky stock markets remain
- Continued burden of non-performing loans that remain on banks' books — these assets have the potential to weigh on bank performance for years to come if they are not disposed of.
- Exposure of the small, open economies in the region to the dual shocks of higher energy and a slower pace of economic expansion in the West.

The energy price shock will provide a boon to the oil exporters of Indonesia and Malaysia, but adversely affect the oil importers of China, Korea, Philippines, Thailand, Taiwan and Singapore. On average, the oil exporters stand to gain almost two per cent of GDP and 30 per cent of their current account due to the higher oil revenues. However, the average net oil importing country in the region will lose more than one per cent of GDP and more than 30 per cent of their current account.

The effects of the slowdown in economic activity in the economies of Western Europe and the US will have more pervasive and uniformly negative implications for the region. The United States alone accounts for anywhere from four per cent to 30 per cent of the exports of various Asian countries, with a regional average of 16 per cent of total exports. Additionally, exports represent anywhere from 10 per cent to 106 per cent of GDP for the region's major countries. Thus, a pronounced and prolonged deceleration in US economic activity will adversely affect all of these countries through trade linkages.

- Weak electronics sector — for the major producers of the region, electronic and information technology goods account for more than 30 per cent of total exports.

There are two forces at work that will have deleterious effects on Asian high-tech industries, firstly, the potential contraction in the information technology sector in the US and, secondly, the worldwide overcapacity in the electronics and information technology sector.

The Dismal Scientist, 16 February 2001

Japan's Financial Woes

Japan's government finances are "near a state of collapse", Finance Minister Kiichi Miyazawa said on 8 March 2001, prompting investors to sell the Japanese currency and causing the US dollar to soar to a 15 per cent high of 120.40 yen. A bearish outlook for the yen has put pressure on most Asian currencies.

Miyazawa's comment referred to Japan's exploding government budget deficit. As at end-March this year, Japan's total public debt will reach around US$5.571 trillion, which significantly exceeds the nation's economic output. The debt is the biggest in the world in absolute terms, and Japan has the highest percentage of debt to Gross Domestic Product, now approaching 129 per cent among major industrialised countries (see *February 2001 AN* issue in "Snippets Around the Globe").

Miyazawa's remark came at a time of mounting concern over Japan's slowing economy and its weak banking system, which is showing renewed signs of severe strain. But on 9 March 2001, he apologised saying : "This is not playing down the statement, but it was inappropriate."

Asian Wall Street Journal, 9-11 March 2001
& *New Straits Times*, 10 March 2001

China's Economy Still Robust

China's economy could grow by between seven and eight per cent this year (eight per cent in 2000), despite feeble growth in rural areas, concerns that a slowing US economy may hit exports and a lacklustre final quarter last year. The main impetus for growth is likely to emanate from a fiscal stimulus package of at least US$18 billion.

The areas of concern include the problematic rural economy with depressed incomes and expectation of a lower foreign trade (export growth forecast of 10 per cent this year vis-a-vis 27.8 per cent in 2000).

However, foreign direct investment (FDI) increased by US$400 million to reach US$40.7 billion in year 2000, while promised FDI last year totalled US$62.4 billion. The latter showed a considerable intent to invest in China after it joins the World Trade Organisation. Separately, consumer spending was relatively robust last year, rising by 9.7 per cent.

Meanwhile, Lee Kuan Yew said China's increasing economic power would compel the 10 countries in the Association of South-East Asian Nations (Asean) to pursue further integration and promote their market of 500 million more effectively. "Without the attraction of a more unified market in Asean, separately we are going to lose more FDI. It is already down by about 40-50 per cent compared to the pre-crisis investment figures and China's has been shooting up."

Financial Times, 28 February & 1 March 2001

Malaysia's Financial Sector Masterplan

Bank Negara Malaysia Governor, Dato' Dr. Zeti Akhtar Aziz released details of the country's financial sector masterplan for the next decade on 1 March 2001. The following are key highlights :

First phase 2001-2003 :
Enhancing capacity of domestic banking institutions and strengthening financial infrastructure.

Second phase 2004-2007 :
Intensifying competition pressure in domestic financial sector.

Third phase after 2007 :
Introduce new foreign competition and assimilation into global arena.

Banking Sector

- Foreign banks will be allowed to enter the Malaysian market after 2007.
- The central bank says core local banks

will be developed as the financial system's backbone.

- Corporations' stakes in banks will not be allowed to exceed 20 per cent.
- Individuals' stakes in banks will not be allowed to exceed 10 per cent.
- Mergers between merchant banks and brokers and discount houses will be permitted.

Insurance Sector

- Malaysia will establish a financial guarantee insurer for the corporate bond market.
- The re-insurance market will be opened to foreign competition.
- Malaysia is to relax the cap on foreign equity for new insurers.
- The central bank will also allow finance and non-financial firms to buy insurers.
- The bank also says it will deregulate the pricing of fire and motor insurance products.

Dr. Zeti said Malaysia had no World Trade Organisation commitment to open its domestic banking sector to more foreign competition, although some suggested the extra time (i.e. introduction of new foreign competition only after 2007) might conflict with Malaysia's promise to open financial markets by 2003 under a World Trade Organisation pact. (*Note* : Foreign banks are already a force in Malaysia. At end-1999, they accounted for 29 per cent of all banking assets and 31 per cent of all loans.)

Consolidation is also under way in the insurance sector, which has 56 general insurers and 19 life insurers, though no core firms have been named nor dates set for mergers.

Meanwhile, Dr. Zeti also said, in reference to the prohibitions on lending of ringgit to non-residents and restriction on internalisation of the ringgit, that "this will remain in place for a long time." Malaysia barred spot and forward trading in the ringgit in the international market, and limited physical cash transfers, while also pegging the currency at 3.8 to the US dollar.

(Note : For details for the Financial Sector Master Plan, visit Bank Negara Malaysia's website : http://www.bnm.gov.my)

Digest from Reuters, 1 March 2001

Note : The above snippets were compiled by Robert Khaw, Senior Manager, Technical Department (Strategy & Planning), MIA.

DEMUTUALISING

By Ashwini K.

Demutualisation was a prominent feature of the recently-unveiled Capital Market Masterplan (CMP). What this means is that Malaysia's exchanges can no longer merely discuss the pros and cons of demutualising but take active steps to ensure that the process is started and completed by 2003, the time frame the CMP has given.

So what exactly is demutualisation? In a nutshell, it is about changing the club-like membership of exchanges into a for-profit organisation, typically through the introduction of new shareholders. In most cases — and this has happened in countries like Australia, Hong Kong and Singapore — the exchange has taken a step further and listed itself on its own bourse.

It is no secret that the traditional broker-owned exchanges are stymied in their progress due to the single-mindedness of its owners, which is to protect the bottom-line of the brokers.

Logically this would put the brakes on efforts to deal with a downward spiral of brokerage fees taking place around the world. In fact the Kuala Lumpur Stock Exchange (KLSE) had argued recently that a demutualised structure would be beneficial, as it would enable it to respond to new challenges.

Increased Competition and Technological Changes

The motivating force of demutualisation is competition. With globalisation becoming increasingly prevalent, exchanges have to compete with one another for the investor's money. And companies seeking to list will choose bourses that have the highest liquidity and investor action.

Technological changes are also having a profound impact on stock markets around the world. Internet trading for example, has forced trading fees down as the use of technology gives the online broker a lower cost structure and therefore the ability to under-cut the traditional fees structure. What online trading has also done is to provide an easy way for investors to trade on markets around the world, all from the click of the mouse.

Another notable development is that of electronic communications networks or ECNs, which essentially are virtual exchanges. They have managed to attract a fair amount of trading volume away from exchanges such as Nasdaq and NYSE (20 per cent and four per cent at last count). Their attraction — faster and more efficient trades at lower costs.

These are among the challenges that exchanges will have to deal with and it does not take a genius to figure out that this needs a dynamic management team whose only concern is the bottom-line of the exchange.

Brokers will Gain Financially

Brokers shouldn't fret though. They stand to gain financially when the exchange is demutualised. While the exact form of demutualisation is still being worked out here by the authorities, it is clear that brokers will have an opportunity to monetise their present ownership of the exchange. In fact the chairman of the Securities Commission, Ali Abdul Kadir, spoke of the "windfall" that brokers will enjoy at the recent press conference announcing the CMP. One indication of this is the price trends of listed exchanges. Using the examples of the stock exchanges of Australia, Hong Kong and Singapore, they all presently trade above their initial public offering prices, even at these depressed times.

A Single Exchange

It should be noted the CMP has detailed a road map of sorts for demutualisation. It states that a single Malaysian exchange (in

MALAYSIA'S EXCHANGES

other words an amalgamation of all local bourses) should be established. And two, that this exchange should demutualise and list on its bourse by the year 2003. What this means is that a process of consolidation has to begin in which all of Malaysia's five bourses have to become one. These are KLSE, Commex (which itself is the result of the 1998 merger between Kuala Lumpur Commodities Exchange and the Malaysian Monetary Exchange), KLOFFE, MESDAQ and newest of the lot the Labuan Financial Exchange.

Not only will laws need to be amended to facilitate this process, but the respective exchanges will need to sit down and work out how they can merge their present trading systems into one, in the most effective way.

The Task Ahead

Another issue that they need to eventually tackle relates to the issue of governance. Once the exchange is demutualised and listed, should it still maintain its regulatory function. On the face of it, a potential conflict of interest could surface. Will the new for-profit entity be able to perform its regulatory and surveillance roles with the same objectivity as in the past? And can the new exchange review its own application for its own listing? Yet another issue to be looked into is who will have the majority shareholding of the exchange post demutulisation?

These are not trifle issues and observers are already calling for a special committee to be set up to deal with the said issues. The CMP states that the process should begin with the consolidation phase and be followed by the listing phase. And the three-year time frame given for both should give the relevant parties sufficient time to iron out these issues. AN

CAPITAL MARKET MASTERPLAN : RECOMMENDATIONS

MARKET INSTITUTIONS

1. A single Malaysian exchange should be established through the consolidation of all existing exchanges by 2002.
2. MESDAQ should be merged with KLSE as part of the exchange consolidation process.
3. The Malaysian exchange should demutualise and list on the stock market by 2003.
4. The Malaysian exchange should implement a programme to enhance its value recognition both domestically and internationally.
5. The Malaysian exchange should pursue appropriate strategic alliances internationally.
6. A common trading platform across all exchange-traded products should be established following exchange consolidation.
7. An integrated clearance and settlement system for all exchange-traded products should be established.
8. A single clearance and settlement institution for all exchange-traded products should be created by 2002.
9. The money settlement system should be directly linked with the capital market trading and clearing systems.
10. The settlement cycle should be shortened to T+3 in line with international best practice.
11. A global depository account for each investor will be established in the central depository.
12. The SCANS clearing fee will be reduced from 0.05% to 0.04% with effect from 1 July 2001, subject to a maximum of RM200 per contract.
13. The SCORE fee will be reduced in two stages to 0.005% and 0.0025% with effect from 1 September 2000 and 1 July 2001 respectively. Subsequently, SCORE fees will be reviewed further.
14. The SC levy will be reduced to 0.015% from the present 0.02% with effect from 1 July 2001.
15. Stamp duty should be capped at RM200 per contract for all trades on the KLSE and be further considered for eventual removal of 16 administrative procedures and rule-structures in relation to portfolio investments should be streamlined in order to reduce operational costs to investors.

DEEP VEIN THROMBOSIS : HOW YOU CAN PREVENT IT

By Haris Hussain

Health officials around the world are trying to determine how many airline passengers die from what is commonly called "economy-class syndrome."

In London, at least 30 people have died of blood clots after arriving on long-haul flights at London's Heathrow Airport in the past three years, says a study conducted by a nearby hospital. "They are all people who collapsed after getting off a flight, or after getting up at the end of an overnight flight," says John Belstead of Ashford Hospital in southeast England. "Most of them come from baggage claim, they seem to walk about a half-mile, then go down."

"Economy-class syndrome" — the medical condition known as deep vein thrombosis — begins as blood pools in the legs when an airline passenger sits still for a long flight. The condition got its nickname because of the way airline passengers are often cramped in the confined economy-class seats of some airlines. Despite the nickname, the condition can occur in first-class seating, in cars or in offices.

When the legs are motionless in the sitting position for long periods of time, blood clots can form. These clots may stay in the legs. But hours or even days later when the person is more active, the clots can be swept up to other parts of the body. When these clots lodge in vital organs, the resulting medical emergency can be fatal. About five million people suffer from such blood clots each year in the US. About 800,000 are hospitalised.

Nobody knows how many begin on airliners, but doctors are trying to find out. In addition to the London study, the clinic at Tokyo's Narita airport documented 25 deaths in eight years. None of the US deaths have to be reported to aviation officials, and many are thought to occur days after an airline passenger is back in a normal routine.

"It may not be associated with the flight," says Russell Rayman of the Aerospace Medical Association. "A physician examining a patient may forget to ask whether or not they had been flying the last couple of days. At least one person a month dies of a blood clot on the lungs on arrival at Heathrow Airport, say doctors. They believe at least 2,000 people a year in the UK may die from blood clots linked to long-haul air travel.

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The problem was simply related to sitting still for long periods of time, and for this reason people on long overnight flights were at higher risk. The clots are dangerous when they block blood vessels in the leg, or worse, in the lungs.

Travellers are advised to cut down alcohol, drink plenty of water and go for a stroll during the trip. Passengers have been told to consider taking an aspirin to thin the blood, and wearing support stockings or socks.

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(To be continued in next issue)

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- Dehydration
- Heart failure
- Trauma
- Varicose veins
- Obesity
- Tobacco smoking

Source : QANTAS

In the first of a series on the relevance of financial planning for accountants, Yap Ming Hui, Managing Director of Whitman Independent Advisors Sdn Bhd, looks at how accountants can enlighten their business owner clients on the importance of protecting business interests upon death and long term total disability.

As professionals who strive to add value to business owner clients' interests, it is important for accountants to continuously update themselves with professional knowledge and information.

The latest trend of financial planning provides another good opportunity for accountants to explore alternative ways to add more value to their service. The purpose of this column is to discuss financial planning issues relevant to business owners, especially those of small and medium size enterprises. It is hoped that this discussion can serve as a stepping stone for accountants who are interested in providing financial planning services to their clients.

Strategic Planning for Business Interests

By Yap Ming Hui
MANAGING DIRECTOR, WHITMAN INDEPENDENT ADVISORS SDN BHD

For most business owners, business interests tend to form a very major part of their overall asset value. As such, proper financial planning would not be complete without taking into consideration how to make sure your client's interests in business is properly protected and smoothly transferred to their heirs at the highest value possible.

Proper planning for business interests is not only important for monetary value. In most cases, a business represents your client's lifetime efforts and successes. A smooth transition and succession of business interests would minimise unnecessary interruptions to business continuation and instil confidence in the other stakeholders of the business such as employees, suppliers, customers, banks and others. With proper planning for business interests at death or long term disability, we can ensure that your client's lifetime efforts continue to prosper in his absence.

However, to protect and distribute business interests in estate planning is not as straightforward as doing the same for other assets like fixed deposits, CDS accounts or unit trusts. For such assets, you can just name the beneficiaries in the Will and the beneficiaries can enjoy the benefits quite easily. For business interests, the full value is not so easily or fully realised. Getting the fair value out of the business is challenging enough when there is time to plan the exit during one's lifetime. In the case of death, it is worse because it removes the most critical element from the planning process : time. In order to properly transfer a business interest at death, more time, planning and consideration would be required compared to other assets in the estate.

TYPES OF BUSINESS INTERESTS

There are three types of business ownership in Malaysia, namely sole proprietorship, partnership and the corporation. Each of these has different legal implications at the owner's death. Since these different business types have different complications, there are different possible measures to solve the potential complications.

Sole Proprietorship

A sole proprietorship is a business owned and operated by one person. A sole proprietorship is a business entity whose existence is not separated from the owner. As a result, the death of the business owner also means the termination of the business.

CASE STUDY

Lee Wong is in his late thirties and he owns a successful land surveying practice in Subang Jaya with seven staff. Even though the monthly business overheads run as high as

RM10,000 per month, he can easily draw RM20,000 per month from his practice. His wife does not work so that she can spend more time to take care of the children. One day, Wong meets with a car accident and dies instantly. His death brings tremendous financial trauma to his family.

Upon his death, existing clients who need land-surveying services switch to other land surveyors. With fewer and fewer clients, business incomes shrink and there are difficulties paying rentals, salaries and other business expenses. Without him to continue the practice, there is no way at all for the business to survive. His wife who is not a licensed land surveyor is not qualified to continue the business. She tries to sell the business but nobody is interested.

Due to the fact that Wong is the sole breadwinner for the family, there is no family income without his business income. His personal savings can only last the family for the next four months. What could Wong have done to avoid or minimise the impact of this trouble?

Alternatives for the Heirs of a Sole Proprietorship Business

When the sole proprietor dies, the heirs can choose from the following alternatives to dispose of the business interests :

[a] *The Estate Administrator or Executor liquidates the business*

Without the consent in the Will or Court Order, the administrator or executor must wind up and liquidate the business as soon as possible. As a known fact in the accounting community, forced liquidation usually results in severe loss of business value, sometimes ranging as much as 40 per cent to 90 per cent. *Illustration 1*

[b] *The Estate Administrator or Executor continues the business until it can be sold as a going concern.*

For this to work, the sole proprietor's Will must have provisions to empower the administrator or executor to continue the business and exempt him from personal liabilities for the appropriate actions taken during this period. However, the administrator or executor may still be liable for any losses caused by his negligence or imprudence. This alternative presents some foreseeable challenges and difficulties. Firstly, the administrator or executor may not be experienced enough to manage the business operation like the deceased. Secondly, after settling the outstanding estate liabilities, administration expense and taxes, the administrator or executor may not have sufficient cash flow and working capital to continue the business.

[c] *The heirs inherit the business through the sole proprietor's Will.*

In the sole proprietor's Will, he/ she can will away the business to the heirs as a gift. However, the heirs may not have the experience required to run the business profitably. In the case whereby the heirs fail in running the business, they may dissipate the rest of their estate inheritance in order to salvage the business. As a result, the business gift may turn out to be a liability rather than an asset for the heirs.

ILLUSTRATION 1

Business Balance Sheet Before Death and Liquidation at Death

Assets	GOING CONCERNS	FORCED LIQUIDATION
Inventory	100,000	50,000
Furniture and Fixtures	30,000	10,000
Accounts Receivable	150,000	70,000
Cash In Hand/Bank	30,000	30,000
	310,000	**160,000**
Liabilities		
Accounts Payable	120,000	120,000
Loans	50,000	50,000
Other Liabilities	30,000	30,000
	200,000	**200,000**
Net worth	110,000	(40,000)

[d] *Sale of the business by an agreement prior to the death of the sole proprietor.*

During his lifetime, the sole proprietor can offer the sale of his business to his employee or other professional counterparts. The potential buyer enters into a contractual agreement with the sole proprietor so that the sole proprietor binds his estate to sell and the buyer to buy the business at an agreed price.

Possible Actions to Protect the Business Interests of A Sole Proprietorship

- *Proper assessment of business value in comprehensive financial planning.*

Among the three business forms, sole proprietorship is the most difficult to sell. As a result, it is important to remind the clients not to overestimate the value of their businesses as this may underestimate cash flow needs at death. Due to the different nature of businesses, accountants should highlight to clients how important it is to work together with a com-

- **Alternative (a).** Unlike the partnership or corporation that has other partners or shareholders in interest, a sole proprietorship's heir may not realise much value from the liquidation of the business. Under the forced liquidation, a loss of 40 per cent to 90 per cent is not uncommon. Some even face liabilities in excess of the liquidated value of the assets. Life insurance helps to compensate the estate for the losses in the value of business. It guarantees your client's family adequate income irrespective of the success or failure of liquidation or transfer of the business.
- **Alternative (b).** Besides settling outstanding estate liabilities, life insurance provides sufficient working capital during the transition period to buy time for the executor/administrator to look for a buyer of going concern.
- **Alternative (c).** Life insurance provides the working capital for the heirs to learn up the trade and compensate for the mistakes during the transition period. It gives a better chance of proper succession to a sole proprietorship business.
- **Alternative (d).** Even if there is a contractual agreement binding the buyer to purchase the business, the buyer may not have the necessary funds to settle the purchase price when the business owner dies. As such, the interested buyer can purchase life insurance on the life of the sole proprietor, which will provide the funds needed for the purchase of the business when the time comes.

petent financial planner to help assess their business value. A competent financial planner would be experienced enough to pinpoint the probable shrinkage in the business' value under different circumstances.

■ *Remind the client to update the Will to give the executor the power to continue or sell the business.*

This extra flexibility would provide more choices in deciding what best to do at that point of time. Without the power of instruction, the executor will not be likely to try anything other than winding up the business as soon as possible. This is due to the fact that the executor is bound by law to protect the assets in the estate. If the heirs are interested to continue the business, you may want to instruct the executor to transfer the business to them.

■ *Look for a successor-owner in key employees.*

If your client is interested in alternative (d), it is important for him/her to put in some effort to identify the potential successor and prepare him to take over the business one day. Involve the prospective successor in day-to-day operations to give him more experience. Your client can enter into a contractual agreement with him to buy over the business upon your client's death. Under this arrangement, your client may even have the alternative of selling the business to him when he/ she wants to retire.

■ *Look for potential buyers among professional friends.*

For some professional practices like land surveyors, architects, consulting engineers and others, a sole proprietor can actually look for another friendly professional to enter into a buy-sell agreement in alternative (d). Such an agreement will ensure that any surviving professional will buy over the practice from the deceased professional's estate. By having such an arrangement, it would not only help one but two sole proprietors with one agreement.

■ *Protect your family with life insurance.*

This solution helps to cushion the financial impact of all the above-mentioned alternatives.

With proper life insurance funding, your client's family members are better off with any one of the four alternatives. With the assistance of a financial consultant, you can help your clients to identify the pros and cons of each alternative to their business and incorporate their intended alternative into their comprehensive financial planning.

Partnership

A partnership is a business owned by more than one person. The Malaysian Partnership Act defines a partnership as the relationship subsisting between persons carrying on business in common with a profit objective.

Unless provided otherwise by an agreement, when a partner dies, the partnership is legally terminated irrespective of the surviving partners' plan. The surviving partners must collect all outstanding bills from debtors, settle all the liabilities, wind up the business, liquidate the assets and divide the proceeds among the partners according to the proportionate interest of partnership. During this period, the surviving partners act as Trustee for the partnership. They are required to act fairly, promptly and with accountability. If there are new contracts that turn bad, the surviving partners will be held liable personally. If the new contracts make profit, it must be shared with the deceased partner's estate. Therefore, it is very important for us to educate our clients in a partnership regarding the liabilities in winding up their business in the event of their business partner's death.

CASE STUDY

Param and Hamid have had a partnership business in the medical practice for the last eight years. The business has grown well due to the relentless efforts and contributions of the two partners. The partnership has two clinics, one in Sri Petaling managed by Param and another in Puchong managed by Hamid. They have a verbal understanding that if either one of them were to die first, the surviving partner will buy over the deceased's share. They have even bought life insurance on each other's life to fund the purchase. However, no legal agreement has been drafted and signed between both partners.

Both partners fully understand the importance of protecting each other's business interests in the event of the death of either of them. However, they do not think that it is so important to really have a black and white agreement to bind each other because they trust their relationship is strong enough to enforce the agreement. One and a half years later, Param dies in a plane crash. Hamid receives the life insurance proceeds but does not use the money to buy over the deceased's interest. He closes down the business and registers a new practice under sole proprietorship. What Param's heirs get is only the very minimal liquidation value of the partnership. What could Param have done to protect the value of his business interest?

Alternatives to the heirs for a Partnership Business Interest

When a partner in the partnership dies, the heirs have the following alternatives to dispose of the business interest :

[a] *Forced Liquidation of the Business.*

Forced liquidation is the worst alternative for both the surviving partners and the deceased partner's estate. It invariably results in significant reduction of the busi-

ness value. In fact, the complications do not stop there. If the liabilities are more than the business assets, the surviving partners and the deceased partner's estate are fully liable.

[b] *The heirs sell off the deceased partner's interest to a new partner and the latter forms a new partnership with the surviving partners.*

For this alternative to be viable there must be a prospective buyer who is willing to enter into a partnership which has just lost a key partner. The new partner must also possess a personality and working experience acceptable to the surviving partners. If an inappropriate partner were to be admitted, the partnership may get into trouble and eventually end up in dissolution.

[c] *The deceased partner's heirs form a new partnership with the surviving partners.*

Under such an arrangement, the heirs may not possess the necessary skills, knowledge and experience to receive an income equivalent to the amount received by the deceased partner. The surviving partners would face the uncertainty of personality and co-operation of the heir. If the partnership is a professional firm requiring a registered professional to act as partner, this alternative will not be possible.

[d] *The deceased partner's heirs buy over the surviving partners' interest.*

For this alternative to be viable, the deceased partner's heirs must possess sufficient funds to buy over the business interest and necessary know-how to operate the business successfully. However, this is very unlikely to happen.

[e] *The heirs sell off the deceased partner's interest to the surviving partners.*

This is the best alternative for both the surviving partners and the deceased partner's heir. The surviving partners will be able to continue the business without any interruption. The deceased partner's heir will get the fair value of their interest in the partnership. However, there are two issues that must be resolved. Firstly, an agreement on the price of the business interest must be reached. There will be a conflict when the heirs demand the best price possible while the surviving partners will offer the lowest possible. Secondly, the ability of surviving partners to finance the purchase. In most cases, purchase of the business interest will require quite a substantial amount of cash. If the surviving partners do not have sufficient funds, this alternative would also not be possible.

Possible Actions to Protect Business Interests in a Partnership

1 Enter into a buy-sell agreement.

Since the alternative of the heirs selling off the deceased partner's interests is the most advantageous option for both parties, proper solutions need to be devised to address the two obstacles, namely agreement on price and financing method. The partners can enter into a buy-sell agreement to address the problem of partnership interest disposal. The buy-sell agreement is an agreement in the partnership outlining the respective rights and obligations of the partners with respect to the disposition and acquisition of the interest of any deceased or disabled partners. The agreement ensures that the surviving partners must buy the interest of the deceased partner from the heirs and the deceased partner's heirs must sell the interest of the deceased partner to the surviving partners. In the agreement, the price of partnership is specified or based on a formula agreed mutually among the partners. Such a pricing establishment would be more acceptable among the partners because it is made before the partners know which side of transaction they will be on. Whoever survives will be the buyer and vice-versa.

2 Identify a suitable financing method to fund the buy-sell agreement.

A buy-sell agreement without ensuring proper funding for the partners to honour the promises is as good as a car without the fuel. The partners have the following alternatives to fund their buy-sell agreement :

[a] *Using cash from own savings.*

This funding option would only be viable if the surviving partners have adequate cash or assets at the time of purchase.

[b] *Using borrowed money.*

This funding option would only be viable if loans can be secured at reasonably low interest and future business incomes can absorb loan repayments.

[c] *Using instalment payments from own income.*

This funding option would only be viable if the estate accepts the duration and extra interest charged to the instalments. It is important for the heirs to be aware that the buyers may fail to complete the payments in the situation of death, disability, adverse business conditions and bankruptcy.

[d] *Using the life insurance proceeds.*

This funding option would only be viable if the partners in the agreement are insurable and can afford the premium.

3 Choose the most suitable form of buy-sell agreement.

If the partnership chooses to have a buy-sell agreement, the partners have the following options on the various forms of buy-sell agreement. Due to the different nature and financial background of each company, the partners should consult their estate planner to identify the most suitable financing method to their agreement.

[a] *Cross-Purchase Plan.*

Under this alternative, each partner buys life insurance on the lives of the partners, enough for him to buy over the business interests. For example, Siva and Michael are partners holding 30 per cent and 70 per cent respectively. Siva buys a policy on Michael's life for the amount equivalent to 70 per cent of the agreed partnership's value. At the same time, Michael buys a policy on Siva's life for the amount equivalent to 30 per cent of the agreed partnership's value. If Michael dies, Siva will be able to use the life insurance proceeds to purchase Michael's business interest. (See Illustration 2)

ILLUSTRATION 2

Cross-Purchase Plan

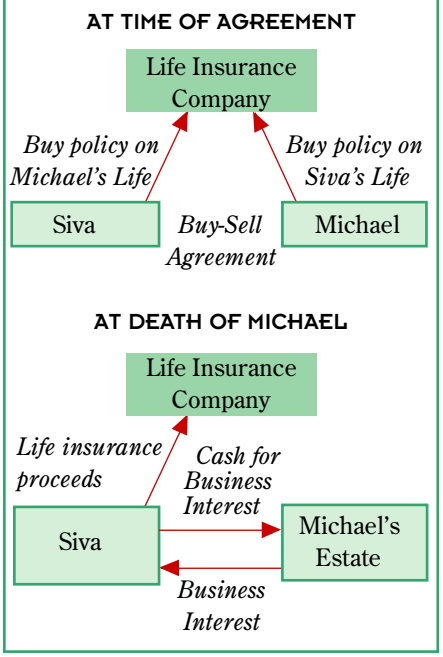


ILLUSTRATION 3

Entity Plan

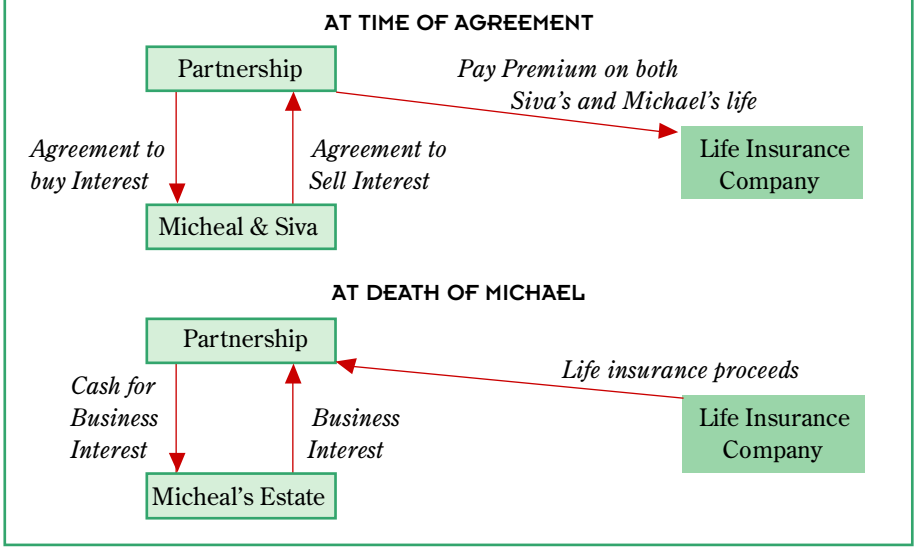
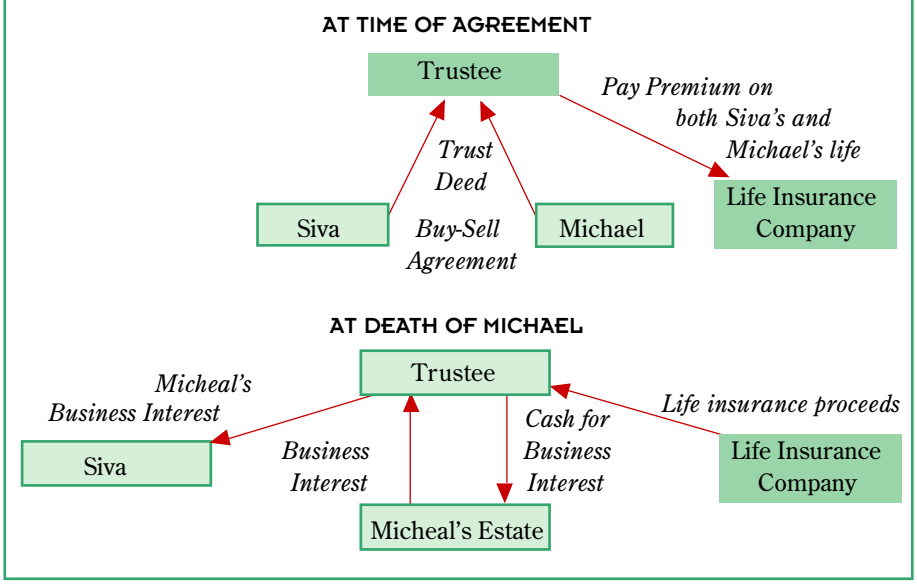


ILLUSTRATION 4

Trusteed Cross-Purchase Plan



[b] *Entity Plan.*

Under this alternative, the partnership buys life insurance on the life of each partner equivalent to the interest percentage of the agreed partnership's value. Upon the death of any partner, the partnership will use the life insurance proceeds to purchase the deceased partner's interest. Each surviving partner's interest percentage may be adjusted to reflect the proportionate increase in his share. (See illustration 3)

[c] *Trusteed Cross-Purchase Plan.*

Under this alternative, a Trustee is appointed in the buy-sell agreement to buy life insurance on the life of each partner. Upon the death of any partner, the Trustee will receive the life insurance proceeds and redistribute it to the respective partners for them to purchase the deceased partner's interest. In a partnership whereby there are quite a number of partners, it is more viable to use the Trusteed Cross-Purchase plan instead of the Cross-Purchase plan because it reduces the number of policies used. For example, in a partnership of 12 partners, a Cross-Purchase Plan requires 132 policies (i.e.12 x 11). A Trusteed Cross-Purchase Plan would require only 12 policies. (See illustration 4)

Corporation (Sdn Bhd)

A corporation is defined as a legal entity that exists independently of the persons who created it. As a separate legal entity, a corporation may sue or be sued in its own name in the course of trade. As such, the corporation would not be affected legally like a partnership when one of the shareholders dies. Most of our business clients would probably fall under this type of business.

CASE STUDY

David and Francis have jointly owned an electronic product manufacturing private limited company for

more than 15 years. Their business has grown into a multi-million ringgit business in the last 10 years of economic growth. Both shareholders have been able to work very well together due to proper division of responsibilities. David is in charge of business development and Francis is in charge of factory production.

Like most business owners who are very committed to their business ventures, they only withdraw a reasonable salary each month for family expenses. The majority of the profits are ploughed back to further expand the business. As a result, the business interest in this private limited company constitutes more than 60 per cent of both David and Francis's personal net worth. Before the financial crisis in 1997, David and Francis were offered RM6 million for their company by a foreign company. However, they turned down the offer, believing that the company was worth three times the offer.

It has never occurred to them what would happen to their business if either one of them were to pass away. Both shareholders are very much engaged in their daily activities. There are always urgent and important business and personal priorities. One fine day, David dies of a massive heart attack before planning anything.

David has a will to give the business to his wife and children. Knowing that the 50 per cent share would not generate the same income like before without her husband's contribution, David's wife prefers to sell the shares to Francis. However, they just cannot agree on the price of shares. As much as Francis would like to buy over the shares and continue the business, he does not have much money to offer. As for David's wife, she would not agree on the lower price because her husband told her that the business is easily worth RM18 million. Things have also not been easy on the family finances as there are outstanding liabilities and bills to pay. In addition, two of David's children are studying overseas, and fees and maintenance are not cheap. After a few months, David's wife settles for a price at only 30 per cent of the fair value due to the pressing financial needs of the estate and family. Even then, it is not easy on Francis as he has to take up loans to settle the amount. What could both David and Francis have done to prevent such unwanted circumstances?

Alternatives for the Heirs in a Corporation Business Interest

Even though the death of a shareholder does not dissolve the business, the heirs of the deceased shareholder have quite similar alternatives to dispose of the business interest as in a partnership situation.

[a] Wind up the business and distribute the balance.

[b] The heirs sell off the deceased shareholder's interest to the new shareholder for them to continue the business with the surviving shareholders.

[c] The deceased shareholder's heirs continue in business with the surviving shareholders.

[d] The deceased shareholder's heirs buy over the surviving shareholders' interest.

[e] The heirs sell off the deceased shareholder's interest to the surviving shareholders.

All the above alternatives also share the same issues and challenges like the alternatives for partnership. As such, the most practical and favourable alternative is the fifth alternative, which gives win-win advantages to both the deceased shareholder's heirs and the surviving shareholders.

Possible Actions to Protect the Business Interest in a Corporation (Sdn Bhd)

To implement the fifth alternative in a smooth manner, it is important to have a buy-sell agreement with proper funding. However, there are only two alternate forms of insurance funded buy-sell agreements for corporate shareholding compared to three alternate forms for partnership interests, which are the Cross-Purchase Plan and the Trusteed Cross-Purchase Plan. The entity plan is not suitable for corporations because a company is not allowed to purchase or deal in its own shares under Malaysia's Companies Act. It is important to consult an experienced Estate Planner to determine the right form of buy-sell agreement based on the needs and backgrounds of each company.

Throughout my practice as a financial consultant to business owners, I have come across two main categories. One category is totally unaware of the implications and complications when something happens to their partner or themselves. Another category is aware of the potential complications. However, they do not have any idea on how to go about solving this concern. Therefore, it is my belief that there are ample opportunities for us as accountants to highlight this crucial issue to business clients and work together with financial planners to help them address it.

As professionals who are trusted by clients to advise them on their business and personal finance, it is incumbent upon us to highlight the importance of proper planning for business interests. Without reminders from accountants, there are many business owners who might overlook this area of planning and suffer unnecessary loss and trouble in business. AN

Note : In addition to contributing this regular feature which we hope will be useful and informative, Whitman Independent Advisors Sdn Bhd would also like to volunteer their service as the resource centre for all aspiring financial consultants. All questions on financial planning can be addressed to Yap Ming Hui at the following e-mail address : yapmh@whitmanindependent.com.

Yap Ming Hui (yapmh@whitmanindependent.com) is Managing Director of Whitman Independent Advisors Sdn Bhd, an independent financial advisory firm.

What Your Business Should Know About Internet Security

By Brian L. McGuire and Sherry N. Roser

Recent attacks against websites such as Yahoo!, Amazon.com, E*Trade, and eBay, plus periodic virus outbreaks such as ILOVEYOU and Melissa should remind companies that security issues must remain a primary concern for everyone doing business on the Internet. The Internet opens new doors for a company worldwide, but it also opens the company up to security vulnerabilities.

Business people who participated in Ernst & Young's sixth annual Information Security (EYIS) survey, for example, believe that "as connectivity grows, driven by e-Commerce and the Internet, so does risk (from industrial spies, foreign governments, competitors and even legitimate business partners)." The Information Infrastructure Standards Panel is growing concerned, as intruders become even more sophisticated at stealing or destroying information. And the threat isn't limited to external perpetrators. Disgruntled employees are actually more likely to commit some type of computer crime against their former employers. They're more familiar with system weaknesses, and they're better able to cover their tracks. The Computer Emergency Response Team (CERT®) at Carnegie Mellon University receives multiple daily reports of security breaches, an increase from the one every other day reported in 1990. (Current reports are available at www.cert.org/summaries/CS-2000-03.html.)

In the EYIS survey, more than 59 per cent of participants reported financial losses in the past year due to system downtime, system failures, or security breaches, yet only 41 per cent of the organisations had Business Continuity Planning (BCP) in place. In approximately 45 per cent overall, BCP wasn't even in the budget.

How can you manage the threat of Internet security if your company is conducting or contemplating business online? Access to information on the Internet is decentralised, so the security of the information should also be decentralised. Setting up security measures involves time, money, and inconvenience for everyone involved — and all levels of management need to be involved.

How Does Your Company Use the Internet?

The Open User Recommended Solutions (OURS) Consortium is a task force made up of 60 corporate users and computer vendors. OURS has identified several steps companies should take to establish internet security. First, a company must identify how it will use the Net, and then it should assess the risks involved and perform a cost/benefit analysis to determine if the benefits outweigh the potential costs.

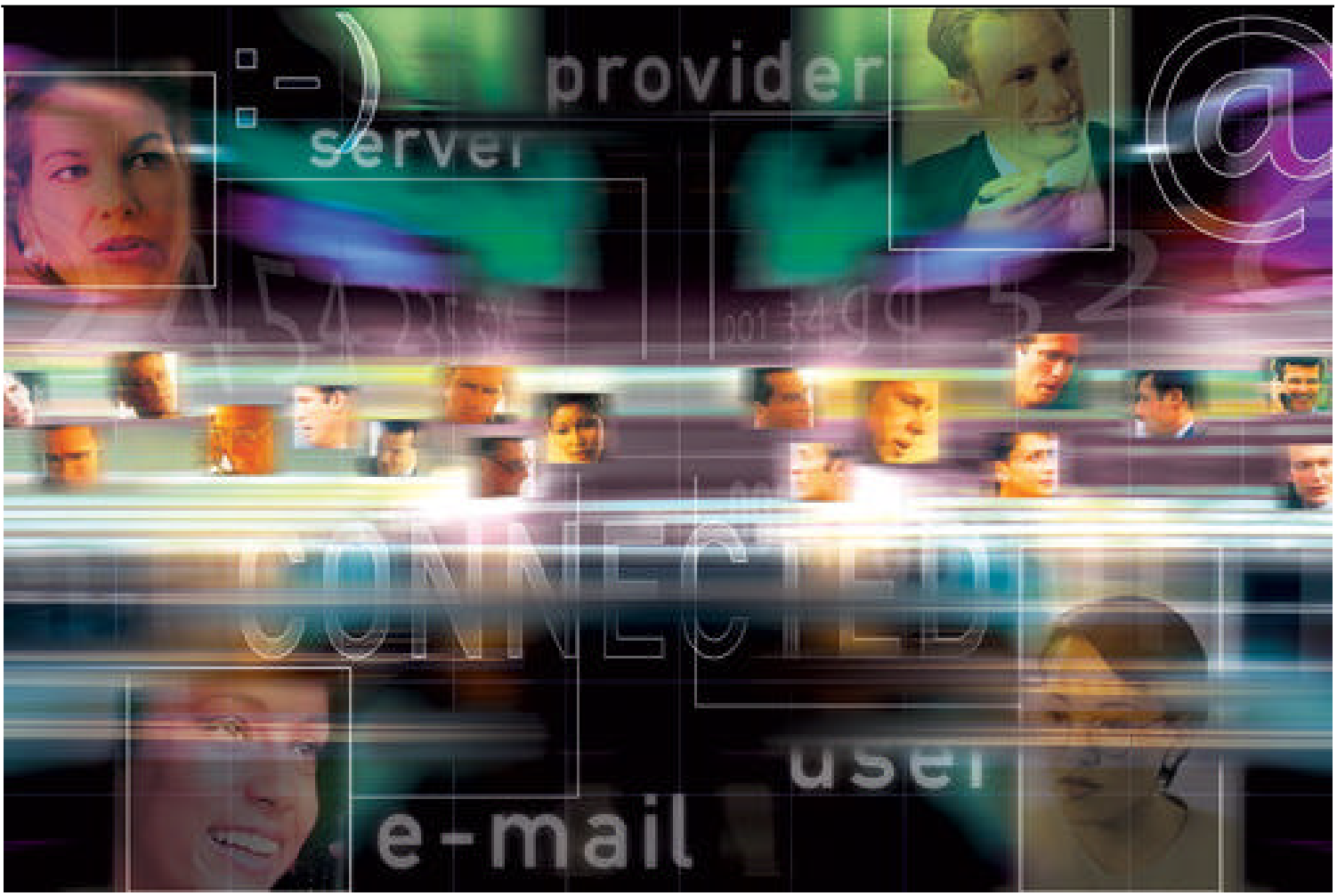
In the EYIS survey, 80 per cent of those reporting provide some degree of remote access to their organisation — dial-in, leased line, internet, or Virtual Private Network (VPN). This is just one of several good reasons to perform a risk analysis. For example, in a healthcare organisation patient information is extremely confidential. This high degree of confidentiality demands rigid information security. That means a healthcare organisation would most likely assess its potential risk as high. But a company with information of very little value on its system may assess its risk as low, with fewer required security measures.

Identify Possible Threats

After a company identifies how it will use the Internet, it needs to identify the threats that are present online, OURS suggests. Here are nine basic threats that cover the areas that should be of greatest concern for any company :

1. Data destruction;
2. Interference;
3. Modification/replacement;
4. Misrepresentation/false use of data;
5. Repudiation;
6. Inadvertent misuse;
7. Unauthorised altering/downloading;
8. Unauthorised transactions; and
9. Unauthorised disclosure.

The objective is to make an attack on your company's computer system as difficult as possible. Deterrence is the logical approach because a good hacker can get into almost any system. A recent survey of



IS managers and security experts defined internet security as just one other issue that must be dealt with and made part of the overall business plan. To avoid using the Internet because of security risks would lead to decreased market share. For most companies, the benefits of the internet outweigh the risks.

Find Safe Haven

The final suggestion of the OURS group is to match the threats to the company with the appropriate security technologies. According to the Consortium, there are six sets of controls that can be implemented to help prevent security threats :

1. User ID/Authentication controls;
2. Authorisation controls;
3. Integrity controls;
4. Confidentiality controls;
5. Accountability controls; and
6. Availability controls.

User identification and authentication typically involves passwords. But passwords can be relatively simple for computer criminals to break. The credit-card-sized smart card is a more efficient device for authentication. It contains a small microprocessor that can store 10 to 20 public-key certificates. Currently the cards are being used to sign and encrypt documents with password tokens and keys. These cards can also generate one-time-only passwords that must be authenticated by a network. With the SecurID card from RSA, the user is assigned a SecurID smart card that generates a new code number every 60 seconds that is unique to that user. When the holder of the card logs on to the network, he or she enters this number plus a PIN or phrase forming a passcode, which is used by the RSA ACE/Server to authenticate him or her, thus allowing access to the network. Because the system depends on something you know (PIN) and something you have (the smart card), if the card is lost or stolen, half of the required passcode is still missing. Smart cards are expected to gain wide acceptance over the next five years because their digital signatures provide electronic proof of identity and privileges over the Net.

> "To avoid using the Internet because of security risks would lead to decreased market share. For most companies, the benefits of the internet outweigh the risks."

Firewalls are one of the most effective security measures to ensure authorisation of anyone trying to access a system. These devices, which have been compared to home alarm systems, typically combine hardware and software and sit between the internal network and the internet. Access may also be authorised by packet filtering, which blocks packets that don't meet the security policy guidelines. A new alternative to the traditional firewall is SOCKS 5.0. SOCKS is a network protocol that can be set up on a server to watch and restrict traffic with other servers. This approach works at the session level to authenticate the network user, control access to the network, and encrypt messages. A SOCKS frequently asked questions page is available at www.socks.nec.com/socksfaq.html.

Cryptography can be used to ensure integrity as well as authentication.

Encryption is an important form of cryptography that uses mathematical formulas, or a key, to convert messages into alphanumeric code. A recipient who has a copy of this private key can decipher the code. Encryption is a relatively safe way to transmit data, but the sender and receiver have to keep the key confidential. This problem has been relieved somewhat through a two-key system using public and private keys. In the widely used RSA system, a readily available public key is used to encrypt the information. Once encrypted, the information can be deciphered only by someone who has a matching private key. The strong encryption of longer keys is so resistant to attack that the government has classified this kind of coding as munitions and, until recently, banned its export outside the country.

Confidentiality controls are similar to integrity controls. Encryption, for example, is used for confidentiality as well as integrity. Private intranets are used to protect confidential information, but these networks are often open to security problems as well. Many of these intranets have a link to the internet or a wide area network (WAN), and these links open the internal networks to hackers and other potential threats.

Companies tend to overlook accountability controls. Audit mechanisms, logs, and policies are three examples of important measures that should be undertaken to ensure accountability. Audit mechanisms could include records of access to the internet, or logs, which also could let management view records of both internal and external use of the system. Logs can be an essential part of the audit trail as can a real-time monitoring system.

But the most overlooked accountability mechanism is the development of a set of guidelines for management and employees to follow. Guidelines for both privacy and security issues will emphasise the importance of security. The policy should state when security measures are appropriate and when they aren't. Management has to accept the new security policies because securing the information of a business is a distributed process, and everyone in the company must accept and face the challenge.

"A company that's using the internet for business must remember that no one connected to the Internet is 100 per cent secure. For this reason, management must view its computer system as it would any other company asset. It must be protected."

INTERNET SECURITY RESOURCES

The sixth annual Information Security Survey is available from Ernst & Young LLP at www.ey.com/security. Go to the eRisk Solutions section of the Library page.

For a solid, basic text on the risks, technologies, and strategies, the O'Reilly book *Web Security & Commerce* by Simson Garfinkel and Gene Spafford offers a complete overview (almost 500 pages) in a very readable form. www.oreilly.com

NetworkWorldFusion offers two security-related newsletters : *Security Alert*, a weekly digest of key security bulletins, and *Network World on Security*, a twice-weekly series of tips and news on securing your network. www.nwfusion.com/security

SecurityPortal offers a widely distributed e-newsletter and website with thousands of pages of security information. www.securityportal.com

InfoWar posts numerous articles each day on topics such as privacy, computer viruses, and espionage. www.infowar.com

The Computer Security Resource Centre (csrc.ncsl.nist.gov) has information about security issues for government agencies, companies, and individual users.

The Computer Security Institute (www.gocsi.com) is an organisation that provides education to information and network security professionals.

Availability controls ensure that the system is up and running and available to all authorised users. Developing a contingency plan will help ensure timely recovery in the case of a security attack. A proactive approach is the best way to avoid these threats, but a contingency plan is wise because even the most secure systems have break-ins.

Security measures are expensive to implement. There are hardware and software costs as well as personnel costs. A good network security system requires a highly trained IS staff to administer it. These IS personnel are responsible for security as well as the contingency plan for the company. From its security investment, the company will gain a competitive advantage and decrease its losses — in data, network downtime, and productivity and customers — if the contingency plan ever needs to be implemented. By minimising these losses, the company minimises financial losses as well.

There's Always More to Know

A company that's using the internet for business must remember that no one connected to the Internet is 100 per cent secure. For this reason, management must view its computer system as it would any other company asset. It must be protected.

Although Internet security is currently a problem, it isn't a problem that's best solved by avoiding e-commerce. There are a number of security measures available. The real decisions involve how much and what kind of security your company needs. With appropriate caution, your company should be able to successfully use the internet to its fullest potential and financial professionals should make sure they're involved in the process because their use of the internet will add to the bottom-line. AN

Note : Brian L. McGuire, CMA, CPA, Ph.D., is an assistant professor in the Department of Accounting and Business Law at the University of Southern Indiana, US. Brian specialises in the area of accounting information systems, and he can be reached at bmcguire@usi.edu.

Sherry N. Roser, CPA, is the accounting manager of Roundy's, Inc., Southern Division. She can be reached at nroser@roundys.com.

Let's Surf

When one mentions the word "Corporate Governance", many issues come to mind; viz.; the corporate governance framework (see January 2001 issue on the Securities Commission website), the Hampel Committee, Cadbury Report etc. "Corporate governance is fast becoming one of the key business issues of our times … this journal is splendidly timely and crucially important … it will open up the whole topic for informed debate". *Charles Handy*

Our local sites do provide the essential answers to investors on compliance and the need to implement good governance and structural reforms. However, for those yearning to go a little further, international websites on the world wide web will do the trick. Let us trace the sites available.

www.corpgov.net

This site avails surfers information on corporate matters and dwells on the importance of good governance in the boardroom. Despite a good reference on fiduciary duties and having pages on education and forum, it appears to lack the more up to date information as most of the pages appear to be relevant as at year 2000. However, the link to corporate monitoring that feature articles on Auditor Independence is certainly worth a read.

www.oecd.org/daf/governance/principles.htm

This is certainly one of the writer's favourites. The Organisation for Economic Co-operation and Development contains various links on governance. It also traces the historical significance and the rationale for good financial disclosure practices. Most importantly, it focuses on policies relating to the development and efficient functioning of the corporate sector. It hosts a wide array of papers on insolvency laws and reforms in various regions. A worthwhile URL to place as a bookmark which will provide the necessary tools for professionals and researchers alike.

www.ecgn.ulb.ac.be/ecgn

Visually the site "Non-Profit Network for European and Comparative Corporate Governance Issues" is rather plain. But the lack of graphics and images should not prevent one from accessing the site. It does place a large collection of full text corporate governance codes, principles of corporate governance and corporate governance reforms. Although some of the articles may not be so recent, nevertheless they do provide the basic background information on corporate governance. One of the many attractive features is the various papers on governance based on studies conducted in Australia, Brussels, Canada, the Commonwealth, etc.

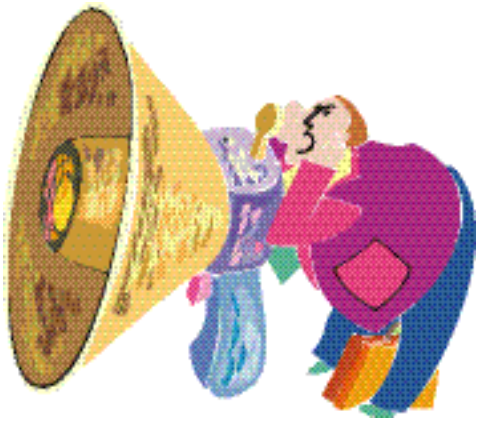
www.icgn.org

The "International Corporate Governance Network (ICGN)" started in the mid-80s. Its website is interestingly similar to the earlier ones and one may find the same papers available in other sites as well. One would say that corporate governance comprises of universal principles to be adopted by all. However, the website's resource links, though not many, are rather useful to equip the not-too-informed on this matter to start clicking away.

www.thecorporatelibrary.com

This site is known as the "Corporate Library". It hosts multifarious information useful for accountants. To enable one to receive periodical updates on the web, a subscribers' column has been made available. Some of the more interesting topics are "CEOs and their fat pay checks" and "The Patterson Report on the Link Between Corporate Governance & Performance". It also provides a myriad of useful links on accounting and financial matters and up-to-date information on the surveys being carried out and what the findings are. The catch is, in order to obtain the published reports, one needs to subscribe and pay for their services. However, if you are really interested in research papers *per se* go to http://papers.ssrn.com/ for more useful free download of research papers in PDF format. You will have to release your e-mail addresses to enable the papers to be sent to you via e-mail.

Are You a Good Communicator?



When it comes to interpersonal skills in the office and at home, are you an effective communicator — or very much not? Answer these questions to find out.

1 A computer technician at work has made a serious error. How do you handle the situation?
a. fire them — in no uncertain terms.
b. discuss the situation, how the error came about, and how such mistakes can be prevented in the future.
c. apologise for having to bring the subject up.

2 You have a great idea. How do you present it to your boss?
a. with a carefully thought-out presentation, including slides and graphics if necessary, and hand-out sheets.
b. with a quick explanation, then you rush out of the office to implement it.
c. over coffee.

3 One of your colleagues has a problem with punctuality, and it means that you have extra pressure when they are late. What are you more likely to do?
a. ignore it — it's for the boss to sort out.
b. carefully explain to them that the situation is affecting you, and could they please be more punctual?
c. have a row.

4 You are determined that certain things in the office must change — for example, better toilet facilities and a decent kitchen. Do you :
a. get the rest of the staff on your side, then ask politely but firmly for what you all want.
b. propose that everybody go on strike until your demands are met.
c. write a note to your boss and give up if they don't respond.

5 When you are confused about an issue in the office, do you :
a. pretend you understand.
b. ask for clearer explanations and examples.
c. refuse to proceed until the mess is cleared up.

6 You have reached home after a busy day. Your partner is home before you — but dinner is not ready. Do you :
a. rant and rave about whose responsibility it is to cook.
b. ask them if they are exhausted too, and how about a takeaway?
c. quietly get on with cooking dinner.

7 Your 12-year-old daughter wants to spend the night at a friend's house — but you think the friend is a bit wild and you're not sure. Do you :
a. ask her to have the friend over to your house instead.
b. refuse to let her go.
c. give in and let her go with barely a murmur.

8 Your older child has just passed his/her driving test and wants to drive to a holiday destination — 400 miles away. What do you do?
a. explain that you simply couldn't bear the worry, and offer to pay the train fare.
b. agree to let them go and spend a week of misery at home waiting to hear bad news.
c. take the car keys away.

9 Your next door neighbour has complained that your hedge is too high — it's cutting out his/her light. How do you handle the situation?
a. tell them you'll see them in court first.
b. agree to trim down your hedge so that you meet halfway.
c. meekly cut off half your hedge.

10 Your partner writes off the new car by driving it into a flood. Do you :
a. sympathise and focus on the insurance.
b. feel angry but unable to express it.
c. have a huge shouting match. AN

NOW CALCULATE YOUR SCORE

1.	a. 0	b. 10	c. 5
2.	a. 10	b. 0	c. 5
3.	a. 5	b. 10	c. 0
4.	a. 10	b. 0	c. 5
5.	a. 5	b. 10	c. 0
6.	a. 0	b. 10	c. 5
7.	a. 10	b. 0	c. 5
8.	a. 10	b. 5	c. 0
9.	a. 0	b. 10	c. 5
10.	a. 10	b. 5	c. 0

70-100 : You are an excellent negotiator, with good interpersonal skills. Your ability to communicate calmly and effectively makes you a real asset in the office, and — usually — a pleasure in the home. Your partner might get a bit irritated by your relentless calm though, so try not to be patronising.

40-65 : You have poor communication skills. Whatever you feel, however angry or anxious or puzzled you may be, you cannot find a way of expressing yourself. You have to try and organise your thoughts and priorities. State your case firmly, in writing where possible - even within the family. Make sure that you are telling the truth about your feelings, and insist that others listen.

0-35 : You are also a poor communicator, but not because you can't express yourself. On the contrary, you express yourself only too well. You have a low temper threshold and fly off the handle very easily. You tend to bulldoze through other people's thoughts and feelings without any attempt to understand or sympathise. Back to the drawing board with you. Remember — listening is half the battle.

Stress is inevitable in our work. It can be a source of energy, keeping you on your toes and urging you to strive for better performance. Then again, when too much stress piles up, it may have a serious impact on your health. So how do you know if your work stress is giving you health problems or greater work performance?

Recognise Work Stress

By Pharmvision Ventures

One easy way is to take a look at yourself in the morning. Are you eager to go to work? Do you find your work challenging yet satisfying because you are making progress daily and you feel a sense of accomplishment? If you feel that way, you're doing fine and seem to be managing stress well. However if you experience loss of confidence at work, lower productivity level, difficulty focusing, and tendency to make poor decisions, you could be experiencing work stress.

Work stress also shows in different ways. For instance, changes in eating habits, sleeping patterns or social lifestyle. Watch out for these symptoms and signals, which your body tells when you are having stress.

Physical

Headaches, grinding teeth, tight and dry throat, clenched jaws, chest pain, shortness of breath, pounding heart, high blood pressure, muscle aches, indigestion, constipation or diarrhoea, increased perspiration, fatigue, insomnia, frequent illness.

Psychological

Anxiety, irritability, sadness, defensiveness, anger, hypersensitivity, apathy, depression, slowed thinking or racing thoughts, feelings of helplessness, hopelessness, worthlessness, lack of direction or insecurity, pessimistic, aggressive, bored.

Behavioural

Overeating or loss of appetite, impatience, quickness to argue, procrastination, increased smoking, increased use of alcohol or drugs, withdrawal or isolation from others, neglect of responsibility, poor job performance, poor personal hygiene, change in religious practices, change in close family relationships.

Your body will learn to adapt to mental stress just as it learns to adapt to any changes that come its way. The adaptation syndrome from your body comes in three stages, depending on how stressful you are and how you cope with it.

- **Alarm stage**
  The body prepares to fight.
  Heart problems or ulcers correspond and hormones (cortisol, norepinephrine and epinephrine) cause various changes in the body.
- **Resistance stage** *The body adapts.*
  Physiological problems will slowly reduce or even be restored to the original state.
- **Exhaustion stage**
  The body wears itself out.
  Symptoms from stage one reappear, immune system weakens, diseases and or even death will eventually follow.

There are studies done by Dr. Eco de Geus of Vrije University of Amsterdam, on two aspects of work stress :

- Imbalance between the amount of effort put into the job and the amount of reward received.
- Over-commitment to the job and the inability to 'let go'.

The studies show that the second group — over-commitment to the job — had a disorder in the body's clot-dissolving system, leading to a build up of fatty deposits in arteries that eventually lead to heart disease, compared to the 'imbalance' work group. It is because over-commitment resembles the behaviour style that will precede the state of vital exhaustion.

Therefore, it is important to recognise these signs of work stress and learn to manage it from affecting your health. AN

Note : The above article appeared in http://www.msn.com.my/family_health_02.asp

The Case for the Company man DISLOYALTY?

By Daniel Inversin

I was taking a coffee break with several management employees with whom I had been working with that morning. The cafeteria was crowded, noisy, friendly.

At a nearby table, I noticed — sitting alone — the young executive assistant who had first arranged my appointments for me. He had been pleasant and cooperative, and I asked my hosts — who were enthusiastically engaged in poking fun at company policy and high brass — why they didn't ask the other man to join us.

"Nothing doing", said one of my companions. "He's a Company Man — doesn't approve of criticising the boss. He just doesn't fit in. So we let him go his way and we go ours."

In the language of American clichés, Company Man has joined words like Propaganda, Creeping Socialism, Subsidised Athletes and dozens of others, which imply something reprehensible and contemptible. It's hightime that businessmen stuck out their chins and put in a word for the Company Man — a word potent enough to convey to employees at every level that for their own self-interest they should become Company Men, too.

In my work I call on dozens of businessmen — mostly in top management echelons. I've become steadily and increasingly appalled at the depth and magnitude of the disloyalty many of them feel towards their company. It's become almost routine operating procedure for them to dispose of our business as quickly as possible, so they can take advantage of a new ear to listen to the stupidities of their top executives.

These men are effectively biting the hand that is feeding them. It's one thing to work earnestly *within* the company to better company policies and operations in an orderly and constructive manner. This is progress, and business must progress or lose ground to its competitors. But it's quite another thing to strike blindly and bitterly outside the company at an employer because he doesn't happen to agree with you right down the line. This is destructive, and it's destroying the very thing that the employee is seeking to build up : his own livelihood.

Don't underestimate the effect of destructive criticism outside the office. It can be a potent force. For example, a friend of mine feels that his ideas haven't been given proper consideration in his company. For several years, he has delighted people at social gatherings with hilariously funny — but bitingly critical stories about going-ons at the office. A number of his listeners have been business people who either deal with his company or with other people who do. This hasn't been lost on them. The stories have been repeated and they have hurt. And the strangest thing of all is that they have hurt the man who told them — right in the pocketbook.

> "What is a Company Man? .... an employee who is unswervingly loyal and puts the interests of the company before his own self-interest."

What is a Company Man? Even the people who are most contemptuous of the term, when pressed, will define a Company Man as an employee who is unswervingly loyal and puts the interests of the company before his own self-interest. Somehow this has become synonymous with toadying to the boss and displaying a lack of courage.

It just isn't so. Some of the most fanatically loyal Company Men I've known have had no reluctance about disputing — within the company and to the proper officials — what they considered to be poor decisions, often at the risk of their own necks.

Perhaps the trend to company disloyalty is an outgrowth of the 'gripes' with which millions of servicemen came out of several wars. But griping in the Armed Forces

never got in the way of loyalty. Even though the men didn't like military life, they fought steadfastly and well.

In private life, the griping has gotten out of hand. In far too many instances it is crossing the fine line into the unhappy shadows of rank disloyalty. And this isn't doing anyone any good. To put it on a very practical basis, anything that hurts the company will, in turn, hurt business, profits and finally the growth potential and the salaries of individual employees.

No progressive company asks an employee to submerge his individuality. Aggressive, able workers will not always see eye-to-eye on company problems, and this is good and desirable. In thrashing them out *constructively*, the company progresses. On the other side of the coin, here are some considerations a company can, in all good conscience, ask of its employees :

1. Don't knock the product or service which feeds your family. Try consistently to better it. Don't just wear it down to satisfy a personal grudge. That hurts the company and it hurts you.
2. Don't ridicule your business organisation or your associates at social gatherings or to outsiders. Sometimes you are talking — directly or indirectly — with people who can exercise a tremendous influence over the growth and prosperity of your company.
3. Don't spend company time in fruitless, interminable and destructive backbiting sessions.
4. Don't use on-the-job time for outside projects, especially on the self-righteous grounds that your efforts aren't being appreciated.

This isn't to say that top management is omniscient and invariably right. Of course it isn't, and you have every right to differ with company brass whenever and wherever your own enlightened thinking directs — *as long as you keep it within the company and your purpose is constructive and not destructive*. But the company can and should demand one irrevocable pledge from you : loyalty.

As long as you accept pay from a company you owe it complete loyalty. Disloyalty is dishonesty — both to the man who pays the salary and the man who accepts it. If you don't feel the company has earned your loyalty you should get out.

I know a man who did that last year at the age of 63. He was an official of the company and he forfeited a pension, a bonus, and considerable other financial rewards. But he differed violently with the company on a matter of principle and could no longer give them his loyalty. So he quit. He found another job quickly and is right now one of the happiest guys I've ever seen.

Not enough men are quitting their jobs these days. That's one of the basic facts underlying the spread of company disloyalty. Men who should move on for their own good and the good of the company simply aren't doing it — and their dissatisfaction grows and festers.

The growing concern over security has become so paramount that it is apparently keeping men in jobs where they will never become a Company Man. These men are trading an uneasy security for an unhappy present. It's a poor bargain for everyone concerned.

The dissatisfied or chronically unhappy employee always has one life-saving recourse open to him : he can quit a troublesome job and look for something else more suitable. And that's what he should do when the instant bitterness or resentment toward his company becomes more important to him than doing his job.

If he finds himself consistently dissatisfied, he'd better look inside his own mental make-up for the trouble. Because the sooner he becomes a Company Man exercising his own individuality, talents and ability with sincerity and loyalty on behalf of the business which provides him his livelihood — the sooner will he profit, both financially and in terms of happiness and satisfaction. AN

STRESS : Six Steps to Let Go of It

By Dr. Jackie Schwartz

The most content people are those who have a fair degree of control in their lives. They are people who, even if they are working at some humdrum job, have managed to create an arena in which they feel that they exercise their uniqueness with some degree of control. They don't feel they are just 'rubberstamping'. That's a critical issue. The people with the highest incidence of stress related diseases are those who sit at computer terminals all day long. Take a look at a person who works for an insurance company and simply inputs statistical information all day. Their stress is worse than that of top-management people. Computer operators complain of neck pain, back pain, eye problems and other ailments. However, if a journalist is using a computer terminal for the same number of hours, but he or she inputs self expression in his or her work, and has a fair amount to say in terms of the stories written or the hours selected, that person does not experience the stress related symptoms. It's a wonderful telling contrast of how important it is to have a degree of control in your life.

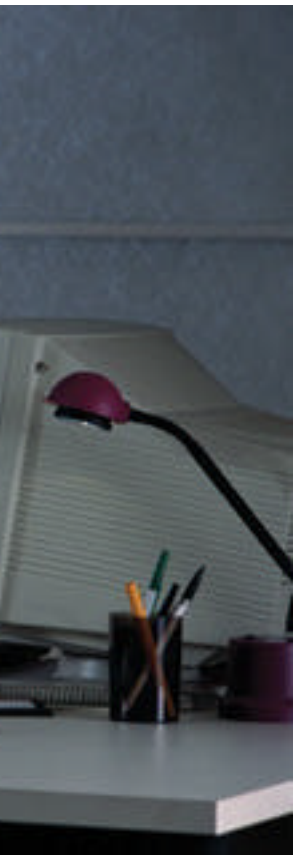
The highest suicide rate, worldwide, occurs in December. The reality is it's the time of greatest depression. At that time and in January, people suffering from stress, have a physiological let-down as a result of having mustered through the several preceding weeks of sustained tension. Because, what happens due to all the partying from New Year's and holiday festivities (or the lack of) which is worldwide, is that people are made more aware of their social connectiveness. And they usually will feel that they are measuring themselves against some idealised norm, asking themselves, "How come I'm not part of a loving, extended family that enjoys getting together at this time of the year, when everyone is bountiful and joyous and happy to be together?" People often think they are the only ones who are experiencing that kind of reaction or isolation, measuring themselves against the media portrayal of the loving, happy, family.

The Japanese people have their own stressors from high-density population and lack of privacy, endemic to their lifestyle. Their reactions to these conditions are similar to those stresses arising from cold climate people who are together more frequently.

In climates where it is too dark and cold after 5pm in the afternoon for children to go out and play, stresses at home begin to arise. Therefore, there is an increase in child abuse at that time. The more inclement the weather and the more present the family is as a unit, where the family is coerced, as it were, into being together, the greater the stress. There is more child abuse in places like Alaska, Canada and on the East Coast, rather than the West Coast of the US.

Housewives have some of the most underrated sources of stress and stress-symptoms compared to many other groups because they are under represented. In their situation, there is no 'report card'; nobody tells them at the end of the day, "Gee, you did a good job." There is no bonus at Christmas. There is no one to tell them to take the afternoon off. The work is constant and, generally, unstimulating. Often it could be done by someone with fewer capabilities than the person doing it. The isolation of being at home with young children, I con-

sider a major stressor, due to lack of stimulation and peer contact. I think it is really crucial for women to recognise, "I really need to do this for myself." They should take an aerobics class or get on a regular schedule and listen to music for 15 minutes every few days, or take a hot bath once a week. Do something they know is uniquely theirs. This will certainly reduce the stress levels that build. And, it doesn't have to cost money. I urge people who feel they give, give, give, to do something for themselves.



Another type of person who faces a great deal of stress is the Type A personality. He or she is highly competitive, usually in a big hurry to get things done and is in constant struggle against time, events and other people. As a result, he or she is finishing other people's sentences, always feeling there isn't enough time.

Here are six steps to letting go of stress and gaining control of your life :

1. **Increase Awareness** : Become aware of when you are experiencing stress overload. How do you personally feel it in your body? Then become aware of the things you should personally do about it in the course of the day. I'm not talking about a five-year-plan, but start tomorrow. What can you do?

2. **Nutrition** : You have a great deal of control in this area. It often begins with being able to shape your mouth into forming that wonderful word, "no."

3. **Exercise** : This is probably the most life-enhancing activity that most of us do not regularly engage in.

4. **Communication** : It is this area that is most often neglected. When you think about stress, people think about diet, nutrition, and exercise, but they don't think about communication, and as a therapist and as a management consultant, I'm keenly aware of how people can be self-sabotaging in terms of their poor communication pattern.

5. **Relaxation** : Taking time to break sustained tension is really crucial. It can be as simple as taking a stretch break. Or it can mean getting away for a long weekend. It also can mean doing something where you are totally absorbed in a new activity that can give your right brain a chance to get its juices going.

6. **Lifestyle Management** : This is the nuts and bolts that brings it all together. Invariably, whenever you speak to someone about doing anything to make his or her life better, he (she) says, "Yes, but I don't have enough time …"

a. So, organising time is the first factor in lifestyle management.

b. Having supportive friends and family is extremely important. Studies show that people who have these, live healthier and happier lives than any other group.

c. Contact with nature is another factor. Take the time to go for a walk around the building, even if it is only a parking lot. You can still see the sky and the birds, as opposed to just walking down the hall to the lunchroom. This is an act to remind yourself that, indeed, you are a living, breathing animal.

As for the future, I think that stress is going to increase. With the threat of nuclear war being what it is, and it certainly is on everybody's mind, this is a real concern to world culture. Is a Third World power going to get hold of somebody with a happy 'trigger finger'? Having to live with ambiguity is something that characterises the kind of stresses that we, you and I, are now experiencing. Our great grandparents and their parents were not exposed to this. It is estimated that we are subjected to more than 100 times the amount of stress in comparison to people from past generations.

In the 18th and 19th Centuries, life was much simpler. People slept beneath homemade quilts, awakening at the first sounds of morning, rising with dawn. They dressed simply in preparation for their day's work, in clothes made from natural homespun fibres … certainly, life was far from perfect then, but there were fewer sources of stress, and people were better equipped to handle the stress that is a part of every person's life. And this is why, today, we need an integrated approach to managing our stress. AN

STRESS RELIEVERS

Rediscovering Chiang Mai

By Anis Ramli

If one were to visit Bangkok, more often than not Chiang Mai would inevitably slip itself into the itinerary. But with so many tourists hoarding the area, unearthing Chiang Mai's unique hospitality can be a daunting experience. If you're willing to give up the bucolic temples and the bustling bazaars, you'll find that Chiang Mai is just a treasure trove waiting to be discovered.

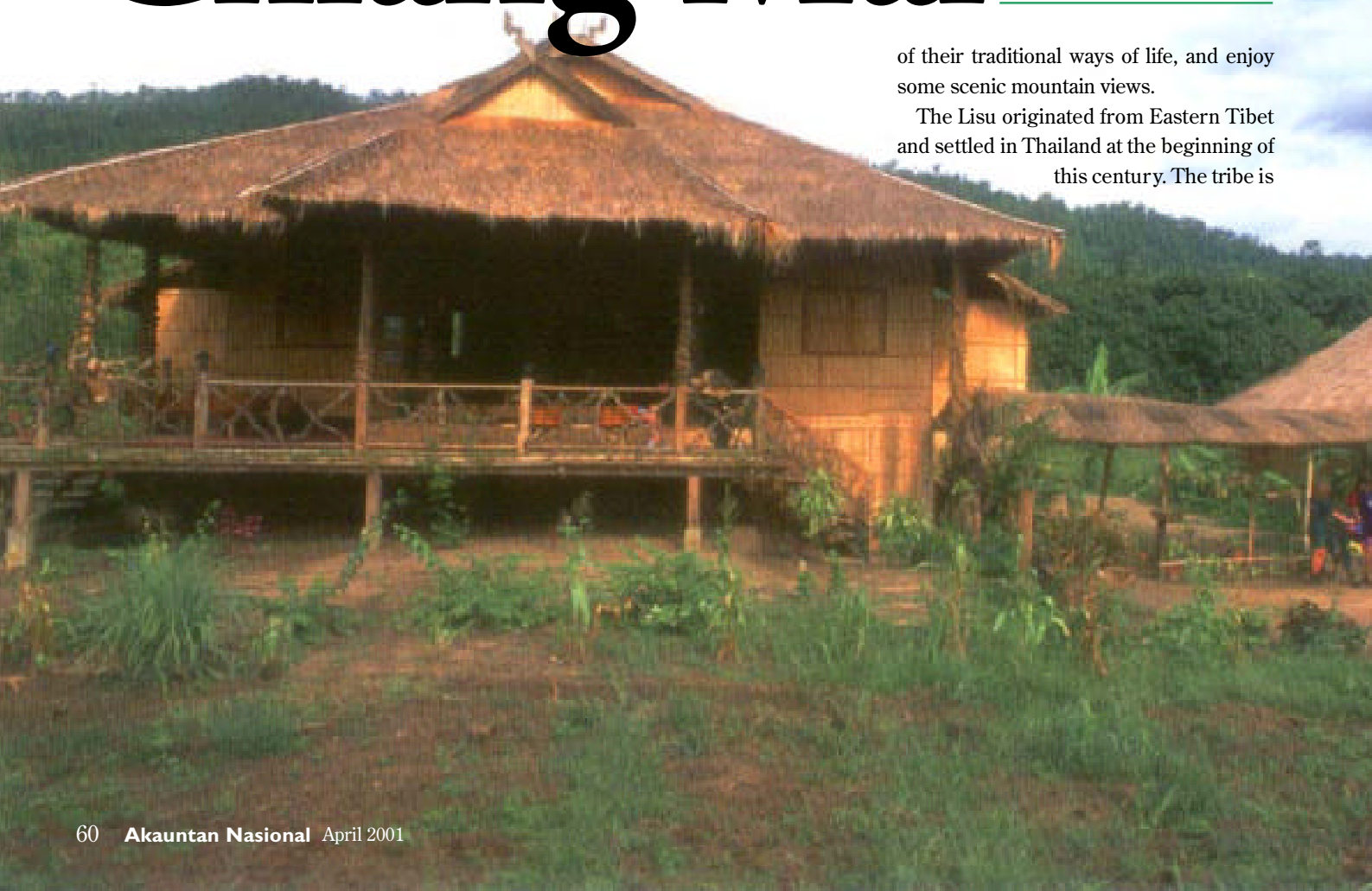
Lisu Lodge

A lot of people come to Chiang Mai hoping to catch a glimpse of some of its hill tribe people, also known as the mountain people, and because the tour organisers know this, there are tons of them offering you packages ranging from a day's trip to a three days' and two nights' (3D/2N) trip to trek to these tribal villages. So much so that these organised tours have become somewhat of a tourist trap, often giving tourists superficial encounters with the mountain people.

Of course one of the best ways to see the tribal villagers would be to hire a local guide and go on a private trek. While this will set you back at least US$100 a day, it will definitely provide you with an experience you'll never forget.

For those on a budget but who would still like to experience hill tribe hospitality, the Lisu Lodge is a better alternative. The lodge was set-up by a local tour operator, *East West Siam*, as part of a project to preserve and cultivate the mountain people's natural heritage. It is also aimed at providing a more sensitive approach to both eco-tourism as well as hill tribe tourism. The lodge is situated just one hour north of Chiang Mai and provides the perfect base for tourists to explore the diverse culture of Chiang Mai's hill tribes. Here you will experience the warm hospitality of the Lisu, catch a glimpse of their traditional ways of life, and enjoy some scenic mountain views.

The Lisu originated from Eastern Tibet and settled in Thailand at the beginning of this century. The tribe is



"… outside Chiang Mai is the San Kamphaeng Hot Springs, a luscious retreat amid a beautiful landscaped garden … the area has been developed to include chalets, private mineral baths as well as a swimming pool."

concentrated mainly in the northwest of Thailand, between Chiang Mai and Mae Hong Son, but can also be found in western Chiang Rai, Chiang Mai and Phayao provinces. The Lisu Lodge offers a rustic retreat in the wilderness, a three or five-day itinerary often combines some great outdoor adventure. This usually includes a one-hour elephant ride through beautiful mountains, jungle trekking to neighbouring hill tribe villages and rafting along the scenic Mae Tang river.

The lodge itself is a traditional hill tribe dwelling with a thatched roof, bamboo walls and floor mats. It has six double-bed rooms equipped with fans and mosquito nets, private bathrooms, hot water and yes, even electricity. The lodge employs villagers from the Lisu and Akha community to run the lodge, which in turn helps to foster better communication between hosts and guests, and provides greater long-term economic and social benefits for the village.

Most of the hill tribe villagers you meet have probably had some contact with tourists at one time or another. But it's also important that you observe certain rules when visiting them. For instance, if you want to take photos, it's best you ask your local guide for permission, or hand-gesture your intentions to the villagers. Once you have their permission, take a quick polite snapshot and thank them quickly. It's also advisable you learn as much as possible about the area and the people you're about to meet to understand their customs and mores. A good trekking company will be able to help you with these issues. For information on Lisu Lodge, contact East West Siam Ltd., tel : 53-281 789, e-mail : ewscnx@chmai.loxinfo.co.th

San Kamphaeng Hot Springs

Just 30 minutes outside Chiang Mai is the San Kamphaeng Hot Springs, a luscious retreat amid a beautiful landscaped garden. Since the Tourism Authority of Thailand and the district authorities took over its management, the area has been developed to include chalets, private mineral baths as well as a swimming pool.

The waters of the hot spring come from deep within the earth and are rich in sulphur as well as other substances. A mineral water bath has been known to have many benefits, particularly in treating minor skin ailments, arthritis, relieving rheumatic conditions, digestive problems and many other ailments.

One of the best things about the hot springs park is that it provides individual chalets for a private soaking. They range from a simple shower room to a sunken bathtub, built separately for men and women, as well as family units. A large swimming pool filled with running mineral water is also available for folks to swim en masse. Counters are available for you to rent towels, slippers and buy soaps. Even if you prefer to skip the soak, you can still visit many of its mineral pools around the garden. Some pools are allocated especially for boiling eggs (it takes about seven minutes for a hard-boiled egg), a favourite activity among day-trippers. Eggs are sold

by the basket for about 10 Thai baht each at the entrance.

For a more luxurious retreat, book yourself into the Roong Aroon Hot Spings Resort around the corner. The area offers first class bungalow accommodation, with each unit having its own supply of hot mineral spring water for guests to enjoy in the comfort of their homes. The resort is spread across 40 acres of rock garden with two restaurants offering Thai, Chinese and Western cuisine.

Lampang Young Elephant Training Centre

Never miss the opportunity to see the elephants when you're in Chiang Mai. While there are a number of elephant camps and centres around the province, this one — a two hour drive out of the city — is by far the best and least touristy.

The training centre is actually an elephant school that runs from June to February each year. Besides training elephants for timberwork in the jungle, the place is also a centre for elephant conservation and studies, and even has its own elephant clinic!

Baby elephants as young as four or five years old are brought here and spend the next four years learning how to move teak logs around the forests. Each has its own mahout, an elephant trainer, who will stay with the elephant throughout the training. The bond between mahout and elephant is so strong that at the end of the training, the elephant will get so accustomed to its mahout's voice, odour and pressure techniques that it will refuse a command coming from a stranger.

Once the elephants graduate from the training centre, they will be sent to work in various parts of Thailand. Visitors can watch the elephants training as lessons run weekdays at 9.30am and 11.30am, with a weekend show at 1.30pm. Other attractions include elephant rides and sometimes, a visit to the clinic if a patient's in the house. For information, call 054-229 042.

Off the Beaten Track

If you're looking for activities that don't require much travelling or effort, then consider taking some of these fun classes in Chiang Mai

Thai cooking

There are many schools offering a one-day Thai cooking course in the city. While Thai cooking may not be new to most Malaysians, it is still worth taking a peek into some of Asia's most influential dishes, especially when it is prepared by a local chef. Courses can begin from as little as 800 Thai baht for a two-session cooking course that includes an appetiser, main meal and desert. At Sompet Thai Cookery School, not only will you get to don the ubiquitous white hat, but you'll also get to tour the chef's herb gardens, master the art of fruit carving and bring home a recipe book on the day's dishes. Sompet is located on the ground floor at Chiang Inn Plaza on Chang Klan Road, tel. : 053/281-354, e-mail : sompet67@hotmail.com).

Thai crafts

Learn cotton weaving, basketry or wood carving from the experts. A Thai/Western couple runs *The Trekking Collective* offering various craft courses for tourists with assistance from interpreters. While you can pick up a craft within three days, a week's attendance is strongly recommended to complete a course. Call ahead to find out if any classes are running as the activities happen only during the non-peak farming season, tel. : 053-419 079; e-mail : trek-collective@cm.ksc.co.th

Thai Traditional Massage

Don't miss the chance to have those muscles flexed and stretched when you're here. There are many good massage places to choose from, with prices being pretty much standard (300 Thai baht an hour). You don't have to worry about any hanky-panky going on as long as you're in a reputable area. Or ask your hotel to recommend a good one for you. Some places, such as the International Training Massage (ITM) runs a 5-day course in Thai massage for 1,500 Thai baht, tel. : 053-218 632. AN

… continued from *Institute's View*

involved in the auditing of the State's accounts at that time."

The comment made by Mohd Ali raises concern on the accountability of accountants and auditors. The accounting profession operates in an environment of social and economic dynamism. The forces of change have imposed new demands and responsibilities on the profession at such a rate that new challenges have to be constantly addressed.

"Despite these challenges, the integrity of the profession must be beyond reproach", said Abdul Samad.

On MIA's role in providing guidance and assistance to local institutions of higher learning, Samad said the Institute is working closely with these institutions as their graduates constitute the bulk of accountants employed in the public sector. "We have to ensure these students will be able to meet present demands in the workplace."

On the whole, MIA is pleased with the outcome of the visit to the Chief Minister's office. Both sides now have a better understanding and appreciation of each other and it is hoped that this visit is the beginning of a new chapter of co-operation between MIA and the Melaka State Government. AN

Melaka Chief Minister, YAB Datuk Wira Mohd Ali Rustam (5th from left) pictured with the President of MIA, Abdul Samad Haji Alias; The Vice President of MIA, Yue Sau Him; MIA Chairman, Melaka Branch, Lee Hin Kan; MIA Vice-Chairman, Melaka Branch, Abdul Halim Husin and Committee Members of the MIA Melaka Branch

The meeting between Mohd Ali and Abdul Samad has widened avenues for the Institute and the Melaka State Government to establish stronger working relationships

Universiti Putra Sports Day 2001

The Universiti Putra Sports Club (UPAC) recently hosted an inter-varsity sports day that drew participation from the Multimedia University, Universiti Malaya, Universiti Kebangsaan Malaysia and Kolej Tunku Abdul Rahman. The Malaysian Institute of Accountants (MIA) was the main sponsor for the event. Sporting events at the UPAC Sports Day 2001 included soccer, badminton, basketball and tug-of-war. Thanks to the dedication of the UPAC Sports Day 2001 working committee, the events went on without a hitch.

Among the dignitaries present that day included Professor Madya Dr. Haji Idris bin Abdol, UPM's Vice-Chancellor for Student Affairs; Dr. Abu Hassan bin Md Isa, Deputy Dean for the Faculty of Economics and Management; Associate Professor Dr. Mohamad Ali Abdul Hamid, who represented the Dean of the Accounting Faculty and MIA Council Member Albert Wong who was invited to give the closing address.

In his address, Albert Wong lauded UPM's efforts to foster closer ties with students from other universities. He said such sporting activities provided the opportunity for students to exert their competitive spirit. In complimenting the organising committee for a job well-done, he said, "By organising activities like this, you can hone your organisational skills, which will be useful, when you join the workforce."

He gave the assurance that MIA will continue to work alongside the universities in ensuring that Institutions of Higher Learning (IHL) provide degree level education that is reflective of the knowledge and skills required of accountants in the new business world.

"The demands of a fast changing global scenario requires that accounting education be continuously upgraded. The advancement in Information and Computer Technology (ICT), in particular, has had a tremendous impact on the traditional functions of accountants. Proactive steps need to be taken in order to prepare the graduates to function effectively in this environment. As such, MIA recognises the need to provide continuous support and be involved in the qualitative aspects of the Universities' accounting education."

UPM tug-of-war team … in high spirits before the start of the competition

UPAC President, Grace Ngan, and UPAC Sports Day 2001 Project Director, Lim Choon Guan, enthused the hope that the sports day will be a yearly event. Judging from the strong participation and support shown by the universities, MIA is confident that this hope will become a reality. AN

Workshop with MIA President

MIA President, Abdul Samad Alias, recently officiated and conducted a Practical Workshop for Accounting Undergraduates at the Universiti Utara Malaysia (UUM) campus in Sintok, Kedah. Called, *Bengkel Praktikum 2001*, the workshop, which constituted 20 per cent of the final examinations, was attended by over 600 final year accounting students.

Earlier, Samad had a breakfast meeting with UUM Vice Chancellor (VC), Dato' Professor Ir Dr. Mohammad Noor Haji Salleh, who was accompanied by the Dean of the School of Accounting, Associate Professor Dr. Mahamad Tayib and the Deputy Dean for Development, Associate Professor Dr. Shamsul Nahar Abdullah. Also present at the meeting was MIA Chairman for the Kedah Centre, Baqir Hussain Hatim Ali. Among the items discussed was MIA's recognition of UUM's proposed IT related accounting degree. The university currently runs the MIA approved Bachelor of Accounting (Honours) and is seeking recognition for an additional degree. Todate, MIA has received numerous requests for recognition of basic accounting and variations of accounting degrees from several institutions of higher learning. Recognising the importance and urgency of the matter, the Institute has upgraded the Institute's Education Department with the appointment of a manager to oversee the accreditation process and has set up a permanent Accreditation Task Force to expedite this process.

UUM, which has a student population of 16,000, was set up in 1984 in Jitra, Kedah. The Accounting School, which was initially part of the Management School, was established as a separate school when the campus relocated to Sintok in 1990. Todate, the Accounting School has produced 4,157 graduates.

At the workshop, Samad spoke about the developments at MIA following the Accountants (Amendment) Act, 2000. He advised the students to take up professional accountancy courses in order to be better prepared for challenges at the workplace. He said individuals who possess a basic accounting degree coupled with professional accountancy qualifications would excel in the profession and become marketable internationally.

Fostering a closer relationship ... MIA President, Abdul Samad Alias, receiving a momento from UUM Vice Chancellor, Dato' Professor Ir Dr. Mohammad Noor

Undivided attention from the students

Later, during the question and answer session, Samad was impressed by the range of questions posed by the students. The questions included queries on employers' expectations of fresh graduates and the apparent changing function of the Institute. On the former, the students expressed their concern over the perceived lack of employment opportunities for local accounting graduates at large accounting firms. To this, Samad said this perception was incorrect. Having been attached to a large accounting firm himself, he said the only criterion that he looked at when employing personnel was capability. This includes technical competence, interpersonal skills, ability to be a team player and competence in English. As such he urged the students to continue upgrading themselves in these areas in order to be competitive.

It was also apparent that the students were well informed about the developments at MIA, in particular, areas pertaining to the renewed direction of the Institute towards regulatory functions. The students asked about the rational for the setting up of the Malaysian Accounting Standards Board (MASB) and MIA's role in the Qualifying Examinations. In response, Samad said the impending liberalisation of the services sector demands that MIA focuses its attention towards preparing accountants to compete in the global arena. Among others, MIA is working towards creating awareness of challenges in the accounting profession and is in the process of uniting the different players who make up the professionals. This in itself will take up considerable technical and manpower resources at the Institute. Therefore, it is appropriate that MASB has undertaken the function of standards-setting while MIA will supervise the conduct of the QE, which falls under the purview of selected institutions of higher learning.

In urging students to consider taking up professional accountancy courses upon completing their degree level studies, he said the addition of these courses would enhance their competitive advantage. "Your ultimate goal should be to become business advisors, not just accountants", said Samad, adding that a perceptive and innovative individual will be able to withstand competition and be marketable anywhere. AN

Happenings at the Penang Branch

The Penang Branch Chairman, Steven Teh, recently led his committee comprising Hon. Secretary, Andy Chew and committee members, Dr. Hasnah and Ng Swee Weng to pay a courtesy call on the Inland Revenue Board, Penang. They were received by IRB's State Director, YM Tengku Kamarulzaman and senior officials namely Mohd. Nor Lamsah, Ahmad Dzulkifii, Norliah Allapitchey and Jamilah. Among matters discussed were the annual dialogue, self-assessment systems and field audits. Steven also expressed the interest of the Institute to work with the IRB in jointly organising a seminar on tax audits or any topic which would be mutually beneficial. AN

IRB Director YM Tengku Kamarulzaman (5th left) and Steven Teh (6th left) flanked by their respective team members

A lunch meeting was held with 46 practising members at the City Bayview Hotel, Penang on 21 February 2001. The Branch's Public Practice and Tax Practice Sub-Committee Chairman, Fan Kah Seong briefed members on the issues arising from the self assessment regime. Branch Chairman, Steven Teh, covered the next agenda on problems encountered in the process of complying with MASB standards. AN

Practising members at the lunch meeting

The Branch's Toastmasters Club held a Table Topic Contest and an International Speech Contest recently at the branch office. Nine accountants withstood an aftershock of two minutes on the topic, "Do you believe that an element of LUCK plays a role in a person's life?". CTM Lee Min On emerged the champion speaker with his articulate response. The International Speech Challenge Trophy sponsored by Council Member, Neoh Chin Wah was won by Ng Swee Weng. His speech on 'What's A True Beauty" was substantive and enjoyable, drawing laughter from the audience. Swee Weng said, "Looks are all exterior and extolled the inner beauty of virtues like sincerity, tolerance, humility and kindness as true beauty in making the world a better place." AN

Table Topic Contestants — from left : Tan Pheik See, Samantha Lo, Fan Kah Seong, Raymond Chong (2nd runner up), Lee Min On (champion), Chan Choung Yau (1st runner up) and Albert Yeoh

Disciplinary Case

The Institute has taken the following disciplinary action against a member for 'unprofessional conduct' and breaching the Institute's By-Laws on Professional Conduct and Ethics.

CASE

A member, Chong Kwong Chin *(Mem No. 1089)*, was disciplined for breaching By-Law 4-4 of the Institute's By-Laws *(On Professional Conduct and Ethics)* pertaining to *"Competence and Due Care"* and By-Law 18-1 pertaining to *"Acts Discreditable to the Profession"* by failing to comply with certain provisions and requirements of approved accounting standards in the audit of the financial statements for the year ended 31 December 1997.

The Disciplinary Committee ordered that he be reprimanded in writing under the hand of the Chairman of the Disciplinary Committee; and that he also pays to the Institute a penalty of Ringgit Malaysia Five Hundred (RM500).

REVIVING THE MAAA EXAMINATION

MALAYSIAN ASSOCIATION OF ACCOUNTING ADMINISTRATORS

Incorporation and Aim

The Malaysian Association of Accounting Administrators (MAAA) was incorporated in 1990 with limited liability under Section 16(4) of the Companies Act, 1965 in recognition of the two-tiered nature of the accountancy profession. MAAA (previously known as Malaysian Association of Accounting Technicians) is a company sponsored by the Malaysian Institute of Accountants (MIA).

Main Objectives

- To provide a qualification to be known as Accounting Technicians/Administrators for persons employed on duties customarily undertaken by assistants to accountants registered with the MIA.
- To provide an organisation and membership for such persons who are desirous of acquiring such qualification and persons who are granted such qualification.
- To promote in the public interest the technical competence of such persons engaged in positions and performing the functions of accounting technicians/administrators.

Council Members (2000/2001 Term)

Elected Members

Izhar Abd Kahar *(President)*
Koo Yew Fook, Allan *(Vice President)*
Chin Wah Yin
Hanapi Rasol
Kasim Darus
Lim Ah Leck
Low Han Men, Aric
Mahadevan s/o Gengadaram
Mok Kam Seng
Panneer Selvam
YM Raja Noorhana bt Raja Harun
Yong Yoon Kee

Co-opted Member

Wong Chee Kheong

MIA Nominated Members

YB Dato' Lee Hwa Beng
Assoc. Prof Dr. S. Susela Devi

Secretariat Office

Malaysian Association of Accounting Administrators
Dewan Akauntan, 2 Jalan Tun Sambanthan 3,
Brickfields, 50470 Kuala Lumpur.
Tel : 03-2274 5055 or Fax : 03-2274 1783
e-mail : maaa@mia.org.my

Editor for MAAA News : Low Han Men, Aric

Over the past few years, the Association has been exploring various means of establishing a premier pre-professional accounting examination to provide and enhance the technical support needed by the growing accounting professionals in the country.

The best option open to the Association, then, was to collaborate with the University of Malaya (UM) through its Centre for Continuing Education (PPBUM), to jointly develop the curriculum for a Diploma in Accounting Administration (DIAA) examination. A framework for the examination was completed and ready for launching. Unfortunately, the collaborative arrangement was called off at the last minute. The reasons and circumstances for aborting the arrangement were beyond the control of the MAAA Council. Subsequently, PPBUM proceeded on its own to launch the said DIAA examination in January 1999.

In mid 2000, the MAAA Council obtained the necessary approval to revive the abandoned collaborative DIAA examination with PPBUM. During the closing months of 2000, the MAAA Education & Training Committee, headed by the Association's Vice-President, Allan Khoo, held several meetings with PPBUM. MAAA is very appreciative of the keenness shown by Professor Leonard Yong, the Director of PPBUM, towards the possible revival of the said collaboration.

However, in the early part of 2001, the MAAA Council became aware of the possibility of collaborating directly with UM through its Faculty of Business and Accountancy (FBA) instead. The Association through its MIA Nominated Council Member, Associate Professor Dr. Susela Devi, was given the mandate to contact UM's FBA for further discussion on this.

From left to right : Loh, Professor Leonard Yong, Allan Khoo and Aric Low at PPBUM

A joint working group, comprising members of the MAAA Education and Training Committee and representatives of UM's Faculty of Business & Accountancy (FBA), is currently being formed to look into the development of the examination. A lot of hard work is anticipated in the months ahead. It is hoped that the examination can be launched in 2002.

As part of the Association's efforts to promote its examination and activities to the northern states, a career talk on the topic, *"Accounting Administrator as a Career and the Role of MAAA in the Accounting Profession"*, was held in Ipoh, Perak, on 31 March 2001. Wong Chee Kheong, the MAAA Council Member based in Ipoh, invited Accounting students and MAAA Members in Ipoh to the event. In attendance were other MAAA Council Members led by its President, Izhar Abd Kahar. AN

At the dialogue session with PPBUM on 20 November 2000.

PROFESSIONAL EXAMINATIONS

of the Malaysian Institute of Taxation

One of the main objectives of the Malaysian Institute of Taxation (MIT) is to train and build up a pool of qualified tax personnel as well as foster and maintain the highest standard of professional ethics and competency among its members.

One avenue of producing qualified tax personnel is through professional examinations. As such, MIT conducted its first professional examination in December 1995. Todate, MIT has successfully conducted five examinations. The professional examinations also seek to overcome the present shortage of qualified tax practitioners in the country.

Examination Structure

The professional examination is currently held annually and is comprised of three levels.

Foundation Level

- Taxation I
- Economics & Business Statistics
- Financial Accounting I

Intermediate Level

- Taxation II
- Taxation III
- Company & Business Law

Final Level

- Taxation IV
- Taxation V
- Business & Financial Management
- Financial Accounting II

How to Register

You can contact the Institute's Secretariat for a copy of the Students' Guide. The Guide contains general information on the examinations and a set of registration forms, which must be submitted with the necessary documents to the Secretariat.

Entrance Requirements

(a) Minimum Entry Requirements :

- At least 17 years old.
- At least two principal level passes in the HSC/STPM examination (excluding *Kertas Am/Pengajian Am*) or equivalent.
- Credits in English Language and Mathematics and an ordinary pass in Bahasa Malaysia at MCE/SPM level.

(b) Degrees, diplomas and professional qualifications (local/overseas) recognised by MIT to supersede minimum requirements in (a).

(c) Full Members of local and overseas accounting bodies.

Exemption

Exemption from specific papers in the professional examinations is available, and the extent of exemption granted will depend on qualifications attained and course contents as determined by the MIT Council.

Exemption Fees

Foundation	RM50.00	per subject
Intermediate	RM60.00	per subject
Final	RM70.00	per subject

Examination Fees

Foundation	RM50.00	per subject
Intermediate	RM60.00	per subject
Final	RM70.00	per subject

DATES TO REMEMBER FOR 2001 EXAMINATION

1 September

Closing date for registration as a student to sit for the examination of that year.

15 October

Closing date for submission of examination entry for the examination of that year.

December

Examination.

For further enquiries, please contact the Secretariat at Dewan Akauntan, 2 Jalan Tun Sambanthan 3, Brickfields, 50470 Kuala Lumpur. (Tel : 03-2274 5055; Fax : 03-2274 1783)

MIA INVITES COMMENTS ON THE FOLLOWING EXPOSURE DRAFTS

ISA 260 — "Communication of Audit Matters with Those Charged with Governance"

Summary

The standard on *Communication of Audit Matters with Those Charged with Governance* is developed by the IAPC to establish standards and provide guidance on communication on audit matters arising from the audit of financial statements between auditor and those charged with governance of an entity.

The standard establishes basic principles and essential procedures intended to enhance the performance of an audit. It emphasises on the auditor's responsibility to consider and communicate audit matters of governance interest that arise from the audit of the financial statements.

The standard, however, does not cover the requirements of national professional accountancy bodies, legislation or regulation that may impose obligations on the auditor to make communications on governance related matters.

IAPS 1010 — "The Consideration of Environmental Matters in the Audit of Financial Statements"

Summary

Environmental matters are becoming significant to an increasing number of entities and may, in certain circumstances, have a material impact on their financial statements. These issues are of growing interest to the users of the financial statements.

The Statement is developed by the IAPC to assist auditors, by providing guidance on the application of the ISAs in cases where environmental matters are significant to the financial statements of the entity.

Environmental matters can be complex and may therefore require additional considerations by auditors. This Statement provides practical assistance to auditors by describing :

- The auditor's main consideration in an audit of financial statements with respect to environmental matters;
- Examples of possible impact of environmental matters on financial statements; and
- Guidance that the auditor may consider when exercising professional judgment with respect to ISA 310 — "Knowledge of the Business", ISA 400 — "Risk Assessments and Internal Control", ISA 250 — "Consideration of Laws and Regulations in an Audit of Financial Statements" and ISA 620 — "Using the Work of an Expert".

The Statement, however, emphasises on the recognition, measurement and disclosure of these matters which is the responsibility of the management.

ISA 505 — "External Confirmations"

Summary

The International Standard on Auditing (ISA) on *"External Confirmations"* developed by the IAPC, provides guidance on the auditor's use of external confirmations as a means of obtaining audit evidence.

- The focus of this standard is on using external confirmation to support certain financial assertions. The use of external confirmation is part of the substantive procedures that can be carried out to obtain sufficient appropriate audit evidence.
- As the reliability of audit evidence is influenced by its source and nature, external confirmations as audit evidence from external sources is believed to be more reliable than audit evidence generated internally. This standard will assist the auditor in obtaining audit evidence through direct communication with a third party.
- Particularly, the standard addresses the following areas :
  - Relationship of external confirmation procedures with the assessment of audit risk.
  - Consideration of management requests.
  - Characteristics of respondents.
  - The external confirmation process.
  - Evaluating the results of the confirmation process.

Revised ISA 570 — "Going Concern"

Summary

The revised standard on Going Concern is developed by the IAPC to establish standards and provide guidance on the auditor's responsibility in the audit of financial statements with respect of the going concern assumption used in the preparation of the financial statements, including management's assessment of the entity's ability to continue as a going concern.

The standard establishes new basic principles and essential procedures intended to enhance the performance of an audit. It also includes additional guidance when management's assessment involves making a judgement about the future outcome of the events or condition which are inherently uncertain. Specifically the standard :

- Describes the responsibility of the management.
- Emphasises the responsibility of the auditor.
- Emphasises the importance of considering the existence of material uncertainty of events or conditions at planning stage.
- Emphasises the importance of evaluating management assessment.
- Describes additional audit procedures.
- Emphasises the potential impact on the audit conclusions and reporting.

This standard supersedes the existing International Standards on Auditing on "Going Concern". AN

Glossary of Terms

The IAPC has revised the 'Glossary of Terms' as at July 2000.

Comments

MIA looks forward to receiving comments on these Exposure Drafts from members and other interested parties. Specific comment is sought on issues that may arise in the application of these standards in practice.

The drafts may be collected from the Institute by informing us two days in advance.

Comments should be submitted in writing and received by 1 August 2001. Unless respondents request confidentiality, their comments are a matter of public record.

All comments are to be directed to :

The Chairman
Accounting and Auditing Committee
Dewan Akauntan
2 Jalan Tun Sambanthan 3
Brickfields, 50470 Kuala Lumpur
Tel : 03-2274 5055 Fax : 03-2273 1016
e-mail : technical@mia.org.my
website : http://www.mia.org.my

List of New Books and Seminar Papers Available in the MIA Resource Centre

NEW BOOKS

Capital Market Masterplan Malaysia, Kuala Lumpur : Securities Commission, 2001.
Call No. : 332.63209595 MAL

Financial Market Masterplan, Kuala Lumpur : Bank Negara Malaysia, 2001.
Call No. : 332.1109595 MAL

The Convergence Handbook, by David Cairns and Christopher Nobes, London : ICAEW, 2000.
Call No. : 657.0218 CAI

Shari'a Standards 1421H — 2000, Bahrain : AAOIFI, 2000.
Call No. : 657.0218 ACC

Shari'a Rules for Investment and Financing Instruments 1421H — 2000, Bahrain : AAOIFI, 2000.
Call No. : 657.0218 ACC

World Economic Outlook : Supporting Studies, Washington : IMF, 2000.
Call No. : 338.544309048 WOR

International Accounting Standards 41 : Agriculture, London, International Accounting Standards Committee, 2001.
Call No. : 657.0218 INT

Malaysian Securities Law and Practice, Singapore : CCH Asia Ltd., 2001.
Call No. : 346.0922 MAL

Pocket Internet, by Sean Geer, London : Profile Books Ltd., 2000.
Call No. : 004.678 GEE

Report on Quality Control in the Profession of Statutory Auditor 1999/2000, Paris : CNCC, 2000.
Call No. : 657.45 REP

Malaysia's Economic Recovery : Policy Reforms for Economic Sustainability, by Ramon V. Navaratnam, Subang Jaya : Pelanduk, 2001.
Call No. : 338.9595 NAV

Diplomatic and Consular List, Kuala Lumpur : Ministry of Foreign Affairs, June 2000.
Call No. : 337.2025595 MAL

International Accounting Standards Overview and Application : IAS 39 : Financial Statements : Recognition and Measurements, by Robert T. Tully and Ian Charles, Teddington : ATC, 2001.
Call No. : 657.0218 TUL

MASB Standard 22 : Segment Reporting, Kuala Lumpur : Malaysian Accounting Standards Board, 2001.
Call No. : MASB 22/2001

MASB Standard 23 : Impairment of Assets, Kuala Lumpur : Malaysian Accounting Standards Board, 2001.
Call No. : MASB 23/2001

MASB Standard 24 : Financial Instruments : Disclosure and Presentation, Kuala Lumpur : Malaysian Accounting Standards Board, 2001.
Call No. : MASB 24/2001

MASB Exposure Draft 30 : Interim Financial Reporting, Kuala Lumpur : Malaysian Accounting Standards Board, 2001.
Call No. : MASB ED 30/2001

SEMINAR PAPERS

International Conference on Globalisation, jointly organised by Ministry of Finance and ISIS, Kuala Lumpur : MOF, 2001.
Call No. : MOF-ISIS 1/ 2001

IOICU-IOSCO Asia-Pacific Regional Committee Conference, Kuala Lumpur : Securities Commission, 2001.
Call No. : IOSCO 1/ 2001