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# ACCOUNTING CENTRE RESEARCH SERIES

## (Volume 3, 2021)


EDITORS

Jainurin Justine
Sharifah Milda Amirul
Andy Lee Chen Hiung
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# Auditors are Watchdogs and Not Bloodhounds – Duty of Auditors to Whistleblow Revisited

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## Abstract

Auditors like to say their role is that of a watchdog (who barks when they see something suspicious) rather than a bloodhound (who searches for something suspicious). Here, the guiding principles of the corporate law for auditors are responsibility and accountability when examining companies' accounts and submitting the auditors' reports. There are many incidents where auditors fail to whistleblow the fraud and become part of the companies' wrongful activities, which gravely affect the interests of the shareholders and stakeholders, especially and the public, generally. Such failure to whistleblow may be due to fear for the auditor's life or simply because the auditor is not under the impression that the duty is not mandatory. Hence, this paper aims to scrutinise the auditors' duty to whistleblow and determine whether the auditors are effective watchdogs. Employing doctrinal legal research, this paper thoroughly analysed the extent of the auditor's duty to whistleblow any wrongful activities by examining the relevant legal provisions under the Companies Act 2016, the Capital Markets & Services Act 2007, and the Whistleblower Protection Act 2010, as well as relevant case laws. The paper concludes that although the applicable legal framework has been put in place to empower the auditors to perform their whistleblowing duty, there is still room for improvement in the legal framework so as to allow the auditors to play their role as a watchdog effectively and that the interests of the shareholders and stakeholders are considered and protected.

**Keywords**: Auditors, Whistleblowing, Disclosure, Accountability, Wrongful Activities

## Introduction

Initially, an auditor's job entails reviewing a company's financial statements and submitting an audit report. In preparing the auditors' report on the firm's account, auditors rely on information provided by the companies. The accuracy and correctness of the information obtained determine the accuracy and correctness of the auditor's report. Nonetheless, due to rapid evolution in the business environment, the functions of auditors have grown over time where auditors are required to validate the company's accounts. Auditors are also expected to use their professional judgement and skill to provide critical advisory and investigative services. Auditors are expected to whistleblow, i.e., to bring to the attention of the shareholders as well as the authorities for any wrongful activities or omissions by the companies.

A very good example can be found in the *Enron* saga. Due to the cosy relationship between the company's management and the auditors, the auditors' independence has been jeopardised, resulting in compromised auditing standards. Had the auditors played their roles effectively, they would have reported Enron's irregularities. Hence, the auditors are sometimes referred to as "watchdogs" in the financial and corporate sectors. Nonetheless, Malaysia is not spared from

incidences and financial scandals involving auditors who neglected to report fraudulent acts by corporations, or in other words, to whistleblow, such as the incidences involving *Perwaja Steel, Technology Resources Industries Bhd, Ocean Capital Bhd,* to name a few. In the instance of *Ocean Capital Bhd* and *Megan Media Holding Bhd*, it was argued that the auditors failed to bring the losses to the attention of the shareholders until it was too late. This demonstrates that, although being obligated by law to do so, the auditors failed to do so. They have the knowledge and ability to determine whether losses have occurred, but they have failed to do so. This sparked various questions, including whether the auditors performed their duties efficiently and whether they failed to raise red flags (ineffective watchdogs) (Krishnan, 2011, p.150; Rachagan and Kuppusamy, 2013, p.375)

In a study by Pricewaterhouse Cooper, fraud detected through tip-offs and whistleblowing hotlines fell significantly from 42% in 2018 to 14% in 2020 (see Figure 1 below). This is worrying as from previous studies, one of the most efficient detection tools for combating fraud and corruption is whistleblowing (PricewaterhouseCoopers (PWC), 2020, p.5).

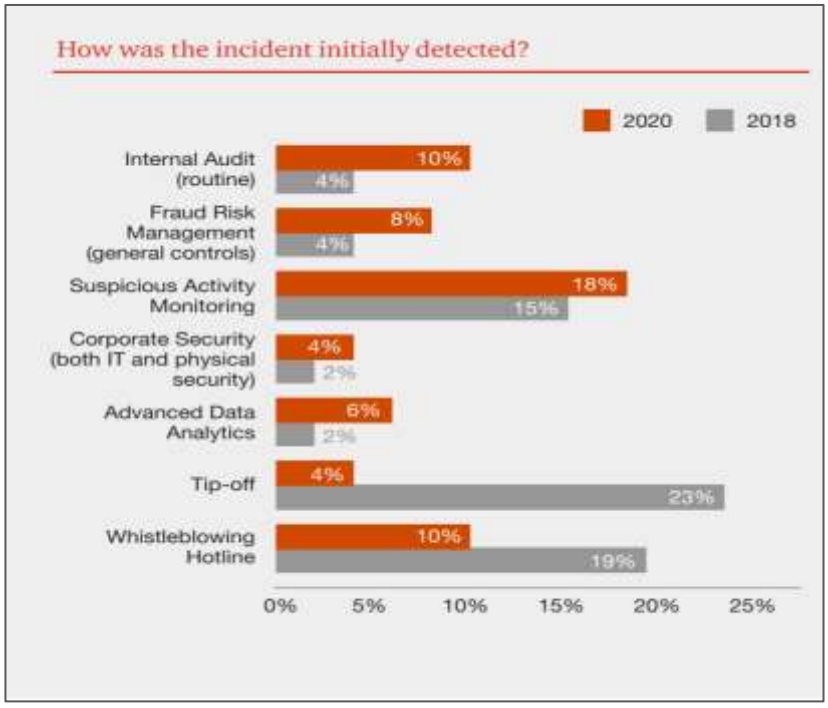


**Figure 1: PWC's Global Economic Crime and Fraud Survey – Malaysia Report (2020)**

## Objectives of the Paper

Upon this background, the objectives of this paper are three. The first objective is to provide some background and context on the current framework on the auditors' legal duty to whistleblow and determine whether the auditors are effective watchdogs. The second objective is to provide a comprehensive analysis of the whistleblowing duty of an auditor as outlined by the relevant statutes such as the Companies Act 2016 (CA 2016), and the Capital Market Services Act 2007 (CMSA), the Financial Services Act 2013, and the Whistleblower Protection Act 2010 (WPA) and related case laws. The third objective is to provide recommendations to strengthen an auditor's whistleblower duty as well as recommendations on the way forward.

Although the discussion on the auditor's legal duty to whistleblow is not new, this paper aims to revisit the auditor's legal duty to whistleblow by examining the relevant statutes mentioned

above, but also to determine whether the so-called protection for whistleblowers afforded to the auditors in the said statutes may have any impact on the auditor's duty to whistleblow.

## Methodology

The methodology adopted by this paper was a doctrinal legal methodology. The primary goal of doctrinal research is to find, explain, evaluate, analyse, and present facts, principles, provisions, concepts, theories, or the operation of specific laws or legal institutions in a methodical manner (Yaqin, 2007, p.10). Doctrinal research is the process of identifying, analysing and synthesising the content of the law. It critically evaluates major components of the legislation and case law while summarising the pertinent elements in order to produce an arguably correct and thorough explanation of the law on the subject. (Watkins & Burton, 2018, p.13). The doctrinal research, which is often described colloquially as 'black-letter law' (McConville & Wing, 2012, p.1), has been defined as "the known and accepted principles of law set down and established, either in legislation or case law and ascertainable from printed sources…" (Mann, 2018). The doctrinal methodology, which is evaluative and critical, is capable of achieving the objectives of this paper as it involves an analysis of legal materials and facilitates the investigation of the auditor's duty, in particular to whistleblow any fraudulent transactions discovered during the course of auditor's work as set out by the relevant primary sources such as the Companies Act 2016, the Capital Markets & Services Act 2007, the Whistleblower Protection Act 2010. References are made to secondary sources such as relevant case laws, textbooks, academic journals, law reports, and newspaper reports. As of date, there is no case reported in the CLJlaw that exactly relates to the rights and duties auditors per se in said statutes. Thus, the writers refer to reported cases that have similarities to the issues of whistleblowing.

## Findings and Discussion

### *The Role of an Auditor - A Watchdog or a Bloodhound?*

The phrase 'auditor is a watchdog, but not a bloodhound' was first discussed in the landmark case of ***Re Kingston Cotton Mill Co*** (No 2) [1896] by Lopes LJ:

> "*It is the duty of an auditor to bring to bear on the work he has to perform that skill, care, and caution which a reasonably competent, careful, and cautious auditor would use… An auditor is not bound to be a detective or, as was said, to approach his work with suspicion or with a foregone conclusion that there is something wrong. He is a watchdog, but not a bloodhound…"*

Here, an auditor has been compared to a watchdog (who barks when they see something suspicious) rather than a bloodhound (who actually searches for something suspicious). After ***Re Kingston***, subsequent cases have demonstrated that the courts have moved away from the view that an auditor is only an alert but passive monitor. In ***Pacific Acceptance Corporation Ltd v Forsyth*** [1970], Moffit J stated that an auditor must consider the potential of error or fraud when planning and carrying out his task. As a result, auditors are expected to conduct investigations or report at the appropriate level, i.e., whistleblow.

### *Definition of Whistleblowing*

Although there is no universally accepted definition of "whistleblowing", according to a widely accepted definition, it refers to "the disclosure by members of an organisation of unlawful, unethical, or illegitimate actions under their employers' control to others who may be able to affect action" (Khan, 2009, p.12). Whistleblowing has been described as the disclosure of information by a person who has reasonable ground to believe that such information is evidence of a violation of any laws or an indication of mismanagement, corruption or abuse of power in his organisation (Pascoe and Rachagan, 2005, p.106).

The term 'whistleblower 'is explained in the Black's Law Dictionary to refer to an employee who reports his employer's wrongdoing to a governmental or law enforcement agency (Garner, 2019). The court, in ***Winters v Houston Chronicle Pub Co.*** (1990), explained that the term whistleblow means 'the police being the law enforcers, would blow the whistle to alert the public that there is a danger taking place'. An analogy has been made by Ahmad and Shariff (2009) between a whistleblower and a referee of a football match who blows the whistle upon detecting a foul play in the game, which highlights that whistleblowing is actually the act of disclosing or discovering a wrongful or illegal act.

The term 'whistleblower' has been defined in the **Whistleblower Protection Act 2010 (WPA)**, by virtue of **s. 2**, to mean 'any person who makes a disclosure of improper conduct to the enforcement agency'. The term 'improper conduct' is defined in the same section to include any conduct that, if proved, constitutes a disciplinary offence or a criminal offence.

From the above definition, it is clear that a whistleblower plays an important role in disclosing or highlighting illegal or wrongful activities committed in his or her organisation. Nevertheless, to do this effectively, the whistleblower must be given adequate protection.

### *Duty of Auditor to Whistleblow in Malaysia*

In certain circumstances, the auditor may be obligated to whistleblow, that is, to report any illegal or irregular acts or violations of company law while performing his duties as an auditor of a company, either to the Registrar or to the appropriate authorities. In fact, the auditor is under a legal obligation to whistleblow, and if he fails to do so, he may face criminal charges and be subjected to legal penalties. The auditor's legal duty to whistleblow is provided in several statutes, including the Companies Act 2016, the Capital Market Services Act 2007 and several other statutes that will be discussed below.

#### *1) Duty of Auditor to Whistleblow under the Companies Act 2016*

In Malaysia, the Companies Act 2016 provides a whistleblower provision that requires auditors to report violations of company law to the Registrar. Under **s. 263** of the **Companies Act 2016 (CA 2016)**, an auditor of a company must be a person who has been approved to act as auditor by the Minister of Finance if he is satisfied that the person is of good character and competent. To be an approved auditor under the CA 2016, the person must be registered with the Malaysian Institute of Accountants under the Accountants Act 1967 (**s. 263(7) CA 2016).**

Under **s. 266 CA 2016**, the duty of an auditor to report is generally provided (previously covered under s.374 of the repealed Companies Act 1965). Here, an auditor of a company is under a duty to report to the members on the financial statements and the company's accounting

and other records relating to those accounts, and if it is a holding company for which consolidated accounts are prepared shall also report to the members on the consolidated accounts, and the report, in case of a public company, laid before the company at its annual general meeting; and in case of a private company, laid before the company at a meeting of members (**s. 266(1) CA 2016**). In the report, the auditor is required to state whether the financial statements and, if the company is a holding company for which consolidated accounts are prepared, the consolidated financial statements, are in his opinion, *a true and fair view of the company's affairs* properly drawn up in accordance with the provisions of the Act so as to give, and in accordance with the applicable approved accounting standards (**s. 266(2) CA 2016**). In addition, it is provided that it is the duty of an auditor of a company to form an opinion as to whether he has obtained all the information and explanations that he required; whether proper accounting and other records have been kept by the company as required by the Act; whether the returns received from branch offices of the company are adequate; and whether the procedures and methods used by a holding company or a subsidiary in arriving at the amount taken into any consolidated accounts were appropriate (**s. 266(3) CA 2016**). Here, by virtue of subsections 2 and 3 of **s. 266**, the auditor is obliged to satisfy himself that the accounts or records are properly drawn and in accordance with the company law.

**S. 266(8) CA 2016** imposes a duty on an auditor to report to the Registrar if he finds out that there is a breach of provisions in the Act while performing his duties as auditor of a company, and he is of the view that his comment in the financial report or a report made to the Director will not receive adequate follow-up. However, there are two issues with regards to the duty under **s. 266(8)**, including the fact that violations of the law are difficult to detect, particularly in cases of fraud involving forgery, collusion, or management override of control systems.

**S. 266(9) CA 2016** also requires the auditor of a public company or a company controlled by a public company to report to the Registrar if he discovers fraudulent or dishonest activities are carried out against the company. As a result, an auditor of a public company, or a company controlled by a public company, is required by law to notify the Registrar if "he is of the opinion" that: (1) a serious offence is being or has been committed against the company; (2) the serious offence involves fraud or dishonesty; and (3) the serious offence is being or has been committed by the company's officers, including the directors. Auditors who fail to comply with the statutory duties laid down in subsections 8 and 9 of **s. 266**, commits an offence and, upon conviction, may be punished with imprisonment not exceeding 5 years or a fine not exceeding RM3 million or both (**s. 266(13)**). By virtue of **s. 266(10),** no duty to which the auditor of a company may be subjected to shall be regarded as having been contravened by reason of his reporting the matter referred to in ss (9) in good faith to the Registrar.

The phrase "a serious offence involving fraud or dishonesty" in subsection 9 to **s. 266** is defined under **s. 266(11) (b)** to mean 'an offence that is punishable by imprisonment for a term that is not less than 2 years, or where the value of the assets derived or likely to be derived or any loss suffered by the company, member or debenture holder from the commission of such an offence exceeds RM250,000 and includes offences under s. 591, s. 592, s. 593, s. 594 and s. 595 of the Act.' Here, such offence includes false and misleading statements (**s.5 91**), false reports (**s. 592**), false reports or statements to the Registrar (**s. 593**), fraudulently inducing persons to invest money (**s. 594**) and fraud by an officer (**s. 595**).

From the above discussion, the relevant whistleblowing provisions under **s. 266(8) & (9) CA** clearly provides the auditor with a *watchdog* function rather than a bloodhound as the provision requires the auditor once he is satisfied that there is a breach or non-observance of the

provisions in the Companies Act 2016, or that the circumstances have or will not be adequately dealt with by comment in his report or by bringing the matter to the directors. In addition, the phrases "*If an auditor…is satisfied*" in **s. 266(8)** and "*if he is of the opinion*" that serious offence involves fraud or dishonesty in **s. 266 (9)** have been criticised as they introduced a subjective element as to when the duty of the auditor to report arises. The said provisions merely state the auditor's duty to report. The said provisions do not mention that the auditor must detect any irregularities. It is proposed that the said provision should have read "... *where an auditor ... ought to have known that there has been a breach* ..." In that case, an objective standard is introduced. The standard will be based on what reasonable and competent auditors would have known in the given circumstances.

It has been argued that this duty to whistleblow to the Registrar does not arise if the auditors do not consider that there was any breach or non-observance of the Companies Act 2016. Here, the auditors' duty is simply to report fraud and not to detect fraud. In addition, it has been argued that the requirement that the auditors should whistleblow to the Registrar is unsatisfactory as the Registrar does not really represent the individual shareholders, Board of Directors, the stakeholders, or members of the public who may be affected where the auditors fail to whistleblow. Further, the Companies Act 2016 is also silent as to the Registrar's next course of action with regards to the auditors' report. Here, the Registrar is not required to make the report public in the interests of the shareholders and stakeholders. Hence, the auditors may not be taking the duty to whistleblow seriously ((Krishnan, 2011, p.154).

As a safeguard for the auditor who whistleblow, **s. 286(1)** and **(2) CA 2016** protects him from any liability to any action for defamation in respect of any statement (whether verbal or in writing) which he makes in the course of his duties as auditor, provided that there is no malice on his side. In addition, **s. 286(3)** states that an auditor cannot be sued or be subjected to criminal or disciplinary actions for any report lodged in good faith under **s. 266** and in the intended performance of any duty imposed on him by the Act. Further protection is afforded under **s.587 CA 2016,** for an auditor who is also an officer of the company for making disclosure of a breach or non-observance of the Act, from being removed, demoted, discriminated, employment interfered by the company. He will also not be liable to be sued in any court or be subject to any tribunal process, including disciplinary action due to the disclosure if he is acting in good faith and in the intended performance of his duties as an officer of the company. This provision provides additional protection for auditors who are also officers of the company who whistleblew on their companies.

### *2) Duty of Auditor to Whistleblow under the Capital Markets and Services Act 2007*

The whistleblower provisions are also provided in the **Capital Markets & Services Act 2007 (CMSA)**, particularly under **s. 128** on the general duties of auditors to disclose/whistleblow, and **s.320** on the duties of disclosing information to the relevant authorities by auditors and specific employees of a public-listed company.

**S. 128(1) CMSA** provides that where an auditor becomes aware that there is a breach of the Act or securities law, an irregularity that has material effects on the accounts, losses incurred by the relevant person which renders it to be unable to meet the minimum financial requirements, unable to confirm the claims of clients/creditors of the relevant person are covered by the assets of the relevant person; an offence in connection with the business of the relevant person has been committed, a contravention of the rules of the stock exchange,

derivates exchange, approve clearing house or central depository, he shall report immediately to the stock exchange (in case of a participating organisation) and Securities Commission (SC), or the derivatives exchange (in case of Capital Markets Services Licence (CMSL) dealing in derivatives) and SC, or in any other case, to the SC.

Here, the provision in **s. 128 CMSA** uses the general word "offence" as opposed to "fraud or dishonesty" in **s. 266(8)** and **(9) CA 2016.** This means that the duty of auditors to whistleblow is not only confined to fraud and dishonesty but to any offence. Hence, the duties of an auditor under the CMSA are wider. As a protection to the auditor, he will not be liable to be sued in any court in respect of the statement made in good faith in the discharge of his duties (**s. 128(2) CMSA**). Further protection is provided to the auditors under **s. 129(3) CMSA** from any proceedings in defamation in respect of any statement made in any such report of an auditor or in any such further report of a relevant authority if the defendant satisfies the court that the statement was made bona fi de and without malice.

Under **s. 320(1)**, the auditor, in relation to public-listed companies, is under a duty to disclose matters relating to breach or non-performance of the securities law to the Securities Commission; and those relating to breaches or non-performance of the rules of a stock exchange to the Securities Commission and the stock exchange. Here, the obligation to report by the auditor only arises when the auditor is of '*the professional opinion***'** that there has been a breach of the securities law or the rules of the stock exchange. Here, the inclusion of the requirement that the auditor must report where he is of 'the professional opinion' that there has been a breach of the law indicates that auditors should conduct their audits actively, rather than passively, by merely relying on the information supplied by others. **S. 320(2)** provides an auditor with statutory protection from any action in court where a report is made in good faith and in the intended performance of any duty imposed on the auditor under the said section.

Further protection is provided in **s. 321 CMS**A to a chief executive, internal auditor, company secretary or any officer who prepares or approves financial statements or information who makes a disclosure of information related to breach of securities law or rules of stock exchange to the Securities Commission or the stock exchange.

### *3) Duty of Auditor to Whistleblow under the Financial Services Act 2013*

The whistleblower provision is also provided under **s. 72** of the **Financial Services Act 2013 (FSA)** (similar provision is found under **s. 81** under the **Islamic Financial Services Act 2013 (IFSA)**). **S. 72 FSA** provides the duty to an auditor to report to the Bank Negara Malaysia immediately in writing if, in the course of carrying his duties as an auditor, he is satisfied that (a) there is a breach/ contravention of any provision of the Act/ non-compliance of any standards specified by the BNM, (b) an offence involving fraud/ dishonesty committed by the institution/ director/ officer, (c) any irregularity which has material effects on the financial position of the institution, (d) he is unable to confirm that claims of depositors, policy owners/ creditors are covered by the assets of the institution, (e) there is a weakness in the internal controls, or (f) financial position of the institution is likely to be materially affected. Here, under **s. 72 FSA**, the duty of the auditor to whistleblow is extended to reporting to Bank Negara Malaysia (BNM).

The provision of **s. 72(a)** and **(b) FSA** are similar to those under **s. 266(8)** and **(9) CA**. However, the application of **s. 72 FSA** is wider than **s. 266 CA** as the latter is confined to fraud and dishonesty in the context of the Companies Act 2016. Here, a concern arises as to whether

BNM represents the interests of the shareholders and stakeholders since auditors are required to report to BNM. Again, the provision is unclear as to what the next course of action will be on the part of BNM after receiving the report.

The protection afforded to the auditor is provided under **s.7 3(2)(a) FSA,** where the auditor shall not be liable for breach of duty of confidentiality between the auditor and the institution of any reporting made in good faith. In addition, the auditor shall not be liable to be sued for defamation in respect of any statement by the auditor without malice in the discharge of his duties under the Act (**s. 73(2)(b) FSA).**

***Protection for an Auditor who Whistleblow under the Whistleblower Protection Act 2010***

In 2010, the **Whistleblower Protection Act 2010 (WPA)** was introduced to protect the whistleblowers in the form of confidentiality of their information, immunity from civil and criminal action and protection from detrimental action being taken against them. The whistleblower protection law covers any member of the public and private sectors who discloses wrongdoings. As such, the protection of WPA may apply to auditors who whistleblow. However, WPA has been criticised as being flawed and that certain provisions in the Act do not provide adequate protection to whistleblowers and hinder the whistleblowers from coming forward to unveil improper or dishonest activities in their respective organisations.

To be eligible for the protection under **s. 7 WPA**, the disclosure must be made in 'good faith' and on 'honest and reasonable grounds at the material time' without necessitating hard evidence from the whistleblower. Having satisfied the requirement, **s.7** offers three types of protection towards a whistleblower, namely (a) protection of confidential information; (b) immunity from civil and criminal action, and (c) protection against detrimental action (extended to any person related/ associated with the whistleblower). **S.7 WPA** affords protection to whistleblowers generally where disclosure of improper conduct is made to any enforcement agency.

Disclosure of improper conduct or, in other words 'whistleblowing' is provided under **s. 6 WPA,** where a person makes a disclosure of such improper conduct to any enforcement agency based on his reasonable belief that any person is engaged/ engaging/ preparing to engage in improper conduct, provided such disclosure is not specifically prohibited by any written law. There are inconsistencies between **s.6 WPA** and **s. 203A** of the Penal Code (PC). **S. 6 WPA** affords protection to whistleblowers '*Provided that such disclosure is not specifically prohibited by any written law*', whereas **s. 203A PC** provides that disclosing any confidential information or materials gained while on duty is a criminal offence, clearly contradicting WPA.

**S.2 WPA** explains that the enforcement agency includes any ministry, department, agency or body set up by the Federal, state or local government conferred with the investigation and enforcement functions. Here, although **s.2** describes what constitutes an enforcement agent, it is silent as to which agencies are the relevant enforcement agencies (Chien, 2016, p.10). Hence, the whistleblowers may lose their right to protection under WPA if the disclosure is not made to parties who do not fall within the meaning of 'enforcement agency'. In ***Rokiah Mohd Noor v Minister of Domestic Trade and Consumer Affairs*** [2016] 8 CLJ 635, the appellants made disclosures to members of two enforcement agencies being the Companies Commission of Malaysia (CCM) and the Malaysian Anti-Corruption Commission (MACC) and to third parties who were not within the ambit of 'enforcement agency' as provided under **s. 2 WPA**. Thus,

the Court of Appeal held that the appellants did not qualify as a whistleblower under the WPA and cannot receive protection under **s. 10(1) WPA** (Chien, 2016, p.11). The court further stated that a whistleblower is forbidden from disclosing confidential information when an investigation is underway, and that if this prohibition is breached, the whistleblower shall be penalised as stated in **s. 8(4) WPA**.

In the case of ***Yushri Zainuddin v Silterra Malaysia Sdn. Bhd.*** [2017] 1 LNS 2187, the plaintiff expressed his concerns on the negative impact of the Chairman's improper conduct, inter alia, to members of the board, the company secretary and the principal investor of the company, Khazanah Nasional Berhad. The plaintiff also lodged a police report and lodged a report with MACC seeking protection under WPA 2010. The plaintiff was later dismissed by the defendant. The plaintiff claimed that his dismissal is a detrimental action taken in retaliation for his action in whistleblowing the defendant Chairman's improper conduct. The plaintiff then filed a claim of general and special damages against the defendant. The High Court held that the plaintiff's main cause of action was based upon the protection and remedies under the WPA 2010. The plaintiff is allowed to seek remedies under the WPA 2010 in his personal capacity without going through the relevant enforcement agency.

In the case of ***Syed Omar Syed Agil v Institut Professional Baitulmal Sdn. Bhd.*** [2018] 6 CLJ 397, the plaintiff reported to MACC and Polis Diraja Malaysia ('PDRM') regarding improper conduct of certain parties in the Institut Professional Baitulmal. The defendant took disciplinary measures detrimental to and against the plaintiff, the Chief Executive Officer. An issue arose whether the plaintiff was qualified as a whistleblower and entitled to the protection of WPA 2010. The High Court agreed that the detriment action had been taken against the plaintiff of his whistleblowing reports to PDRM and MACC. Hence, the plaintiff was qualified as a whistleblower and entitled to the protection of WPA 2010.

Improper conduct covered by the said section is defined in **s.2 WPA** to mean any conduct which, if proved, constitutes a disciplinary offence or a criminal offence. 'Disciplinary offence' is defined in the same **s.2** to include any action or omission which constitutes a breach of discipline in a public or private body as provided by law or in a code of conduct, code of ethics or circulars or a contract of employment, as the case may be. These include abuse of authority, violation of laws and ethical standards, danger to public health or safety, gross waste, illegality and mismanagement.

Another point to note is that the whistleblowers may not be entitled to protection under WPA if the information disclosed is obtained through the course of their work (**s.8 WPA**). Hence, **s.8 WPA** provides that it is an offence to reveal the identity of the whistleblower, which upon conviction, be liable to a fine not exceeding RM50 thousand or to imprisonment for a term not exceeding 10 years or to both. Whilst **s.203A** of the **Penal Code (PC)** provides that anyone who discloses information obtained "in the performance of his duties" or "in the exercise of his functions under any written law" can be fined a maximum of RM1 million or maximum 1-year imprisonment or both. However, the current practice in making a police report, the whistleblower must furnish his details to the police. By revealing his identity, the anonymity of the whistleblower is futile. Thus, the issue is whether a person who discloses information obtained in the performance of his duties can be punished under **s. 203A PC** despite being a whistleblower under WPA.

**S.9 WPA** also offers protection to whistleblower where a whistleblower will not be subjected to any civil or criminal liability, and no administrative process can be taken against him for

disclosing improper conduct. **S.10 WPA** promises protection where no person shall take any detrimental action against the whistleblower or person related to or associated with the whistleblower in reprisal for a disclosure of improper conduct. Here, 'detrimental action' is defined in **s.2** to include an action causing injury, loss or damage; an intimidation or harassment; an interference with the lawful employment or livelihood (including discrimination, discharge, demotion, suspension, disadvantage, termination or adverse treatment); or a threat to take any of the actions referred above.

The cited cases show that there are rough and bumpy roads for those who are brave enough to disclose any irregularities and/or improper conduct in a company. The whistleblowers might risk losing their jobs, as shown in the above cases. They are, in fact, the unsung heroes for being the whistleblowers. The High Court in the cases of ***Yushri Zainuddin v Silterra Malaysia Sdn. Bhd. and Syed Omar Syed Agil v Institut Professional Baitulmal Sdn. Bhd.*** had given protection to the whistleblowers accordingly. In Malaysia, the WPA 2010 does not recognise the internal complaint mechanism established within an organisation as a legitimate avenue for exposing a wrongful activity. The complaints must be channelled to an "enforcement agency" recognised by WPA 2010. Meanwhile, there is no single or centralised agency entrusted to protect the whistleblowers. Such a situation may create confusion as well as uncertainty among the public.

## Conclusion

Auditors are under a duty to whistleblow if they suspect or detect wrongful activities or non-compliance with the law in the company. There is a need to depart from the metaphor that auditors are merely watchdogs. They must be effective watchdogs. Although the duty to prevent and detect fraud and corruption rests with the management of the companies, auditors need to take extra care when performing the audit work and whistleblow whenever there is a breach or non-compliance of the law.

The duties and obligations of auditors to whistleblow must be taken seriously for the sake of the capital market, stability of the financial and economic sector and the rights and interests of shareholders and stakeholders. With the introduction of the whistleblowing provisions, an auditor conducting an audit will be committing a breach of the law if he fails to notify the authorities of the violations or non-compliance with the relevant laws. Nevertheless, there is still room for improvement in the legal framework on the auditors' duty to whistleblow to allow auditors to play their role as watchdogs effectively and that the interests of the shareholders and stakeholders are considered and protected.

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# Mayday! Mayday! Mayday! Saving Companies in Financial Distress

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## Abstract

Amid mounting concerns about the Coronavirus (COVID-19) pandemic, economies all over the world are facing an unprecedented economic slowdown, and Malaysian companies are not spared. Even companies with sound underlying operations cannot generate sufficient revenues or income thus making it unable to meet or pay its financial obligations as they become due. The pandemic slowdown is still nowhere in sight; the companies will plunge farther in debt with little or no revenue generated which might have resulted in closing the business entirely. However, liquidation should only be the last resort upon the exhaustion of rescue mechanisms which can either be a formal or informal process. The latter process is not within the ambit of this article. The aim of this article is to enlighten the rescue mechanisms in saving distressed companies provided by the Companies Act 2016, namely, scheme of arrangement, corporate voluntary arrangement, and judicial management. This study uses the legal doctrinal methodology by analysing the Companies Act 2016 and decided cases, scholarly articles, legal reports, and legal briefs. The discussion will highlight the practical issues faced in each mechanism. A question is raised, whether the mechanisms reflect the notion of rescue culture? It is, therefore, pertinent for the distressed companies to consider the options best suited them to rescue their businesses that will overcome their financial problems and avoid liquidation. This study will also add to the corpus of corporate legal literature of Malaysia.

**Keywords**: Financial distress, Scheme of Arrangement, Judicial Management, Corporate Voluntary Arrangement, Liquidation

## Introduction

The Coronavirus (COVID-19) disease outbreak, which began in Wuhan, China, in December 2019, has swept the globe, wreaking havoc in practically every country. Economies all over the world are facing an unprecedented economic slowdown, and Malaysian companies are not spared. Even companies with sound underlying operations cannot generate sufficient revenues or income thus making it unable to meet or pay its financial obligations as they become due.

The pandemic slowdown is still nowhere in sight; the companies will plunge farther in debt with little or no revenue generated which might have resulted in closing the business entirely. However, liquidation should only be the last resort upon the exhaustion of rescue mechanisms which can either be a formal or informal process. The latter process is not within the ambit of this article.

**Table 1: Number of Liquidation from 2016- April 2021**

| Types of Liquidation | 2016 | 2017 | 2018 | 2019 | 2020 | Apr 2021 |
|---|---|---|---|---|---|---|
| Voluntary | 1,349 | 1,131 | 1,022 | 1,216 | 863 | 503 |
| Compulsory | 403 | 507 | 330 | 330 | 295 | 109 |

Source: Department of Insolvency

A Special Survey 'Effects of COVID-19 on the Economy and Companies/Business Firms' - Round 1, was conducted online by the Department of Statistics, Malaysia for the period 10 April - 1 May 2020. There was a total of 4,094 company/business firms taking part in this survey. The result is shown in Chart 1 below whereby 67.8% of the companies that took part in the survey did not have any sales during the first movement control order (MCO). Another 12.53% companies revealed that they had to resort to online sales/services in order to sustain their business. Only 9.8% of companies trade from their physical premise.

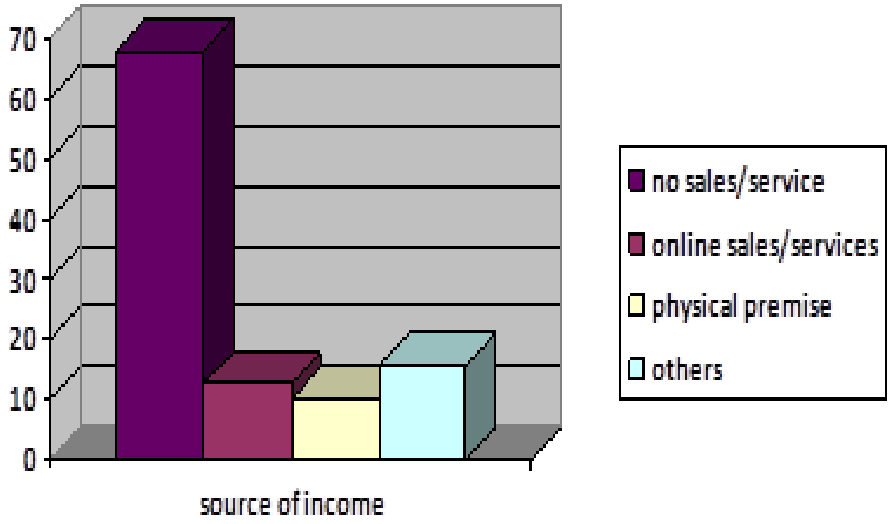


**Figure 1: Source of Business Income During First MCO**

Source: Department of Statistics Malaysia (2020)

The survey also showed that 68.9% of the respondents used their savings as the main source to accommodate operating cost/working capital during the first MCO, 19.8% had to obtain loan whilst 11.3% had to resort to capital injection to sustain the livelihood of their companies/business.

It is expected that the prolonged MCOs will further exacerbate the companies/businesses financial distress. If the companies/businesses continue to face financial hardship, they might resort to rescue actions through informal mechanism (Thim Wai Chen et al., 2019) and/or formal legal procedures in their attempt to turnaround the companies/businesses. The collapse of the companies will lead to dynamo effect when employees are retrenched, unpaid suppliers and so forth. The downfall of the companies/businesses will adversely affect the society and nation as well. Hence, it is put forth that there are companies/businesses that deserve to be rescued,

The aim of this article is to enlighten the rescue mechanisms in saving distressed companies provided by the Companies Act 2016, namely, scheme of arrangement, corporate voluntary arrangement and judicial management.

## Methodology

This study uses the legal doctrinal method by analysing the primary and secondary data. The primary sources are the Companies Act 2016 and its rules and guidelines. Secondary data comes in the form judicial decisions, books, scholarly articles, legal reports and legal briefs. The discussion will highlight the practical issues faced in each mechanism.

## Discussion

As earlier mentioned, the ailing companies may resort to the informal rescue options, for instance, the companies may choose to approach their respective creditors and try to re-negotiate the debts directly. When all other options for informal rescue have been exhausted, the troubled companies should choose formal rescue mechanisms as a final resort. Failure to rescue the ailing companies will result in liquidation.

This article will focus on formal rescue procedures as provided by Companies Act 2016, being the Scheme of Arrangement (SOA), Company Voluntary Arrangement (CVA) and Judicial Management (JM). The corporate rescue mechanisms (hereinafter referred to as CRM) are provided in Division 8 of Part III in the CA 2016. The CRM are in the form of Corporate Voluntary Arrangement (CVA), and Judicial Management (JM). Though CA came into effect on 31 January 2021, the CRM are effective on March 1, 2018. With the establishment of CRM, it changes the culture of laws related to companies. Previously, CA 1965 was on liquidation culture. However, such culture has apparently changed to that of a corporate rescue culture. The discussion will highlight the practical issues faced in each procedure which will be discussed in turn.

### *Scheme of Arrangement (SOA)*

The creation of SOA is not something new as it was the only mechanism of compromise provided by s.176, Companies Act 1965 (which was repealed on 31 January 2017 by the Companies Act 2016).

A SOA is a proposal made by the management of ailing companies to reach an agreement with its creditors and/or shareholders. Here are a few examples of SOA such as the creditors agree to prolong the repayment period/maturity date or creditors agree to set off the debts against the shares of ailing company. The creditors are now becoming the shareholders of that company.

S.366 of the Companies Act 2016 (hereinafter referred to CA 2016), the Court may make on order to convene a creditors or members meeting, upon the application by either:

(a) the company;
(b) any creditor or member of the company;
(c) the liquidator, if the company is wound up; or
(d) the judicial manager, if the company is under judicial management.

Once the court order is obtained, a creditors' or members' meeting will be convened. The scheme is tabled for discussion and approval. A special majority of 75% in value of the credit present and voted in person or by proxy is required to approve the scheme, s.366(3), CA 2016. The company

should furnish all required information to creditors and members so that they can make an informed decision. The viability of the proposed SOA will be assessed by an approved liquidator, s.367 CA 2016. The scheme is binding upon all creditors, including dissenting creditors, after it has been approved by the Court. Once the SOA scheme is registered with the Companies Commission of Malaysia, it will take effect straight away.

Unlike the corporate voluntary arrangement and judicial management scheme, the SOA does not enjoy moratorium automatically. an application for a restraining order is required, s.368. Any legal action taken against the corporation will be temporarily halted by a restraining order for a period of three (3) months. If more time is needed, the company may request the court to extend the order for up to nine months, s.368(2). However, the restraining order does not prevent any proceeding being taken by the Registrar and/or Securities Commission, s.366(8). The current management is still in charge of the company while the restraining order is effective. The company continues to operate its business and deal with its assets in the ordinary course of business.

Lest we forget that the main aim of the SOA is to pay off creditors. As the SOA is initiated by the company itself and it is of voluntary arrangement, thus there is no statutory list of priority of creditors provided in the CA 2016. The order of priority can be discussed at the negotiation stage and it has to appended in the approved scheme once the stakeholders agree to the said list.

The SOA is not regarded as a mechanism exclusively designed for corporate rescue since it can also be used for solvent companies. But the SOA with its flexibility, in the absence of corporate rescue mechanisms, has been used for rehabilitation of financially distressed companies. The SOA scheme is discharged once all debts are repaid. The SOA is a service that is provided to both private and public companies. However, the cost might be within the medium range due considerable court participation.

***Corporate Voluntary Arrangement (CVA)***

A Corporate Voluntary Arrangement (CVA) is a procedure initiated by directors or shareholders of a private limited company (with no pledged security) to prepare a proposal for its creditors to enter a voluntary arrangement to essentially accept a reduced payment (Proposal). CVA structure almost resembles the previous restructuring scheme arrangement under the repealed Companies Act 1965. The only difference is that the implementation of the CVA process is monitored by an insolvency practitioner.

Based on the Companies Act 2016, CVA does not apply to a public company, a company regulated by the Central Bank of Malaysia, a company which is subject to the Capital Markets and Services Act 2007, and a company which creates a charge over its property or any of its undertaking, s 395.

The application for CVA shall be made by either the director, liquidator, judicial manager or official receiver of the company, s.396. The proposal for CVA shall be submitted together with a statement made by an insolvency practitioner that provides his view that the proposed debt restructuring has the potential to be approved and implemented. Also, the statement shall explain the possibility of whether the company has enough funds to continue its business during the moratorium period, s.397.
A company that opts for a CVA will be entitled for Moratorium for 28 days, which is extendable to 60 days, s. 398 and the Eight Schedule. The proposal shall then be presented for approval at the members and creditors meetings. To make the proposal binding on all the creditors

and members, the proposal shall obtain at least 75% of the vote of those present and voting at the creditors meeting, s.400 (2). In contrast, for members meeting, at least a simple majority of votes of those members present shall be obtained, s.400(3). The nominee or new insolvency practitioner will then act as the supervisor to monitor the implementation of the proposed CVA. The moratorium period will end once the creditors' meeting is held. The extension of the moratorium period may be extended up to 60 days, provided that 75% majority of creditors' consent is obtained. The management of the company is retained by the directors, who are guided by an insolvency practitioner known as nominee. As compared to JM, CVA is meant to be a quick and cost-effective rescue mechanism, with minimal court intervention. Thus, the cost of CVA is low.

***Judicial Management (JM)***

Judicial management is a mechanism where the rehabilitation or restructuring efforts of an organisation is placed in the hands of a Judicial Manager who is a qualified insolvency practitioner who will be responsible for managing the operation of the company's business if the court approves the application. Companies that regulated by the Central Bank of Malaysia and the Capital Markets and Services Act 2007 cannot apply for JM, s. 403 CA 2016.

This mechanism is initiated upon the application of a company director or a creditor to the Court if the company is or will be unable to pay its debts, and there is a reasonable probability of rehabilitating company section, s.404 of CA 2016. The Court may consider placing the organisation under a JM if the company is or will be unable to pay its debts and there is reasonable probability of preserving the business which would serve the interests of creditors better than a winding up, s 405 (1).

The judicial manager is in charge of putting together and presenting a restructuring plan to creditors for their approval. The implementation of the restructuring plan will be monitored by the judicial manager if it is approved by 75% in value of creditors. Besides, the judicial manager has similar authority to a liquidator in a winding-up and is similarly subject to court supervision and control.

Upon filing the JMO application, an automatic moratorium is granted until the JMO is in force or the application is rejected. If a receiver or receiver and manager is appointed, or if a secured creditor opposes the application, the court will dismiss it. A further moratorium will be imposed once a JMO has been granted, and it will be in effect for the duration of the JMO. A JMO may be in effect for six months, with the option to extend it for another six months. It is very interesting to refer to pioneer cases relating to JM. In the case of *CIMB Islamic Bank Bhd v Wellcom Communications (NS) Sdn Bhd & Anor* [2019] 4 CLJ, whereby the Court of Appeal sets aside the JMO on the ground that the company had abused of process which deprived the creditors' rights to take action against the company. *Leadmont Development Sdn Bhd v Infra Segi Sdn Bhd and another suit* [2019] 8 MLJ 473, the JMO is set aside by the High Court on the ground that during the application process, the applicant fails to provide complete and honest disclosure.

***Reflecting the application of SOA and CRM***

Previously, the CA 1965 was criticised for not providing a conducive environment for the ailing companies to rehabilitate. Those companies can only avail themselves to the scheme of arrangement or compromise as provided by s. 176 CA 1965. However, there is a change in our corporate landscape whereby the ailing companies are given options to be rescued under

the SOA or corporate rescue mechanism. They will go for liquidation once the options of SOA and CRM have exhausted.

The new corporate rescue plan aims to strengthen and enable an ailing company to rehabilitate more effectively and quickly. However, a few shortcomings appear to overshadow the usefulness of the new strategy. A question is raised, whether the mechanisms reflect the notion of rescue culture? First and foremost, it is quite a challenge to secure the creditors' approval. Secondly, the restrictions imposed by CA 2016 for both CVA and JM have made CRM to be of no help to those ailing companies that are in need to be rescued. Both CVA and JM are not applicable to companies related to CMSA 2007. Thus, CVA and JM have no other option left. The only rescue option for them is SOA. Thirdly, to add salt to injury, a company that creates charge, be it fixed or floating, cannot avail itself for CVA. It is irony that the notion of corporate rescue is meaningless when such restriction is imposed. It is very common for the companies to create charge to raise it finance. The restriction shows that the policymakers are keen to protect secured creditors. It defeats the notion of rescue culture. Next, the secured creditor's ability to turn down a JMO application may reduce the usefulness of the new CRM in rehabilitating failing businesses. Finally, the applicant (the company's owner) has the potential to exploit the CRM such by deferring repayment of debts to creditors.

The rescue culture is relatively new in Malaysia. Hence, the law relating to it may still be open for improvements. At the time when the provisions concerning CRM are made, the policymakers might think those are the legal provisions. However, man-made law is not sacrosanct. Hence, the legal provisions must be amended from time to time so that they will be able to serve it objective, i.e, to rehabilitate the ailing companies.

## Conclusion

It is, therefore, pertinent for the distressed companies to consider the options best suited them to rescue their businesses that will overcome their financial problems and avoid liquidation. A viable and workable proposal is the only way companies can convince its creditors and pull through these challenging times. Liquidation should only be the last resort upon the exhaustion of rescue mechanisms which can either be a formal or informal process. This study will also add to the corpus of corporate legal literature of Malaysia.

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# Ownership Structure and Corporate Social Responsibilities Disclosures in Malaysian Companies

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## Abstract

This paper investigates the link between Ownership Structure and the quantity of CSR in annual reports. This study used content analysis and a dataset from Malaysian companies listed in Bursa Malaysia. The results based on the full regression model with three variables Managerial ownership, Government ownership, and Foreign ownership. The findings of this study indicated that two variables, Government ownership and Foreign ownership is associated with the extent of CSRD. The other predictive variable, Managerial ownership was found to be significant but not in the predicted direction. Thus, the hypothesis was not supported.

**Keywords:** Corporate Social Responsibilities Disclosures, Ownership Structure, Annual Reports, Bursa Malaysia

## Introduction

This study examines the quantity of CSR disclosures of Malaysian companies in Bursa Malaysia. Normally, businesses inform their main activities to the important stakeholders, the shareholders, or investors through the published financial statements. This information is normally concerning the financial positions and overall performance of the company. However, due to public pressure and raising awareness on environmental and social responsibility issues, companies began reporting on economic, social, and environmental issues. Over the last three decades, the idea of being socially responsible to the community is getting much footing (Shinde et al., 2011). This new type of reporting is known as corporate social responsibility reporting (CSRR) or corporate social responsibility disclosure (CSRD) (Cerin, 2002).

Although the subject of CSR has been introduced in the early 20th century, it was not considered as important, until the occurrence of businesses scandals all over the world. Some of the well-known business scandals are WorldCom (USA, 2002), Enron (U.S. 2001), Exxon Valdez (USA, 1989) and Union Carbide (India 1984). In these scandals, various issues related to CSR, such as negligence and irresponsible attitude towards the environment, protection of water resources, contaminated food and the poor corporate governance are highlighted (Angelidis et al., 2008; Evans & Davis, 2008; Idowu, 2005).
Such scandals also have raised public awareness globally including Malaysia that more stakeholders will suffer if the importance of CSR is not recognized (Majdi & Rahman, 2011; Uwuigbe et al., 2011, Zawawi & Rahman, 2008).

Therefore, as suggested by several authors (such as Rahman & Ismail, 2016; She & Michelon, 2019; Xu et al., 2020) further examination of the determinants of corporate environmental

reporting CSRD is still relevant and warranted as evidenced by previous studies. Studies done by several scholars such as Andrew et al., 1989; Ahmad & Sulaiman, 2004; Elijido-Ten, 2004, Ahmad et al., 2003; Thompson & Zakaria, 2004, Othman et al. (2011), Haji (2013) and Esa and Ghazali (2012), Fatima et al. (2015), Sundarasen et al. (2016), Anuforo, Aripin, and Mohamed (2018) found a low level of CSRD made by Malaysian PLCs.

As such, the objective of this study is to find out what are the factors which are positively associated with the CSRD in Malaysian. The rest of the paper is organised as follows. It begins with reviewing of the literature and hypothesis development. The paper continues with discussion on research methods. Next, findings and discussion are provided. The final section concludes the paper.

## Literature Review and Hypothesis Development

### *CSR and CSR Disclosure*

Neu et al., (1998) argued that CSR disclosure could be perceived as a symbolic impression or constructed image of itself that an organisation is expressing to the entire world. Gelb and Strawser (2001) suggested that the information disclosure practice is a feat of socially responsible activity. The results of their study indicate a positive linked between CSR and the extent of disclosure. Simply put, organisations that involve in CSR activities offer further helpful and/or comprehensive disclosures than do other organisations that participate in fewer CSR activities. The reasoning behind is that, when an organisation is carrying socially responsible activities, it has the motivations to offer comprehensive and useful disclosure on the activities to make an impact on their stakeholders.

### *Managerial Ownership*

Past studies found mixed results regarding the relationship between ownership structure and disclosure practices. Coffey and Wang (1998), Leung and Horwitz (2004), and Nasir and Abdullah (2004) found that managerial ownership has a significant and positive relationship with voluntary disclosure. Quite the opposite, there are past studies that found either negative relationship (Mahmud, Lin, & Mike, 1994) or insignificant (Halme & Huse, 1997; Nagar, Nanda, & Wysocki, 2003). Eng and Mak (2003) on the other hand found that increased voluntary disclosures are positively related to lower managerial shareholding (Buniamin, Alrazi, Johari, & Rahman, 2008). Thus, it is practical to come up with the following two hypotheses:

H1: There is a positive relationship between managerial ownership and the quantity of CSRD.

### *Government Ownership*

Past studies found positive results regarding the relationship between government ownership and disclosure practices. Eng and Mak (2003), Nasir and Abdullah (2004), and Said et al. (2009) found that government shareholding was related with the amount of voluntary disclosures. It is predicted that government ownership will promote more CSRDs because of increase transparency among PLCs in Malaysia. Therefore, it is hypothesised that:

H2: There is a positive relationship between government ownership and the quantity of CSRD.

### *Foreign Ownership*

Chambers et al. (2003) acknowledged the extent of CSR reporting and level of CSR awareness is low among companies from Asian countries in comparison with companies from the UK and Japan (Said, et al, 2009). Thus, Said et al. (2009) believe that the participation of foreign ownerships in Malaysian PLCs will improve the level of CSRD in Malaysia. This is confirmed by Haniffa and Cooke (2005). They found a significant link between foreign ownership and CSRD in Malaysia PLCs. Malaysian PLCs use CSRD as an affirmative legitimating strategy satisfy ethical investors and to encourage continuous FDI (Haniffa & Cooke, 2005). Thus, it is hypothesised that:

H3: There is a positive relationship between foreign ownership and the quantity of CSRD.

## Research Methodology and Sample Selection

This study is carried out among the Malaysian PLCs. The data for this study consists of 347 companies listed in Bursa Malaysia and was mainly secondary in nature. In line with prior studies on CSR disclosures, a content analysis method is utilised (for instance, Abbott & Monsen, 1979; Belal, 2001; Imam, 2000). Content analysis of annual reports is a recognised method and well-regarded to be empirically valid in studies of voluntary disclosure and CSR research (Abbott & Monsen, 1979; Gray et al., 1995a; Guthrie & Parker, 1990; Guthrie et al., 2004).

### *Dependent variable – CSRD*

The dependent variable (CSRD) is based on the number of pages. Several methods are available to determine the disclosure level of annual reports. One of the most common methods is counting words, sentences, paragraphs, pictures and pages. However, scholars such as Gray et al., (1995b), Guthrie and Mathews (1985), Neimark (1983), and Parker (1986) suggested using the method of counting pages. They argued that the number of pages is echoed to the amount of total space given to a subject and indicating the significance of that subject. Practically, pages are also simpler, more reliable, and consistent unit to measure by hand (Gray et al., 1995b; Guthrie & Parker, 1989, 1990). Therefore, in this study, the author will be using the proportion of the number of pages as the unit of analysis for this study as suggested and highlighted by several past scholars (Haniffa & Cooke, 2002; Haron et al., 2006) having the propensity of providing the most reliable results under time constraints and large sample size. In addition, findings from past studies show a high correlation between the different methods and the final and overall results not expected to be significantly prejudiced by the choice of method (Buniamin, 2010; Hackston & Milne, 1996).

### *Independent Variables*

The independent variables and their measurement are shown in Table 1.

**Table 1: The independent variables and measurement**

| No | Variable | Measurement |
|---|---|---|
| 1. | Managerial ownership | Proportion of executive directors' shareholders to total shareholders |
| 2. | Government ownership | Total government' direct equities ownership divided by total equity issued (%) |
| 3. | Foreign ownership | Proportion of foreign shareholders to total shareholders |

## Results and Discussion

Table 2 presents the multivariate results using multiple regression for our sample companies. The regression results for our model of CSRD are shown in Table 2 shown that the F-test (F-test = 10.169, $p < 0.001$) indicates that the model is sufficiently robust. The R-squared of 33.7% suggest that the model has some reasonable explanatory power. The VIF values (none exceeds 10.000) suggest that multicollinearity is not an issue in interpreting the regression results.

**Table 2: Multiple Regression (N=347)**

| Variable and Predicted Sign | Regression | VIF | t-value | p-value |
|---|---|---|---|---|
| MgmSh (+) | -0.089 | 1.226 | -2.503 | 0.000 |
| GovSh (+) | 0.390 | 1.232 | 10.847 | 0.000 |
| ForSh (+) | 0.117 | 1.025 | 3.150 | 0.000 |
| Summary Statistics: | | | | |
| Intercept | 0.341 | | | |
| $R^2$ | 0.337 | | | |
| Adjusted $R^2$ | 0.331 | | | |
| F-Test | 58.041*** | | | |

*, **, *** = Significant at the 10%, 5% and 1% level respectively using a two tailed test

Two of the variables Government ownership [GovSh (+)] (t-statistics= 10.847; p-value=0.000) and Foreign ownership [ForSh (+)] statistics= 3.150; p-value=0.000). showed association with CSRD in the predicted directions. In addition, both of them are found to be highly significant at the 1% level, thus providing support for H2 and H3 respectively.

Thus, our finding is confirming the past studies which found positive results regarding the relationship between government ownership and disclosure practices. Eng and Mak (2003), Nasir and Abdullah (2004), and Said et al. (2009) found that government shareholding was related with the amount of voluntary disclosures. It is predicted that government ownership will promote more CSRDs because of increase transparency among PLCs in Malaysia.

As for Foreign ownership, our finding also confirming the past study done by Said et al. (2009) and Haniffa and Cooke (2005). Said et al. (2009) believe that the participation of foreign ownerships in Malaysian PLCs will improve the level of CSRD in Malaysia. This is confirmed by Haniffa and Cooke (2005). They found a significant link between foreign ownership and

CSRD in Malaysia PLCs. Malaysian PLCs use CSRD as an affirmative legitimating strategy satisfy ethical investors and to encourage continuous FDI (Haniffa & Cooke, 2005).

The variable Managerial ownership [MgmSh (+)] is found to be significant at the 1% level but found to be not in the predicted direction direction (t-statistics= -2.503; p-value= 0.000). Thus, H1 is not supported. This finding is confirming the past study done by Mahmud, Lin, & Mike, 1994. They study found negative relationship between managerial ownership and voluntary disclosure (Mahmud, Lin, & Mike, 1994). Thus, confirming study done by Eng and Mak (2003), they study found that increased voluntary disclosures are positively related to lower managerial shareholding (Buniamin, Alrazi, Johari, & Rahman, 2008).

## Conclusion

This study has investigated whether the quantity CSRD in annual reports of Malaysian public listed companies is associated with three ownership structure of variables Managerial ownership, Government ownership, and Foreign ownership. Results based on the full regression model with four variables indicated that only two of the variables Government ownership [GovSh (+)] (t-statistics= 10.847; p-value=0.000) and Foreign ownership [ForSh (+)] statistics= 3.150; p-value=0.000). showed association with CSRD in the predicted directions. In addition, both of them are found to be highly significant at the 1% level, thus providing support for H 2 and H3 respectively.

Even though, the variable Managerial ownership [MgmSh (+)] is found to be significant at the 1% level, but it was found to be not in the predicted direction direction (t-statistics= -2.503; p-value= 0.000). Thus, H1 is not supported.

The findings indicate that ownership structure plays a significant role in influencing the quantity of CSRD in Malaysia. The results of the study should be construed in light of some limitations. Firstly, the data that was examined in this study was for one year of data only. Thus, it would be interesting to perform a longitudinal study on yearly basis as it may help to trace the trend of CSRD. Secondly, the study only covers on the quantity element of CSRD. In future research, it would be beneficial to look into quality element of CSRD.

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# Preliminary Investigation on Entrepreneurial Intentions of Young Malaysian Accounting Professionals

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## Abstract

At the end of June 2021, the Malaysian Institute of Accountants (MIA) has 37,444 members. One of the MIA's strategic objectives is to "promote the value proposition of accountancy profession and continuously uplift global recognition" with a target to grow its membership to 60,000 members by the year 2030. Accounting practitioners can contribute in achieving the membership target of MIA by starting a business and consequently creating accounting job opportunities. This preliminary research investigates the entrepreneurial intentions among Malaysian accounting practitioners below the age of 40 years. A survey was carried out online among 45 accounting professionals. While most respondents showed strong attitude and general intention towards running their own business, they indicated obstacles in the matter. The research findings can be used by relevant stakeholders to encourage accounting professionals to create businesses in the future. Suggestions for future research conclude the paper.

**Keywords:** Entrepreneurial Intentions, Accounting Professionals

## Introduction

The Malaysian Institute of Accountants (MIA) was established under the Accountants Act 1967 of Malaysia as a statutory body under the Ministry of Finance Malaysia. MIA functions as the national accountancy body that is responsible in regulating, developing, supporting and enhancing the integrity, status and interests of the profession in Malaysia (MIA, 2020b).

The following are MIA's current strategic objectives (MIA, 2020b):

- Develop and enhance the competency of accountancy professionals to stay relevant to business and market demand.
- Nurture professional values and ethics of members to uphold a strong accountancy profession.
- Regulate and develop the practice of the accountancy profession consistent with global standards and best practices.
- Promote the value proposition of the accountancy profession and continuously uplift global recognition.

As part of meeting its strategic objective to promote the profession, MIA targets to grow its membership to 60,000 members by the year 2030 (MIA, 2020a). According to MIA 2020 integrated report, the total number of registered accountants in Malaysia is 37,444 as at 30 June 2021 (MIA, 2021). Within the next decade, the total number of accountants required will be in excess of 25,000 in order to achieve the target. The target of 60,000 was also supported by the government in the past (Bernama, 2017).

Existing accounting practitioners in the country can contribute in achieving the membership target of MIA by starting a business and consequently creating accounting job opportunities. Such entrepreneurial activities in particular those related to accounting and finance services such as auditing, taxation and accounting service will provide more jobs to accounting graduates and professionals and indirectly contribute towards the increase of the membership number of MIA. One of the requirements for membership in MIA is a minimum relevant working experience of three years. In addition, members are expected to meet required educational and professional qualifications as stated in the Accountants Act 1967.

The main purpose of this research to gauge the entrepreneurial intentions of Malaysian accounting practitioners under the age of 40 years old. A preliminary study was carried out among 45 practitioners who were mainly graduates from the researchers' institution of higher learning. Past research related to the topic mainly concentrated on entrepreneurial intentions of accounting students in institutions of higher learning. The researchers found limited similar past research on accounting practitioners. In addition to entrepreneurial intentions, the study will look into possible obstacles faced by these practitioners to start their own businesses.

The following are the research objectives and significance of the study:

### *Research Objectives*

a) To investigate the entrepreneurial intentions of Malaysian accounting practitioners below the age of 40 years.
b) To investigate the obstacles in forming entrepreneurial activities of Malaysian accounting practitioners below the age of 40 years.

### *Significance of the Study*

The study might have several contributions. First, the data collected may provide some descriptive analysis on the entrepreneurial intentions of Malaysian accounting practitioners below the age of 40 years. Second, the obstacles identified may be used by the relevant stakeholders such as MIA, institutions of higher learning, government, etc. to introduce initiatives to encourage entrepreneurial activities.

## Literature Review

Entrepreneurial intention is an oft researched topic by Malaysian researchers. A search of literature for the past few years showed a number of papers being published. Some recent examples include Al-Jubari, Hassan and Liñán (2019), Hassan, Sade and Rahman (2020), Indiran, Ramanathan and Ramdas (2020), Osman, Mohamad, Zakariah and Mohamad (2019), Razak, Marmaya, Wee, Arham, Sa'ari, Harun and Nordin (2020), **S**araih, Ali, Mohd Sufian and Ibnu Ruslan (2020), Sitepu, Nursiah & Azhar (2020), Stouraitis, Thomson, Tsanis,

Kyritsis and Harris (2020). In general, the findings of the research cited found that the respondents, who usually university students, had very strong entrepreneurial intentions.

One key shortcoming found is that most of the research being reported have chosen existing students in institutions of higher learning as their respondents. Minimal research has been carried out working adults. This scenario triggered the researchers to undertake research on respondents who are working adults.

The researchers adapted questions from Entrepreneurial Intentions Questionnaire developed Liñán and Chen (2006) for this research. The following are brief definition and discussion of key terms being considered in the questionnaire:

- Personal Attitude: A tendency to respond positively or to like a particular object or matter. According to Tsordia and Papadimitriou (2015), a positive attitude towards entrepreneurship is a person's desire to become an entrepreneur or own a business. Fitzsimmons and Douglas (2005) found that an individual's attitude towards entrepreneurship can be an important predictor of entrepreneurial intentions.
- Perceived Behavioural Control: According to Ajzen (1991, p.183) is "people's perception of the ease or difficulty of performing the behavior of interest.". Any past individual obstacles and difficulties may influence personal behaviour towards a particular action.
- Perceived Subjective Norms: Personal perceptions and beliefs that can influence an action on an object or matter. Tsordia and Papadimitriou (2015), stated that attraction to entrepreneurship can cause a person to be interested in becoming an entrepreneur. Liñán and Chen (2006) identified family, friends and work colleagues as possible influencers of person's subjective norms.
- Entrepreneurial Intention: According to Liñán (2004, p.2), "intention is a necessary prerequisite both to being an entrepreneur and to carrying out specific behaviours after the start-up phase". Liñán (2004) further stated that intention towards entrepreneurship depends a person's preference or attraction towards entrepreneurship; perceived social norms regarding entrepreneurship as a career option; and perceived entrepreneurial self-efficacy.

In addition, the researchers will only look into hurdles perceived by working adults in realising their intention to starting their own business.

## Research Design and Methodology

The design of this quantitative action research is based on the research objectives stated in the previous section using a questionnaire for data collection. The research questionnaire adapted a questionnaire from a past research on entrepreneurial intention model. Respondents were selected from the accounting graduates of the researchers' institution of higher learning, a Malaysia public university. The results from the data collection were further analysed using a statistical package.

### *Instrument*

Data collection for this research adapted a questionnaire from Liñán and Chen (2006). Liñán and Chen (2006) investigated the entrepreneurial intentions among final year business and economics university students. Liñán and Chen (2006) also looked into personal attitude, subjective norms and perceived behavioural control towards being an entrepreneur. The

demographic section of the questionnaire was slightly amended to suit the requirements of the research. In addition, the respondents were also asked about perceived obstacles in starting a business. To minimise costs and increase accessibility, the questionnaire was placed on-line using Google forms.

### *Respondents*

For this research, the respondents were drawn from accounting degree graduates from the Faculty of Business, Economics and Accountancy (FPEP) at Universiti Malaysia Sabah (UMS) who are currently employed in various sectors of the accounting profession. UMS is a public institution of higher learning located in Kota Kinabalu, Sabah, Malaysia. All the graduates are from Malaysia in particular from the state of Sabah.

## Results and Discussion

The results of the research conducted will be present and discussed in following part of this article.

### *Demographic Profile*

The research was carried among accounting graduates who are currently practicing in the industry. A total of 45 respondents completed the on-line questionnaire. The number of respondents represents a small fraction of the total accounting graduates who graduated from the Faculty of Business, Economics and Accountancy (FPEP), Universiti Malaysia Sabah, Kota Kinabalu, . Since the questionnaire completion was voluntary, the researchers were not able to obtain a good response rate.

Table 1 below states the detailed demographic analysis of the respondents. A majority of the respondents are below 30 years old (76.6), are female (62.2%) and Sabah Bumiputera (57.8%). All respondents (100%) have a Bachelor's degree and two respondents (4.4%) have a Master's degree as well. A majority of respondents are either members of MIA or planning to become an MIA member once they meet the required work experience (91.1%). In terms of work experience, a majority of the respondents have less than 10 years of work experience (97.8%) with a mean of 3.91 years. The respondents mainly work in business (53.3%) and public practice (37.8%). Most respondents are residing in Sabah, Malaysia (77.8%).

**Table 1: Descriptive Analysis of Respondents' Age, Gender, Race, Education Level, Membership in MIA, Work Experience, Industry Types and Current Work Location**

| | Frequency | Percent (%) |
|---|---|---|
| ***Age*** | | |
| 21-25 | 10 | 22.2 |
| 26-30 | 29 | 64.4 |
| 31-35 | 6 | 13.3 |
| 36-40 | 1 | 2.2 |
| ***Gender*** | | |
| Female | 28 | 62.2 |
| Male | 17 | 37.8 |
| ***Race*** | | |
| Sabah Bumiputera | 27 | 57.8 |
| Malay | 4 | 8.9 |
| Chinese | 15 | 33.3 |
| ***Highest Education Level*** | | |
| Bachelor Degree | 43 | 95.6 |
| Master Degree | 2 | 4.4 |
| ***Membership in MIA*** | | |
| Member | 15 | 57.8 |
| Not a member but planning to apply | 26 | 33.3 |
| Not a member | 4 | 8.9 |
| ***Years of Work Experience*** | | |
| 1 to 5 years | 36 | 80.0 |
| 6 to 10 years | 8 | 17.8 |
| 11 to 15 years | 1 | 2.2 |
| ***Type of Industry*** | | |
| Public Practice | 17 | 37.8 |
| Business/Industry | 24 | 53.3 |
| Government | 3 | 6.7 |
| Academia | 1 | 2.2 |
| ***Current Work Location*** | | |
| Sabah | 35 | 77.8 |
| Kuala Lumpur | 4 | 8.9 |
| Selangor | 5 | 11.1 |
| Singapore | 1 | 2.2 |

The next section of the questionnaire examined the respondents' personal attitude, perceived behavioural control towards being an entrepreneur and the respondents' entrepreneurial intentions. In addition, related perceived subjective norms as well as obstacles in starting a busines will also be investigated.

### *Findings*

The respondents' answers indicate that most have a strong personal attitude towards being an entrepreneur. A majority indicated that the find the career of entrepreneur as attractive, would be satisfying and an option to be chosen. This could be attributed the fact that as students, the respondents were exposed to the concept of entrepreneurship in the classroom and as working adult, the respondents are exposed to business either from within their existing careers such as

those performing accounting, auditing and taxation services for their business clients and also through day to day interaction with businesses. The detailed breakdown of the findings are presented in Table 2 below.

**Table 2: Personal Attitude towards being an Entrepreneur among Young Malaysian Accounting Practitioners**

| Statement | Percent (%) | | | | | Mean |
|---|---|---|---|---|---|---|
| | Strongly disagree | Disagree | Neither Agree or Disagree | Agree | Strongly Agree | |
| Being an entrepreneur means more advantages than disadvantages to me. | 0 | 4.4 | 0 | 75.6 | 20 | 4.11 |
| A career as entrepreneur is attractive for me. | 0 | 0 | 24.4 | 6.7 | 68.9 | 4.44 |
| If I had the opportunity and resources, I'd like to start a firm. | 0 | 11.1 | 35.6 | 8.9 | 44.4 | 3.87 |
| Being an entrepreneur would entail great satisfaction for me. | 0 | 11.1 | 13.3 | 0 | 75.6 | 4.40 |
| Among various options, I would rather be an entrepreneur. | 4.4 | 11.1 | 8.9 | 4.4 | 71.1 | 4.27 |

Under perceived behaviour control on becoming an entrepreneur, the researchers found that respondents have overall positive perception in the area. While the respondents perceived that they would be able and prepared a business, they indicated not having the required practical details to start a business and knowledge to develop an entrepreneurial project. The respondents also indicated that running a business would not be easy. This could be explained perhaps by the demanding requirements in starting any business and lack of exposure and experience in real-life involvement in business creation. The detailed breakdown of the findings is presented in Table 3 below.

**Table 3: Perceived Behavioural Control on Becoming an Entrepreneur among Young Malaysian Accounting Practitioners**

| Statement | Percent (%) | | | | | Mean |
|---|---|---|---|---|---|---|
| | Strongly disagree | Disagree | Neither Agree or Disagree | Agree | Strongly Agree | |
| To start a firm and keep it working would be easy for me. | 24.4 | 2.2 | 33.3 | 35.6 | 4.4 | 2.93 |
| I am prepared to start a feasible firm. | 15.6 | 2.2 | 28.9 | 40.0 | 13.3 | 3.33 |
| I can control the creation process of a new firm. | 15.6 | 2.2 | 31.1 | 35.6 | 13.3 | 3.27 |
| I know the necessary practical details to start a firm. | 48.9 | 0 | 6.74 | 17.8 | 26.7 | 2.73 |
| I know how to develop an entrepreneurial project. | 46.7 | 0 | 13.3 | 31.1 | 8.9 | 2.56 |
| If I tried to start a firm, I would have a high probability of succeeding. | 0 | 13.3 | 73.3 | 0 | 13.3 | 3.13 |

The respondents indicated strong overall entrepreneurial intention. However, a number of respondents stated that they have not given strong thoughts on starting a business and do not have strong intention to begin a business. A possible explanation could be the most respondents had limited exposure in the working world as 80 percent of them had fewer than 5 years of working experience. These respondents may be more concerned with acquiring practical experience before becoming their own business owners. Table 4 below presents the detailed breakdown of the findings.

**Table 4: Entrepreneurial Intention of Young Malaysian Accounting Practitioners**

| Statement | Percent (%) | | | | | Mean |
|---|---|---|---|---|---|---|
| | Strongly disagree | Disagree | Neither Agree or Disagree | Agree | Strongly Agree | |
| I am ready to do anything to be an entrepreneur. | 4.4 | 13.3 | 33.3 | 17.8 | 31.8 | 3.58 |
| My professional goal is to become an entrepreneur. | 6.7 | 11.1 | 11.1 | 31.1 | 40.0 | 3.87 |
| I will make every effort to start and run my own firm. | 6.7 | 0 | 31.1 | 42.2 | 20.0 | 3.69 |
| I am determined to create a firm in the future. | 6.7 | 11.1 | 42.2 | 20.0 | 20.0 | 3.36 |
| I have very seriously thought of starting a firm. | 48.9 | 0 | 11.1 | 22.2 | 17.8 | 2.60 |
| I have the strong intention to start a firm some day. | 33.3 | 15.6 | 26.7 | 24.4 | 20.0 | 2.62 |

In terms of perceived subjective norms, i.e. on whether their action in starting a business will be approved and supported their close personal circle of individuals (close family, friends and work colleagues), the respondents indicated support from all in the circle. The strongest support is expected from work colleagues as compared to friends and close family. This could be attributed to the knowledge and familiarity of the respondents' professional background by work colleagues. Friends and close may be less understanding or appreciate of the work done by the respondents. Table 5 shows the detailed findings on subjective norms.

**Table 5: Perceived Subjective Norms from Close Personal Circle in Starting a Business**

| Close Personal Circle | Percent (%) | | | | | Mean |
|---|---|---|---|---|---|---|
| | Strongly Does Not Support | Does Not Support | Neither Support or Does Not Support | Support | Strongly Support | |
| Close family | 33.3 | 0 | 13.3 | 2.2 | 51.1 | 3.38 |
| Friends | 31.1 | 0 | 2.2 | 2.2 | 64.4 | 3.69 |
| Work colleagues | 0 | 0 | 6.7 | 8.9 | 84.4 | 4.78 |

Finally, the respondents were asked about the perceived obstacles in starting a business. Consistent with findings on perceived behavioural control, the highest perceived obstacles is experience. This can be attributed to the fact that most of the respondents joined the working world as 80 percent of them had fewer than 5 years of working experience. The respondents indicated money/financial resources and government support as the next highest obstacles in starting their business. Surprisingly, the respondents indicated family as one of two lowest ranked obstacles, which contradicted the findings under perceived subjective norms. The above Table 6 shows the ranking of perceived obstacles using mean values.

**Table 6: Perceived Obstacles in Starting a Business**

| Obstacle | Percent | | | | Mean | Rank |
|---|---|---|---|---|---|---|
| | Not at all an obstacle | Minor obstacle | Moderate obstacle | Serious obstacle | | |
| Self-Confidence | 40.0 | 8.9 | 22.2 | 28.9 | 2.40 | 5 |
| Experience | 2.2 | 17.8 | 13.3 | 66.7 | 3.44 | 1 |
| Knowledge | 33.3 | 17.8 | 13.3 | 35.6 | 2.51 | 4 |
| Family | 55.6 | 20.0 | 17.8 | 6.7 | 1.76 | 7 |
| Health | 60.0 | 15.6 | 13.3 | 11.1 | 1.76 | 8 |
| Time | 37.8 | 35.6 | 11.1 | 15.6 | 2.04 | 6 |
| Money/financial resources | 0 | 35.6 | 13.3 | 51.1 | 3.16 | 2 |
| Government support | 2.2 | 48.9 | 17.8 | 31.1 | 2.78 | 3 |

## Conclusion

This research is limited due to the number of respondents and also the limited group of respondents. A further research should be carried out to obtain findings among more respondents and on wider scale, i.e. more coverage. Such improvements could provide better insights to the stakeholders such as policy makers, professional accountancy bodies and educators. In addition, data analysis part could also be improved further. With more data being collected, more thorough analysis carried out. Thus, more sound and clear recommendations can be made.

However, based on the preliminary findings, the researchers would like to propose the following:

- More support from the relevant government ministries and statutory bodies to create more professional businesses based in the fields of accountancy, which could include incentives, loans, grants, relevant training and structured business incubation programs.
- Additional emphasis on entrepreneurial aspects in accounting degree programs offered by Malaysian higher educational institutions

Much can be done to research this topic in the future. The researchers hope that this research will not only trigger other interested researchers to undertake related research but also to encourage the relevant stakeholders to take steps to inspire Malaysian accounting professionals to go into business. Instead of being an employee, these professionals could be employers of other accounting professional, nurturing careers and indirectly contribute towards adding more accounting professionals in the country as well as adding more jobs to the national economy.

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# Social Media, Tax Morale and Tax Compliance: An Investigation in Sabah and Sarawak

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## Abstract

The relationship between social media, tax morale and tax compliance behaviour was studied. PLS-SEM was used to analyse the quantitative data that has been collected from 592 respondents, ranging from salaried and self-employed taxpayers in Sabah and Sarawak. The findings evidenced the insignificant effect of social media on tax compliance. However, there was a positive relationship between tax morale and tax compliance. Nonetheless, a negative association was observed between social media and tax morale. Moreover, the bootstrapping approach found that tax morale could mediate the relationship between social media and tax compliance. This research will contribute to the tax literature with a widened scope on tax compliance in Malaysia.

**Keywords**: Tax Morale, Tax Compliance, Social Media

## Introduction

Social media has recently become a key tool for users to communicate and exchange information. To back up this claim, Kim (2018) conducted an experiment in which she found that higher share counts (in this case on Facebook) increased both perceptions of message influence on oneself and others, as well as preventive behavioural intentions. When people communicate knowledge electronically, it is known as eWOM, and it has a significant impact on how people spread information (Liu, Cheung and Lee, 2016).

Although little is known about the impact of social media on tax morale and tax compliance, there is a bigger chance for empirical findings in the field of taxation than any other. In the past, researchers have focused on the usefulness and disclosure of tax information through social media (for example, Alam et al. 2011; Araki & Claus 2014; Chang & Kannan 2008; King et al. 2014; Organisation for Economic Co-operation and Development (OECD) 2011), but there have been few systematic studies examining how that information affects tax morale, and therefore tax compliance.

In line with the Theory of Planned Behaviour (TPB) (Ajzen 1991), the study assumes that disparities in tax morality will enhance the influence of social media and tax compliance (Ajzen 1991). Therefore, the study is designed to find out:

- whether social media and tax morale affect tax compliance behaviour,
- to investigate whether tax morale affects tax compliance,
- and to confirm whether tax morale mediate the relationship between social media and tax compliance

## Theoretical Framework and Hypothesis Development

### *Social Media and Tax Compliance*

Prior research has mostly focused on social media as a tool for information dissemination and tax disclosure, with little emphasis on the function of social media in tax compliance. However, Chu & Kim (2011) argued that the primary source of information seeking, advice, and opinion expression has shifted to knowledgeable contact in social networks, which they attribute to eWOM's information influence. It is worth investigating this link because compliance behaviour is almost certainly influenced by message sharing, comments, and likes. Considering this, information accessible via the internet may have a significant impact on taxpayers' behaviour. Following that, the following hypothesis is derived from these notions.

H1: Social media is positively related to voluntarily tax compliance

### *Tax Morale and Tax Compliance*

Christian & Alm (2014) discovered evidence of a high moral coefficient and decreased tax evasion in situations characterised by a high level of compassion and empathy. Chong & Arunachalam (2018) stated in their Malaysian study that while voluntary compliance with high tax morale is more likely than enforced compliance, a person with low tax morale is more likely to demonstrate non-compliance. Emanating from TPB, positive moral consideration typically results in positive behaviour and is associated with positive compliance. The preceding ideas support the following hypothesis:

H2: High tax morale is positively related to voluntarily tax compliance

### *Social Media and Tax Morale*

To the author's knowledge, no research has been conducted on the relationship between social media and tax morale. Positive contact on social media, on the other hand, is expected to enhance perceived impacts on self and others, which increases positive behavioural outcomes. Additionally, this study hypothesises that when taxpayers anticipate getting high-quality tax information via social media, they are more likely to respond positively to such information, affecting their tax morality. As a result, the study posits the following hypothesis:

H3: Social media is positively related to tax morale

### *The Mediating Role of Tax Morale*

According to Doran (2009), the norms model justifies the inclusion of morale as a component in tax compliance. Based on this paradigm, taxpayers are encouraged to adhere to specific social or personal norms. The desire to include tax morale as a mediator arises from an increasing body of research demonstrating that morale costs can be an effective strategy for

modifying human behaviour (Levitt and List, 2007). Hence, the study assesses the mediating effect of tax morals and explores the following hypotheses based on this premise:

H4: Tax morale mediates the indirect relationship between social media and tax compliance

## Proposed Framework

An integrated model was established based on four (4) hypotheses developed throughout the preceding discussion (Figure 1). As shown in Figure 1, social media can positively affect tax compliance (H1) and tax morale (H3). Additionally, it is projected that tax morale is positively associated with tax compliance (H2). Then, the research model conceptualised tax morale as a mediator between social media and tax compliance (H4).

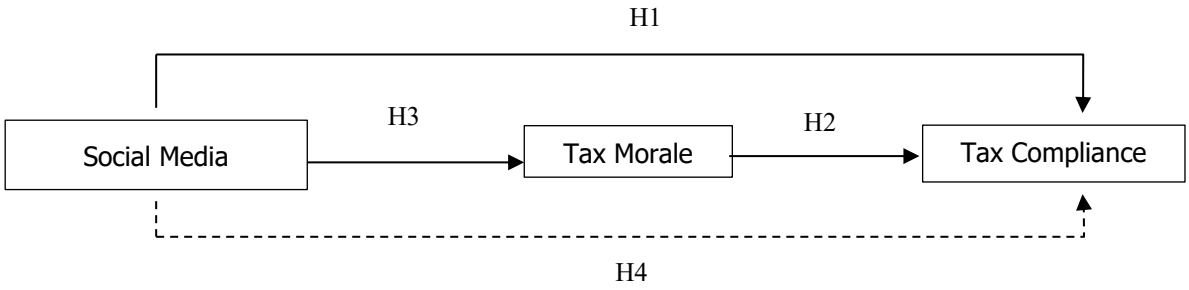


**Figure 1: Proposed Hypothesised Mediation Research Model**

## Research Methodology

The researcher used a quantitative approach to get an empirical finding from primary data. The research questionnaire was distributed by drop-off and an online survey in both English and Bahasa Malaysia. A total of 592 respondents were retrieved from salaried and self-employed taxpayers in Sabah and Sarawak. Existing measures within the scope of tax literature were used to collect the survey data. On the other hand, the questions have been revised in light of the current tax scenario in Malaysia. All participants rated their answers from 1 (strongly disagree) to 5 (strongly agree) on a 5 points Likert-type scale.

### *Voluntarily Tax Compliance*

The dependent variable in this research measures whether or not taxpayers believe it is their moral obligation to pay taxes or the likelihood of a taxpayer voluntarily complying with tax regulations, which was taken from Kirchler & Wahl (2010).

### *Tax morale*

Tax morale is defined as an intrinsic motivation to pay (Torgler, 2005; Cummings *et al.*, 2006; Torgler, Schaffner and Macintyre, 2007; Luttmer and Singhal, 2014) or an internal obligation to pay taxes (Braithwaite & Elisa Ahmed 2005). The measurement proxies of tax morale were all adopted from Torgler (2003).

### *Social Media*

For this study, the attitude toward "Tax Information" (TI) on social media is the first of the component constructs, and it has been developed and refined by Park et al. (2007)). The rationale is that taxpayers are more likely to comply with tax information provided on social media, which is critical for the evaluation and ultimately affects their decision on whether or not to comply with the law. Attitudes toward "Tax Information Quality" (TIQ) are the second component construct, which has been developed in part by drawing on the work of Park et al. (2007) and Prendergast et al. (2010). Today, information quality on social media is critical before making a specific key decision. Individuals like to analyse the trustworthiness, correctness, and dependability of the information they get before committing to a particular action.

## Data Analysis and Procedures

All collected data will be entered into the IBM SPSS 27 statistical software for data cleaning and screening and descriptive and inferential statistical analysis. Following the recommendations of Hair et al. (2019), the study employed SmartPLS 3.3.3 (Ringle, Wende and Becker, 2015) as the main statistical tool for assessing the measurement model and structural model.

## Results

### *Sample Characteristics*

Table 1 shows the demographics of those who answered the survey questions. In terms of gender, the respondents are evenly divided, with 300 male and 292 female taxpayers taking part in the survey. When it comes to age, most taxpayers are between the ages of 35 and 44, with the least number of taxpayers being between 25 and 34. The responses of taxpayers from Sabah and Sarawak reveal a similar distribution of respondents. Most respondents are married taxpayers (79.4%).

In terms of employment, most participants (69.3%) are employed in the public sector, with only 10.5% employed in the private sector. The remaining 20.3% of participants are self-employed individuals. Regarding monthly income (before taxes), those with monthly salaries between RM4, 501 and RM6, 500 (41.9%) outweigh others. In contrast, only 21.3% of T20 taxpayers with monthly salaries above RM10, took part in the survey.

**Table 1: Respondent's Profile**

| Demographic | Items | Frequency (N = 592) | Per cent (%) |
|---|---|---|---|
| Gender | Male | 300 | 50.7 |
| | Female | 292 | 49.3 |
| Age Group | 25 - 34 years old | 82 | 13.9 |
| | 35 - 44 years old | 243 | 41.0 |
| | 45 - 50 years old | 112 | 18.9 |
| | 51 years old and above | 155 | 26.2 |
| Location | Sabah | 288 | 48.6 |
| | Sarawak | 304 | 51.4 |
| Marital Status | Single | 100 | 16.9 |
| | Married | 470 | 79.4 |
| | Widow / Divorce | 22 | 3.7 |
| Employment Status | Public-sector Employed | 410 | 69.3 |
| | Private-sector Employed | 62 | 10.5 |
| | Self-employed | 120 | 20.3 |
| Monthly Income (Before Tax) | RM4, 501 - RM6, 500 | 248 | 41.9 |
| | RM6, 501 - RM8, 500 | 137 | 23.1 |
| | RM8, 501 - RM10, 500 | 81 | 13.7 |
| | RM10, 501 - RM15, 00 | 90 | 15.2 |
| | RM15, 000 and above | 36 | 6.1 |

## Analysis

A two-step procedure was used to build a measuring model (Anderson and Gerbing, 1988). The study employed two successive analytical procedures: the measurement model (validity and reliability) and the structural model (hypothesis testing). The statistical software Smart PLS 3.3.3 (Ringle, Wende and Becker, 2015) is used to confirm the reliability and validity along with the acceptance or rejection of the hypotheses.

### *Assessment of the Measurement Model*

In this study, the measurement model comprising indicator reliability, internal consistency reliability, convergent validity, and discriminant validity were diagnosed. Internal consistency reliability measures whether or not the items used to measure a construct have identical scores on all of them (Hair et al. 2017). The composite reliability (CR) indexes, as opposed to the Cronbach Alpha (α) indexes, are considered the best internal consistency measurements in this context (Hair et al. 2017). Items with loadings more than 0.70 and items that increase AVE were kept, whilst items with loadings less than 0.40 were removed from the study. The extent to which specific items measure the same construct as other items are referred to as convergence validity (Urbach and Ahlemann, 2010). For this study, all constructs showed an AVE value greater than 0.5, thus determining that convergence validity is established (Hair et al. 2017).

**Table 2: Indicator Reliability, Internal Consistency and Convergent Validity for Reflective Measurement Model**

| Construct | Items | Factor Loadings | Cronbach Alpha (α) | Composite Reliability (CR) | Average Variance Extracted (AVE) |
|---|---|---|---|---|---|
| Social Media | SM_3 | 0.573 | 0.681 | 0.803 | 0.513 |
| | SM_5 | 0.593 | | | |
| | SM_6 | 0.837 | | | |
| | SM_7 | 0.819 | | | |
| Tax Morale | TM_1 | 0.550 | 0.859 | 0.891 | 0.508 |
| | TM_3 | 0.685 | | | |
| | TM_4 | 0.755 | | | |
| | TM_5 | 0.771 | | | |
| | TM_6 | 0.771 | | | |
| | TM_7 | 0.784 | | | |
| | TM_8 | 0.739 | | | |
| | TM_9 | 0.606 | | | |
| Voluntarily Tax Compliance | VTC_2 | 0.415 | 0.863 | 0.888 | 0.518 |
| | VTC_3 | 0.452 | | | |
| | VTC_4 | 0.820 | | | |
| | VTC_5 | 0.820 | | | |
| | VTC_6 | 0.823 | | | |
| | VTC_7 | 0.903 | | | |
| | VTC_8 | 0.447 | | | |
| | VTC_9 | 0.855 | | | |

Discriminant validity refers to the degree to which a construct is truly distinct from other constructs by empirical standards and does not accidentally measure something (Urbach and Ahlemann, 2010). Due to Fornell & Larcker (1981) caveat, Henseler et al. (2015) suggest that HTMT be used as a preferable alternative technique to evaluating discriminant validity. Table 3 exhibit no violation against discriminant validity on cross matrix row and column as the HTMT criterion value are well below threshold value of $HTMT_{.85}$ (HTMT value < 0.85) (Kline, 2011) and $HTMT_{.90}$ (HTMT value < 0.90) (Gold, Malhotra and Segars, 2001).

**Table 3: Discriminant Validity (HTMT Criterion)**

| | Social Media | Tax Compliance | Tax Morale |
|---|---|---|---|
| Social Media | | | |
| Tax Compliance | 0.209 | | |
| Tax Morale | 0.483 | 0.325 | |

***Collinearity Assessment***

In order to properly examine a structural model, it is necessary first to confirm that the model does not have any lateral collinearity issues. For all exogenous structures in Table 4, the inner Variance Inflation Factor (VIF) is less than the strict VIF threshold of 3.3 by (Diamantopoulos and Siguaw, 2006). As a result, the data demonstrate that lateral collinearity was not an issue in the study (Hair et al. 2017).

**Table 4: Inner Variance Inflation Factor (VIF)**

| | **Social Media** | **Tax Morale** | **Voluntary Tax Compliance** |
|---|---|---|---|
| Social Media | | 1.000 | 1.171 |
| Tax Morale | | | 1.171 |
| Voluntary Tax Compliance | | | |

***Structural Model***

Instead of relying just on the t-values and p-values, the values of the Confidence Interval (CI) Bias Corrected of upper and lower limits will also be diagnosed in order to determine whether or not there is a statistically significant relationship. If the bootstrap value of the confidence interval does not pass zero, it indicates that the result is statistically significant (Hair et al. 2019).

*Direct Effect*

As illustrated in Table 5, this study discovered a negative and a non-significant relationship between social media and tax compliance ($\beta$=0.068, t-value=1.415, $p>0.05$, CI= -0.142 to 0.017), thus rejecting H1. However, a significant and positive association exists between tax morale and compliance ($\beta$=0.304, t-value=7.200, $p<0.01$, CI= -0.226 to 0.366), allowing the study to accept H2. Nonetheless, social media demonstrate a significant and negative association with tax morale, which contradicts the study hypothesis of a positive correlation, therefore rejecting H3.

$R^2$ value in Table 5 implies that social media and tax morale explain for 11.0% of the variances in the endogenous variable of tax compliance, while variances in social media contributed to the variances of 14.5% in the tax morale, as indicated by $R^2$ equal to 0.145. This signifies moderate predictive accuracy. Following Cohen (1988), tax morale shows a small effect on tax compliance, while a medium effect can be observed in producing the $R^2$ of tax morale by social media. Nevertheless, social media contribute no effect on tax compliance. The predictive relevance ($Q^2$) of the path model is investigated using the Stone and Geisser approach ($Q^2$) (Geisser, 1974; Stone, 1974). Using the blindfolding technique in PLS-SEM, tax compliance and tax morale have predictive relevance at 0.051 and 0.072, where the $Q^2$ value is greater than zero.

*Mediating Effect*

To test for a mediation effect, we used a bootstrapping procedure in Smart PLS with 5,000 subsamples. The bootstrapping results in Table 5 indicate that the indirect effects of social media on tax compliance ($\beta$=-0.116, 95% CI= -0.157 to -0.075), via tax morale, were

significant at t-values >1.96 and p-value 0.01. This implies the presence of a mediation where the indirect effect 95% Boot CI Bias Corrected does not pass zero (Preacher and Hayes, 2004, 2008), allowing the study to accept H4.

**Table 5: Structural Model (Hypothesis Testing of Direct and Mediating Effect)**

| **Hypothesis: Path Model** | **β** | **SE** | ***t*-value** | **p-value** | **5% CIBC LL** | **95% CIBC UL** | **Decision** | **$f^2$** | **$R^2$** | **$Q^2$** |
|---|---|---|---|---|---|---|---|---|---|---|
| *Direct Effects* | | | | | | | | | | |
| H1: SM-> TC | -0.068 | 0.048 | 1.415 | 0.079 | -0.142 | 0.017 | Rejected | 0.005 (none) | 0.110 | 0.051 |
| H2: TM -> TC | 0.304 | 0.042 | 7.200 | p < 0.01 | 0.226 | 0.366 | Supported | 0.089 (small) | | |
| H3: SM-> TM | -0.382 | 0.041 | 9.259 | p < 0.01 | -0.443 | -0.307 | Rejected | 0.171 (medium) | 0.145 | 0.072 |
| | **β** | **SE** | ***t*-value** | **p-value** | **2.5% CIBC LL** | **97.5% CIBC UL** | **Decision** | | | |
| *Mediating Effect* H4: SM -> TM -> TC | -0.116 | 0.022 | 5.380 | p < 0.01 | -0.157 | -0.075 | Supported | | | |

Note: TC: tax compliance; TM: tax morale; SM: social media; CIBC: Confidence Interval Bias-Corrected; LL: Lower Limit; UL: Upper Limit; $f^2$ = 0.02 small effects, 0.15 medium effects, 0.35 substantial effects;

## Discussion

In this study, social media did not affect taxpayers' compliance. The most likely explanations are the effects of security risk, confidentiality, and information breach. Alam et al. (2011) previously noted that social media for tax communication (in this case, Facebook) was restricted due to security and privacy concerns. Tax information shared by friends, families, and associates can be freely shared with others, with or without the approval of those who have shared the information.

Surprisingly, the study discovered a statistically significant and negative relationship between social media and tax morale. On the other hand, the findings directly oppose the study's hypothesis, which postulates a positive association. The concern that sensitive tax information could be leaked through social media has once again resulted in taxpayers reporting lower variances in their tax morale than they would otherwise have reported. The more the frequency with which social media is used to discuss tax information, the greater the risk to taxpayers that tax information will be leaked, hence enhancing bad perceptions about tax morality in general. The findings of this study are consistent with the findings of most other studies (for example (Christian and Alm, 2014; Dulleck *et al.*, 2016; Ortega, Ronconi and Sanguinetti, 2016)

## Conclusions

In conclusion, social media is ineffective at influencing compliance; nonetheless, IRBM should investigate why social media causes taxpayers to have lower morale than they should. Another plausible factor contributing to this is that tax-related issues are not encouraged to be discussed openly on social media platforms. When it comes to tax issues, taxpayers' personal financial information like income, spending patterns, and financial history must be kept discreet and sensitive. To sum it up, social media is only good for communication; but it does not offer any insight into how it can affect behaviour, such as whether or not people will pay their taxes as they are supposed to.

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